

BOARD OF HIGHER EDUCATION

REQUEST FOR BOARD ACTION

Committee: Fiscal Affairs and Administrative Policy

NO.: BHE F01-27

BOARD DATE:

June 19, 2001

Trust Fund Guidelines – Revisions

MOVED: The Board of Higher Education hereby revises the Standards for the Expenditure of Trust Funds, last revised by the Board on December 5, 2000 and adopts the revised Standards as attached.

- **This motion includes revisions to the Trust Fund Guidelines as recommended by campuses and approved by the State Auditor's Office.**

Authority: Massachusetts General Laws, Chapter 15A, Section 9

Background

In December 2000, the Board of Higher Education approved changes to its Trust Fund Guidelines in response to a May 2000 report by the State Auditor's Office. This motion proposes changes to the revised Trust Fund Guidelines as subsequently recommended by campuses and approved by the State Auditor.

Proposed Changes

- Clarification that the trust fund guidelines are "recommended" versus "minimum" standards regarding the proper control of the receipt and expenditure of trust funds (page 2, 3 and 11).
- Requirement that travel expense vouchers include "an original receipt" versus "a copy" of airfare ticket, business meal expense, or other invoice (page 7 and 8).

Campuses are requested to implement revised trust fund policies by September 2001; the Board of Higher Education shall receive notice on campus approval of revised trust fund policies in October 2001.

Note: deletions are marked in red/blocked type; additions in blue/italic type.

BOARD OF HIGHER EDUCATION

STANDARDS FOR THE EXPENDITURES OF TRUST FUNDS

Adopted May 9, 1989
Revised June 6, 1990
Revised October 13, 1992
Revised December 5, 2000
Revised June 19, 2001

The Commonwealth of Massachusetts

ROLE OF TRUST FUNDS

The term "trust funds" as used in public higher education refers to non-appropriated funds held by the public institutions of higher education.

In Massachusetts, trust funds play an important role in financing the educational needs of all students in the public higher education system. The statutory authority for trust funds in Massachusetts is found in Massachusetts General Laws chapter 15A, Section 9 (N) and 22 (E), Chapter 73 Section 14 and Chapter 75 Section 11 . The language contained in the various statutes provide authority for the Board of Higher Education and institutional boards of trustees to seek, accept, establish and administer trust funds for campus projects, programs and activities. The statutes stipulate that all income received be held in trust and be expended for the purposes for which the trust funds were established. It is important, therefore, that institutions carefully review the purposes for which a trust fund has been established before making any expenditures from the trust fund. Trust funds are used to complement state appropriations in order to ensure sufficient funding of an institution's total needs. Without trust funds, the Commonwealth's appropriation would have to be increased or some services could not be undertaken. Trust funds can also provide a vehicle to manage supplemental programs to better meet the needs of the college or university community.

Typically, trust fund revenues are used in connection with a variety of campus activities such as auxiliary enterprises (e.g., student housing, bookstores, food service, vending machines), student activities, financial aid, medical services, public services and research. These funds are self-sustaining. . The public colleges and the University have two primary sources of income: state appropriations and local campus revenues or trust funds.

- The expenditure of state appropriated funds is governed by detailed state regulations which control expenditures for all state agencies. Statutory authority for enforcing state regulations rests with several entities including the State Comptroller. The Office of the State Auditor has authority under Chapter 11, Section 12 of the Massachusetts General Laws to audit colleges and universities programmatic and financial activity including trust funds in accordance with General Accepted Government Auditing Standards.
- Trust funds expenditures, however, are regulated differently. Although technically "public" funds, trust funds are not "appropriated" funds, and therefore, are not subject to the same spending rules and regulations as appropriated funds. In many cases, other external regulations govern expenditures of campus trust funds. For example, sponsored research trust funds would be subject to federal and state regulations concerning the expenditure of research monies. Student housing funds may be governed by regulations pertaining to debt service payments associated with dormitory construction. Where external, third-party regulations do not exist, responsibility for regulating and controlling the expenditure of campus trust funds rests with local boards of trustees. The Board of Higher Education

does not have statutory authority over institutional trust funds. The Office of the State Auditor has statutory authority to audit Trust Fund revenue and expenditures.

