UNIVERSITYOF MINNESOTA
COMPLIANCE AUDIT
FOR THE YEARS ENDED JUNE 30, 1987 AND 1988

Offices of the Board of Regents, President and Vice Presidents of Academic Affairs, Finance and Operations, External Relations, and Health Sciences

OCTOBER 1989

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

89-72

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University of Minnesota Board of Regents

Audit Scope

We have completed a compliance audit of the University of Minnesota, Offices of the Board of Regents, President, and Vice Presidents of Academic Affairs, Finance and Operations, External Relations, and Health Sciences for the years ended June 30, 1987 and 1988. Chapter I provides a brief description of the entities included in our audit scope. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Government Auditing Standards, and accordingly, included such audit procedures as we considered necessary in the circumstances.

Finance-Related Legal Provisions

The objective of our audit was to verify that financial transactions were made in accordance with significant finance-related laws, policies and procedures. As part of our audit, we also considered whether the University of Minnesota's financial activities are conducted in a reasonable and prudent manner for a public entity. To achieve this objective, we reviewed selected financial policies and practices in effect during the audit period and at the time of our fieldwork in April through June 1989.

The University of Minnesota was created by Laws 1851, Chapter 3, enacted by the Legislative Assembly of the Territory of Minnesota. The university is governed generally by Minn. Stat. Chapter 137. The university is not subject to the general legal provisions which govern the financial management of state agencies. The compensation and other conditions of employment of university employees are generally not governed by the rules applicable to state employees. Pursuant to the enacting legislation, the Board of Regents has authority to establish rules and regulations for the administration and operation of the university. The university has adopted various policies, rules and regulations relating to personnel administration and other finance-related activities.

The management of the University of Minnesota is responsible for the university's compliance with laws and regulations and for establishing appropriate policies and procedures to control their financial activities. In connection with our audit, we selected and tested transactions and records from the programs administered by the university. The purpose of our testing of transactions was to obtain reasonable assurance that management had, in all material respects, administered its programs in compliance with the aforementioned laws and regulations, and that their policies and procedures were appropriate for a public entity.

Reliance on the Work of Other Auditors

The university contracted with a certified public accounting firm to audit its financial statements for the years ended June 30, 1987 and 1988. The firm issued unqualified opinions on the university's financial statements for the two years. We reviewed the auditor's workpapers and relied on their work, where appropriate, in determining the extent of our testing.

Conclusions

The results of our testing of transactions and records indicate that the University of Minnesota offices included in our audit scope complied with the aforementioned finance-related legal provisions. Except for the issue discussed in finding 2, regarding funding of an employee's salary and retirement, nothing came to our attention in connection with our audit that caused us to believe that the University of Minnesota was not in compliance with other applicable legal requirements. We will refer a copy of this report to the United States Department of Agriculture for resolution of the federal retirement issues.

Findings 1 and 3-10, discuss issues where we believe the University of Minnesota, during the years ended June 30, 1987 and 1988, had not established an appropriate financial control structure for a public entity.

We would like to thank the University of Minnesota staff for their cooperation during this audit.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: June 30, 1989

REPORT SIGNED ON: September 28, 1989

UNIVERSITY OF MINNESOTA

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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
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Alan Finlayson, CPA	Auditor-in-Charge
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Kari Irber, CPA	Auditor
Ellen Merlin, CPA	Auditor
Connie O'Brien, CPA	Auditor
Steve Nartker	Intern
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EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following representatives of the University of Minnesota on September 8, 1989:

Gordon Donhowe - Senior Vice President for Finance and Operations
Carol Campbell - Controller and Treasurer

I. INTRODUCTION

The University of Minnesota is governed by a 12 member Board of Regents, elected by the Legislature. The Board of Regents elects a President who appoints various Vice Presidents to administer university activities. The scope of our audit included the Offices of the Board of Regents, the President, and the Vice Presidents for Academic Affairs, Finance and Operations, External Relations, and Health Sciences. In addition, we reviewed selected financial transactions for the Offices of the Vice Presidents for Agriculture, Forestry, and Home Economics and Student Development, and the General Counsel, as they related to issues identified in the other offices.

The university does not have a uniform accounting and administrative structure for the various offices included in our audit scope. In some cases, accounting system records for the various offices include both academic and administrative functions, as well as other components. It was our intent to audit the basic administrative activities of the various offices as well as selected additional functions as determined appropriate. As a result, we used our judgment in determining which accounts and transactions to include. The following sections provide a brief discussion of the financial activities relating to the entities included in our audit scope.

Office of the Board of Regents

The Office of the Board of Regents is funded from an allotment of the university's Operations and Maintenance (O and M) appropriation. Office expenditures during fiscal year 1988 totalled $315,000. The major expenditure categories are staff payroll and board member expenses.

Office of the President

The administrative activities of the Office of the President are funded from an O and M allotment. Expenditures during fiscal year 1988 were $842,000, with payroll representing approximately two-thirds of the total. The President also had two discretionary accounts, funded primarily from unrestricted investment income. Expenditures during fiscal year 1988 from these accounts totalled $6,920,000. Approximately $6 million was donated to the university foundation to match faculty and staff contributions to the Minnesota Campaign. The discretionary accounts are now a part of central reserves, which is monitored by the Board of Regents.

