



DEPARTMENT OF HIGHER EDUCATION

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2002-87
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AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

September 2002

The following areas of concern were noted in our audit of the Department of Higher Education.

During the two years ended June 30, 2001, the Department of Higher Education (DHE) awarded approximately \$83.5 million in student financial assistance to college students through eight programs. The majority of this funding, approximately \$82.2 million, was state monies. During our review of the student financial assistance programs, we noted the following concerns:

- The DHE does not perform any monitoring regarding the validity of data provided by colleges and universities to support student eligibility determinations.
- The DHE did not adequately monitor available funding to ensure monies were sufficient to fund scholarships in the same fiscal year as the scholarship was awarded.

During the two years ended June 30, 2001, the DHE awarded approximately \$5.8 million in student financial assistance through the Advantage Missouri program. This program, established in 1999, utilizes state monies to provide loans to students in certain undergraduate programs. Timely tracking and follow-up action on some outstanding loans has not taken place. Additionally, at the time of our review, the computer program component to be used for tracking amounts of loan repayments, loans forgiven, and loan balances of the Advantage Missouri program was not operational.

The DHE has ten state-owned vehicles including five fleet vehicles, four permanently assigned vehicles, and one vehicle used for mail delivery. A vehicle usage log was not maintained for one vehicle, which was permanently assigned to the Commissioner of Higher Education. The lack of a vehicle usage log does not allow for the identification and proper reporting of commuting mileage, nor the identification of business mileage as a basis for determining whether the need for the permanent assignment for business purposes is justified. The Commissioner's employment contract authorizes the use of a state car for official business; however, some commuting was noted.

The DHE paid \$1,520 for dinners in February 2000 and April 2001 to recognize "Women in Public Service". These two dinners were held at the Commissioner's home and were attended by women legislators and selected high-ranking female officials of other state agencies. Of the approximately 40 individuals which attended only 5 were DHE employees. These dinners cost approximately \$18 - \$20 per person. No agenda was provided for either meeting and the compelling business purpose and necessity of these expenditures was not clear. In addition, the DHE does not have a formal written policy

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YELLOW SHEET

regarding food provided by the agency for conferences and meetings. Expenditures for agency-provided food and food services totaled approximately \$53,500 for the two years ended June 30, 2001. Instances were noted where food was provided at meetings scheduled during or beginning at the lunch hour and at meetings where all or a majority of the attendees were DHE employees (many of whom were in their official domicile).

The DHE does not have a formal policy regarding meal expense allowances, has set no dollar limits on meal reimbursements, and has allowed employees to be reimbursed for meals within their official domicile.

The DHE has hired consultants to perform various professional services. During our review of the consulting expenditures, we noted the DHE contracted with several different computer programming vendors between July 1999 and June 2002 to develop software to administer the Advantage Missouri Loan Program, as well as providing other programming services including the Missouri Student Assistance Resource Services integration project and the Automated Transfer of Money system. While the DHE has contracted with three different vendors over this time, the actual computer programmer has been the same individual for all three vendors. Between July 1999 and April 2002, the DHE has paid the three vendors over \$240,000 for the services of this programmer. The contracts for these services did not document the specific project assignments, tasks, and completion milestones to be used in monitoring the vendors' progress, nor did the DHE provide the vendors with clear written guidelines regarding these issues through subsequent written communications.

The DHE paid some consulting services invoices without obtaining adequate supporting documentation. One consultant did not include adequate supporting documentation for consulting service fees, totaling \$9,000, billed to the DHE. While DHE personnel indicated the consultant was paid a daily rate, neither the contracts nor the invoices indicated the method of determining the compensation or any daily rate. In addition, documentation to support reimbursable out-of-pocket expenses claimed by another consultant was not adequate.

The DHE has not developed a written policy regarding appropriate cellular telephone usage and does not regularly review monthly cellular telephone bills for billing errors and personal telephone calls. Some of the DHE's fourteen cellular telephones were not enrolled in the most cost-effective plan or may not have been necessary.

The DHE did not obtain bids, or maintain bid documentation, for several purchases. We noted bids were not obtained for promotional items purchased for various conferences, including pens costing \$3,821, zippered portfolios costing \$5,023, and backpacks costing \$3,594. Bids were also not obtained for one consulting contract totaling \$22,700. In addition, while the DHE indicated bids were obtained for another consulting contract totaling \$9,756, no documentation was maintained of the other bidders, the amounts of their bids, or of the justification for selecting the chosen vendor.

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DEPARTMENT OF HIGHER EDUCATION

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Bob Holden, Governor
and
The Coordinating Board for Higher Education
and
Dr. Kala M. Stroup, Commissioner
Department of Higher Education
Jefferson City, MO 65109

We have audited the Department of Higher Education. The scope of this audit included, but was not necessarily limited to, the years ended June 30, 2001 and 2000. This audit did not review the appropriations made to the state's colleges and universities and to the community colleges. This audit also did not review the appropriations for the Common Library Platform project and the Guaranty Student Loan program. The objectives of this audit were to:

1. Review certain financial activity and related procedures, and compliance with certain legal provisions.
2. Review certain internal control procedures and management practices.
3. Review student financial assistance programs.

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. In this regard, we reviewed minutes of meetings, written policies and applicable state laws, financial records, and other pertinent documents, and interviewed various personnel of the department.

