



Susan Montee, JD, CPA
Missouri State Auditor

HIGHER EDUCATION

Missouri State University

October 2010
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auditor.mo.gov



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Missouri State Auditor

YELLOW SHEET

Findings in the audit of Missouri State University

Financial Reporting and Accounting

Missouri State University was unable to easily and accurately produce basic financial reports. Many of the reports requested during our audit work, including basic budget to actual comparison reports; statements of revenues, expenses, and changes in net assets; and profit/loss statements for various funds, departments, auxiliaries and service centers, had to be created by financial services employees. These reports contained several errors made by management and staff when obtaining the information from the computer system and creating the reports. In addition, the system does not clearly identify which expenses have been reimbursed by the foundation. Further, the university has not properly allocated some expenses, such as expenses associated with the Child Development Center, personnel expenses related to the JQH Arena and the Hammons Student Center/Plaster Sports Complex and faculty salaries at the School of Social Work. Finally, the university's statements of cash flows for the year ended June 30, 2008, contained a transposition error of approximately \$5 million.

University Operations

The university paid 48 faculty members more than \$2.2 million during the 2 years ended June 30, 2009, for sabbatical leave without ensuring required reports documenting work completed and justifying the expense were filed. Additionally, university administration has not completed a documented review of some university operations, such as the Greenwood Laboratory School, intercollegiate athletics, the JQH Arena, and printing services, to ensure these operations are efficient and do not create an additional burden on operating funds. Our review of university budgets showed significant budget to actual variances that appear to be due to unrealistic projections of expenses. Further, the university does not have a policy addressing what monies can be transferred to the President's Carry Forward account and how these monies should be used. Also, adequate supporting documentation was not maintained of the calculation of increases in room and board rates.

Child Development Center

Cash receipts of at least \$4,038 received by the Child Development Center between July 1, 2007, and December 31, 2009, were not remitted to the Bursar. Receipt amounts reported to the Bursar were less than amounts actually received. Numerous weaknesses were noted in the procedures used to account for monies received. In addition, some receipt slips issued and attendance records were not retained. Other policy and procedural issues are also noted in the audit.

Ticket Sales

University procedures to account for receipts from ticket sales for athletic and entertainment events need improvement. During the year ended June 30, 2009, gross sales of approximately \$6.2 million were recorded for events held at the JQH Arena, Hammons Student Center, Juanita K Hammons Hall and other venues. Weaknesses include inadequate segregation of duties, untimely reconciliations, and unverified cash drawer reconciliations.



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YELLOW SHEET

Disbursements

The university could benefit from a more comprehensive procurement policy that addresses the documentation of procurement decisions, procuring items purchased for resale, and timeframes for which various bid threshold amounts will apply. Additionally, the university does not have a comprehensive food policy, and needs to improve controls over the tracking and monitoring of institutional and individual memberships. Further, some contribution disbursements did not have written contracts that clearly indicated the benefit to the university, and the contracts with the university's state and federal lobbyists do not require documentation to support the specific services provided. Also, the university contracts with the City of Springfield to provide dedicated law enforcement services within and around the campus; however, invoices received from the City of Springfield do not contain adequate detail, and university procedures to review related billings are not adequate.

President's Tenure and Retreat

Some terms in the contracts of the former and current university presidents may not be in the best interest of the university. The university's contract with former President Dr. Michael T. Nietzel included a tenure and retreat clause granting the option to retreat to a tenured professorship within the Department of Psychology and be compensated 60 percent of his current presidential salary. The contract also provided the option to take a paid leave of absence. Effective July 31, 2010, Dr. Nietzel resigned and is currently on a leave of absence from the university at a salary of \$80,211 for one semester. According to the university's legal counsel, Dr. Nietzel plans to accept a professorship within the Department of Psychology and will be compensated at the rate of \$160,423 annually, which is approximately \$68,000 more than the highest paid faculty member in the Department of Psychology. The purpose or justification for the leave of absence and excessive salary for a professorship is not included in the employment contract. Further, Dr. Nietzel is under no legal obligation to perform any services for the university during his paid leave of absence. A similar contract was signed by the university's new President effective August 1, 2010.

Employment Contracts and Personnel Issues

The university compensated the Men's Head Basketball Coach \$96,000 in "promotional compensation" without requiring documentation of the promotional activities performed. The Associate Head Football Coach and one Assistant Football Coach did not submit a report of all athletic related income and benefits received from sources outside the university as required by the NCAA and their employment contracts. Additionally, the university made vehicle allowance payments totaling \$93,200 to 18 employees, but did not have documentation to support how these amounts were determined. Further, the university's gift policy needs clarification.

Other Issues

The audit also raised concerns regarding procurement cards, the Sunshine Law, renovations of the Kenneth E. Meyer Alumni Center, and various controls, policies and procedures of the university.



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Missouri State Auditor

YELLOW SHEET

Missouri State University
Foundation

The foundation has not established purchasing policies and procedures, and does not always follow university procurement policies and procedures. Additionally, the foundation Board of Trustees did not always approve contracts or construction budgets to be paid using foundation funds and some reimbursements of university expenses did not appear to be properly approved prior to payment. Also, the foundation's lack of competitive bidding and documentation of the selection of professional services has resulted in possible conflicts of interest.

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Missouri State University

Table of Contents

State Auditor's Report	2
------------------------	---

Management Advisory Report - State Auditor's Findings	1. Financial Reporting and Accounting.....	4
	2. University Operations.....	8
	3. Child Development Center	16
	4. Procurement Cards	20
	5. Ticket Sales	24
	6. Disbursements	26
	7. Controls, Policies and Procedures	33
	8. President's Tenure and Retreat	38
	9. Employment Contracts and Personnel Issues.....	40
	10. Sunshine Law Issues	43
	11. Kenneth E. Meyer Alumni Center Renovations.....	46
	12. Missouri State University Foundation.....	48

Organization and Statistical Information	52
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Appendixes

A	Revenues, Expenses, and Changes in Net Assets, 2 Years Ended June 30, 2009.....	55
B	Organizational Chart	56
C	Response Transmittal Letters	57



SUSAN MONTEE, JD, CPA

Missouri State Auditor

Honorable Jeremiah W. (Jay) Nixon, Governor
and
Board of Governors of Missouri State University
and
Dr. James E. Cofer Sr., President
Missouri State University
Springfield, Missouri

We have audited certain operations of Missouri State University in fulfillment of our duties under Chapter 29, RSMo. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2009 and 2008. The university engaged BKD, LLP, Certified Public Accountants (CPAs), to audit the university's financial statements for the years ended June 30, 2009 and 2008. We reviewed the reports and substantiating working papers of the CPA firm and performed other procedures that we considered necessary in the circumstances. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2009 and 2008. The objectives of our audit were to:

1. Evaluate the university's internal controls over significant management and financial functions.
2. Evaluate the university's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and operations, including certain revenues and expenditures.
4. Evaluate selected records and procedures of the Missouri State University Foundation.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the university, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the university's management and was not subjected to the procedures applied in our audit of the university.

The audit identified (1) deficiencies in internal control, (2) noncompliance with legal provisions, (3) the need for improvement in management practices and procedures, and (4) weaknesses with select records and procedures of the university's foundation. The accompanying Management Advisory Report presents our findings arising from our audit of Missouri State University.



Susan Montee, JD, CPA
State Auditor

The following auditors participated in the preparation of this report:

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Missouri State University

Management Advisory Report

State Auditor's Findings

1. Financial Reporting and Accounting

Missouri State University is unable to easily and accurately produce basic financial reports. Additionally, university expenses reimbursed by the Missouri State University Foundation are not clearly identified in the university's accounting system. Further, some expenses were not allocated correctly and an error was made on the university's financial statements.

1.1 Financial reporting

Financial reporting of the university needs improvement. Many of the reports we requested during our audit had to be created by financial services employees. These requested reports included basic budget to actual comparison reports; statements of revenues, expenses, and changes in net assets; and profit/loss statements for various funds, departments, auxiliaries and service centers.

Our review of these reports identified several errors made by management and staff when obtaining the information from the computer system and preparing the requested reports. For example, a profit/loss statement we received for the Child Development Center did not contain approximately \$190,000 in revenues for each of the 2 years ended June 30, 2009. Also, a statement of revenues, expenses and changes in net assets received for the year ended June 30, 2008, for the Residence Life auxiliary enterprise incorrectly reported revenues and expenses resulting in an understatement of net income by approximately \$966,000. While we subsequently received corrected reports from university personnel, it is a concern that a university responsible for approximately \$270 million annually in revenues and expenditures must manually prepare basic financial reports that should be utilized regularly to manage university finances.

The university's Chief Financial Officer (CFO) indicated that between January 2007 and June 2009, the university implemented a new computer system costing approximately \$7.6 million. This system processes payroll, human resource, financial aid, student admissions, and registration information for the university, and accounting information for the university and the Missouri State University Foundation. According to the CFO some standard reports are available through the new system, but the university is now aware of reporting limitations of the system and is in the process of trying to write programs that will provide more reporting options.

To ensure all levels of management have access to the financial reporting information needed to make appropriate and economical decisions that move the university forward, the university's system must provide management access to complete and accurate financial reports.

1.2 Foundation reimbursed expenses

The accounting system does not identify which university expenses have been reimbursed by the foundation. Approximately \$14.6 million was paid to the university by the foundation during the year ended June 30, 2009, most of which was the reimbursement of expenses initially paid by the university.



Missouri State University
Management Advisory Report - State Auditor's Findings

While financial activity of the foundation is also accounted for in the university's accounting system by the university's Office of Financial Services, this electronic data also did not provide adequate detail to indicate the university expenses reimbursed by the foundation. Nearly \$10.5 million of the \$14.6 million of checks issued to the university by the foundation during the year ended June 30, 2009, were recorded in the accounting system without any detail. According to university personnel, searching through manual documentation associated with each foundation check was the only method to determine which university expenses were reimbursed by the foundation.

During our review of university expenses university personnel indicated any expenses that should not have been paid with state or federal funds were reimbursed by the foundation; however, determining this was difficult and cumbersome.

For university management to ensure all funds are used appropriately, the university should track which expenses are reimbursed to the university by the foundation.

1.3 Expense allocations

The university has not properly allocated some expenses.

- Expenses of the university's Child Development Center (CDC) have not been properly allocated between infant/toddler operations and preschool operations. The CDC allocates revenues to separate accounts for both the preschool and infant/toddler operations, but pays all expenses from the infant/toddler account. As a result, financial statements show that the infant/toddler program is operating at a loss of nearly \$200,000 per year while the preschool operates with a large surplus.
- Personnel expenses charged to the JQH Arena and the Hammons Student Center/Plaster Sports Complex for the year ended June 30, 2009, were not accurately allocated. University personnel indicated this was partly due to implementation of the university's new accounting system, and because time records associated with "other personnel" (mostly student workers) did not clearly indicate to which facility the charges should be allocated.

For the year ended June 30, 2009, actual expenditures of \$310,801 for "other personnel" were allocated to the Hammons Student Center/Plaster Sports Complex, and only \$20,509 to the JQH Arena. Since 2008-2009 was the first basketball season in the new JQH Arena, it is unlikely that these personnel cost were allocated correctly. (The Hammons Student Center and Plaster Sports Complex are combined for internal budgeting purposes.) As a result, the operating position of the new JQH Arena appeared better than it would have had personnel costs been accurately allocated.



Missouri State University
Management Advisory Report - State Auditor's Findings

- In 2008, the School of Social Work began a program reorganization and temporarily reassigned four faculty members to non-teaching duties within the College of Education (COE) or Office of Institutional Research (OIR). Salary expenses were not allocated to the COE or OIR budgets, instead, all salary payments were charged to the School of Social Work budget. As a result, the School of Social Work has compensated these faculty members a total of approximately \$235,000 for time spent working in other departments from August 2008 through February 2010. One faculty member will continue to spend 75 percent of her time working for the COE until her retirement in May 2011.

Accurate financial information is needed to properly manage various university operations. The university should use accurately prepared financial data when determining tuition rates of the CDC, analyzing the financial position of the new JQH Arena, or monitoring departmental budgets.

1.4 Financial statement error The university's statements of cash flows for the year ended June 30, 2008 contained two misstatements of approximately \$5 million each. The statements of cash flows reported cash flows from operating activities for the year ended June 30, 2008, as \$178,073 and \$5,198,871 for athletics and recreational facilities, respectively. However, these amounts had been transposed resulting in a misstatement for each of these line items in excess of \$5 million. Both athletics and recreational facilities are part of the university's auxiliary enterprises. After we brought this misstatement to the attention of the university we noted the error was not repeated on the subsequent year's statements of cash flows.

The university's annual financial report provides information to the public as to the operations of the university and should communicate accurate financial data.

Recommendations

The Board of Governors:

- 1.1 Evaluate the adequacy of the university's financial reporting system and continue to address deficiencies to provide timely and accurate information to manage university finances.
- 1.2 Establish a tracking system to readily identify university expenses subsequently reimbursed by the foundation.
- 1.3 Ensure expenses are correctly allocated and provide accurate financial reporting.
- 1.4 Ensure the annual financial report provides accurate information for all operations of the university.



Missouri State University
Management Advisory Report - State Auditor's Findings

Auditee's Response

See the response transmittal letters (Appendix C) for introductory statements from the University and the Foundation.

The Board of Governors provided the following responses:

The University will seriously review and consider the good recommendations in this section. However, based on more than five decades of unqualified external audits, the University's enviable bond rating that was upgraded again this year, the University's current strong financial position, and the satisfaction expressed by the University's Board of Governors on financial matters, Missouri State University respectfully disagrees with the Auditors' general characterization of the University's financial reporting and accounting. While there are always improvements that can be made and practices that we can refresh and update, we believe the University does have very strong financial controls.