Office of the Vice President for Academic Affairs

In addition to the main office of Academic Affairs, our audit included the Academic Personnel and Undergraduate Education and Outreach offices. Expenditures during fiscal year 1988 totalled $3,352,000, of which $2,505,000 was paid from O and M allotments. The remainder was paid primarily from unrestricted reserve accounts. Payroll accounts for approximately 58 percent of total expenditures.

<u>Office of the Vice President for Finance and Operations</u>

The Office of the Vice President for Finance and Operations administers various accounts funded from O and M allotments. Expenditures for office administration during fiscal year 1988 totalled $547,000, with payroll costs representing 67 percent of the total. The office also administers various accounts for the university as a whole. For example, expenditures from other O and M accounts, primarily relating to employee benefits, totalled $8,615,000 in fiscal year 1988. Expenditures from other restricted and unrestricted accounts totalled $2,826,000. Of this amount, approximately $2.5 million was funded from indirect cost recoveries and was allocated to various colleges and units to assist in the administration of contracts and grants.

<u>Office of the Vice President for External Relations</u>

Activities of the Office of the Vice President for External Relations are financed primarily from an O and M allotment. Expenditures of the office during fiscal year 1988 totalled $450,000. Approximately 65 percent of the total was for staff payroll. The Vice President oversees the university staff who administer the University of Minnesota Foundation. As a part of this audit, we reviewed expense accounts provided to the President and Vice Presidents by the foundation.

<u>Office of the Vice President for Health Sciences</u>

During fiscal year 1988, expenditures of the Office of the Vice President for Health Sciences totalled $359,000, with approximately 80 percent of the total being for staff payroll. Activities were funded from an O and M allotment.

We have identified certain financial activities in the offices audited which we believe were inappropriate or where we believe procedures and controls can be improved. Section II of this report discusses some questionable expenditure areas identified during the audit. Section III discusses control weaknesses in the personnel and payroll areas. Section IV describes control weaknesses with the university's insurance program.

II. QUESTIONABLE AND UNDOCUMENTED EXPENDITURES

We identified certain expenditures which we believe are not in compliance with applicable rules and regulations or are otherwise questionable. In some instances we believe the university should clarify its policies and procedures governing certain financial activities. In other cases, documentation was insufficient to support the payments.

1. <u>The Board of Regents granted questionable paid leaves to several former administrators</u>.

In 1988 the Board of Regents granted paid administrative leave to various former administrators, including the president, three vice presidents, and an assistant vice president. The leaves were intended to cover the period between their resignation from administrative positions and their return to faculty appointments. According to university staff, the leaves allowed the individuals to prepare to return to teaching. We believe the practice of granting administrative leaves is questionable, because the university has committed significant resources without appropriate guidelines as to the purpose or requirements of the leaves. The following paragraphs discuss the leaves granted to individuals in the President's and various Vice Presidents' offices.

<u>Office of the President</u>

Kenneth Keller was President from March 1985 to March 1988. He notified the Board of Regents on March 14, 1988 that he was resigning his position as President. His contract required 60 days notification, making his formal resignation date May 13, 1988. At the time of his resignation, his annual salary was $140,000. The contract required the university to pay his salary for an additional 167 days after the effective date of resignation. Therefore, he should have received his presidential salary until October 27, 1988. Instead, the university paid him through October 31, 1988, or $1,061 more than the contract required.

Before receiving the final payment from his presidential contract, former President Keller began a paid leave of absence. He was eligible to return to his faculty position in the Chemical Engineering Department after his resignation as president. However, the Board of Regents granted him a one year administrative leave beginning September 16, 1988. His salary during the leave was set at $84,790, plus fringe benefits of approximately $25,000. Funding for the leave was transferred to the Chemical Engineering Department from the President's discretionary account in June 1989. As a result of the board's action, the President's office paid former President Keller $17,500 and the Chemical Engineering Department paid him $14,132 for the period September 16, 1988 to October 31, 1988. We believe the Board of Regents approval of the administrative leave was inappropriate. It allowed former President Keller to receive two salaries for approximately five weeks.

Office of the Vice President for Academic Affairs

Roger Benjamin was Provost and Vice President of Academic Affairs from August 1986 until his resignation in May 1988. He began an administrative leave in July 1988. However, he returned to the Political Science Department from September 1988 until June 1989. During fiscal year 1989, he received his administrative salary of $114,750. For fiscal year 1990, he will continue his administrative leave at a base faculty salary of $71,500 plus approved salary increases for the year.

John Wallace was an Assistant Vice President in Academic Affairs from July 1, 1983 until June 30, 1988. After his resignation, he proposed a one year administrative leave. His leave proposal included duties such as serving on committees, representing the university in community service efforts, and writing two monographs. The Board of Regents approved the leave at his administrative salary of $75,600. However, they did not take formal action to require the duties proposed by Mr. Wallace.

Office of the Vice President for External Relations

Stanley Kegler resigned as Vice President of Institutional Relations (now External Relations) in June 1987. He remained on staff in External Relations to assist the new Vice President. In July 1988, he was given a one year leave at his administrative salary of $105,000. The administrative leave was funded from central reserves. He returned to a faculty position in the College of Education after his leave.

Office of the Vice President for Student Development

Frank Wilderson served as Vice President for Student Development from July 1979 until his resignation in December 1988. The Board of Regents approved a one year administrative leave, effective January 15, 1989, at his vice presidential salary of $96,000. He is eligible to return to a faculty position in the College of Education after his leave.

