



UNIVERSITY OF ARKANSAS SYSTEM

Internal Audit Report

**University of Arkansas at Pine Bluff
Harrold Dorm Complex and Living Learning Center
Internal Audit Report
10-09**

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Background

On April 20, 2010, Internal Audit began an audit of the Harrold Dorm Complex and Living Learning Center located on the University of Arkansas at Pine Bluff's (UAPB) campus to investigate allegations of waste and abuse related to the operations of the Harrold Dorm Complex and Living Learning Center.

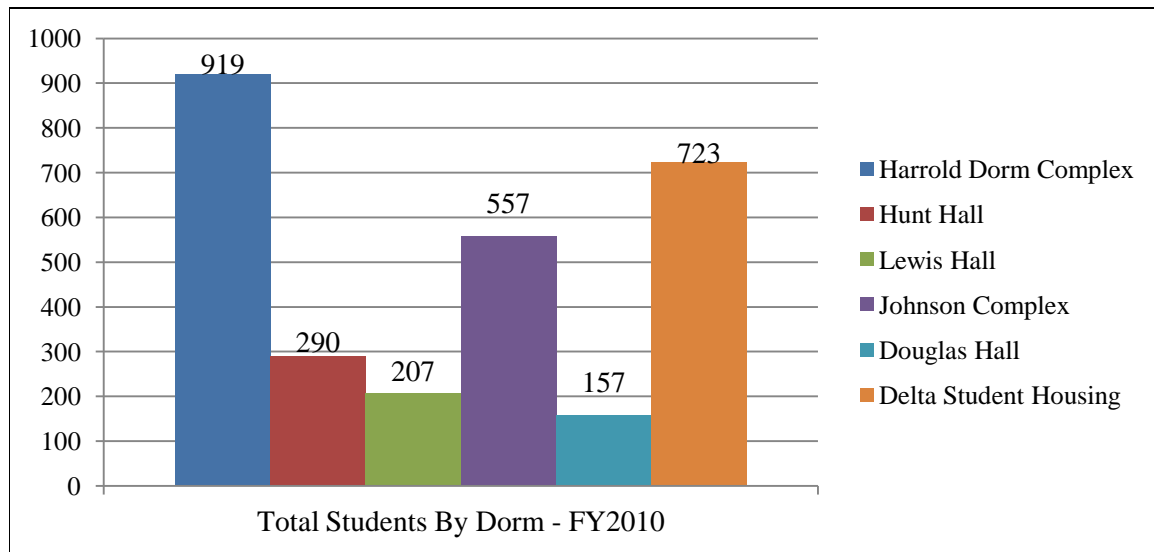
The Living Learning Center of the Harrold Dorm Complex was implemented by the Vice Chancellor for Academic Affairs and the Dean of University College during the 2007-2008 school year. In an interview with the Vice Chancellor for Academic Affairs we noted that the Living Learning Center was modeled after the Prairie View A&M University Living Learning Center in Texas and was established to help first year students succeed in college. The Living Learning Center provided onsite workshops, advisors, scheduled study halls, tutors, and a computer lab for freshmen students to utilize. During the initial year of the Living Learning Center, data was collected to document the academic progress of the learning community residents. Per the report, 89.7% of the residents entered the University taking developmental courses in reading, math, and/or English. At the conclusion of the Fall 2007 semester, 60% of the residents earned above a 2.00 grade point average, 24.2% of the residents earned grade point averages between 3.00-3.99%, and two residents earned a 4.00 grade point average. Additionally, of the total residential population of 215 students during Fall 2007, 83.3% were retained and enrolled in the Spring 2008 semester.

The Dean of Enrollment Management was also involved in the implementation of the Living Learning Center and provided funds to purchase computers for the Living Learning Center lab. During the Fall 2008 semester, the Dean of Enrollment Management was responsible for hiring, scheduling, and supervising tutors who worked at the Harrold Dorm Complex and Living Learning Center as well as other tutoring areas on campus. The Enrollment Management staff included three tutoring coordinators who were trained to oversee the tutoring program.

In fiscal year 2009, the Harrold Dorm Complex and Living Learning Center operations were assigned to Mrs. Rita Ticey, Assistant to the Chancellor. Mrs. Ticey was subsequently appointed by the Chancellor to a concurrent employment role as the Director of the Harrold Dorm Complex and Assistant to the Chancellor. After the transition, the Vice Chancellor for Academic Affairs, the Dean of University College, and the Dean of Enrollment Management were no longer connected to the Harrold Dorm Complex and Living Learning Center. We were informed that the daughter of the Director of Harrold Dorm Complex was responsible for hiring, scheduling, and supervising tutors at the Living Learning Center.

In 2010, Harrold Dorm Complex housed 919 students, or 32%, of the total 2,853 students who lived on campus. UAPB has five other residential student dorms on campus. Harrold Dorm Complex was originally a freshman dorm but has evolved over the past two years allowing upper classmen to reside in the dorm. Certain floors in Harrold Dorm Complex are designed as honor's dorm rooms, which allow students with a certain grade point average to live on the floors.

The graph below compares total students by dorm for fiscal year 2010.



Payroll for the Harrold Dorm Complex and Living Learning Center consisted mostly of extra help labor employees hired as dorm and student coordinators, security guards, janitors, assistants, and tutors during the audit period. Payroll expenses for these employees were paid from several sources including auxiliary funds, State funds, and Federal grant funds.

