



CONFIDENTIAL

October 19, 2012

To: Donald O. Pederson, Vice Chancellor for Finance and Administration

From: Jean E. Schook, Associate Vice Chancellor for Financial Affairs *Jean E. Schook*

Re: Division of Advancement Financial Management Deficiencies

Deficit balances at year-end in University accounts with no ability to reimburse cost centers used for private funds spending, along with actions taken by University of Arkansas Foundation, Inc., alerted Finance and Administration that serious financial management issues were present within the Division of Advancement.

An assessment of financial position revealed significant deficit balances in both the Division's University and Foundation accounts at June 30, 2012 in the amounts of \$2,451,360 and \$1,889,559, respectively, for a total Advancement operating deficit of \$4,340,920. Also, projected resources available for fiscal year 2013 will not be sufficient to fund commitments for salaries/ fringe benefits and provide sufficient resources for operating (maintenance) expenses, thus resulting in additional accumulation of Advancement total deficit of \$3,593,042 based on reasonable expectations of revenues from all sources as of today.

Initial conclusions based on a review of both university and foundation accounting records and other supporting documentation, as well as interviews with key personnel, revealed the Vice Chancellor for Advancement, Brad Choate, (VCAD) provided inadequate and essentially no oversight of the financial activities of the Division. Advancement staff were unable to explain the circumstances that led to the deficit balances, were not aware of the magnitude of the deficits in both University and Foundation accounts, and could not propose curative steps to achieve a sound financial position.

When the severity of this situation was determined, immediate steps were taken to address the lack of management oversight and lack of financial management expertise of Advancement staff. An Advancement Fiscal Officer was appointed September 1, 2012 with direct reporting to both the Vice Chancellor for Finance and Administration, Don Pederson, (VCFA) and the VCAD. Duties of the Advancement/Development Director of Budget and Human Resources, Joy Sharp, (the Director) were reconfigured to remove all responsibility for financial management, focusing only on human resources matters for the Division.

In order to gain a better understanding of the underlying causes for the financial crisis within the Division, the Associate Vice Chancellor for Financial Affairs and the newly appointed Advancement Fiscal

Officer, under the direction of the VCFA compiled a multi-year summary of funds available to support operations, funds expended to support operations and remaining resources. The following items were noted during the review of accounting records and other supporting documentation when preparing the multi-year summary discussed above:

1. The VCAD provided his log-in credentials to the Director in direct violation of Fayetteville Policies and Procedures 330.1 Transaction Approval and the Code of Computing Practices. This was an intentional act that circumvented the internal controls established with the Transaction Approval policy. Upon arrival at the campus in 2008, the VCAD requested that the Director be named as his alternate reviewer for transactions routed through the TARGET approval process. This request was denied by the Vice Chancellor for Finance and Administration, Don Pederson, because the Director was not in a position appropriate for material transaction review. The VCAD strongly disagreed with the decision and made it known that the policy was overly restrictive and burdensome to him and proceeded to ignore strict policy.

Sharing credentials circumvented internal controls considered foundational to the university as well as internal and external auditors in assuring proper segregation of duties and appropriate approval procedures.

2. The VCAD did not exercise proper oversight over the activities of the Division, nor monitor the resources available to support operations as evidenced by: his delegation to the Director all responsibility for transaction review and approval for all Division transactions processed through the University BASIS system and for those processed directly from Foundation accounts; his complete reliance on information and reports prepared by the Director with no effort to validate or question unexpected results; and failure to consider the likelihood of conflict of interest violations or observe that the conflict did indeed occur with the Director and a family member also employed in the Division.

Specific examples evidencing the above assertions are:

- A review of TARGET transaction review history revealed many transactions that only involved the Director and a family member of the Director also working in the Division, with many of them seemingly unrelated to the duties assigned to the family member. When examples of these transactions were presented to the VCAD, he could not explain why only those two staff members were involved in transactions that did not appear to be within duty scope of the family member.
- The VCAD did not review or monitor his own personal reimbursement claims as evidenced by a duplicate payment in the amount of \$2,051.87 for an Advancement staff event paid directly to Fayetteville Country Club on 8/22/11 and included on a VCAD personal reimbursement claim paid 9/21/11. The duplicate payment was not discovered until June 2012 by the VCFA who immediately requested the Director obtain reimbursement. The VCFA's request was not acted upon by the Director and was

ultimately resolved October 2012 when the Advancement Fiscal Officer presented supporting documentation to the VCAD.

