

# **University of Minnesota Duluth**

## **State Special Appropriation for Women's Intercollegiate Athletics**

**August 1997**

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**Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota**

**97-44**



STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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University of Minnesota Duluth

Members of the University of Minnesota Board of Regents

Mr. Wayne Simoneau, Commissioner  
Department of Finance

We have conducted a special review of state special appropriations spent by the University of Minnesota Duluth (UMD) for its Women's Intercollegiate Athletic Program. The review focused on UMD's compliance with appropriation laws of the state of Minnesota. Chapter 1 describes our audit objectives and methodology. We discuss the issues involved more fully in the individual chapters of this report.

We also received other information alleging financial improprieties at the UMD Athletic Department. We are satisfied that these matters have been addressed sufficiently by others. The University of Minnesota Department of Audits reviewed certain of these allegations as part of its financial audit of the UMD Athletic Department. We reviewed the Department of Audits' report dated August 1996, as well as the supporting working papers. We also reviewed the report of the Vice Chancellor's Investigative Group to Study the UMD Department of Intercollegiate Athletics dated August 30, 1996, and the NCAA Compliance Review Report dated January 8, 1997.

A handwritten signature in cursive script, reading "James R. Nobles".

James R. Nobles  
Legislative Auditor

A handwritten signature in cursive script, reading "John Asmussen".

John Asmussen, CPA  
Deputy Legislative Auditor

Report Signed On: August 21, 1997

# SUMMARY

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# **University of Minnesota Duluth**

## **State Special Appropriation for Women's Intercollegiate Athletics**

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### **Background Information**

"State special appropriations" are General Fund appropriations made to the University of Minnesota and designated for a specific purpose. Historically, the Legislature earmarked portions of the state special appropriations for women's athletics at the various university campuses. The purpose of these appropriations was to improve the University of Minnesota women's athletic programs and to ensure compliance with Title IX of the Educational Amendment Act of 1972 and Minn. Stat. Section 126.21. The state Department of Finance disbursed the state special appropriations, as well as other appropriations, to the University of Minnesota pursuant to statutory requirements.

The Legislature began earmarking appropriations for intercollegiate athletics in 1975. Through fiscal year 1997, the University of Minnesota Duluth had received \$8,100,657 in state special appropriations for women's intercollegiate athletics. The campus' allocation for fiscal years 1996 and 1997 was \$647,754 each year.

### **Scope and Objective**

Our review addressed the following issues:

- Did the University of Minnesota Duluth identify and address the problems associated with the process for budgeting and allocating costs to the women's state special appropriation?
- Did the state of Minnesota have an adequate process to ensure that state special appropriations were expended in accordance with legislative restrictions?

Our review relied significantly on the August 1996 internal audit and investigative study of the Department of Intercollegiate Athletics. We reviewed the reports and the internal auditor's supporting working papers and had extensive discussions with the audit staff about their work.

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**Summary**  
**(Continued)**

**Conclusions**

In response to an internal audit and an investigative study, UMD improved its cost allocation processes for the women's athletic program. The University of Minnesota Department of Audits provided sound advice for many of these improvements. We concur with, and in some cases, expand on the internal auditor's recommendations. The report of the UMD Vice Chancellor's investigative group identified another important cost allocation issue, accounting for activities that were conducted primarily to generate income, such as youth athletic camps and fundraising. UMD had charged the costs of certain income generating activities to the women's athletic budget, but had not credited the related revenues to it.

We found one issue that had not been cited by either the internal auditors or the investigative group -- potential problems with UMD's method for calculating participation ratio. The ratio provides the basis for allocating the indirect costs associated with many services shared by the men's and women's athletic programs. Our analysis indicates that UMD used a participation ratio that resulted in some excess charges to the women's athletic budget for fiscal years 1994 through 1996. UMD has changed its method of calculating participation ratio, however, and it used an appropriate definition of participation in fiscal years 1997 and 1998.

UMD has also addressed several budgetary matters related to the women's athletic department. In fiscal year 1997, UMD replenished the women's athletic budget for \$68,663 of costs that the internal auditors had questioned. The fiscal year 1998 UMD Athletics' budget was developed following recommendations of the internal audit and investigative study; it also included additional funding for the women's athletic program. It has not been resolved if additional budget adjustments will be necessary as a result of the problems that existed prior to fiscal year 1997.

The state of Minnesota did not establish accountability for the use of restricted appropriations made to the University of Minnesota. The Legislature cited certain program restrictions in the appropriation laws, but did not establish a process to measure compliance. Also, we found no evidence that the University central administration ensured that UMD complied with the specific legal restrictions on the funding. UMD did not demonstrate a clear understanding of the requirements associated with certain appropriation riders. To improve accountability, both the state Department of Finance and the University central administration should play more active roles in monitoring compliance with appropriation restrictions. Specifically, the department should reach a resolution with the University about the sufficiency of UMD's actions to resolve any questioned spending from the state special appropriation for women's athletics.

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### **Audit Participation**

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Claudia Gudvangen, CPA	Senior Audit Manager
Jean Mellett, CPA, CFE	Investigator

### **Exit Conferences**

We discussed the results of this special review at exit conferences with the following individuals:

#### August 4, 1997 - Minnesota Department of Finance

Wayne Simoneau	Commissioner
Peggy Ingison	Assistant Commissioner
Rosalie Greeman	Assistant Commissioner
Margaret Jenniges	Director of Financial Reporting
Lisa DeRemee	Executive Budget Officer

#### August 5, 1997 - University of Minnesota

JoAnne Jackson	Senior Vice President
Terrence O'Connor	Controller
Jim McDonnell	Audit Manager

#### August 6, 1997 - University of Minnesota, Duluth

Dr. Kathryn Martin	Chancellor
Gregory Fox	Vice Chancellor
Dr. Robert Corran	Athletic Director
Linda Larson	Women's Coordinator
Bill Haller	Men's Coordinator
Sue MacDonald	Business Manager
Jim McDonnell	Audit Manager

# **University of Minnesota Duluth**

## **State Special Appropriation for Women's Intercollegiate Athletics**

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### **Chapter 1. Background**

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“State special appropriation” is a phrase used to identify General Fund appropriations made to the University of Minnesota (University) and designated for a specific purpose. Historically, the Legislature has earmarked portions of the state special appropriations for women's athletics at the various university campuses. These appropriations were intended to improve University of Minnesota women's athletic programs and to ensure that campuses were in compliance with Title IX of the Educational Amendment Act of 1972 and Minn. Stat. Section 126.21.

The state Department of Finance disburses state special appropriations, as well as other appropriations, to the University of Minnesota pursuant to statutory requirements. As a part of its budget process, the University of Minnesota Office of Budget and Finance allocates appropriated funds to the various campuses. The University has established a special fund on its accounting system to account for expenditures of state special appropriations.

The University of Minnesota Duluth (UMD) is headed by Dr. Kathryn Martin, who has served as chancellor since August 1995. The UMD Department of Intercollegiate Athletics (UMD Athletics), which serves both men and women athletes, reports to the UMD vice chancellor for finance and operations. The department is headed by an athletic director. Mr. Bruce McLeod served as athletic director from January 1984 until his resignation in September 1996. Dr. Patricia Merrier served as interim athletic director from September 1996 to February 1997. The vice chancellor for finance and operations, Mr. Gregory Fox, served as interim athletic director from February 1997 until Dr. Robert Corran was named athletic director effective in July 1997.