Through inquiries with UAPB's management we learned that certain expenses, related to the Harrold Dorm Complex and Living Learning Center, were paid from UAPB's Title III Endowment Agency Account held by Simmons First Trust Company. UAPB was awarded the Endowment Challenge Grant from the US Department of Education in 1986 and 1987. The purpose of the grant was to help universities establish and build endowment funds. The grant included a mandatory match and had a 20 year investment period. The University was allowed to spend the income generated by the endowment account over the 20 year investment period. After the 20 year investment period was complete, the funds were released to the University to use for educational purposes. Per bank records, the endowment account was established with Simmons First Trust Company in May 1994.

On July 1, 2008 the University's Title III Endowment Agency Account had a market value of \$365,793. Between July 1, 2008 and June 30, 2010, disbursements from the account totaled \$338,783, of which \$256,394, or 76%, represented payments for expenses related to the Harrold Dorm Complex and Living Learning Center which would meet the federal requirement of being spent for educational purposes.

Scope

The time period covered by this audit is July 1, 2008 through June 30, 2010 and any other period deemed necessary to achieve the objectives of the audit. The purpose of this audit is to 1) investigate allegations of waste and abuse related to the operations of the Harrold Dorm Complex and Living Learning Center, 2) examine and evaluate the adequacy and effectiveness of the University's established internal control structure over the Harrold Dorm Complex and Living Learning Center operations, 3) verify compliance with existing State and Federal laws and regulations, Board of Trustee policies and University procedures, and 4) determine the accuracy of selected financial reporting information.

It is the responsibility of UAPB management to comply with University policies, prescribed procedures, and applicable State and Federal laws and regulations. Our responsibility is to express a conclusion on management's compliance with those policies, procedures, and regulations.

Government Auditing Standards issued by the Comptroller General of the United States and International Standards for the Professional Practice of Internal Auditing issued by The Institute of Internal Auditors require that we plan and perform our audit to obtain reasonable assurance that the UAPB internal control system is adequate and effective in safeguarding assets, ensuring that UAPB records and reports are accurate and reliable, and ensuring compliance with applicable regulations, policies and procedures. We believe our audit provides a reasonable basis for the conclusion stated in this report.