1.1 In 2006, Missouri State made a decision to purchase and install a new Enterprise Resource Planning (ERP) system. Banner was the system selected. As a cost-saving measure, the University made the decision to implement the new system utilizing existing staff; no new staff were hired. While this did save money, the result was that it took the entire allotted time to implement the system. At the time the State Auditors were on campus, the system was just coming on-line. While there are standard reports, the University's financial management has chosen to create more valuable and user-friendly reports by query, which is one of the strengths of Banner. The University's post-implementation use of Banner continues to improve daily and we have utilized many more of Banner's reporting capabilities since the audit was initiated more than one year ago.

1.2 We believe good controls and documentation are in place, but we will continue to monitor and make improvements in the future.

1.3 While they may not have been displayed in a format preferred by the Auditor, we respectfully disagree that the University has not properly allocated some expenses.

We agree with the recommendations on the Childhood Development Center. Individual budget allocations have been corrected.

In 2008, Missouri State opened its new \$67 million JQH Arena without hiring any new full-time personnel. The same personnel supported all three auxiliary athletic facilities: JQH Arena, Hammons Student Center, and Plaster Sports Complex. With this recommendation, the Auditors have confirmed what we already had come to realize: Some or all of the entertainment and athletics facilities, should be budgeted as a single auxiliary enterprise. This



Missouri State University
Management Advisory Report - State Auditor's Findings

will be pursued this year. When viewed in the aggregate, the three athletic facilities actually realized a profit of about \$20,000 in Fiscal Year 2009, and that does not include the value added to the quality-of-life and economic impact these facilities provide for Springfield and the region through speakers, cultural events, and other activities/events. Further, we will make reporting adjustments to ensure that all of the revenues and expenses associated with the Arena are included in the financials for the Arena. It is important to note that the cost of operations and debt service for JQH Arena have not been covered by transfers from the general fund.

Regarding the Social Work Department, the salary costs for reassigned employees were determined to still be related primarily to that department and were, therefore, appropriately recorded within its budget.

1.4 *As indicated previously, this was a transposition error within the unqualified, signed annual audit conducted by BKD, the University's external auditors. The transposition error did not affect the audit findings, opinion, or financial performance of the University.*

Auditor's Comment

1.3 The response does not address our recommendation to correctly allocate costs. Additionally, the response contends the three entertainment and athletic facilities combined made a profit, and the costs of operations and debt service of the JQH Arena were not subsidized by transfers from the Operating Fund. However, the Intercollegiate Athletics Fund (which is supported by the Operating Fund) transferred a total of \$275,340 during the year ended June 30, 2010, to help fund operations of the JQH Arena. In addition, during fiscal year 2009, the Operating Fund and the Intercollegiate Athletics Fund transferred \$218,782 and \$189,144, respectively, to subsidize operations of the Hammons Student Center and Plaster Sports Complex. As a result, the Board of Governors response suggesting these auxiliary enterprises operated at a profit is misleading and incorrect.

2. University Operations

Weaknesses were identified in various areas of university operations. Reports are not always filed to justify sabbatical leave, and financial operations for some areas of the university should be closely scrutinized. In addition, some budget estimates appear unreasonable and better documentation should be maintained for disbursements from the President's Carry Forward account and for the calculation of room and board rates.

2.1 Sabbaticals

The university paid 48 faculty members a total of more than \$2.2 million during the 2 years ended June 30, 2009, for sabbatical leave; however, no



Missouri State University
Management Advisory Report - State Auditor's Findings

monitoring system has been established to ensure required reports documenting work completed and justifying the expense are timely filed.

The university allows ranked faculty members (those serving in administrative capacities within their respective departments) who have completed 12 semesters of service to apply to the university for paid sabbatical leave. According to the sabbatical leave policies, if faculty members are approved for sabbatical leave, they will be compensated based upon a pre-determined percentage (100, 75 or 50 percent) of their current salary. In addition, the policies state that if faculty members receive compensation for sabbatical leave, they must, within 3 months of returning to their normal duties, submit a written report reflecting the work completed during the sabbatical.

Sabbatical leave applications indicate faculty members were awarded paid leave for work such as writing a book on fiddle music resources, studying the Indian Inquisition and Idolatry in the Yucatan, implementing a compensation initiative, and studying how reducing light pollution impacts housing values in communities in New Mexico and Arizona. Of seven sabbaticals reviewed, only two faculty members completed the required report and submitted it to the responsible individual by the deadline. Three of the remaining five reports were submitted after our request for the reports, and one of these reports did not appear to be complete. One faculty member was granted an extension by the department head only after we requested a copy of the report; however, the current policy does not allow an extension to be granted. The remaining faculty member left employment with the university since the sabbatical, without submitting the required report.

While paid sabbatical leave may be beneficial in attracting faculty members and to ensure faculty members can further their knowledge within their field of study, the university also has a responsibility to the public to use its monies in the most beneficial ways possible. The university should review the amount expended for sabbatical leave and establish monitoring procedures to ensure reports justify the use of monies and are filed by the required deadline.

2.2 Operating losses

The university administration has not completed a documented review of financial reports for some operations, such as service centers, auxiliary enterprises, and other areas of the university, to ensure these operations are efficient and are not creating an additional burden on operating funds. The university appears to be at a financial crossroads and with the loss of additional state funding, the administration will be forced to closely assess funding priorities. It is critical that the university review its programs carefully to ensure funds are used effectively to best achieve the mission of the university. During our review of university operations, we noted areas that may merit closer review.



Missouri State University
Management Advisory Report - State Auditor's Findings

Greenwood Laboratory
School

The university operates Greenwood Laboratory School on campus, which provides a comprehensive education for kindergarten through twelfth grade students. Approximately 340 students were enrolled for the 2008-2009 school year. The school serves as a research center where classroom teaching techniques and programs can be studied. Student tuition partially offsets costs associated with the laboratory school; however, a portion of operating costs are absorbed by the university's general operating budget. During each of the years ended June 30, 2009 and 2008, Greenwood Laboratory School received a total of approximately \$1.5 million from fees; however, total operating costs were approximately \$1.9 million.

Although the school's operating costs exceeded revenues by a total of approximately \$800,000 during fiscal years 2009 and 2008, the university decided to freeze fees for the 2009-2010 school year. According to a statement from the President's Office, "the percentage of fee increase for Greenwood Laboratory School is similar to the percentage of tuition increase for university classes." The university signed an agreement with the Governor stating in order to maintain the current level of state appropriated funds they would not increase in-state tuition for university classes. The deficit of the school is absorbed by the university's Operating Fund.

Intercollegiate athletics

During the 2 years ended June 30, 2009, the university transferred approximately \$5.5 million from the Operating Fund and the foundation contributed in excess of \$8.9 million to the Intercollegiate Athletics Fund. The fund retains all revenues generated from ticket sales, broadcasting rights, and other miscellaneous sources. Not considering the transfers and contributions noted above, expenditures for the Intercollegiate Athletics Fund exceeded revenues by approximately \$7.1 million and \$7.2 million in fiscal years 2009 and 2008, respectively.

JQH Arena

The university's JQH Arena, which opened for the 2008-2009 basketball season, had an operating loss during its first 2 years, and according to the university's current budget, is projected to operate at a loss for the year ending June 30, 2011. As a result, operating transfers from the Intercollegiate Athletics Fund (which is supported by the Operating Fund) were needed to cover these losses.

In April 2007, the university issued approximately \$59 million in Auxiliary Enterprise System Revenue Bonds to fund the construction of JQH Arena. A local businessman signed a gift agreement committing to pay \$1 million up front and \$29 million amortized over a 25 year period. The university funds the balance of the indebtedness through the collection of seat assessments, rental income from the suites, and student fees.

In addition, the university relies on income from events to cover operating costs of JQH Arena. However, costs to operate JQH Arena continue to increase and the arena has not generated adequate event revenues to cover



Missouri State University
Management Advisory Report - State Auditor's Findings

these costs. As a result, transfers from the Intercollegiate Athletics Fund totaling \$275,340 and \$26,350 from the University Relations Fund for the years ended June 30, 2010 and 2009, respectively, were necessary to partially offset operating losses. Further, according to the current budget, the university expects to transfer an additional \$275,340 from the Intercollegiate Athletics Fund during the year ending June 30, 2011.

Printing services

The university operates a printing service center to print items such as business cards, envelopes, letterhead, temporary parking permits, campus maps, and brochures for the university. During the fiscal years ended June 30, 2009 and 2008, Printing Services operated at a loss of \$33,107 and \$234,993, respectively. These losses are absorbed by the university's Operating Fund. The university has not documented a cost benefit analysis of this service center.

Conclusion

Auxiliary enterprises, service centers and other areas of the university that operate at a loss should be carefully analyzed for ways to make them more cost effective and ensure the amount of monies used for educational purposes is maximized. While it may be necessary or desirable to fund or subsidize certain programs and operations, funding and subsidies should be reviewed periodically to ensure activities are operated efficiently and continue to be in the best interest of the university.

2.3 Budgeting

Our review of university budgets showed significant budget to actual variances that appear to be due to unrealistic projections of expenses.

As noted in MAR finding number 1, budget and actual financial reports had to be manually created for us by university personnel; therefore, our review of such financial information was limited. However, our limited review revealed significant budget to actual variances by category for expenses of two athletic programs and the Hammons Student Center/Plaster Sports Complex auxiliary cost center.

The following table shows significant budget to actual variances for line items for men's and women's basketball for the year ended June 30, 2009.

Line item	Budget	Actual	Difference
Men's basketball travel	\$ 69,000	313,434	(244,434)
Men's basketball supplies	16,874	55,246	(38,372)
Men's basketball other	205,726	42,230	163,496
Women's basketball travel	98,000	228,446	(130,446)
Women's basketball supplies	17,091	65,832	(48,741)
Women's basketball services	21,793	65,144	(43,351)
Women's basketball other	156,987	19,509	137,478



Missouri State University
Management Advisory Report - State Auditor's Findings

Both the men's and women's basketball programs budgeted a significant percentage of their expenses as "other expenses"; however, actual expenses for these categories were significantly less than budgeted. A similar situation was also noted in the budgets for these programs for the year ended June 30, 2010.

Additionally, budgeted expenses for the Hammons Student Center/Plaster Sports Complex cost center do not appear to have been reasonable. For the year ended June 30, 2009, this cost center budgeted total operating expenses of \$1,169,095 and had actual total operating expenses of \$2,007,917 for a difference of \$838,822. Examples of significant differences between budgeted and actual amounts by line item are noted in the following table.

Line Item	Budget	Actual	Difference
Utilities	\$ 249,882	460,535	(210,653)
Supplies and services	259,212	548,004	(288,792)
Other	0	266,385	(266,385)

A complete and well-planned budget, can serve as a useful management tool by establishing specific cost expectations for each area. Realistic projections of the university's anticipated expenditures are essential for the efficient management of university finances.

2.4 President's carry forward monies

Controls over monies disbursed from the President's Carry Forward account need improvement.

At the end of each fiscal year, a transfer is made of remaining funds allocated to selected budget lines to the President's Carry Forward account. These monies are used at the President's discretion for special projects, budget over runs, and other items approved by the President. For example, approximately \$2.5 million was spent on maintenance and repair items and \$3.2 million was spent on the university's new computer software system (see MAR finding number 1). As of June 30, 2009, the balance in this account was approximately \$13.6 million and during the 2 years ended June 30, 2009, approximately \$7.4 million was spent from this account.

- Disbursements from this account, usually transfers to other university funds, are completed using a journal entry in the accounting system. The President's approval is normally documented by email. Often, the email comes from one of his two Executive Assistants stating that the President approved the transfer. These emails are carbon copied to the President, printed, and retained with the general journal entry documentation. In our review of journal entries completed during the 2 years ended June 30, 2009, we noted approximately \$5.9 million was transferred from the President's Carry Forward account without documentation that an email had been sent and carbon copied to the



Missouri State University
Management Advisory Report - State Auditor's Findings

President. Considering the amount transferred from the President's Carry Forward account, a better method of documenting the President's approval should be considered.

- The university does not have a policy addressing what monies can be transferred to the President's Carry Forward account and how these monies should be used. While the account is included in the university's budget, a policy establishing guidelines over these discretionary funds would provide additional assurance that monies transferred in and out of this account meet the university's goals and objectives.

To ensure all funds allocated to the President's Carry Forward account are disbursed appropriately, budget transfers should not be completed without the President's documented approval, and a policy should be adopted that provides guidelines on how transfers into the account are calculated and what disbursements from the account are appropriate.

2.5 Room and board rates

Adequate supporting documentation was not maintained of the calculation of increases in room and board rates.

The university's Director of Residence Life and Services, Chief Financial Officer, and Director of Accounting and Budgeting review anticipated costs associated with providing room and board services. A schedule of proposed increases is then provided to the Board of Governors annually who set the actual rates to be charged. While documentation was maintained showing rates compared with other Missouri universities, as well as financial information, no documentation was maintained to support how the rates were calculated.

The following table shows the increase of room and board rates at one of the university's traditional residence halls with a standard 19 meal plan from the year ended June 30, 2008, through the year ending June 30, 2011:

Fiscal Year	Room and Board Rate	Percentage Increase
2011	\$ 6,274	7.51
2010	5,836	3.00
2009	5,666	8.38
2008	5,228	2.95

To ensure rate increases for room and board are justified and properly calculated, adequate documentation should be maintained of the calculations.



Missouri State University
Management Advisory Report - State Auditor's Findings

Recommendations

The Board of Governors:

- 2.1 Review the current amount expended for faculty sabbaticals and establish monitoring procedures to ensure required reports are filed by the deadline and justify the sabbatical.
- 2.2 Analyze auxiliary enterprises, service centers, JQH Arena and other areas of the university that operate at a loss for ways to make them more cost effective and reduce or eliminate the need for continued transfers from the university's Operating Fund.
- 2.3 Ensure budgets provide reasonable estimates of anticipated financial activity.
- 2.4 Ensure approval documentation is prepared and maintained to support budget transfers from the President's Carry Forward account and establish a policy providing guidance over the monies transferred in and out of this account.
- 2.5 Ensure adequate documentation of room and board rate calculations is maintained.

