Claire McCaskill
Missouri State Auditor

April 2005

HIGHER EDUCATION

State Fair Community College

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Office Of
Missouri State Auditor
Claire McCaskill

May 2005

YELLOW SHEET

The following problems were discovered as a result of an audit conducted by our office of the State Fair Community College.

In October 2003, the Board of Trustees of State Fair Community College (SFCC) approved an agreement to hire a consulting firm to manage its information technology (IT) department for the next five years at a cost not to exceed $3,327,200. Our audit noted the college did not solicit proposals from other potential service providers and did not adequately document any efforts to determine if other qualified service providers existed. The president of the college had recommended the bid process be waived on the basis that the consultant was the sole source from which the needed services could be obtained.

The college is not required by state law to solicit bids or competitive proposals for goods or services, but it is generally accepted that competitive procurements are appropriate and necessary in the public sector. This concept is also recognized by the college's own purchasing policies. The State Auditor had communicated concerns to the college regarding the procurement of these services in January 2004, after our office learned about this contract and performed an initial inquiry.

We determined the total payments the SFCC will make to the consultant will substantially exceed the amount initially approved by the Board of Trustees. The agreement provided the contract costs over the five-year period would total $4,913,200; however, the contract estimated the total payments due from the college would be reduced by a $1,586,000 personnel cost credit, representing the salary and benefit costs of the IT department employees who would remain employed by the college. During the first year of the contract all but one IT department employee transitioned to employment with the consultant. As a result, as of October 2004, the estimated amount of the college's personnel credit had been reduced to about $211,000, and the total estimated amount the college will be required to pay the consultant will increase to over $4.7 million.

The college's budget documents for the three years ended June 30, 2004, did not include all budgetary information required by law and did not reflect all planned activities of the college. In addition, the college did not adequately monitor the budget amounts to ensure expenditures were kept within budgetary limits. Because of incomplete budget data and inadequate budgetary procedures, the college's expenditures exceeded the budget by substantial amounts during fiscal years 2004 and 2003. It was noted the college made an effort to address some of these problems during the preparation of the fiscal year 2005 budget.

(over)

During the audit period, the SFCC lost over $106,000 in federal and state grant revenues due to the college's failure to submit required paperwork timely and due to errors or omissions made in preparing the paperwork. Most of this lost revenue related to federal Pell Grants.

For a number of years the college has offered retirement-related incentive programs to its employees, the costs of which have been paid from SFCC operating funds. Between fiscal years 1988 and 2004, the college paid over $1.4 million in SFCC operating funds to former faculty and staff employees under two retirement-related incentive programs. The college has projected that from fiscal years 2005 to 2009, it could pay up to $660,000 in additional retirement incentive payments to eligible employees. Considering the current program is not designed to result in a cost savings, it should be reevaluated in light of the college and state's current financial situation.

In recent years, the SFCC was involved with several construction projects that required the services of a construction manager. The same construction manager was used for all of these projects. The college failed to adequately document the evaluation and selection process related to the construction management proposals it received. The total construction management fees for three projects totaled $365,000. Additionally, all bid documentation related to the construction projects reviewed was retained by the construction manager and not turned over to the college upon project completion.

The audit also noted the college did not always obtain competitive bids/proposals or document efforts to obtain such for the purchase of goods and services, as required by the college's purchasing policy. For example, the college did not solicit bids for various insurance plans, including $2,173,000 spent for employee health insurance. The college's portion of these health insurance costs totaled $1,479,000. We determined this insurance had not been bid since prior to 2000. Other procurements not properly documented included architectural services and computer equipment and software costing $128,670 and $41,057, respectively.

The SFCC has increased tuition rates each of the last four years. For example, tuition rates for students from within the district increased from $42 to $60 per credit hour during this period. Tuition for Missouri residents from outside the district increased from $65 to $87 per credit hour during the same period. The college does not adequately document the annual reviews of its tuition rates or the various factors considered when calculating and determining tuition rate increases. The college should maintain such documentation to provide assurance to its students and other constituents that any tuition rate increases are justified.

The audit also includes recommendations related to expenditures, food purchases, controls over receipts, a day care operation, cellular phone usage, subsidies to the college's foundation, promotional monies provided to the college president, and capital asset records and procedures.

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STATE FAIR COMMUNITY COLLEGE

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Missouri State Auditor

Honorable Matt Blunt, Governor
and
Board of Trustees of the Junior College
District of Sedalia, Missouri
and
Dr. Marsha Drennon, President
State Fair Community College
Sedalia, MO 65301

We have audited the State Fair Community College. The scope of this audit included, but was not necessarily limited to, the years ended June 30, 2004, 2003, and 2002. The objectives of this audit were to:

1. Review and evaluate expenditures of the college as well as purchasing practices and procedures.

2. Review and evaluate selected personnel practices and procedures.

3. Review legal compliance issues, management practices, and internal control procedures over selected financial areas, and to determine the propriety, efficiency, and effectiveness of those practices and procedures.

4. Review selected records and activities of the college's Foundation.

Our methodology to accomplish these objectives included reviewing minutes of meetings, written policies, financial records, and other pertinent documents; interviewing various personnel of the college, as well as certain external parties; and testing selected transactions. In addition, the college's Board of Trustees had engaged Davis, Lynn & Moots, P.C., Certified Public Accountants (CPAs), to perform financial audits of the college for the years ended June 30, 2004, 2003, and 2002. To minimize any duplication of effort, we reviewed the reports and substantiating working papers of this CPA firm.

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In addition, we obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. We also performed tests of certain controls to obtain evidence regarding the effectiveness of their design and operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We also obtained an understanding of legal provisions significant to 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 significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

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

The accompanying Management Advisory Report presents our findings arising from our audit of the State Fair Community College.

Claire McCaskill
State Auditor

October 26, 2004 (fieldwork completion date)

The following auditors participated in the preparation of this report:

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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

STATE FAIR COMMUNITY COLLEGE
MANAGEMENT ADVISORY REPORT –
STATE AUDITOR'S FINDINGS

1. Management Information Services Contract

In October 2003, the State Fair Community College (SFCC) awarded a five-year, $3.3 million management information services contract to a private consulting firm without soliciting bids or proposals from other service providers. College officials indicated this was a sole source procurement; however, any efforts to determine whether other qualified providers existed were not adequately documented. In addition, the college will actually pay the consulting firm $4.7 million over the contract period because this firm subsequently hired most of the employees in the college's information technology (IT) department.

Shortly after the current college president assumed her duties in July 2003, it was brought to her attention that various problems existed in the IT department, including outdated technology and various computer applications on campus that did not interface. As a result, the president requested that Collegis, Inc. (the consultant) perform an assessment of the IT department. This assessment was performed by the consultant on September 9-10, 2003, at no cost to the college. On October 1, 2003, the consultant presented its assessment results to college officials. That assessment identified numerous problems in the information technology area and recommended the college outsource the management of the IT department and related functions. On this same date, the consultant presented a proposal for providing these management services.

The college did not solicit proposals from other potential service providers and did not adequately document any efforts to determine if other qualified service providers existed. During our discussions with the college president, she stated she had been to several technology conferences in the past and the consultant was the only firm discussed. She further indicated she was not aware of any other companies which provided the full extent of management information services or had the higher education expertise of the consultant. However, the president indicated she did not perform or authorize a search of the internet or do any other type of search for other possible service providers.

In an October 14, 2003, memorandum to the Board of Trustees, the president recommended the bid process be waived in this instance on the basis that the consultant was the sole source from which the needed services could be obtained. In this memorandum, the president cited a number of factors which, considered in unison, supported her belief that this was a valid sole source situation. On October 27, 2003, at the next scheduled meeting of the Board of Trustees, the board approved an agreement with the consultant to purchase management information services for an amount not to exceed $3,327,200 over the next five years.

The college is not required by state law to solicit bids or competitive proposals for goods or services. However, it is generally accepted that competitive procurements are appropriate and necessary in the public sector, and this concept is recognized by the college's own purchasing policies. When this contract was entered into, the college's purchasing policy required at least three written bids or proposals be obtained for purchases of $2,500 or more in situations where competition existed. Recent revisions have been made to the college's purchasing policies, including a provision specifically allowing the college president to authorize sole source purchases without taking formal bids. However, the current purchasing policy states that the college will normally request proposals for contracted services.

It is possible there may have been other service providers (either operating individually or in a consortium) which could have met the service needs of the college. It is also possible had the college gone through a formal process of requesting and evaluating proposals for these services, the consultant would have still been awarded the contract as the lowest and best bidder. However, since the college did not do this, it is not in a good position to defend its actions and decisions regarding this matter.

The State Auditor communicated these concerns to the college president by letter in January 2004, after our office learned about this contract and performed an initial inquiry.

During our review of this contract, we determined the total payments the college will ultimately make to the consultant will exceed the amount approved by the Board of Trustees by a substantial amount. The contract provided the contract costs over the five-year period would total $4,913,200; however, the contract estimated the total payments due from the college would be reduced by a $1,586,000 personnel cost credit (approximately $300,000 per year), resulting in total net contract payments of $3,327,200, the amount approved by the board in October 2003.