### **History of State Special Funding**

The Legislature began state special appropriations for women's intercollegiate athletics in 1975. Through fiscal year 1997, the University of Minnesota Duluth received \$8,100,657 for women's intercollegiate athletics. During the first ten years, the Legislature did not specify amounts for individual campuses. From 1985 through 1993, the Legislature specified a minimum appropriation for each campus. Table 1-1 summarizes appropriation laws from 1975 to 1995 and the amounts the University allocated to UMD for fiscal years 1976 through 1997.

For fiscal years 1998 and 1999, women's athletics is not funded from the state special appropriations made to the University of Minnesota. Funding will come from the University's operation and maintenance appropriation.

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**Table 1-1**  
**University of Minnesota**  
**State Special Appropriations for Women's Intercollegiate Athletics**  
**1976-1995 Appropriation Laws**

<b>Legal Reference</b>	<b>Fiscal Year</b>	<b>U of M Appropriation</b>	<b>Minimum to UMD per laws</b>	<b>UMD Allocation</b>
1975 Laws, Chapter 433, Section 7, Subd. 11	1976	\$ 75,000	None	\$ 0
" " "	1977	100,000	None	10,000
1977 Laws, Chapter 449, Section 6, Subd. 5	1978	594,400	None	18,725
" " "	1979	660,200	None	19,526
1979 Laws, Chapter 335, Section 7, Subd. 6	1980	1,158,577	None	83,162
" " "	1981	1,427,298	None	138,426
1981 Laws, Chapter 359, Section 8, Subd. 4	1982	1,494,700	None	168,347
" " "	1983	1,494,700	None	204,901
1983 Laws, Chapter 258, Section 6, Subd. 3	1984	1,688,400	None	275,145
" " "	1985	1,772,800	None	288,900
1985 Laws, First Special Session, Chapter 11, Section 7, Subd. 3 (l)	1986	2,824,000	492,000	492,600
" " "	1987	2,896,900	504,500	504,500
1987 Laws, Chapter 401, Section 6, Subd. 3 (l)	1988	2,993,700	517,113	517,113
" " "	1989	3,069,700	530,230	530,230
1989 Laws, Chapter 293, Section 6, Subd. 3 (d)	1990	(Note 1)	540,800	560,700
" " "	1991	(Note 1)	551,600	580,500
1991 Laws, Chapter 356, Article 1, Section 6, Subd. 3 (d)	1992	(Note 1)	551,600	569,155
1992 Laws, Chapter 360, Section 1, Subd. 2	1993	(Note 1)	551,600	572,384
1993 Laws, First Special Session, Chapter 2, Article 1, Section 6, Subd. 3 (d)	1994	(Note 1)	551,600	623,081
" " "	1995	(Note 1)	551,600	647,754
1995 Laws, Chapter 212, Article 1, Section 4, Subd. 3 (d)	1996	(Note 1)	(Note 2)	647,754
" " "	1997	(Note 1)	(Note 2)	647,754

Note 1: Beginning in 1989, the Legislature combined all state special appropriations into the same amount and no longer designated a separate amount for women's intercollegiate athletics.

Note 2: Beginning in 1995, the Legislature discontinued the practice of designating minimum amounts to be allocated to specific campuses for women's intercollegiate athletics.

Source: Laws of Minnesota and University accounting records.

UMD established a separate account to record state special appropriation activity. Table 1-2 shows the state special appropriation account financial activity as recorded in University accounting records for the three years ended June 30, 1996.



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**Table 1-2**  
**UMD Department of Intercollegiate Athletics**  
**State Special Appropriations**  
**Summary of Financial Activity**  
**Fiscal Years 1994 - 1996**

	<u>1994</u>	<u>1995</u>	<u>1996</u>
Beginning Balance	\$ 44,946	(\$ 13,331)	(\$ 1,440)
Revenue:			
State Special Allocation	\$ 623,081	\$ 647,754	\$ 647,754
Expenditures:			
Payroll and Fringe Benefits	\$ 345,318	\$ 444,056	\$ 422,701
Administrative Expenditures	90,423	49,889	25,855
Scholarships and Aid	87,021		71,000
Nonsalary Sports Expenditures	126,621	118,412	109,140
Camp Expenditures	31,975	23,506	23,726
Total Expenditures	<u>\$ 681,358</u>	<u>\$ 635,863</u>	<u>\$ 652,422</u>
Ending Balance	<u>(\$ 13,331)</u>	<u>(\$ 1,440)</u>	<u>(\$ 6,108)</u>

Source: UMD Department of Intercollegiate Athletics' accounting records.

In August 1995, the new chancellor, Kathryn Martin, requested that the University Department of Audits conduct an audit of the UMD Department of Athletics. Because of other scheduling considerations, the audit did not begin until early 1996. During late 1995 and early 1996, UMD Athletics was the subject of various allegations relating to the potential misuse of funds. Suspected misuse included questions about the state special appropriations for women's athletics. In addition to the internal audit, Chancellor Martin commissioned an investigative study to address other potential problems with UMD Athletics. Vice Chancellor Gregory Fox was in charge of the investigative study. Together, the internal auditor and the investigative study addressed the allegations that had been raised. The two reports were issued in August 1996 and they confirmed that several problems existed with the UMD Athletics' budgetary and cost allocation processes. UMD took several steps in response to the internal audit and investigative study and has been working toward improving its budgetary and cost allocation processes.

Chapter 2 discusses our conclusions on UMD's allocation of costs to the state special appropriation. Chapter 3 discusses compliance with legislative appropriation restrictions.

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## Chapter 2. Allocation of Costs to the State Special Appropriation

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### *Chapter Conclusions*

*In response to an internal audit and an investigative study, UMD improved its cost allocation processes for the women's athletic program. The University of Minnesota Department of Audits provided sound advice for many of these improvements. We concur with, and in some cases, expand on the internal auditor's recommendations. The report of the UMD Vice Chancellor's investigative group identified another important cost allocation issue, accounting for activities that were conducted primarily to generate income, such as youth athletic camps and fundraising. UMD had charged the costs of certain income generating activities to the women's athletic budget, but had not credited the related revenues to it.*

*We found one issue that had not been cited by either the internal auditors or the investigative group -- potential problems with UMD's method for calculating participation ratio. The ratio provides the basis for allocating the indirect costs associated with many services shared by the men's and women's athletic programs. Our analysis indicates that UMD used a participation ratio that resulted in some excess charges to the women's athletic budget for fiscal years 1994 through 1996. UMD has changed its method of calculating participation ratio, however, and it used an appropriate definition of participation in fiscal years 1997 and 1998.*

*UMD has also addressed several budgetary matters related to the women's athletic department. In fiscal year 1997, UMD replenished the women's athletic budget for \$68,663 of costs that the internal auditors had questioned. The fiscal year 1998 UMD Athletics' budget was developed following recommendations of the internal audit and investigative study; it also included additional funding for the women's athletic program. As discussed in Chapter 3, it has not been resolved if additional budget adjustments will be necessary as a result of the problems that existed prior to fiscal year 1997.*

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The UMD Department of Intercollegiate Athletics serves both men and women athletes. UMD funds departmental activities from allocations of state General Fund appropriations and from self-generated monies. Table 2-1 shows departmental revenue, by category, for the three years ended June 30, 1996. Each year, the department received an allocation from the University's operation and maintenance appropriation, as well as from the women's state special appropriation. In addition, the department had various self-generated sources of income.