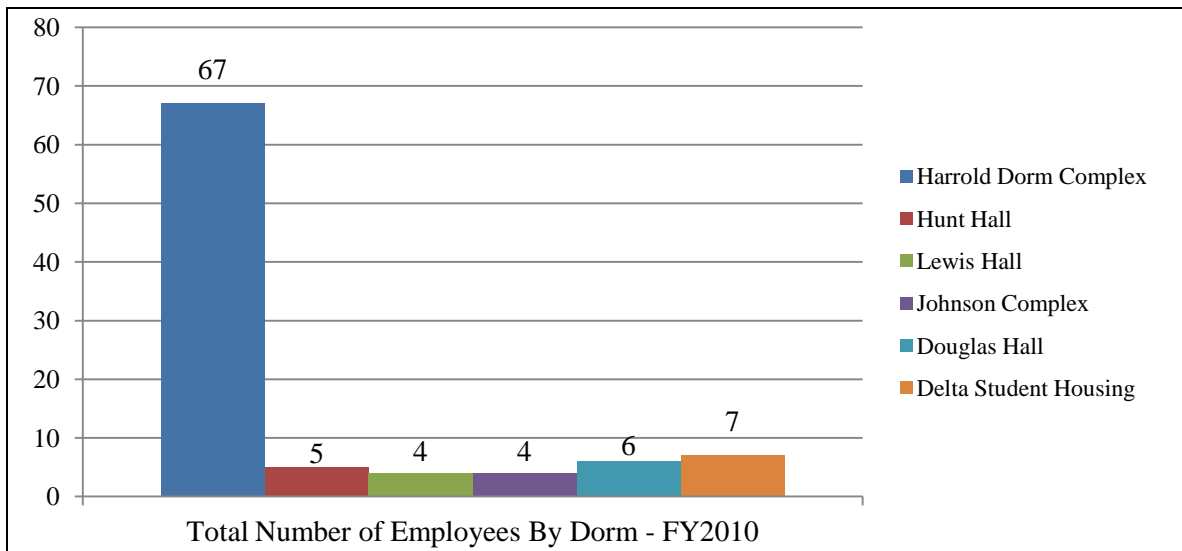
Findings and Recommendations

Payroll

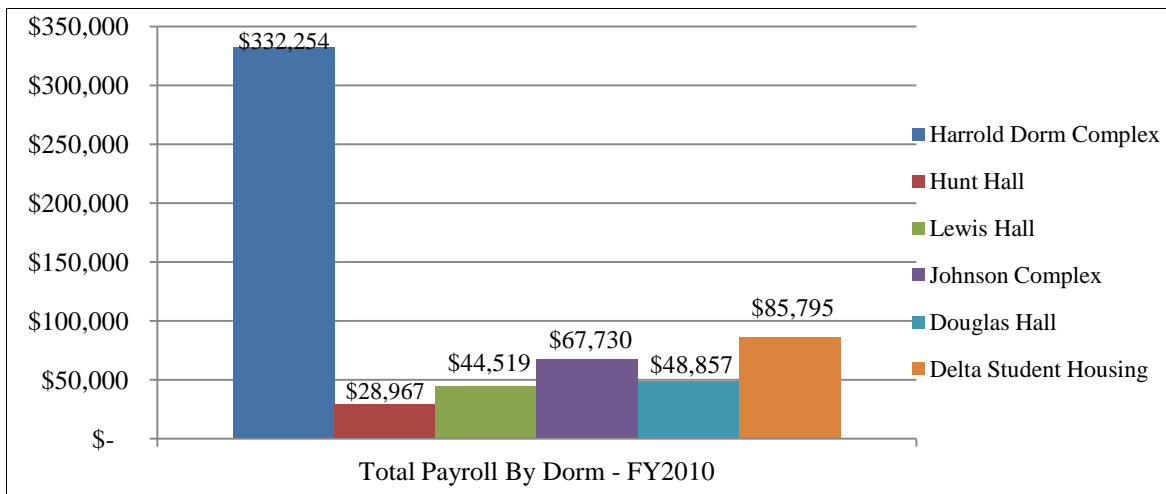
Basic internal controls over payroll should be in place to ensure the accuracy and integrity of hours reported for extra help labor employees. The control structure should include complete and accurate source documents, proper approvals, and adequate verification of timesheets.

We reviewed extra help labor payroll expenses for the Harrold Dorm Complex and Living Learning Center for the time period of July 1, 2009 through June 30, 2010. The review included 1,007 timesheets totaling \$497,532 in gross wages.

The following graph compares total number of employees paid from auxiliary and State funds by dorm for fiscal year 2010. For comparison purposes, tutors paid from Title III Federal grant funds are not included.



The graph below compares gross payroll expense paid from auxiliary and State funds by dorm for fiscal year 2010. For comparison purposes, payroll expense for tutors paid from Title III Federal grant funds are not included.



Internal Audit was unable to conduct the audit in accordance with generally accepted auditing standards to verify the accuracy of the Harrold Dorm Complex and Living Learning Center's payroll due to Mrs. Rita Ticey's override of the University's existing controls related to payroll processing. However, we did perform selected audit tests related to payroll. Below are the exceptions noted from our testing:

- Of the 1,007 timesheets reviewed, 585 timesheets were not signed by the actual employee, but were signed and initialed by another employee for that employee. This represents \$275,971, or 55% of the total gross wages paid during fiscal year 2010. During a limited review of 23 timesheets for the other five UAPB dorms we found 16 timesheets, or 70%, were not signed by the actual employee, but were signed and initialed by another employee for that employee.

- In reviewing Harrold Dorm Complex and Living and Learning Center payroll timesheets for fiscal year 2010, we found the supervisory line for certification of the hours worked by the employee was not signed by the supervisor responsible for approving the hours in 853, or 85%, of the 1,007 timesheets reviewed. This represents total payroll of \$414,121.
- We observed Mrs. Ticey's spouse, sister and daughter worked in support of the Harrold Dorm Complex and Living Learning Center. Mrs. Ticey's approval of timesheets for her family members appears to be in non-compliance with Arkansas Code 25-16-1001, the University of Arkansas Board of Trustee's Policy 410.1, and UAPB guidelines which restrict employment relationships with relatives.
- We noted that of the 25 timesheets processed for Mrs. Ticey's spouse, six were appropriately approved by his supervisor, Major Butler, two were approved by Mrs. Ticey, and 17 were signed with Major Butler's name without authorization from Major Butler, per our interview with him. Subsequent to our meeting with Major Butler, the Chancellor informed us that Major Butler stated he did authorize other employees to sign his name to timesheets as the approving supervisor. We also noted that Mrs. Ticey approved her spouse's payroll personnel action form when he was hired in July 2009, by signing the form on behalf of the Chancellor. The Chancellor informed us that he hired the employee.
- Sixteen timesheets were processed during fiscal year 2010 for Mrs. Ticey's sister. We found three signed by Major Butler and 13 signed with Major Butler's name by another employee. We also noted that Mrs. Ticey approved her sister's payroll personnel action form when she was hired in July 2009, by signing the form on behalf of the Chancellor. The Chancellor informed us that he hired the employee.
- Of the 95 extra help labor employees who reported time in fiscal year 2010, 26 employees, including eight student workers, or 27%, reported time in excess of 12 hours worked in one day. A total of 161 instances were noted in which the 26 employees worked more than 12 hours in one day, 18 of which were found where the employee worked between 17 and 19.25 hours in a single day. The 19.25 hours were reported for a student worker on Thanksgiving Day. We also observed 28 instances where employees worked between 60 and 80 hours in one week. Mrs. Ticey's spouse and sister were noted as two of these instances, reporting 63 and 65 weekly hours respectively. In seven occurrences we noted employees reporting hours between 81 and 110.03 hours in one week. The 110.03 hours was reported by a student worker for the week prior to final examinations for the Fall 2009 semester.
- We reviewed payroll records for fiscal year 2010 and found that a separate earnings code was not used for overtime related to extra help labor employees.
- During our review of the top eleven hourly rates paid to extra help labor positions at the Harrold Dorm Complex for fiscal year 2010, we noted that Mrs. Ticey's spouse and two other employees were paid \$13 per hour. Per the OPM policy, the employees should have been paid \$9.07 per hour. Internal Audit requested and did not receive documentation concerning the rate paid to the three employees. As stated

in OPM policy number 10.02, “The rate of pay for extra help labor employees shall be set at the entry level of the pay grade unless the agency/institution requests an exceptionally well qualified entry rate or the agency/institution has an entry to base plan approved by the Office of Personnel Management.” We were provided a letter from Human Resources dated January 26, 2012, indicating the OMP policy was not communicated to the campus.