We question the university's practice of granting administrative leaves. The Board of Regents does not have a policy defining a purpose and guidelines for the leaves. The board approved the leaves upon the request of former Interim President Richard Sauer. However, the board did not impose any requirements on the former administrators.

The individuals did not have to serve a minimum amount of time as administrators to be eligible for the leave, and they do not have to return to the university at the end of the leave. In addition, the university has not been consistent when granting the leaves. Some of the individuals received their administrative salary during their leave, while others received their faculty salary. Also, the suggested intent of the leave is to allow administrators to prepare for teaching. However, Vice President Benjamin returned to teaching for a year at his administrative salary prior to completing his leave, which will be paid at a faculty salary. We think that if individuals are given leave to prepare for a teaching position, it would be more appropriate to pay their faculty salary during the period of their leave.

In other situations, the university has developed policies governing paid leaves. Faculty members are eligible for paid sabbatical leaves. However, sabbaticals have fairly strict requirements. According to Board of Regents policy, individuals must complete the following before beginning the leave:

-- prepare an outline of the program or studies;

-- make a definite statement of their intention to follow the program and continue service to the university for at least a year following the sabbatical; and

-- file a summary report of the work done during the leave.

Faculty members must work six years before applying for a sabbatical. The university pays one-half of the individual's salary while on sabbatical. The Board of Regents will not approve a sabbatical leave unless they are satisfied it is likely to benefit the university.

We question the university's wide application of administrative leaves as currently structured. If they believe such leaves are necessary, the Board of Regents should develop a policy governing their use. We understand that an administrative leave policy may differ from the sabbatical policy because of differing objectives. However, it should address similar issues, such as eligibility requirements, salary level, and purpose. In addition, it should require the applicant to demonstrate the benefits to the university.

RECOMMENDATIONS

- **The Board of Regents should review the use of administrative leave and develop a policy governing its usage.**

- **The university should seek repayment from former President Keller of the $1,061 excess payment on his contract settlement.**

2. <u>The secretary to the Board of Regents' salary is not paid in compliance with applicable regulations</u>.

The Board of Regents employs a secretary whose main responsibilities include supervising office staff, administering the office budget, and working with central administration of the university. Barbara Muesing currently serves as Secretary. Her base salary in fiscal year 1989 was $56,700. Ms. Muesing transferred to her position from the Minnesota Extension Service in 1985. However, the Extension Service still pays a portion of her salary from a state special appropriation. University staff stated that this arrangement allows Ms. Muesing to remain under a federal retirement program for Extension Service employees. We believe the arrangement violates the federal retirement program guidelines and is contrary to the intent of the state special appropriation.

The Board of Regents office directly pays 50 percent of Ms. Muesings salary from their Operations and Maintenance (O and M) appropriation. The Extension Service pays the other 50 percent, one-half from their state special appropriation and one-half from O and M funds transferred from the Board of Regents. Payroll documents for Ms. Muesing list only Board of Regents' duties. According to Ms. Muesing, and other written evidence, she does perform some Extension Service duties, primarily staffing committees. There is no written documentation of the actual amount of time spent on these activities.

According to federal regulations, employees working less than 50 percent of the time on extension duties are not eligible for federal retirement. We do not believe Ms. Muesing spends 50 percent of her time on the Extension Service duties. In fact, in a June 1987 internal memorandum from Ms. Muesing to the then Chair and Vice-Chair of the Board, she estimated that she spent less than 25 percent of her time on Extension Service activity. A similar 1988 memorandum discussed her responsibility for staffing a committee which meets quarterly.

We do not believe Ms. Muesing is eligible for participation in the federal retirement program. In addition, we question the portion of her salary charged to the state special appropriation for the Extension Service.

RECOMMENDATION

- **The university should discontinue charging the Extension Service for time worked on Board of Regents' activities. If the secretary's salary is funded from multiple sources, she should maintain time records documenting actual hours spent on the various functions.**

3. <u>The university made excessive and inappropriate expenditures for lobbying</u>.

The university actively engages in legislative lobbying activities. During fiscal year 1987, former Vice President for Institutional Relations Stanley Kegler primarily conducted lobbying activities. In fiscal years 1988 and 1989 the duties of Vice President for External Relations Richard Heydinger included lobbying. However, beginning in early 1989, the university employed a full-time lobbyist within the Vice President's office. In addition, as a part of its lobbying activities, the university makes a variety of other expenditures. We question some of these expenditures.

We think the university needs to do more to ensure that all lobbying costs are economical and for a public purpose. The university does not have a policy outlining appropriate lobbying expenditures. Without a policy, individual staff are given too much discretion in making spending decisions. We believe some expenditures during the audit period were excessive and some did not serve a public purpose.

In July 1987, Vice President Kegler received a $10,000 salary bonus. The bonus was paid from a state-funded general expense account, under the control of the Vice President for Finance and Operations. As shown in internal memorandums between President Keller and Vice President Kegler, the bonus was to compensate him for contributions to political fundraisers, which are neither deductible nor reimbursable. Vice President Kegler estimated contributing about $8,600, of which he considered $1,500 to be personal not professional contributions. We question the use of university funds for reimbursement of political contributions, even in this indirect manner.

Most university lobbying costs are for meals with legislators or legislative staff, and in some instances, their spouses. Some expenses are paid from the state appropriation account for the Vice President's office. In other instances, the expense account provided by the University of Minnesota Foundation (see finding 4) is used.