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A portion of the department's gift income comes from withdrawals of income on endowment balances maintained by the University of Minnesota Foundation. UMD has established a policy not to expend more than 90 percent of all available foundation income earned each year. Foundation income withdrawals for fiscal years 1994 through 1996 totaled \$460,930. At June 30, 1996, Foundation endowment account balances for the UMD Department of Intercollegiate Athletics amounted to \$991,021.

**Table 2-1**  
**UMD Department of Intercollegiate Athletics**  
**Summary of Revenue**  
**Fiscal Years 1994 - 1996**

	<u>1994</u>	<u>Percent</u>	<u>1995</u>	<u>Percent</u>	<u>1996</u>	<u>Percent</u>
Appropriations:						
O & M	\$ 578,323	21	\$ 605,941	20	\$ 564,612	19
State Special	623,081	22	647,754	22	647,754	22
Self-Generated Revenue						
Gifts & Grants (1)	241,991	9	291,133	10	356,087	12
Student Fees	267,285	10	273,970	9	273,970	9
Program Income (2)						
Men's Teams	859,759	31	908,857	30	903,635	30
Women's Teams	6,601	-	9,649	-	11,665	-
Camp Fees						
Men's Program	150,836	5	135,430	5	116,708	4
Women's Program	60,970	2	70,379	2	69,553	2
Other (3)	18,627	-	53,539	2	48,214	2
<b>Total Revenue</b>	<b><u>\$2,807,473</u></b>	<b><u>100</u></b>	<b><u>\$2,996,652</u></b>	<b><u>100</u></b>	<b><u>\$2,992,198</u></b>	<b><u>100</u></b>

Note 1: Gifts & Grants includes contributions from the Rasmussen Fund, fundraising income from the golf & tennis account, endowment income, and other gifts.

Note 2: Program Income includes gate receipts, guarantee payments for out-of-town games, broadcast income, and proceeds from advertising and sales of game programs.

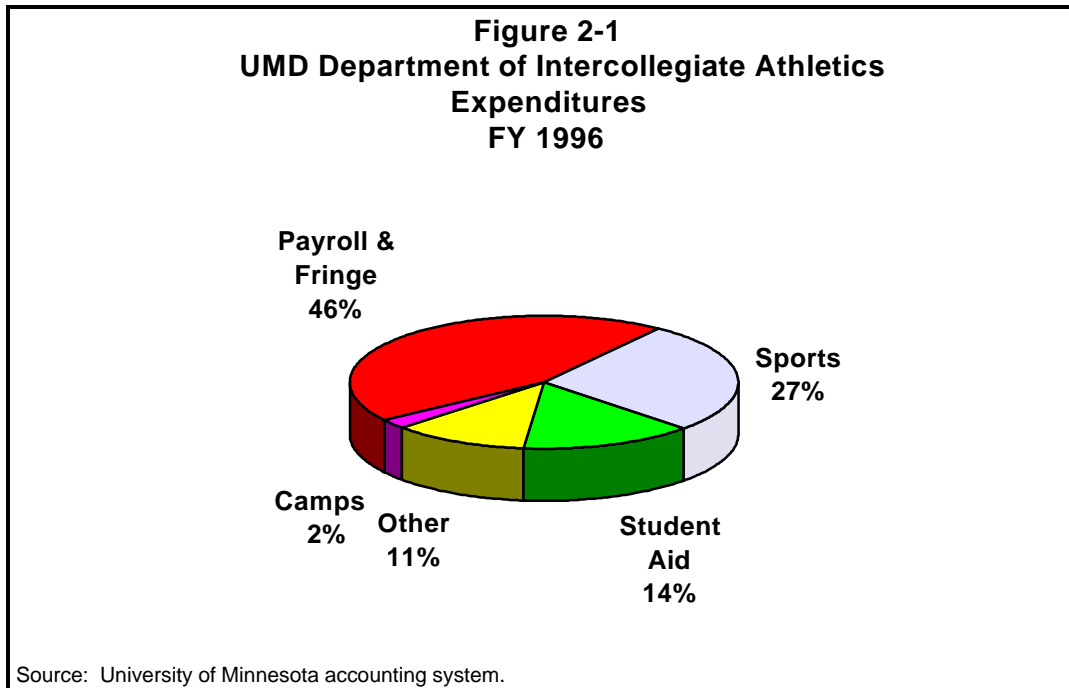
Note 3: Other includes reimbursements from the Western Collegiate Hockey Association (WCHA) of \$33,340 and \$33,744 for 1995 and 1996, respectively. The reimbursements are to cover costs associated with the UMD athletic director serving as league commissioner for the WCHA.

Source: University of Minnesota CUFS Accounting System.

Payroll and fringe benefits is the largest Department of Intercollegiate Athletics' expenditure category. In addition to other administrative expenditures, the department provides scholarships and aid to students and funds the cost of various team events and youth athletic camps. Figure 2-1 shows fiscal year 1996 departmental expenditures by type.

Because the Department of Intercollegiate Athletics received funding from various sources, some of which were restricted, it was important for the department to use a rational method for allocating costs among funding sources. This was particularly important with the state special appropriation, which was designated by law to ensure that the women's athletic programs achieved compliance with the provisions of various gender equity laws.

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Cost allocation is not a precise science. To the extent feasible, costs should be directly allocated to applicable funding sources based on the level of effort or benefits received. The process of cost allocation was complicated for UMD because the Department of Intercollegiate Athletics serves both men and women athletes. Some staff, particularly in administrative and support areas, work with both men's and women's programs. When an entity has shared costs benefiting more than one program or funding source, it must develop a consistent and rational method of cost allocation. The process must include an objective process to estimate level of benefits received.

The internal audit and investigative study identified several significant problems with the cost allocation and budgetary practices related to the UMD intercollegiate athletic programs. Our review of UMD's practices focused on the following question:

- Did the University of Minnesota Duluth identify and address the problems associated with its process for budgeting and allocating costs to the women's state special appropriation?

Our review relied significantly on the August 1996 audit of the Department of Intercollegiate Athletics conducted by the University of Minnesota Department of Audits. We reviewed the audit report and supporting working papers and had extensive discussions with the audit staff about their work. Finally, we reviewed actions taken by the Department of Intercollegiate Athletics, after issuance of the Department of Audits August 1996 report, to improve accountability over the use of state special appropriations.

We found that UMD has been responsive to the internal audit and investigative reports. It has taken steps to improve its cost allocation and budgetary practices for the women's athletic program.

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Although we think that UMD has been responsive to the issues raised, there are additional concerns that should be considered. In Finding 1, we expand on issues addressed in the internal auditor's report. Finding 2 reemphasizes another cost allocation issue identified by the investigative group. Finally, in Finding 3, we introduce an additional cost allocation issue that was not cited by either the internal auditor or the investigative group.

### The August 1996 Internal Audit Report

The University of Minnesota Department of Audits found in its August 1996 report that UMD Athletics had not systematically or consistently charged its costs to appropriate funding sources. The report stated that UMD's procedures for prorating expenses between men's and women's athletic programs had been somewhat arbitrary. UMD Athletics had focused more on its total budget than on properly allocating costs between programs. As a result, the internal audit questioned significant costs that had been charged to both the women's and men's athletic budgets. The internal auditor worked with UMD management to reallocate costs for fiscal years 1994 -1996, as shown in Table 2-2.