- We noted that Mrs. Ticey’s spouse received the highest total compensation of \$19,068 of all extra help labor employees paid by Harrold Dorm Complex and Living Learning Center for fiscal year 2010. Mrs. Ticey’s sister was paid the 11th highest compensation at an amount of \$12,384. We also noted the ninth highest paid Harrold Dorm Complex employee was a full-time UAPB student with total gross wages in fiscal year 2010 of \$13,131.
- During the audit, management stated that work schedules for students employed as extra help labor at the Harrold Dorm Complex were designed around student class schedules. When we compared students’ timesheets to their class schedules for Fall 2009, we found that 13 of the 14 students tested reported work hours that overlapped scheduled class periods. We also noted 32 of 39 students tested for Spring 2010 reported work hours that overlapped scheduled class periods. We attempted to interview 12 students and were only able to interview five of the students in question. The students stated that they were allowed to work when a class was cancelled or when a professor did not require them to attend a scheduled class period. We noted that the University does not have a policy prohibiting students from working on campus during scheduled class periods.
- During our testing we noted 11 employees classified as extra help labor were paid for more than 1,500 hours each between July 1, 2009 and June 30, 2010, which violates State guidelines. The exceptions ranged from 3 hours to 151 hours above the 1,500 hour limit. Three of the 11 employees worked as extra help labor for the Harrold Dorm Complex. The State Uniform Classification and Compensation Action Section 205.2.11, “Extra help labor employees of institutions of higher education may not exceed one thousand five hundred (1,500) hours per fiscal year.” Management did not properly monitor extra help labor employees to ensure compliance with the 1,500 hour law during fiscal year 2010. Total compensation for the exceptions noted totaled \$5,088.64. Three of the employees noted as exceptions were enrolled as full-time students during fiscal year 2010.
- Five employees received duplicate payment amounts during fiscal year 2010 resulting in overpayments totaling \$1,573.64. The duplicate payments occurred in one instance when a regular earnings timesheet was processed during the normal payroll cycle and again as a supplemental payment, in a second instance an overtime timesheet was paid twice in two separate regular pay cycles, a third instance when a payroll adjustment was processed twice in the same pay cycle, and two instances when multiple timesheets were submitted for the same pay period ending date and included overlapping daily hours.

- Hourly rates per employee timesheets did not agree to approved, hourly rates per employee personnel action forms for 29 of the 1,007 timesheets reviewed. This represents gross wages of \$12,854 or 3% of the total gross wages reviewed. The 29 timesheets consisted of payments to 11 employees and resulted in overpayments of \$1,833.30 and underpayments of payroll wages of \$437.78, for a net overpayment of \$1,395.52.
- For fiscal year 2010, the 30 day holiday period included Thanksgiving break (November 26-29) and Christmas break (December 12 – January 6). The total payroll amount paid to Harrold Dorm Complex employees during the holidays was \$37,077 compared to \$17,694 paid in total to support the other five UAPB dorms. The average Harrold Dorm Complex holiday cost per resident was calculated at \$74.01, compared to an average of \$17.61 cost per resident for the other five dorms. The number of hours worked by Harrold Dorm Complex employees for the 30 day period was 3,344.82 hours or an average of 6.7 hours per resident. We compared this to the other five UAPB dorms and found the total actual hours worked to be 872 or an average of .87 hours per resident for the same period.
- For the Thanksgiving break (November 26-29), a total of 33 individual employees reported hours worked at Harrold Dorm Complex. This included 28 individual employees who reported hours worked on Thanksgiving Day, November 26, 2009 totaling 181.10 hours, or the equivalent of 22.6 FTEs. We compared the total hours reported on Thanksgiving Day to the other five dorms and found that the average hours reported worked at the other dorms was 16.8 hours or the equivalent of 2.1 FTEs.
- For the Christmas break (December 12-January 6), a total of 45 individual employees reported hours worked at Harrold Dorm Complex. We compared the total hours reported per the Harrold Dorm Complex of 2,687.67 or the equivalent of 12.92 FTEs to the other five dorms and found that the other dorms had on average reported 116 hours or the equivalent of 0.56 FTEs for the same period.
- In reviewing Harrold Dorm Complex sign-in logs for the Thanksgiving and Christmas break during fiscal year 2010, we compared employee timesheets to the sign-in logs where employees recorded the time worked each day. For this period we compared 483 daily time entries to the sign-in logs and noted that for 342 entries or 71% either the employee did not sign the sign-in log for that day or the sign-in log was completed by another employee on behalf of the employee.
- In reviewing Harrold Dorm Complex sign-in logs for the Thanksgiving and Christmas break during fiscal year 2010, we found in 65 of the 483 daily entries reviewed, or 13%, the hours reported per the sign-in logs did not agree to the timesheets paid through payroll. Based on our calculation, the University underpaid some employees \$1,469.69 and overpaid other employees \$1,698.94 for time not in agreement with the sign-in logs.
- In 181 of the 483 entries, or 37%, reviewed during the holiday period, we noted that employees were working 8 hours consecutively without a meal break. We also noted

124 instances where employee breaks were reported on timesheets, but were not reported on the sign-in logs. The Fair Labor Standards Act does not require employers to compensate workers for bona fide meal breaks.