The personnel credit represented salary and benefit costs of those IT department employees who would remain employed by the college. These employees were given the option to remain employees of the college or terminate employment with the college and be hired by the consultant. However, at the time the contract was entered into, there was much uncertainty as to whether, or when, these employees would become employees of the consultant. Because of this, when the contract was prepared and the payment estimates calculated, it was assumed all of the existing IT department employees would remain on the college payroll.

During the first year of the contract, all but one IT department employee transitioned to employment with the consultant. As a result, as of October 2004, the estimated amount of the college's personnel credit had been reduced from $1,586,000 to $211,059. Consequently, the total estimated amount the college will be required to pay the consultant pursuant the contract terms will increase to over $4.7 million. As of January 2005, the Board of Trustees had not yet approved this estimated increase in the total contract payments. We were informed the college is in the process of completing an annual review of the contract agreement and related services. After this review is completed, any proposed contract changes will be presented to the Board of Trustees for approval.

It should be noted that SFCC officials have indicated they are pleased with the performance and services provided by the consultant thus far. Since the contract's inception, the consultant has completed various projects and tasks, including helping in the development of instructional technology, strategic plans, and a new college website. In addition, the president indicated the backlog of service requests made to this department has been eliminated. According to the college, the contract relationship has already resulted in estimated savings or value added totaling $790,000 as of July 30, 2004. Approximately $680,000 of this represents one-time cost savings/value added, with about $110,000 of this being of a recurring nature.

WE RECOMMEND the SFCC, in the future, ensure it makes every effort to competitively procure services involving significant expenditures. In such instances, the college should prepare a request for proposals (RFP) that clearly identifies the services desired and then disseminate that request in such a way to best reach potential service providers. Procurements should not be handled as sole source unless concerted efforts have been made to determine if other possible providers exist. Such efforts should be thoroughly documented.

AUDITEE'S RESPONSE

This issue was addressed in a letter from Claire McCaskill dated January 13, 2004 which included the following statement: "We are not aware of any statute which required the college to solicit competitive bids or proposals for these services…"

Due to the nature of the services required and the need for multiple integrated systems tailored specifically for the needs of this college, administrators did not feel that an internet search would provide relevant information. However, the following examination and due diligence was conducted prior to Board approval of the contract:

- *Internal review and evaluation of campus technologies and services, including a cost/benefit analysis of expenditures for the prior 3 years;*
- *Examination and review of companies that might have been able to provide limited services and non-integrated technical support;*

- *Legal advice was obtained;*
- *Contacts were made with other Collegis customers to ascertain information about the scope of their services and acquire recommendations in terms of overall satisfaction and the value of outsourcing campus technologies;*
- *Contacts were made with other colleges who were considering outsourcing campus technologies;*
- *Another Missouri institution of higher education was contacted regarding their sole source procedure in acquiring a management firm to oversee campus technologies;*
- *Consideration of the president's experience at previous institutions with similar needs; and,*
- *Workshops and meetings were held involving members of the campus community and the Board of Trustees regarding the value-added aspect of outsourcing campus technology services.*

Collegis has exceeded the College's expectations in terms of the services provided as outlined in the contract and scope of work. Some of their more significant contributions include but are not limited to the following: regional and national support networks for negotiating technology-related contracts; corporate service and training for employees; corporate support and facilitation services of the College's strategic planning efforts; an audit of the College's PBX system and services; analyzing and mapping business office and student support service procedures; and support and analysis of academic services related to distance learning and electronic classroom media. College administrative staff receive weekly, monthly, quarterly, and annual reviews with metrics and measures based on employee satisfaction of Collegis activities and progress. SFCC has seen significant improvement and experienced numerous cost-saving efficiencies because of the level of expertise and comprehensive and integrated services that Collegis provides. Campus technologies are monitored and integrated; expenses are closely tracked; technology budgets are planned 3 years in advance of purchases; and, the need for purchases are well documented, evaluated and processed competitively.

At the March 3, 2005 Board meeting, the president presented clarification to the Board regarding the Collegis contract and the payment of credits for SFCC employees who chose to work for Collegis. The clarification was stated as follows: "At the October 2003 meeting of the Board, it was recommended that 'the Board of Trustees enter into an agreement with Collegis, Inc., to purchase management information services in support of the management and operation of campus technologies for an amount not to exceed $3,327,200 through October 27, 2009.' The Missouri State Auditors office suggested that a clarification be made to the Board that the contract amount was limited to the scope of work and that it did not include the payment of credits for SFCC employees who would be hired by Collegis. Exhibit B, CI of the contract approved by the Board includes wording specific to this issue. This clarification does not affect the College's approved FY05 operating budget."

Finally, SFCC agrees to make every effort to competitively procure services involving significant expenditures. Such efforts will be more fully documented as recommended by *the auditors. For example, recent expenditures approved by the Board for a new administrative computer hardware and software system was preceded with a 6-month RFP process and campus-wide review and evaluation. Board workshops were conducted; members received extensive documentation and back-up materials.*

2. Budgetary Practices

Sections 67.010 to 67.080, RSMo 2000, require each political subdivision of the state to prepare an annual budget, which shall present a complete financial plan for the ensuing budget year. The college, being a junior college district, is subject to the provisions of these statutes. A review of the college's compliance with budgetary law and its budgetary practices disclosed the following concerns:

A. The budget documents approved by the Board of Trustees for the years ended June 30, 2004, 2003, and 2002, did not include all budgetary information required by law. Required information not included in the approved budgets were a budget message describing the important features of the budget and major changes from the preceding year, comparative statements of actual or estimated receipts and disbursements for the two previous years, and amounts related to the college's debt service requirements.

B. The budget documents approved by the Board of Trustees for the years June 30, 2004, 2003, and 2002, did not reflect all planned financial activities of the college. While the entire budget for each year was maintained in the general ledger system, the budget documents approved by the Board of Trustees only included information related to the unrestricted portion of the Current Fund. As a result, during these years the Board of Trustees did not formally approve the budgeted amounts for the restricted portion of the Current Fund or the entire Plant Fund. In addition, the Loan Fund, which was discontinued during the year ended June 30, 2002, was not included in the approved budget in that year.

C. We noted some departments/activities were not budgeted at all in some years. For example, much of the state financial aid pass-through expenditures were not budgeted for the year ended June 30, 2003, and the college's bookstore was not budgeted for the year ended June 30, 2004. This situation contributed to the budgetary overspending that is discussed below.

D. The college does not adequately monitor budget amounts to ensure expenditures are kept within budgetary limits. It does not maintain reports to track budget-to-actual amounts by fund and the Board of Trustees is not provided any data periodically comparing actual revenues and expenditures to budgeted amounts. While the board receives a monthly report of actual receipts and disbursements, this does not include a comparison to amounts budgeted or year-to-date totals.

Budgets are a planning tool and should serve as a guide throughout the year to monitor revenues and expenditures. A periodic comparison of budgeted versus actual revenues and expenditures is necessary to properly monitor financial activity and identify budget areas that need attention.

E. Because of the incomplete budgetary data and inadequate budgetary procedures noted above, the college's expenditures exceeded the budget by substantial amounts as follows:

	Year Ended June 30,	
Fund	2004	2003
Current Fund	$ 4,896,399	1,330,465
Plant Fund	-0-	403,821

The college did not prepare any budget amendments or adopt any resolutions authorizing the additional expenditures, nor did the college set forth any reasons for exceeding the budgeted amounts in the board minutes. Much of the overspending in the Current Fund was due to the college not budgeting much of the financial aid pass-through expenditures in both years listed above. In addition, in fiscal year 2004 the college did not budget for the disbursements related to the management information services contract ($594,000) or disbursements related to the bookstore operations (approximately $1.4 million).

Section 67.080, RSMo 2000, provides that no expenditure of public monies shall be made unless it is authorized in the budget. The college should keep expenditures within amounts budgeted and formally amend its budget before any excess expenditures are authorized.

A complete and well-planned budget along with effective budgetary monitoring procedures, in addition to meeting statutory requirements, can serve as useful management tools by establishing specific cost expectations for each area. Such budgetary procedures can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual disbursements. The budgets established and presented to the board for approval should reflect all planned financial activity of the college and include all required information, including a budget message, comparisons of actual receipts and disbursements for the two preceding years, and debt service requirements.

It should be noted that we discussed our concerns with college officials prior to the approval of the fiscal year 2005 budget, and efforts were made to address some of the concerns noted above. For example, for fiscal year 2005, the entire budget was submitted to the Board of Trustees, and it included a budget message and the expenditures for the preceding fiscal year.

WE RECOMMEND the SFCC takes action to improve its budgetary practices. This should include ensuring:

A-C. The budget documents prepared by the college, and subsequently approved by the Board of Trustees, include all planned financial activity of the college and all budgetary information required by law.

