
MEMORANDUM

TO: Audit Committee &
Tom Courtway, President

FROM: Pamela Massey, Director of Internal Audit

DATE: February 10, 2015

RE: Office of the President Review

PURPOSE AND SCOPE

The Office of the President Review was added to the Internal Audit auditable program by the University Audit and Finance Committee on December 11, 2014 by then chair, Mr. Bunny Adcock. Internal Audit started the research and review of the Office of the President in December 2014. The purpose of the review was to examine the policies and procedures of the Office of the President. The scope of the audit addressed primarily the following classes of transactions: (1) Salary and wages, (2) supplies and services, (3) travel, and (4) capital expenditures occurring during the period January 1, 2013 through December 31, 2014.

Information was obtained primarily through interviews, observations, and in conjunction with the following examination of records, facilities, and supporting documents:

1. Entrance conference with President Courtway and Kelley Erstine, Chief of Staff on January 9, 2015;
2. Pre-Audit Questionnaire, completed January 8, 2015;
3. Personnel Files;
4. Key Request Authorization Forms;
5. BASIS Cardholder Access to Readers Report;
6. Statements of Financial Interest;
7. Conflict of Interest – Financial Disclosure Statements;
8. Board Policy 517 - Conflict of Interest;
9. Purchasing Card Logs;
10. US Bank Online Account Detail;
11. Accounts Payable Vouchers;
12. Travel Vouchers;
13. Leave Reports and Leave Request Forms;
14. Vendor Contracts;
15. President's Foundation Account reimbursement file;
16. State of Arkansas Travel Regulations;
17. State of Arkansas Procurement Laws and Rules;
18. UCA Travel Procedures manual;

19. UCA Staff Handbook;
20. UCA Procurement Card (P-Card) Program Guidelines and Procedures; and
21. Various Banner Screens.

The objective of this audit was to perform a bi-annual examination of the Office of the President to obtain an understanding and examine policies and procedures to determine whether relevant and significant internal controls are in place at the Office of the President to promote and encourage compliance with applicable laws, rules, and regulations; the economic and efficient operation of the department; the reliability of records and reports; and the safeguarding of assets related to the Office of the President.

In order to accomplish the audit objectives stated above, Internal Audit performed the following procedures:

1. Obtained and documented our understanding of significant and relevant management controls applicable to the Office of the President;
2. Performed risk assessment procedures;
3. Performed analytical procedures such as comparing fiscal year transactions and investigating any unusual or significant differences;
4. Reviewed key and card access for terminated employees to determine whether terminated employees' access cards were deactivated timely and whether keys were returned to the Physical Plant upon termination of employment;
5. Examined data security access privileges to determine whether access was restricted to an individual's job responsibilities;
6. Examined Conflict of Interest – Financial Disclosure Statements to determine whether statements were appropriately filed;
7. Examined Statement of Financial Interests for applicable employees to determine whether statements were filed timely;
8. Tested 15% of payroll transactions to determine whether employee compensation was properly paid and recorded and determine whether paid leave was properly approved and recorded;
9. Tested 40% of travel expense to determine whether expenses were properly paid and recorded;
10. Tested 100% of disbursements to the President to determine whether disbursements were properly paid and recorded and that disbursements were not also reimbursed by the UCA Foundation;
11. Tested 7% of general expenses to determine whether expenses were properly paid and recorded;
12. Tested 43% of purchasing card expenses to determine compliance with Purchasing Card Program Policies and Guidelines; and
13. Determined whether any contracts provided discretionary funds for use by the President's Office and whether funds were expended for the intended purpose.

BACKGROUND

The President is appointed by the Board of Trustees and is responsible for the general administration of the University. During our audit period, Mr. Tom Courtway served as President of the University based on an employment agreement approved by the Board of Trustees on August 16, 2013 for the period July 1, 2013 through June 30, 2015. This employment contract was subsequently extended until June 30, 2016, by the Board on May 30, 2014.