Because trust fund regulations are locally developed and controlled, they vary from institution to institution and there is a wide spectrum of institutional policies, procedures and regulations which apply. They range from extremely limited regulations to conformity with all state regulations pertaining to appropriated funds. In the vast majority of cases, the guidelines can be considered general in nature, leaving much to the discretion of institutional boards and administrators.

PURPOSE OF THE STANDARDS

A generally shared objective of the Commonwealth of Massachusetts is to improve the quality and effectiveness of its public higher education system and to raise it to a position of leadership in the United States. It is important that the development, utilization, and management of trust funds be conducted in a manner that meets with general approval. Clearly, expenditures from trust funds should be consistent with this overall, long-range goal.

Therefore, these standards for the expenditure of trust funds are intended:

1. To provide some guidance and suggestions on selected expenditures made in the interest of promoting the mission of the institution.
2. To outline recommended standards for expenditures which have the appearance of providing personal benefits to college officials and friends, or of being lavish or extravagant in nature.

It is impossible to discuss every conceivable type of expenditure, which might be made from these funds. These standards are designed to provide greater clarity and more uniformity in the determination of appropriate and inappropriate expenditures of these funds.

The standards should be considered minimum standards. Local boards of trustees must develop institutional guidelines and standards which may be more but not less restrictive.

The standards in this report are designed to apply primarily to those trust funds, which permit broad, discretionary expenditures. However, they shall also be applied to expenditures from all trust funds established by boards of trustees, which are not governed by external (non-trustee) regulations or restrictions.

Underlying Principles

A number of important principles underlie these standards:

1. Institutional autonomy and flexibility as well as local decision-making are important and should be encouraged. These standards should not be construed as an attempt to usurp local authority or to centralize decision-making. Each institution must have the flexibility to fulfill its distinctive mission within the public higher education system.
2. No set of general or detailed guidelines can be a substitute for personal ethics and sound judgment. Expenditures of trust funds should be made with the assumption that those decisions and choices will become public knowledge.
3. Local boards of trustees have the responsibility to issue guidelines to ensure that all Trust Fund revenues due to be received have been received and properly deposited and accounted for.
4. Local boards of trustees have the responsibility to issue clear guidelines for the expenditure of trust funds and to establish the mechanism and structures to actively review these expenditures. Accountability is a critical component of local autonomy. Individuals and institutions should be held accountable for their choices and decisions, including the expenditure of trust funds.
5. Public colleges and the University are members of and participants in the larger communities they serve. As such, they must interact with community groups and civic associations and it can be appropriate for them to make modest and limited expenditures in support of these entities.
6. State institutions, like private institutions, must engage in activities which promote employee morale, generate philanthropic support and enhance the well-being of the institution. Accordingly, reasonable and appropriate expenditures to support such activities can and should be made.
7. Trust funds should not be spent in a manner which gives the impression of lavishness or extravagance. Travel, entertainment and other expenditures should be made in moderation and good taste.
8. Expenditure of trust funds may be subject to federal and state income taxation if they exceed normal allowances, are not adequately accounted for, and/or do not satisfy a requirement that the expenditure was accomplished to satisfy the business needs of the institution.

The following pages outline *recommended* **minimum** standards to ensure the proper control of the receipt and expenditure of trust funds.

I. **RESPONSIBILITY AND REPORTING**

- (1) Responsibility for the specific trust fund guidelines and regulations rests with the institutional board of trustees. These guidelines should include policies

and procedures concerning trust fund revenue sources, appropriate and inappropriate expenditures, bank accounts, spending approval levels and required documentation.