As an example, Vice President Kegler spent $2,871 from the state appropriation account for meals with legislators or legislative staff from March 2 to April 16, 1987. For the period May 4 to May 18, 1987, $999 was expended. From November 2, 1987 to December 9, 1987, lobbying meal expenses were $849. Use of the state appropriation account for lobbying expenses declined under Vice President Heydinger. For example, for the period March 1 through May 31, 1989, Vice President Heydinger and lobbyist Thomas Nelson expended approximately $275 for a legislative picnic at the State Capitol and on meals with legislators and other university staff.

The university does not set limits on individual meal expenses incurred in lobbying. Nor are there any guidelines addressing when meals with spouses are allowable. Individuals incur various costs and submit reimbursement requests to the university. In many instances the meal costs we reviewed were not supported by receipts. Without a receipt, the university does not have assurance that these are actual costs. The university's travel policy requires receipts for costs exceeding $25. We think the university should require receipts for lobbying expenditures exceeding an established amount.

University employees also used their foundation expense accounts for lobbying activities. During fiscal year 1987, former Vice President Kegler spent over $2,000 on items identified primarily as refreshments for various legislative and legislative staff events. Similar lobbying expenditures during fiscal year 1988 totalled approximately $3,200. Included in these totals are various gifts purchased for legislators. For example, in November 1987 and January 1988, Vice President Kegler used his foundation expense account to purchase the following items:

-- $1,392 for bottles of wine and other alcohol (a memo from Vice President Kegler stated that the purchase was for gifts for legislators and legislative staff, and holiday parties),

-- $261 for holiday candy,

-- $219 for New Years gifts, and

-- $112 for Twins mementos for legislators and families.

In May 1989, Vice President Heydinger paid $181 for gifts of wine for legislators.

We question the university's practice of buying these gifts for legislators. We agree that it may be appropriate for the university on occasion to give gifts of nominal value to legislators and others. But to help avoid an appearance of impropriety, gifts should be principally aimed at promoting the identity and work of the university and not at rewarding the recipient. Purely personal gifts, which have no relationship to university activities, risk leaving the wrong impression and should be avoided.

RECOMMENDATIONS

- **The university should develop a policy and tighter financial controls to regulate lobbying costs.**

- **The university should discontinue reimbursing employees for political contributions and revise their practice of buying gifts for legislators.**

4. <u>The university has not established appropriate controls over expense accounts provided by the University of Minnesota Foundation</u>.

The University of Minnesota Foundation is a nonprofit charitable corporation which has been delegated primary fundraising authority for the university. The foundation, through authorization of its Board of Trustees, provides expense accounts for the President, Vice Presidents and Director of the University Hospital. Neither the foundation nor the university have specific policies defining acceptable uses of the expense accounts. Foundation Board of Trustee meeting minutes describe the general purpose of the expense accounts as supporting outreach activities by these offices on behalf of the university, for which the expenditure of public money is not appropriate. They refer to such items as dues in social clubs, professional associations, entertainment of alumni prospects, donors and friends of the university, and staff recognition events. For many of the payments we reviewed, the purpose of the expenditure was unclear or the documentation was inadequate.

The expense accounts are funded from unrestricted gifts. For fiscal year 1988, the President received $50,000 per year, and the Vice Presidents and

Hospital Director collectively received $32,500. In addition, the foundation provides expense accounts to its Executive Director and the Executive Director of the Minnesota Alumni Association, who also are university employees. The foundation does not transfer the expense account money to the university for expenditure. Instead, it either reimburses the President or Vice President or pays a vendor directly, based on expenditure documentation submitted by the individual. As a result, these payments are not subject to the normal university procedures and controls.

The foundation solicits private donations on behalf of the university. In addition, although the foundation legally is a separate entity, it is directly linked to the university in many ways. The foundation's by-laws require that 25 percent of the trustees be Regents of the University of Minnesota, or their appointees, one of whom is the President. The foundation is housed at the university and university employees perform the administrative functions for the foundation. Therefore, we believe the university shares a responsibility for proper use of foundation money. Since the foundation provides expense accounts to its employees, the university should develop a specific policy governing the use of these funds.

We question the propriety or reasonableness of certain of the expenditures made from the expense accounts. In some instances we believe that the foundation expense accounts have been used to pay for items or activities which normally would be considered personal expenses. In effect, the expense accounts become a salary supplement to the President and Vice Presidents.

The foundation expense accounts have been used for various purposes such as luncheon and dinner meetings and other entertainment, liquor for various parties, memberships in private clubs and associations, travel expenses for spouses to accompany university officials on various trips, staff parties, lobbying, and gifts. We question whether certain of the expenditures are necessary for university business purposes, including the following:

- During fiscal years 1987 and 1988, former President Kenneth Keller was reimbursed $6,158 for child care expenses, at the rate of $50 per day or $5 per hour.

- Former Vice President for Academic Affairs Roger Benjamin paid $414 to fly his family to Minneapolis from Pittsburgh to attend an art museum event and $454 for season hockey and basketball tickets for a staff member.

- Richard Sauer, former Vice President of Agriculture, Forestry, and Home Economics, paid $981 in July 1986 and $1,981 in August 1987, for his membership in a private golf club.

- President Hasselmo paid $620 for tickets to a series of events at the St. Paul Chamber Orchestra.