As part of our audit, we assessed the department's management controls to the extent we determined necessary to evaluate the specific matters described above and not to provide assurance on those controls. With respect to management controls, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation and we assessed control risk.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

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

The accompanying Management Advisory Report presents our findings arising from our audit of the Department of Higher Education.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill
State Auditor

April 30, 2002 (fieldwork completion date)

The following auditors participated in the preparation of this report:

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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

DEPARTMENT OF HIGHER EDUCATION
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Student Financial Assistance Programs

During the two years ended June 30, 2001, the Department of Higher Education (DHE) awarded approximately \$83.5 million in student financial assistance to college students through eight programs. The majority of this funding, approximately \$82.2 million, was state monies. Student financial assistance programs include the Higher Education Academic Scholarship (Bright Flight), Charles Gallagher Student Financial Assistance, Bridge Scholarship, Marguerite Ross Barnett Memorial Scholarship, Advantage Missouri, Missouri College Guarantee, Public Service Officer or Employees' Child Survivor Grant, and Vietnam Veterans' Survivor Grant. Each financial assistance program has different eligibility criteria. During our review of the student financial assistance programs, we noted the following concerns:

- A. The DHE does not perform any monitoring regarding the validity of data provided by colleges and universities to support student eligibility determinations. Every semester the DHE sends listings of students identified as potentially eligible for applicable assistance programs to each college and university and relies on the schools to review and certify that certain criteria have been met to ensure students are in fact eligible for the related student financial assistance programs. The schools make the determinations and return the listings indicating whether each student has met the eligibility criteria or not, though specific reasons for ineligibility are not noted. The eligibility status is entered from these listings into a computer database which is then used to make the actual awards of financial assistance.

Where applicable many of the eligibility criteria, such as continued enrollment, satisfactory academic progress, demonstrated financial need (when considering other scholarships or resources known only to the school), etc. can only be determined from the colleges' and universities' records. While the involvement of the schools is necessary to make these determinations, the DHE does not periodically test these determinations and related documentation or review the procedures used by the colleges and universities to make the determinations. To ensure effective management and accurate awarding of these state financial assistance programs, the DHE should perform on-site monitoring procedures and sampling at the colleges and universities. Such procedures can help ensure data supporting the eligibility status of students is being properly verified and that ineligible students do not receive student financial assistance.

- B. The DHE did not adequately monitor available funding to ensure monies were sufficient to fund scholarships in the same fiscal year as the scholarship was awarded. During the year ended June 30, 2001, the DHE underestimated the

amount of scholarships that would be awarded for the Charles Gallagher Student Financial Assistance Program and awarded scholarships in excess of available funding. As a result, \$70,000 of scholarship awards had to be paid from the next year's appropriation, thereby reducing the amount of monies available to award scholarships for the year ended June 30, 2002. Although the Comparative Statement of Appropriations and Expenditures, in Appendix A of this report, indicates lapsed balances for this program, actual federal funds available were less than the amount initially budgeted.

For this program, funding has historically not been adequate to provide a scholarship to all eligible applicants. As a result, the DHE estimates the percentage (based on previous years' information) of applicants that are expected to be found eligible based on information provided by the colleges and universities. This percentage is then used in estimating the financial need level that will serve as the cut-off amount, below which scholarships will not be awarded. Periodically throughout the semester, as the eligibility listings are returned by the schools, the DHE issues scholarship monies to eligible students above the pre-determined cut-off level. However, prior to beginning payouts the DHE does not ensure all eligibility listings are returned and the responses analyzed to determine if sufficient funds are available to award scholarships to all eligible applicants above the initial estimated cut-off level. In the Spring of 2001, one school returned the eligibility listing to the DHE after almost all available funding had already been spent. Awards to the 140 students on the listing, totaling approximately \$70,000, had to be paid with monies from the following fiscal year. Had the DHE better monitored listings due from the schools, the cut-off level could have been adjusted prior to disbursing the awards.

WE RECOMMEND the DHE:

- A. Implement procedures to periodically review procedures used, and sample student eligibility determinations made, by colleges and universities for financial assistance programs administered by the DHE.
- B. Monitor the eligibility listings due from the schools and adjust the award cut-off levels when necessary to ensure adequate funding is available to pay scholarships awarded.

AUDITEE'S RESPONSE

- A. *We agree. DHE performed limited reviews of student eligibility determinations at certain institutions in 1999 and 2000. However, staff and funding reductions for Grants and Scholarships Administration have limited the resources available to perform thorough and consistent reviews. Reductions in core funding have reduced staffing from 7.6 FTE in fiscal year 2000 to 5.0 FTE in fiscal year 2003 - a reduction of 34%.*

DHE will develop a plan to implement a more thorough and comprehensive compliance review process for state programs based on the current resources available. The plan will be developed and tested during the 2002-2003 academic year and become operational in the 2003-2004 academic year.

- B. *We agree. DHE will develop and implement procedures during the 2002-2003 academic year to ensure all institutions return student eligibility files for payment by the same due date.*

DHE will request the General Assembly restore 1 FTE to the Grants and Scholarship Administration core budget in fiscal year 2004 to facilitate the review and processing of state financial assistance programs.

2. Advantage Missouri Program

During the two years ended June 30, 2001, the DHE awarded approximately \$5.8 million in student financial assistance through the Advantage Missouri program. The program, established in 1999, utilizes state monies to provide loans to students in undergraduate programs of study leading to employment by Missouri businesses and industries in pre-established high-demand occupational fields, such as biomedical/biotechnical, advanced manufacturing, and computer technology. Through the program, a student enrolled in an academic program related to one of the designated high-demand fields may apply for a loan. The student has one year after graduation to obtain employment in the designated high-demand occupation in Missouri. Upon documentation of such employment, the student will have one year of loans forgiven for each full year of qualifying employment. If the student does not complete the appropriate classes or if the employment obligation is not fulfilled, the student must repay the loan with interest. During our review of the Advantage Missouri program, we noted the following concerns:

- A. The computer system intended to help DHE personnel monitor the accounts of program participants is not fully operational. As a result, timely tracking and follow-up action on some outstanding loans has not taken place.
- 1) The DHE verifies each student's enrollment status with the schools twice a year. When the student is no longer enrolled in school due to graduation, withdrawal from classes, or withdrawal from the approved coursework, a letter and employment verification form is to be sent to the student for completion. If graduated and employed in a designated high-demand occupation, the student can complete the paperwork requesting loan forgiveness; otherwise the student must begin repayment on the loan. Graduates are given a twelve-month grace period to find employment in a qualifying occupational field. Students who no longer meet the program criteria are given a similar twelve-month grace period to repay the loans interest free.