**Table 2-2**  
**UMD Women's Athletics State Special Appropriation**  
**Internal Reallocation of Eligible Costs**  
**Fiscal Year 1994-96**

	1994	1995	1996
Sports Specific Costs			
Payroll	\$212,322	\$239,817	\$233,166
Scholarships	54,126	60,582	84,685
Team Expenses	109,752	130,782	125,358
Other Supplies & Expenses	43,260	45,576	30,791
Youth Athletic Camps	<u>31,975</u>	<u>23,506</u>	<u>23,726</u>
Subtotal - Sports Specific	<u>\$451,435</u>	<u>\$500,263</u>	<u>\$497,726</u>
Allocation of Shared Services			
Payroll	\$123,199	\$157,627	\$176,222
Support Costs	<u>37,961</u>	<u>56,199</u>	<u>62,320</u>
Subtotal - Shared Services	<u>\$161,160</u>	<u>\$213,826</u>	<u>\$238,542</u>
Reallocated Eligible Costs	<u>\$612,695</u>	<u>\$714,089</u>	<u>\$736,264</u>

Source: Summary of August 1996 University Internal Auditor's Report. The internal auditors and UMD calculated this reallocation to determine whether UMD had incurred sufficient eligible costs to the extent of the funding available for the Women's State Special Account. These reallocated amounts were not recorded on the University's accounting system. See Table 1-2 for the costs that UMD actually charged to this special account.

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The internal auditor had questioned \$366,911 in costs that UMD charged to the women's athletic budget for the three year period ended June 30, 1996. In conjunction with UMD management, the internal auditor identified sufficient other costs that they believed could offset the questioned costs for fiscal years 1995 and 1996. For fiscal year 1994, however, the audit analysis showed a net overcharge of \$68,663. UMD subsequently transferred \$68,663 from campus reserve accounts to the women's state special appropriation account to reimburse for the net overcharge. Table 2-3 summarizes the effects of the reallocation.

**Table 2-3**  
**University of Minnesota Department of Audits**  
**Internal Reallocation of Women's State Special Account Expenditures**  
**Fiscal Years 1994 - 1996**

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>Total</u>
Original Costs Charged	\$681,358	\$635,863	\$652,422	\$1,969,643
Adjusted Costs				
Questioned Costs	(\$176,683)	(\$104,417)	(\$ 85,811)	(\$ 366,911)
Additional Eligible Costs	<u>108,020</u>	<u>182,643</u>	<u>169,653</u>	<u>460,316</u>
Net Adjustments	<u>(\$ 68,663)</u>	<u>\$ 78,226</u>	<u>\$ 83,842</u>	<u>\$ 93,405</u>
Reallocated Eligible Costs	\$612,695	\$714,089	\$736,264	\$2,063,048

Note 1: Actual charges could exceed the annual allocation because the University allows departments to carry forward prior year unexpended balances. UMD accounting records showed a prior year balance of \$44,946 carried forward to fiscal year 1994 in the state special appropriation account. The University's accounting system also allows a department to spend more than its available resources.

Note 2: Following issuance of the University internal audit report, UMD transferred \$68,663 from unrestricted reserve funds to reimburse the state special appropriation account for the net overcharge identified for fiscal year 1994.

Source: August 1996 Department of Audits report on UMD Department of Intercollegiate Athletics.

The internal auditor also developed several important recommendations for improving UMD's cost allocation processes. Of these, two recommendations were identified as essential:

- Only expenditures related to women's athletics should be charged to the state special account. Where expenditures are for items or programs used by both men and women athletes, the expense should be distributed in accordance with the participation ratio of men and women athletes.
- Athletics should develop procedures for distributing salaries of employees who work on both men's and women's athletics. Where it is easily determined how people spend their time, salary distributions should coincide with effort spent. When duties are such that it is not feasible to determine what time is spent on the men's program vs. the women's program, salary should be distributed in accordance with the participation ratio of men and women athletes.

We concur with, and in some cases, expand on the internal audit recommendations. Finding 1 provides additional recommendations for improving the cost allocation procedures for UMD

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Athletics. Also, as discussed later in Findings 2 and 3, we identified two additional issues that affect the reallocation of costs for fiscal years 1994-1996.

### **1. UMD did not have formalized procedures to ensure that employees' estimates of time spent on women's and men's programs were reasonable and adjusted when necessary.**

Prior to fiscal year 1997, UMD did not have a rational process to allocate shared costs to the men's and women's programs. The Athletic Department did not require staff who worked on both men's and women's programs to record or estimate the time they spent on each program. Rather, UMD haphazardly charged the women's special appropriation for support activities and programs that women athletes shared with men, such as fundraising activities, training staff, sports information activities, and departmental administrative and management functions.

The internal auditor recommended that UMD develop procedures for distributing salaries of employees who worked on both men's and women's athletic programs. At the time of our review, UMD Athletics' had begun an analysis of support staff time to identify the estimated level of effort provided to the men's and women's programs. The analysis included a review of job descriptions and discussions with affected personnel about their duties. However, the process was not formally documented and all questions regarding allocation of costs for certain support functions had not been resolved. At that time, questions remained about the appropriate allocation of certain costs such as trainers and sports information activities. We think the department should develop a more formalized process for distributing these shared salaries. Staff estimates of the time spent on various programs may be an appropriate starting point. However, these estimates should be reevaluated and adjusted periodically. To the extent possible, the department should also attempt to corroborate the reasonableness of staff estimates. The department should continue to involve the men's and women's coordinators in cost allocation decisions.

#### *Recommendation*

*The department should formalize and document its process for determining and verifying staff estimates of the time spent on the men's and women's athletic programs. Staff estimates of time should be reevaluated periodically and corroborated to the extent possible.*

### **Vice Chancellor's Investigative Group**

In addition to the internal audit, UMD Chancellor Martin commissioned an investigative study to examine certain other allegations of financial improprieties that had been raised. Vice Chancellor Gregory Fox was in charge of the investigative study. Many of the issues addressed by the Investigative Group had no direct impact on the state special appropriation. The study did, however, identify one additional cost allocation issue -- accounting for activities that were conducted primarily to generate income, such as youth athletic camps and fundraising. We elaborate on this matter in Finding 2.

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**2. UMD charged the women's athletic budget for the costs of certain income generating activities, but did not credit it with the revenues collected from these activities.**

UMD charged costs for income generating activities, such as fundraising and youth athletic camps, to the women's state special appropriation, but did not credit the related revenues to the account. The income was recorded in the self-generating revenue accounts that were used to fund the men's athletic program, as well as certain administrative and support functions.

We are particularly concerned about the budgetary practices relating to sports camps. Camps sponsored by the women's athletic program generated revenue of \$200,902 for fiscal years 1994 through 1996. The cost of operating these camps during the three years was \$79,207. UMD charged the costs of these camps to the state special appropriation even though that account did not receive credit for the camps' revenues.

Similarly, a portion of the fundraising costs were charged to the state special appropriation even though the revenue generated was recorded in another dedicated account. For fiscal years 1994 through 1996, UMD charged \$107,977 to the state special account for fundraising costs. The internal auditors later challenged \$50,071 of that amount as being an excessive allocation to the women's program. The majority of funds generated from these fundraising efforts was used for men's scholarships, while women's scholarships were paid primarily from the state special appropriation. During the same three-year period, UMD charged \$158,021 of scholarships to the state special account. The internal auditors identified an additional \$41,372 of women's athletic scholarships that were paid from other sources. The August 1996 internal audit report concluded that the \$41,372 would have been an eligible cost to charge to the state special account.

