Show Cause Report to the
Middle States Commission on Higher Education

Prof. Carmen A. Bracero-Lugo
Interim Chancellor

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Interim Dean for Academic Affairs

Dr. Jennifer Alicea-Castillo
MSCHE Liaison Officer

January 25, 2019

Show Cause Report

To acknowledge receipt of the supplemental information report. To note that the report did not provide the requested evidence and was not conducive to Commission review.

To require the institution to show cause, by January 25, 2019, to demonstrate why its accreditation should not be withdrawn because of insufficient evidence that the institution is in compliance with Standard VI (Planning, Resources, and Institutional Improvement), Requirements of Affiliation 11 and 14, and the Related Entities Policy. To note that the institution remains accredited while on show cause. To note further that federal regulations limit the period during which an institution may be in non-compliance to two years.

To require a show cause report, due January 25, 2019, documenting evidence that the institution has achieved and can sustain ongoing compliance with the Commission's standards, requirements, policies and procedures, and federal compliance requirements. The show cause report must include evidence of (1) documented financial resources, funding base, and plans for financial development adequate to support its educational purposes and programs and to ensure financial stability (Standard VI and Requirement of Affiliation 11); (2) updated information on the impact of the Fiscal Oversight Management Board's plan and proposed restructuring on the institution's status and finances (Standard VI); (3) an annual independent audit confirming financial viability with evidence of follow-up on any concerns cited in the audit's accompanying management letter (Standard VI); (4) a record of responsible fiscal management, has a prepared budget for the current year, and undergoes an external financial audit on an annual basis (Standard VI and Requirement of Affiliation 11); and (5) certification by the related entity that it recognizes the Commission's compliance requirements and will ensure that responsibilities of the related entity are fulfilled, including making freely available to the Commission accurate, fair, and complete information through disclosure of information required by the Commission to carry out its accrediting responsibilities (Related Entities Policy; Requirement of Affiliation 14).
To require that the institution complete and submit for approval, by January 25, 2019, a comprehensive, implementable teach-out plan (Teach-Out Plans and Agreements Policy and Procedures). In accordance with Commission policy and federal regulations, the teach-out plan must provide for the equitable treatment of students to complete their education, if the Commission were to withdraw accreditation, and include any signed, teach-out agreements that the institution has entered into or intends to enter into with another institution. To direct an on-site show cause visit following submission of the report. The purpose of the on-site show cause visit is to verify the information provided in the show cause report and the institution's ongoing and sustainable compliance with the Commission's standards, requirements, policies and procedures, and federal compliance requirements. To direct a prompt Commission liaison guidance visit to discuss the Commission's expectations. To note that the institution will be invited to appear before the Commission when it meets to consider the institution's show cause report. The date of the next evaluation will be determined upon reaffirmation of accreditation.
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UPR-Ponce Financial Overview

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MSCHE Concern 4: Evidence that the institution demonstrates a record of responsible fiscal management, has a prepared budget for the current year, and undergoes an external financial audit on an annual basis (Standard VI and Requirement of Affiliation 11).

MSCHE Concern 5: Certification by the related entity that it recognizes the Commission's compliance requirements and will ensure that responsibilities of the related entity are fulfilled, including making freely available to the Commission accurate, fair, and complete information through disclosure of information required by the Commission to carry out its accrediting responsibilities (Related Entities Policy; Requirement of Affiliation 14).
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Collaborators UPR-Ponce

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UPR-Ponce Campus
INTRODUCTION

The University of Puerto Rico-Ponce submits this Show Cause Report as requested by the Middle States Commission on Higher Education (MSCHE) due on January 25, 2019, which has been prepared in collaboration with Central Administration. It addresses Requirement of Affiliation 11-Financial resources, funding base, and plans for financial development as well as undergoes an external financial audit on annual basis and Standard 6-Planning, Resources, and Institutional Improvement; of the MSCHE Standards for Accreditation and Requirements of Affiliation 11 and 14.

MSCHE REQUEST FOR FOLLOW-UP TO UPR-PONCE

MSCHE’s action on January 10, 2019 led to the following request to the UPR-Ponce Campus: To acknowledge receipt of the supplemental information report. To note that the report did not provide the requested evidence and was not conducive to Commission review. To require the institution to show cause, by January 25, 2019, to demonstrate why its accreditation should not be withdrawn because of insufficient evidence that the institution is in compliance with Standard VI (Planning, Resources, and Institutional Improvement), Requirements of Affiliation 11 and 14, and the Related Entities Policy. To note that the institution remains accredited while on show cause. To note further that federal regulations limit the period during which an institution may be in non-compliance to two years. To require a show cause report, due January 25, 2019, documenting evidence that the institution has achieved and can sustain ongoing compliance with the Commission’s standards, requirements, policies and procedures, and federal compliance requirements. The show cause report must include evidence of (1) documented financial resources, funding base, and plans for financial development adequate to support its educational purposes and programs and to ensure financial stability (Standard VI and Requirement of Affiliation 11); (2) updated information on the impact of the Fiscal Oversight Management Board’s plan and proposed restructuring on the institution’s status and finances (Standard VI); (3) an annual independent audit confirming financial viability with evidence of follow-up on any concerns cited in the audit’s accompanying management letter (Standard VI); (4) a record of responsible fiscal management, has a prepared budget for the current year, and undergoes an external financial audit on an annual basis (Standard VI and Requirement of Affiliation 11); and (5) certification by the related entity that it recognizes the Commission’s compliance requirements and will ensure that responsibilities of the related entity are fulfilled, including making freely available to the Commission accurate, fair, and complete information through disclosure of information required by the Commission to carry out its accrediting responsibilities (Related Entities Policy; Requirement of Affiliation 14). To require that the institution complete and submit for approval, by January 25, 2019, a comprehensive, implementable teach-out plan (Teach-Out Plans and Agreements Policy and Procedures). In accordance with Commission policy and federal regulations, the teach-out plan must provide for the equitable treatment of students to complete their education, if the Commission were to withdraw accreditation, and include any signed, teach-out agreements that the institution has entered into or intends to enter into with another institution. To direct an on-site show cause visit following submission of the report. The purpose of the on-site show cause visit
is to verify the information provided in the show cause report and the institution’s ongoing and sustainable compliance with the Commission’s standards, requirements, policies and procedures, and federal compliance requirements. To direct a prompt Commission liaison guidance visit to discuss the Commission’s expectations. To note that the institution will be invited to appear before the Commission when it meets to consider the institution’s show cause report. The date of the next evaluation will be determined upon reaffirmation of accreditation.

UPR UPDATED INFORMATION

The University of Puerto Rico (UPR) System, a multi-campus, state-supported institution of higher education, is licensed by the Puerto Rico Council on Education (Certification PRCE 2018-4641) (Appendix 1). The UPR system is overseen by a Governing Board constituted by 14 members. It is composed of two students (elected), two faculty members (elected), 8 citizens from the community appointed by the Governor, and two ex officio members (the Secretary of Education and a representative of the Financial Advisory Authority and Fiscal Agency), created as part of the government debt restructuring and economic development process mandated by the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) (Appendix 2) enacted by the US Congress in 2016. On July 7, 2017, the Governing Board elected Walter Alomar, Esq., as President, and Zoraida Buxó, Esq., as Vice President (Certification 1, 2017-2018). On July 3, 2018, the Board appointed Dr. Jorge Haddock President of the University of Puerto Rico. Dr. Haddock assumed its position on September 4, 2018 (Certification 1, 2018-2019, UPR Governing Board).