Letters for the first cycle of loan recipients, enrolled during the 1999-2000 school year, should have been sent in 2000 to start the twelve month grace period in which to find qualifying employment or to begin loan repayment. However, the component of the Advantage Missouri computer program that was supposed to automatically generate these letters was not fully functional at the time and the letters were not sent. Even though the DHE knew the system could not generate the letters, no alternative procedures were developed to ensure letters were sent to applicable students timely. While the DHE has focused on ensuring the appropriate letters were sent to the second cycle of recipients, at the time of our review in the Spring of 2002, these 617 first cycle students, representing approximately \$1.3 million in program loans, still had not received letters and employment verification forms. As a result, the DHE does not know which of these loans should be in repayment or be forgiven.

- 2) At the time of our review, the computer program component to be used for tracking amounts of loan repayments, loans forgiven, and loan balances of the Advantage Missouri program was also not operational. A computer consultant has been working on development of the computer program since August 1999. Until this portion of the computer software program is functional the DHE is using a simple Excel spreadsheet to track the few repayments, totaling \$5,377, received through April 17, 2002. Of the amount collected, \$5,000 was received during the period February 2000 to August 2000.

The failure to send letters timely to participants no longer in school, combined with the lack of a system to track loan repayments, loans forgiven, and balances has hindered the DHE's ability to adequately monitor this program. No loans have been forgiven and the DHE may not be obtaining repayments for some loans as required by law.

- B. The employment certification form used by the Advantage Missouri program does not provide for an adequate job description of the work being performed. The employment certification form merely asks the employer to indicate the type of field (job) in which the employee is working. The DHE should obtain a detailed job description of the work being performed to ensure the actual job satisfies the intent of the program's loan forgiveness criteria.

WE RECOMMEND the DHE:

- A. Ensure notification letters and employment verification forms are sent timely to applicable students and implement as soon as possible a system to track the status of each loan.

- B. Require a written description of the job being performed as part of the employment certification form to ensure the employment meets the criteria for loan forgiveness.

AUDITEE'S RESPONSE

- A. *We agree. All previously outstanding notification letters and employment verification forms have been sent and DHE is currently up-to-date. The Advantage Missouri payment system is now fully developed and testing is currently underway. Upon completion of the testing, DHE anticipates the system to be fully operational by December 31, 2002.*
- B. *We agree. The employment certification form will be revised to include a job title and a brief written description of the job performed by the employee.*

3. Consulting Contracts

The DHE has hired consultants to perform various professional services for the DHE. During our review of the consulting expenditures, we noted the following concerns:

- A. The DHE contracted with several different computer programming vendors between July 1999 and June 2002 to develop software to administer the Advantage Missouri Loan Program, as well as providing other programming services including the Missouri Student Assistance Resource Services (MOSTARS) integration project and the Automated Transfer of Money (ATOM) system. While the DHE has contracted with three different vendors over this time, the actual computer programmer has been the same individual for all three vendors. Between July 1999 and April 2002, the DHE had paid the three vendors over \$240,000 for the services of this programmer.

Our review indicated the contracts for these services did not document the specific project assignments, tasks, and completion milestones to be used in monitoring the vendors' progress, nor did the DHE provide the vendors with clear, written guidelines for the modification, development, and implementation of the systems via subsequent written communications. The information technology director indicated the assignment of tasks and monitoring of the vendors' progress were communicated informally, mainly through discussions with the vendors. In addition, although the programmer is working on several different projects, the DHE does not require the programmer to track time spent by project. Thus, the DHE does not know the costs associated with each project. Even though the DHE did begin requiring bi-weekly progress reports for work performed under the fiscal year 2002 contract, these reports also do not indicate the amount of time spent on the different projects.

As noted above, the terms of the contracts between the DHE and the vendors did not contain any performance controls such as minimum or maximum performance

criteria and also did not specify any details of the system requirements. The terms of the contracts generally indicate the vendor agrees to provide computer programming services at a specified hourly rate to the DHE as requested and directed by the DHE and its representatives. In addition, the DHE did not have documentation related to the planned scope of each of the projects, such as estimated cost or estimated time for completion for each project. As a result, the successful outcome and costs of the projects appear to be highly dependent on the DHE's ability to communicate system needs to the vendor and to monitor the ongoing projects for satisfactory results.

To ensure the most effective use of resources and to establish accountability and expectations, the DHE should clearly document all pertinent assignments, tasks, and completion milestones for system development contracts, either through the contracts or subsequent written communications. The DHE should document formal monitoring of the related performance of such contractors to ensure the product received meets the needs of the DHE and will be delivered in a timely and cost effective manner.

- B. The DHE paid some consulting services invoices without obtaining adequate supporting documentation, as follows:
- 1) Supporting documentation for reimbursable expenses claimed by one consultant was inadequate. While the contract indicated that expenses billed to the DHE for items such as travel costs and other out-of-pocket expenses would not exceed a set dollar amount, the vendor did not submit supporting documentation of the actual expenses incurred. Our review of two invoices, which included claims for approximately \$4,400 in reimbursable expenses, noted simply the total amount of expenses claimed. The invoices contained no descriptions of the expenses or documentation of when they were incurred. As a result, the DHE has little assurance the consultant was reimbursed for actual expenses incurred.
 - 2) One consultant did not include adequate supporting documentation for consulting service fees, totaling \$9,000, billed to the DHE. While DHE personnel indicated the consultant was paid a daily rate, neither the contracts nor the invoices indicated the method for determining the compensation or any daily rate. In addition, the invoice included no information regarding the number of days worked. The invoices only included a total amount related to consulting services and a brief narrative of activities performed. Due to the lack of sufficient detail in the contract and related invoices, the DHE had little assurance as to the propriety of the consulting service fees billed.