We disagree that both the fundraising costs and the scholarships should have been paid from the state special account. Because the fundraising costs were paid from the special account, ideally, it should have received additional funding from the contributions collected. Alternatively, the fund receiving the contributions should have paid an amount of scholarships equivalent to the women's share of contributions generated. As a minimum, the fund receiving contributions should have spent enough money on the women's program to offset its share of the fundraising costs.

Table 2-4 shows the additional questioned costs for fundraising and youth athletic camps.



**University of Minnesota Duluth**  
**State Special Appropriation for Women's Intercollegiate Athletics**

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**Table 2-4**  
**Schedule of Additional Questioned Costs Charged to the Women's State Special Account**  
**Fiscal Years 1994 - 1996**

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>Total</u>
Fundraising Expense (1)	\$ 16,867	\$ 19,160	\$ 21,879	\$ 57,906
Youth Athletic Camp Expenses (2)				
Volleyball Camp	\$ 12,971	\$ 11,248	\$ 12,648	\$ 36,867
Basketball Camp	19,004	12,258	11,078	42,340
Subtotal - Camp Expense	<u>\$ 31,975</u>	<u>\$ 23,506</u>	<u>\$ 23,726</u>	<u>\$ 79,207</u>
 Total	 <u>\$ 48,842</u>	 <u>\$ 42,666</u>	 <u>\$ 45,605</u>	 <u>\$137,113</u>

Note (1) For this three-year period, UMD actually charged \$107,977 in fundraising expenses to the women's state special account. The internal audit report questioned \$50,071 as an excessive allocation. Thus, this schedule shows only the net fundraising costs accepted by the internal auditors.

Note (2): Women's camp expense includes direct camp costs as identified in UMD accounting records. Regular staff salary costs for time spent working on the camps are not included.

Source: OLA Auditor Analysis of UMD accounting records.

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The youth athletic camps are a productive extension of the intercollegiate athletic programs. The camps enhance community awareness of the athletic department, help cultivate future athletes, and build increased fan support. From a business standpoint, the camps have also been a productive investment, consistently producing more revenue than the incremental operating costs. Therefore, we have no question about the value or propriety of UMD sponsoring such events. Our only concern is that UMD has not properly matched the camp revenues against the related costs. In our opinion, it is inappropriate for UMD to underwrite the camps with state funds and then use the revenues it collects for other unrelated purposes. At a minimum, the state special appropriation account should be replenished for the cost of the camps. It may further be argued that the state account is entitled to the full amount of the revenues generated by such income generating activities.

The Vice Chancellor's Investigative Group report recommended increased funding for women's athletics from a variety of sources, including youth athletic camps. Specifically, it recommended that the women's athletic budget receive "income generated by summer sports camps for young women, especially as long as the costs associated with running these camps continue to be charged to the women's budget." We also believe that UMD should expand this practice to other income producing activities, such as fund raising.

According to UMD officials, the women's athletic program budget for fiscal year 1998 totals \$995,179 which includes a \$200,000 increase in institutional funding, as well as allocations of other self-generated revenue sources.

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## State Special Appropriation for Women's Intercollegiate Athletics

### *Recommendation*

*UMD should match the revenues earned from income producing activities, such as youth athletic camps and fundraising, to the athletic budget accounts that financed the related costs.*

## Participation Ratio

Although we believe that the internal auditor and the investigative group were thorough and fair in their reviews, as discussed in Finding 3, we found one additional issue that they had not identified.

### **3. UMD used a participation ratio that resulted in some excess costs being reallocated to the women's athletic budget based on the internal auditor's analysis.**

We are concerned about the participation ratio that UMD used to allocate common or shared costs between the men's and women's athletic budgets during fiscal years 1994 to 1996. As cited in the August 1996 internal audit report, UMD had arbitrarily charged costs to the women's state special account. The internal auditors had worked with UMD to develop a rational method for reallocating costs to the state special account. For services that were shared by the women's and men's program, the reallocation first attempted to prorate costs based on the level of service provided to each program (see Finding 1). When the proration of services was not readily apparent, the reallocation used the participation ratio to distribute costs between the women's and men's program. However, UMD Athletics calculated the women's participation ratio based on the ratio of women athletes who competed in at least one event to the number of women and men combined who competed in at least one event. This calculation does not conform to recent guidance provided by the federal government and a prominent court case. It also resulted in an estimated \$29,219 of excess costs charged to the state special account.

Use of a competition based participation ratio for cost allocation assumes that costs vary in that proportion. However, participation in events does not necessarily reflect use of resources because team members may use resources regardless of whether they play in games. For example, the UMD football team had 82 eligible players in fiscal year 1996; however, only 53 players participated in at least one game. Certainly the 29 players excluded from the participation ratio had used certain support functions, such as training and laundry facilities.

We think it would have been more appropriate to use a ratio that compares the overall number of women athletes to the number of total athletes. When assessing equal opportunity for women, the Office of Civil Rights (OCR) uses a ratio that compares the number of women to the number of women and men combined who are listed on sports rosters at the beginning of the season. The OCR definition includes athletes who practice but may not compete. OCR's investigations have shown that these athletes receive numerous benefits and services, such as training and practice time, coaching, tutoring services, locker room facilities, and equipment. An April 1997 court decision, *Cohen v. Brown University* addressed gender equity in athletic programs and concluded, in part: "Every varsity team member is . . . a varsity 'participant.'"

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UMD Athletics provided the participation data shown in Table 2-5. The table estimates the impact of this problem.

<b>Table 2-5</b>			
<b>Analysis of Changing Participation Ratios</b>			
	<u>1994</u>	<u>1995</u>	<u>1996</u>
Women's Participation Ratio:			
Based on OCR Guidance	28.72%	33.25%	32.53%
Used in Reallocation	27.81%	34.44%	36.70%
Difference	.91%	(1.19%)	(4.17%)
Shared Services Costs	\$579,504	\$620,865	\$649,978
Net Additional Eligible or (Questioned) Costs	\$ 5,273	(\$ 7,388)	(\$ 27,104)

Sources: Ratios were based on participant counts provided by UMD Athletics. Shared services costs were derived from amounts shown in Table 2-2.

UMD officials told us that, at the end of fiscal year 1997, they changed their method of calculating participation ratio to comply with OCR guidelines. The women's participation ratio in use for fiscal year 1998 is 37.9 percent.

*Recommendation*

*When allocating shared or common services as indirect costs, the department should use the OCR definition of participation ratio.*

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## Chapter 3. Compliance with Laws of Minnesota

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### *Chapter Conclusions*

*The state of Minnesota did not establish accountability for the use of restricted appropriations made to the University of Minnesota. The Legislature cited certain program restrictions in the appropriation laws, but did not establish a process to measure compliance. Also, we found no evidence that the University central administration ensured that UMD complied with the specific legal restrictions on the funding. UMD did not demonstrate a clear understanding of the requirements associated with certain appropriation riders. To improve accountability, both the state Department of Finance and the University central administration should play more active roles in monitoring compliance with appropriation restrictions. Specifically, the department should reach a resolution with the University about the sufficiency of UMD's actions to resolve the questionable spending from the state special appropriation for women's athletics.*

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The Legislature, in appropriation riders, has placed program restrictions or requirements on the University's use of certain state funds. However, the state has not had an ongoing monitoring process to measure compliance. When expending state appropriated funds, because of its constitutional autonomy, the University did not have to follow financial guidelines applicable to state agencies. The state has not defined allowable costs or required the University to spend appropriations in a specified time period. The state put significantly fewer restrictions on the University's use of appropriated funds than the federal government put on the University's use of grants and aid. As a result, the state has permitted the University of Minnesota to establish its own policies and procedures for controlling its financial activities. The University Office of Budget and Finance controlled the University appropriations and allocated funds to individual campuses as part of its internal budgeting process.

