



UNIVERSITY OF PUERTO RICO IN PONCE

**MONITORING REPORT TO THE
MIDDLE STATES COMMISSION ON
HIGHER EDUCATION**

Submitted by:
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April 1, 2014

Monitoring Report in
Response to the Commission's Letter
Dated November 22, 2013

Subject of the Monitoring Report:

“To accept the supplemental information report. To request a monitoring report, due April 1, 2014, documenting evidence of an independent audit for FY2013, with evidence of follow-up on any concerns cited in the audit's accompanying management letter for both FY2012 and FY 2013 (Standard 3). To remind the obligation to ensure timely production of audited financial statements...”

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EXHIBITS

Exhibit I: Audited Financial Statements 2013

Exhibit II: Financial Statements FY 2011-2012

Exhibit III: Work Plan for 2012, Audited Financial Statements and Single Audit Report

INTRODUCTION

The University of Puerto Rico at Ponce (UPRP) submits this Monitoring Report as requested by the Middle States Commission on Higher Education (MSCHE) to address the issue of timely production of audited financial statements and evidence of follow-up of concerns cited in the audits' accompanying management letters for FY2012 and 2013. Specifically, the request stated:

To request a monitoring report, due April 1, 2014, documenting evidence of an independent audit for FY2013, with evidence of follow-up on any concerns cited in the audit's accompanying management letter for both FY2012 and FY2013 (Standard 3). To remind the institution of its obligation to ensure timely production of audited financial statements.

Considerable portions of this report were prepared by the UPR Central Administration, inasmuch as campuses do not issue audited financial statements separately. The UPRP produced those sections focusing on its individual circumstances and actions taken by the campus to contribute to the timeliness of the UPR System's statements. As requested, the UPRP submits the University of Puerto Rico Audited Financial Statements for the Year Ended June 30, 2013, which were produced on time (**Exhibit I**). The specific issues and the auditors' recommendations are summarized in this report.

Campus Overview

The UPR Ponce campus (UPRP) is part of the University of Puerto Rico (UPR), a multi-campus, state supported institution of higher education licensed by the Puerto Rico Commission on Higher Education. The Carnegie Foundation has classified Ponce campus as a Baccalaureate College of Diverse Fields in response to its balance between the disciplines of arts, science, education, and business. The Middle States Association/Council on Higher Education (MSCHE) accredited the UPR Ponce in 1970, reaccredited it in 1985 and 1995, and reaffirmed accreditation in 1980, 1990 and 2000, 2005, and 2010. At present, the UPRP is currently working with the reaccreditation processes; the reaccreditation visit will take place during 2015-2016.

The following academic programs at UPRP are professionally accredited: Associate Degree Program in Physical Therapy by the American Physical Therapy Association (APTA); Associate Degree Programs in Engineering by the Accreditation Board of Engineering and Technology (ABET); the Business Administration Programs and the Office Systems Program by the Association of Collegiate and Business Schools Programs (ACBSP); and the Elementary Educational Program by the National Council Association of Teacher Education (NCATE). In addition, the Adelina Coppin Alvarado Library was favorably evaluated by the Association of College and Research Libraries (ACRL) and the Counseling and Psychological Services was accredited by the International Association of Counseling Services (IACS).

STANDARD 3 - INSTITUTIONAL RESOURCES

The UPRP is currently accredited by MSCHE and follow the guidance of the Commission's *Characteristics of Excellence in Higher Education*. Recently, the MSCHE has expressed concern about the institution's compliance with Standard 3, Institutional Resources, specifically the timely issuance of audited financial statements. This standard states that the human, financial, technical, facilities, and other resources necessary to achieve an institution's mission and goals are available and accessible. In the context of the Institution's mission, the effective and efficient uses of the institution's resources are analyzed as part of ongoing outcomes assessment.

Among the several items of the Fundamental Elements of Institutional Resources, an accredited institution is expected to conduct an annual independent audit confirming financial responsibility, with evidence of follow-up on any concerns cited in the audit's accompanying management letter. The Commission's concern is about to the University's annual independent audits.

UPR AUDITED FINANCIAL PROCESS

For financial reporting purposes, the UPR system issues a single set of audited financial statements which includes its eleven (11) campuses: Aguadilla, Arecibo, Bayamón, Carolina, Cayey, Humacao, Mayagüez, Medical Sciences, Río Piedras, Ponce, Utuado; and the Central Administration. Therefore, UPRP does not issue audited financial statements separately. The results of the UPRP financial operations are presented within the UPR's financial statements.

The UPR's financial statements are subject to an external annual financial audit. For such external audit, a trial balance of the UPR system is evaluated, rather than on an individual campus basis. Over the last ten years, the UPR independent auditors have been Ernst & Young, LP. Once the independent audit is performed, an independent auditors report is issued stating an opinion of whether the financial statements are free of material misstatements and according to the generally accepted accounting principles. Since the UPR's financial statements are filed as part of the OMB-133A report it is generally due by the 9th month following the year-end closing (June 30).

In efforts to improve efficiency in the financial and fiscal operations, the UPR has invested approximately \$82 million in an ERP system (ORACLE E-Business). However, in the past years, the University has been unable to file the audited financial statements on a timely basis. The delays were due to several aspects, but mainly to the implementation of a new accounting system that did not include various critical modules[♦], thus making the accounting closing process cumbersome. The lack of these modules, among others, has

[♦] The ORACLE Cash Management Module, Fixed Asset Module, Human Resource Module and ORACLE Grants and Projects Module, ORACLE Accounts Receivable, ORACLE Capital Assists, and Payroll were not implemented. However, the Board of Trustees has taken actions in order to complete the implementation process of the accounting system. Certification 7-2011-2012 of the Board of Trustees has delineated the necessary actions to implement these modules and further strengthen the information systems of the University of Puerto Rico.

presented deficiencies pointed out by external auditors. These deficiencies have already been identified and the UPR administration is taking actions to correct all the situations encountered and moving forward to strengthen its administrative processes.