The DHE should ensure all consulting contracts adequately detail the method in which contract fees are calculated. Invoices should include adequate documentation to show the fees are valid and calculated in accordance with the

contract terms. In addition, any reimbursable expenses claimed should be accompanied by adequate supporting documentation.

WE RECOMMEND the DHE:

- A. Clearly document contract assignments, tasks, and completion milestones and document formal monitoring of the progress of contractors to ensure the effective use of state resources and the timely delivery of a satisfactory product.
- B. Ensure fee provisions of consulting contracts are adequately detailed and invoices for fees and expenses are supported by adequate documentation of validity and accuracy.

AUDITEE'S RESPONSE

We agree. New procedures will be implemented by December 31, 2002 to address these issues.

4. Cellular Telephone Services

The DHE's policies and controls over the use of cellular telephone services were not adequate. The DHE utilized fourteen cellular telephones, with some being assigned to specific individuals while other pooled cellular telephones could be checked out as needed. Expenditures related to cellular telephones totaled approximately \$16,500 for the two years ended June 30, 2001 (including administrative funds related to the Guaranty Student Loan Program). During our review, we noted the following concerns:

- A. The DHE has not developed a written policy regarding appropriate cellular telephone usage and does not regularly review monthly cellular telephone bills for billing errors and personal telephone calls.

Based on staff concerns of abnormal usage, the DHE analyzed the billing detail for one cellular telephone for a two-month period, identifying all calls made to out-of-state numbers or outside of normal working hours. While the DHE required the employee to reimburse the state \$564 for apparent personal calls made during the period, the DHE did not review any other cellular telephone bills for this person or other employees. We reviewed the other cellular telephone bills of the individual indicated above and noted seven other months during which apparent personal telephone calls were made totaling approximately \$575. Most of these calls occurred in months prior to those reviewed by the DHE. We also reviewed two months of cellular telephone bills for various other employees and noted similar apparent personal calls for several personnel. Such calls for these other employees for the two months totaled approximately 1,600 minutes and cost the state almost \$300. One individual had 600 minutes in apparent personal calls

during one month. Our review also noted one cellular telephone number that was not billed as tax-exempt and two cellular telephone numbers where the detail of telephone calls made was not indicated on the invoice, making any usage analysis impossible.

By not developing a formal policy regarding appropriate use and not reviewing cellular telephone bills periodically, the DHE incurred unnecessary costs by allowing individuals to use the state's cellular telephones for personal use at the state's expense. The DHE should develop a formal policy identifying appropriate use and ensure cellular telephone bills are adequately reviewed for billing errors and unallowable calls. In this policy, the DHE may want to consider prohibiting the personal use of the cellular telephones, except in cases of emergency.

- B. The DHE did not routinely analyze cellular telephone usage patterns to ensure each user was enrolled in the most cost-effective service plan or whether some of the telephones were even necessary. As a result, the DHE incurred additional costs which could have been avoided if cellular telephone plans had been reviewed and changed. The DHE used at least six different cellular telephone plans, enrolling the telephones into the various plans based on the anticipated usage. We analyzed all cellular telephone bills from July 2000 to December 2001 to determine the reasonableness of the applicable plan for each cellular telephone. Our review indicated the following:

- One cellular telephone, enrolled in a plan allowing 150 minutes per month for \$28, was not used in 14 of 16 months reviewed. Usage in the other two months totaled 67 minutes. Another cellular telephone enrolled in the same plan had no usage in 12 of 15 months reviewed. Usage in the other three months totaled 209 minutes, with most of that occurring in just one month. It appears these cellular telephones were not needed.
- One cellular telephone, enrolled in a plan allowing 350 minutes per month for \$50, had significantly higher than allowed usage. For 8 of 9 months reviewed, the cellular telephone was used from 900 to 1275 minutes per month resulting in additional average monthly charges of approximately \$250. Another cellular telephone enrolled in the same plan had usage of 550 to 1275 minutes per month for 8 of 9 months reviewed, resulting in additional average monthly charges of approximately \$216. It appears these cellular telephone services could have been obtained more economically in the statewide plan that included 1,440 minutes for \$100.
- One cellular telephone, enrolled in a plan allowing 150 minutes per month for \$28 only had average usage of 26 minutes for 12 of 15 months reviewed. It appears this cellular telephone was possibly not needed or the service could have been obtained more economically in the statewide plan that included 30 minutes per month for \$12.

In addition to the above examples, usage of some other cellular telephones reviewed fluctuated significantly each month. Usage patterns of all phones should be monitored periodically to ensure that each phone is enrolled in the most economical plan necessary to meet business purposes.

WE RECOMMEND the DHE:

- A. Develop a written policy regarding the appropriate use of state cellular telephones, including a provision prohibiting personal use. In addition, ensure cellular telephone bills are periodically reviewed for billing errors and personal telephone calls and request reimbursement from employees when appropriate.
- B. Establish procedures to ensure personnel are placed in the most cost-effective cellular telephone plans to meet business purposes and properly monitor telephone usage patterns.

AUDITEE'S RESPONSE

- A. *We agree. DHE completed a review of cellular telephone usage on April 4, 2002, and as a result, supervisory personnel review all cellular telephone bills for errors and personal telephone calls prior to payment. Pursuant to the audit finding, a more thorough review of previous cellular telephone bills will be completed by December 31, 2002. A policy relating to cellular telephone usage has been drafted and awaits final approval.*
- B. *We agree. As a result of the DHE review of cellular phone usage completed on April 4, 2002, service for one cellular telephone was discontinued and the remaining telephones were switched to the most cost-effective state contracts.*

5. Vehicle Procedures and Usage
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The DHE has ten state-owned vehicles including five fleet vehicles, four permanently assigned vehicles, and one vehicle used for mail delivery. During our review of vehicle procedures and usage, we noted the following concerns:

- A. A vehicle usage log was not maintained for one vehicle, which was permanently assigned to the Commissioner of Higher Education. The lack of a vehicle usage log does not allow for the identification and proper reporting of commuting mileage, nor the identification of business mileage as a basis for determining whether the need for the permanent assignment for business purposes is justified. The Commissioner's employment contract authorizes the use of a state car for official business. Based on our analysis of Voyager credit card expenditures (gas purchases) for this vehicle, it appears there were several trips taken to the Commissioner's personal residence in Kansas, which would be commuting mileage.