In other instances, the purpose of individual expenditures was unclear or not fully documented. In many cases the vouchers do not state a specific business purpose. They only refer to "official university business." For example:

-- During the period August 1986 to April 1988, former President Keller made 18 different payments, totaling $18,959, to a liquor store. The purpose listed on the reimbursement request was official Eastcliff entertainment expenses.

-- Former Vice President Benjamin spent $531, with documentation stating only "several meals related to Academic Affairs activities."

-- Neil Vanselow, former Vice President for Health Sciences, received $221 reimbursement for hosting a dinner at his home.

-- In November 1986, V. Rama Murthy, former Acting Vice President for Academic Affairs, hosted various Minnesota Alumni Club events at a total cost of $363. The purpose of or participants in the events was not identified.

These occurrences may be acceptable business costs. However, we could not determine the purpose from the documentation. Individuals need to demonstrate the propriety of all expenditures.

Another problem is that many of the reimbursement requests lack receipts. Without adequate documentation, neither the foundation nor the university have reasonable assurance that the employee actually incurred the costs. If the foundation does not require receipts before making payment, the university needs to ensure that receipts accompany all reimbursement requests.

The university needs to assure donors that their contributions are used for a public purpose. To accomplish this, they need clear guidelines on the proper use of expense accounts. All reimbursement requests should clearly state the business purpose and include appropriate receipts.

RECOMMENDATION

- **The university should develop a policy governing the use of foundation expense accounts.**

5. <u>The reimbursement of certain travel expenses is questionable or not fully documented</u>.

The university reimburses employees for business related travel expenses, in accordance with its established guidelines. The university has established certain limits for expense reimbursement. Employees often combine business and personal travel. When this occurs, the university needs to ensure that reimbursement payments cover only business expenses. We could not always distinguish business and personal travel because of inadequate documentation.

The university encourages employees who travel frequently to apply for a business credit card. Former President Kenneth Keller charged both business and personal expenses to his card. He periodically reimbursed the university for personal expenses, but did not complete expense reports or other documentation of the business travel. Without an expense report, the university does not have assurance that employees repay all personal expenses. In addition, the university travel policy sets limits for certain expenses, such as meals. Detailed expense reports are necessary to ensure that reimbursements comply with established policies. The President's office could have inadvertently reimbursed President Keller in excess of the travel limits.

When Roger Benjamin accepted the position of Provost and Vice President of Academic Affairs, he retained his residence in Pittsburgh. Former President Keller authorized him and his family to fly back and forth to Pittsburgh at the university's expense. These expenses totalled $15,800 from August 1986 to January 1988. We question the authority for such an agreement. University staff stated that the travel expenses were in lieu of relocation expense. However, the university relocation policy provides: "It is recommended that payment be limited to reimbursement of <u>actual</u> moving expenses not to exceed one month's salary.. . . More stringent limitations may be applied at the discretion of the hiring department, the approving authority or the source of funding." For Vice President Benjamin, one month's salary in 1986 would have been approximately $8,700. President Keller entered into an agreement which is not covered under the university relocation policy.

Vice President Benjamin also often was routed through Pittsburgh when flying to conferences or conducting university business in other states. We identified various trips during the audit period, with a total airfare cost of $7,350, which included stopovers in Pittsburgh. University staff stated that the airfare was less expensive than if he had flown directly to his ultimate destination, because he left the Twin Cities on a weekend. However, they did not document the difference in cost. We also noted a similar occurrence when Controller and Treasurer Carol Campbell attended a conference in Alabama and was routed through Florida on the weekend. While airfare is often less expensive on weekends, we could not verify that these situations did not result in additional costs for the university. The travel policy provides that travelers are expected to take the most direct route, except when a less expensive alternative is available. It also provides that employees are responsible for additional costs when they combine business and personal travel. The university needs to document that personal travel does not result in additional costs.

During fiscal years 1987 and 1988, travel expenses of the Board of Regents totalled approximately $107,000, including actual reimbursements to board members totaling $90,000. Reimbursements to individual members varied significantly, depending in part on their place of residence. During the audit period, the board members did not document the specific purpose of their travel. Many of their expense reports listed the purpose only as university business. Board of Regent policies do not specifically define official business, leaving this to the discretion of individual members. Since board members determine which meetings or other functions to attend, they need to indicate the specific purpose of the travel. In fiscal year 1989, the board changed procedures to include the function attended on their expense reports. This will help ensure that all travel reimbursements are for university business.

In December 1987, former Vice President Stanley Kegler received a $1,035 mileage reimbursement for use of a personal vehicle to attend a convention in Los Angeles, California. The reimbursement was based on 22.5 cents per mile for 4,600 miles. We question the amount of the reimbursement. Vice President Kegler could not fly because of an ear infection, so he submitted an advance travel request for mileage. The Travel and Special Payments Section of Accounting Records and Services originally denied the reimbursement request because it did not comply with established university regulations. The travel policy provides that: "Mileage reimbursement for use of personal vehicles should not exceed the cost of comparable airfare for any approved travel." We found no provision for exceptions to the policy. The university received a quote of $308 for tourist air fare to Los Angeles at that time. Despite this original ruling, Vice President Kegler submitted an expense report claiming mileage. He received reimbursement, following approval by the President's office. We do not believe the President's office had the authority to exceed the amount in the travel policy. The policy is the university's method for controlling travel costs. It also provides consistent treatment of individuals. If an employee chooses to drive instead of fly, the reimbursement should not exceed the cost of airfare.