The President is the Chief Executive Officer of the UPR System appointed by the Governing Board for an indefinite term. He presides over the University Board, which is composed of the eleven campus chancellors, faculty representatives of each campus academic senate, student representatives, the Central Administration Vice President for Academic Affairs and the directors of the Finance, Planning and Development, and Budget Offices. Law 1 of 1966, as amended, and the UPR General Bylaws, as amended, mandate the structure of the university and its units.

With the approval of the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) in 2016, the island entered a challenging debt restructuring and economic development process under the purview of the Puerto Rico Oversight Board. The University of Puerto Rico, as a state-supported, higher education institution, was among the agencies targeted for a considerable funding reduction. The 11 campuses of the UPR System will be impacted by a reduction in state funding (state appropriations). In order for UPR to fulfill its mission and achieve financial sustainability, the 11 campuses, along with the support of the UPR Central Administration, will secure additional funding. Some of the strategies to respond to the island’s new reality and a new generation of students include the sale of services, use of technology to increase efficiency, and transformation of the educational offerings, based on assessment findings.
The University of Puerto Rico received the 2016-2017 Audited Financial Statements on January 14, 2019. As stated in the auditor’s report, the financial statements present fairly, in all material respects, the respective financial position of the business-type activities and aggregate discretely presented component units of the University as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles. The auditing process for FY 2017-2018 has already begun with March 31, 2019 as the issue date for the FY 2017-2018 audited statements.

**UPR-Ponce Importance, Relevance, Legacy**

The University of Puerto Rico in Ponce (UPR-Ponce) is located in the city of Ponce along the southern coast of Puerto Rico, approximately 67 miles from the capital city of San Juan. UPR-Ponce is the only unit of the UPR system in the southern part of the island. The Institution has grown since its foundation on June 27, 1969 and commenced its operations in August 1970. At that time, it began offering various associate degrees and transfer programs. Now UPR-Ponce offers 12 bachelor’s degrees, 4 associate degrees and forty-six articulated transfer programs to other UPR campuses. These transfer programs give students the opportunity to study during their first two years in Ponce and then move to another unit from within the UPR System. Five of UPR-Ponce’s academic programs are unique in Puerto Rico: Athletic Therapy Sciences, Psychology and Mental Health, Forensic Psychology, Biomedicine, and Civil Engineering Technology in Architectural Delineation.

As part of the UPR system, and the only public institution of higher education in the southern part of the island, UPR-Ponce is committed by law to serve Puerto Rico and the southern region. This is achieved by transmitting knowledge of sciences and arts to the community, by contributing to the development of ethical and aesthetic values with special emphasis on Puerto Rican and Western cultures, and by stimulating creative dialogue in the search for truth.

The Institution has a legacy of almost 50 years in which more than 17,000 students have graduated. In addition, more than 12,000 began their studies at UPR-Ponce and then transferred to other universities in and outside Puerto Rico. These students are now part of the labor force of Puerto Rico, United States, and many other countries around the world. As productive citizens, our alumni have been distinguishing as professionals in diverse areas such as educators, administrators, accountants, managers, scientists, psychologists, and therapists, among others. They are crucial in the economic development of those areas. The following table presents some of the most renowned UPR-Ponce alumni.
### Table 1
UPR-Ponce Distinguished Alumni

<table>
<thead>
<tr>
<th>Distinguished Alumni</th>
<th>Area of distinction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angel Román</td>
<td>Dentist, San Antonio, Texas</td>
</tr>
<tr>
<td>Héctor Rivera</td>
<td>Pharmacist</td>
</tr>
<tr>
<td>Elisa Vélez</td>
<td>CPA</td>
</tr>
<tr>
<td>Yamilka Padilla</td>
<td>Olympic athletic trainer</td>
</tr>
<tr>
<td>Nestor Borrero</td>
<td>Psychologist, New York City</td>
</tr>
<tr>
<td>Hasani Torres</td>
<td>Strength and Condition Coach of the Cleveland Indians Major League Baseball team</td>
</tr>
<tr>
<td>Michelle De Jesús</td>
<td>Vice President, Biomedical Olympus Latin American Co.</td>
</tr>
<tr>
<td>Robert Feliciano</td>
<td>Dentist, New York City</td>
</tr>
<tr>
<td>Ramón Flores and Guillermo Muñiz</td>
<td>Owners of Netsky and IT Warehouse</td>
</tr>
<tr>
<td>Joel Rodríguez</td>
<td>Owner of JRC Tax and Accounting Services</td>
</tr>
<tr>
<td>Obed Borrero</td>
<td>Tech Guru, TV personality, and owner of Virtualizate.net</td>
</tr>
<tr>
<td>Mariano Colón</td>
<td>Professor, Ponce Health Science University</td>
</tr>
<tr>
<td>Sylmarie González</td>
<td>Owner of Isla Cueva Hotel and Moons Bar and Tapas and event planner at the western region of the island</td>
</tr>
<tr>
<td>Dianelly Torres</td>
<td>Human Resources Manager at Edwards Life Sciences</td>
</tr>
<tr>
<td>José Redmond</td>
<td>Remedial Project Manager at the US Environmental Protection Agency</td>
</tr>
<tr>
<td>Arnaldo Santiago</td>
<td>Editor and Experience Designer at Diary of Trips</td>
</tr>
<tr>
<td>Anneliese Vélez</td>
<td>Doctor in Medicine, Houston, Texas</td>
</tr>
<tr>
<td>Mayleen Cordero</td>
<td>Certified Athletic Trainer and Graduate Assistant for FIU Football</td>
</tr>
<tr>
<td>Kevin Indart</td>
<td>CPA</td>
</tr>
<tr>
<td>Omar Soto</td>
<td>Consultant and information systems specialist</td>
</tr>
<tr>
<td>Francisco Gómez</td>
<td>Immunology researcher</td>
</tr>
<tr>
<td>Invey Seguinot</td>
<td>Endometriosis researcher</td>
</tr>
<tr>
<td>Marangely Criado</td>
<td>Researcher in Neuroscience, Florida University</td>
</tr>
<tr>
<td>Xiomara Cortés</td>
<td>Jewelry entrepreneur</td>
</tr>
<tr>
<td>César Rodriguez</td>
<td>General manager at Picatoste Coffee and Pastry Shop</td>
</tr>
<tr>
<td>William Santos</td>
<td>College professor</td>
</tr>
<tr>
<td>Luisa Cotto</td>
<td>Director of Engagement at United Way, Miami, FL</td>
</tr>
<tr>
<td>Reinaldo Ramírez</td>
<td>CPA</td>
</tr>
<tr>
<td>José O. Torres</td>
<td>President of Association of UPR Alumni and Friends Abroad, Washington DC</td>
</tr>
<tr>
<td>Luz López</td>
<td>Lawyer</td>
</tr>
</tbody>
</table>
This sample of distinguished alumni demonstrates one of our biggest and most important contributions to the region, the country, and society in general. Appendix 3 shows more examples of alumni. UPR-Ponce staff and faculty are composed by 436 employees. From that amount, 59% are alumni.

Statistics evidence the relevance and efficiency of this educational Institution. The rate of employability of the Business Administration Department’s alumni is 91% and for the Office System Department’s alumni is 88%. UPR-Ponce’s alumni are recruited by prestigious and recognized enterprises and organizations in the region and worldwide, such as the Ponce Health Sciences University, Ponce Hilton Hotel and Casino, Medtronic, Ciracet, San Lucas Episcopal Hospital, USDA, APHIS, PPQ Baco & Amador Matta, Eco Eléctrica, Ponce Region Judicial Center, among others. The UPR-Ponce’s Department of Education, accredited by NCATE, registers an 80% of employability, serving the public and private educational systems island wide and nationwide. The Physical Therapy Program’s alumni has a 100% of employability, having high demand in hospitals, rehabilitation centers, and medical offices in Puerto Rico. Considering the behavioral sciences programs, in particular Forensic Psychology, Psychology and Mental Health, and both programs with emphasis in rehabilitation services, presents around 80% of employability and around 30% of these alumni have completed graduate studies, such as PhD’s and PsyD’s specialized in Clinical, Industrial, and Social, Researchers, Lawyers, Speech and Language Pathologists, and Rehab Counselors.