Additionally, the following staff are housed within the President's suite in Wingo Hall: Kelley Erstine, Chief of Staff (from September 2014); Warren Readnour, General Counsel (from October 2013); Kandi Hughes, Associate General Counsel (from October 2013); Christina Madsen, Associate Vice President for Communications, Marketing, and Public Relations (from March 2014); TJ Johnston, Director of Special Projects (from February 2014); Susan Lilly, Associate for Administration Assistant; Connie May, Associate for Administration; Erica Ruble, Public Information Specialist (from July 2013); Jeff Pitchford, Vice President of University and Government Relations (through January 2014); Katie Henry, General Counsel (until September 2013); and Gilbert Baker, Executive Assistant to the President (through January 2014).

OBSERVATION & RECOMMENDATIONS

Observation (1) Conflict of Interest Statement:

Board Policy 517, Section 1, states, "It is the policy of the university that all employees take affirmative steps to avoid or minimize actual and potential conflicts of interest between their financial or other personal interests and the goals and policies of the university."

Section 4 of the policy states, "Because the complexity and diversity of personal relationships is extensive, the perception of a conflict of interest may vary from one individual to another. The most effective means to address a conflict of interest is to establish a system by which employees disclose and obtain evaluation of actual or potential conflicts of interest. Thus, employees shall disclose any actual or potential conflict of interest."

Section 5 of the policy requires that employees submit a Conflict of Interest – Financial Disclosure Statement on an annual basis and no later than January 31st of each year. Additionally, employees are required to update this statement if there is a significant change in information that indicates an actual or potential conflict of interest.

Internal Audit requested the Conflict of Interest – Financial Disclosure Statements for staff members employed by the Office of the President during the audit period. Regarding annual disclosures due by January 31, 2014, Internal Audit noted that two (2) staff members were hired in October 2013; however, they were not required to submit a disclosure until January 31 of the following year. Internal Audit also noted three (3) staff members who were hired between February 2014 and September 2014 were not required to complete a "Conflict of Interest – Financial Disclosure Statement" until January 31, 2015 resulting in a gap of as much as 11

months between an employee's hire date and the date they are required to disclose any actual or potential conflict of interest.

Although outside the audit period, Conflict of Interest – Financial Disclosure Statements submitted by the three (3) staff members who were hired during the 2014 calendar year by January 31, 2015, as required, were provided to Internal Audit and none indicated any actual or potential conflicts. However, during the course of the review, Internal Audit discovered a potential conflict existed with one staff member, who was hired in February 2014 and whose duties include economic development for the university, was not disclosed. Internal Audit then consulted with President Courtway who obtained a legal opinion from General Counsel regarding disclosure of a potential conflict. Subsequently, an amended Conflict of Interest – Financial Disclosure Statement was filed for the new staff member on February 5, 2015. The amended statement indicated that the staff member is a partner with a board member in a real estate development limited liability company; however, the company does not currently do business with the university and, therefore, not considered a conflict according to President Courtway. The statement further indicated that the staff member is also a partner in another real estate limited liability company with the same board member as well as two other individuals, one of which also owns a surveying business that does engage in business with the university which was disclosed as a potential indirect conflict. A plan for mitigation regarding this potential conflict was also provided to Internal Audit.

Without disclosure of any actual or potential conflict of interest upon acceptance of employment with the university, there is an increased risk that an actual or potential conflict could exist and not be timely detected.

Recommendation (1) Conflict of Interest Statement:

It is recommended that Board Policy 517, Conflict of Interest, be amended to require new employees to submit a Conflict of Interest – Financial Disclosure Statement upon employment with the University.

Management Response (1):

According to President Courtway, “Management agrees with Recommendation (1). I have been in contact with Dr. Graham Gillis and discussed this part of the audit and the timing of the request for the initial conflict of interest statement. This form is now part of an employee's orientation, and a conflict form has been requested from all new employees for the last couple of months.”