RECOMMENDATIONS

- **Departments should ensure that all travel reimbursements include only business expenses. If personal and business travel are combined at a lesser cost, employees should provide specific documentation of cost savings prior to the trip.**

- **Individuals should provide documentation for all expenses in accordance with the university travel policy.**

- **Departments should follow the requirements of the relocation and travel policies.**

- **The university should recover the $727 in excess travel reimbursements to former Vice President Kegler.**

III. PERSONNEL POLICIES AND PROCEDURES

The university has several types or categories of employees, each with their own work rules and personnel policies. The offices included within the scope of our audit primarily have academic staff and civil service employees. Academic staff include appointments for professional and administrative personnel other than faculty, student and professional training positions, and civil service. Each group has established policies and procedures or rules and regulations governing its terms of employment.

6. Recordkeeping for vacation and sick leave is inadequate.

University employees earn vacation and sick leave in accordance with the guidelines of their applicable policies and procedures manual. Academic professional and administrative staff on 12 month appointments accrue 22 days of vacation leave per year. They must use it in the fiscal year earned. In addition, they may use a maximum of two weeks sick leave without formal documentation. They are not required to maintain leave records documenting amounts earned, used and accumulated balances.

The university has not required records for academic professional and administrative staff because their leave cannot accumulate past the fiscal year. We believe an independent recordkeeping system would improve internal controls. Under current procedures, departments may not detect excessive leave usage. Another problem occurs when individuals terminate employment. The university pays them for unused vacation leave. Since no records exist, departments rely on the employee to determine the appropriate balance. This could result in an overpayment.

The university does require vacation and sick leave records for civil service employees. However, in some offices, procedures for recording leave are not adequate. Civil service employees earn an amount based on years of service. For example, in the first five years of employment, an individual earns 12 days per fiscal year. They can accumulate a balance equal to two years accrual. They also earn 12 days of sick leave per year and can accumulate a balance of 100 days.

In the Board of Regents, Vice Presidents' for Finance and Operations and Health Sciences offices, civil service employees maintain their own leave records. In addition, the Board of Regents office staff had discarded leave records for the audit period. Good internal control requires independent verification of recordkeeping systems. When employees maintain their own leave records, they could fail to record usage without detection.

RECOMMENDATION

- **Each department should maintain independent leave records for both academic professional and administrative staff and civil service employees.**

7. Employees have not received performance evaluations.

Academic professional and administrative employees include the president, vice presidents, and other management employees. Civil service employees include office and support staff. Neither the professional and administrative nor the civil service employees in the offices reviewed received performance evaluations.

The professional and administrative staff policies require written performance evaluations annually. The evaluation process includes a discussion between the supervisors and employees. In addition, the employee may provide a written response. Supervisors may consider other factors when determining salary increases, but performance evaluations are necessary. Since employees work on one year contracts, job assessments are important. Supervisors can use them to make personnel decisions. In addition, they are a mechanism for communicating strengths and weaknesses to the employee.

According to the civil service compensation plan, departments must complete merit increase plans and performance evaluations before awarding discretionary raises. During fiscal years 1987 and 1988, some departments did not follow the plan when awarding discretionary raises. The Vice Presidents of Finance and Operations, Health Sciences, and External Relations determined their employees raises without a formal evaluation process. Unless departments follow the requirements of the compensation plan, employees performing the same level of work could receive different increases.

RECOMMENDATIONS

- **Professional and administrative employees should receive written performance evaluations annually.**

- **Departments should develop a merit increase plan and complete performance evaluation when awarding discretionary salary increases to civil service employees.**

IV. INSURANCE PROGRAM

The University of Minnesota participates in an employee life, health, and dental insurance program administered by the State of Minnesota. Depending upon employment conditions and benefits selected, the university and the employee may share the cost of the insurance premiums. In fiscal year 1988, employer and employee contributions totaled approximately $32 million. The Employee Benefits Department, under the direction of the Vice President for Finance and Operations, administers the program for the university.

8. The university is unable to reconcile employee insurance contributions to carrier payments.

The university pays insurance premiums to either the state's Insurance Trust Fund or an insurance carrier. The Employee Benefits Department determines the amount of premiums to pay from enrollment figures. It pays all premiums when due, regardless of whether employees have paid their share yet. The university is currently unable to reconcile the employee contributions to the amounts paid to carriers. As a result, it cannot be assured that all applicable employee contributions are collected.

One reason the university cannot verify employee contributions is that its computerized benefit system does not distinguish between collections of retroactive premium adjustments and backcharges. Retroactive adjustments occur because of enrollment changes. Because of timing delays, staff may be unable to input the data changes in the system during the effective pay period. When this occurs, they adjust the system in the next pay period. However, payments to the Insurance Trust Fund and the various carriers include adjustments for enrollment changes at the time they become effective. Backcharges for uncollected premiums also result in timing differences. Since the university previously paid these amounts to the carriers, they are not included in the current period payments.

The university is planning to update its system to distinguish collections of retroactive adjustments from backcharges. Until that time, it will be unable to reconcile collections and payments. A reconciliation is an important control feature to ensure proper collections and payments to the providers.

RECOMMENDATION

- **The university should revise its procedures and systems to provide for a reconciliation of employee insurance contributions and carrier payments.**

9. Controls over direct bills need improvement.

Currently, the university directly bills individuals who are not on the payroll system and, therefore, do not have automatic payroll deductions for their insurance contributions. For example, employees on leave of absence can maintain insurance coverage at their own expense.