D&E. Budgeted amounts are adequately monitored to ensure expenditures are kept within budgetary limits. If it is necessary to incur additional expenditures, the budget should be properly amended and a resolution setting forth the increase and reasons for such should be documented in the board minutes.

AUDITEE'S RESPONSE

A-E. SFCC is currently engaged in an extensive computer conversion that will significantly improve current budgetary practices. However, it should be noted that over the past year numerous improvements have been made to budget management and processes, including on-line budget reports and tracking, regular updates to the Board, and budget practices that will ensure that expenditures are within the approved budget.

B. It should be noted that for the last 4 years notification from state and federal agencies were not received in time to be included in the initial budget approval process (prior to the beginning of the new fiscal year). Programs that were externally funded were presented to the Board upon notification from the funding source (throughout the fiscal year) but were not necessarily presented as a budget adjustment. As we prepare to convert to the new administrative system, all externally funded programs will be designated as restricted accounts and will be presented as such in the budget. Consequently, externally funded programs will be clearly identified and budget adjustments will be easily tracked and consistently reported when budget adjustments need to be made.

3. Lost Revenues

During the three years ended June 30, 2004, SFCC lost over $106,000 in federal and state grant revenues due to the college's failure to submit the required paperwork timely and due to errors or omissions made in preparing that paperwork.

A. In June 2003, SFCC wrote-off $97,238 in Pell Grants receivable from the U.S. Department of Education resulting from the college's failure to submit the required paperwork timely for some of its students related to the 2002-2003 school year.

The U.S. Department of Education offers Pell Grants to eligible students largely based on financial need. Students at the college complete Free Application for Federal Student Aid (FASFA) forms and submit them to the college's financial aid office. The financial aid office determines how much each student will receive in Pell Grant funds for the subsequent school year and submits the Pell Grant award details to the U.S. Department of Education. This paperwork must be submitted to the federal agency by September 30 of each year for the college to receive the related Pell Grant revenues.

In June 2002, the college hired a new financial aid director who did not become aware of the September 30 deadline until only a few days before the related award details were due. Although the college submitted as much of the grant paperwork as possible by the deadline, student award details totaling $97,238 were not submitted by the due date. Because this error was made by the college and not the fault of the affected students, the college decided to credit the affected student's accounts and write-off the $97,238 in revenues which would otherwise have been collected.

College officials indicated this situation has been corrected and all Pell Grant award details have been submitted timely since that time.

B. During the three years ended June 30, 2004, the college wrote off $9,439 in potential A+ Program reimbursements from the Missouri Department of Elementary and Secondary Education (DESE) due to errors made in the college's handling of this program.

The A+ School Program is a school-improvement initiative established by the Outstanding Schools Act of 1993 to encourage students to stay in high school, make career plans, and graduate with the skills and knowledge required for career success or further education. Students who graduate from a designated A+ high school may qualify for state-paid tuition for post secondary education at community colleges, or vocational or technical schools. Eligible post secondary educational institutions are reimbursed for tuition, books, and common fees for each A+ eligible student for two years full-time course work, to be used within the student's four-year eligibility period.

During the years ended June 30, 2004, 2003, and 2002, the college wrote off $6,443, $1,545, and $1,451, respectively, due to miscalculations of A+ Program reimbursements for some students and erroneously leaving some students off A+ Program budgets submitted to the DESE. In some instances, tuition amounts were calculated incorrectly, and therefore, the wrong amounts were requested for reimbursement. Students were left off the A+ Program budget requests due to students being enrolled at extended campus sites without the financial aid office's knowledge or students dropping classes and the college failing to request reimbursement for the percentage of the classes attended. Other students were left off the A+ Program budgets for no apparent reason.

According to college officials, after the fiscal year 2004 errors were discovered, the financial aid office and the business office began reconciling the A+ Program preliminary budget requests to the students' general ledger balances before sending the budget to the DESE. The college believes this will prevent future errors from occurring and reduce (or eliminate) A+ Program write-offs.

The college should make every effort to ensure reimbursement requests and other required documentation are prepared accurately and submitted timely to the applicable agencies to ensure all available grant revenues are obtained.

WE RECOMMEND the SFCC ensure:

A. All reimbursement requests and other required documentation related to grant programs are submitted to the grantor agencies in a timely manner.

B. The documents submitted to the DESE related to the A+ Program accurately reflect all reimbursements due the college. The financial aid office and the business office should continue reconciling the A+ Program preliminary budget requests to the students' general ledger balances to identify any errors or omissions which may occur.

AUDITEE'S RESPONSE

SFCC has vastly improved practices over the last two years to ensure that all reimbursement requests and other required documentation related to state and federal financial assistance programs are submitted to the grantor agencies in a timely manner. The college will continue to monitor and improve systems that will alleviate reimbursements that result from students withdrawing from classes after they have received federal or state financial assistance.

Additionally, the college has purchased a new administrative computer system that will provide on-line data reporting and significantly improve the accuracy and timeliness related to all financial aid distributions. Uncollectible student accounts and write-offs have been substantially reduced and further reductions/eliminations have been mandated by the Board of Trustees.

4. Controls Over Receipts

Internal controls over receipts could be improved. The college's business office is the main collection point for receipts on campus; however, there are various other locations on campus where monies are initially received prior to them being turned over to the business office for deposit. Our review of the controls over receipts disclosed the following concerns:

A. Receipts collected and recorded by the business office are not always deposited intact and the composition of receipts is not reconciled to deposits. We noted the college allows students and employees to cash personal checks from the daily cash receipts. In addition, we noted the business office makes small cash disbursements from the daily receipts, rather than having an imprest petty cash fund for this purpose.

   Cashing personal checks and making disbursements from the daily cash receipts is a poor practice and reduces the accountability for monies received. To help ensure that cash receipts are accounted for properly, daily receipts should be deposited intact and the composition of receipts should be reconciled to the composition of bank deposits. In addition, an imprest petty cash fund should be established to pay any cash disbursements necessary.

   It should be noted that there is an automated teller machine (ATM) in the college's student union where students and employees may obtain cash, if needed.

B. Adequate procedures have not been established to account for revenues collected at athletic events and theatre productions.

   1) The athletic department charges admission to various athletic events on campus, and revenues collected related to such events totaled $14,787 during the three years ended June 30, 2004. While a portion of these revenues were received in advance from the sale of season passes, the remainder was collected in cash at the door in the form of gate receipts. Prenumbered tickets are not issued to account for the number of people charged admission to the athletic events. Consequently, there is no procedure to reconcile paid admissions to the cash received and remitted for deposit.

      To ensure all gate receipts are properly accounted for, the college should issue prenumbered tickets for gate admissions and reconcile tickets issued to monies turned over for deposit.

2) The theatre box office collects money related to music and theatre productions, dinner theatres, and art and lecture programs. During the three years ended June 30, 2004, theatre production receipts totaled $20,813.

Tickets are required for admission to the productions or programs; however, no reconciliation is performed of tickets printed to paid admissions. While some tickets are purchased by the patrons in advance, tickets may be reserved and paid for at the door. If a patron who reserved tickets does not come to a production, the corresponding money will not be collected. We were informed that if the people who reserve the tickets do not show up 5 to 10 minutes before show time, their tickets are often given to students, who receive free admission to all productions.

To ensure theatre ticket sales are properly handled and accounted for, the number of printed tickets and potential revenue should be reconciled to the number of tickets paid for and actual receipts turned over for deposit.

C. Public auctions of surplus college property are held periodically at the main campus. These auctions are normally held once a year, but can occur more frequently, if needed. During the three years ended June 30, 2004, auction proceeds totaled $10,612, with $2,795 of this collected in cash. We determined auction proceeds as well as the gate receipts from athletic events are taken home after the events by the individuals responsible for collecting these monies and turned over to the business office the next day.

The failure to adequately secure receipts increases the risk of loss, theft, or misuse of college monies. Auction proceeds and gate receipts from athletic events should be kept in a secure location on campus until deposited.

D. The college's extended campus office is responsible for collecting monies for short courses. These courses are non-credit courses and can be taken by anyone. During the three years ended June 30, 2004, short course receipts collected in the extended campus office totaled $90,372. The duties of receiving, recording, and transmitting monies to the business office are not adequately segregated in the extended campus office. One clerk in this office is primarily responsible for all of these duties. In addition, receipt slips in that office are not pre-numbered.

Proper segregation of duties helps ensure that all transactions are accounted for properly and assets are adequately safeguarded. If proper segregation of duties cannot be achieved, at a minimum, periodic documented supervisory reviews of the records should be performed. In addition, to help ensure all receipts are properly accounted for, prenumbered receipt slips should be issued for all monies received.

E. Monies received related to theatre productions and short courses are not always remitted to the business office on a timely basis.

Receipts related to theater productions are held by the theatre department until after the production. Since such productions generally involve several performances, it is not unusual for the receipts to be held for several days before being turned over to the business office for deposit. Receipts for short courses are remitted from the extended campus office to the business office approximately once a week or when amounts exceed $1,000.

To adequately safeguard receipts and reduce the risk of loss or misuse of funds, receipts should be transmitted to the business office daily or when accumulated receipts exceed $100.