To facilitate the reporting of commuting mileage as a fringe benefit on the employee's form W-2, vehicle usage logs documenting the date used, beginning and ending odometer readings, and the destination and purpose of each trip should be maintained for all vehicles. In addition, the logs should be reviewed to identify business mileage as a basis for determining whether the vehicle assignment is justified for business purposes.

- B. The DHE does not have a written vehicle policy to address issues relating to maintenance and repair or vehicle replacement. These policies are necessary to provide guidance to users of the fleet and, ultimately, to aid in preventing fleet mismanagement.

Vehicle maintenance is a critical element for any vehicle management system. Without a policy, the fleet's condition is left in the hands of various vehicle operators and the cost of owning, operating, and repairing vehicles may increase. A written policy can set schedules for preventative maintenance and periodic inspections of the operational condition of the vehicles or to assign such responsibilities and oversight to specific personnel.

A vehicle replacement policy is also important for maintaining efficiency in fleet costs. Without a vehicle replacement policy, the DHE cannot assess the appropriate break-even point for deciding to maintain and repair a vehicle or to purchase a new vehicle. Replacing vehicles at the appropriate time is also important to obtain a substantial return on the state's investment and prevent excessive maintenance and operating costs which may occur as vehicles age.

WE RECOMMEND the DHE:

- A. Require vehicle usage logs be maintained for all vehicles. The logs should be reviewed to identify commuting mileage for proper reporting and to review business usage to determine whether permanent assignment is justified.
- B. Develop and maintain written policies and procedures relating to vehicle maintenance and repair and vehicle replacement.

AUDITEE'S RESPONSE

- A. *We agree. Effective July 1, 2002, a vehicle log has been implemented for all state vehicles including the vehicle assigned to the Commissioner.*

Gas purchased in Kansas was for those times when the Commissioner had state higher education business in Topeka with the Kansas Board of Regents and/or when the business visits to Kansas City required an overnight stay. Kansas and Missouri have a number of cooperative agreements and partnerships in higher education, such as life sciences and program exchanges.

When business trips to Kansas City required an overnight stay, the Commissioner would drive to Lawrence, Kansas (30 minutes away) to save overnight expenses. These choices were not related to personal time with family, but in the interests of reducing expenditures for lodging and meals.

Each quarter the Commissioner submits to the Coordinating Board for Higher Education a detailed calendar of meetings and trips, along with the purpose of each.

- B. We agree. A policy relating to state vehicle maintenance and repair and vehicle replacement has been drafted and awaits final approval.*

6. Travel Expenditures and Meal Reimbursements

The DHE does not have a formal policy regarding meal expense allowances, has set no dollar limits on meal reimbursements, and has allowed employees to be reimbursed for meals within their official domicile. We reviewed various meal reimbursements claimed on expense accounts from July 1999 to February 2002. For expediency, we limited our review to identifying breakfasts and lunches exceeding \$30 and dinners exceeding \$40 or meals which were provided within an employee's official domicile. During this review, we noted twenty-five such reimbursements totaling approximately \$1,400 which appeared excessive and/or included meals within an employee's official domicile. Following are examples of these items:

- One breakfast expenditure of \$60 which was for four individuals.
- One lunch expenditure of \$87 which was for two individuals and another of \$47 which was for one individual.
- One dinner expenditure of \$133 which was for three individuals, another of \$104 which was for two individuals, and a third of \$60 which was for one individual.
- One program coordinator, when meeting in Jefferson City with staff from satellite offices, would purchase lunch for the staff and himself. The DHE would then reimburse the coordinator for all meals even though the coordinator's official domicile is Jefferson City. We noted four of these instances totaling \$219. Due to a lack of adequate detail, it is not possible to identify the portion of this cost that relates to the program coordinator's meals.

Although the DHE has indicated that the expenditures for some meals indicated above were for more than one individual, there was no documentation to support the statement. Rule 11 of the Missouri State travel regulations allows for reimbursement of travel expenditures incurred for other employees or non-employees provided the specific business reason necessary for doing so is indicated along with the names of those involved. In addition, there was no justification documented as to why reimbursement was appropriate or necessary for meals within an employee's official domicile.

To ensure meal reimbursements are reasonable, the DHE should develop a policy regarding meal expense allowances, including reasonable dollar limits, restrictions regarding meal reimbursement within an employee's official domicile, and required levels of supporting documentation.

WE RECOMMEND the DHE develop a written policy regarding meal expense allowances and ensure adequate documentation is maintained.

AUDITEE'S RESPONSE

We agree. Effective September 10, 2001, new procedures were implemented to review and limit such expenditures. A policy relating to meal expense allowances and reimbursement has been drafted and awaits final approval.

7. Agency-Provided Food Expenditures

During our review of agency-provided food and food services, we noted the following concerns:

- A. The DHE paid \$1,520 for dinners in February 2000 and April 2001 to recognize "Women in Public Service". These two dinners were held at the Commissioner's home and were attended by women legislators and selected high-ranking female officials of other state agencies. Of the approximately 40 individuals which attended, only 5 were DHE employees. These dinners cost approximately \$18 - \$20 per person.

According to the list of invitees attached to the invoice for the April 2001 dinner, the meeting's purpose was to introduce the new director of Missouri Student Assistance Resource Services (MOSTARS) to the higher education community, and to welcome and introduce the new department directors, Governor's office staff, and other higher education leaders. Although a list of attendees was available for the February 2000 dinner, it did not provide a reason for the meeting. In addition, there was no agenda, etc., provided for either meeting. While the Commissioner indicated that higher education issues were discussed, the compelling business purpose and necessity of these expenditures is not clear.