For the academic year 2018-2019, the retention rate is 85%. The first to second-year retention rates for the last five years’ average 81%. The institutional graduation rate average for the last five years has reached 41%, which is similar to those reported nationally and compare favorably to other UPR units. Table 2 shows a comparison between UPR-Ponce graduation and retention rates and those of the private universities in the southern region.

<table>
<thead>
<tr>
<th>Institution</th>
<th>Graduation rate (Cohort 2011)</th>
<th>Retention rate (Cohort 2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inter American University-Ponce Campus</td>
<td>40%</td>
<td>76%</td>
</tr>
<tr>
<td>Pontifical Catholic University of Puerto Rico-Ponce Campus</td>
<td>39%</td>
<td>77%</td>
</tr>
<tr>
<td>Turabo University</td>
<td>28%</td>
<td>77%</td>
</tr>
<tr>
<td>UPR-Ponce</td>
<td>41%</td>
<td>83%</td>
</tr>
</tbody>
</table>

Source: College Navigator
As shown on Table 2, none of the graduation nor retention rates are higher than those of UPR-Ponce.

UPR-Ponce is the backbone of the region. According to the Financial Student Aid standards, approximately 50% of UPR-Ponce students fall under poverty levels. Seventy-nine percent of our students receive some kind of financial aid. That is a significant percent when the fiscal situation of Puerto Rico is considered.

According to the Federal Reserve, public universities provide a relief to students’ debt due to the fact that they are more affordable and accessible than the private ones. As part of the public system, UPR offers an additional benefit to the population since its tuition is under the National Public System costs. In addition, UPR-Ponce’s default rate for FY 2015 is 7.7%, which is lower than the average in Puerto Rico (10.0%).

Also, around 40% of the students admitted at the Institution during the last three academic years are first-generation college students. UPR-Ponce is helping them to achieve progress for their whole family. That has positive results not only for their immediate family but for their entire communities. Moreover, it stimulates the economy of the region while forming well-cultured and wise citizens.

An important area of the Institution is the Honor’s Study Program (HSP). It is a program that enriches the students’ collegial experience by providing them with a curriculum that fosters leadership, social responsibility, independent study, and collaborative work. The students are enrolled in special sections of the program’s core courses. The HSP offers a certificate to students who satisfactorily complete all the program requirements. The HSP is part of the National Collegiate Honors Council (NCHC) and Northeast National Collegiate Honors Program (NNCHP). The students have participated in various activities sponsored by the NCHC and the NNCHP and have been recognized in and out of Puerto Rico. Some of the students have been granted Special and Academic Excellence Awards. Also, during the past 8 years, more than 25 students have participated in internships and summer programs such as MIT Summer Research Program in Biological Sciences, Summer Research Opportunities Program from the University of Iowa, Summer Medical and Dental Education Program at Cleveland, Summer Internship in the Federal University of Santa Catharina at Brazil, Life Sciences Summer Undergraduate Research Program at the University of Minnesota, and in the Virginia Commonwealth University HERO Summer Research Program, among others.

Another point of strength that UPR-Ponce has is the Ponce Research Initiative for Scientific Enhancement (PRISE). This project is sponsored with over $5,000,000 of funds of the National Institutes of Health (NIH) since 2011. It has been essential in the development of our campus and in providing research experiences for our students. This project provides the opportunity to participate in Science research internships in and outside Puerto Rico at intensive research institutions, such as, John Hopkins, University of Minnesota, at different campuses of the University of Texas, University of Michigan, University of California, University of Wisconsin, New York University, University of Missouri, University of Pennsylvania, and Cornell, among others. In the last 6 years, more than 150 students developed research in Biomedical and Biology areas. Since the first cohort of UPR-PRISE Trainees in 2011, 18 of them have been admitted to PhD programs,
four in Puerto Rico and fourteen in Mainland. One of them have completed the PhD degree and was admitted for a Post-Doc at University of Texas Southwestern. They are part of the future Researchers of the nation.

This Institution has a strong culture of accreditation. The Middle States Commission on Higher Education (MSCHE) first accredited the UPR-Ponce in 1970, reaccredited it in 1985 and 1995, and reaffirmed accreditation in 1980, 1990, 2000, 2005, 2011, and 2016. In this last self-study process, UPR-Ponce received eight commendations from the Commission. All of its academic programs susceptible to accreditation are accredited by the following agencies: Association Council for Business Schools and Programs (ACBSP), Accreditation Board of Engineering Technology (ABET), Computing Accrediting Commission (ABET), Commission on Accreditation in Physical Therapy Education (CAPTE), and the Council for the Accreditation of Educator Preparation (CAEP). The Adelina Coppin Library is certified by the Association of College and Research Libraries (ACRL). In addition, the Counseling and Psychological Services Department is accredited by the International Association of Counseling Services (IACS). Undoubtedly, these professional accreditations demonstrate the quality of UPR-Ponce’s programs and services. It is crucial to mention that there is no other institution in the southern region that possesses all of these professional accreditations. Also, our Teacher Preparation Program has been classified as “exemplary” by the Department of Education of Puerto Rico because of the results of the teachers’ license passing rate. This passing rate has been 96.9% for the last five years.

UPR-Ponce has established valuable alliances with different governmental and private entities in the region and across the island. Some of these are the Autonomous Municipality of Ponce, the Ponce Health Sciences University, the Southern Chamber of Commerce, the Auxilio Mutuo Hospital in San Juan, the Bella Vista Hospital in Mayaguez, Coopervision, Inc., Baxter Healthcare of PR, Inc., Stryker Puerto Rico Operations, among others.

UPR-Ponce FY 2018-2019 UPDATED INFORMATION

Ninety-four percent of the student population studies full time, approximately seventy-nine percent receives financial aid, and fifty-seven percent is female. Eighty percent of the student body was enrolled in bachelor degree programs, seven percent in technical programs, and ten percent in transfer programs. The remainder was classified into other categories.

As part of the UPR system, and the only public institution of higher education in the southern part of the island, UPR-Ponce is committed by law to serve Puerto Rico and the southern region. This is achieved by transmitting knowledge of sciences and arts to the community, by contributing to the development of ethical and aesthetic values with special emphasis on Puerto Rican and Western cultures, and by stimulating creative dialogue in the search for truth.

The student body is served by 228 faculty and 227 non-faculty staff members. On average, the student/faculty ratio is 15:05. The faculty profile revealed that 87 (79%) of the 110 of full-time faculty is tenured. Forty-four percent has a doctoral degree. Twenty
percent of faculty holds the rank of full professor; ten percent, associate professor; thirty-one percent, assistant professor, and thirty-nine percent, instructor.

The University of Puerto Rico in Ponce completed its 2017-18 fiscal year operations, as planned, and there were no recorded overdrafts registered in the accounting system. UPR-Ponce has a consolidated budget of $41,062,336 for academic year 2018-2019. Of that amount, the Commonwealth of Puerto Rico provides $23,068,823.

The 2018-2019 academic year began on August 8, 2018 and the fall semester ended on December 5 including the final exams period as established through Certification 2017-2018-59 of the UPR-Ponce’s Administrative Board. UPR-Ponce had 2,826 students enrolled for the first semester of academic year 2018-2019. The Institution’s enrollment projections are shown in Figure 1.

