

## Gloria Sutherland

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**From:** G. David Gearhart  
**Sent:** Wednesday, October 24, 2012 9:24 AM  
**To:** Gloria Sutherland  
**Subject:** FW: Response ot Jean Schook's Memo

Brad's personnel file.

G. David Gearhart  
Chancellor  
University of Arkansas  
425 Administration Building  
Fayetteville, Arkansas 72701  
479-575-4140  
479-575-2361 (Fax)  
gdgearh@uark.edu  
www.uark.edu

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**From:** G. David Gearhart  
**Sent:** Saturday, October 20, 2012 3:51 PM  
**To:** Brad Choate  
**Cc:** Donald O. Pederson  
**Subject:** Re: Response ot Jean Schook's Memo

Brad:

I will review this very closely and we can then discuss face to face, but a cursory read makes me very concerned that you are not taking responsibility for what happened.

Main concerns:

You were not approving any expenditures. How could you possibly know anything about the budget if you were not monitoring expenses. You totally abdicated responsibility for budget issues to Joy.

Brad, it appears that you had no idea how much revenue you had or how much your division was spending and this went on from the first day you arrived on campus. You exhibited little or no engagement with your budget. You were told by the CFO that you had to approve expenditures of a certain level and you totally ignored this requirement and even argued about the necessity. You did not follow strict university policy, even after the CFO told you it was required. In fact, you ignored the policy directive as if the rules don't apply to you.

None of your senior staff had any involvement in the budget. They have admitted to me and to others that they would ask about their budgets, but would be given no information after multiple requests. I'm just incredulous that there was no interaction with your senior people about budget. They should have been closely monitoring the budgets they are responsible for, but everything was completely left to Joy. Absolutely no checks and balances or engagement by your most senior staff. They admitted to me that this was a huge source of concern to them.

Brad, we will discuss, but I'm sure you know how very serious this is. I have to brief Dr. Bobbitt and the chairman of the board. I am very concerned about their reactions. I'm told that this is one of the largest deficits we have ever experienced and it appears that you abdicated responsibility for watching the budget, monitoring expenditures and being engaged in proper management and oversight. This, in turn, created an environment for Joy to essentially do anything she wanted to do without your oversight and approval.

While we do not suspect theft, you created an environment where it would have been very easy for her to steal the university blind had she desired to do so. No one else created that environment but you.

Brad, you have been a friend and colleague for many years. I brought you here to help me. But your lack of oversight has created a colossal fiscal crisis. \$8 million is huge. Frankly, beyond belief.

It breaks my heart. It truly does. I am terribly disappointed. But, ultimately, you have no one to blame but yourself. You need to take responsibility.

G. David Gearhart  
Chancellor  
University of Arkansas

On Oct 20, 2012, at 12:59 PM, "Brad Choate" <[choate@uark.edu](mailto:choate@uark.edu)> wrote:

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 that one occasion the Chancellor and I, and others, discussed that Joy had more to do that 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



# UNIVERSITY OF ARKANSAS

Office of the Chancellor

November 6, 2012

**PERSONAL & CONFIDENTIAL**

Mr. Brad Choate  
3446 East Fredricksburg Circle  
Fayetteville, AR 72703-4821

Dear Brad:

This is to inform you that your appointment as Vice Chancellor for University Advancement will not be renewed after its expiration June 30, 2013.

From now until June 30, you will continue to report directly to me, but will be relieved of your administrative duties to manage and lead the Division of Advancement. I will assign other duties to you. You will be expected to keep official office hours. In addition, you will no longer be a member of the Executive Committee, the Chancellor's Administrative Policy Council, or any other official university committee effective immediately.

Your salary and perquisites will remain in effect until your official departure, June 30, 2013, or until you secure another appointment outside the University of Arkansas. Any vacation time, travel or university related expenses must be approved by me.

I want to thank you for the support you have given to the university these past 4 1/2 years and wish you the very best in the future.

Sincerely,

A handwritten signature in black ink, appearing to read "G. David Gearhart".

G. David Gearhart  
Chancellor

**Gloria Sutherland**

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**From:** G. David Gearhart  
**Sent:** Tuesday, November 20, 2012 3:28 PM  
**To:** Gloria Sutherland  
**Subject:** FW: Your statements

G. David Gearhart  
Chancellor  
University of Arkansas  
425 Administration Building  
Fayetteville, Arkansas 72701  
479-575-4140  
479-575-2361 (Fax)  
[gdgearh@uark.edu](mailto:gdgearh@uark.edu)  
[www.uark.edu](http://www.uark.edu)

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**From:** Brad Choate  
**Sent:** Tuesday, November 20, 2012 3:12 PM  
**To:** G. David Gearhart  
**Subject:** Re: Your statements

I have not said one bad word about you and in fact have been explicit to say I don't want this to hurt you or the University. I have said that I think Don and the financial affairs system should have helped spot this issue before now.