- B. The DHE does not have a formal written policy regarding food provided by the agency for conferences and meetings. Expenditures for agency-provided food and food services (including those related to the Guaranty Student Loan Program) totaled approximately \$53,500 for the two years ended June 30, 2001.

During our review of invoices, we noted instances where food was provided at meetings scheduled during or beginning at the lunch hour and at meetings where all or a majority of the attendees were DHE employees (many of whom were in their official domicile). One meeting was held from 11:30 - 1:00 for which lunch

was provided at a cost of \$48. Other examples include \$345 for a staff retreat held in Jefferson City, \$171 for lunch where 11 of the 13 attendees were DHE employees, \$132 for lunch where 11 of the 14 attendees were DHE employees and the meeting started at noon, and \$42 for lunch at a daylong meeting in Jefferson City where 6 of the 7 attendees were DHE employees. We also noted instances, including luncheons costing \$167 and \$154, of meals for which no business purpose was documented.

To ensure expenditures are proper, the DHE should develop a written policy to define when it is appropriate and allowable for the agency to provide food, including to employees within their official domicile. Documentation for such expenditures should include the business purpose of the meeting, a list of participants, and a clear compelling reason as to the necessity for providing the meals.

WE RECOMMEND the DHE adopt a policy regarding agency-provided food and ensure related documentation is adequate to identify the participants and to show the clear business purpose and the necessity for providing the meal.

AUDITEE'S RESPONSE

We agree. Effective September 10, 2001, new procedures were implemented to review and limit such expenditures. As a result, agency-provided food expenditures in fiscal year 2002 were reduced by 45 percent compared to fiscal year 2000. In addition, a policy relating to agency-provided food has been drafted and awaits final approval.

The purpose of the event in February 2000 was to introduce the women college and university presidents to women legislators, and high-ranking women in state government. Missouri women leaders address public policy issues and college presidents were encouraged to become more engaged with other women in public service as they addressed issues pertaining to Missouri women. The Commissioner's home was used to reduce the costs of renting a facility.

The event in April 2001 was to introduce the new director of MOSTARS to the department directors, Governor's staff, and higher education leaders. The explanation of the reorganization of MOSTARS to better serve Missourians was the purpose of the gathering. Again, the Commissioner's home was used to reduce costs related to rental of space. Over 75 people were invited to each event and approximately 40 to 50 attended each event.

Again, all events and functions of the Commissioner are documented and provided in a quarterly report to the Coordinating Board of Higher Education.

8. Bidding Procedures

The DHE did not obtain bids, or maintain bid documentation, for several purchases. We noted bids were not obtained for promotional items purchased for various conferences, including pens costing \$3,821, zippered portfolios costing \$5,023, and backpacks costing

\$3,594. Bids were also not obtained for one consulting contract totaling \$22,700. In addition, while the DHE indicated bids were obtained for another consulting contract totaling \$9,756, no documentation was maintained of the other bidders, the amounts of their bids, or of the justification for selecting the chosen vendor.

Section 34.040 RSMo 2000 requires bids be obtained for purchases over \$3,000. Competitive bidding helps ensure the department receives fair value by contracting with the lowest and best bidders. To demonstrate compliance with the bidding requirements, complete documentation should be maintained of all vendors solicited and all bids received. If other than the lowest bid is selected, the reasons should be adequately documented.

WE RECOMMEND the DHE obtain competitive bids on all applicable purchases and ensure complete bid documentation is maintained.

AUDITEE'S RESPONSE

We agree. Effective September 10, 2001, new procedures were implemented as a result of a Quality Assurance Review conducted by the Division of Purchasing and Materials Management (DPMM) during May - November 2001. DHE continues to coordinate applicable purchases through DPMM.

This report is intended for the information of the management of the Department of Higher Education and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

DEPARTMENT OF HIGHER EDUCATION
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The Omnibus State Reorganization Act of 1974 abolished the Commission on Higher Education and the Division of Higher Education of the Department of Education and created the Department of Higher Education (DHE), headed by a nine-member Coordinating Board for Higher Education.

Officers and members of the board at June 30, 2002, were:

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Marie Carmichael, Springfield	Chair	June 2006
Sandra D. Kauffman, Kansas City	Vice Chair **	June 2004
James F. Summers, Jr., St. Joseph	Secretary	June 2002*
John F. Bass, St. Louis	Member	June 2000*
Diana M. Bourisaw, Imperial	Member	June 2006
Mary K. Findley, Poplar Bluff	Member	June 2004
Adam B. Fischer, Sedalia	Member ***	June 2002*
Dudley R. Grove, St. Louis	Member	June 2004
Mary Joan Wood, Cairo	Member ****	June 2002*