- The VCAD indicated that the Director provided him with budget reports from time to time, but he did not retain any of these reports in either electronic or hard copy format. When asked to review a budget worksheet that appeared to be prepared by the Director, the VCAD asserted that was exactly the type of reports he had received. The example reviewed indicated available budget of over \$1.1 million. A cursory review by the VCAD should have detected the unreasonableness of the information contained within the worksheet. It was clear that neither the VCAD nor the Director could provide reasonable answers to budget or expenditure questions as the magnitude of the problem was being ascertained.
- The VCAD did not monitor spending of Foundation funds and did not monitor cost center balances for University cost centers used to process expenditures made with private funds (Company 0392). Reimbursements due to these cost centers were not made timely. The Director became more and more delinquent in processing reimbursements, despite direct requests to do so by Financial Affairs staff. Often very large funds transactions occurred on the last day of the fiscal year to attempt settlement of these amounts due. Beginning in FY 2011, it became necessary to accrue an account receivable from the Foundation because reimbursements were not processed in a timely fashion nor, as determined after the fact, supported by available Foundation funds.
- In what appeared to be an intentional effort to disguise a prior year account receivable balance that had not been cleared, the Director deposited restricted funds (a gift for capital purposes) totaling \$1.3 million dollars, in May 2012, into the same unrestricted general operating account with the delinquent account receivable balance. Upon discovery of the deposit error in July 2012, the VCFA immediately moved the restricted funds to the proper account. This event was facilitated by the general practice of having all checks returned directly to the Director exacerbating the lack of fiscal control. The misdirection of the funds occurred in spite of the purpose of the funds being clearly described on the face of the check.
- For the fiscal years 2008 through 2012, the VCAD authorized an overall increase of 20 positions, or 18% of total FTE, without determining if sufficient budget or other resources were available for permanent funding. The VCAD indicated that he relied completely on the Director's assertion that funds were available.
- Units within Advancement did not have sufficient information about unit budgets to manage individually and were forced to rely entirely on the Director's authorization for expenditures. Expenditures authorized by the Director were not made in the unit of the activity nor were all appointments in the assigned unit, all compounding a lack of transparency in budget and expenditure management.

Clearly the actions and specific examples outlined above provide strong evidence that the VCAD disregarded the risks inherent in delegating approval authority. These risks include over expenditure of

University budgets, commitments to new fixed costs, making expenditures that are not mission-appropriate and fraudulent activity.

The control environment within the Division was one where internal control activities and monitoring were devalued and circumvented. Division staff, including unit managers, was not required to participate in the management of financial activities of the Division, as evidenced by the collective lack of knowledge of the financial position of the Division and of the University's financial processes.

Because many fraud risk factors were identified, consideration was given of the need to request an Internal Audit examination. After careful consideration, the decision to request an internal audit examination should be left ultimately to the VCFA and the Chancellor. The following notes are relevant to that decision:

- There is an overwhelming amount of evidence that points to lack of management oversight, non-compliance with University policies and procedures and deliberate efforts to disguise poor financial management of the Division of Advancement resources, however no evidence of intentional acts to misappropriate resources for personal gain have been discovered. It should be noted that a review of accounting records specifically to identify misappropriated resources has not been performed and will likely be some time before staff resources are available to conduct such a review.
- The historical data suggests that the primary driver of accumulated deficit balances was the addition of staff with no permanent funding.
- An internal audit examination would be limited to university accounts and accordingly would provide no additional insight into activity of Foundation accounts that form an integral part of the revenue base for the Division. The results of such an examination would highlight the violations of university policy and lack of management oversight that have already been identified.

CC: G. David Gearhart, Chancellor

G. David Gearhart

From: Brad Choate
Sent: Saturday, October 20, 2012 12:59 PM
To: G. David Gearhart; Donald O. Pederson
Subject: Response ot Jean Schook's Memo

Dave and Don,

While I was very surprised with the content of the October 19, 2012 memo from Jean Schook to Don concerning Advancement's financial issues I do appreciate Don sharing a copy with me. I would like to share a few thoughts on this entire financial issue and then address the contents of that memo. My goal all along has been and continues to be to fix the identified problems and to create a funding plan that allows Advancement and the University to accomplish its mission.

My team and I have worked diligently with Don, Jean, and our new fiscal officer, Denise Reynolds for several weeks to help identify what caused our financial issues and to identify remedies. I want to give special recognition to Denise for her efforts. She inherited a huge mess and has been excellent in helping identify issues and suggest solutions. Together, we approached the task as a three-fold mission. First, identify the cause of the problem, secondly quantify the size of the problem, and finally develop solutions to the problems.