The reduction in student enrollment for the fall 2018 semester might well be due to the population decline experienced in the island after the catastrophic Hurricanes Irma and María back in 2017. Similarly, the population decline in students of the public education system of Puerto Rico has been a factor that has contributed to a reduction in the student prospects of the University of Puerto Rico.

In order to keep fostering our mission, the Institution has strengthened tutoring services, academic offerings, and faculty development. The Institution has invested in new technology such as interactive screens, computers, smart TVs, 3-D printers, and servers to optimize internet on campus. In addition, UPR-Ponce offered various workshops to keep supporting its faculty. These workshops were related to retention, planning, the process of teaching and learning, student support, leadership, and technology, among others.

Finally, UPR-Ponce was able to close the assessment cycle for the academic year 2017-2018. The Institutional Assessment Report, that includes the assessment of student learning outcomes, will be available in late February.
UNIVERSITY OF PUERTO RICO SYSTEM FINANCIAL OVERVIEW

Puerto Rico is currently experiencing a fiscal crisis never seen before in the history of the Island and is in the recovery and mitigation phase due to the natural disasters of Hurricanes Irma and María. The Island has experienced a sharper recession than the rest of the United States, and the economy continues to shrink. Since Puerto Rico’s economy began to constrain in 2006, the economy has shrunk by more than ten percent and employment on the island has fallen by fourteen percent. Poverty levels are the highest point in the nation. The number of residents living at or below the federal poverty level exceeds forty-five percent, compared to a national average of about sixteen percent. The worsening financial crisis and the negative impact of Hurricane María has already caused residents to flee the island at an alarming pace. Labor force participation in Puerto Rico, at forty percent, is substantially below the U.S. average of sixty-two percent. Citizens sixty years and older represent more than twenty-three percent of the population – one of the highest in the United States. According to the Financial Student Aid standards, 50% of UPR-Ponce students are under poverty levels. This means that the institution is serving, contributing, and helping a population with low economic income. As a result, UPR-Ponce supports and promotes socio-economic development that is crucial to the island.

Hurricane María has caused unprecedented and catastrophic damage to Puerto Rico, its people, and its businesses. According to current estimates, Hurricane María has caused significant damages and financial loses. On August 9, 2018, the Governor of Puerto Rico submitted a report to the US Congress: "Transformation and Innovation in the Wake of Devastation; An Economic and Disaster Recovery Plan for Puerto Rico" (Appendix 4). As documented in this extensive and comprehensive report, the cost of the recovery is estimated in $139 billion. The US Government has already allocated $16 billion in federal aid under a disaster recovery package signed by U.S. President Donald Trump, on February 2, 2018. It is expected for the rest of the budget to be assigned and received during the course of the next 10 years to rebuild Puerto Rico in the aftermath of Hurricane María.

The University of Puerto Rico has been directly affected by these variables and the economic scenario. According to the UPR Fiscal Plan, its appropriation baseline should remain on $645 million in FY 2019. Budget reallocations have been assigned to the campuses, in order to strengthen the teaching component, such as, administration of 75% of indirect costs by the units, increase in technology fees charged to students, and a budgetary assignment for research development.

The Total General Fund (State Appropriations and other UPR Revenues) for the University for FY 2018-2023 is depicted in the following table.
As shown on Table 3, the UPR system is reducing its dependency from state appropriations by strengthening other revenues. These revenues refer to an increase in tuition and other fees (Appendix 5).

The certified distribution of the General Fund-UPR budget amounts to $886,717,221 (Certification 2, 2018-2019, UPR Governing Board). It includes $12.3 non-recurrent millions for this FY, coming from funds generated by available balance in the UPR bank account. Appendix 6 contains the Budget document entitled “Memorial del Presupuesto 2019”.

The Budget’s guiding principles are:

1. State Appropriations are calculated, updated, and reviewed according to the last projections of the FOMB.

2. Implement the UPR Strategic Plan 2017-2022 based on its four major areas of endeavor (educational environment, research and creative work, service to diverse communities, and sustainability) to achieve student success.

3. Prioritize administrative and academic transformations that are guided by efficiency and effectiveness criteria to ensure the UPR mission.

4. Continue the process of internal evaluation of administrative, academic, and service operations with the purpose of improving the efficiency in the use of public funds and exercise financial responsibility and accountability, all in coordination with the units.

5. Implement expense reduction measures at the UPR Central Administration, including operating and general expenses, and system service costs.

6. Reduce or eliminate the assigned budget for the vacant positions due to retirement (2-6% attrition) during the fiscal year (2017-2018), as required by FOMB.

---

Table 3
UPR Fiscal Plan Considering Measures

<table>
<thead>
<tr>
<th>Source of revenues</th>
<th>FY 18</th>
<th>FY 19</th>
<th>FY 20</th>
<th>FY 21</th>
<th>FY 22</th>
<th>FY23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total central government appropriations</td>
<td>$678,321,000</td>
<td>$645,909,000</td>
<td>$559,874,000</td>
<td>$488,850,000</td>
<td>$465,861,000</td>
<td>$441,861,000</td>
</tr>
<tr>
<td>Total operating receipts</td>
<td>$303,165,000</td>
<td>$379,636,000</td>
<td>$385,071,000</td>
<td>$391,300,000</td>
<td>$398,898,000</td>
<td>$400,781,000</td>
</tr>
<tr>
<td>Total intra-government receipts</td>
<td>$283,969,000</td>
<td>$281,524,000</td>
<td>$290,814,000</td>
<td>$295,814,000</td>
<td>$300,814,000</td>
<td>$305,814,000</td>
</tr>
<tr>
<td>Total receipts</td>
<td>$1,265,455,000</td>
<td>$1,307,069,000</td>
<td>$1,235,759,000</td>
<td>$1,175,964,000</td>
<td>$1,165,573,000</td>
<td>$1,148,456,000</td>
</tr>
</tbody>
</table>

Source: UPR Fiscal Plan October 23, 2018
7. Diversify revenues through tuition increases, patents, government and UPR contractual agreements (Executive Order 2017-021), online academic offerings, collaborative agreements with the Department of Education of Puerto Rico and with local municipalities, and other initiatives such as the medical cannabis project.

8. Increase in tuition for the FY 2019 at the undergraduate level up to $115 per credit (Certification 93, 2017-2018) (Appendix 7) and an increase in tuition at the Graduate Level up to $255 per credit (Certification 111, 2017-2018, as amended) (Appendix 8).

9. Increase in institutional, technology fees, and other services align with the UPR Fiscal Plan (Finance Letters 19-01, 19-02) (Appendix 9 and 10).

10. Review of the Tuition Waiver Exemptions Policy to be aligned with the approved UPR Fiscal Plan (Finance Letter 19-02) (Appendix 10).

11. Continue with the same budget for telephone lines, internet, communication, security, student health insurance, electricity, water and sewage, fuel, subscriptions to magazines and books for libraries, transportation expenses, accreditation of programs, equipment purchases, stipends students, honor enrollment, teaching and research assistantships, and matching of funds for research projects for FY 2019.

12. Promote actions that generate new and greater sources of income to the operational fund. Establish a constant relationship with our alumni and other potential collaborators or donors of the UPR to additionally support the University.

The UPR is conducting a substantial restructuring project of its operations and also identifying a number of revenue generating initiatives and expense containment measures to address the reduction in government appropriations and funding. To date, and by implementing all the above stated measures, the UPR will continue to be in a position to accomplish its mission, contribute to the socio-economic development of Puerto Rico, and comply with MSCHE Standard VI, and with the Requirement of Affiliation 11 and 14.
MSCHE CONCERN 1: The institution has documented financial resources, funding base, and plans for financial development adequate to support its educational purposes and programs and to ensure financial stability.