It came to our attention that during the audit period about $750 in theatre proceeds was stolen from the theatre box office by someone who was able to gain entry to that office. Such losses could be reduced or prevented by turning money over to the business office on a daily basis.

WE RECOMMEND the SFCC:

A. Deposit all receipts intact and reconcile the composition of receipts to the composition of bank deposits. In addition, the college should establish an imprest petty cash fund in the business office to pay any small cash disbursements necessary.

B. Establish adequate procedures to account for gate receipts related to athletic events and theatre productions.

C. Ensure all undeposited receipts are maintained in a secure location. Employees should be prohibited from taking receipts home for temporary safekeeping.

D. Segregate accounting duties in the extended campus office to the extent possible, or ensure periodic supervisory reviews are performed and documented. Additionally, that office should issue prenumbered receipt slips for all monies received.

E. Require the theatre department and extended campus office to remit receipts collected to the business office daily or when accumulated receipts exceed $100.

AUDITEE'S RESPONSE

SFCC is reviewing all current policies and procedures for collecting, depositing and recording receipts from all areas/departments of the college and to implement any necessary and appropriate revisions.

5. Retirement Incentive Program

The SFCC's current retirement incentive program is costly and it is unclear whether the benefits of this program justify the additional costs incurred by the college.

College faculty and staff earn future retirement benefits through the Missouri Public School Retirement System and the Missouri Non-teacher School Employee Retirement System, respectively. The college contributes to these retirement programs for its employees. Even though both of these retirement systems have early retirement provisions, for a number of years the college has offered additional retirement-related incentive programs to its employees. The retirement incentive payments made to those employees who participated in these additional programs have been paid from operating funds of the college. SFCC officials indicated the two programs described below were not patterned after existing programs elsewhere, and we are not aware of any other college or university which has offered similar programs to its faculty or staff.

In 1988, the college initially established an early retirement incentive program for administrative, professional, or classified staff with the aim of encouraging eligible employees to retire early. The program was designed to result in a cost savings to the college by replacing higher paid college employees with replacements who would be paid at lower salary levels.

To qualify for the program, an employee was required to work at least 10 consecutive years with the college, and either have reached the age of 55 or be eligible for retirement under the appropriate retirement system. The 10-year service requirement was to increase by one-half year annually over the next 20 years to a maximum of 20 years. The early retirement benefit payment was calculated by multiplying the retiring employee's salary during the last 12 months preceding their retirement, minus the highest allowable entry salary at the employee's level, times a factor of .75, times the difference between 65 and the employee's age at retirement. The total benefit payments could not exceed 100 percent of the retiring employee's final annual salary, and were generally paid out over a three-year period.

Effective for the year ended June 30, 2002, the college implemented a new retirement incentive program to replace the program that had previously existed. Unlike the previous program which was designed to result in a cost savings to the college, this program was designed to encourage employees to extend their years of service to the college and "to reward them for their dedication."

To qualify under this program, an employee must serve fifteen consecutive years with the college and be eligible for retirement under the appropriate retirement system. The retirement incentive payment is calculated by multiplying the retiring employee's years of service, plus unused sick leave, times 2 percent per year times the employee's salary during the 12 months prior to retirement. The benefit payment cannot exceed 50 percent of the employee's final annual salary and is paid out over a 1-year period.

Between fiscal years 1988 and 2004, the college paid out over $1.4 million in SFCC operating funds to former faculty and staff employees under these two retirement-related incentive programs. In addition, as of June 30, 2004, the college determined there are 33 employees eligible to retire and participate in the current program. It has projected that from fiscal years 2005 to 2009, the college will pay up to $660,000 in retirement incentive payments to these employees, depending on the year they retire.

Considering the current program is not designed to result in a cost savings, its continuation should be reevaluated in light of the college and state's current financial situation. The college should compare the additional costs being incurred as a result of this program with the benefits, if any, being realized by the college. If the college decides to the discontinue this program, it would need to consider whether this would impact current employees or only new hires.

WE RECOMMEND the SFCC review the current retirement incentive program and determine whether its continuation is justified.

AUDITEE'S RESPONSE

SFCC agrees that the intent of the Early Retirement Incentive Plan was to encourage eligible employees to retire early allowing the college to recognize a savings by replacing higher paid college employees with personnel who would be paid entry-level salaries. At the termination of the Early Retirement Incentive Plan, the college was not realizing the anticipated savings and decided to revise the plan as it stands today. However, the SFCC Board of Trustees is scheduled to review the current retirement incentive program (May, 2005) and has identified the need to determine whether or not continuation of the program is justified.

6. Expenditures

A. The college did not adequately document its evaluation of construction management bidders on some projects. In addition, construction management billings did not include documentation supporting reimbursable expenses being claimed. Further, reasons for approved change orders were not documented, and bid documents related to construction projects were not retained by the college.

During the three years ended June 30, 2004, the college was involved with several construction projects that required the services of a construction manager. The same construction manager was used for all of these projects. We noted the following problems related to these projects and/or the construction manager services:

1) The college did not document its evaluation of the construction management bidders based on criteria outlined in Chapter 8, RSMo 2000. For two projects, the construction manager selected was not the lowest bidder.

   Section 8.679, RSMo 2000, requires public entities to solicit proposals for construction manager services for construction projects exceeding $500,000, and Section 8.681, RSMo 2000, provides various criteria for evaluating the proposals received and selecting a construction manager. The criteria to be considered includes, but is not limited to, fees to be charged, reimbursable costs, qualifications, and financial strength.

   During the three years ended June 30, 2004, the college began and/or completed the construction of three construction projects in which the requirements of RSMo 8.681 applied. These included the Fred E. Davis Multipurpose Center (Multipurpose Center) and the Daum Museum of Contemporary Art (Daum Museum), which were completed in fiscal year 2002, and the renovation of the Charles E. Yeater Learning Center (Yeater Learning Center), which began in fiscal year 2004.

   For all three of these projects, the college failed to document its selection procedures. The total construction management fees for these three projects totaled $365,000. This amount does not include the reimbursable costs paid to the construction manager related to these projects.

   The college should document the criteria used and the basis for selecting a professional services contractor to ensure the college is receiving quality services at a reasonable price.

2) The monthly invoices submitted by the construction manager included the amount of reimbursable expenses due from the college; however, no documentation was submitted to support the expenses claimed for reimbursement. The construction manager's

reimbursable costs included, but were not limited to, advertising, printing, UPS services, on-site toilet, phone, and trash service.

Without documentation to support the reimbursable expenses being claimed by the construction manager, the college has less assurance as to the propriety and amount of the expenses billed.

3) The Board of Trustees approved various construction change orders during the board meetings; however, the reasons for the change orders were not adequately documented.

During the three years ended June 30, 2004, the Board of Trustees approved $53,671 in change orders for various construction or renovation projects. Some of these change orders appeared to relate to items that could have possibly been included in the original project specifications. For example, change orders were approved for the remaining asphalt needed to complete the parking lot for the Multipurpose Center and for painting graphics on the gymnasium floor.

Change orders are normally used to make adjustments for construction items that are unknown when construction projects are originally bid. Without adequate documentation stating the reasons for change orders, it is unclear why they are needed or were not included in the original contract.

4) The bid documents related to the various work packages of the college construction projects were retained by the construction manager, rather than being maintained by the college. The college did not even maintain copies of the related documentation.

The construction manager is responsible for procuring and evaluating the bids for the various work packages. While the bids are initially received and opened by the college, the construction manager takes the bids and evaluates them to make a recommendation to the Board of Trustees. All bid documentation on the projects reviewed was retained by construction manager and not turned over to the college upon project completion.

The college should retain the bid and other documentation related to its construction projects. The retention of all financial-related records is necessary to ensure the validity of transactions and provide an audit trail to account for all monies expended.

B. The college did not always obtain bids or document efforts to obtain bids for the purchase of goods and services as required by the college's purchasing policy. The college's purchasing policy requires an effort be made to obtain three written, sealed bids for purchases of $500 or more. Purchases of $5,000 or more are required to be advertised in a newspaper. Exceptions are allowed for emergency purchases.

1) The college did not solicit bids for various insurance plans during the three years ended June 30, 2004, as follows:

   - The college paid approximately $2,173,000 for employee health insurance during the three years ended June 30, 2004, with $1,479,000 representing the college's portion of these costs. We determined this insurance coverage had not been bid since prior to 2000.

   - The college paid approximately $357,300 for liability and casualty insurance during the three years ended June 30, 2004. College officials indicated this contract had not been bid for approximately eight years because the college was satisfied with the provider.

   - The college paid approximately $199,000 for employee dental insurance during the three years ended June 30, 2004, with $123,000 representing the college's portion of these costs. College officials indicated this insurance had not been bid since 1988 because this is the only provider in the area.

   - Employee life insurance bids during the two years ended June 30, 2004, were not properly documented. College officials indicated prior to the fiscal year 2003, life insurance was included in the health insurance premiums. The college asked its insurance agent to bid life insurance for the college beginning July 1, 2002. The college's agent brought a recommendation to the college; however, the college did not receive and maintain documentation of the bids received. The college paid approximately $42,800 during the two years ended June 30, 2004, for this insurance, with $31,450 representing the college's portion of these costs.