The source of the problem was quickly identified as Joy Sharp who has been an employee of the university for approximately 38 years and has been the budget person for Advancement for decades. Joy clearly became overwhelmed with the duties of her position as the complexity of the budget grew over the years and ultimately worked to deceive us. As hard as that is for me to accept, the evidence makes that clear: Once she found she was unable to manage the budget accurately, she took a series of actions over several years to conceal her mismanagement.

One of my first decisions upon becoming VCAD was to move Joy's office from University House to my office. My objective was to have the long-time Advancement budget person immediately available to me on a daily basis. Upon making that move, Don, you told me it was the best move I could have made upon my arrival. Joy was held up to me, and to all of us, as an outstanding person, a valuable employee and a person who knows the university's systems, policies and procedures very well. I was told by everyone and felt confident that I had an excellent budget person.

The root causes of this financial issue have been brewing for many years and were not made known to me until July 2012. Rather than admit that problems were brewing Joy moved funds to create temporary fixes. Ultimately, the problems became so large that sufficient funds were not available to "mask" the problem. I use the word "mask" because Jean Schook used that word to describe her view of the issue in multiple meetings with Denise and me. Further, neither the University financial system nor its staff notified me that there was a problem with my budget or budget person until the University of Arkansas Foundation brought the problem to the attention of my office and the VCFA in July 2012. All unit leaders, be they the chancellor, vice chancellors or deans, rely on their budget manager to provide accurate information and the Foundation and University budget systems to identify and notify these leaders should red flags arise. It appears that red flags should have been apparent to Financial Affairs staff for years yet I was not notified until July 2012.

At multiple meetings, Jean Schook told me in the presence of Denise Reynolds that she did not think an audit was needed since an audit would not tell us anything we did not already know. Jean does not include that opinion in her memo. Further, Jean and Denise have stated to me in multiple meetings there was no way I

could have known that these problems existed because the information I was being given was so inaccurate. Never in any conversations with Jean did she share with me the charges contained in her October 19, 2012 memo.

I have worked very hard and in good faith to accomplish the three-fold mission outlined above. We have identified the cause of the problems, we have quantified the problem and now we are working on solutions. I must admit that I was very shocked and dismayed to read Jean's memo. Most of the issues Jean included in the memo have already been addressed. We need to turn our attention and energy to creating a budget that is accurate and funds our mission. Dave and Don, when we met on Monday October 15, 2012 the focus of that meeting was to do just that, move forward with solutions to the financial issues. Don and I left that meeting with the charge to create a financing plan that would eliminate an accumulated deficit as well as address the issue of unfunded positions in Advancement so we could move forward. With Don's help we should have such a plan ready to share very soon.

Now, I would like to turn to the details and accusations Jean included in her memo. I want to address them without being overly defensive but I am sure you can appreciate that challenge.

VCAD provided inadequate and essentially no oversight of the financial activities of the Division: This is absolutely inaccurate. Trusting information I was given by Joy and relying on the University's financial systems and staff to identify anything that looked out of the ordinary proved insufficient. I provided significant oversight of the financial activities of the Division. However, the two systems of checks and balances that all senior administrators rely on--the long-time budget officer in Advancement and the University's own mechanism for validating that budget officer's accounting--both failed. I had formal monthly meetings with Joy and countless informal meetings to discuss financial activities and never once did she indicate that financial problems existed or that she was experiencing any difficulties performing her job. In fact, only a few days before this problem was made known to me Joy asked to add a person to assist in her office. We were experiencing delays in reimbursement of expenses. I personally had significant delays, the chancellor had delays, and most of our staff had delays. On more than one occasion the Chancellor and I, and others, discussed that Joy had more to do than she could get done and may need help. As a result, I was predisposed to agree to Joy's request for staffing help. However, the first question I asked was do we have the funds for such a position. The answer I received was "yes". Only a few days later I was made aware of our true financial position. When Joy told me we had funds for the position should I have called the VCFA and asked him to confirm Joy's answer? If every budget manager on campus had to ask for such confirmation it would be an impossible situation for all involved. It is unreasonable to expect that I, or any other budget manager would go to such extremes.

VCAD provided log in credentials: This statement is accurate and I do regret making this decision. It was made in an effort to be efficient and to provide a way to move projects forward when I was traveling. The only time this tactic was to be employed was if I was out of town, the request was for more than \$10,000 and Joy received my approval. I do not recall if we ever used such a tactic and the work done by Jean, Denise and myself has not identified any inappropriate expenditure. It would not surprise me if other senior officials on campus have, on occasion or on an ongoing basis, granted similar log in credentials to their top budget officers as well.