Auditee's Response

The Board of Governors provided the following responses:

- 2.1 *Regularly scheduled and approved sabbaticals keep faculty fresh and current in their fields, and are an important component of professional development. We agree that the sabbatical reports should be filed in a timely manner, and appreciate the work of the auditors. Action will be taken immediately to remind Deans of the need for all faculty members to timely file the required sabbatical reports.*
- 2.2 *This institution was founded in 1905 as the Fourth District Normal School. Its heritage has been teacher education, and that tradition continues today; Missouri State educates more teachers, counselors and administrators than any other university in the state. Since 1908, a key ingredient in that educational experience has been Greenwood Laboratory School. Today, it is the only Kindergarten-Grade 12 laboratory school in the state, thus giving Missouri State a competitive advantage. Because of its centrality to mission, it has been, is, and will be supported by University funds just as other educational enterprises. Tuition rates are appropriately established so that those benefiting also help fund the operations of the school.*



Missouri State University
Management Advisory Report - State Auditor's Findings

Regarding intercollegiate athletics, in Fiscal Year 2009, only 14 of the 310 NCAA Division I schools had revenues in excess of expenditures (i.e., they “made money”), according to an NCAA study. All other Division I schools received some funding from the University. The Missouri State University Board of Governors has determined that intercollegiate athletics makes a positive contribution to the overall University experience and, therefore, has consistently approved an annual budget transfer of about \$5 million to support that program. This amount represents one of the lowest percentage transfers within the Missouri Valley Conference (i.e., Missouri State funds a greater percentage of its intercollegiate athletics program from other revenue and gifts than other schools in the MVC). In addition, we believe the State Auditors should have included the gifts contributed to benefit athletics, totaling about \$2 million each of the two years, in the revenue total and applied to the bottom line. For the Board of Governors, the key indicator is not “revenue over expenses” because it is unrealistic and does not account for the value of the program to the institution. Rather, the Board’s direction is that the intercollegiate athletics program lives within its overall budget, including the University transfer, which it does.

Regarding JQH Arena, we will continue to monitor its financial position. As indicated in our response to Audit Item 1.3 on Expense Allocations, based on our own internal evaluation and now the recommendations of the State Audit, we will strongly consider combining some or all of the three athletic facilities into one auxiliary budget, or perhaps combining all of the entertainment and athletic facilities into one auxiliary budget. This will better reflect the shared staff and flexible venue approach we have with these three facilities. As stated above, when viewed in the aggregate, the three facilities actually realized a profit of about \$20,000 in Fiscal Year 2009, in addition to the value-added for the community through the events and activities in these venues. Further, we will consider adjusting some accounting procedures to better reflect the true revenues and expenses. For example, instead of the seat assessment revenue going to Athletics and then being transferred to JQH Arena, it may be more appropriate to have the seat assessment revenue come directly into the JQH Arena budget.

Regarding Printing Services, in recognition of reduced revenues, the number of employees in that organization was recently reduced.



Missouri State University
Management Advisory Report - State Auditor's Findings

- 2.3 *We agree with the Auditors that the budgeted amounts should be closer to the actual in the individual line items within the budgets. However, the more important comparison is between actual expenses to budgeted expenses on the total operating budgets for individual units; these units do not exceed that total budget.*
- 2.4 *We believe the President's carry forward has had and does have appropriate oversight. The \$5.9 million referenced was the Fiscal Year 2008 non-recurring amount approved by the Board of Governors and included in public budget documents. Management did not feel further approval was necessary. However, we will explore the idea of developing guidelines for these monies.*
- 2.5 *The room and board rates are developed in a thoughtful manner to keep costs to students as low as possible. Specifically, the rates are driven by market; the needs of the housing system, including maintenance and repair; food services contractual increases; and historical increases. Missouri State's room and board rates continue to be in the bottom half of the public four-year institutions, making them a bargain for the increasing numbers of students enrolling at the University.*

3. Child Development Center

Some monies received by the Child Development Center (CDC) could not be accounted for properly, and significant weaknesses were identified in accounting controls and procedures.

Since 1964, the university has operated a preschool laboratory. In 1997, the Missouri State Child Care Task Force presented a proposal to establish an on-campus childcare center. In 1999, the university opened a state-licensed infant/toddler facility on campus, which provides childcare. In 2000, the preschool laboratory and childcare operations combined to form the CDC. The CDC can serve up to 88 children ages 6 weeks to 5 years of age.

3.1 Undeposited funds

Cash receipts of at least \$4,038 received by the CDC between July 1, 2007, and December 31, 2009, were not remitted to the Bursar. The following chart compares the amount of child care tuition recorded as received on manual receipt slips to amounts transmitted to the Bursar for deposit in the university's bank account.



Missouri State University
Management Advisory Report - State Auditor's Findings

Fiscal Year	Amount Received	Amount Transmitted to	
		Bursar	Difference
2008*	\$ 266,890	265,702	1,188
2009	563,202	561,397	1,805
2010**	262,431	261,386	1,045
Total	\$ 1,092,523	1,088,485	4,038

*These amounts are incomplete because the CDC did not retain receipt books for monies received from July 1 through December 16, 2007, and January 6 through February 12, 2008, as noted in section 3.4 below. The amount transmitted to the Bursar reflects only amounts that coincide with the amounts reported on the available receipt slips.

**These amounts include July 1 through December 31, 2009, receipts only. The amount transmitted to the Bursar reflects only amounts that coincide with the amounts reported on the available receipt slips.

Additionally, receipt slip amounts reported to the Bursar were less than amounts actually received. The Director prepares a receipt report that lists each individual receipt slip number, the name of the payer and the amount of the receipt. This report is submitted to the Bursar along with the child care tuition monies received. Individual receipt slip amounts listed on the receipt report were often reported at a lower amount so the total receipts reported to the Bursar agreed with the monies transmitted. For example, receipt slip number 345768 dated January 23, 2009, indicates \$260 cash was received; however, the receipt report prepared by the Director reported to the Bursar that only \$215 was received. There is no documentation to account for the \$45 difference.

According to the Director, when supplies are needed, cash is withheld from the receipts and used to either purchase supplies, or to reimburse employees who have purchased these supplies; however, no supporting documentation was retained to support these purchases. The Director has a university procurement card available to purchase supplies for the CDC, as a result, it is questionable why cash receipts would be used for this purpose.

To ensure all monies received are accounted for properly, all receipts should be accurately reported and transmitted to the Bursar, and the purchase of supplies should be made through approved university procedures, such as the use of a procurement card.

After our audit fieldwork at the CDC, the university's Office of Internal Audit performed an audit of the CDC which resulted in similar findings.

3.2 Segregation of duties

Accounting duties are not adequately segregated. The Director and all other CDC employees are permitted to collect monies and issue receipt slips; however, the Director keeps the monies in his desk, documents parent



Missouri State University
Management Advisory Report - State Auditor's Findings

payments on accounts receivable records, completes the receipt reports for the Bursar, and transmits the monies to the Bursar's office.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurances all transactions are accounted for properly and assets are adequately safeguarded through proper segregation of duties. If proper segregation of duties cannot be achieved, at a minimum, there should be a documented independent reconciliation of receipts to the monies transmitted to the Bursar's office.

3.3 Receipting and transmitting monies

Numerous weaknesses were noted in the procedures used to account for monies received.

- Monies are not transmitted to the Bursar timely, which allows for cash receipts to be available for inappropriate use. Transmittals are typically made once per week and total approximately \$11,000 each.
- Receipt slips are not always issued at the time of payment. We observed instances where monies were received, but receipt slips were not issued immediately upon receipt.
- Voided receipt slips are not always retained. Several instances were identified where the duplicate receipt slip was marked void but the original copy of the receipt slip was not retained.
- Rediform receipt slips are issued for monies collected instead of official CDC receipt slips containing the university's name. As a result, receipt slip books are purchased at local office supply stores and the numerical sequence of receipt slips are not consecutive when new receipt books are purchased.

The failure to implement adequate receipting and depositing procedures increases the risk that the loss or misuse of monies received will go undetected. To adequately account for all monies received, monies should be transmitted to the Bursar timely, receipt slips should be issued at the time of receipt, receipt slips should be properly voided and retained, and official pre-numbered receipt slips should be issued for all monies received.

3.4 Record retention

Receipt slips issued from July 1 through December 17, 2007, and January 6 through February 12, 2008, were not retained by the CDC. In addition, attendance records for the year ended June 30, 2009, were not retained.

Record retention is necessary to ensure the validity of transactions and provide an audit trail. According to the university's record retention policy, cash records are required to be retained for a period of at least 5 years.



3.5 Late fees and partial payments

The CDC has not established formal written policies and procedures allowing the collection of partial payments. In addition, the current policy regarding late fees is not consistently enforced. The CDC parent handbook states that weekly tuition is due on Monday of each week and if payment in full is not received on Monday, a \$10 late fee will be charged; however, we noted many instances where either full or partial payments were received after the due date, but no late fee was charged.

To ensure all parents are treated equitably and in a consistent manner, formal policies and procedures should be established for partial payments and late fees should be assessed in accordance with the established parent handbook.

Recommendations

The Board of Governors:

- 3.1 Investigate the undeposited cash receipts and take appropriate action. In addition, the Board of Governors should ensure all monies collected are transmitted to the Bursar and deposited, and supplies for the CDC are purchased through appropriate university procedures.
- 3.2 Segregate accounting duties to the extent possible and ensure periodic supervisory reviews are performed and documented.
- 3.3 Provide for improved receipting and depositing procedures at the CDC to adequately account for all monies received.
- 3.4 Ensure financial records are retained in accordance with university policy.
- 3.5 Establish formal written policies and procedures for the handling of partial payments and assess late fees in accordance with the established parent handbook.

Auditee's Response

The Board of Governors provided the following responses:

During the Auditors time on campus, the University's Internal Audit Office was alerted to some issues related to the Child Development Center. That office conducted an audit which led to a number of corrective actions, all of which have been implemented and have addressed the State Auditor's recommendations. The State Auditors' findings confirmed the University's findings and we appreciate their work.

3.1-3.5 We agree. (See summary above)



4. Procurement Cards

The university should improve controls over procurement cards.

4.1 Number of cards and limits

The university has not adequately analyzed the need for issuing 645 procurement cards. Some cards have excessive spending limits and some employees have been issued more than one card.

Of the more than 2,140 full-time faculty and staff, approximately 570 (27 percent) had university-issued procurement cards as of August 2009. The procurement card is an official VISA credit card which is designed to provide a more convenient procurement method than the purchase order system. Each procurement card can have individual transaction limits and a monthly spending limit. During the years ended June 30, 2009 and 2008, procurement card purchases totaled approximately \$8.4 million and \$9.4 million, respectively.

- Some individual and monthly transaction limits appear excessive. The procurement card policy states that the individual transaction limit is \$3,000 and the monthly transaction limit is \$5,000; however, lower or higher limits can be set if approved by the department head. We noted 55 procurement cards with no individual transaction limit and 12 procurement cards with monthly transaction limits of \$100,000 or more. For example, a procurement card was issued with no individual transaction limit and a monthly transaction limit of \$150,000; however, during the year ended June 30, 2009, the highest single transaction charge for this card was \$663 and the highest monthly total charged was \$1,365.
- At least 45 university employees have been issued more than one procurement card. One employee has been issued six separate procurement cards, five of which have no individual transaction limit and a monthly transaction limit of \$100,000 each. Some of these employees are issued a "ghost account" as a secondary card or account. A "ghost account" is assigned to a specific vendor who maintains the account information and no actual card is issued. We noted 31 of the 51 "ghost accounts" were assigned to one office supply vendor at June 30, 2009.

To adequately control the use of procurement cards, the university should reevaluate the reasonableness of procurement card limits and the need for multiple cards to be issued to users.

4.2 Policy violations

Some procurement card expenses reviewed appeared to violate the university's procurement card policy. We reviewed 32 procurement card transactions totaling \$178,541.



Missouri State University
Management Advisory Report - State Auditor's Findings

- Travel expenses were charged on procurement cards in violation of university policy. The procurement card policy states procurement cards should not be used for travel arrangements including gasoline purchases, rental car expenses, hotel expenses or international airfare related expenses; however, we noted an employee charged \$1,571 for hotel costs associated with a 2 night stay in Chicago, Illinois for five employees in July 2008 and another employee charged \$1,463 in May 2009 to rent a car for the month.

Numerous instances were identified where procurement cards were used for food purchases in violation of university policy. The procurement card policy states food purchases of less than \$100 are not permitted to be charged on a procurement card.

- Procurement cards were used for purchases from within the university. The procurement card policy states procurement cards cannot be used for bookstore purchases or any transaction within the university that should be on a budget transfer. We noted charges from the Juanita K. Hammons Hall (a performing arts venue within the university), the University Bookstore, and the Missouri State University Web.
- Several instances were identified where gifts and gift cards were purchased using procurement cards. The procurement card policy states procurement cards cannot be used for gifts, gift cards/certificates, awards, or prizes; however, we noted \$450 charged for nine \$50 gift certificates purchased in May 2009, and \$236 charged to purchase a retirement gift in January 2009.
- Televisions were purchased using procurement cards. The procurement card policy states procurement cards cannot be used to purchase televisions; however, we noted a \$1,400 charge for a 42-inch television and a \$3,000 charge for three 32-inch televisions.
- Transaction limits are not always followed. The procurement card policy requires a user to obtain a written exception from the Office of Procurement Services prior to completing any transaction in excess of the users transaction limit. This allows the department to review the transaction to identify instances when other forms of procurement may be more beneficial and to contact the financial institution who administers the procurement cards to temporarily increase the transaction limit. We noted a cardholder with a single transaction limit of \$3,000 was issued a written exception allowing a purchase totaling \$3,400 for two specialized wireless microphones; however, the completed transaction totaled \$4,476 with no additional written exception allowing the additional expense.