Observation (2) Employee Compensation and Leave Accrual:

The University's Staff Handbook, Section 6.1.1 – Annual Leave Guidelines, provides that (1) “before annual leave may be taken, approval should be obtained from the supervisor/department head”; (2) “leave in excess of accrued vacation will result in a Leave-Without-Pay notice, which

is strongly discouraged”; and (3) “employees are responsible for keeping track of leave balances as continuous violation of these guidelines may result in disciplinary action.”

Internal Audit tested payroll transactions for eight (8) staff members in the Office of the President. Testing consisted of a comparison of the payroll amount reported in Banner, the University’s ERP system, to the salary amount approved on the staff member’s Personnel Action Form (PAF); an examination of leave reports; and an examination of leave requests to determine whether the request appropriately documented any leave taken during the pay period.

During our test of employee compensation, review of leave records for one staff member, who began employment in February 2014, indicated leave taken in excess of accrued vacation time as follows:

Leave Period	Overage Amount (hrs)
7/16/2014 - 7/31/2014	9.50
8/1/2014 - 8/15/2014	4.00
10/1/2014 - 10/15/2014	11.25
12/16/2014 - 12/31/2014	8.25
Total Overage	33.00

Also, although outside our audit period, we also noted vacation leave overage of twelve (12) hours reported for period January 1, 2015 through January 15, 2015.

Based on documentation available, it was not evident that there was a process in place to ensure that the staff member’s supervisor was notified of any leave overages due to the following: (1) the staff member’s leave request was manually approved by the staff member’s supervisor before leave is taken, (2) the leave report in the university’s online leave reporting system that provides employee leave balances was approved by a designee and not the staff member’s supervisor, and (3) the memo prepared by Human Resources notifying the payroll department to reduce the staff member’s pay for leave overages was not copied to the staff member’s supervisor.

Subsequent to our inquiries, the staff member’s supervisor indicated that he was aware of and agreed with the time off.

Recommendation (2) Employee Compensation and Leave Accrual:

It is recommended that procedures regarding annual leave approval be improved to ensure that a staff member’s supervisor is notified timely of any leave overages. It is further recommended that Staff Handbook, Section 6.1.1., be amended to provide further clarification regarding enforcement of any disciplinary action related to continuous violation of annual leave guidelines.

Management Response (2):

According to President Courtway, “Management agrees with Recommendation (2). I have discussed the first part of the Recommendation (regarding reporting of leave accrual to the supervisor) with Dr. Gillis, and this will be initiated by the Office of Human Resources. With regard to the second part of the Recommendation (amendment to the *UCA Staff Handbook* Section 6.1.1), I have spoken with Dr. Gillis and Warren Readnour, General Counsel. We will review the language, rules and regulations of the Office of Personnel Management, as well as staff handbook provisions of other public universities, and report back to the Audit and Finance Committee at its May 2015 meeting. Any suggested revisions proposed will be presented to the committee at that time.”

CONCLUSION

The review of the Office of the President conveyed the following: (1) improvements are needed regarding the requirement for new hires to submit a Conflict of Interest – Financial Disclosure Form upon acceptance of employment with the University, and (2) improvement is needed regarding reporting of leave overages.

The Internal Audit draft of this report was sent to President Courtway for review on February 9, 2015. A closing conference was held on Tuesday, February 10, 2015, with President Courtway and the Office of Internal Audit to review the management responses. The responses are incorporated in this final report.

This report is intended solely for the information and use of the University of Central Arkansas Board of Trustees and University management and is not intended to be used and should not be used by anyone other than these specified parties. However, pursuant to the Arkansas Freedom of Information Act (A.C.A. § 25-19-105), all reports presented to the Board of Trustees are matters of public record and distribution is not limited.

Respectfully submitted by:

Leslie Coddington, CPA
Auditor-in-Charge

c: Mr. Warren Readnour, General Counsel
Mr. Kelley Erstine, Chief of Staff
Dr. Graham Gillis, Associate Vice President of Human Resources and Risk Management
Mr. Larry Hunter, Deputy Legislative Auditor