- (2) Responsibility for trust administration rests with the president or chancellor of the institution. Records shall be maintained in accordance with proper accounting procedures, including documentation of receipts, disbursements and bank accounts.
- (3) Policies, procedures and internal controls should be established for all Trust Fund administrative and financial activity. All transactions and significant events should comply with Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls within State Agencies, and the Office of the State Comptroller's Internal Control Guides for Departments.
- (4) All trust fund activities shall be subject to regular audit and inspection by the State Auditor's department and the Board of Higher Education.
- (5) Clear goals and objectives for the trust fund should be established by the institution and, where feasible, an annual budget should be developed, reviewed by the president and submitted to the board of trustees for approval before the beginning of each fiscal year. Such budgets should include sufficient detail to permit the identification of major expenditures. Expenditures should not exceed budgeted amounts for each Trust Fund without prior approval.
- (6) The president shall provide a detailed accounting of trust fund expenditures to the board of trustees on, at least, a quarterly basis and the audited financial statements to the Board of Higher Education on an annual basis. Additional reports may be requested at the discretion of either board.
- (7) The level of detail required in the quarterly and annual report is left to the discretion of the board of trustees at each campus. However, the level of detail must be sufficient to satisfy board member inquiries and audit requirements and it should also include:
 - certification by the president that all records were maintained in accordance with proper accounting procedures, including documentation of receipts, disbursements and bank accounts, and
 - relationship of the expenditure to institutional mission should be clearly stated or evident

In addition, the president and/or board of trustees should report all violations of trust fund expenditure standards as well as the follow-up action taken to address each violation to the Board of Higher Education. This report should be made on a quarterly basis if violations occur. If no violations occur during

the year, the audit report and management letter are required as confirmation of this fact.

- (8) Also in accordance with Chapter 647 of the Acts of 1989, An Act Relative to Improving the Internal Controls at State Agencies, all unaccounted for variances, losses, shortages or theft of funds or property shall be immediately reported to the Office of the State Auditor (OSA). The OSA is responsible to determine the internal control weaknesses that contributed to or caused an unaccounted-for variance, loss, shortage or theft of funds or property; make recommendations to correct the condition found; identify the internal control policies and procedures that need modification; and report the matter to appropriate management and, if appropriate, law-enforcement officials.
- (9) Wherever these standards require the board of trustees approval, approval may be given by any one of three entities: the full board, a sub-committee of the board or a designated trustee(s). The choice is up to the full board of trustees and should be included in the campus procedures or guidelines.
- (10) Wherever these standards require prior approval, the approval of the annual budget by the board of trustees satisfies prior approval requirements for any expenditure highlighted in these standards if that annual budget includes sufficient detail to permit the identification of said expenditure.
- (11) The president or his or her designees should have discretion over trust fund expenditures up to a ceiling specified by the board of trustees except in the following eight circumstances which require approval by the Board of Trustees regardless of the amount of the expenditures:
 - expenditures which personally benefit the president,
 - expenditures for renovations or repairs of president's office or home,
 - expenditures for individual's membership dues (in excess of \$500 for employees other than the president and for amounts in excess of \$1,000 for the president), except for fees or dues associated with professional organizations that directly advance the institution's mission,
 - expenditures for attendance at charitable dinners or events,
 - expenditures for trustee travel,
 - expenditures for entertainment of guests in president/chancellor's home,
 - expenditures for moving costs, and

- expenditures for purchase or lease of motor vehicles (for use by the president or other administrators.)

Additional discussion on the above expenditures are included in the following sections of the standards.

- (12) Individual expenditures over the ceiling as specified by the board of trustees require the prior approval of the board of trustees. Each board of trustees shall inform the Chancellor of the Board of Higher Education of the ceiling specified by that board.

II. CATEGORIES OF EXPENDITURE

(1) Expenditures of a Personal Nature

- A. Whenever an expenditure would personally benefit or might be seen to personally benefit an individual, that person is prohibited from approving such an expenditure, regardless of the dollar amount. In addition to any board approval required elsewhere in this document, in all such circumstances, an institutional official at a higher organizational level must approve the expenditure in advance.
- B. In the case of a president, the board of trustees must provide prior approval of such expenditures.