Missouri State University
Management Advisory Report - State Auditor's Findings

The procurement card policies were established to provide adequate controls over and monitoring of transactions processed through procurement cards; however, the assigned cardholder is ultimately responsible to ensure all transactions comply with adopted policies. The university should ensure cardholders are informed of the restrictions placed on procurement cards and require procurement card coordinators to notify the responsible parties of each violation so that corrective action may be taken.

4.3 Reconciliations

Reconciliation of procurement card transactions to cardholder statements is not always completed or adequately documented for some cardholders.

According to the procurement card policy, cardholders must complete a procurement card transaction log showing all purchases made within a billing cycle. The cardholder is to attach supporting documentation for purchases recorded and sign the log to certify that all information is correct. The transaction log and supporting documentation is to be reviewed and compared to statements by the Procurement Card Coordinator before payment is made.

During our review of procurement card transactions, we found that Office of Procurement Services cardholders did not complete transaction logs to verify charges on cardholder statements. While supporting documentation was retained for the transactions reviewed, a transaction log was not prepared by cardholders in the Office of Procurement Services to document the reconciliation with the cardholder statement in accordance with university policy. We also noted some cardholder statements for other university departments were not retained as required by the procurement card policy.

Complete and documented reconciliations of all procurement card transactions are important to ensure account activity and cardholder records are in agreement, and to detect and correct errors in a timely manner.

4.4 Supporting documentation

Adequate supporting documentation was not always submitted to support procurement card purchases. In many instances, only a credit card charge slip or a statement was submitted, rather than a detailed invoice or receipt slip.

According to the procurement card policy, "all purchases require detailed transaction documentation from the vendor regardless of the order method." The policy gives users alternative means of obtaining the needed level of detail required such as asking the vendor to give a "detailed description, not just "misc." and allowing a "written itemization of the charges" attached to the receipt obtained. If receipts are lost, cardholders are required to work with the vendor to obtain a copy. If a cardholder is unable to obtain a copy



Missouri State University
Management Advisory Report - State Auditor's Findings

of a missing receipt, a missing receipt form must be completed and kept on file.

In addition to being required by the university procurement card policy, detailed invoices or receipt slips improve the university's ability to review these charges and provide better documentation of the items purchased. Without adequate supporting documentation, the university cannot ensure charges are reasonable and in accordance with established policies.

Recommendations

The Board of Governors:

- 4.1 Develop criteria to evaluate the reasonableness of procurement card limits and the number of cards or accounts issued.
- 4.2 Ensure all cardholders are aware of procurement card restrictions and ensure procurement card coordinators notify the responsible parties of each violation for corrective action.
- 4.3 Ensure the reconciliation of procurement card logs and cardholder statements are completed and documented by all required parties and original information is retained.
- 4.4 Require adequate documentation be maintained for all procurement card transactions in accordance with university policy.

Auditee's Response

The Board of Governors provided the following responses:

Use of procurement cards increases efficiency by saving both money and time, and is considered a "best practice" nationwide. We agree that "P-cards" require good policies and monitoring. Both the Procurement Office and Office of Internal Audit routinely check to ensure those with procurement cards are following the policies; more than 100 P-Card reviews have occurred during the past two years. Those reviews have found that, with very few exceptions, P-card users are complying with the policies.

- 4.1 *We agree that P-cards should be monitored on an ongoing basis. Since February 2008, the total number of P-Cards has decreased by 117. Ninety-one percent of the P-cards issued are at the lowest maximum limit of \$5,000 or less. Only seven employees – i.e., those in the Bookstore purchasing books and those in the Procurement Office making large purchases on behalf of the University – have P-Card limits of \$100,000 or more. We will continue to assess the total number of P-Cards within the University and also review individual credit limits versus usage.*



Missouri State University
Management Advisory Report - State Auditor's Findings

- 4.2 *Any policy violations discovered are corrected per the on-going internal reviews. We have found these exceptions to be minimal compared to the thousands of transactions yearly. We will continue to ensure that P-Card holders are educated on all policies.*
- 4.3 *We agree. This has been implemented by the Office of Procurement Services.*
- 4.4 *We agree. We will continue to ensure that there is supporting documentation.*

5. Ticket Sales

University procedures to account for receipts from ticket sales for athletic and entertainment events need improvement. The university recorded gross sales of approximately \$6.2 million from ticket sales for events held at the JQH Arena, Hammons Student Center, Juanita K. Hammons Hall and other venues for the year ended June 30, 2009. Receipts from ticket locations on campus are transmitted to the JQH Arena where a transmittal form is prepared prior to transmitting the monies to the Bursar.

5.1 Segregation of duties

The Assistant Box Office Manager for the JQH Arena can sell tickets, enter sales transactions in the computerized ticket accounting system, and transmit monies to the Bursar for deposit into the university bank account. In addition, the JQH Arena Assistant Box Office Manager is also responsible for reconciling athletic ticket sales recorded on the computerized ticket accounting system with sales posted to the university accounting system. Although student employees typically perform most of these duties, there are times when the Assistant Box Office Manager performs incompatible duties. For example, on July 20, 2009, the Assistant Box Office Manager issued 960 tickets valued at \$62,400 and subsequently prepared the transmittal for all ticket sales on this date to the Bursar with no documentation of supervisory oversight or approval.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurances all transactions are accounted for properly and assets are adequately safeguarded through proper segregation of duties. If proper segregation of duties cannot be achieved, at a minimum, there should be a documented independent reconciliation of ticket sales to the monies transmitted to the Bursar's office.

5.2 Untimely reconciliations

Reconciliation reports for performances at the Juanita K. Hammons Hall for the Performing Arts were not performed timely.

The Box Office Manager is responsible for reconciling revenues between the ticket accounting system and the university accounting system for the individual performances held at the Juanita K. Hammons Hall for the Performing Arts, and for allocating expenses to each of the performances. A



Missouri State University
Management Advisory Report - State Auditor's Findings

separate accounting is set up for each performance to track all revenues and expenses and to determine profit or loss. For the year ended June 30, 2009, these reconciliations were not performed until after the year end. For example, performances held as early as August 2008 were not reconciled until after June 30, 2009.

To ensure revenues and expenditures are properly posted in the university accounting system, reconciliations should be performed after each performance.

5.3 Cash drawer reconciliations

The review and approval of cash drawer reconciliations and transmittal reports are not always documented. There are numerous ticket offices on the university campus which serve as collection points for ticket purchases. While Assistant Box Office Managers at ticket offices other than JQH Arena verify employee cash drawer reconciliations, no one verifies the Assistant Box Office Manager's cash drawer. Further, there is not always a documented secondary review of the transmittal to the Bursar prepared at JQH Arena.

To ensure all ticket sale proceeds are accounted for properly, reviews of reconciliations should be performed and documented for all cash drawers.

Recommendations

The Board of Governors:

- 5.1 Ensure accounting procedures for receipts are adequately segregated, including the reconciliation between the computerized ticket accounting system and the university accounting system.
- 5.2 Ensure reconciliation reports for performances are prepared timely to ensure all related revenues and expenses are properly reflected in the accounting records.
- 5.3 Ensure cash drawer reconciliation are performed and verified.

Auditee's Response

The Board of Governors provided the following responses:

- 5.1 *We agree and have corrected.*
- 5.2 *We agree. In the future reconciliations of events will occur more timely.*
- 5.3 *We agree and will take steps to ensure proper reviews and documentation.*



6. Disbursements

Improvements could be made with regard to disbursements and related policies.

6.1 Procurement Policies

The university could benefit from a more comprehensive procurement policy that addresses the documentation of procurement decisions, procuring items purchased for resale, and timeframes for which various bid threshold amounts will apply. Purchases of approximately \$30 million were administered by the Office of Procurement Services during the year ended June 30, 2009.

Documentation of decisions

Procurement decisions are not always documented for purchases totaling \$3,000 but less than \$10,000. For purchases between these amounts university policy allows a buyer from the Office of Procurement Services to decide whether to use comparative pricing, competitive bidding, or neither. However, the policy does not require the buyer to document how or why the decision was made. While the policy indicates bidding or price comparisons are optional for this threshold, the basis for the decision should be documented to ensure the best procurement practices are utilized. In addition, the university's \$10,000 bid threshold appears high when compared with requirements for other government entities operating within the state. For example, Section 34.040.1, RSMo, requires state agencies to obtain bids for all purchases in excess of \$3,000 and Section 50.660.1, RSMo, requires county governments to obtain bids for all purchases in excess of \$4,500. The university made purchases between \$3,000 and \$10,000 totaling approximately \$14.8 million and \$9.7 million during the years ended June 30, 2009 and 2008, respectively.

Items purchased for resale

University procurement policies do not address the procedures required when purchasing items for resale; therefore, the university has not used or documented the use of competitive procurement procedures for such purchases. According to the Director of Procurement, items for resale do not fall under the university procurement policy which requires all purchases in excess of \$10,000 to be competitively bid. For example, the bookstore purchases numerous apparel items from a limited number of vendors without the use of competitive bidding or documenting price comparisons.

The university may benefit from use of these procurement tools to acquire resale merchandise at a lower cost which they may be able to pass along to the purchaser, including students. To ensure the propriety of purchases, the university should revise the current procurement policies to require documented competitive procurement procedures for all purchases, including those items purchased for resale.

Timeframes

University procurement policies do not establish time frames for which threshold amounts will apply. The current policies apply to individual purchases; however, if the university utilizes the same vendor for multiple



Missouri State University
Management Advisory Report - State Auditor's Findings

transactions within a short period of time, cumulative purchases may exceed the \$10,000 threshold for competitive bidding. A more comprehensive procurement policy establishing time frames for which threshold amounts apply would provide a more effective framework for economical management of university resources.

6.2 Food policy

The university does not have a comprehensive food policy. Approximately \$1.2 million was expended during the year ended June 30, 2009, for meals and food provided during student and employee banquets and meetings. This amount does not include meals for employees while traveling on university business, food for resale, or food services for students who reside in the dormitories. According to university personnel, approximately \$788,000 may have been reimbursed by grant funds and other income. As noted previously, the university accounting system cannot determine the amount of these purchases subsequently reimbursed by the foundation.

While it is sometimes necessary to incur food expenditures, the university does not have guidelines on when providing food is reasonable and appropriate. Additionally, such costs should be kept to a minimum. Considering the extent of university-provided food expenditures, it appears the university should develop comprehensive policies regarding food purchases in an effort to control and reduce these expenditures.

6.3 Memberships

The university needs to improve controls over the tracking and monitoring of institutional and individual memberships.

Tracking

Memberships (professional and civic) are not adequately tracked. A report of institutional and individual membership costs obtained from the Office of Financial Services showed the university disbursed approximately \$1.1 million during the year ended June 30, 2009; however, this list was incomplete and inaccurate. Some memberships charged on the university procurement cards were not included in the report, and some items on the report did not relate to membership dues.

To effectively monitor membership benefits provided to employees, the university should implement an effective and accurate tracking system. The university should be able to easily identify not only the amount that has been paid for membership dues, but also the number of memberships paid for individual employees and institutional memberships.

Policy and benefits

University policy does not restrict the number of individual memberships for which employees can be reimbursed, and the university had not evaluated the necessity and benefits received from memberships.

University policy allows reimbursement for any individual club or organization membership when directly related to the transaction of



Missouri State University
Management Advisory Report - State Auditor's Findings

university business as determined and approved by the respective Vice President, President, or Board of Governors. For example, the university paid for four memberships for one accounting professor. While all four memberships may have been related to the professor's course of study, the university should review the prudence of this additional benefit and make applicable policy changes as needed to reduce and control expenditures related to individual memberships.

6.4 Contributions

Some disbursements did not appear to constitute a necessary use of university funds. Examples from the year ended June 30, 2009, are included below.

Name	Amount	Purpose
Downtown Springfield Community Improvement District	\$ 18,000	Voluntary contribution to organization to maintain sidewalks and parking lots and promote events in the downtown area
Foundation for Springfield Public Schools	4,000	Funding for Teachers Programs and Teacher Appreciation Banquet
Springfield Business & Development Corporation	10,000	Partnership for Prosperity annual investment
Partnership for Sustainability	5,000	Financial commitment to a campaign for economic development in the city
Urban Districts Alliance	3,500	Sponsorship of organization that works to preserve and strengthen economic vitality in the downtown and historic portions of the city

The university is very active in supporting various community organizations. We identified the above entities while scanning university expenditure records and the items discussed above may not represent a complete listing of all similar activities. The university did not have a written contract with any of the entities listed above that clearly indicates the benefit to the university for these contributions. Without a written contract that clearly indicates the benefit to the university, it is unclear if the use of these funds was appropriate.

6.5 Lobbying

State lobbying services should be better documented, and the university should evaluate the need of some lobbying services.

- The contracts with the university's state and federal lobbyists do not require documentation to support the specific services provided. Each lobbyist invoices the university on a monthly basis, but while the federal



Missouri State University
Management Advisory Report - State Auditor's Findings

lobbyist includes a listing of work completed, and an itemized list of charges for mileage, meals and other expenses, the state lobbyist's invoices do not provide any detail regarding the work performed. For example, contract terms with the state lobbyist requires the university to pay \$6,571 monthly for lobbying, and \$750 for training and supervision of legislative interns plus any expenses incurred; however, the invoices submitted for payment do not include the number of hours worked or a description of the services provided, such as issues discussed or officials contacted. Approximately \$86,000 and \$125,000 was paid to the university's federal lobbyist, and \$91,000 and \$89,000 was paid to the university's state lobbyist during the years ended June 30, 2009 and 2008, respectively.

Until contracts can be re-negotiated to require adequate detail from the lobbyist, the university should request a detailed statement from their state lobbyist to support payments made.

- Several university memberships to organizations such as the Springfield Area Chamber of Commerce, Missouri Biotechnology Association, American Association of State Colleges and Universities, Association of Public Television Stations, and American Council on Education, provide lobbying services as a benefit to membership. The university needs to evaluate all of the resources devoted to lobbying activities to ensure unnecessary costs are not incurred.

Detailed documentation of services provided is necessary to evaluate the reasonableness of payments for services rendered. Additionally, procedures should be developed to monitor the various lobbying activities provided to the university.