Internal controls over direct billings are inadequate in the following areas:

- Accounting procedures for undeposited checks need improvement.
- Separation of custody and recordkeeping functions is necessary.
- Staff do not complete an independent reconciliation of deposits and check listings.
- Staff should verify applicable coverage before preparing billings.

The Employee Benefits Department receptionist initially receives all department receipts, including direct billings for the insurance system. The receptionist prepares a log of checks and sends them to various clerks for deposit. This procedure should provide a record of all checks if questions arise about their disposition. The clerk who receives the direct bill receipts prepares an additional log, but does not compare it to the receptionist's record. For improved control, we believe there should be an acknowledgement of the amount of checks transferred between individuals. The receptionist could prepare separate check listings by type of receipt for transmittal to the various clerks with the applicable checks, thereby eliminating the need for a second log. Or a summary sheet showing the total received could accompany the checks and be signed off on by the clerk.

The clerk prepares the billings, deposits receipts, and updates the accounting records. Under effective accounting controls, someone without access to cash should update the accounting records, to avoid possible concealment of errors and irregularities. Good internal controls also require a reconciliation of deposits to the original record of receipt by someone independent of the custody and recordkeeping functions. This control provides for detection of checks not deposited. Currently there is no reconciliation of the original check listing to the actual deposits.

The insurance system contains various enrollment information, such as employment status, which has an effect on the amount billed for insurance coverage. Staff prepare bills manually without reviewing information on the insurance system. This could result in improper billings when coverage changes.

RECOMMENDATIONS

- **The clerk in the Employee Benefits Department should acknowledge in writing the amount of checks transferred from the receptionist.**

- Someone independent of direct bill recordkeeping should prepare deposits.
- Someone independent of cash and direct bill recordkeeping should reconcile accounting records and deposits.
- Staff should review direct bills for potential changes in coverage.

Office of the Controller and Treasurer

UNIVERSITY OF MINNESOTA

Vice President for Finance and Operations
301 Morrill Hall
100 Church Street S.E.
Minneapolis, Minnesota 55455
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September 27, 1989

Mr. James R. Nobles
Legislative Auditor
State of Minnesota
Veterans Service Building
20 West Twelfth Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

The University of Minnesota is pleased to respond to the comments and recommendations developed by your office during the compliance audit of the offices of the Board of Regents, President, and Vice Presidents of Academic Affairs, Finance and Operations, External Relations, and Health Sciences.

We are pleased that you concluded that the "results of our testing of transactions and records indicate that the University of Minnesota offices included in our audit scope complied with the aforementioned finance-related legal provisions". Indeed, with the exception of one issue which must be determined by the U.S. Department of Agriculture that the University is in compliance with "other applicable legal requirements".

The remainder of our response addresses various issues where you suggest that financial controls could be improved. We have noted those instances where we disagree with either the audit findings, the conclusions drawn, or the recommendations you have made. Many changes have been instituted at the University since the period under audit, the years ended June 30, 1987 and 1988, including formalizing and circulating University-wide financial policies.

We continue to improve the controls, policies and procedures in many areas of operation, and we trust that these efforts will be acknowledged, if not in this report, then in the future.

Respectfully,

Carol N. Campbell

Carol N. Campbell
Controller and Treasurer

CNC:pl

cc: G. M. Donhowe

Comment 1:

The Board of Regents granted questionable paid leaves to several former administrators.

Recommendations:

- The Board of Regents should review the use of administrative leave and develop a policy governing its usage.

- The University should seek repayment from former President Keller of the $1,061 excess payment on his contract settlement.

University Response:

The University has had longstanding policies governing sabbatical leaves for faculty and administrative leaves for administrators who request a release from daily responsibilities in order to advance their knowledge and skills to better perform their continuing functions.

These policies do not address the situation when a tenured faculty member has completed service in an administrative capacity and requires time to regain command of his/her discipline before returning to a faculty position. This transitional leave is necessary in order to attract highly regarded researchers into administrative positions.

We concur that a formal transitional policy would be beneficial, and we have therefore drafted an "Administrative Transitional/ Terminal Leave Policy" which is intended to encourage major central administrative and collegiate officers to prepare for assumption or resumption of faculty or professional roles at the conclusion of a significant period of administrative service. The proposed policy, which must be presented to the Board of Regents for approval, sets forth the general parameters and the criteria under which each request will be negotiated. Of necessity, administrative leave plans must be flexible to meet the purpose for which they are intended.

Regarding the payment to former President Keller, the University of Minnesota acknowledges his many contributions to the institution in various faculty and administrative positions during his 24 year career at the University and will not seek repayment of the $1,061 contract settlement that he accepted in good faith. Indeed, under some interpretations of his contract, former President Keller could have been entitled to more in salary payments which he relinquished.

Comment 2:

The Secretary to the Board of Regents' salary is not paid in compliance with applicable regulations.

Recommendation:

The University should discontinue charging the Extension Service for time worked on Board of Regents' activities. If the Secretary's salary is funded from multiple sources, she should maintain time records documenting actual hours spent on the various functions.

University Response:

It has been, and continues to be, the position of the Minnesota Extension Service that many of the responsibilities the Secretary carries out in support of the Board of Regents are also of direct benefit to the Minnesota Extension Service. As a result, the arrangement does not violate federal retirement program guidelines, nor is it contrary to the intent of the state special appropriation. The Director of the Minnesota Extension Service will forward this issue to the Federal Extension Service - USDA for their review and will abide by their determination.