After the conclusion of our fieldwork, the Chancellor issued a campuswide memorandum stating that student employees of a university unit should not be allowed to work on campus during a period for which he/she has a scheduled class. In addition, the Director of Administrative Services issued a campuswide memorandum stating that timesheets will no longer be accepted without the employee and supervisor's original signatures.

Recommendations: 1) We recommend the University's existing control structure over payroll be followed for the Harrold Dorm Complex and Living Learning Center and procedures be implemented which prevent future exceptions. Procedures should include implementation of a timekeeping system that will allow verification of hours worked by extra help labor employees, using a separate earnings code for overtime hours when processing payroll for extra help labor employees, and procedures to monitor employees classified as extra help labor on a fiscal year basis to ensure compliance with the State Uniform Classification and Compensation Action Section 205.2.11.

2) We recommend the Chancellor develop a campus policy from the campuswide memorandum issued on February 7, 2012, regarding timesheet signatures to stop other employees from signing timesheets in place of the actual workers and supervisors and begin requiring hourly employees and supervisors provide original signatures on timesheets prior to processing by the Payroll Department.

3) We recommend the University comply with the Arkansas Code 25-16-1001, University of Arkansas Board of Trustee's Policy 410.1, and UAPB guidelines on nepotism related to the employment and supervision of Mrs. Ticey's family members by Mrs. Ticey in the Harrold Dorm Complex and Living Learning Center.

4) We recommend the Chancellor develop a campus policy from the campuswide memorandum issued on February 1, 2012, to stop students from working in the Harrold Dorm Complex and Living Learning Center during a scheduled class period regardless if a class is held or cancelled.

5) We recommend management seek recovery of duplicate payments made to employees totaling \$1,573.64 during fiscal year 2010.

6) We recommend management pay amounts due to employees totaling \$437.78 and recover amounts overpaid to employees of \$1,833.30 during fiscal year 2010.

7) We recommend pay rates for current extra help labor employees at the Harrold Dorm Complex be reviewed by management to verify employees are paid in compliance with OPM policy 10.02.

8) We recommend the Chancellor implement a policy documenting the University's position on employee meal breaks to ensure compliance with the Fair Labor Standards Act.

Management's Responses: 1) Management will comply and appropriate procedures are being implemented on or before June 30, 2012. 2) Chancellor will comply. The Human Resources memorandum dated February 7, 2012 is policy. The policy will be included in the Human Resources Guidelines by June 30, 2012. 3) Nepotism was not intended. However, individuals apparently did not follow organizational lines. This error will not be repeated. 4) Chancellor will comply. Chancellor's memorandum dated February 1, 2012 is policy. The policy will be published in all respective University documents by June 30, 2012. 5) Chancellor and management will pursue recovery of duplicate payments. Letters will be processed to seek recovery by March 15, 2012. 6) Management will comply and underpayments and overpayments will be processed on March 15, 2012. 7) Management has already reviewed hourly rates and will be implemented by April 1, 2012. 8) Chancellor will comply. The policy will be implemented on or before June 30, 2012.

Purchasing and Accounts Payable

Purchases to support the operation of the Harrold Dorm Complex and Living Learning Center were made from the University's Title III Endowment Agency Account based on requests from the Chancellor or Mrs. Rita Ticey by signing the Chancellor's name to the disbursement request to the bank and were not under the administrative review and control of the University's Finance Department. We asked for but did not receive documentation that the University's Title III Endowment Agency Account was exempt from the University's established internal controls over disbursements.

Basic internal controls over purchasing and accounts payable were not in place during the audit period to ensure the accuracy and integrity of the disbursements made to support the Harrold Dorm Complex and Living Learning Center and to ensure the accuracy of financial entries into the University's accounting system. The University's established control structure requires completing accurate source documents related to the purchases that includes requisitions, estimates, quotes, bids, purchase orders, receiving documents, invoices, contracts and other payment records when needed to support the disbursement.

Internal Audit was unable to conduct the audit in accordance with generally accepted auditing standards to verify the accuracy of disbursements related to the Harrold Dorm Complex and Living Learning Center due to the Chancellor's and Mrs. Ticey's override of the University's existing controls related to disbursements. However, we did perform selected audit tests related to disbursements from the University's Title III Endowment Agency Account and the exceptions totaling \$239,348.38 from our testing are noted below:

- Mrs. Ticey was unable to provide supporting documents for seven disbursements totaling \$4,219.22 paid from the University's Title III Endowment Agency Account.

Five of the seven disbursements, totaling \$3,619.22 were personal reimbursements to Mrs. Ticey, including three payments she approved herself. The seven disbursements are also reported in the Harrold Dorm Complex and Living Learning Center Report on Loss (10-10).