UPR-Ponce Financial Overview

The Consolidated budget for the UPR-Ponce for fiscal year 2018-2019 amounts $41,062,336. This figure includes $23,068,820 of state funds provided by the Commonwealth of Puerto Rico ($22,404,712 of recurring funds plus $664,108 from other recurring transfers). According to the Fiscal Oversight Management Board (FOMB), the approved fiscal plan for the University of Puerto Rico, dated October 23, 2018, the Institution will experience a reduction in funds coming from the State for the upcoming years. UPR Central Administration estimates a reduction of 10.96%, 8.55%, 2.18%, and 1.80%. Central Government Appropriations for 2019-2020, 2020-2021, 2021-2022 and 2022-2023 respectively, represent a challenge for the Institution’s financial stability. Table 4 depicts the estimated state appropriations for fiscal years 2018-2019 through 2022-2023.

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>State Operating Recurring Funds</td>
<td>22,404,713</td>
<td>19,987,137</td>
<td>17,457,784</td>
<td>16,660,671</td>
<td>15,802,355</td>
</tr>
<tr>
<td>Additional State Operating Funds identified</td>
<td>664,108</td>
<td>553,265</td>
<td>1,327,302</td>
<td>1,715,792</td>
<td>2,242,514</td>
</tr>
<tr>
<td>from Fiscal Plan measures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Operating State Funds</td>
<td>23,068,821</td>
<td>20,540,402</td>
<td>18,785,086</td>
<td>18,376,463</td>
<td>18,044,879</td>
</tr>
</tbody>
</table>

Source: UPR Certified Fiscal Plan (October, 2018)

The estimated state appropriations take into consideration the UPR Fiscal Plan Measures as Certified by the Financial Oversight and Management Board of Puerto Rico. It also considers central government initiatives to increase university funds, the increase in enrollment and related fees, and adjustments to fulfill the fiscal plan requirements. The adjustments include reduction in fringe benefits and economies from procurement negotiations to purchase goods and services as a system.

In coordination with the operational plans and the results of the assessment plans, the Budget Office has made a thorough analysis of the academic departments’ budget. This analysis has considered the number of students enrolled in the Institution, as well as, the amount of academic sessions necessary to effectively meet the demand. The primary purpose of this analysis is to determine the number of academic sessions that could be assigned to the full-time faculty of each academic department and compare it with the number of academic sessions needed to serve the enrolled students. The focus of this analysis allows us to determine which part-time staff, if any, is necessary in order to provide the academic departments with the faculty needed to effectively achieve the institutional mission. This analysis would also enable the Institution to make an efficient distribution of resources in order to maximize the use of available funds (Appendix 11).
Another of the fundamental aspects in the analysis of the budget distribution of the funds coming from the state includes the resources to be allocated to the following categories: materials, equipment, travel, and professional and institutional accreditation expenses. All these categories were included in the operational budget. Once the analysis was completed and approved by the Administrative Board, the operational budget was uploaded in the system. Appendix 12 presents the operational budget registered in the system. The following figures depict how operational budget was distributed by categories and by function:

Figure 2
Operational Funds by Categories

![Pie chart showing operational funds by categories]

- **Salaries**: 14,596,409, 63.27%
- **Fringe Benefits**: 485,423, 2.10%
- **Materials**: 1,584,770, 6.87%
- **Professional Services**: 15,000, 0.07%
- **Other Material and Services**: 10,000, 0.04%
- **Travel**: 9,000, 0.04%
- **Institutional Expenses**: 496,158, 2.15%
- **Accreditation Expenses**: 382,000, 1.66%
- **Utilities**: 8,500, 0.04%
- **Equipment**: 31,485, 0.14%
- **Other Expenses**: 5,450,078, 23.63%
These figures show how the UPR-Ponce has distributed the funds coming from the Commonwealth of Puerto Rico. In particular, this budget distribution has been prepared taking into consideration the budget guidelines according to the fiscal plan, such as:

- Protects the necessary human, financial, technical, and capital resources needed to support the sustained achievement of the UPR mission, considering the UPR provides an essential service.
- Commits to its fiscal responsibilities with specific revenues and expenditures measures to support the achievement of its strategic sustainable management goals.
- Reinforces institutional capacities without affecting access, social responsibilities, qualities of services and professional and vocational success of its constituents.

As noted in Figure 2, 87% has been assigned to cover salaries and fringe benefits for faculty, administrative, and support staff. At the same time, it can be noticed that 65% of the funds allocated by the state are assigned to direct functions on behalf of the students' academic achievement (48% instruction, 7% academic support, and 10% support to students).

Effective July 1, 2018, the UPR changed its tuition policy and some fees. Appendix 9 presents the costs of registration, in accordance with Policy Letter 19-01 issued by the UPR Finance Director. To this end, the Institution has planned to strengthen its academic offerings at the Evening University, since these revenues directly impact the its cash flow. His income from the Evening University, the funds allocated by the state and the income
from federal sources, among others, have been considered as part of the analysis that makes up the consolidated budget of the UPR-Ponce.

The following table presents the Institution’s projected revenues and expenses for the consolidated budget.

Table 5
UPR-Ponce’s Statement of Projected Revenues and Expenses for Consolidated Budget
FY 2018-2019 to 2022-2023

<table>
<thead>
<tr>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General fund</td>
<td>$23,068,823</td>
<td>$20,540,402</td>
<td>$18,785,086</td>
<td>$18,376,463</td>
<td>$18,044,879</td>
</tr>
<tr>
<td>General fund-</td>
<td>1,144,969</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>economies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal funds</td>
<td>15,437,290</td>
<td>16,049,265</td>
<td>15,690,756</td>
<td>14,854,836</td>
<td>14,409,191</td>
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<tr>
<td>State funds</td>
<td>-</td>
<td>940,000</td>
<td>950,000</td>
<td>450,000</td>
<td>450,000</td>
</tr>
<tr>
<td>Rotating funds</td>
<td>1,411,258</td>
<td>814,000</td>
<td>1,247,000</td>
<td>1,495,000</td>
<td>1,659,000</td>
</tr>
<tr>
<td>Total revenues</td>
<td>$41,062,340</td>
<td>$38,343,667</td>
<td>$36,672,842</td>
<td>$35,176,299</td>
<td>$34,563,070</td>
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<tr>
<td>Faculty salaries</td>
<td>$9,025,298</td>
<td>$8,527,250</td>
<td>$7,945,455</td>
<td>$7,723,839</td>
<td>$7,515,927</td>
</tr>
<tr>
<td>Non-faculty</td>
<td>7,048,046</td>
<td>6,248,046</td>
<td>5,798,046</td>
<td>5,528,046</td>
<td>5,378,046</td>
</tr>
<tr>
<td>salaries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>5,823,213</td>
<td>4,980,776</td>
<td>4,547,463</td>
<td>4,334,391</td>
<td>4,252,072</td>
</tr>
<tr>
<td>Materials</td>
<td>982,462</td>
<td>876,230</td>
<td>715,235</td>
<td>515,235</td>
<td>465,235</td>
</tr>
<tr>
<td>Library</td>
<td>53,948</td>
<td>53,948</td>
<td>55,567</td>
<td>60,000</td>
<td>60,000</td>
</tr>
<tr>
<td>resources</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communications</td>
<td>63,000</td>
<td>63,000</td>
<td>63,000</td>
<td>63,000</td>
<td>63,000</td>
</tr>
<tr>
<td>Professional</td>
<td>545,768</td>
<td>552,518</td>
<td>537,410</td>
<td>307,000</td>
<td>257,000</td>
</tr>
<tr>
<td>services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>1,547,770</td>
<td>1,647,770</td>
<td>1,800,020</td>
<td>1,800,500</td>
<td>1,800,000</td>
</tr>
<tr>
<td>Travel and per</td>
<td>227,375</td>
<td>216,006</td>
<td>215,000</td>
<td>140,000</td>
<td>100,000</td>
</tr>
<tr>
<td>diem</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student aid</td>
<td>15,022,235</td>
<td>14,571,568</td>
<td>14,134,421</td>
<td>14,134,420</td>
<td>14,134,420</td>
</tr>
<tr>
<td>Equipment</td>
<td>419,553</td>
<td>450,000</td>
<td>400,000</td>
<td>300,000</td>
<td>250,000</td>
</tr>
<tr>
<td>Indirect cost</td>
<td>41,000</td>
<td>43,500</td>
<td>48,650</td>
<td>48,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$40,799,668</td>
<td>$38,230,612</td>
<td>$36,260,267</td>
<td>$34,954,431</td>
<td>$34,335,700</td>
</tr>
</tbody>
</table>