6.6 Police substation

Invoices received from the City of Springfield do not contain adequate detail and the university failed to reconcile invoices received to supporting documentation available to ensure invoices were correct prior to payment. The university contracts with the City of Springfield to provide dedicated law enforcement services within and around the campus. During the years ended June 30, 2009 and 2008, the university paid the City of Springfield \$691,601 and \$538,641, respectively, for these services. The contract for the fiscal year ended June 30, 2010, prohibits costs over \$730,925.

The city invoices the university on a monthly basis for actual costs incurred including salary, benefits, vehicle depreciation, and training costs. These invoices break down the total amount due into four categories including salaries, overtime and fringe benefits, overhead costs (transportation costs, uniform allowance, and equipment depreciation), and training costs, but do not include detailed information such as the number of hours worked by police officers. The university substation maintains time sheets and other



Missouri State University
Management Advisory Report - State Auditor's Findings

information as required by the contract, but this information is not compared to the invoices received from the city. Only by receiving detailed billings and comparing the amounts to the time records can the university ensure the amount billed by the city is correct.

Recommendations

The Board of Governors:

- 6.1 Amend the procurement policy to address documentation of procurement decisions, procurement of items purchased for resale, and timeframes for bid thresholds.
- 6.2 Consider developing a comprehensive policy regarding university-provided food purchases.
- 6.3 Establish a tracking system that allows the university to adequately monitor and evaluate institutional and individual membership costs. In addition, the Board of Governors should consider developing a policy that restricts the number of individual memberships the university will pay for each employee.
- 6.4 Maintain written contracts and ensure disbursements constitute a necessary use of public funds and provide a benefit to the university.
- 6.5 Require detailed documentation of lobbying services, and develop procedures to monitor lobbying activities provided to the university.
- 6.6 Require the City of Springfield to provide detailed monthly billings. In addition, the university should monitor the billings and time sheets to ensure amounts charged are correct.

Auditee's Response

The Board of Governors provided the following responses:

- 6.1 *As the Auditors have confirmed, the University is operating in full compliance with the state law and University policy with regard to procurement. We will seriously consider the Auditor's recommendations to determine if existing policies need to be revised beyond the statutory requirements.*

On documentation of decisions, we agree and have implemented. All buyers now use "rationale coding" on the requisition such as existence of previously bid contract(s) that apply; single feasible source; emergency procurement; time-sensitive (such as grant funded, research, etc.); or buyer professional judgment of market conditions for the commodity.



Missouri State University
Management Advisory Report - State Auditor's Findings

On items purchased for resale, we understand and agree with the importance of obtaining best pricing for all purchases made by the bookstore. To ensure this, the University is a member of Connect2One and negotiates volume purchasing discounts on clothing and office items, on behalf of the National Association of College Stores. In Fiscal Year 2009, the University achieved \$82,972 in discounts from purchases amounting to \$994,113. It should also be noted that a large portion of the volume purchases of textbooks is, by necessity, single-sourced (not available for bidding to multiple suppliers).

On the issues of both timeframes and bid thresholds, we will review current policy to see if revisions are warranted.

- 6.2 *We agree that purchase of food is an area that should continue to be monitored, and that all food expenses incurred by departments should be carefully considered. The University does have a Fiscal Responsibility Policy that addresses food purchases. The President, Provost, CFO and Vice Presidents have discretionary responsibility for these decisions. We will, however, review current policies to determine if more precise guidance would be beneficial.*

As the State Auditors have indicated, nearly \$800,000 of the \$1.2 million identified for food was covered through a revenue source. For example, revenues to cover food expenses came from sale of tickets for meal events, fees paid for conferences, grant funding that included meal events, donations and sponsorships of events, etc. We appreciate the Auditors acknowledgement of these revenue sources that offset these expenses.

As for the remaining \$400,000, major portions of the expenses were for food for current students, and recruiting prospective students and their families.

Some of the examples include: Student Orientation, Advising and Registration (SOAR) groups in the amount of \$89,034; Agriculture Department Scholarship Awards banquet for \$7,100; Legacy Day Bear-B-Que in the amount of \$5,000; Finals Week Midnight Breakfast for students for \$10,719; Rose Banquet for high school seniors in the amount of \$5,012; Campus Fall Homecoming events in the amount of \$16,464; undergraduate recruitment and related events in the amount of \$17,201; Presidential Scholarship interviews luncheon in the amount of \$10,040; Faculty Center for Teaching and Learning for \$10,258; Ozarks Celebration Festival in the amount of \$4,825; Industrial Management Graduate Reception and Career Night in the amount of \$5,569; and African American



Missouri State University
Management Advisory Report - State Auditor's Findings

Heritage Month meals for multicultural student events in the amount of \$7,508.

- 6.3 *The University's Fiscal Responsibility Policy provides guidance regarding business expenditures and we believe the policy is being implemented appropriately. However, we agree that a more specific policy that addresses membership requirements and support for various levels of staff and faculty would ensure more consistent funding of memberships. We will consider developing such a policy.*
- 6.4 *Consistent with its public affairs mission and its commitment to economic development, Missouri State is a good community partner with the City of Springfield, Greene County and the Ozarks. We believe the memberships and sponsorships listed here are most appropriate for an institution of the size and stature of Missouri State University. We will consider having written documentation of the benefits of each association on file.*
- 6.5 *We agree that regular communication with and monitoring of our lobbyists is important. The University follows this practice. We respectfully disagree, however, that written weekly reports are the only acceptable form for that communication and monitoring. Senior University officials have daily contact with the lobbyist during the five months of the state legislative session and weekly contact during the other seven months of the year. There is an annual internal review by the University President and administration, and an annual contract review by the Board of Governors. That review includes the reputation/credibility and effectiveness of the lobbyist.*

Missouri State is a member of several national organizations that provide "legislative updates." Some of those organizations also lobby on behalf of that organization or of higher education in-general. But none of these organizations lobby for Missouri State's specific priorities. In fact, in the case of the Association of Public Television Stations, Ozarks Public Television (OPT) intentionally does not pay the fee for optional lobbying services.

- 6.6 *Agreed and Implemented. The Director of Safety and Transportation implemented these steps in July 2010.*



7. Controls, Policies and Procedures

Controls over various university operations could be improved, and several policies and procedures should be reviewed and updated.

7.1 Oversight of West Plains campus bank accounts

The university Office of Financial Services does not have adequate oversight of a checking account held by the West Plains campus.

When the university's new accounting system was implemented, the Springfield campus consolidated most bank accounts and took over most check writing responsibilities. The West Plains campus was allowed to keep two bank accounts; one account for the direct deposits of student aid and other funding, and a checking account used by personnel at the West Plains campus to write checks for convenience purposes. All direct deposit monies are swept into the checking account which maintains a balance of approximately \$3 to \$4 million at all times. When the balance nears or exceeds \$4 million, the excess funds are transferred into accounts held by the Springfield campus.

Checks issued from the checking account are signed by the Accounting Manager and the Director of Business and Support Services, both employees of the West Plain Campus. The Accounting Manager also enters checking account activity in the Springfield Campus accounting system and performs bank reconciliations which are not always reviewed by the Director of Business and Support Services or by the Office of Financial Services at the Springfield campus. Supporting documentation for all checks is retained at the West Plains campus.

During the year ended June 30, 2009, 166 checks totaling \$406,158 were written from the checking account for expenses such as travel cash advances, basketball referees, campus emergency grants for students, petty cash, and cash for text book buyback by the bookstore.

Controls over monies held in the West Plains checking account would be strengthened by additional oversight by the Springfield Campus.

7.2 Team cash advances

Cash advances are issued to coaches when teams are traveling. We observed individual cash advances of as much as \$8,700. While the university has adopted a cash advance policy that stipulates who may receive a cash advance, when the cash will be available for pick up prior to departure, and reconciliation procedures required once the coach returns from the trip, conducting business in cash puts the university and the coaches at higher risk for loss of funds. Additionally, lodging costs for some departments are billed directly to the university and paid by check; however, cash advances are used to pay lodging costs for sports teams.

To better safeguard university funds and provide less risk for employees receiving cash advances, the university should review its current practice of



Missouri State University
Management Advisory Report - State Auditor's Findings

issuing large cash advances and determine if a more secure method of payment could be used.

7.3 Background checks

The university does not perform periodic background reinvestigations on current employees who are working in sensitive information technology positions. According to the Director of Information Technology, background checks are performed for new employees hired to fill sensitive positions, but background checks are not repeated if an employee moves into a new position or periodically during their tenure. To ensure the security of sensitive information, the university should develop procedures to perform periodic background reinvestigations on current employees who have access to sensitive information.

7.4 Parking ticket duties

Duties related to parking tickets are not adequately segregated. An Administrative Specialist in the Parking Administration office enters ticket information into the computer system, sometimes collects payments for parking tickets, prepares the money received report for transmittals to the Bursar, and waives fines for tickets issued.

Although the tickets instruct the recipient to make payment, either in person or by mail, to the Bursar, payments are occasionally received at the parking administration office. The university parking administration issued approximately 25,000 tickets representing a total fine amount of approximately \$570,000 for the year ended June 30, 2009.

Controls could be improved by ensuring the duties are adequately segregated.

7.5 Food and concession vendors

Procedures are not in place to ensure all commissions are properly paid to the university by food and concession vendors, or to ensure vendors are sales tax compliant. Approximately \$568,700 was collected by the university in commissions during the 2 years ended June 30, 2009.

The university contracts with various vendors to rent retail space in the food court of the Plaster Student Union (PSU). Rental fees are established based upon a percentage of gross sales. Contractors are required to report gross sales to the PSU staff for calculation of the rental fee for each month. In addition, the university has a long-term contract with a vendor who provides concessionaire and catering services for all sporting and entertainment events held at the various campus venues. The university receives a commission of sales as compensation for the spaces leased.

These contracts allow the university to examine and audit the books and records pertaining to the contractors' businesses; however, no inspections, examinations, or audits have been completed by university staff.



Missouri State University
Management Advisory Report - State Auditor's Findings

In addition, procedures have not been established to periodically ensure contractors are sales tax compliant. The Missouri Department of Revenue has established a web site that allows individuals to check the sales tax compliance of all licensed businesses in the State of Missouri. During our review of vendors, we found one contractor was operating on a revoked sales tax license due to non-payment of retail sales tax.

Periodic audits of vendor information would ensure reported gross receipts are accurate, and rental fees and commissions have been accurately calculated. In addition, the university's contract with the vendors requires the vendor to collect and remit all sales tax to the State of Missouri.

7.6 Fuel and usage logs

Fuel and vehicle usage logs are not maintained for some university vehicles and equipment and usage is not reconciled to fuel purchases. In addition, the university did not require a usage log to be completed for a rental car used for approximately a month and driven approximately 6,000 miles. The university was charged by the mile for the use of this rental car costing \$1,463.

Fuel and usage logs are necessary to document the appropriate use of equipment and vehicles and to support fuel charges. The logs should include the date, driver, purpose, and destination of each trip; daily beginning and ending odometer or hour readings for vehicles and equipment; and amount of fuel pumped. The logs should then be reconciled to fuel purchases and to invoices for rented vehicles to ensure the billings are appropriate.

7.7 Outdated policies

Some university written policies have not been updated in more than 10 years and refer to personnel positions that are no longer relevant to the university system. For example, the investment policy was last updated in 1996 and refers to a position titled, Vice President of Finance, which does not currently exist. The procurement services manual also refers to the Vice President of Finance. The duties of this position are now completed by the Chief Financial Officer. To ensure the usefulness of written policies, the university should periodically review and revise old policies as necessary.

7.8 Conference Services

Conference Services duties are not properly segregated and controls over adjustments and voids made to the computerized reservation system are not adequate.

The Conference Services office is responsible for reserving and charging users for available conference rooms and ballrooms within the Plaster Student Union. Outside organizations and individuals rent these facilities and pay a fee for various other services, such as labor, audio/visual equipment rental, or table and chair rental. Departments and organizations within the university are allowed to use these spaces without charge and pay a reduced rate for other services. Events such as high school proms,



Missouri State University
Management Advisory Report - State Auditor's Findings

wedding receptions, banquets, and meetings are held in these facilities. Approximately \$416,000 was collected for conference services during the 2 years ended June 30, 2009.

- Currently, the Assistant Director of Plaster Student Union Events and Meetings posts reservations and related charges to a computerized reservation system, makes adjustments to amounts billed, voids reservations, and reports billing amounts to the university's Financial Services office. There is no supervisory oversight of the performance of these duties.

Once a week, the Assistant Director prepares an Excel spreadsheet from the information she posts to the computerized reservation system to report all charges for rented space, equipment, and labor, and submits the report to Financial Services. Based upon this spreadsheet the university's Financial Services office sends a bill to outside organizations or individuals for charges incurred or makes a budget transfer for university departments or organizations. We reviewed the month of May 2009, and found three reservations totaling \$304 that were not reported to the Financial Services office for billing. The unbilled reservations were not identified by university personnel because duties related to Conference Services are not adequately segregated and there is not supervisory review of these duties.

- The university computerized reservation system does not adequately track or produce a report of adjustments made to reservations and there is no supervisory review of adjustments or voids.

To ensure users are properly billed for use of university facilities, internal controls should be improved by segregating the duties of making reservations and reporting billing amounts to the Financial Services office. If proper segregation of duties cannot be achieved, at a minimum, there should be a documented independent comparison between the reservations posted to the computer system and the information reported to the Financial Services office. Additionally, any adjustments or voids posted to the computerized reservation system should be independently reviewed.

Recommendations

The Board of Governors:

- 7.1 Establish procedures to adequately review activity of the checking account held by the West Plains campus.
- 7.2 Review the current practice of issuing large cash advances to coaches for travel expenses and consider implementing alternative methods of payment for these expenses.