(2) General Campus Operations

- A. Facilities renovations, repairs, or decorations may be funded through a combination of the institution's appropriation from the Commonwealth and trust funds. When such expenditures for president/chancellor's home or office are to be made, they must have the prior approval of the board of trustees except in an emergency, in which case the board should be informed as soon as practicable. All such expenditures shall conform to the competitive bidding policies of the Commonwealth and to its associated procurement procedures.
- B. Contractor and consultant fees paid from trust funds should conform to state law pertaining to such activities.
- C. Publications, including president's reports, newsletters, advertisements, magazines, invitations and others should avoid the appearance of extravagance.
- D. Individual's membership fees for civic, academic and/or professional organizations in excess of \$500 must have prior approval by the board of trustees except for such memberships for the president so long as fees are not in excess of \$1,000.

- E. Outright contributions to charitable organizations are prohibited. However, where attendance at a charitable dinner or event will further the public purpose of the institution, expenditure may be permitted subject to prior approval by the board of trustees. The board of trustees may wish to impose a reasonable annual limit on such events for each organization.
- F. Contributions to individuals (or their associated committees) seeking elected, public office are prohibited.
- G. Contributions to political action committees (PACs) or equivalent organizations are prohibited.

(3) Travel and Substance Costs

- A. Employee Travel: When travelling to and from institutional business activities, actual expenditures for transportation, including bus, railroad, airline, subway, taxi and personal auto should be reimbursed to the extent that these expenditures exceed the normal daily cost of commuting to and from the institution. Where practical, the least expensive mode of transportation should be selected.

A comprehensive travel expense voucher must be filed for each trip. The voucher should reflect the cost of registration at a convention or meeting; transportation including local transportation, lodging, meals, and miscellaneous costs. Invoices in support of each item of cost shall be attached to the voucher. If one or more costs items have been separately paid by the institution (e.g. airfare), the cost item should be reported on the voucher, noted as paid and ██████ *an original receipt* of the airfare ticket or other invoice attached to the voucher. Adequate conference registration documentation should be attached to the voucher to demonstrate the extent to which meals were included in the registration fee.

In particular, all individuals should fly coach class or at discount fares where available.

Reimbursement for personal automobile mileage may be reimbursed at the prevailing state rate plus documented parking and tolls or the applicable collective bargaining agreement.

The circumstances of an out-of-town trip and the availability of public transportation may require the use of rental cars. Individuals should make every effort to take advantage of discount rates with car rental companies.

When travelling on institutional business, staff members should live and conduct business in a cost efficient manner which is both comfortable and

safe. Where appropriate and available, discount rates on hotel and motel stays should be taken advantage of. All charges, other than basic room charge and tax, such as meals, or phone calls should be separately identified on the expense report.

- Campus board of trustees should establish separate reimbursement policies for incidental travel expenses.

Business meals including food and beverages expenses must be reasonable and appropriate under the circumstances.

Examples of reasonable expenses:

- Meal expenditures which have a clear business purpose
- Meals while travelling out-of-town on institutional business
- Expenditures for the purpose of recruiting potential employees
- Meals incurred as part of attendance at conferences or meetings of professional organizations

Expense documentation should include:

- Date, city, restaurant and description of meal (lunch, dinner, etc.)
- Name(s), company, affiliation(s) and business relationship(s) of person(s) in attendance
- Business purpose and benefit to the institution for incurring the expenses
- Amount spent

In addition, business meal expenses must be documented by **an original** receipt. Any meal not accompanied by a receipt may be reimbursed at the Commonwealth's per diem rate for meals. Also individuals monthly charges should be accompanied by an original receipt.

Expenditures of a personal nature, unreasonable or excessive expenses, and those not specifically related to the conduct of institutional business are not reimbursable. The following are indicative of the type of expenditures that should not be reimbursed:

- Excessive or extravagant costs (e.g., expensive wines, exclusive restaurants)
- Personal entertainment

- Travel insurance in excess of the amount automatically provided by the institution and the Commonwealth
- Fines for traffic or parking violations
- Insurance for a personally-owned car
- Articles stolen from a personal or rental car
- Briefcases and luggage
- Expenses incurred in connection with personal business
- Any unexplained expenses

B. Non-employee Travel: Trust fund expenditures to pay for spouse or personal guest travel are not permitted. If the spouse or guest is a participant on a conference panel or program, expense reimbursement should be sought from the sponsoring organization or personal funds should be used.