In reviewing compliance with appropriation laws, our objective was to answer the following question:

- Did the state of Minnesota have an adequate process to ensure that state special appropriations were expended in accordance with legislative restrictions?

We reviewed appropriation laws from 1975 through 1995 to identify restrictions on the use of state special appropriations for intercollegiate athletics. We interviewed University and UMD staff and Minnesota Department of Finance employees to determine if there were procedures to monitor compliance with appropriation laws. We also discussed the issues with legislative staff members.

# **University of Minnesota Duluth**

## **State Special Appropriation for Women's Intercollegiate Athletics**

We found that neither the state of Minnesota nor the University central administration established accountability for the use of the restricted appropriations made to UMD. The Legislature cited certain program restrictions in the appropriation laws, but did not establish a process to measure compliance. As discussed in Finding 4, UMD did not demonstrate a clear understanding of the requirements associated with certain appropriation riders.

Because of its general financial management responsibilities and duties for disbursing appropriations to the University, we think the state Department of Finance is the most appropriate state agency to monitor use of restricted appropriations. To improve accountability, as discussed in Finding 5, the state Department of Finance should play a more active role in monitoring compliance with appropriation restrictions. Furthermore, this report identifies some questionable accounting and budgetary practices that UMD used for the state special appropriation account in prior years. We believe our report provides a basis for the department to negotiate a resolution with the University, as discussed in Finding 6.

#### **4. UMD Athletics did not understand the precise restrictions associated with the state special appropriation.**

UMD Athletics did not demonstrate a clear understanding of the restrictions associated with the state special appropriation for women's athletic programs. In recent years, the restrictions required that UMD ensure compliance with legal provisions pertaining to gender equity in intercollegiate athletics. We found no evidence, however, that UMD Athletics ever learned of the precise language in the appropriation law. Instead, the department operated on the premise that the funds were simply available to fund women's athletic programs (a related, but not the precise purpose the law specified).

The language of state special appropriation laws has changed over the years; however, it is clear that the Legislature appropriated state special funds for intercollegiate athletics to improve women's programs. The Legislature has made special appropriations to the University of Minnesota for women's athletics for more than twenty years. The first state special appropriation for intercollegiate athletics was in 1975. The law specified that:

The above appropriation shall be used only for the support of a women's intercollegiate athletic program.

Laws of Minnesota for 1981, Chapter 359, Section 8, Subd. 4, stated:

This appropriation shall be used as a general offset to the expenses of intercollegiate athletics.

Laws of 1985, 1987, 1989, 1991, and 1993 established a more precise use for the appropriations:

This appropriation includes money to improve the programs and resources available to women and to ensure that campuses are in compliance with Title IX of the Education Amendments of 1972 and Minnesota Statutes Section 126.21.

We found little evidence that anyone at UMD understood that use of the state special appropriation was tied to compliance with Title IX. UMD did not have a plan to ensure that the

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### State Special Appropriation for Women's Intercollegiate Athletics

women's state special appropriation was used to improve programs and resources available to women and to ensure compliance with Title IX. It is unclear whether UMD management was even aware of the appropriation law provisions. We found no evidence that the University Office of Budget and Finance informed the campus of appropriation restrictions when making budgetary allocations. Furthermore, we found no evidence that the state Department of Finance had taken any action to facilitate UMD's understanding of the limitations on the special appropriation. Although UMD management was aware of Title IX requirements, they did not recognize that compliance with the federal legislation was a requirement of the state funding. Basically, the department considered the state special appropriation as the primary funding source for women's athletic programs. However, simply spending the appropriation on women's athletic programs did not assure that UMD was complying with Title IX.

Determining whether UMD specifically complied with the appropriation language is complicated. Title IX legislation provides three ways that an institution can achieve compliance. One of these is to show progress in the pursuit of gender equity. UMD management asserts that progress in achieving gender equity was being made. On April 3, 1997, the U.S. Department of Education Office of Civil Rights (OCR) and UMD negotiated an agreement that requires UMD to make changes in its athletic program to ensure compliance with Title IX.

#### *Recommendation*

*The state Department of Finance must work with University officials to ensure that any specific legislative conditions accompanying state appropriations are understood. It is particularly important that the department ensure this understanding is acquired by University officials responsible for making critical spending decisions.*

#### **5. The state did not monitor the University's cost allocation or budgetary practices related to the special state appropriation.**

The Legislature has provided the Executive Branch with very limited guidance for holding the University accountable for its spending of state appropriations. Minn. Stat. Section 137.025, Subd. 1, provides a formula that governs when the Department of Finance shall disburse appropriated monies to the University:

The commissioner of finance shall pay no money to the University of Minnesota pursuant to a direct appropriation, other than an appropriation for buildings, until the University first certifies to the commissioner of finance that its aggregate balances in the temporary investment pool, cash, or separate investments, resulting from all state maintenance and special appropriations do not exceed \$7,000,000, or any other amount specified in the act making the appropriation, plus one-third of all tuition and fee payments for the previous fiscal year. Upon this certification, 1/12 of the annual appropriation to the University shall be paid at the beginning of each month. Additional payments shall be made by the commissioner of finance whenever the state appropriations and tuition aggregate balances in the temporary investment pool, cash, or separate investments are reduced below the indicated levels.

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The formula does not, however, allow the department the discretion to withhold payments from the University for any reason. State law also permits the Department of Finance to review University records. Minn. Stat. Section 137.0251 authorizes the Department of Finance to inspect the University's "books, accounts, documents, and property." To our knowledge, the department has not exercised this authority in recent years.

By contrast, the federal government has established very stringent guidelines for how the University may spend federal grant monies. Federal regulations establish definitions for eligible costs, requirements for recordkeeping and documentation, and spending deadlines. The University must periodically report to federal agencies on how it has spent federal funds. Also, it must contract for annual audits that test for compliance with federal financial regulations. Finally, the federal government has an established process to recover any funds that may have been spent for ineligible purposes.

We doubt that the state is interested in emulating oversight as vigilant as the federal government's processes related to its grant funds. Nonetheless, the state could benefit by improving the accountability for University spending.

#### *Recommendations*

*The state Department of Finance should satisfy itself that University policies and practices related to spending state funds are reasonable. This understanding should encompass the methods used to allocate costs to state appropriations, including how the University determines whether costs are eligible to be charged to the state accounts. If the department cannot reach an accord with the University on acceptable financial practices, it should request the Legislature to establish criteria to govern the eligibility of costs that the University charges to state funds.*

*The state Department of Finance should request periodic reports or assurances from the University related to its use of state appropriations. These reports may include information on financial activity and status. Furthermore, the department should require the University to report any evidence that state appropriations were used for improper or questionable purposes. Also, the University could be asked to confirm whether it had satisfied any nonfinancial provisions associated with state appropriations.*

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## State Special Appropriation for Women's Intercollegiate Athletics

### 6. The state does not have a mechanism to resolve questionable costs charged by the University to state appropriated funds.