- Three disbursements totaling \$108,788.50 were supported by invoices; however, the invoices totaled more than \$25,000 and were paid by Mrs. Ticey without a competitive bidding process, a sole source justification, or emergency purchase documentation on file. Management obtained a telephone bid for one of the projects but the bid does not comply with the University's procurement policies.
- One vendor was hired to perform work under the Job Order Contract process for a job totaling \$30,195.71 by Mrs. Ticey. However, she did not follow Job Order Contract guidelines for jobs over \$20,000, which requires a signed contract and additional paperwork from the vendor to verify insurance and bonding information.
- A disbursement was made from the account and paid to the UAPB Athletic Department totaling \$25,475. Mrs. Ticey was unable to provide support or an explanation for the payment.
- Nine individuals were hired as contract labor for various work projects at the Harrold Dorm Complex and Mrs. Ticey did not follow the University's established purchasing controls that require a purchase order for service work. Disbursements for these individuals totaled \$17,245.
- One vendor was paid \$13,200 for the purchase of four golf carts. Management obtained telephone bids prior to the purchase in accordance with purchasing guidelines but was unable to provide an invoice or other supporting documents from the vendor. As noted in the Inventory section of this report, two of the four golf carts have been reported as missing. Mrs. Ticey stated that the two golf carts were returned to the vendor to have additional lights installed.
- Two individuals were hired as contract labor by Mrs. Ticey to paint and repair rooms at the Harrold Dorm Complex without a contract. One contractor was paid \$13,137, and the other contractor was paid \$9,900.
- Two vendors were paid by Mrs. Ticey from quotes, estimates, or proposals instead of from invoices. The payments totaled \$3,768.64.
- Mrs. Ticey purchased electronics such as televisions, speaker systems, and monitors totaling \$9,919.31 between May and June 2009 from a vendor doing business as D's Entertainment that lists a personal residence in North Little Rock as the business address. We called the vendor and confirmed he does not maintain a product inventory and does not have a catalog of products. We were also unsuccessful in locating a business registration for the vendor with the Secretary of State's office.
- Mrs. Ticey paid individuals from the University's Title III Endowment Agency Account to paint and perform repair work at Harrold Dorm Complex on a routine

daily schedule. These individuals were also hired as employees of the Harrold Dorm Complex through the payroll process. During fiscal years 2009 and 2010, payments to the individuals for contract work overlapped payments to them as employees of the Harrold Dorm Complex. The total duplicate payments made during the same time period from the University's Title III Endowment Agency Account for the three individuals equaled \$6,500.

- One vendor was paid \$3,500 for mirrors and window replacement in the dorm. However, the invoice was not maintained on file with the University.
- Eleven individuals were hired as contract labor for various projects at the Harrold Dorm Complex by Mrs. Ticey. Through inquiry, we found that the individuals were not issued a federal tax Form 1099 as required by the IRS for the services rendered during calendar year 2009. Through further inquiry, we noted that the responsibility for all tax reporting related to the University's Title III Endowment Agency Account resides with the University and is not the responsibility of the bank.

We reviewed payments made through Accounts Payable for Harrold Dorm Complex and Living Learning Center processed between July 1, 2008 and June 30, 2010. As stated in the UAPB Finance and Administration Business Manual, Controller's Office, "Miscellaneous expenses, whether directly or indirectly connected with travel (such as postage, small emergency supplies, etc.) may be allowed with adequate justification when necessary for the performance of official duties. Receipts are required." The Reimbursement Claim Form requires a Department Head to sign the form, approving the reimbursement.

During our review we found that Mrs. Ticey, with the Chancellor's authority to sign his name, approved two of her own personal reimbursements totaling \$110.73 and \$1,914.60.

We reviewed payments processed through The University of Arkansas Foundation, Inc. related to the Harrold Dorm Complex and Living Learning Center for the time period of July 1, 2008 through June 30, 2010.

Mrs. Ticey was overpaid \$150.49 for personal reimbursements processed through The University of Arkansas Foundation, Inc. between July 1, 2008 and June 30, 2010. We also found that Mrs. Ticey approved three of her own reimbursements by signing the Chancellor's name to the reimbursement requests. The three reimbursements totaled \$1,293.09.

Recommendations: 9) We recommend the Chancellor process future expenses paid from the University's Title III Endowment Agency Account through the University's existing Purchasing and Accounts Payable Departments to ensure adequate receipts and supporting documents exist to substantiate the purchases and comply with University policies, and State and Federal laws.

10) We recommend the University seek recovery of payments made to contract laborers who were also paid University employees in the amount of \$6,500 during the same time period. The recovered amounts should be deposited into the University's Title III Endowment Agency Account.

11) We recommend management determine if the University's Federal tax reporting for the individuals hired as contract labor was properly reported during the audit period.

12) We recommend management seek reimbursement from Mrs. Ticey of \$150.29 for overpayments from The University of Arkansas Foundation, Inc. for personal reimbursements identified during the audit period.

13) We recommend the Chancellor approve the two personal reimbursements identified in the audit totaling \$2,025.33 paid to Mrs. Ticey by UAPB, three personal reimbursements identified in the audit totaling \$1,293.09 that were paid to Mrs. Ticey from The University of Arkansas Foundation, Inc., and three personal reimbursements identified in the audit totaling \$2,645.12 paid to Mrs. Ticey from the Title III Endowment Agency Account.

Management's Responses: 9) Chancellor will ensure compliance by June 30, 2012. 10) Management will pursue recovery of duplicate payments. The issue will be resolved by June 30, 2012. 11) Management will comply. The task will be completed by June 30, 2012. 12) Reimbursement from Mrs. Ticey of \$150.29 will be attained by February 29, 2012. 13) Chancellor will comply. The task will be completed by March 30, 2012.