   While it may not be necessary for the college to solicit bids for insurance on an annual basis, this should be done on a periodic basis to ensure the college is receiving these services at a reasonable and competitive price.

2) Competitive bids or proposals were either not solicited or not documented for various other purchases as follows:

Architectural services	$ 128,670
Computer equipment and software	41,057
Networking services	19,500
Employee handbook revisions	10,000
Shipping museum art	8,500
Museum catalogs	7,125
Graduation gowns	6,452
Airfare	2,869
Sound system repair	1,358

In addition to these expenditures, the college has not bid collection agency services which cost the college a rate of 33 percent of the delinquent balance for the first referral and 50 percent on second referrals.

College personnel indicated the computer equipment/software and networking services were only available from one provider due to compatibility issues; however, these sole source procurements situations were not documented.

Formal bidding procedures for major purchases provide a framework for economical management of college resources and help ensure the college receives fair value by contracting with the lowest and best bidders. Competitive bidding helps ensure all parties are given an opportunity to participate in the college's business. Complete documentation should be maintained of all bids received and reasons why a bid or proposal is selected. If circumstances are such that bidding is not possible or practical, such as sole source or emergency situations, the reasons for not soliciting bids should be documented.

C. Some expenditures were noted that do not appear to be necessary or a prudent use of college funds. During the three years ended June 30, 2004, the college transferred $3,581 to the college's social committee to be used for staff Christmas and retirement parties, as well as other social gatherings for college employees. In addition, we noted the college spent $2,045 on retirement gifts (watches at $86 each) and 30-year service recognition gifts (mantel clocks at $195 each), and over $1,500 per year on flowers for hospitalizations or bereavements of college employees.

The public places a fiduciary trust in college officials to expend college funds in a necessary and prudent manner. The above expenses do not appear to represent a necessary and prudent use of college funds.

D. The college does not have a formal policy related to food purchases. During the three years ended June 30, 2004, the college spent a significant amount on food-related expenditures. However, because the college has not established a separate account number in its accounting system for food expenditures, the extent of college funds spent on food could not be readily determined.

1) The college-run cafeteria provides catering services on campus. During the three years ended June 30, 2004, the college cafeteria provided catering services for the various college departments or divisions at a cost totaling over $86,000. While the college incurred other outside catering or food expenses during this three-year period, the college's records did not allow us to determine the extent of college funds spent in this manner. Examples of food purchases noted include the following:

- $3,016 for catering at a career fair ($2,892 for lunches for over 700 high school students attending).
- $1,900 for a 2003 legislative reception in Jefferson City (which included $347 for alcohol).
- $1,300 for a dinner for adjunct professors.
- $1,138 for an all staff welcome-back lunch.
- $1,020 for a Daum museum exhibit opening.
- $210 for cakes at a reception after a music concert.

While a certain level of food expense is probably necessary, the college needs to assess the costs in terms of their importance compared to other critical education needs.

2) The college has not established an account number in the computerized accounting system to track food expenditures. We noted food expenditures were charged to various categories, including travel, instructional supplies, advertising, and promotional. As a result, the college was unable to readily determine what it spends on food annually.

The college should establish a separate account number to allow it to track food expenditures to ensure consistency between departments and to better monitor its food purchases.

E. During our review, we noted the following expenditures which were not supported by written contracts or agreements, or where such documents were not retained:

Architectural services	$ 140,682
Legal work	25,734

Written contracts or agreements are necessary to ensure all parties are aware of their duties and responsibilities and to prevent misunderstandings. Written contracts should specify the services to be rendered and the manner and amount of compensation to be paid.

F. The college does not have a formal policy regarding cellular phone usage. During the three years ended June 30, 2004, the college spent approximately $12,500 related to cellular phone service.

It is the college's informal policy to allow business-related personal calls, such as calling home while on a business trip. However, a college official indicated other personal calls are sometimes made on the cellular phones. During our review of 12 cellular phone bills, we noted charges totaling $1,150 for users going over the plan minutes and $459 in roaming charges.

Some employees share plan minutes; therefore, it is difficult to determine which employee caused the overage charges. Additionally, cellular phone bills are not disbursed to the applicable employees for review. Therefore, employees are not necessarily aware of when their plan minutes are exceeded.

The college should review its current cellular telephone plans to ensure they address the needs of the college. In addition, a formal policy is needed to ensure that cellular phones are used only for business purposes. Such a policy should address which employees need a cellular phone and the proper use of the phone. Procedures should also be established to monitor cellular phone usage.

WE RECOMMEND the SFCC:

A. Improve its handling of construction projects and construction management services by ensuring:

1) Future construction management services obtained by the college are subject to a competitive and well-documented evaluation and selection process.

2) The construction manager is required to provide adequate documentation to support any reimbursable expenses being claimed for payment.

3) The reasons for any change orders approved by the board are adequately documented.

4) Bid and other documentation related to its construction projects is retained by the college.

B. Ensure competitive bids or proposals are solicited for purchases in accordance with the college's purchasing policy. If bids or proposals are not solicited, the circumstances should be fully documented.

C. Ensure all expenditures of college monies are limited to those which are a prudent use of public funds.

D. Develop a comprehensive policy regarding food purchases in an effort to control and reduce expenditures in this area. In conjunction with this, consideration should be given to prohibiting the purchase of alcohol with college funds. In addition, the college should establish a separate account number to allow it to better account for and monitor the extent of its food expenditures.

E. Ensure written contracts or agreements are entered into and retained to support services obtained from outside service providers.

F. Monitor the cellular telephone bills to ensure the phones are placed on the most economical calling plans. In addition, the college should establish a formal policy regarding cellular phone usage.

AUDITEE'S RESPONSE

A. SFCC is improving the handling of construction projects and construction management and will in the future maintain on-site documentation of the evaluation and selection process. In all instances, heretofore, documentation has been maintained by the construction manager at an off-site location.

B. SFCC will ensure that competitive bids or proposals are solicited for purchases and services in accordance with the college's purchasing policies and that all processes are fully documented. It should be noted that the employee health insurance coverage bidding process is determined by the availability of interested service providers. Due to the college having multiple service sites throughout a 14-county service area, providers often do not participate in the bidding process.

C. *SFCC will continue efforts to ensure that all expenditures are a necessary and prudent use of public funds and we will continue to be good stewards of the public trust.*

It should be noted that SFCC believes that it is important to celebrate and honor the success, dedication and commitment of our employees in order to ensure that we provide quality programs and services to our students. Expenditures will be monitored and measured for their effectiveness and impact on creating a positive working and learning environment at SFCC.

D. *SFCC is reviewing and revising policies as necessary and appropriate related to food purchases and expenditures. Current practice does not allow the purchase of alcohol with college funds.*

It should be noted that expenditures for food and catering services identified by the state auditors were often offset by the participants, attendees and/or donors invited to the event.

E. *SFCC will obtain and retain documentation related to services provided by outside service providers.*

F. *The College is preparing for Board approval a written policy regarding the use of cell phones; the policy will mandate the need for monitoring cellular telephone bills to ensure phones are placed on the most economical calling plan.*

7. Tuition Rates

The SFCC has increased tuition rates each of the last four years; however, the college does not adequately document the annual reviews of its tuition rates or the various factors considered when calculating and determining tuition rate increases. According to the college's audited financial statements, the college had current net assets of approximately $9.8 million at June 30, 2004, with operating expenses of approximately $20 million in fiscal year 2004.

The following table presents the tuition rates per credit hour (excluding fees) by category of student for the five most recent academic years (including the current year):

Academic Year	In-District	Out-of District	Out-of State	Inter-National
2004-2005	$60	87	140	167
2003-2004	$56	83	136	163
2002-2003	$49	76	129	156
2001-2002	$42	65	89	105
2000-2001	$42	65	89	105

College officials indicated there are many factors considered when increasing tuition. These include, but are not limited to, reviewing enrollment and projected revenues, the level of planned employee raises, and new initiatives or planned construction projects. In addition, we were informed the college contacts other community colleges to determine their projected tuition rate levels. Also, the decrease in state funding in recent years has affected tuition levels and required college officials to anticipate possible further reductions of state funding when setting tuition rates. State funding provided to SFCC dropped from $5.7 million in fiscal year 2002 to $4.9 million in fiscal year 2004.

While the college had documentation of how it planned to reduce expenses for some years and had documentation of tuition rates of other community colleges, there was no documentation maintained to support how the college calculated its approved tuition rates each year.

It should be noted that SFCC's tuition rates were generally at or below the average rates of other two-year public colleges in the state. However, the college should maintain documentation to support how its tuition rates are established to provide assurance to its students and other constituents that any tuition rate increases are justified.

WE RECOMMEND the SFCC adequately document the annual reviews of its tuition levels and the various factors considered when calculating and setting its tuition rates.