Missouri State University
Management Advisory Report - State Auditor's Findings

- 7.3 Complete periodic background reinvestigations on current employees who have access to sensitive information.
- 7.4 Ensure procedures for the processing of parking tickets are adequately segregated.
- 7.5 Establish policies and procedures to complete periodic audits of contracted vendor information to ensure rental fees and commissions are properly remitted and contracted vendors are sales tax compliant.
- 7.6 Require usage logs be maintained for all university provided vehicles and equipment. These logs should be reconciled to invoices for rented vehicles, and fuel logs should be reconciled to fuel purchases for all vehicles.
- 7.7 Periodically review and update university policies.
- 7.8 Ensure duties involving Conference Services are adequately segregated or if proper segregation of duties cannot be achieved, at a minimum, there should be a documented independent comparison between the reservations posted to the computer system and the information reported to the Financial Services office. Additionally, any adjustments or voids posted to the computerized reservation system should be adequately tracked.

Auditee's Response

The Board of Governors provided the following responses:

- 7.1 *We respectfully disagree that additional oversight is required. The West Plains Campus has a full-time, experienced, conscientious business manager and has had such for many years. The business manager provides oversight for financial matters, and adequate segregation of duties currently exists. Further, the State Auditor found no misuse or errors with the West Plains bank accounts.*
- 7.2 *We agree that these amounts are large. We do think the assumption that coaches carry and use cash on the trips is a faulty assumption; the coaches utilize many alternatives, including depositing advances into their bank account and utilizing the funds as needed via debit card (or personal credit card). It should be noted that the bulk of the team cash advances to the coaches may represent required per diem for student athletes while traveling, and obviously must be distributed to the students in cash. However, we will continue to review alternative means for advances to coaches, such as travel checks and direct payment to hotels, etc.*



Missouri State University
Management Advisory Report - State Auditor's Findings

- 7.3 *The University's current policy is to perform background checks on new employees. We are compliant with our current Human Resources policy which has been approved by the Board of Governors; however we will assess the cost and policy implications of additional periodic checks.*
- 7.4 *Segregation of duties are adequate regarding parking permits and ticket payments made directly to the Bursar. We agree, however, that we should review the controls related to receipt of payments made directly to the parking office, and segregation of responsibilities between the receipt of any payments and deposit to the Bursar.*
- 7.5 *We agree. This was implemented in 2010, based on previous University internal audits of food vendors.*
- 7.6 *We agree. We will reinforce the completion of the logs on all campuses.*
- 7.7 *We agree. We will review and make changes as appropriate.*
- 7.8 *We agree. Changes have already been made to what is already an excellent process; in a review of 800 invoices in Fiscal Year 2009, only 10 required corrections of any kind.*

The Director of Plaster Student Union now reviews weekly the invoice with billing support for conferences services, and transfer requests are submitted to Financial Services timely. Reconciliations of reservations and billings are performed monthly.

Regarding rates charged, the University works to optimize income with higher rates charged to outside parties, and for larger events, we reserve the right to negotiate rates in order to retain the business, particularly since this income helps to offset student fees.

8. President's Tenure and Retreat

Some terms in the contracts of the former and current university presidents may not be in the best interest of the university. The university's contract with former President Dr. Michael T. Nietzel included a tenure and retreat clause. Under this clause, the former President was granted the option to retreat to a tenured professorship within the Department of Psychology and be compensated 60 percent of his current presidential salary. The contract also provided the option to take a leave of absence for either the first academic semester at full pay or for the first academic year at 50 percent pay, either option would be paid at the reduced salary.

In November 2009 Dr. Nietzel announced his intentions to resign from his position as President and on April 1, 2010, became an unpaid advisor to the



Missouri State University
Management Advisory Report - State Auditor's Findings

Governor on higher education. Effective July 31, 2010, Dr. Nietzel resigned and is currently on a leave of absence from the university for one semester at full pay. According to the university's legal counsel, Dr. Nietzel plans to accept a professorship within the Department of Psychology; however, the university has not been officially notified of a decision by the former President.

Dr. Nietzel's fiscal year 2010 contract stated his annual compensation would be \$267,372. Therefore, Dr. Nietzel will be compensated \$80,211 for the leave of absence during the Fall 2010 academic semester and will then be compensated at the rate of \$160,423 annually, which is approximately \$68,000¹ more than the highest paid faculty member in the Department of Psychology, for assuming teaching duties equal to other tenured professors.

The purpose of the leave of absence and the tenure and retreat clause is not disclosed in the contract provisions. Although the president may be involved in activities benefiting the university during the leave of absence, he is under no legal obligation to perform any services. In addition, the salary required to be paid to Dr. Nietzel once he assumes his new professorship duties appears excessive. As a result, it is not clear how these terms are in the best interest of the university.

The university should ensure future employment contracts are more specific regarding the purpose and justification of a paid leave of absence, require the individual to return to the university for a specified amount of time following any paid leave of absence, and ensure compensation for any administrator who steps down into a faculty role is not excessive. A similar contract was signed by the university's new President, Dr. James Cofer, who was appointed effective August 1, 2010.

Recommendation

The Board of Governors should ensure future contracts properly safeguard university interests.

Auditee's Response

The Board of Governors provided the following response:

According to Revised Statutes of the State of Missouri (RSMo), governance responsibility for Missouri State University rests with its Board of Governors, whose members are appointed by the Governor and confirmed by the Senate. The most important task the Board has is to attract and retain the best leader it can for the University. The Board negotiated the contracts with both President Nietzel and President Cofer, and approved them unanimously. All of the elements cited are common and appropriate for

¹ $(\$267,372 \times 60\% = \$160,423 - \$92,240 = \$68,123)$ \$92,240 represents the highest compensation paid to a faculty member of the Department of Psychology during the year ended June 30, 2010.



competitive contracts for presidents leading public universities with a budget of \$250 million, 3,500+ employees, 21,000+ students, etc.

9. Employment Contracts and Personnel Issues

The university compensated the Men's Head Basketball Coach \$96,000 in "promotional compensation" without adequate documentation of the promotional activities performed. Additionally, concerns were also identified with the National Collegiate Athletic Association (NCAA) compliance, calculation of achievement payments, vehicle allowance payments, and employee gifts.

9.1 Promotional compensation

The university does not require the Men's Head Basketball Coach to submit documentation to support "promotional compensation" earned.

According to the contract, the Coach earns compensation above his base salary for promoting the university "by making appearances before and presentations to the general public, alumni groups, booster groups and organizations, civic organizations, school districts and professional organizations." This additional compensation, called "promotional compensation" totals \$96,000 during the first contract year, and increases \$5,000 each of the 4 remaining years on the contract, totaling \$116,000 in the fifth year of the employment contract. However, the university does not require the Coach to submit a report of promotional appearances or presentations completed to support this additional compensation, and the contract does not state the number of appearances necessary to receive the additional compensation.

To support the amount of additional compensation paid, a report of promotional appearances and presentations should be required.

9.2 NCAA compliance

The Associate Head Football Coach and one Assistant Football Coach failed to submit a report of all athletic related income and benefits received from sources outside the university for the year ended June 30, 2009 to the President's office as required by NCAA Bylaw 11.2.2 and their employment contracts. Both of these coaches received income from summer camps. After we brought this matter to the university's attention, the Associate Head Football Coach reported outside income totaling \$4,000.

To ensure compliance with NCAA Bylaws, all required athletic personnel should file a report of outside athletic related income by the due date.

9.3 Achievement payments

The Head Football Coach was compensated \$2,500 in each of the 2 years ended June 30, 2009, for an incentive in his contract even though documentation was not available to support the criteria was achieved. The contract with the Head Football Coach states that he is to be compensated \$2,500 if the football team increases its graduation success rate, calculated by the NCAA, at least 3 percent each year. However, the graduation success



Missouri State University
Management Advisory Report - State Auditor's Findings

rate information was not available for the year ended June 30, 2009, and instead the coach received the additional compensation based upon other criteria contained in the Academic Progress Report, published by the NCAA.

To ensure compensation is in compliance with contract, the university should use the criteria specified in the contract to calculate achievement payments due to coaches.

9.4 Vehicle allowance

The university made vehicle allowance payments totaling \$93,200 to 18 employees during the year ended June 30, 2009; however, the university did not have documentation to support how these amounts were determined.

The university paid a monthly vehicle allowance of \$750 to the Vice President of Research and Economic Development, \$600 to the Executive Director of Development, and \$500 to 16 other administrators and coaches including the Special Assistant to the President, Chief of Staff, Chief Financial Officer, and General Counsel. Using the university's mileage reimbursement rate for fiscal year 2009 of 47.5 cents per mile, the monthly allowance paid to these employees represents approximately 1,580 miles, 1,260 miles, and 1,050 miles per month, respectively. While all payments made were reported as taxable income, the university should periodically review the reasonableness of the mileage allowances paid and, if necessary, adjust the allowances to reflect the actual expenses incurred by the employees on behalf of the university.

9.5 Gift policy clarification

During the years ended June 30, 2009 and 2008, a total of \$197,900 and \$220,613, respectively, was reported as gift expense; however, we found this reporting to be incomplete. The university has implemented a gift policy and accounting procedures for any items that are given as gifts during each fiscal year.

The gift information reported to the Office of the President is not consistent and university policy does not indicate what information is required. As a result, some university departments did not document the purpose of the gift or a description of the gift when reporting gift information. For example, one gift reporting form submitted showed \$378 spent for a retirement gift by the College of Education; however, it does not state what was purchased. Through conversation with the Dean of the College of Education, we were told a wooden rocking chair was purchased.

Some gifts were not reported and university policy does not clearly explain what is considered a gift and who is required to report gifts. For example, most of the university's auxiliary operations believed they were exempt from the gift reporting policy, and as a result, many gifts purchased with



Missouri State University
Management Advisory Report - State Auditor's Findings

university funds were not reported. Additionally, gifts purchased by the university but reimbursed with foundation funds were not always reported.

The university's policy states: 1) all expenditures for gifts, whether using university or foundation monies, must be approved by the appropriate department head, 2) a gift reporting form must be completed to document the approval, 3) the form must be filed with the vice-president's office, and 4) each vice-president must provide a composite list of all gifts to the president's office each fiscal year.

The university should clarify the gift policy to ensure all users understand their responsibilities for reporting gifts. This should include a description or guideline for composite list reporting, a guideline for what is considered a gift, and clarification of who is required to report.

Recommendations

The Board of Governors:

- 9.1 Require the Men's Head Basketball Coach to submit a report of promotional appearances and presentations completed to support the additional compensation paid throughout the year.
- 9.2 Ensure all coaches file a report of athletic related income and other benefits provided by outside sources as required by their contracts and NCAA Bylaw 11.2.2.
- 9.3 Ensure achievement payments are based on the correct contractual criteria.
- 9.4 Review vehicle allowances and set the allowances to reasonably reflect the actual expenses incurred by the applicable officials.
- 9.5 Clarify the current gift policy to ensure all gifts are properly reported.

Auditee's Response

The Board of Governors provided the following responses:

- 9.1 *We believe these duties are self-evident since the coach acts in a promotional capacity wherever he goes and whatever he does. He is well known, widely recognized, and highly valued throughout the region; the Coach could list virtually everything he does as promotional activity. Since there is no such reporting requirement in his five-year contract, this provision would have to be agreed to by the coach. We will consider this recommendation when a new contract is being discussed.*



Missouri State University
Management Advisory Report - State Auditor's Findings

- 9.2 *We agree. Appropriate actions, including self-reporting with the NCAA, have been taken. We will continue to emphasize monitoring of NCAA reporting requirements.*
- 9.3 *We agree. The amount overpaid due to the University's error in this calculation is \$2,500 and is scheduled to be repaid to the University.*
- 9.4 *These are contractually negotiated amounts which are presented to, and approved by, the Board of Governors.*
- 9.5 *We agree that the business purpose of gifts should be well documented. That is why that requirement is in the University's Gifts Policy. Senior administrators will be reminded of the importance of providing full and clear business purpose for these expenditures.*

10. Sunshine Law Issues

The university did not always comply with the Sunshine Law and some redactions made to documents requested did not appear appropriate.

10.1 Closed meetings

Numerous closed sessions were held by the Board, but the various requirements in Chapter 610, RSMo (the Sunshine Law), regarding closed meetings were not always followed.

Open meeting minutes of the Board of Governors do not always document the specific reasons for closing the meeting or the section of law which allows the meeting to be closed. For example, minutes for open session meetings typically stated the Board of Governors would enter closed session to discuss personnel, litigation and real estate; however, while in closed session, the Board only discussed one or two of these topics and not all three as the open meeting minutes indicate.

In addition, the Board of Governors did not document how some issues discussed in closed meetings complied with the Sunshine Law. For example, during several closed sessions, the Board of Governors discussed the possibility of developing an endowed "University Leadership" chair to enhance the President's compensation package. The Board of Governors also discussed the status of organizing "University Policies into Governing Policies which would be Board approved and Operating Policies which carry out Governing Policies and which would be approved by the President."

The Sunshine Law, Chapter 610, RSMo, states the specific reasons for the closed meeting shall be voted on at an open meeting and provides public governmental bodies shall not discuss any other business during the closed meeting which differs from the specific reason used to justify such meeting, record, or vote. In addition, the Board of Governors should restrict the



Missouri State University
Management Advisory Report - State Auditor's Findings

discussions in closed meetings to specific topics listed in Chapter 610, RSMo.

10.2 Redactions

Some redactions made to documents did not appear appropriate.

In May 2009, the university received a Sunshine Law request from a local news reporter for all internal audit reports released over the prior 2 years. The Custodian of Records responded to this request promptly, and noted that three of the audit reports requested were provided partially redacted citing Sections 610.021 (1), (3), (13) and (14), RSMo, as basis for the redactions. Under these sections, employee discipline, records pertaining to an employee, and legal actions, are deemed to be closed records; however, some redactions made may be inappropriate. For example, we noted three incidents where entire paragraphs were redacted. Two of these paragraphs documented audit evidence of non-prudent use of university funds. We also noted the words "expenses" and "class" were sometimes redacted from a sentence without any obvious reason.