VCAD did not exercise proper oversight over the activities of the Division, nor monitor the resources available to support operations as evidenced by: his delegation to the Director all responsibility for transaction review and approval for all Division transactions processed through the University BASIS system and for those processed directly from Foundation accounts; his complete reliance on information and reports prepared by the Director with no effort to validate or question unexpected results; and failure to consider the likelihood of conflict of interest violations or observe that the conflict did indeed occur with the Director and a family member also employed in the Division. This is inaccurate. I did not delegate all responsibility for transaction

review and approval for all Division transactions. That statement is simply inaccurate. I didn't question unexpected results because neither the Director nor anyone in Financial Affairs ever made me aware of unexpected results. As Jean Schook stated to me "there is no way you could have known what was going on because the accounting was so sloppy". As for the conflict of interest comment, once we began unraveling the financial situation Denise discovered that indeed Betty Sharp and Joy had worked together to process some payment forms. Jean's memo quantifies those as "many" transactions. I am aware of less than ten. Denise and I reviewed those transactions and found each to be appropriate expenditures that I, or others on my team, had approved. There is no reason that Joy and Betty should have taken such action when following simple approved procedures would have worked well. Also, it is important to note that while Joy and Betty should not have and did not need to take these actions, their actions did not produce any results that would not have occurred if proper procedures had been followed. It appears to me to again be an example of naïveté and a lack of understanding the importance of following proper procedures rather than any sinister motives. The net result of their actions is exactly what we wanted to occur if they had followed proper procedures. Did the opportunity for foul play exist? Of course, but none took place. Also, it should be noted that most if not all of these transactions were relatively small dollar transactions.

VCAD did not monitor his own personal reimbursement claims. Again, this is absolutely inaccurate. I personally monitored my reimbursements; my wife Julie monitored my reimbursements; and my assistant Laura Villines monitored reimbursements. Jean uses one example of me being double reimbursed to justify this statement. Out of thousands of reimbursements made to me this is the only time such a situation occurred and it has been corrected. To use a one-time simple mistake in the context of other such serious accusations is shocking. I suspect that similar honest mistakes happen regularly throughout the University. It is very common for the University to owe employees thousands of dollars in reimbursements. Employees are expected to "front" much of the operational costs of the University and then be reimbursed. While I had several people in my office and home personally watching my reimbursements and others in Financial Affairs doing the same this one mistake did occur and was corrected. Don, when you made me aware of this double reimbursement and told me you had sent the information to Joy we both said it would be interesting to see how long it took for her to bring it up. She never did and we addressed it when Denise joined us.

VCAD didn't retain copies of budget reports.....: Our financial and personnel files were kept in Joy's office and on her computer. It seems unreasonable to expect me to keep copies of all files in my office. The example of a report that Jean sites in her memo that shows an \$11 million shortfall in budget was apparently created after this problem was unearthed. Jean states that a cursory review should have detected the unreasonableness of the information contained. That is of course true if such information had been available to me. Once again, I am shocked at this accusation from Jean since she said to me in the presence of Denise "there is no way you could have known what was going on because the accounting was so sloppy".

VCAD did not monitor spending of Foundation funds...: This is an inaccurate statement. Spending of Foundation funds was monitored, however, to use Jean's word, Joy "masked" the problem by moving funds around.

Increase in staff from 2008 through 2012: The accusation here is that I relied completely on the Director's assertion that funds were available. That is a true statement. As noted above, I trusted Joy to give me accurate numbers and the University's Financial Affairs staff and system to contact me if they detected any problems with our finances.

Units within Advancement did not have sufficient information about unit budgets: This is the heart of the issue, none of us had sufficient or accurate information specifically because the university's own system of checks and balances that should have flagged financial problems failed us.

This is a sad and terrible situation for all involved. I believe that Joy is a good person and intended no harm. Unfortunately, it appears that rather than share that long simmering problems were developing and increasing, she chose to conceal her mismanagement of the budget and engaged in a pattern of activity that deceived me and the other Advancement leaders about the true state of our finances. She "masked" the problems and did not make any of us aware of the problems. Further, she violated simple procedures unnecessarily by using her sister to help process a few transactions. While the outcome of violating those simple procedures did not result in any inappropriate expenditure it illustrates her level of thinking. Joy began working at the University before she got her degree. She worked and went to school, got her degree and went on to earn a masters degree. She had been in the same position for many years and it appears the position outgrew her. I am confident she intended no harm. Nevertheless, her actions and inactions have led us to this point.