Comment 3:

The University made excessive and inappropriate expenditures for lobbying.

Recommendations:

- The University should develop a policy and tighter financial controls to regulate lobbying costs.
- The University should discontinue reimbursing employees for political contributions and revise their practice of buying gifts for legislators.

University Response:

The specific examples of lobbying expenditures which the Auditor details in this report were incurred back in 1987.

We are pleased to note that the Auditor's report acknowledges the significant reduction in lobbying expenses that has occurred under the current University administration.

We agree that a policy clarifying appropriate lobbying activities and setting documentation standards is of value, and we have therefore already instituted such a policy. Reimbursement of political contributions has never been allowed by the current administration, and this prohibition is formalized in the policy. We concur with the Auditor's comment that gifts to legislators, and others, "should be principally aimed at promoting the identity and work of the University." This has been, and will continue to be, our general practice.

Comment 4:

The University has not established appropriate controls over expense accounts provided by the University of Minnesota Foundation.

Recommendation:

The University should develop a policy governing the use of Foundation expense accounts.

University Response:

The University of Minnesota is a large, diverse, and complex organization which interacts with, and must be responsive to, many diverse constituencies. The business and social obligations placed upon the senior administrative officers of the University reflect this complexity and diversity. They and their spouses are expected to attend University-related functions ranging from sporting events to public forums; to entertain prospective donors, alumni, and colleagues; to recruit faculty; to lobby for state and federal support of programs and research; to provide recognition to staff and remembrances of an appropriate nature to the numerous "friends of the University", to maintain their standing in professional associations and credentialing bodies; and to take an active role in organizations and activities supporting the civic, cultural, ethnic, minority, charitable, and educational goals of the communities in which their campus is located. These responsibilities are met at the expense of family life and personal interests, and it is fitting that the costs associated with these obligations of the office held are reimbursed.

We have reviewed the use of Foundation expense accounts by the current administrative officers and have found their use to be entirely appropriate. We concur that a policy codifying the current reimbursement practice and establishing documentation standards would be beneficial, and we have already drafted and implemented a "Foundation Expense Account Policy" which codifies allowable activities and requires documentation of the purpose and itemization of actual costs incurred.

Comment 5:

The reimbursement of certain travel expenses is questionable or not fully documented.

Recommendations:

- Departments should ensure that all travel reimbursements include only business expenses. If personal and business travel are combined at a lesser cost, employees should provide specific documentation of cost savings prior to the trip.
- Individuals should provide documentation for all expenses in accordance with the University travel policy.
- Departments should follow the requirements of the relocation and travel policies.
- The University should recover the $727 in excess travel reimbursments to former Vice President Kegler.

University Response:

We have reviewed the individual examples cited in the Auditor's Report and believe that University policy was followed, although additional documentation could have been provided in some instances.

The senior administration, including the President's Office, have always had the authority to grant exceptions to standard policy when deemed appropriate. The two instances cited, a negotiated relocation arrangement and permitting travel by land when a medical condition precluded air travel, are examples of appropriate exercise of this authority. We also find no evidence that personal travel expenses were reimbursed by the University. Rather, we note that cost savings were accorded to the University because of the substantially lower fares available when travel occurs over the weekend.

We concur with the intent of the Auditor's recommendation that reimbursable business expenses and exceptions to policy should be fully documented, and we shall amend our travel policy to require documentation of cost savings when personal and business travel are combined.

Comment 6:

Recordkeeping for vacation and sick leave is inadequate.

Recommendation:

Each department should maintain independent leave records for both academic professional and administrative staff and civil service employees.

University Response:

We concur with the Auditor's finding and the recommendation. The vacation policy contained in the Professional and Administrative Staff handbook will be amended to strengthen the recordkeeping requirements, including appropriate segregation of duties.

<u>Comment 7</u>:

Employees have not received performance evaluations.

Recommendations:

- Professional and administrative employees should receive written performance evalutions annually.
- Departments should develop a merit increase plan and complete performance evaluation when awarding discretionary salary increases to civil service employees.

University Response:

We concur with the Auditor's findings and their recommendations.

All administrative offices have been notified that compliance with policies regarding performance evaluations and merit increase plans is required.

<u>Comment 8</u>:

The University is unable to reconcile employee insurance contributions to carrier payments.

Recommendation:

The University should revise its procedures and systems to provide for a reconciliation of employee insurance contributions and carrier payments.

University Response:

The University is in the process of automating the insurance billing system. The automated system has been designed to provide the information needed to perform the reconciliation. Therefore this recommendation will be resolved when phase three of the automated system, the final phase yet to be implemented, is completed.

Comment 9:

Controls over direct bills need improvement.

Recommendations:

- The clerk in the Employee Benefits Department should acknowledge in writing the amount of checks transferred from the receptionist.
- Someone independent of direct bill recordkeeping should prepare deposits.
- Someone independent of cash and direct bill recordkeeping should reconcile accounting records and deposits.
- Staff should review direct bills for potential changes in coverage.

University Response:

The University concurs with the Auditor's finding, and procedures have already been implemented to improve the controls underlying the first three recommendations. In response to the recommendation regarding review of direct bill, the direct billing system was implemented on August 22, 1989 and is self-maintaining. If a change is made in employee coverage, a revised bill is automatically generated.