As shown on Table 5, UPR-Ponce has $1,144,969 in General Fund Economies for FY 2018-2019. These economies will be assigned to mitigate the decrease of the Operational Budget and to improve the maintenance of infrastructure. Total revenues from federal funds includes proposals. Student aid expenses is composed of federal and state funds. The consolidated budget for fiscal year 2018-2019 presents total revenues up to $41,062,340 compared to expenses totaling $ 40,799,668. This information has been prepared with a very conservative view, in preparation for the challenges that could be
present in the upcoming years. The consolidated budget of the UPR-Ponce, according to the distribution of income and expenses, must be balanced by the end of the fiscal year 2018-2019, as planned. The following figure presents the current consolidated budget of the Institution for fiscal year 2018-2019.

Figure 4
Consolidated Budget Distribution
FY 2018-2019

Table 6 presents the new sources of income and those areas in which efforts have been invested to obtain resources for the Institution. This will help UPR-Ponce keep fostering its mission and improving the cash flow to ensure financial stability.
As depicted in Table 6, the new resources of income for 2018-2019 amounts 1,220,000.00. However, great efforts have been devoted to strengthening new initiatives that would increase income from 2019-2020 to compensate for the reduction in state appropriations to diversify the UPR-Ponce’s funding base. The External Resources Office is actively communicating with the faculty and researchers to promote the submission of other proposals and grants in which the Institution can compete (Appendix 13). The following figure shows the UPR-Ponce current funding base for fiscal year 2018-2019.

Table 6
Strengthening External Resources and New Sources of Income
for FY 2018-2019 to 2022-2023

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Continuing Education Program New Offers</td>
<td>Rotating fund</td>
<td>-</td>
<td>100,000</td>
<td>100,000</td>
<td>100,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Training Program</td>
<td>State fund</td>
<td>-</td>
<td>940,000</td>
<td>950,000</td>
<td>450,000</td>
<td>450,000</td>
</tr>
<tr>
<td>UPR-Ponce Merchandise and Gifts</td>
<td>Rotating fund</td>
<td>20,000</td>
<td>25,000</td>
<td>30,000</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Rehabilitation, Practice, and Therapy Center</td>
<td>Rotating fund</td>
<td>-</td>
<td>-</td>
<td>275,000</td>
<td>350,000</td>
<td>425,000</td>
</tr>
<tr>
<td>Proposals and Projects Pending for Approval</td>
<td>State fund</td>
<td>600,000</td>
<td>570,000</td>
<td>540,000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Bachelor’s Degree in Accounting (Evening University)</td>
<td>Rotating fund</td>
<td>-</td>
<td>64,000</td>
<td>128,000</td>
<td>192,000</td>
<td>192,000</td>
</tr>
<tr>
<td>Bachelor’s Degree in Psychology (Evening University)</td>
<td>Rotating fund</td>
<td>-</td>
<td>-</td>
<td>64,000</td>
<td>128,000</td>
<td>192,000</td>
</tr>
<tr>
<td>Evening University</td>
<td>Rotating fund</td>
<td>600,000</td>
<td>625,000</td>
<td>650,000</td>
<td>675,000</td>
<td>700,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$1,220,000</strong></td>
<td><strong>$2,324,000</strong></td>
<td><strong>$2,737,000</strong></td>
<td><strong>$1,945,000</strong></td>
<td><strong>$2,109,000</strong></td>
</tr>
</tbody>
</table>

Source: External Resources Office and Continuing Education and Professional Studies Division
As new initiatives are implemented in the UPR-Ponce and the sources of external funds continue to be strengthened, sources of income for the Institution will be diversified and dependence on state appropriations will continue to decrease. This is a goal for the UPR-Ponce, as it seeks to meet fiduciary responsibility while maintaining institutional integrity and financial stability (Appendix 14 UPR Certified Revised Fiscal Plan, page 6).

The Federal Department of Education granted UPR-Ponce $663,500. Along with this budgetary assignment, the Institution will be receiving other funds from the Federal Emergency Management Agency (FEMA) and its Public Assistance Program. These amounts will help the Institution mitigate the damages caused by the atmospheric event. Governing Board Certification 32-2018-2019 approved for UPR-Ponce the construction of a Rehabilitation, Practice, and Therapy Center and the waterproofing project for the roofs of various buildings including the Academic Building Ruth Fortuño (Appendix 15).

The UPR-Ponce recognizes that the times of financial crisis that are affecting Puerto Rico, as well as other parts of the world, have also affected our finances. This situation has also affected many public and private universities, both on the island and in the nation. However, this situation will also represent new opportunities for invention, development, and growth. The UPR-Ponce’s leadership is aware of this situation and will continue to make all the necessary efforts to cope with this situation. The Institution’s overcoming spirit is great, and there will be no obstacle that would stop the UPR-Ponce from effectively managing this situation and ensure the fulfillment of the institutional mission in benefit of the academic excellence.
MSCHE CONCERN 2: The impact of the fiscal oversight management board's plan and proposed restructuring on the institution’s status and finances (Standard VI).

The Fiscal Oversight Management Board Plan

Puerto Rico issued debt many times over the years and currently is estimated in $70 billion. The island’s constitution enabled Puerto Rico to issue debt to fund many activities, including day-to-day operations. In the past decade, the total debt went from an already hefty $43.5 billion in 2006 to over $70 billion by 2014. The island also has over $40 billion in unfunded pension liabilities.

Due to its political status, and its territorial relationship with the United States of America (U.S.), the Commonwealth of Puerto Rico (CW) is unable to file for statutory relief under Chapter 9 of the United States Bankruptcy Code [11 USC Chapter 9]. In contrast to other widely known instances of Municipal Defaults (e.g. the City of Detroit or New York City during the 70’s), neither the CW nor any of its components has access to a legal proceeding to facilitate an orderly debt restructuring process. Furthermore, the United States Supreme Court expressly stated that the CW is a creature of US Congress and as such is subject to Congress’ plenary powers.

By 2016, the CW and some of its debt issuing components were facing liquidity constraints, which seemingly jeopardized its ability to meet basic operational needs. Among the root causes of this crisis are several years of structural deficits, which are further exacerbated by economic downturn and intensified citizens’ migration from the jurisdiction.

On June 30, 2016, Congress adopted Public Law No.114-187, also known as the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA) [48 USC, Chapter 20]. PROMESA provides a legal framework similar to the one set forth in the U.S. Bankruptcy Code, which allows for an orderly restructuring process. Subsequently, and pursuant to PROMESA, a Fiscal Oversight and Management Board (FOMB) was assembled.