Further, it appears the University's checks and balances failed. Why was I not notified years ago by the Financial Affairs staff of a problem that has been in the making for many years? If when Joy had first began to "mask" the problems the Financial Affairs staff had contacted me rather than Joy, this situation could have been avoided.

There is plenty of blame to go around in this sad situation and I do not think it does anyone any good to point fingers. If my response to Jean's accusations seem defensive or looks like finger pointing on my part I am sorry. The tone and accusations in the memo were very shocking to me and contrary to what Jean told Denise and me. I simply want to set the record straight.

The problems that caused this situation have been remedied. The scope of the financial problem we need to solve has been identified. I would like to finish and implement the plan you, Don and I discussed in your office Monday.

Brad Choate
Vice Chancellor for Advancement
University of Arkansas
479 575 6800

Sent from my iPad

November 2, 2012

6-
File - 425

Dr. G. David Gearhart, Chancellor
Chancellor's Office
ADMN 425
CAMPUS

Dear Dr. Gearhart:

Thank you for giving me the opportunity to comment on several points in the October 19, 2012, memorandum.

I would like to address the point about the Tyson funds. This was human error on my part. The funds were requested by Financial Affairs, I processed the payment authorization through the approval process with the correct cost center indicated on the form. When I received the check, in my rush to get the funds to the Treasurer's Office and deposited, I put the wrong cost center number on the deposit form. The error was not intentional. The error was not caught until the review of the account. I want to state there was never an intentional misappropriation of the funds on my part. It was a mistake.

I acknowledge that I did not provide budget reports to the VCAD and unit heads in a timely and appropriate manner due to my workload. I did not monitor the revenue correctly. When the revenue decreased I did not adjust my projections accordingly. Also, due to the nature of the VCAD's job which required him to frequently be absent from the office and with short and unexpected deadlines for approvals, I had access to the log-in. After receiving verbal or written approval from the VCAD, I would approve the transaction on his behalf.

Concerning the duplicate payment for a personal reimbursement for the VCAD it was a mistake. I tried to be careful in processing the reimbursements correctly. I did not get the reimbursement requested from the VCAD in a timely manner because I was working on year-end and the deficit balance issue. Because of the change in responsibilities from working with finances and the relocation of my office, the request was left for the new director of budget and finance to handle.

Finally, I would like to state that I would never intentionally try to damage the University of Arkansas in any way. I love the University of Arkansas and the Division of University Advancement. I deeply regret that through my lack of performance I have caused this problem.

Sincerely,


Joy Sharp

Enclosure: Tyson transfer documents

UNIVERSITY OF ARKANSAS FOUNDATION, INC. PAYMENT AUTHORIZATION FORM

SYSTEM
 UAF
 ADC
 UALR
 UAMS
 UAM
 UAPB
 ACRC

FOUNDATION USE ONLY: _____ PAYEE CODE _____ 1099 PAYEE

Make Check Payable To: University of Arkansas

Mail Check To:

RETURN CHECK TO JOY SHARP

Special Handling Instructions:

Pick-up: Call (Name, Phone #) UDEV Courier

Fed-Ex (Standard) OR Fed-Ex (Priority)

Recipient Phone # Required _____

**REQUIRED INFORMATION FOR TAXABLE PAYMENTS:
(I.E PROFESSIONAL SERVICES, HONORARIUMS, PRIZES/AWARDS)**

SSN OR TIN _____

Home Address: _____

48402
5/8/12

Is payee a University Employee? Yes No

Is payee a Non-Resident Alien? Yes No Don't Know

Date: 4/26/2012

Total Check Amount: 1,355,055.64

Charge To:

ADC USE ONLY

Acct. No.	Name	Amount	Exp. Code	Project #
1)	Jean Tyson Child Development Study	1,355,055.64	9	
2)				
3)				
4)				
5)				
6)				

Attach all substantiating documentation; i.e., invoices, receipts, order forms, etc. Make sure all order and/or registration forms are completed with contact and shipping information. Please attach additional copy of any documentation needed to be sent with check.