Inventory

Internal Audit obtained and reviewed inventory records for the Harrold Dorm Complex from UAPB Property Control. Property Control conducted a physical inventory of the dorm in May 2010. All inventory items with a unit cost in excess of \$2,500 are capitalized, tagged with a UAPB inventory tag, and tracked in the inventory system. Property Control also tags non-capitalized items that are purchased with State or Federal funds costing between \$500 and \$2,499 for inventory tracking purposes only.

As stated in the UAPB Finance and Administration Business Procedures Manual, all deans, directors, and department heads are responsible for the moveable equipment within their departments and are expected to exercise reasonable care in securing and maintaining such property. The Inventory Control Manager should be notified in writing whenever the following situations occur: 1) equipment is moved to a new room or building in the same department, 2) equipment is transferred to a new department, 3) equipment is broken or worn out, 4) equipment is no longer needed by the department, 5) the equipment is missing or has been stolen. The policy also states that Property Control should be notified of any return of equipment for repair and the requestor should complete a "Return Equipment Form". The requestor is required to keep Property Control abreast of what is happening with the repair. The manual also states that equipment should never be paid for or voided without proper notification to the accounting and inventory staff via the inventory control form.

During the physical inventory conducted by UAPB, it was noted that a media cabinet had been moved from the location in the inventory records and could not be located on campus and two golf carts had been taken off campus for repairs and could not be located at the vendor's place of business or on campus. We also noted that approximately 20 items, totaling \$32,350, of movable equipment in the Harrold Dorm Complex had been purchased and not reported to Property Control; and therefore, not recorded in the inventory system.

The University has incurred a total loss of \$9,935.67 for the missing items noted during the inventory review. During the audit we requested an invoice for the golf carts but were unable to obtain supporting documents from the Chancellor's Office. Campus police reports were filed for the missing media cabinet and the golf carts in accordance with University policy.

Recommendation: 14) We recommend compliance with the University's policies surrounding inventory control and the importance of notifying Property Control when equipment is purchased, moved from one location to another, or taken off-campus.

Management's Response: 14) Mrs. Ticey was not involved in the transfer of the media cabinet. Physical Plant informed management that the cabinet (used by Mr. Michael Washington) was demolished in transit. The process for transfer of material goods from one location to another is already in place. No explanation for failure to follow procedure in this case.

Financial Aid

During the audit, we found that a student was living in the Harrold Dorm Complex and Living Learning Center at no cost to the student. As stated in the ROAR Student Handbook, section 4.22.2, "It is the policy of the University that student's contract for room rent on an academic year basis."

We confirmed with the student that she had resided on campus since Fall 2008. We reviewed the student's accounts receivable account in the University's system and noted that the student was not charged, and did not pay, a housing fee during the Spring 2011 semester or the Fall 2011 semester. Housing fees for the Harrold Dorm Complex and Living Learning Center are approximately \$1,430 per semester. Because the student was allowed to reside in the dorm at no cost, the University has incurred a loss of revenue totaling approximately \$2,860. The housing assistance was not reported as an institutional scholarship on the student's account and therefore was not properly reported on the student's 1098-T tax form for calendar year 2011.

We also observed that the Chancellor authorized a check to one student for \$1,800 and a check to another student for \$900 from the Title III Endowment Agency Account. We were unable to obtain documentation for the \$1,800 check; however, we noted a reimbursement to the Title III Endowment Agency Account for \$1,800 plus interest of

\$17.70 in the same month as the disbursement. The payment description per the bank statement indicated the payment was a student loan.

Based on documentation provided by Mrs. Ticey for the \$900 check, the purpose of the disbursement was to help the student pay an outstanding tuition balance. The payment made to the student was not classified and reported as an institutional scholarship on the student's account and therefore was not properly reported on the student's 1098-T tax form for calendar year 2009.

Recommendations: 15) We recommend the Chancellor research the student's eligibility for housing assistance, and if not eligible, seek reimbursement of \$2,860 for housing fees related to the Spring 2011 and Fall 2011 semesters.

16) We recommend the Chancellor process future institutional payments to students through the University's existing Financial Aid control structure.

Management's Responses: 15) The \$2,860 loss will be recovered by June 30, 2012. The \$1,800 was recovered. The \$900 expenditure will be properly reported. 16) Chancellor will comply by June 30, 2012.

Financial Reporting

As stated in the National Association of College and University Business Officers Financial Accounting and Reporting Manual, section 444.6, Sales and Services of Auxiliary Enterprises, "An auxiliary enterprise is an entity that exists predominantly to furnish goods or services to students, faculty, or staff and that charges a fee directly related to the cost of the goods or services. Auxiliary enterprises include residence halls, food services, intercollegiate athletics (if essentially self-supporting), college unions, college stores, and services such as copy centers, daycare centers, barber shops, beauty parlors, and movie theaters. This category is limited to revenues derived directly from the operation of auxiliary enterprises. Also per section 452.2, the distinguishing characteristic of an auxiliary enterprise is that it is managed as an essentially self-supporting activity.

During the audit, we found that the operations of the Harrold Dorm Complex and Living Learning Center is supplemented with State funds as well as Foundation funds, Federal grant funds, agency funds, plant funds, and funds from an endowment account. Expenses were paid directly from other sources of revenue when funds were not sufficient in the Harrold Dorm Complex and Living Learning Center budget to cover actual operating expenses.