Among its duties, the FOMB shall have the power to certify Fiscal Plans and Budgets for the Commonwealth of Puerto Rico (CW) and Covered Entities. Although these general powers are recognized by the CW, it must be emphasized that the extent of the FOMB’s inherence to enact policy decisions through financial controls is still a matter of discussion in several judicial proceedings. In general, a Fiscal Plan provides a blue print to revitalize the CW’s economy through fiscal, structural, and other initiatives that will propel growth and eventually allow the CW to regain access to capital markets.

Title III is analogous to a Bankruptcy Filing, and petition under this Title is filed by the Governor before the United States District Court. This method provides an opportunity for creditors and other individuals to assert their claims against the Debtor before the Court, a process to accept or reject executory contracts and unexpired leases and concludes...
with a Plan of Adjustment (POA). A certified Fiscal Plan is a pre-requisite to file for relief under Title III or reaching a consensual Title VI under PROMESA. Fiscal Plans are creditor agnostic, as they only tend to the operating revenues and expenses, to determine the operational deficit or surplus the territory or instrumentality may reach when implementing fiscal and structural measures.

Although the UPR is not under Title III and regularly pays its creditors, through a forbearance agreement, the Institution was identified by the FOMB as a governmental agency that needs to be restructured and requested that it submits a Fiscal Plan, pursuant to PROMESA. As a bond issuer and essential service provider, the FOMB wants to ensure that the UPR is able to keep complying with its mission and providing student services, despite the steep government appropriation reductions that were included as expense reduction measures in the CW’s Certified Fiscal Plan.

All of the measures have been suggested, in principle, by the UPR itself. Therefore, the UPR’s strategic plan is not in conflict with a fiscal plan, and the “Expense Reduction” and “Revenue Enhancing” measures, which will be implemented, will serve to ensure a sustainable institution for future generations (Appendix 14, Certified Revised Fiscal Plan p. 30-31). As such, the UPR will be transitioning to a more self-sustainable model. There have been increases in costs per credit, but the cost is still under when compared to other higher education institutions in the island. Therefore, the UPR will continue to provide quality higher education, and will remain affordable and accessible.

After several meetings and discussions with the FOMB and advisors, the UPR Governing Board submitted a Fiscal Plan (the UPR Board Fiscal Plan) on April 20, 2018, which complies with PROMESA’s requirements. The FOMB certified a revised fiscal plan for the UPR on June 29, 2018 (Appendix 16). This one was used for the reports written during the 2018. On October 23, 2018, the Fiscal Plan was revised and approved (Appendix 17).

The October 23, 2018 Certified Revised Fiscal Plan projects a $15,487M net operating surplus over the 5-year plan period, before debt service payments. The Certified Revised Fiscal Plan further states that it “contains measures that, if timely and fully implemented by the UPR, are projected to generate positive net revenues by 2023, with such primary surplus available for payment of some restructured debt service” (p. 25).

The implementation will be supported by a new Project Management Office (PMO), known as Office for Institutional Transformation. It will directly respond to the UPR Governing Board and has an assigned budget allocation of $10 million for FY 2019. Its main purpose is to assure the Fiscal Plan measures implementation continued progress. This office will assist, monitor, assign resources, and provide consultation in the areas of Federal grant procurement, budget and cash flow, retirement system and other employee benefits, such as, health insurance. Its operating by-laws, that were approved by the UPR Governing Board on August 27, 2018, are shown on Appendix 18. This new unit will assure the adequate implementation of the institutional restructuring, in line with UPR finances. The following figures defined the PMO.
Figure 6
Fiscal Plan Implementation Workstreams

Dues & Charges
- Internal Resource
- Next Steps: Submit documentation to UPR Board

Tuition & Scholarship Program
- Internal Resource
- Next Steps: Review elimination of exemptions and scholarship distribution

Federal Grant Procurement
- External Resource
- Next Steps: Coordinate meeting with Project Manager(s)

Training & Seminars
- Internal Resource
- Next Steps: Coordinate meeting with Project Manager(s)

New Revenues & Out of State Opportunities
- External Resource
- Next Steps: Coordinate meeting with Project Manager(s)

Procurement & Externalization
- External Resource
- Next Steps: Coordinate meeting with AAFAF Procurement team

Facility Optimization
- External Resource
- Next Steps: Coordinate meeting with Project Manager(s)

Academic / Faculty Optimization
- External Resource
- Next Steps: Coordinate meeting with Project Manager(s)

Health Insurance Plan
- Internal Resource
- Next Steps: Coordinate meeting with Project Manager(s)

Medical Science Campus
- Internal Resource
- Next Steps: Coordinate meeting with Project Manager(s)

Retirement System
- External Resource
- Next Steps: Coordinate meeting with Retirement System - work with the UPR Board Retirement Steering Committee

Budget & Cash Flow Monitoring
- Internal Resource
- Next Steps: Develop new baseline model & cash flow

Source: Central Administration

Figure 7
Program Management Office Organizational Chart

PMO Director

Academic Initiatives
- Sr. Project Manager
- Sr. Analyst
- Intern

Operational Initiatives
- Project Manager
- Analyst
- Intern

Personnel Initiatives
- Project Manager
- Analyst
- Intern

Benefits
- Provide undivided attention and follow up on more than a dozen system wide initiatives
- Different perspective, less likely to indulge in past practices
- Additional resources to be included in FY 18-19 budget

Reporting
- Reports to Office of Internal Audit
- Will report regularly to the Board of Governors and the President
- Will have the authority to meet and request information from any person in the structure
- Equivalent to a Chief Transformation Officer (also known as "CTO")

Source: Central Administration
UPR-Ponce has made a thorough analysis in regards of how the Certified Revised Fiscal Plan trends will affect the Institution’s operational budget, as well as, how this will have an impact on the consolidated budget. Table 5 on page 20 provides further details on this matter.

**UPR System Restructuring and Finances**

The process of institutional restructuring has two main components: administrative and academic. The administrative downsizing encompasses all of the support administrative offices, among these, Finance, Budget, Human Resources, Purchase, Information Office Systems, and Communications. The academic consolidation implies the elimination of redundant programs and courses. If a program is offered in various campuses, the criteria being used for the decision-making process will be mainly based on the following: demand, retention and graduation rates.

The UPR Certified Fiscal Plan, for years 2018-2023, contains the following consolidation model for UPR-Ponce:
It is expected for the consolidation process to be implemented during a period of three academic years, preceded by a year committed to analysis and planning. President, Dr. Jorge Haddock, has as a priority the implementation of the structural consolidation. The changes to be implemented are targeted for the Institution to improve infrastructure, administrative and academic efficiency. Substantive institutional and programmatic changes will be reported to MSCHE on a timely fashion, according to the agency’s Substantive Change Policy and Substantive Change Procedures.

Financial planning and budgeting are aligned with the institutional goal of lowering expenses while simplifying administrative processes towards institutionalizing a leaner management approach to administrative procedures and practices. These processes need to be systematically and continuously assessed in order to result in administrative improvement.

The restructuring to conglomerates is seen by the UPR Administration as an opportunity to update the processes and administrative practices that the University has been carrying out for decades and that are relevant and practical to properly serve the economic and historical situation in which Puerto Rico is in. The UPR will use this opportunity to project itself into the future with a clear vision of how the University should evolve administratively, in the search and generation of income while maintaining or improving its academic quality without sacrificing service to students nor employees. Regardless of the conglomerate model and the expected time to implement it, the main value to be gained of this restructuring is in fostering an environment of collaboration among the campuses, sharing resources, and developing diverse academic initiatives.