Purpose of Expenditure: Cover expenses for the construction of the Jean Tyson Child Development Center

Contact Person RE Expenditure: Joy Sharp

Phone: 5-5661

SIGNATURES

Acct. Signatory: _____

School/College Review _____

Fiscal Review: _____

Joy Sharp
D. O. Edelman
(Chancellor of Authorized Designee)

Approved by: _____

(Executive Director, UA Foundation)

PURPOSE OF SIGNATURE

Authorized Expenditure of Foundation funds

For information/coordination with other campus activities

Review for compliance with policies and procedures & tax compliance

PAYMENT IS TAXABLE TO UNIV EMPLOYEE

Payment is partially taxable in the amount of \$ 0.00
Verify within donor restriction, validate signature authority, approve for payment.

CHECK NUMBER & DATE _____

The University of Arkansas Foundation, Inc.
 535 Research Center Blvd, Suite 120
 Fayetteville, AR 72701

Check Date: 5/7/2012
 Check Number: 48402

To: U OF A #
 C/O JOY SHARP

DATE	DESCRIPTION	AMOUNT
5/7/2012	TRANSFER	
Totals:		\$1,355,055.64 \$1,355,055.64

THIS CHECK IS VOID WITHOUT A BLUE AND RED BACKGROUND AND AN ARTIFICIAL WATERMARK ON THE BACK - HOLD AT AN ANGLE TO VIEW

The University of Arkansas Foundation, Inc.
 535 Research Center Blvd, Suite 120
 Fayetteville, AR 72701

Bank of America

61-7/820

CHECK DATE	CHECK NO.
5/7/2012	48402
CHECK AMOUNT	

PAY **One million three hundred fifty five thousand fifty five and 64/100 Dollars**

\$** 1,355,055.64

TO
 THE
 ORDER
 OF

U OF A #
 C/O JOY SHARP

Change in excess of \$5,000 must be signed by two signatories

[Handwritten Signature]
 Dianna Lee

AUTHORIZED SIGNATURE

**ORDER CONTAINS MICROPRINTING

UNIVERSITY OF ARKANSAS - UNIVERSITY CASHIER'S OFFICE

DEPOSIT TRANSMITTAL

dept name: Advancement	date: 05/08/2012
contact: Joy Sharp	phone: 5661

category	company	cost center	acct no	amount
Other				\$1,355,055.64

description:
 (30 characters or less) Cover construction expenses

dept:	BAC:		Total
copies:	cash:		
	checks:		\$1,355,055.64

NOT VALID WITHOUT CASH REGISTER CERTIFICATION

Gloria Sutherland

From: G. David Gearhart
Sent: Thursday, July 19, 2012 7:04 AM
To: Gloria Sutherland
Subject: Fwd: Apologies

Arc.

G. David Gearhart
Chancellor
University of Arkansas

Begin forwarded message:

From: Brad Choate <choate@uark.edu>
Date: July 19, 2012 12:04:11 AM CDT
To: "G. David Gearhart" <gdgearh@uark.edu>
Subject: Re: Apologies

That is exactly what we do and I was told every unit was on budget. I was shocked when she came into my office with this issue. I checked before year end even and we had no problem. I still don't understand what happened but will soon.

Sent from my iPhone

On Jul 18, 2012, at 11:27 PM, "G. David Gearhart" <gdgearh@uark.edu> wrote:

You may already do this, but what I used to do was assign a budget dollar amount to each unit and make them responsible for managing it and not exceeding it. In other words, annual giving would have a set budget. Corporate giving, planned giving, central staff, research, etc. It was the directors job to hold the budget in line. That way not only Joy was watching it. I personally monitored each budget monthly to be certain we didn't overspend. I love joy, but worry she could be a little over her head. I think you will need to give her close supervision. Missing the budget by over \$400,000 is not good. She has been doing it for so long, it really surprises me. There has to be something wacky about the budget to cause this.

G. David Gearhart
Chancellor
University of Arkansas

On Jul 18, 2012, at 11:47 AM, "Brad Choate" <choate@uark.edu> wrote:

<image001.gif>

My apologies for the "frozen funds" issue. This, of course, came as a complete surprise to me but I certainly regret the hassle it has created for us all. I am confident that once we get the immediate

issue resolved we will be able to avoid such situations in the future.

As for future expenditures from the Chancellor's Society I think we have an easy and workable solution moving forward. We simply need to make sure you have a good report of funds available and expenditures. That process is now in place.

As for the more serious budget issue, we can now turn our sights on that problem. I've had numerous conversations with Don and Joy about how to solve the immediate frozen funds situation. Now that Don is working on that issue, Joy and I will dig into the root cause of the problem. I'll let you know what we find out and our solution.