As discussed in Chapter 2, there were significant concerns about the UMD Department of Intercollegiate Athletics' cost allocation procedures. The University auditors concluded, and we concur, that certain charges to the state special appropriation were inappropriate. The auditors, in conjunction with UMD staff, reviewed costs charged to other funding sources to identify additional amounts that, in their opinion, would be allowable charges to the state special appropriation. A summary of the audit analysis is shown in Table 3-1.

**Table 3-1**  
**UMD Women's Athletics State Special Appropriation**  
**Comparison of Recorded Financial Activity to Internal Auditor's Adjustments**  
**Fiscal Year 1994-96**

	<b>As Recorded in UMD Accounting Records (1)</b>	<b>Adjustments Found by Internal Auditors (2)</b>	<b>Recalculated Balances (3)</b>
Balance, 7/1/93	\$ 44,946		\$ 44,946
<b><u>Fiscal Year 1994 Activity</u></b>			
State Special Appropriation	\$623,081		\$623,081
Expenditures	\$681,358	(\$68,663)	\$612,695
Balance 7/1/94	(\$ 13,331)		\$ 55,332
<b><u>Fiscal Year 1995 Activity</u></b>			
State Special Appropriation	\$647,754		\$647,754
Expenditures	\$635,863	\$78,226	\$714,089
Balance 7/1/95	(\$ 1,440)		(\$ 11,003)
<b><u>Fiscal Year 1996 Activity</u></b>			
State Special Appropriation	\$647,754		\$647,754
Expenditures	\$652,422	\$83,842	\$736,264
Balance 7/1/96	(\$ 6,108)		(\$ 99,513)
<b><u>Fiscal Year 1997 Activity</u></b>			
State Special Appropriation	\$647,754		
Amount Replenished by UMD	\$ 68,663		
Amount Available for FY 1997	\$710,309		

Sources: (1) UMD accounting records, (2) Reallocated costs cited in the August 1996 University Internal Audit Report, and (3) Auditor's recalculation of how the UMD accounting records could have been adjusted if it had made all adjustments cited by the internal auditors.

Based on the internal audit, UMD management decided that it would replenish the state special appropriation account for \$68,663. We are concerned, however, that this reallocation process did not include a state representative such as the Department of Finance. Furthermore, we have questioned additional cost allocation and budget practices of the UMD Athletics.

There was no compelling legal requirement for UMD management to replenish the women's athletic budget for \$68,663 of questioned costs cited by the internal auditors. Actually, according



## **University of Minnesota Duluth**

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to the internal auditor's analysis, UMD Athletics spent sufficient excess funds in fiscal years 1995 and 1996 to offset the shortage cited in fiscal year 1994. If UMD had used the internal auditor's analysis for the entire three-year period, it would have concluded that as of July 1996, UMD Athletics had spent \$99,513 more on the women's athletic program than it had available in the state special appropriation. UMD management chose, however, to adjust the accounting records for the \$68,663 of net expenditures that the auditor's questioned in fiscal year 1994. As a result of that adjustment, the accounting records showed that UMD had a balance of \$710,309 available for the women's athletic program during fiscal year 1997.

As discussed in Chapter 2, we identified two other matters that also had an adverse impact on the finances for the women's athletic program:

- The investigative study revealed that UMD had charged the costs of certain income generating activities to the state special account, but had not credited the account with the related revenue. In Table 2-4, we had calculated \$137,113 of additional questioned costs for the three fiscal years ended June 30, 1996. It should be noted, however, that the \$79,207 of questioned costs for the youth athletic camps include only the incremental costs of operating the camps and are probably understated. The payroll costs of several UMD employees, particularly the coaches, would also have been devoted to the camps. We could not determine a reasonable allocation for those payroll costs. As an alternative to disallowing the costs from the state special appropriation, UMD could have credited the account with the related revenues. For example, the youth athletic camps generated \$200,902 of revenue that was not made available to the women's athletic budget. Beginning in fiscal year 1998, UMD is dedicating these revenues to the women's athletic budget; however, it made no retroactive adjustments for the earlier fiscal years.
- As discussed in Finding 3, the internal auditors and UMD had a participation ratio to allocate indirect costs that resulted in UMD charging a net amount of \$29,219 of excess costs to the women's athletic budget.

We must also indicate that the financial activity was only analyzed for fiscal years 1994 through 1996. We believe that UMD Athletics experienced the same cost allocation and budgetary problems in earlier years.

There are several complications to requiring the University to repay the state for any questionable costs that UMD Athletics charged to the state special appropriation. State law does not establish any criteria for defining eligible costs to be charged to state appropriations. Also, the law does not cite a time period by which the funds must be expended. As a result, the University may potentially carry over unexpended funds indefinitely. Furthermore, UMD has significantly increased its budget for the women's athletic program in fiscal year 1998. UMD officials told us that they had added over \$200,000 to the fiscal year 1998 women's athletic budget, resulting in a total budget of \$995,179. The state Department of Finance could, however, recommend that the Legislature make additional budget adjustments to future University appropriations if the department could not reach a resolution with the University about the sufficiency of its actions to resolve the questioned spending from the state special appropriation for women's athletics.

#### *Recommendation*

## **University of Minnesota Duluth**

### **State Special Appropriation for Women's Intercollegiate Athletics**

*The state Department of Finance should attempt to negotiate a resolution with the University about the questioned spending by UMD from the state special appropriation. If the department cannot reach agreement with the University on the sufficiency of its corrective actions, the department should recommend that the Legislature take remedial action during an ensuing budget session.*

August 21, 1997

James R. Nobles  
Legislative Auditor  
Office of the Legislative Auditor  
Centennial Building  
658 Cedar Street  
St. Paul, MN 55155

*Office of the Senior Vice President  
for Finance and Operations*

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100 Church Street S.E.  
Minneapolis, MN 55455  
612-625-4555  
Fax: 612-626-7271*

Dear Mr. Nobles:

Thank you for the opportunity to respond to the audit you recently completed examining the state special appropriation for women's intercollegiate athletics at the University of Minnesota Duluth (UMD).

We appreciate the auditors' frequent observation that the University of Minnesota Duluth campus, with the assistance of the University of Minnesota Department of Audits staff and the campus Vice Chancellors' Investigative Group, conducted a thorough review of the cost allocation procedures in the UMD Department of Intercollegiate Athletics and is committed to the effective implementation of the recommendations from those investigations.

With regard to the three specific recommendations you identify in Chapter 2, we concur fully with each of those recommendations and, in fact, began to use the suggested cost allocation methodology during fiscal year 1997 (July 1, 1996 to June 30, 1997). We further refined our use of this approach during the development of the fiscal year 1998 departmental budget. We have also clearly established a role for the men's and women's coordinators in the development of the departmental budget, and they have clear roles in the ongoing management of that budget once it is approved by the athletic director.

We would like to comment on Finding #3 concerning participation ratios. We believe the issues raised are significant. In fact, as the legislative auditors point out, we have used the prescribed Office of Civil Rights (OCR) methodology for fiscal year 1997 and fiscal year 1998. However, we cannot accept the inference that we were remiss in not using

an OCR participation ratio methodology as our basis when assessing the reasonableness of the allocation of shared costs in fiscal years 1994 through 1996. The OCR definition of participation ratio that the legislative auditors relied upon in performing their assessment comes from the Cohen v Brown University court decision which is not controlling in Minnesota and, as the auditors pointed out, was not decided until April 1997.