Disbursements were made from the University's Title III Endowment Agency Account to pay vendors for items purchased and services rendered at UAPB. Documents supporting the disbursements were not provided by the Chancellor to the Accounting Department. Without supporting documentation, accounting staff were unable to properly allocate the expenses appropriately. The expenses were not transferred to the appropriate auxiliary unit or department during fiscal years 2009 and 2010. Instead, expenses were recorded in

the general ledger as “other expenses/loss” to the endowment. As a result, actual revenues and expenses were understated for fiscal years 2009 and 2010 for the following cost centers:

120-92-92060000 – Harrold Dorm Complex	\$151,565.77	FY2009
120-91-91010000 – Athletic Administration	\$ 31,475.00	FY2009
120-95-95010000 – Student Union	\$ 28,363.00	FY2009
120-92-92060000 – Harrold Dorm Complex	\$104,828.29	FY2010
120-95-95010000 – Student Union	\$ 11,143.54	FY2010
110-61-61110000 – Chancellor’s Office	\$ 2,832.24	FY2010

During our analysis of revenues and expenses related to the Harrold Dorm Complex and Living Learning Center for fiscal years 2005 through 2010, we also noted that the utilities expense increased significantly in fiscal year 2009. Through a more detailed analysis of the utilities expense, we found that the utilities allocation for the auxiliary units for May 2009 was overstated by \$457,547 due to an error on the calculation spreadsheet utilized by management to allocate the monthly utilities. Currently, utility expense is allocated at a rate of 32% to auxiliary units on a monthly basis.

Recommendations: 17) We recommend the Chancellor provide adequate supporting documentation to the accounting staff for disbursements paid from the Title III Endowment Agency Account as the payments occur.

18) We recommend accounting staff properly record transactions in the University’s general ledger related to Title III Endowment Agency Account.

19) We recommend the Chancellor review the budget for the Harrold Dorm Complex and Living Learning Center and ensure the expense budget is sufficient to cover all expenses related to the routine operations of the Harrold Dorm Complex and Living Learning Center.

20) We recommend accounting staff implement a procedure to review and verify that the amount allocated to the auxiliary units for utility expense is accurate prior to the processing of the monthly entry. The review should be documented and maintained for audit purposes.

Management’s Responses: 17) Chancellor will comply. 18) Management will comply. As reported by IAD (Internal Audit Department), the Accounting Department did not receive supporting documentation related to any of the transactions processed from the Title III Endowment Agency Account; however, these transactions were properly recorded in the general ledger under the endowment fund. The expenditures were also properly accounted for on the audited financial statements, which are prepared in accordance with GASB Statement No. 35, Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities. The financial statement presentation required by GASB No. 35 provides a comprehensive,

*entity-wide perspective of the University of Arkansas at Pine Bluff's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows. Management will accept Internal Audit's recommendation and allocate future expenditures paid from the Title III Endowment Agency Account to the respective department. However, it is important to note that transferring expenses and revenues from the endowment account to the respective department will have a zero net effect and change in fund balance of the endowment fund and the respective department's fund. 19) Chancellor will comply by March 30, 2012. 20) The accounting staff has implemented a procedure to review and verify that the amount allocated to the auxiliary units for utility expense is accurate prior to the processing of the monthly entry. The review is documented and maintained for audit purposes. Currently, the assistant controller reviews and approves the monthly entry prepared by the staff accountant prior to the processing of the monthly journal entry. After the monthly entry is processed, the assistant controller compares current year utility expense to prior year utility expense. The comparative analysis: *Alerts the accounting staff to large variances in the utility expense. *Prevents the overstatement of the auxiliary utility expense and the understatement of the E&G utility expense that occurred on the 2009 4th quarter report to the UA Board of Trustees. *Serves as a second review and allows the accounting staff to correct any errors that may have occurred during the processing of the monthly entry.*

Conclusion

As documented in the report we were unable to audit and verify in accordance with generally accepted auditing standards the accuracy of Harrold Dorm Complex and Living Learning Center payroll expenditures totaling \$497,532 because of the apparent override of the University's existing controls over payroll by the Director of Harrold Dorm Complex and Living Learning Center and Assistant to the Chancellor. We also were unable to audit in accordance with generally accepted auditing standards and questioned disbursements totaling \$239,348 for the audit period because of missing support documentation related to the disbursements and the Chancellor's and Mrs. Ticey's override of the University's purchasing controls related to the Title III Endowment Agency Account. Of the questioned expenditures, disbursements totaling \$4,219 have been included in the Harrold Dorm Complex and Living Learning Center Report on Loss (10-10).

The University of Arkansas at Pine Bluff's established system of internal controls in purchasing and accounts payable, payroll, and other related processes should be adhered to and strengthened in the above documented areas in order to ensure the effectiveness and accuracy over the Harrold Dorm Complex and Living Learning Center, and to ensure compliance with applicable State and Federal laws and regulations and Board of Trustees policies and University procedures.

Written By:



Kristy L. Walters, CPA/CISA
Regional Audit Manager

02/27/2012

Date

Approved By:



Jacob Flourney, CPA/CIA/CISA/CFE
Director of Internal Audit

02/27/2012

Date

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