AUDITEE'S RESPONSE

SFCC will continue its policy of annually reviewing tuition increases. Additionally, the college will more clearly document the various factors considered when setting tuition rates. It should be noted that tuition increases approved for the 2002-2003 academic year were offset by a reduction in laboratory fees.

Additionally, SFCC has been able to maintain its position statewide with one-half the community college tuition rates being higher and one-half being lower. Given the reduction in state funding over the last several years, SFCC has been able to minimize tuition increases and the burden that is placed on our students.

8. Day Care Operation

The contract with the college's current day care provider was not competitively procured and the service provider has not met all the financial accountability requirements provided in the contract. In addition, the college has not tracked the indirect costs it has incurred related to this operation.

The on-campus day care operation (named the Melita Day Nursery), which opened in 1997, is run by a separate not-for-profit corporation governed by its own Board of Directors. Besides providing child care services for SFCC students and staff, it provides training and classroom opportunities for the college's health and human services department, career technology center, and nursing department.

According to the 1996 contract which established this operation, the college agreed to pay the costs to renovate the building where the day care is located and be responsible for paying the property insurance, utilities, and maintenance costs related to this building. The corporation was to be responsible for paying the direct costs of the day care operation including: payroll, food service, nursery supplies and equipment, worker's compensation and liability insurance, and cleaning expenses.

We noted the following concerns related to the procurement of this day care provider and the related contract:

A. The college did not solicit bids or proposals related to this day care operation. In addition, the college failed to document the reasons the provider was selected to run this on-campus operation. Competitive bidding provides a framework for the economical management of college resources and helps ensure the college contracts with a responsible service provider at a reasonable cost.

B. The day care operation has not undergone any annual audits, as required by the contract. In addition, the day care has not been required to submit any periodic financial information to the college until recently.

   The contract requires the day care to undergo an annual audit and make the results available to the SFCC. Any income beyond expenses is to be used first to upgrade nursery equipment and instructional materials, then to offset the SFCC expenses for utilities and other operating costs (as partial compensation for rent-free use of the building). Any amounts remaining are to be used to make other improvements as recommended by the day care's advisory committee.

   The college has never received any money from the day care to offset expenses as provided by the contract. Without annual audits or periodic financial data from the day care provider, the college has no way to determine whether excess income has been generated by the day care operation.

   As of October 2004, college officials indicated they had started receiving unaudited financial information from the day care.

C. The college does not track the costs incurred related to the insurance, utilities, and building maintenance expenses associated with the day care, and therefore, does not know how much it spends annually related to this operation. As a result, the college is not currently in a position to know how much would be due to offset its expenses in the event the day care operation was to generate excess income.

WE RECOMMEND the SFCC:

A. Consider soliciting competitive bids or proposals periodically from potential day care providers. The process and the reasons for selecting a particular provider should be documented.

B. Require annual audits of the day care operation be conducted as specified in the contract. At a minimum, the day care should be required to provide an annual accounting of its revenues and expenses so the college can determine if any excess income is generated.

C. Track the amount of college monies expended annually related to the day care operation.

AUDITEE'S RESPONSE

In fiscal year 2005, the Melita Day Care Nursery began providing unaudited financial documents to college administrators on a regular basis. Due to the historical relationship between the nursery and the community and the services that are provided to underserved families and students of the college, a competitive bid process in this instance was not deemed to be appropriate. Should the Melita Day Care nursery cease operations, SFCC will not continue to provide day care services on campus. Melita Day Care is a not-for-profit organization and maintains a very low annual budget. While costs incurred by the college in support of the nursery are minimal, the Nursery would not be able to remain open without that assistance. SFCC believes that the benefit of services provided to the children of our students exceed the support that is provided by the College to the nursery.

However, SFCC agrees to continue to request, obtain and monitor the financial activity of the nursery and will require annual audits of the day care operation. While expenditures are primarily limited to custodial services and utilities, the SFCC Board of Trustees will review the status of the partnership and will track the amount of college monies expended annually related to the operation of the day care.

9. President's Promotional Monies

During the three years ended June 30, 2004, the current and former college presidents received $3,000 in promotional monies annually. Considering the contracts of both presidents provided they were to be reimbursed for reasonable expenses incurred on behalf of the college, it is questionable whether the payment of promotional monies to these officials was necessary or represented a prudent use of college funds.

The promotional monies paid to the former president were considered part of his salary, and there was no specific mention of this compensation in his contracts. The current president's employment contract provides the monies are to be paid to her at the beginning of the year, are not considered compensation, and are to be used to "promote the aims and activities of the college." There are no specific guidelines for how these funds should be spent nor is there a contractual requirement for her to account for the monies received.

No documentation was required or received from the former president for any promotional expenses incurred by him during the two years ended June 30, 2003; therefore, we were unable to determine the extent of any promotional expenses incurred by the former president during those two fiscal years. Although not required to do so, during the year ended June 30, 2004, the current president submitted documentation to support $2,410 in promotional expenditures incurred by her during that year. According to college officials, the remaining promotional monies received for that year were carried over to be expended in the next fiscal year.

A review of the promotional expenses incurred by the current president during the year ended June 30, 2004, disclosed various expenses that may not represent a necessary or prudent use of college funds, as follows:

Employee Christmas party, food, and favor bags	$ 792
Payments to attend political functions/fund-raisers	400
In-town meals with employees and/or guests	384
Donations to local organizations	190
Christmas and valentine cards	65

In October 2004, we discussed the promotional monies with college officials. At that time, the college president had not received any promotional monies for the current fiscal year (2005), and there was discussion that these payments might be discontinued.

WE RECOMMEND the SFCC reconsider the practice of paying promotional monies to the college president. If this practice continues, the president's contract should include provisions which clarify how the promotional monies are to be used and how that official is to account for the expenses incurred.

AUDITEE'S RESPONSE

While the SFCC Board of Trustees firmly believes that the president's position justifies the need for promotional activities and that the expenditures identified are appropriate to the duties of the office, the president does not currently receive promotional funds. Over the past several years, the Board of Trustees has allotted $3,000 a year for promotional activities for the sole benefit of the college and the students that are served. The Board of Trustees believes that promotional funds are absolutely necessary and that they will be provided to the president from sources other than public funding.

10. Foundation

The SFCC subsidizes various operating and other expenses of its foundation. This practice does not appear appropriate and may violate provisions of the Missouri Constitution.

The foundation (officially known as the J. Higdon Potter Educational Foundation) was established in 1981 to raise funds to meet the needs of State Fair Community College. The foundation is a not-for-profit corporation that receives donations from individuals and organizations for the benefit of the college. The foundation's board of directors consists of the six members of the SFCC Board of Trustees, the treasurer of the Board of Trustees, the college president, and a number of appointed citizens of the SFCC service region. The foundation's mission is to support and assist the college in serving the community by providing accessible, quality educational programs and services.

The total subsidies provided could not be determined, but they primarily involved a portion of the payroll and employee fringe benefit costs of the college's vice-president of institutional advancement and her administrative assistant. Both of these individuals spend part of their time performing foundation duties; however, they are paid entirely by college funds.

The vice-president of institutional advancement also serves as the executive director of the foundation. During our discussions with that official, she indicated she does not track the time she spends on foundation activities versus her college duties. However, she estimated that she spends approximately one-twelfth of her time on foundation activities. Based on this estimate, we determined that during the three years ended June 30, 2004, the college provided subsidies totaling over $18,000 to the foundation related to the payroll and fringe benefits for this employee. Similarly, the time spent on foundation activities by the administrative assistant is not tracked. We did not attempt to estimate the extent of subsidies provided by the college related to this employee.

In addition to the salary and fringe benefit expenses noted above, we noted other foundation-related expenses paid by the college. These included a $255 luncheon for foundation members and the $796 cost of a planned giving seminar attended by the vice-president of institutional advancement.

The practice of subsiding the foundation with college funds appears to constitute the granting of public funds to a private entity, which is prohibited by Article VI, Section 25 of the Missouri Constitution.

WE RECOMMEND the SFCC discontinue the practice of subsidizing operations and activities of the foundation. The college should track any time worked by college officials/employees on foundation activities and request reimbursement for these costs. In addition, the college should consider requesting reimbursement from foundation funds for past subsidies.

AUDITEE'S RESPONSE

The SFCC Foundation was created by the Board of Trustees in 1981 solely to benefit the college and the students it serves. The role of the SFCC Foundation is to support SFCC in carrying out its mission, and without exception, this is what it has done.

Case law interpreting Article VI, Section 25 of the Missouri Constitution holds that there is no violation of the prohibition to grant public funds to a private entity, in this case a (501) (c) (3) organization, when public funds are spent for public purposes. As such, any funds expended by the College in support of the Foundation are for public purposes. It is for this reason the College stands firm in its belief that College support of the Foundation is legal and within the parameters of the Missouri Constitution.