~~At the president's direction, students may be allowed to incur travel expenses charged to the trust funds. Trustee travel must be approved by the chairman of the board of trustees. In all cases, the activities and expenses must be clearly related to the mission of the institution.~~

For such individuals, expense documentation should conform to the documentation required for employee expenses. In addition, the listing of unallowable expense noted for employees also applies to the aforementioned individuals.

(4) Personal and Student Loans

- A. Personal loans should not be granted to institutional staff, students or board members. This requirement does not apply to regular financial aid programs at the institution.
- B. In certain rare circumstances, it may be permissible to provide salary advances to employees if the institution cannot meet payroll due to technical difficulties (e.g., computer failure, etc.). Such advances should be repaid promptly to the trust fund.

(5) Employee and Student Recognition and Activities

- A. Within moderate limits set by the board of trustees, certain expenditures of trust funds to enhance employees and student morale or to recognize achievement, longevity, performance or retirement can be made. These circumstances include but are not limited to:
- institutional social functions, and

- employee and student recognition awards and dinners.

(6) Entertainment of institutional donors, alumni, friends, guests and visitors

- A. Such entertainment should be in moderation and good taste.
- B. It is appropriate for a college president to entertain guests in his or her home as part of official duties. Such expenditures must have prior approval of the board of trustees.
- C. Areas of expenditure for entertainment can include:
- Equipment and furniture rentals
 - Materials and supplies
 - Food and beverage
 - Entertainment
 - Service staff
 - Travel and related expenses (in conformity with the travel guidelines noted above)
- D. Sports, theatre and other entertainment tickets cannot be purchased with trust funds unless the event is being held on campus and the expenditure benefits the mission of the institution or directly supports its instructional programs.

(7) Miscellaneous

- A. Moving expenses are appropriate for the President and selected employees of the institution. Attracting individuals of high quality can require moving them from other parts of the state or country. Moving expenses should not exceed the regional, average cost of moving between two points, and must have the prior approval of the board of trustees. Competitive bids for moving costs should be sought in all cases. These expenditures should not include storage fees while an employee waits to sell or purchase a home.
- B. Purchase or lease of any motor vehicle with trust funds (for use by the president or other administrators) must have prior approval of the board of trustees. The lease or purchase of a full-sized, mid-priced automobile for the president's use may be appropriate. If a more expensive vehicle is desired by the president, the difference between the stated limits and the actual cost should be paid with the president's personal funds. Compliance with IRS guidelines for the personal use of an institutional vehicle should be adhered to by a president or other administrator.
- C. Purchase of flowers, gifts and cards in moderation from trust funds may be appropriate. Appropriate occasions include but are not limited to:

- death or illness of an employee, student, trustee or person of special importance to the institution, or immediate family of said persons, and
 - visit of special guests.
- D. Private clubs initiation fees and membership dues are not an allowable expense. Membership fees for professional or academic organizations and civic groups are an allowable expense; however, any initiation fee or annual membership fee for the president in excess of \$1,000 must have the prior approval of the institution's board of trustees. Membership fees in excess of \$500 for employees other than the president must have prior approval.
- E. Policies passed by the Board of Higher Education after approval of the Trust Fund Guidelines (last revised on December 5, 2000) shall supersede expenditure and reporting requirements as indicated in these Guidelines.

III. CLOSING COMMENTS

As noted previously, these *recommended* **proposed minimum** standards for the expenditure of trust funds are not all-inclusive. It is impossible to outline every possible type of expenditure which might be made from these funds. However, when a trust fund expenditure decision must be made, it should be made in recognition of the public nature of these funds and in moderation of good taste.

Campus boards of trustees are expected to establish standards for the expenditures of trust funds **that meet or exceed the Board of Higher Education's minimum standards as identified in this document.** The institution's board of trustees shall approve campus-based standards. Each institution shall make its standards for the expenditure of trust fund available to the campus community.

The Board of Higher Education and the campuses will undertake a review of their standards for the expenditure of trust funds at least every five years.