Brad Choate

Vice Chancellor for University Advancement

University of Arkansas

416 Administration

Fayetteville, Arkansas 72701

479-575-6800

<image003.png>

Gloria Sutherland

From: G. David Gearhart
Sent: Monday, August 06, 2012 5:51 PM
To: Brad Choate; Joy M. Sharp
Cc: Donald O. Pederson
Subject: Foundation accounts

I just learned from Dianna that the Chancellor's Society funds are much lower than we thought. Apparently we only have about \$110,000 in the quasi account down from \$500,000 in the report I received in December and \$80,000 below the recent report of two weeks ago. That is dangerously low.

Dianna also tells me that my chancellor's deferred income account has no funds in it at all. That is the account that was supposed to pay my deferred income of \$225,000 on July 1 as authorized by the BOT. Those funds were provided by DOP permanently four years ago into your budget so that you could fund it.

I know you are working on answers to what happened and Don's folks are assisting you, but I feel that we must come to closure on the reasons for this budget short fall sooner rather than later.

If you don't have an answer to me by end of week I feel an obligation to involve our auditors.

I don't want to simplify things, but someone should be able to add up all income from last year and compare it to all expenditures and answer what happened.

I'm starting to lose patience on this and believe I'm owed an answer by Friday at noon.

It is not in our best interests to involve the auditors as that information goes to the BOT, but I feel I have a fiduciary responsibility to get answers and that may be the only way.

This needs to be an absolute priority.

G. David Gearhart
Chancellor
University of Arkansas

Gloria Sutherland

From: G. David Gearhart
Sent: Thursday, August 09, 2012 9:05 AM
To: Gloria Sutherland
Subject: FW: budget issues

Files, 425

G. David Gearhart
Chancellor
University of Arkansas
425 Administration Building
Fayetteville, Arkansas 72701
gdgearh@uark.edu
479-575-4140

From: Brad Choate
Sent: Wednesday, August 08, 2012 5:26 PM
To: G. David Gearhart
Cc: Donald O. Pederson
Subject: RE: budget issues

I appreciate the efforts you, Don and his staff have made to help with this situation. I have never had a budget deficit so this is unfamiliar territory. When I arrived I told my reports that rule #1 was never go over budget. When I hired Graham recently I told him the same thing. I am very upset and embarrassed, and, disappointed that someone I counted on got us in this situation. I trusted the numbers I was given and that turned out to be a mistake. I certainly did not and do not abdicate responsibility. She was my person and the resulting problem is my responsibility to fix.

This situation is correctable and I think we have a good start. We recently underwent a cost containment effort that yielded \$257,000. We had planned to reinvest those dollars but will use those funds to help. Also, we have identified \$300K in expenditures from last year that were one-time expenses (Hunt Hall sign, skybox chairs, etc) that will not be required this year. Again, this will help. We are looking at open positions to determine if any could go unfilled. We have much more work to do but John, Bruce, Graham and Dan have been very understanding and are diving in to help.

As you, Don and I discussed this morning the steps you outline below make good sense. In fact, I have spent most of the day on these issues and can provide the following brief update on six of the items:

- 1: I have talked with each of my direct reports and outlined the situation with the directive that all expenditures need to be evaluated very seriously, with special emphasis on expenditures that would need to come from foundation sources, and start cutting.
- 2: We are getting closer on this question but we do not have a final answer yet.
- 4: As noted in #1 they are aware and engaged. The first time they will all be in town at the same time is next Tuesday. We have a Tuesday am meeting scheduled to discuss further how we will address this problem.
- 5: Done. My reports are personally approving all requests, those they approve come to me....not Joy.

7: Don told me he has identified someone that would be very good and is only waiting upon Affirmative Action for approval. The sooner this can happen the better.

8: As we have discussed several times I have given this issue of what to do with Joy a lot of thought. It is a topic for the Tuesday meeting with my team. Also, I plan to meet with HR to get counsel on how to accomplish whatever we decide to do with Joy.

Brad Choate
Vice Chancellor for University Advancement
University of Arkansas
416 Administration
Fayetteville, Arkansas 72701
479-575-6800



From: G. David Gearhart
Sent: Wednesday, August 08, 2012 4:22 PM
To: Brad Choate
Subject: budget issues

CONFIDENTIAL

To: Brad Choate, Vice Chancellor for University Advancement
From: G. David Gearhart, Chancellor
Re: Budget issues

Brad:

Obviously I am terribly disappointed and, frankly, dismayed that the advancement budget has a deficit of almost \$3.9 million. This would be one of the largest deficits of any unit in recent University history and will place a huge strain on available resources this current fiscal year. Exacerbating the issue is the fact that it was discovered so late in the last fiscal year that it was impossible to rectify the problem by cost cutting. I know you are aware that we expect all administrative heads to meet their budgets and not deficit spend. As a whole, the University is required by state law and university system policy to meet its annual budget. We will have to draw these funds from some other unit, pending repayment, and this won't be easy. A deficit of this magnitude is not acceptable.