To ensure compliance with the Sunshine Law, the university should ensure redactions to requested documents are appropriate.

Recommendations

The Board of Governors:

- 10.1 Ensure meeting minutes specifically document the reasons for going into closed session, and ensure only allowable topics are discussed in closed meetings.
- 10.2 Ensure redactions to requested documents are appropriate and in compliance with the Sunshine Law.

Auditee's Response

The Board of Governors provided the following responses:

We respectfully disagree with the Auditors. The University is well versed in, and committed to upholding, the Sunshine Law, and it complies fully with both the spirit and letter of that Law. We will continue to ensure that closed meetings are conducted in accordance with the Sunshine Law.

- 10.1 *While all possible exceptions are listed on the agenda as a placeholder, the specific reason for closing a meeting is always stated before the Board votes, which can be verified by listening to the audio tapes of the Board meetings. The Secretary to the Board only reads those sections of 610.021 which apply to the discussions to occur; sometimes more than one section applies to one issue. For example, if there is a discrimination allegation being made by an employee who is being terminated, three sections may apply: (1) privileged communications between an attorney and a public*



Missouri State University
Management Advisory Report - State Auditor's Findings

governmental body, (3) termination of an employee and (13) records pertaining to employees. It is proper and necessary in that situation for Secretary to the Board to read all three sections even though there is one issue to be discussed.

On the endowed leadership chair, the first few times the idea of an endowed leadership chair was discussed in closed session, it was in the context of evaluating the President and determining his compensation. Thus, Section 13 of 610.021 was implicated – individually identifiable personnel records of an employee. Legal advice on how to accomplish this was also given, thus implicating Section 1. Moreover, as soon as a decision was made, the entire matter was made public, as required by law.

On the governing policies, the first time organizing the University policies were discussed, it was done in closed session based upon Section 1 of 610.021. University General Counsel provided the Board legal advice on the propriety of delegating policy making decisions on certain types of policies to the President. This was a significant change in practice and required by-law revision. After this first discussion occurred, the Board was thereafter briefed multiple times in open session since confidential legal advice was no longer involved.

10.2 The redacted audit reports reference the name of a specific employee who was disciplined by the University for improper conduct. The Internal Auditor conducted the audits/investigations of the department. Since Section 3 of 610.021 allows redaction of disciplinary records of employees, the audit reports were redacted to shield the employee's identity. The University's General Counsel reviewed the redactions before they were made public and found they complied with this section as well as Section 13.

Auditor's Comment

10.1 It is the policy of the state that records of a public governmental body are to be open and available to the public, unless the record falls into an exception which permits the body to close its record. These exceptions are to be read narrowly. If the Board votes to meet in closed session, it needs to specifically state what is to be discussed and make sure to discuss those topics, and only those topics. Stating that personnel matters, legal issues and real estate are to be discussed as a general catch-all for every closed session is inappropriate and is an abuse of the closed meeting exceptions. Not every meeting with General Counsel is properly closed just because counsel is present and participates in the meeting.

10.2 While certain disciplinary records are exempt from disclosure, Section 610.021(3), RSMo, limits this exemption to personal



information **related to the performance or merit of the employee** and does not apply to an employee's name, position, salary and length of service which, pursuant to Section 610.021(13), RSMo, are not closed records. In addition, while Section 610.021, RSMo, permits closure of certain records, closure is not required. Pursuant to Section 610.011, RSMo, exceptions to the Sunshine Law should be strictly construed to promote the state's policy of open records.

11. Kenneth E. Meyer Alumni Center Renovations

Problems with regard to selection of professional services and other construction related procedures were noted during our review of Kenneth E. Meyer Alumni Center renovations.

In September 2007, the foundation expended more than \$250,000 for renovations to the exterior of the Kenneth E. Meyer Alumni Center. This building houses the university Department of Academic Outreach, Alumni Association, Department of Development and Alumni Relations, Learning Diagnostic Clinic, Missouri State Foundation, Photographic Services, Department of University Advancement, and Office of University Communications, as well as several tenants who sub-lease space from the foundation. The Executive Director of the foundation requested the assistance of the university Design and Construction Department for this project.

11.1 Selection of professional services

The Department of Design and Construction failed to document how an architectural and structural engineering firm was selected in conjunction with this project.

Email correspondence dated September 6, 2007, stated that a visual inspection of the building had been completed and work needed to be done soon. Six days later, an agreement for limited design services was signed between the firm named in the email and the university Board of Governors. No supporting documentation regarding the evaluation and selection process was retained.

The Department of Design and Construction maintains a catalogue of firms' statements of qualification and performance data on file to review as each project arises; however, the department failed to document a minimum of three firms were considered and how the information reviewed was assessed to justify the ultimate decision. According to Department of Design and Construction personnel, this project was considered an emergency, and they felt they had to react quickly; however, there was no documentation indicating this was an emergency situation to justify a circumvention of normal operating procedures and state law.

Sections 8.289 and 8.291, RSMo, provide guidance on the selection of engineering services.



11.2 Change orders and contingency budgets

Significant change orders were approved without additional bidding and the administration and contingency portions of the construction budget appear excessive.

During the renovation, two change orders totaling \$79,283 were processed. These change orders represent 49 percent of the original contract amount of \$161,181. According to Design and Construction documents, the original contract requirement included 50 square feet of concrete repair based on visual observation, but after work began, the estimate increased to approximately 150 square feet and corrosion protection in walkway areas and additional caulking around the windows on the fifth and sixth floors were added. This appears to be outside of the scope of the original contract.

In addition, the amount of contingency costs allowed by the original construction budget equaled 18 percent of the total budgeted construction cost. The contingency budget allowed the Department of Design and Construction to process significant change orders without obtaining additional board approval.

The university's Office of Internal Audit issued an audit report of Design and Construction Activities which notes similar problems with seven large change orders issued for various contractors during the construction of the JQH Arena and one change order for the construction of the Jordan Valley Innovation Center. That report also documents problems with contingency budgets in relation to these two construction projects.

While it is recognized change orders will likely occur on construction contracts, it is preferable to keep them to a minimum to ensure the maximum amount of construction costs are subjected to competitive bidding and to reduce the amount of administrative time and effort in processing change orders. Further, to adequately monitor construction projects and ensure changes to the projects are reasonable and proper, large project administration and construction contingency costs should not be used to inflate budget amounts and circumvent additional approval when change orders arise.

11.3 Project request form

According to the Department of Design and Construction's established procedures, a project request form must be completed showing the project information, project funding source, and amount available, and must include all required approval signatures prior to the start of a project; however, the project request form for this project was not received by the Department of Design and Construction until November 5, 2007, nearly 2 months after the project had begun.

To ensure projects have been properly approved and authorized, the Department of Design and Construction should require project request forms to be completed prior to the start of projects.



Recommendations

The Board of Governors:

- 11.1 Ensure engineering services are procured in accordance with state law and adequate documentation is maintained to support the evaluation and selection process.
- 11.2 Ensure adequate planning is performed to reduce the number of change orders, and, if substantial changes are needed, consideration should be given to rebidding the applicable projects. In addition, using excessive project administration and construction contingency amounts to inflate project budgets should be discontinued.
- 11.3 Ensure project request forms are submitted to the Department of Design and Construction prior to the start of any project.

Auditee's Response

The Board of Governors provided the following responses:

The Kenneth E. Meyer Alumni Center is owned by the Missouri State University Foundation, a separate 501(c)(3) not-for-profit corporation. Given that, plus the fact that the renovation was funded through the Foundation, this item should not have been taken to the Board of Governors for approval. Requesting Board of Governors approval for this renovation was an error, but a one-time occurrence. When construction projects are funded by the University, we agree all state laws and University policies should be followed. When projects are funded by the Foundation, Foundation policies should be followed.

12. Missouri State University Foundation

The Missouri State University Foundation has not established purchasing policies and procedures or a policy regarding required approval for disbursements. In addition, the foundation has not taken steps to avoid the appearance of conflicts of interest.

The foundation was founded in 1981 as a 501(c)(3), not-for-profit corporation. According to the university's independent auditors, the foundation is a component unit of the university. The purpose of the foundation is to encourage private financial support for the university and manage endowed funds on behalf of the university. University personnel complete all management and financial activities for the foundation. During the years ended June 30, 2009 and 2008, the foundation disbursed in excess of \$14 million and \$11 million, respectively.

12.1 Purchasing policies and procedures

According to the foundation Director, the foundation utilizes the university Procurement Department and follows the university procurement policies and procedures for purchases; however, of the 21 transactions we selected for review, approximately half of the transactions circumvented the university Office of Procurement Services policies and procedures.



Missouri State University
Management Advisory Report - State Auditor's Findings

For example, personnel reserved technical equipment and conference space, and procured banquet services for a benefit held August 15, 2008, supporting the Athletic Department. The invoice for these expenses totaled \$28,393; however, the purchase requisition was not submitted to the Office of Procurement Services until August 21, 2008, and any price comparisons completed were not documented. According to university policy, all purchases totaling \$10,000 or more must be competitively bid and advertised by the Office of Procurement Services.

In addition, some professional services are not selected in accordance with university procurement policies and procedures. For example, the foundation contracted with a financial management firm to manage the foundation's invested assets. The foundation did not utilize the university Office of Procurement Services for the professional selection of this firm, nor did it retain any documentation to support any search or selection process completed. During the years ended June 30, 2009 and 2008, the foundation paid this firm \$85,000 and \$80,000, respectively.

To ensure foundation purchases are handled properly, the foundation Board of Trustees should establish policies and procedures or ensure university policies and procedures are followed.

12.2 Approval of contracts,
construction budgets
and disbursements

The foundation has not established a formal written policy regarding the level of approval required for disbursement of monies. The foundation Board of Trustees did not always approve contracts or construction budgets to be paid using foundation funds and some reimbursements of university expenses did not appear to be properly approved prior to payment.

- Contracts for various services were procured by the university Office of Procurement Services or Department of Design and Construction and submitted to the university Board of Governors for approval signatures; however, these contracts obligated foundation monies. These contracts include restoration services, engineering services, auditing services, and elevator services. During the years ended June 30, 2009 and 2008, the foundation disbursed a total of \$150,197 and \$207,336, respectively, to these firms. All contracts which obligate foundation monies should be reviewed and approved by the foundation Board of Trustees.
- A construction budget totaling \$210,021 to be paid with foundation monies for renovations to the Kenneth E. Meyer Alumni Center (a building owned by the foundation) was approved by the university Board of Governors. An amended budget was later completed to increase the total budget to \$260,000 and submitted to the university Executive Committee of the Board of Governors, but not approved. The foundation Board of Trustees did not approve either budget.



Missouri State University
Management Advisory Report - State Auditor's Findings

- Some foundation reimbursements of university expenses were not approved by foundation personnel prior to check issuance. A Request for Withdrawal of Funds form accompanies all foundation reimbursement requests. The form allows for signatures of approval from the requestor, the department head or other administrative official, and an official of the foundation. Our review identified three items, including banquet services and conference room rental at a local hotel (\$28,393), repair of a partition at the Plaster Student Union (\$22,724), and a journal voucher for various expenses including food services, postage, phone services, and student scholarships (\$47,738), where approval of the foundation official was not documented on the form prior to the issuance of the check. The reimbursement of the partition and the local hotel were approved 1 day and 4 days, respectively, after the check was issued.

To ensure all disbursements of foundation funds are necessary and to establish adequate internal controls over disbursements, the foundation should establish a policy that clearly delineates required approvals for disbursements, contracts, and budget transactions.

12.3 Conflicts of interest

The foundation's lack of competitive bidding and documentation of the selection of professional services has resulted in possible conflicts of interest.

- The foundation hired a local real estate agency owned by a member of the Board of Trustees to lease office space within the Kenneth E. Meyer Alumni Center without soliciting competitive proposals or documenting comparison of professional services. During the year ended June 30, 2009, the foundation paid the agency \$5,208.
- The foundation also hired a local real estate agent who is a member of the Board of Trustees to sell a house that had been given to the Foundation. The real estate agency was paid \$5,520 upon sale of the property.

Conducting business transactions with firms or individuals in which members of the Board of Trustees have a direct financial interest or association can create a conflict of interest, or at least an appearance of such. To ensure transactions are conducted at arm's-length, the foundation should develop a comprehensive conflict of interest policy.

Recommendations

The Foundation Board of Trustees:

- 12.1 Review current practices and establish written guidelines for foundation personnel regarding procurement of goods and services.



Missouri State University
Management Advisory Report - State Auditor's Findings

- 12.2 Establish a written policy regarding levels of approval required for disbursements, contracts, and budgets and ensure adequate approval is documented prior to the issuance of checks.
- 12.3 Establish a comprehensive conflict of interest policy.

Auditee's Response

The Foundation Board of Trustees provided the following response:

The Missouri State Foundation Board of Trustees appreciates the recommendations provided by the State Auditor and the Board will review these for possible action. The recommendations include developing guidelines regarding procurement of goods and services; developing a conflict of interest policy for Board members; and reviewing guidelines for approval of private funds which are received by the Foundation.

Missouri State University

Organization and Statistical Information

Missouri State University (MSU), located in Springfield, Missouri, was founded in 1905 as the Fourth District Normal School. The School's primary purpose was the preparation of teachers for the public school systems in southwest Missouri. Through the decades, the school expanded beyond teacher education to include other instructional programs and developed a graduate education program. Along with these academic changes, the school's name changed from the Fourth District Normal School, to Southwest Missouri State Teachers College in 1919, to Southwest Missouri State College in 1945, and to Southwest Missouri State University in 1972. In 2005, Senate Bill 98 was signed, thereby changing Southwest Missouri State University's name to Missouri State University. Today, MSU is a multipurpose, metropolitan university providing a broad array of instructional, research, and service programs.

MSU operates three branch campuses including the State Fruit Experiment Station located in Mountain Grove, Missouri, a semi-autonomous two-year campus called Missouri State University - West Plains located in West Plains, Missouri, and a partnership campus with Lianoning Normal University, called LNU-MSU College of International Business, located in Dalian, People's Republic of China.