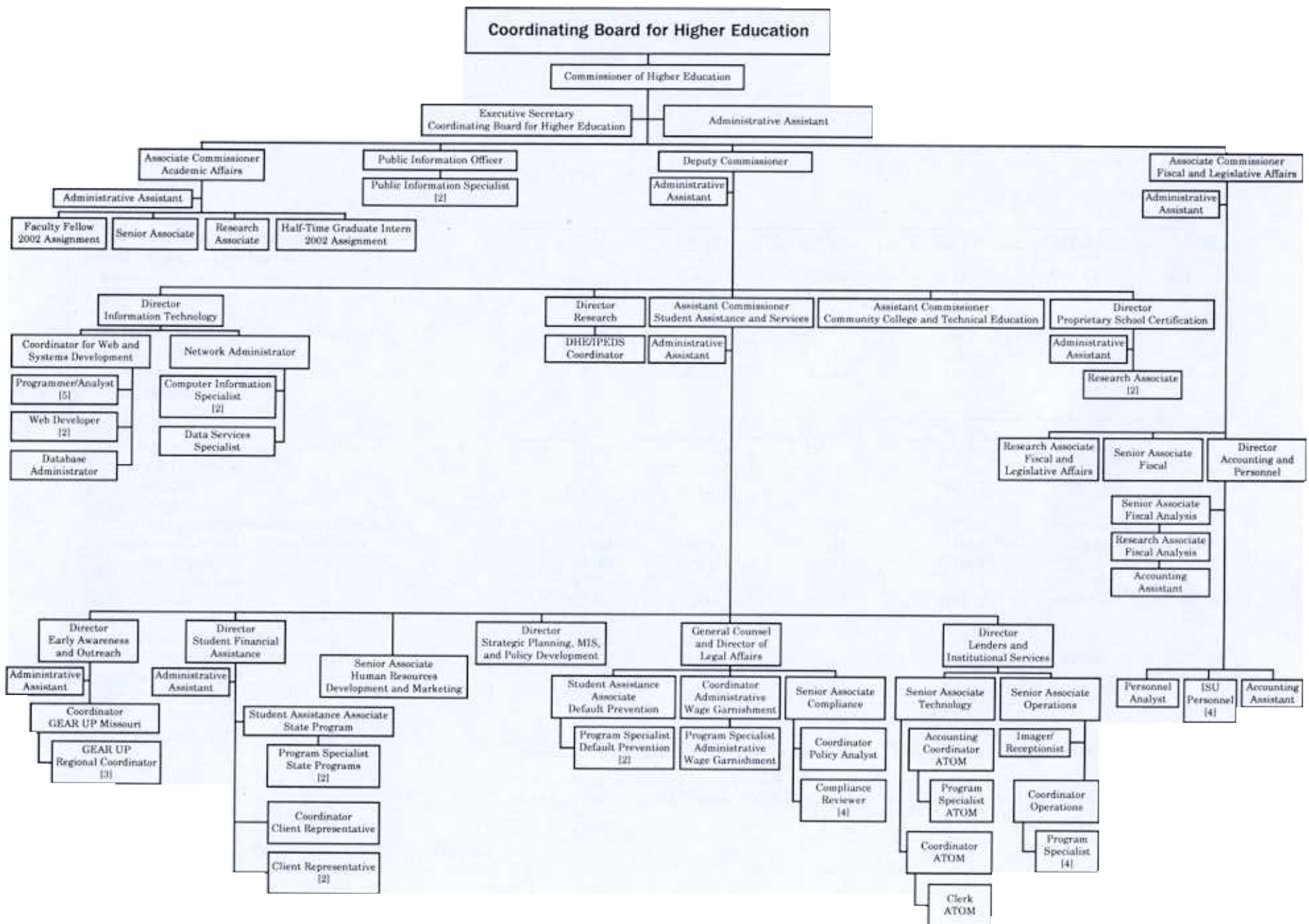
- * Continues to serve in official capacity
- ** Appointed Board Chair effective July 1, 2002
- *** Appointed Board Vice Chair effective July 1, 2002
- **** Appointed Board Secretary effective July 1, 2002

The board members serve without compensation, but are reimbursed for expenses. The nine members of the board, one from each congressional district, are appointed for six-year terms by the Governor and confirmed by the Senate. The term of three members expires every two years and no more than five of the nine members may be affiliated with the same political party.

The DHE's functions include identification of statewide needs for higher education, statewide planning for higher education, evaluation of student and institutional performance, review of institutional missions, development of effective and economical specialization among institutions, and administration of a performance funding program encouraging the achievement of statewide priorities. The functions also include submission of a unified budget request for public higher education to the Governor and the Missouri General Assembly, administration of a statewide postsecondary technical education program, approval of new degree programs offered at the public colleges and universities, policy setting for student financial assistance programs, and administration of the Proprietary School Certification Program. The DHE's planning activities include the state's independent institutions as well as the public institutions. In addition, the DHE has statutory responsibility for the administration of several state student financial assistance programs, is the state's designated guaranty agency for the Missouri Student Loan Program which administers the Federal Family Education Loan Program, has administrative responsibility for several additional federal programs, as well as organizational responsibility for the Missouri State Anatomical Board.

The commissioner of higher education is appointed by the Coordinating Board and serves as its chief executive officer in carrying out the goals and administrative responsibilities for the state system of higher education, with 13 public four-year college and university campuses, 18 public community college campuses, 1 public two-year technical college, 25 independent colleges and universities, and 120 proprietary schools serving more than 340,000 students. Dr. Kala M. Stroup was appointed Commissioner, effective September 1995, and she continues in that position. Dr. Stroup tendered her resignation to be effective September 30, 2002.

The DHE had approximately 79 employees at June 30, 2001, funded via several state and federal funding sources. An organization chart follows:



Appendix A

DEPARTMENT OF HIGHER EDUCATION
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

Year Ended June 30,						
	2001			2000		
	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
GENERAL REVENUE FUND						
Coordination administration:						
Personal service	\$ 1,050,059	939,892	110,167	1,286,816	1,262,727	24,089
Expense and equipment	275,890	266,359	9,531	0	0	0
Midwestern Higher Education Commission	75,000	75,000	0	75,000	75,000	0
Managed by Facilities Management	92,694	92,694	0	112,712	112,712	0
Grant and scholarship program administration:						
Personal service	307,691	270,970	36,721	480,890	466,464	14,426
Expense and equipment	184,962	169,325	15,637	0	0	0
State Anatomical Board	3,069	2,558	511	3,069	2,739	330
Vietnam veterans' survivor scholarship program	15,000	10,049	4,951	15,000	7,308	7,692
Loan program administration expense and equipment	5,720	0	5,720	5,720	3,345	2,375
Proprietary schools:						
Personal service	163,059	151,715	11,344	156,732	135,673	21,059
Expense and equipment	61,029	58,966	2,063	61,029	61,029	0
Public service officer or employees' child survivor grant program	45,000	29,498	15,502	45,000	26,669	18,331
Total General Revenue Fund	2,279,173	2,067,026	212,147	2,241,968	2,153,666	88,302
DEPARTMENT OF HIGHER EDUCATION FUND						
Statewide initiatives:						
Personal service	132,804	102,820	29,984	168,673	19,423	149,250
Expense and equipment	242,105	92,778	149,327	125,000	1,728	123,272
Eisenhower professional development grants:						
Personal service	56,615	25,884	30,731	54,731	27,437	27,294
Expense and equipment	20,400	8,531	11,869	20,000	10,881	9,119
Grants	1,698,000	946,222	751,778	1,698,000	1,086,611	611,389
Managed by Facilities Management	4,476	4,311	165	4,476	4,311	165
Total Department of Higher Education Fund	2,154,400	1,180,546	973,854	2,070,880	1,150,391	920,489