Since inception, the SFCC Foundation's financial benefit to the College has far exceeded costs incurred. The report cites subsidies from the College to the Foundation during the three years ending in June 30, 2004 totaling over $19,051. During fiscal 2004 alone, the Foundation disbursed over $265,000 to the College. Over the past 10 years, almost $9 million have passed through the Foundation to the College funding the construction of the Stauffacher Center for the Fine Arts; the Daum Museum of contemporary Art; the Potter-Ewing Agriculture Building; and the Fred E. Davis Multipurpose Center. Over $600,000 in scholarship funds have been disbursed enabling hundreds of students to access higher education – many of whom could not have done so without this assistance.

SFCC and its students have benefited and will continue to benefit exclusively from the activities of the Foundation. SFCC has no plans to seek reimbursement from the Foundation now or in the future for funds which are provided to the College and its students many times over.

11. Capital Assets

It is the college's policy to record all capital asset purchases on its property records and affix tags to the items to identify them as property of the SFCC. Our review of the college's capital asset records and related procedures disclosed the following concerns:

A. Some capital asset items have not been property tagged. We noted 12 items with a value of $43,638 on the capital asset records which had not been properly tagged. Many of these items represented computer and video conferencing equipment.

   Capital asset items should be properly tagged and recorded in the property records as required by SFCC policy.

B. The college has not established adequate policies and procedures to properly handle and account for property dispositions.

   Capital asset dispositions are not required to be formally approved or authorized. Some departments inform the property control clerk that a unused item(s) needs to be picked up to be sold or junked. Other departments take the disposed item(s) directly to the maintenance shed to be sold at the next surplus auction. However, documentation of supervisory approval of these dispositions is not required.

   In addition, we determined the property control clerk does not always receive timely notice that property items are no longer in use or need to be junked. That individual indicated during physical inventory counts she sometimes found items that need to disposed of or junked, but she had received no prior notification of this. For example, during the final physical inventory at the Jefferson City campus, she discovered over $11,000 in obsolete computer equipment, much of which had been cannibalized for parts.

   The college needs to establish adequate policies and procedures regarding the identification and disposition of unneeded surplus or obsolete property. These procedures should require the documented approval of property dispositions by an appropriate management official.

C. Although periodic physical inventories are conducted of the college's capital asset items, these inventories are performed by the property control clerk who is also responsible for maintaining the property records. The property control clerk indicated that sometimes she will have another employee assist her in performing these inventories; however, this is not a requirement.

To ensure adequate control over capital assets, the physical inventories should be performed by someone other than the individual who is responsible for maintaining the property records.

D. The SFCC has 10 vehicles on its main campus. The controls over the usage of some of these vehicles are not adequate. Mileage and/or usage logs are only maintained on four of the vehicles. Those vehicles where logs are not maintained are generally used in-town by the maintenance and janitorial staff and the staff of the career and technologies center.

Mileage and/or usage logs are necessary to document the appropriate use of the vehicles and could be used in evaluating fuel costs. These logs should be reviewed by a supervisor to ensure all mileage is recorded, ensure the vehicles are being properly utilized, and help identify vehicles that should be replaced. In addition, proper check-out procedures are needed to ensure only appropriate employees are using college vehicles.

WE RECOMMEND the SFCC:

A. Ensure all capital asset items are properly tagged as required by policy.

B. Establish written policies and procedures regarding the identification and disposition of unneeded surplus or obsolete property. These procedures should require the documented approval of property dispositions by an appropriate management official.

C. Ensure the physical inventory of capital asset items is performed by an individual independent of the record-keeping duties.

D. Ensure complete vehicle mileage/usage logs are prepared for all vehicles. The mileage/usage logs should be monitored for propriety and reasonableness of miles traveled. In addition, proper check-out procedures should be required.

AUDITEE'S RESPONSE

SFCC agrees to review all capital assets policies, revising when necessary and implementing new policies when appropriate, including the identification and disposition of unneeded surplus or obsolete property and establishing usage of mileage logs in all college vehicles.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

STATE FAIR COMMUNITY COLLEGE
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State Fair Community College (SFCC) was established as a result of a public election on April 5, 1966, in accordance with enabling legislation by the Missouri General Assembly (Section 178.770, RSMo). The district was given the legal designation, the Junior College District of Sedalia, Missouri.

SFCC first opened for classes in September 1968 in an interim facility erected just west of the Missouri State Fairgrounds. The temporary facility eventually gave way to a permanent campus, comprising nearly 129 acres. The college's buildings have resulted largely from private benefactors, matching state funds, and fund-raising campaigns. Notably, the campus houses the Daum Museum of Contemporary Art, which opened in 2001. The Fred E. Davis Multipurpose Center, housing the Roadrunner sports teams, completed the college's original master building plan in 2001.

SFCC delivers classes or dual credit courses to 28 locations in 14 counties in addition to its Sedalia campus. Extended campus sites are located at the Boonslick Technical Education Center, Boonville; Clinton Technical School; Lake Career and Technical Center, Camdenton; Morgan County R-II, Versailles; Saline County Career Center, Marshall; Eldon High School; Warsaw High School; and Whiteman Air Force Base, Knob Noster. An extended campus site located in Jefferson City was closed in August 2004.

Other locations served include Blair Oaks High School, Jefferson City; Boonville Correctional Center; California High School; Camdenton High School; Clinton High School; Cole Camp High School; Cole County R-V, Eugene; Concordia High School; Eldon High School; La Monte High School; Lincoln High School; Morgan County R-I, Stover; New Bloomfield High School; Nichols Career Center, Jefferson City; Northwest High School, Hughesville; Russellville High School; Sacred Heart High School, Sedalia; School of the Osage, Kaiser; Smith-Cotton High School, Sedalia; and Smithton High School.

SFCC serves the educational needs of 14 counties in west central Missouri. The taxing district, designated in 1966, includes most of Benton and Pettis counties as well as the following school districts: Benton County R-I, Cole Camp; Benton County R-II, Lincoln; Benton County R-IX, Warsaw; Cooper County R-VI, Otterville; Pettis County R-I, La Monte; Pettis County R-IV, La Monte; Pettis County R-V, Hughesville/Houstonia; Pettis County R-VI, Smithton; Pettis County R-VIII, Green Ridge; Pettis County R-XIII, Dresden; and the Sedalia 200 School District. The Otterville School District in Cooper County was added to the district by annexation in an April 1985 election. In 1995, state legislation expanded SFCC's service area to include Camden, Carroll, Cole, Cooper, Henry, Hickory, Johnson, Miller, Moniteau, Morgan, Saline, and St. Clair Counties.

SFCC has been affiliated to the North Central Association of Colleges and Schools since it was founded. Correspondence status was granted in 1968. Full accreditation was granted in 1976, 1981, 1988, and 1999.

In the fall of 2004, 2003, and 2002, the SFCC's full-time equivalent student enrollment at the Sedalia campus totaled 1,680, 1,690, and 1,638, respectively. The SFCC employed approximately 165 full-time and 160 part-time employees in the fall of 2004, approximately 170 full-time and 160 part-time employees in the fall of 2003, and approximately 164 full-time and 147 part-time employees in the fall of 2002.

The SFCC is governed by a six-member Board of Trustees, who are elected by the voters in the district. The trustees serve six-year terms. These individuals serve without compensation; however, they receive reimbursement for any expenses incurred in performing their duties.

The Board of Trustees as of June 30, 2004, consisted of the following members:

Name	Position	Term Ends	
Dr. David Decker	President	April 2008	
Jerry Greer	Vice President	April 2006	
Ron Wineinger	Secretary	April 2008	
Ken Brown	Member	April 2010	
Gary Noland	Member	April 2010	(1)
Bob Hoskins	Member	April 2006	

(1) Gary Noland replaced Al McCurdy in April 2004.

The Board of Trustees appoints a President to serve as the college's Chief Executive Officer. Four Vice Presidents have been appointed to oversee Educational Services, Institutional Advancement, Student Services, and Business Affairs.