As we and our internal auditors searched for appropriate criteria to use in prorating shared costs in our combined men's and women's athletic program, we found no specified methodology in state statutes. University auditors contacted the Office of the Legislative Auditor during the spring of 1996, who confirmed that no criteria is specified in the law and that the competition-based participation ratio appeared to be a reasonable cost allocation methodology. We think we made a very sincere effort to correctly allocate costs using the information available at the time of the initial audit, January to August 1996.

Finally, we agree with the auditor's statement that cost allocation is not a precise science. The cost allocation procedures used for fiscal years 1994 through 1996 resulted in allocated costs within two percent of the methodology recommended by the legislative auditors. We think the result of the cost allocation methodology used for 1994 to 1996 was accurate and reasonable given the available information at the time.

We recognize the University is accountable to the legislature and the people of Minnesota for the use of restricted appropriations made to the University. The legislature may -- indeed should -- insist that the University have adequate procedures to ensure that state special appropriations are expended in accordance with legislative restrictions. The University may be required to report on such procedures and explain how they meet the objectives established by the legislature. Additionally, the legislative auditor may -- and does -- undertake periodic reviews intended to supplement the work of the University's financial administration and internal auditors to determine whether these procedures are in fact adequate. However, it would be inconsistent with the unique constitutional status of the University of Minnesota to place the State Department

of Finance in the position of monitoring or managing the disbursement of appropriations to the University. Therefore, we believe the recommendations presented in Chapter 3 of your report are more appropriately directed to the University's Office of Finance and Operations.

In regard to the University of Minnesota's relationship with the Department of Finance, we are very interested in cooperating in every way to enhance the coordination which already exists. Members of the University's Budget Office do meet with the Department of Finance at the end of each legislative session to discuss any conditions attached to specific pieces of funding and how satisfaction of the conditions is to be demonstrated and/or reported. If, as recommended in Finding 4, additional communication is needed with the Department to clarify the University's understanding of specific legislative conditions accompanying state appropriations, we would be happy to discuss how this can best be accomplished with the Department of Finance.

In regard to the recommendations made in Finding 5 of your report, the University does have comprehensive policies and practices for budgeting, disbursing, and accounting for state funds. We currently provide a substantial amount of this information to the Department of Finance. We work cooperatively with the Commissioner of Finance in the submission of budgetary documents for the capital and biennial requests. This cooperation includes following guidelines and time frames established by the Commissioner for budgetary documents, responding to questions, and reviewing related legislative actions. The University budget is typically forwarded within the Governor's budget request. The University's financial records are available for review by any member of the Legislature or the public. If additional reporting or information exchange is felt to be beneficial by the Department of Finance, we would be more than willing to discuss their information needs.

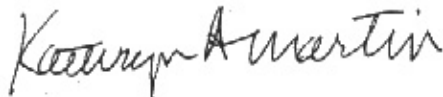
Since the issuance of the University's internal audit report of the UMD Department of Intercollegiate Athletics in August 1996, the UMD administration has taken a number of actions to address the issues raised in Finding 6 of your report. We believe these actions adequately respond to the issues of questioned spending referenced in the report. The specific corrective actions taken over the past year include the following:

- The methodology for determining participation ratios endorsed by the Office of Civil Rights has been used as the basis for prorating shared expenses between UMD's men's and women's athletic programs for fiscal years 1997 and 1998.
- Although not legally bound to do so, UMD reimbursed the women's athletic budget for \$68,633 of overcharges to that account identified for fiscal year 1994.
- Starting in fiscal year 1998 UMD is depositing revenue earned from income generating activity (e.g. youth athletic camps or fundraising) to the same accounts that incurred the related costs.
- Since fiscal year 1996 UMD has voluntarily increased its funding of women's athletics by more than \$250,000 per year, increasing from \$736,000 in 1996 to \$995,000 budgeted for the 1998 fiscal year. Further, UMD anticipates this increased funding to continue on an on-going basis. These additional investments in women's athletics should more than offset the additional costs questioned by the Office of the Legislative Auditor.
- UMD has created full-time positions for our women's soccer coach, assistant women's basketball coach, and will have a part-time assistant soccer coach and an additional athletic trainer beginning this fall.
- The UMD Athletic Department budget provides scholarship opportunities for our female athletes consistent with their level of participation in the UMD athletic program.
- UMD will have in place, by October 1, 1997, a complete plan to increase its participation rate and scholarship opportunities for female athletes which will approximate their percentage of the total enrollment on the UMD campus.

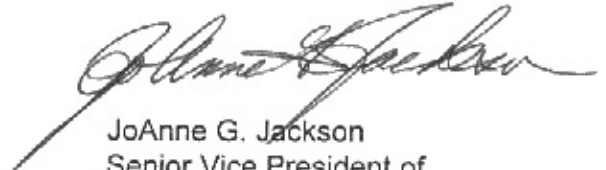
These actions represent substantial steps toward our goal of making the UMD Department of Intercollegiate Athletics a leader on issues of gender equity. In April of this year, UMD reached an agreement with the Office of Civil Rights covering a wide range of affirmative steps designed to enhance opportunities for female student athletes. The Campus is also making every effort to ensure that enhanced opportunities for women do not result in unnecessary decreased participation opportunities for its male student-athletes.

Please call on us so that we may follow up on any issues or concerns you may have regarding this response.

Cordially,



Kathryn A. Martin  
Chancellor  
University of Minnesota - Duluth



JoAnne G. Jackson  
Senior Vice President of  
Finance and Operations  
University of Minnesota



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August 18, 1997

James Nobles  
Legislative Auditor  
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Dear Mr. Nobles:

Thank you for the opportunity to respond to the OLA special review of selected issues relating to state special appropriations to the University of Minnesota. The report thoughtfully examines the Finance Department's role in distributing and overseeing state appropriations to the University, and raises several issues that merit consideration and discussion with the Board of Regents and University management, and the Legislature.

The Finance Commissioner's statutory charge is to manage the state's financial affairs. The state has invested the governance of the University of Minnesota in a Board of Regents elected by the Legislature. As the report notes, statutes governing state finance and the University of Minnesota place few requirements upon the University and outline a very limited role for the Commissioner of Finance in overseeing the distribution of state funds to the constitutionally independent University.

Where the Legislature attaches specific conditions to an appropriation -- as with the special appropriations for women's athletics -- it is within the Commissioner's responsibility to ensure that these requirements are clearly communicated to and followed by the University. However, the Board of Regents, not the Commissioner, bears the primary responsibility for the University's financial management. The Department of Finance will work with University officials to ensure that when the Legislature attaches special conditions to state appropriations, that these conditions are clearly understood.

We agree that the problems at UMD provide evidence of a need to improve the state's oversight of appropriations to the University of Minnesota. The Department of Finance will meet with the University to resolve the instances of questionable spending uncovered by internal auditors and the OLA. The Department will also review selected University-wide budget and accounting policies to assure that the University's internal controls are designed to protect against the recurrence of these problems. Finally, we will examine ways to enhance accountability through the state budgeting process and forward any recommendations to the Legislature.



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It is my hope that the OLA report will precipitate a broader discussion among the Legislature, the Board of Regents and the Executive Branch that will clarify the state's fiduciary relationship with the University of Minnesota.

Sincerely,

A handwritten signature in cursive script, reading "Wayne Simoneau". The signature is written in dark ink and is positioned above the printed name and title.

Wayne Simoneau  
Commissioner