Appendix A

DEPARTMENT OF HIGHER EDUCATION
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,					
	2001			2000		
	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
MARGUERITE ROSS BARNETT SCHOLARSHIP FUND						
Marguerite Ross Barnett memorial scholarship program	537,515	536,964	551	500,000	488,981	11,019
DEBT OFFSET ESCROW FUND						
Loan program refund offset	750,000	120,043	629,957	750,000	147,405	602,595
STUDENT GRANT FUND						
Charles Gallagher student financial assistance program	17,070,025	16,966,294	103,731	16,378,436	16,247,270	131,166
ACADEMIC SCHOLARSHIP FUND						
Higher education academic scholarship program	16,059,842	16,059,000	842	15,780,239	15,659,000	121,239
BRIDGE SCHOLARSHIP FUND						
Bridge scholarship program	0	0	0	2,200,000	1,046,734	1,153,266
ADVANTAGE MISSOURI TRUST FUND						
Advantage Missouri program	3,399,729	3,395,678	4,051	3,244,167	3,226,750	17,417
MISSOURI COLLEGE GUARANTEE FUND						
Missouri college guarantee program	8,460,000	8,459,415	585	4,000,000	3,998,575	1,425
Total All Funds	\$ 50,710,684	48,784,966	1,925,718	47,165,690	44,118,772	3,046,918

Note: This schedule does not include appropriations made to colleges and universities as those appropriations were not part of this review. This schedule does not include appropriations made to community colleges as these appropriations were reviewed in a different audit. Appropriations made to community colleges included the community colleges core budget amounts, capital improvement projects, regional technical education centers, workforce preparation, and other miscellaneous appropriations. This schedule does not include appropriations regarding the Common Library Platform project. The Missouri Bibliographic Information User System (MOBIUS) is a consortium of academic libraries with member colleges and universities in the state of Missouri and one of MOBIUS projects is the Common Library Platform. This schedule does not include appropriations for the guaranty student loan program as these appropriations were reviewed in a different audit.

Appendix B

DEPARTMENT OF HIGHER EDUCATION COMPARATIVE STATEMENT OF EXPENDITURES (FROM APPROPRIATIONS)

	Year Ended June 30,	
	2001	2000
Salaries and wages	\$ 1,491,281	1,410,490
Travel:		
In-state	45,031	56,884
Out-of-state	28,957	36,777
Fuel and utilities	16,256	14,653
Supplies:		
Administrative	69,845	60,055
Merchandising	2,988	31,192
Repair, maintenance, and usage	2,949	977
Other	40	152
Professional development	119,561	121,024
Services:		
Communications	41,551	37,157
Business	82,101	85,760
Professional	163,608	106,483
Housekeeping and janitorial	10,637	6,353
Equipment maintenance and repair	20,323	20,539
Transportation maintenance and repair	110	1,763
Equipment:		
Computer	33,768	34,322
Electronic and photo	578	2,314
Motorized	0	15,455
Office	11,808	17,772
Rentals and leases:		
Real property	97,760	117,518
Equipment leases	16,907	0
Building and equipment rentals	1,618	417
Miscellaneous	4,127	5,412
Refunds	120,043	147,405
Program distributions	46,403,119	41,787,898
Total Expenditures	\$ 48,784,966	44,118,772

Note: This schedule presents expenditures only for those appropriations included on Appendix A.

Appendix C

DEPARTMENT OF HIGHER EDUCATION
COMPARATIVE STATEMENT OF EXPENDITURES FOR THE STUDENT FINANCIAL ASSISTANCE PROGRAMS

	Year Ended June 30,			
	2001		2000	
	Amount*	Number of Students	Amount*	Number of Students
Higher Education Academic Scholarship (Bright Flight)	\$ 15,784,159	8,326	\$ 15,372,432	8,104
Charles Gallagher Student Financial Assistance	16,506,369	12,843	15,833,450	12,820
Bridge Scholarship	0	0	1,029,466	1,665 (1)
Marguerite Ross Barnett Memorial Scholarship	461,628	361	461,810	379
Advantage Missouri	2,903,329	1,344	2,876,836	1,322
Missouri College Guarantee	8,271,375	3,840	3,934,353	1,953
Public Service Officer or Employees' Child Survivor Grant	29,498	11	24,089	8
Vietnam Veterans' Survivor Scholarship	10,049	4	7,308	3
Higher Education Scholarship	0	0	0	0 (2)
Higher Education Artistic Scholarship	0	0	0	0 (2)
Total Student Financial Assistance Programs	<u>\$ 43,966,407</u>	<u>26,729</u>	<u>\$ 39,539,744</u>	<u>26,254</u>

* The amounts indicated in this column do not agree to the amounts indicated in Appendix A for these programs. Amounts noted on Appendix A include all expenditures charged to the applicable appropriations while expenditures presented on this schedule are net of refunds and returned awards.

(1) Funding for this program was discontinued.

(2) These programs have been established by statute but have not been funded.

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