The lack of adequate controls during the implementation of the ORACLE E-Business Suite Accounting System affected the efficiency of the financial statements closing process. The auditors have made recommendations to improve the annual process to include more effective monitoring controls over financial information. The UPR is thoroughly working with these recommendations towards achieving more efficient process in the monthly and annual book accounting closing.

Regarding the Finance structure, the external auditors have recommended changes to the organizational structure. These changes will improve monitoring controls over the accounting and financial reporting functions of the different campuses. The UPR is taking actions towards working with these recommendations.

UNIVERSITIES' ACTIONS AND INITIATIVES

The UPR has given utmost priority to complying with conducting an independent audit confirming financial responsibility, with evidence of follow-up on any concerns cited by the external auditor. Special consideration was given to the fiscal year 2011-12 Audited Financial Statements. On August 23, 2013, the UPR issued these statements along with the independent auditors report (**Exhibit II**).

On September 23, 2013, MSCHE had a meeting about the concerns of delays of the UPR audited financial statements. In the meeting participated Elizabeth H. Sibolski, Tito Guerrero, and Andrea Lex from the MSCHE and Celeste Freytes, Acting President, Delia Camacho, Acting Vice President for Academic Affairs, and Basilio Rivera, Interim Finance Director from UPR. The UPR presented a plan for preparing a schedule for issuing the audited financial statement for fiscal year 2012-13 which was well received.

As follow-up to the August 2013 Supplemental Report, Dr. R. Barbara Gitenstein, Chair of the MSCHE, sent a letter to UPRP, dated on November 22, 2013, accepting the supplemental information report and requesting a monitoring report due by April 1, 2014.

Subsequent to the completion of the 2011-12 audit, the UPR immediately started the closing process of the fiscal year 2012-13. Since both closing years started so close, most, if not all, of the same issues or concerns still existed. Notwithstanding that scenario, the UPR submitted the audited Financial Statements for fiscal year 2012-13 on time by March 31, 2014.

Actions Taken

Immediately after the 2011-12 Audited Financial Statements issuance, a meeting among all Finance Directors was held at the Central Administration to discuss the lessons learned during the previous process and discuss the plan of work for the 2012-13 audit (Exhibit III).

On September 23, 2013, the UPR hired a Finance Director for the Central Administration. This met one of the recommendations from the external auditors. In October 2013, the 2012-13 working plan was revised to consider having a final draft of the Financial Statements by February 28, 2014. The plan considered reducing by half the time spent on the closing and previous year audit (2011-12 vs. 2012-13). Several meetings were held throughout the course of the process between the Central Administration and the campuses to follow-up on meeting deadlines and deliverables. The UPRP financial staff participated in all of these meetings in an effort to be in a position to expedite the closing process.

The UPRP hired a local consultant firm, Fusionworks, to update the necessary reports leading the University's financial statements. At present, these reports have been updated, reconciled, and they are ready for the emission of the financial statements, even having quarterly, semiannually or annually reports.

Closing the trial balance

For fiscal year 2012-13, the University closed its books prior to delivering a trial balance to the external auditors in order to reduce the volume of adjustments. With this action taken, the UPR has made sure to be in a better position to have an efficient process and expedite the emission of the financial statements, even reducing the amount of accounting adjustments in the ORACLE system.

Reinforcement of accounting personnel

Besides having the accounting firm Ernst and Young to perform the annual audit, the UPR hired the services of a CPA firm named BDO (formerly Binding Dijker Otte & Co), to assist with the closing of the books and to perform pre-audit services. These consultants were assigned to review all campus' figures. BDO's auditors continually requested information to the Finance Office at UPRP to confirm accounting balance in the trial balance, such as accounts receivable, accounts payable, payroll, etc. All the information requested and reconciliations were delivered by UPRP on time. The pre-audit procedures were designed to detect and correct errors before delivering the final trial balance to the external auditors in order to reduce time incurred by them during the course of the audit. In addition to the above, a group of Certified Public Accountants and retired employees were hired to assist in the closing. The UPRP sent its Finance Director to assist in the closing process and the consequent emission of the financial statements.

The UPR also started the process of hiring a Comptroller or Chief Accounting Officer for the entire system. The main responsibilities of this position will be to standardize procedures and strengthen not only internal controls, but also the financial closing process leading to the emission of the financial statements on time.

CONCLUSION

The timely closing of fiscal year 2012-13 and issuing the financial statements with the corresponding audit reports represents a significant accomplishment for the university and the campus. Having complied with the corresponding deadlines, the institution's goal is geared towards issuing the UPR's audited financial statements for fiscal year 2013-14 by December 31, 2014. Meeting this goal strengthens our commitment with MSCHE Standard 3. The UPR has also set the goal to compete for the Certificate of Achievement for Financial Reporting issued by the Government Finance Officers Association of the United States and Canada. This award is issued to government elements whose comprehensive annual financial reports achieve the highest standards in government accounting and financial reporting.

We expect to achieve these goals by reinforcing the finance organizational structure, strengthening standardized financial guidelines and procedures to all campuses and by investing in information technology, as previously authorized by [Certification 7-2011-2012](#) of the Board of Trustees. All these aspects will definitely strengthen the path for the UPR in issuing, on a timely basis, its audited financial statements.

The University of Puerto Rico in Ponce is committed to continuously comply with all standard set out by the Middle States Commission on Higher Education, and will unceasingly work towards achieving its mission and full compliance with the Characteristics of Excellence in Higher Education.