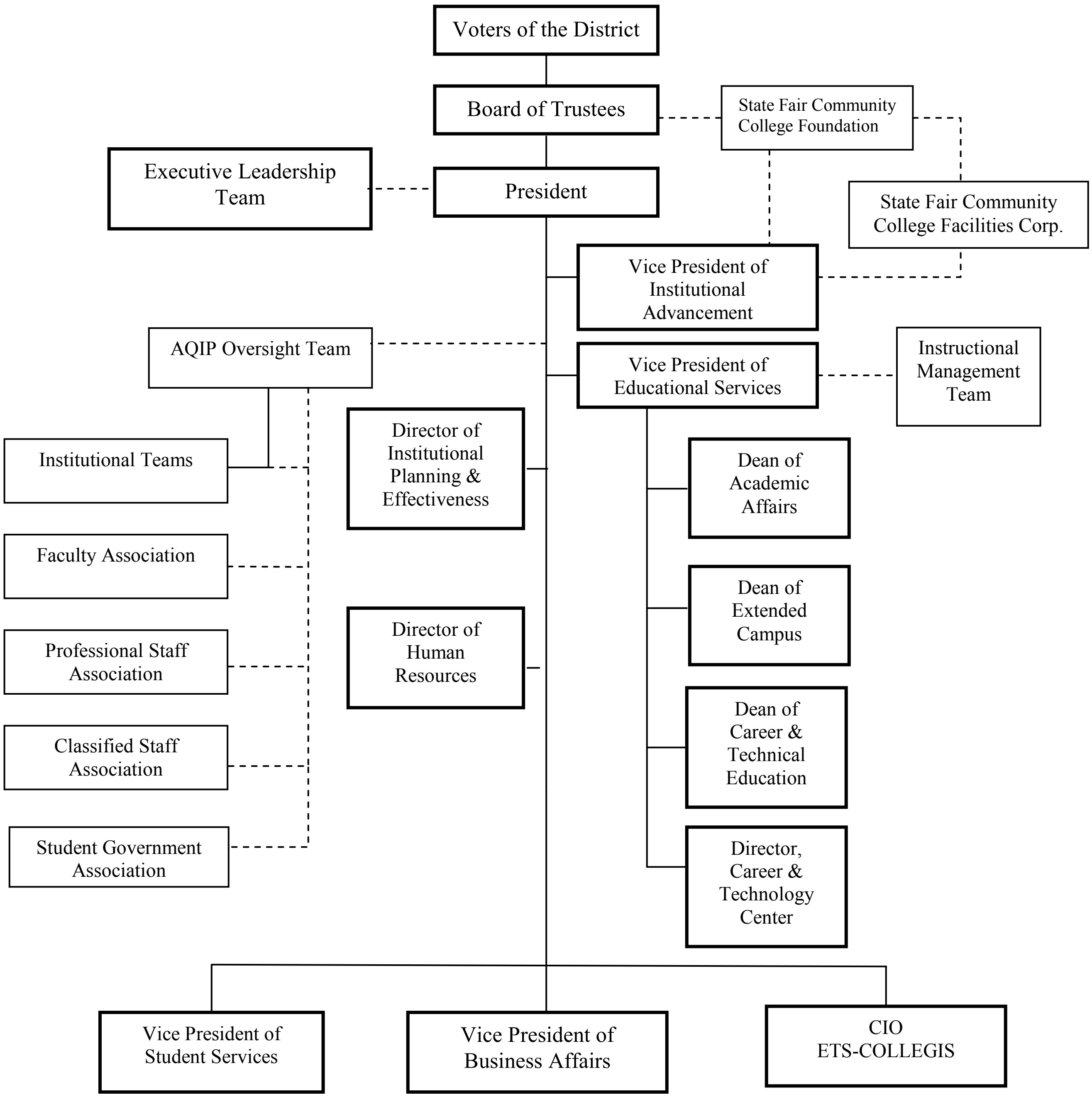
The individuals serving as Officers and their annual compensation as of June 30, 2004, were as follows:

Name	Position	Annual Compensation	
Dr. Marsha Drennon	President	$ 120,000	(1)
Dr. Brent Bates	Vice President of Educational Services	79,825	
Mary McIntosh	Vice President of Institutional Advancement	65,806	
Dr. Michael Ash	Vice President of Student Services	67,667	
Bill Dey	Vice President of Business Affairs	74,438	

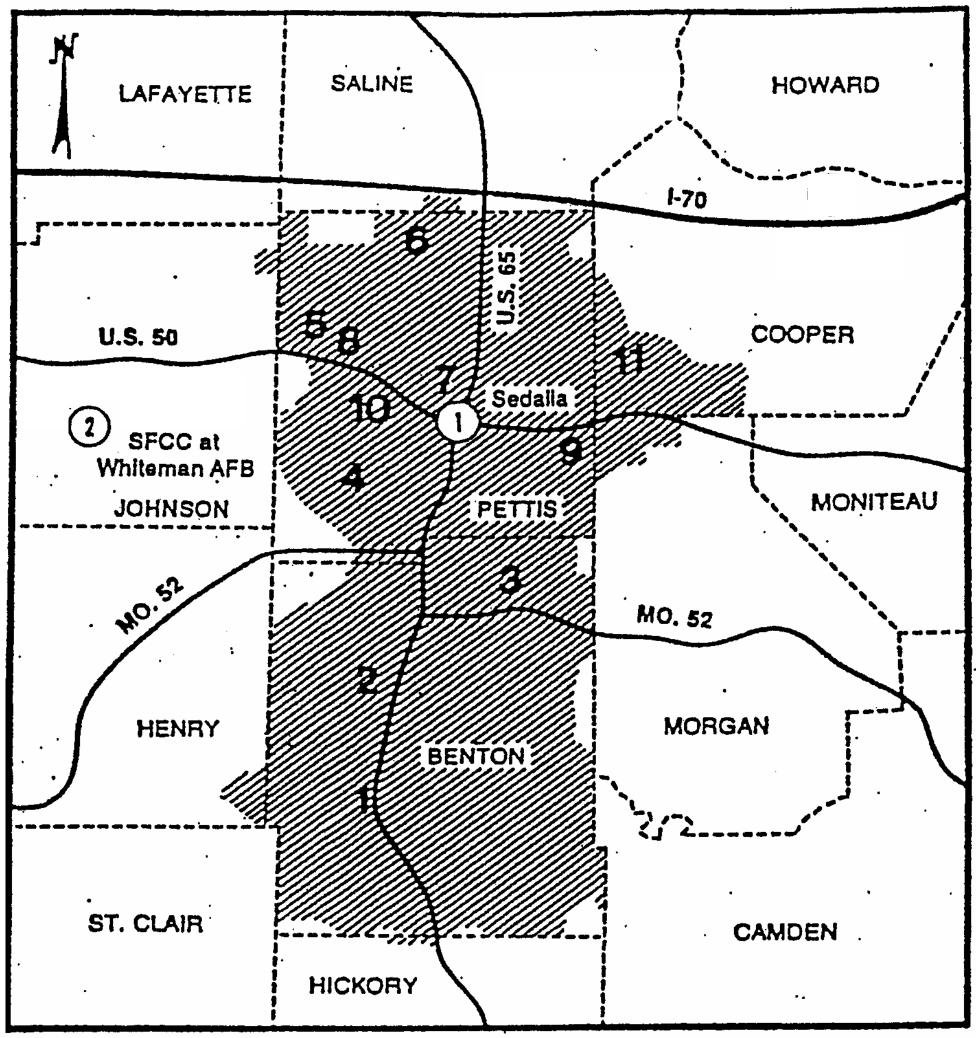
(1) Dr. Marsha Drennon was employed by the college in July 2003, replacing Dr. Stephen Poort. In addition to her base salary of $120,000, Dr. Drennon's contract included an additional $3,000 to be used to promote the aims and activities of the College.

An organization chart, a district map, and financial information follow.

STATE FAIR COMMUNITY COLLEGE
ORGANIZATION CHART
JUNE 30, 2004



STATE FAIR COMMUNITY COLLEGE
DISTRICT MAP



① State Fair Community College

② SFCC at Whiteman AFB

Junior College District Boundary

District High Schools

1. Benton County R-IX, Warsaw
2. Benton County R-II, Lincoln
3. Benton County R-I, Cole Camp
4. Pettis County R-VIII, Green Ridge
5. Pettis County R-IV, LaMonte
6. Pettis County R-V, Northwest (Hughesville)
7. Pettis County 200, Smith-Cotton (Sedalia)
8. Pettis County R-I
9. Pettis County R-VI, Smithton
10. Pettis County R-XII, Dresden
11. Cooper County R-VI, Otterville

Appendix

STATE FAIR COMMUNITY COLLEGE
UNRESTRICTED REVENUES AND EXPENSES - CURRENT FUND
THREE YEARS ENDED JUNE 30, 2004

		Year Ended June 30,	
REVENUES	2004	2003	2002
State aid	$ 4,860,913	4,967,039	4,820,147
On-campus tuition	4,393,300	3,837,669	3,087,019
Off-campus tuition	1,747,496	1,708,439	1,714,001
Federal grants/contracts	406,514	229,969	174,001
State grants/contracts	1,130,119	937,708	913,066
State vocational reimbursements	146,471	154,607	206,880
Local property taxes	2,670,546	2,534,671	2,388,224
Local grants/contracts	271,037	97,237	117,538
Private gifts/grants	279,447	177,433	242,590
Investment income	134,125	151,935	260,848
Sales and services	104,412	119,751	133,921
Athletic income	7,229	7,857	5,813
Other	147,630	79,595	90,420
Total Revenues	16,299,239	15,003,910	14,154,468
EXPENSES			
Instruction	6,972,656	6,507,865	6,461,595
Public service	28,945	78,231	72,485
Academic support	1,821,689	2,052,092	1,862,794
Student services	1,217,790	978,484	1,042,581
Institutional support	2,332,023	1,649,083	1,625,543
Operation and maintenance of plant	1,221,030	1,085,569	1,026,845
Scholarships	532,358	585,136	608,839
Total Expenses	14,126,491	12,936,460	12,700,682
UNRESTRICTED REVENUES OVER UNRESTRICTED EXPENSES	$ 2,172,748	2,067,450	1,453,786