I'm sorry if those comments were misinterpreted and will be extra careful to make sure it doesn't happen again.

Sent from my iPhone

On Nov 20, 2012, at 2:55 PM, "G. David Gearhart" <[gdgearh@uark.edu](mailto:gdgearh@uark.edu)> wrote:

Brad:

I have had several folks tell me recently that you are blaming your situation on Don Pederson. That you are disparaging his name and using him as the reason for your demise.

I have also been told that you are telling folks that you inherited this problem and the budget deficit existed before you arrived.

Neither are accurate and in your heart you know that. All of the evidence supports otherwise.

It is not doing you any good making remarks like this and in fact your comments are damaging you further. I'm asking you to stop the blame game. I assume you



want me to give you a favorable recommendation when the time comes and you are making it difficult for me to do that.

If I continue to hear these reports I will be forced to remove you from this building and assign you space elsewhere.

The other alternative is to dismiss you immediately for cause. I have been very good to you allowing you to stay here while searching for a position, but I will not allow you to disparage my senior team or me.

I hope I have made this clear to you.

G. David Gearhart  
Chancellor  
University of Arkansas  
425 Administration Building  
Fayetteville, Arkansas 72701  
479-575-4140  
479-575-2361 (Fax)  
[gdgearh@uark.edu](mailto:gdgearh@uark.edu)  
[www.uark.edu](http://www.uark.edu)

## Gloria Sutherland

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**From:** G. David Gearhart  
**Sent:** Thursday, November 29, 2012 10:05 PM  
**To:** Gloria Sutherland  
**Subject:** Fwd: Budget

Print pls.

G. David Gearhart  
Chancellor  
University of Arkansas

Begin forwarded message:

**From:** "G. David Gearhart" <[gdgearh@uark.edu](mailto:gdgearh@uark.edu)>  
**Date:** November 29, 2012, 10:00:05 PM CST  
**To:** "Donald O. Pederson" <[dop@uark.edu](mailto:dop@uark.edu)>, "Denise B. Reynolds" <[dreynol@uark.edu](mailto:dreynol@uark.edu)>, "Sharon L. Gaber" <[sgaber@uark.edu](mailto:sgaber@uark.edu)>  
**Subject:** Budget

Have been studying the advancement budget more closely and it occurs to me that Brad and Joy were funding positions outside of fundraising with foundation dollars. Several of the other advancement units received positions without any hard budget to back them up, alumni, university relations to be precise.

Technically I'm not sure that is proper to use foundation funds for non fundraising positions. It appears that is what compounded the problem. During my time in advancement we only added people in other units if we had hard dollars to back it up. Foundation funds were only used for fund raisers.

Seems as though we should work to correct that as soon as practical. Thus any new positions MUST be approved by the normal budget process.

G. David Gearhart  
Chancellor  
University of Arkansas

July 13 BC/DOP notify GDG of VCAD over budget by approx. \$500,000 UA FDN

July 16 BC/DOP/GDG meet after XC to discuss  
DOP will seek cash flow management loan from TM in Engr.

July 18 Foundation account meeting held  
BC sends apologies e-mail to GDG

July 20 DOP advises GDG that VCAD over budget by approx. \$2M in state accounts  
DOP doing an internal audit

July 24 Follow-up foundation account meeting

July 30 Reduction in expenses e-mail to BC from GDG

July 31 GDG meets with JGS/GS to discuss procedure for office

August 2 GDG and DL speak by phone

August 3 GDG/JGS/GS phone DL and request list of Chancellor-directed accounts

August 6 Foundation accounts e-mail to BC, JS from GDG

August 7 GDG meets with BC  
List of Chancellor-directed accounts received from DL  
GDG/JGS/GS phone DL and go over list  
GDG signs forms to remove JS from signer on all Chancellor-directed accounts  
GDG learns JS used a restricted gift to pay VCAD expenses  
GDG advises legal counsel SV of issue  
GDG/DOP/JGS/SV meet

August 8 GDG learns VCAD over budget by \$5M plus  
GDG meets with JS  
GDG meets with DOP/BC  
GDG advises DB  
GDG meets with SV  
GDG advises BC by email seriousness of problem and for solving  
BC/DOP identify individual to handle fiscal management with dual reporting  
BC/DOP working with OEOC for reassignment of JS

BC/DOP determining a schedule for repayment of the deficit and commit it to writing

August 20 EM note re "Development is broke"—BC/GDG phone TM and request confidentiality by the college

August 27 BC notifies ADV of separation of JS's position into two areas: JS will handle HR and move to UNHS. DR will be the finance officer.