Going forward I ask that you adhere to the following directives:

1. Immediately implement a drastic reduction in spending, particularly at the foundation level. If you don't reduce foundation spending, your funds will be frozen again.
2. Determine as soon as possible the cause of your budget overage. You must compare the last three fiscal year expenses to see why this huge overrun happened in the first place. Keep in mind that you were balanced in fiscal year 2010. The deficit began in fiscal 2011 and became even larger in fiscal 2012. Also, keep in mind that not only did you overspend your budget, but Joy improperly used an additional \$1.3 million that should have been designated to the Jean Tyson Center, further compounding the problem. That error has been reversed by Don.

3. Failure to determine, in a timely manner, why you accumulated such a large deficit will require me to ask the system auditors to do a complete audit of your division. When the auditors become involved, they are required to report it the Board of Trustees. Don and I are willing to hold on this request to give you and Joy time to determine what happened. I have discussed this with President Bobbitt.
4. Fully engage your senior staff in budget review, approval, and cost reduction. Apparently they have not been monitoring their department budgets; in fact, Joy Sharp has not sent them reports for some months, possibly in well over a year. Joy told me that some of your senior staff have asked for copies of their respective budgets on numerous occasions, but she did not provide them. You should hold them accountable for their budget lines and require them to monitor them on a weekly basis.
5. All advancement expenditures should be signed and authorized by you, at least until this deficit is cleaned up. You need to personally monitor expenses and income on a regular basis.
6. The Chancellor's office will be taking fiscal control and management of all of the accounts listed as ours. You and/or Joy will no longer have spending authority over those accounts. We are effecting these changes immediately.
7. Under Don Pederson's direction, we will employ or assign a new fiscal manager to your division.
8. You will need to either reassign or dismiss from employment, Joy Sharp. She can no longer have any control over your budget. I realize that it may be advantageous to keep her in her current role until a new budget officer has an opportunity to "get up to speed," but very soon you will need to get her out of the budget loop altogether. I suspect you will need to reduce her salary as well if you conclude she has another place in your organization. My hope is that you can transfer her out within 60 days.
9. You should work with Don Pederson to determine a schedule of repayment of the deficit over a multi-year period—endorsed by Don, you, and me—and commit it to writing.
10. You should provide me and Don with quarterly reports on progress on all of these items.

Brad, I know you are upset and embarrassed that this has happened on your watch, but I cannot minimize the very serious nature of this lack of oversight. Budget deficits of this magnitude have been cause for dismissal in the past. Fortunately, it is correctable with due diligence on your part. You simply have to be more engaged in the fiscal management of your units and spend more time monitoring the budget. I fully realize that you depended on Joy, but that does not allow you to abdicate responsibility. Ultimately you are the person I look to be certain your budget is under control. You must be more deeply involved in the management of your resources.

We have been friends and associates for a long time and it pains me greatly that this has happened. But, I would be less than honest if I didn't say I think you have not provided sufficient oversight of your areas of responsibility. Budget deficits like this don't just happen. Somehow the store was not being minded. I am, however, confident that you can correct this going forward.

G. David Gearhart
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Gloria Sutherland

From: G. David Gearhart
Sent: Monday, October 01, 2012 2:50 PM
To: Gloria Sutherland
Subject: FW: Actions Needed
Attachments: FY13 VCAD Budget 28 Sept 2012.docx

Copy for my desk.

G. David Gearhart
Chancellor
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From: Donald O. Pederson
Sent: Saturday, September 29, 2012 6:40 PM
To: Brad Choate
Cc: G. David Gearhart
Subject: Actions Needed

I am attaching the document "FY13 VCAD Budget 28 Sept 2012" so I can keep the formatting I drafted. It has some specific actions you must take to move us down the road in the right direction. Nevertheless, I am very concerned about the accumulated deficit and the outlook for FY13 which I attribute to inadequate fiscal procedures the most immediate of which I have addressed previously or now in the attachment. I have asked Jean Schook and Denise Reynolds for additional information on last years expenditures that I think are needed before I make further recommendations to the chancellor on the issue we discussed yesterday.