In the fall of 2009, 2008 and 2007, the university's combined fall student enrollment at the main campus, State Fruit Experiment Station, and Missouri State University - West Plains totaled 22,533, 21,323 and 21,105, respectively. In addition to this enrollment, the university reported enrollment at LNU-MSU for the fall of 2009, 2008 and 2007 to be 933, 454 and 301, respectively. These figures include both undergraduate and graduate students enrolled full or part-time.

The university employed 3,959 full-time, part-time and student employees, including 26 executives, 85 other administration, 2,061 staff, 780 faculty and 1,007 student employees as of June 30, 2009.

The university is governed by a nine-member Board of Governors, appointed by the Governor, with the advice and consent of the Missouri Senate. The board must represent each of Missouri's nine congressional districts. A current MSU student also sits on the Board as a non-voting member. The governors serve 6-year terms and student representatives serve 2-year terms. These individuals serve without compensation; however, they receive reimbursement for any expenses incurred in performing their duties.



Missouri State University
Organization and Statistical Information

Board of Governors

The Board of Governors as of June 30, 2009, consisted of the following members:

Name	District	Position	Term Ends
Michael Duggan	Second	Chairman	August 2011
Brian Hammons	Fourth	Vice Chairman	August 2011
Orvin Kimbrough	First	Governor	January 2015
John L. Winston	Third	Governor	August 2011
Phyllis Washington	Fifth	Governor	August 2011
Cathy Smith	Sixth	Governor	January 2013
Gordon Elliot	Seventh	Governor	January 2013
Mary Sheid	Eighth	Governor	August 2011
Elizabeth Bradbury	Ninth	Governor	January 2011
Vacant		Student Governor	

The Board of Governors appoints a President to serve as the university's Chief Executive Officer. Four Vice Presidents have been appointed to oversee Student Affairs, Research and Economic Development, University Advancement, and Administrative and Information Services. The Board also appoints a secretary who is not a member of the board.



Missouri State University
Organization and Statistical Information

Administrative
Council

The individuals who served on the Administrative Council and their compensation for the year ended June 30, 2009, were as follows:

Name	Position	Compensation
Dr. Michael Nietzel	President	\$ 343,420 (1)
Clifton Smart	General Counsel	140,950 (*)
Paul Kincaid	Chief of Staff / Assistant to the President for University Relations	129,098 (*)
Brent Dunn	Vice President for University Advancement	125,003 (*)
Nila Hayes	Chief Financial Officer	114,722 (2)
Ken McClure	Vice President for Administrative and Information Services	120,155 (*)
Dr. Belinda McCarthy	Provost	229,081 (3)
Dr. Earle Doman	Vice President for Student Affairs and Dean of Students	126,552 (4)
Dr. Drew Bennett	Chancellor, Missouri State University - West Plains	149,867 (5)
Dr. James Baker	Vice President for Research and Economic Development	153,208 (6)
John McAlear	Secretary to the Board of Governors	34,689
Dr. Helen Reid	Dean, College of Health and Human Services	117,225 (7)
June McHaney	Director of Internal Audit	92,000

- (1) Includes \$267,372 salary, \$45,000 housing allowance, \$21,982 additional deferred compensation, \$4,512 taxable value of wife's medical insurance paid by the university, \$2,868 taxable value of personal use of vehicle provided by the university, \$1,647 taxable value of personal use of club memberships paid by the university, and \$39 taxable value of meal for wife paid by the University. In addition, in July 2009 Dr. Michael Nietzel received a retention incentive totaling \$200,000 based upon contract terms included in the contract for the 4 years ended June 30, 2009.
- (2) Includes \$109,222 salary and \$5,500 vehicle allowance. Nila Hayes served as Controller from July 1, 1998, until her promotion to Chief Financial Officer on August 1, 2008.
- (3) Includes \$213,611 salary, \$15,000 employment allowance, and \$470 cellular phone allowance.
- (4) Includes \$115,652 salary, \$5,500 vehicle allowance, \$5,400 for teaching a course in the fall and spring semester.
- (5) Includes \$131,022 salary, \$6,000 vehicle allowance, and \$12,845 taxable value of housing provided by the University. In addition, the contract for Dr. Drew Bennett provides for a retention payment of \$50,000 after June 30, 2011.
- (6) Includes \$143,778 salary, \$9,000 vehicle allowance, and \$430 reimbursement for cellular phone equipment.
- (7) Includes \$108,169 salary, and \$9,056 supplemental pay for taking on additional responsibilities as "acting dean" prior to receiving the official title.
- (*) Includes salary and \$6,000 vehicle allowance.

Financial information and an organization chart follow.

Appendix A

Missouri State University

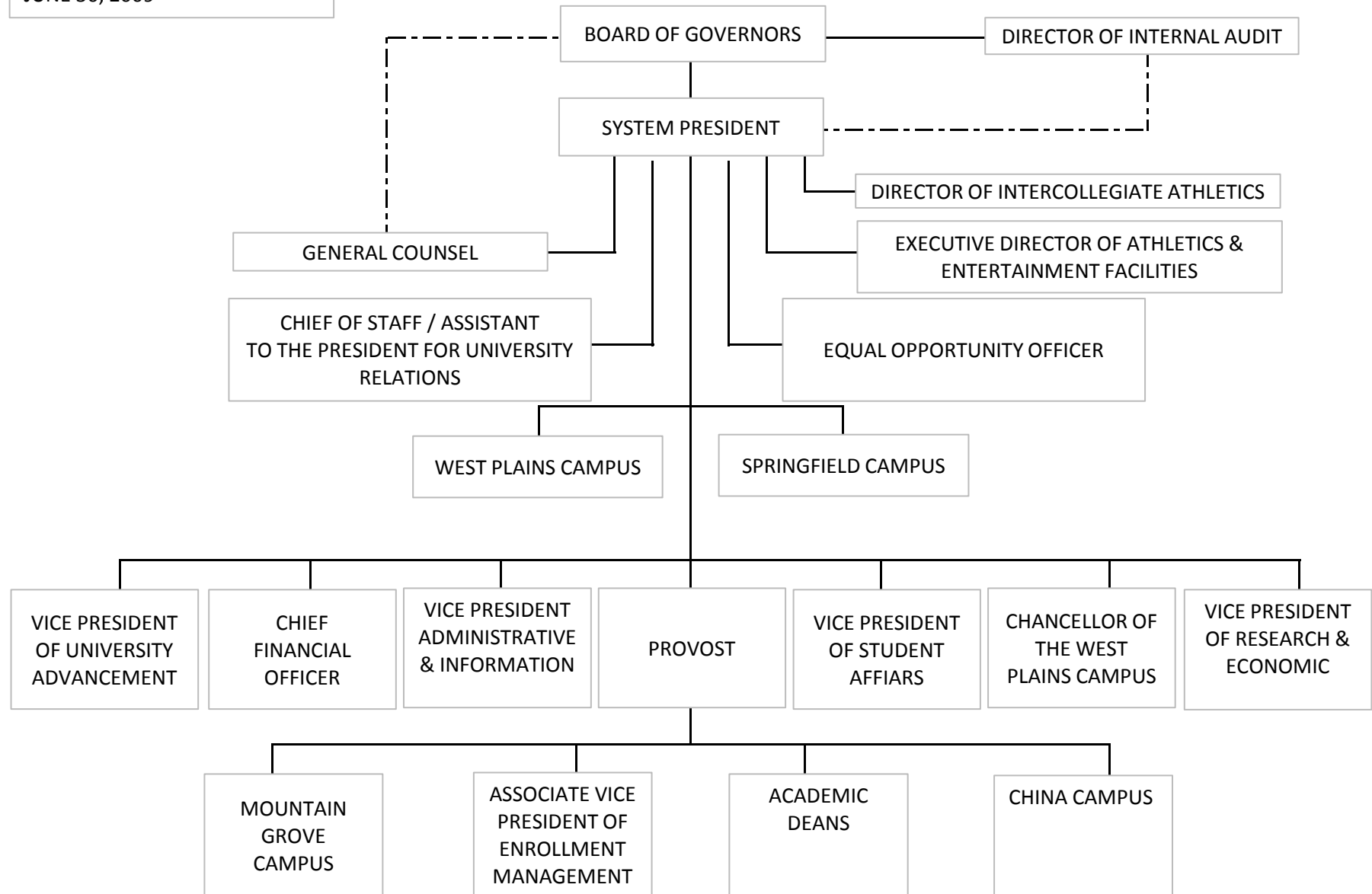
Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30,	
	2009	2008
OPERATING REVENUES		
Student tuition and fees (net scholarship allowances)	\$ 82,710,569	79,399,259
Sales and services of educational departments	18,150,174	12,732,949
Federal grants and contracts	18,676,466	13,939,421
State and local grants and contracts	7,322,289	4,937,812
Nongovernmental grants and contracts	3,861,617	13,457,343
Auxiliary Enterprises:		
Residential life (net scholarship allowances)	20,497,019	19,928,116
Bookstore (net scholarship allowances)	2,930,477	3,114,683
Parking (net scholarship allowances)	2,979,829	2,903,708
Taylor Health and Wellness Center (net scholarship allowances)	1,332,159	1,590,656
Athletics	5,901,978	5,198,871
Recreational facilities	316,030	178,073
Student Union	919,921	908,111
Other operating revenues	2,947,729	3,053,593
Total Operating Revenues	168,546,257	161,342,595
OPERATING EXPENSES		
Salaries	127,911,346	119,085,090
Benefits	38,567,721	35,231,570
Scholarships and fellowships	12,666,455	11,809,016
Utilities	6,130,242	6,247,545
Supplies and other services	66,855,905	60,554,201
Depreciation	16,344,581	14,247,820
Total Operating Expenses	268,476,250	247,175,242
Operating Loss	(99,929,993)	(85,832,647)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	87,744,549	84,206,223
Federal grants and contracts	15,590,847	11,063,905
Gifts	7,818,562	5,413,824
Investment income	3,066,743	6,441,558
Interest on capital asset-related debt	(3,084,279)	(4,376,132)
Gain (loss) on disposal/impairment of fixed assets	8,502	(135,722)
Total Non-Operating Revenues (Expenses)	111,144,924	102,613,656
Income before other revenues, expenses, gains, or losses	11,214,931	16,781,009
Capital gifts	3,399,294	2,475,632
Capital grants and contracts	2,608,139	4,487,194
Capital appropriations	10,438,137	809,193
CHANGES IN NET ASSETS	27,660,501	24,553,028
NET ASSETS, Beginning of Year	344,958,737	320,405,709
NET ASSETS, End of Year	\$ 372,619,238	344,958,737

Source: Missouri State University's audited financial statements. The financial statements of the foundation are not included.

Appendix B

MISSOURI STATE UNIVERSITY
ORGANIZATION CHART
JUNE 30, 2009



Appendix C

MISSOURI STATE UNIVERSITY SYSTEM



BOARD OF GOVERNORS

Campuses

Springfield
Mountain Grove
West Plains

Mailing Address

Carrington Hall 201
901 South National Avenue
Springfield, Missouri 65897

Telephone (417) 836-8500

Fax (417) 836-7669

Members

Elizabeth H. Bradbury, Center
Michael J. Duggan, Chesterfield
Gordon A. Elliott, Springfield
Brian Hammons, Stockton
Orvin T. Kimbrough, St. Louis
Mary H. Shaid, West Plains
Cathy Smith, Trenton
Phyllis A. Washington, Kansas City
John L. Winston, St. Louis

Student Member

Brandt W. Shields, St. Joseph

September 30, 2010

The Honorable Susan Montee, CPA
Auditor – State of Missouri
c/o 149 Park Central Square
Springfield, MO 65806

Dear Auditor Montee:

On behalf of the Board of Governors of Missouri State University, I am pleased to provide the University's official responses to the audit report on Missouri State. The responses are part of this transmittal.

Also on behalf of the Board, I want to thank you, as well as Donna Christian and her audit team, for the time and work that went into this report. With my background and my accounting business, coupled with my service on multiple public boards, I am well aware of both the value of this report and the time commitment necessary to prepare this report.

Please know that the Board of Governors, President Cofer, and the entire campus community believe in constantly improving. For faculty and academic programs, we accomplish this through outside accreditation and peer reviews. For non-academic programs such as Taylor Health and Wellness Center and intercollegiate athletics, this is accomplished through best-practice standards and periodic reviews. And for finances, it is accomplished through annual independent external audits along with regular reviews throughout the year by our strong internal audit office. The review and report from the State Auditor provides another fresh perspective for us to consider toward our goal of making the University a better place to work and study. For that, we are grateful to you and your staff, even if we do not completely agree with certain conclusions contained in the report.

We trust our responses will be helpful to you and provide additional information for the public release of this document. Should you have questions, please let us know.

Again, thank you for your time and recommendations. The Board will seriously consider them.

Sincerely,

Gordon Elliott, CPA
2010-11 Vice Chair
Finance Committee Chair

Enclosure (1)

IMAGINING AND MAKING MISSOURI'S FUTURE

An Equal Opportunity/Affirmative Action Institution

Appendix C

Missouri State University Foundation

September 30, 2010

The Honorable Susan Montee, CPA
Auditor – State of Missouri
c/o 149 Park Central Square
Springfield, MO 65806

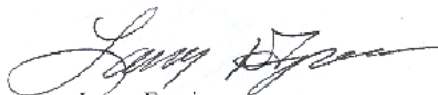
Dear Auditor Montee:

On behalf of the Missouri State University Foundation Board of Trustees, I want to thank you for the opportunity to respond to the item related to the Missouri State University Foundation which is contained in the audit of Missouri State University.

As you know, the Missouri State University Foundation is a separate 501(c)(3) not-for-profit corporation. Given that, the Foundation's Board of Trustees is responding separately to the one question regarding the Foundation. That response is attached.

Should you have any questions, please let me know.

Sincerely,



Larry Frazier
2010-11 Chairman
Board of Trustees

Enclosure (1)