September 4 Start date for DR and reassignment start date for JS

September 18 Follow-up foundation account meeting for reversal and transfer of funds identified at 7/18 and 7/24 meetings  
Spreadsheet of accounts provided to DR & BC

September 26 GDG receives email from BC; GDG responds

October 15 GDG, DOP, and BC meet to discuss status of budget

October 17 DOP delivered document explaining Advancement issue

October 22 GDG meets with Dr. Bobbitt

October 24 GDG meets with DOP, SG, GL and JL

October 29 1:1 Meeting scheduled for GDG/BC on November 6

November 1 GDG mails JS the treasurer's office findings

November 5, Written response received from JS

November 6 GDG meets with BC—appointment will not be renewed

November 7 BC meets with his senior staff

November 7 GDG meets with MP

November 8 GDG meets with John Diamond  
GDG meets with Graham Stewart  
GDG meets with Bruce Pontious  
GDG meets with Melissa Banks  
GDG meets with Kris Macechko

November 15 GDG advises Jim Harris by phone

<b>November 15</b>	<b>GDG meets with JS-appointment will not be renewed</b>
<b>November 16</b>	<b>GDG/DOP Advancement Budget Meeting</b>
<b>November 16</b>	<b>GDG meets with BC re message</b>
<b>November 19</b>	<b>GDG meets with Provost and Deans</b>
<b>November 19</b>	<b>GDG meets with BP, MP and DODs</b>
<b>November 19</b>	<b>GDG meets with DOP, DR, and JS re Adv. Budget</b>

## Hannah Lee

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**From:** "Lee, Greg" <greg.lee@tyson.com>  
**Date:** Tuesday, October 23, 2012 5:03 PM  
**To:** "Hannah Lee" <Hannahlee@cox.net>  
**Subject:** Fwd: Response of Jean Schook's Memo

Sent from my iPhone

Begin forwarded message:

**From:** "G. David Gearhart" <gdgearh@uark.edu>  
**Date:** October 20, 2012, 9:13:12 PM CDT  
**To:** "Gregory W. Lee" <greg.lee@tyson.com>  
**Subject:** Fwd: Response of Jean Schook's Memo

FYI

G. David Gearhart  
Chancellor  
University of Arkansas

Begin forwarded message:

**From:** Brad Choate <choate@uark.edu>  
**Date:** October 20, 2012, 12:59:03 PM CDT  
**To:** "G. David Gearhart" <gdgearh@uark.edu>, "Donald O. Pederson" <dop@uark.edu>  
**Subject:** Response of Jean Schook's Memo

Dave and Don,

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10/23/2012

000071

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.

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*move funds department tied to a total?*

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.

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interesting

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True?

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Who began Joy was involved in either the project or review of system?



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 that 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.

*Verbal*

*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.

mask total overspend?

*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.

staff @ Budgeted for or just chkd to see if "funds available" When who approves?

*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.

True? Why didn't not who review?

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.

*was there knowledge in FA of problems*

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

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# UNIVERSITY OF ARKANSAS

Office of Financial Affairs

**CONFIDENTIAL**

*opinion out of A*

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.

*Account over what the period*

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.

*Denise?*

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:

*See 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.

*no report made of this to Director*

*the broad on individual*

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:

*four choices  
specific but he has not  
small number of items*

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

*1 case*

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

Did he get the 11" inch dollar book

➤ 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 \$11 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.

Why not Advancement look

➤ 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





UNIVERSITY OF  
ARKANSAS.

COPY

Office of the Chancellor

**Personal and Confidential**

November 16, 2012

Ms. Joy Sharp  
279 Countryside Drive  
Farmington, AR 72730-8801

Dear Joy:

Effective immediately, I am reassigning you from the Division of University Advancement to Human Resources. Your specific job duties and responsibilities will be determined by HR. Your current salary and benefits will remain in effect until June 30, 2013, provided you remain an employee of the University during that time.

After June 30, 2013, your continued employment with the University of Arkansas will be determined by the needs of HR and your satisfactory work performance. A new salary commensurate with the position will be offered at that time should HR desire your continued service.

I wish you the best in this new position.

Sincerely,

G. David Gearhart  
Chancellor