**MSCHE Concern 3:** AN ANNUAL INDEPENDENT AUDIT CONFIRMING FINANCIAL VIABILITY WITH EVIDENCE OF FOLLOW-UP ON ANY CONCERN CITED IN THE AUDIT ACCOMPANYING MANAGEMENT LETTER

The University of Puerto Rico engages and undergoes an annual independent audit in order to confirm its financial sustainability and the adequacy of its accounting procedures. Nearly over the last two decades, the University’s annual independent audit has been conducted by Ernst & Young, one of the largest professional services firms in the world and one of the “Big Four” accounting firms. The financial reporting entity consists of the University and its four Component Units, which are legally separate organizations for
which the University is financially accountable. Namely, these component units are Desarrollos Universitarios, Inc., Servicios Médicos Universitarios, Inc., University of Puerto Rico Parking System, Inc., and Materials Characterization Center, Inc. The University, as a public corporation of the Commonwealth of Puerto Rico, uses a fiscal year end date of June 30 to comprise its 12-month accounting periods. Independent certified public accountants also conduct an annual audit of each of the University's four Component Unit financial statements before they consolidate into the reporting entity. The accounting and reporting policies of the University conform to accounting principles generally accepted in the United States of America, as applicable to governmental entities, specifically the Government Accounting Standards Board (GASB), the standards setting body for establishing governmental accounting and financial reporting principles.

As mentioned, the University prepares its financial statements in accordance with GASB standards and uses its financial statement disclosures to include key financial reporting ratios and debt ratings. The University’s set of basic financial statements include the following: Statement of Net Position (Deficit), Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, and Notes to the Basic Financial Statements, as well as other required supplementary information and supplemental schedules.

It must be stated that the 2016-2017 audited statements were issued with an unqualified opinion including an explanatory paragraph. An unqualified opinion means that the financial statements present fairly, in all material respects, the respective financial position of the business-type activities and aggregate discretely presented component units. While such an explanatory paragraph does not affect the unqualified categorization of the audit opinion, it includes the University’s ability to continue as a going concern. This conclusion may be expressed only when the auditor has formed such an opinion, based on an audit performed in accordance with Generally Accepted Auditing Standards, and financial records indicate accurately the University’s financial condition, in compliance with accounting standards. It is the auditor’s opinion that the University experiences financial difficulties raised by the Commonwealth liquidity problems, which might represent a challenge for the University to continue as a going concern.

The primary reason to support the auditor determination is based on the University’s high dependence on the Commonwealth of Puerto Rico to finance its operations. Given the financial deterioration of the Commonwealth and its potential inability to continue to provide subsidies, it raises substantial doubt about the continuance of operations of the University. The financial difficulties experienced by the Commonwealth, including the uncertainty as to its ability to fully satisfy its obligations, raises substantial doubt about the University’s ability to continue as a going concern. In addition, recent developments raise concerns as to potential withdrawal of the University’s accreditation.

The auditors going concern determination was included for the first time in the University’s audited financial statements for fiscal year 2015, issued on September 7, 2016, thus approximately 28 months ago. The University’s audited financial statements for fiscal year 2017 and 2016 showed substantial unrestricted cash of approximately $289 million, and $181 million, respectively; and all the University’s required debt service ratios complied with debt service covenants. Additionally, year-to-date records show unrestricted cash
of approximately $240 million, thus consistently keeping up with large amounts of cash and hence liquidity levels.

Notwithstanding, management has plans to address any potential liquidity situation and continue providing services. As such, the University has revenue generation and expense reduction measures aimed at ameliorating the reduction in the Commonwealth’s appropriations to the University, which among others, include:

- **Increase in tuition cost:**
  A gradual increase in the undergraduate student cost from $57 per credit to $157 per credit by fiscal year 2023, and a gradual increase in the graduate student average annual tuition from $3,699 per student in fiscal year 2018 to $7,209 per student by fiscal year 2023.

- **Transformational enhancements:**
  A leaner administrative structure (keeping open the actual eleven campuses), driven by a reduction of redundant expenses, academic optimizations, and headcount reduction by attrition, coupled with reductions in a variety of employee fringe benefits such as Christmas bonus, a restructuring of the employer-sponsored medical insurance plan, and a restructuring of the University’s defined benefit pension plan structure.

- **UPR Foundation:**
  The University is establishing a foundation in order to be able to apply to philanthropic entities for funds. These funds will provide more resources to strengthen student’s services and research, among others.

Preparing the University’s financial statements is a very complex process because it includes 11 institutional units. Various events and technical situations have complicated the process of preparing them even more. One of these events was the 2017 student stoppage, which interrupted the operations of all campuses for 93 days. In addition, the operation interruptions and prolonged problems with electrical support systems and wireless communications due to the damages caused by hurricanes Irma and María during September 2017 thru the early months of calendar year 2018. After the stoppage ended, an extended deadline for submission was granted by the U.S. Department of Education for the annual audited financial statements fiscal years 2016 and 2017. The first deadline was March 30, 2018. The University was able to comply with the extended deadline for submission of the financial statements for fiscal year 2016, as they were finally issued on March 29, 2018 and its related compliance audit (Single Audit) on May 15, 2018. The audited financial statements for fiscal year 2017 were to be issued by January 2, 2019 and were finally issued on January 14, 2019.

Despite the fact that the University was not able to submit its fiscal year 2017 Single Audit Report by December 30, 2018, it becomes relevant to highlight that the US OMB had issued an Administrative Relief for Grantees Impacted by Hurricanes Harvey, Irma, and Maria. This relief allows submission of the fiscal year 2017 Single Audit by March 30, 2019. Currently, the Single Audit is in its final phase and in the auditor’s best estimate, it will be issued within the next few weeks. The UPR Finance Office created internal guidelines that will allow issuing the Audited Financial Statements FY 2018 on March 2019. Thus, presently the University is technically in compliance with the Federal Audit
Clearinghouse and US Department of Education, as long as it issues and submits its 2017 Single Audit within the stated extended due date (Appendix 19).

UPR Management acknowledges the difficulties that had happened with the financial statements. It will increase its human resource capacity by bringing outsourced personnel to aid institutional units with the analysis and reconciliation of accounting differences and in the development of accounting estimates. In addition, it is committed to improve its annual closing process by designing and implementing effective monitoring controls over the financial information. As such, general ledger accounts will be reviewed on a timely basis and properly supported with reconciliations, roll-forward schedules, and other appropriate documentation. To this end, the UPR management has taken the following steps that will help bring up-to-speed the reporting timeliness issue:

- Establish a financial and accounting closing process calendar;
- Identify key complex areas to reduce potential process holdups;
- Develop a reporting matrix to follow-up on progress;
- Set-up personnel at each institutional unit to serve as audit coordinator;
- Enable an on-line centralized repository for all requested documentation;
- Offer periodical trainings to its finance and accounting personnel in all institutional units;
- Hold frequent status meetings with institutional units, including Chancellors;
- Perform frequent status meetings with institutional unit finance directors, and when necessary, include the unit chancellor; and,
- Require, on a weekly basis, that the external auditors provide a listing of outstanding matters to ensure a smoother process.

These measures will ensure that all units respond on a timely basis and in an effective manner to the Central Administration (Appendixes 20 and 21).

The University has made progress towards its financial reporting goals and will continue to make substantial investment in resources that will help bring up-to-speed the existing timeliness gap. As part of the management’s plan to continue closing the existing gap in its financial reporting timeliness and to address the above-described material weakness issued by the external auditors, processes will be modified in order to include a reporting schedule that precludes or minimizes potential and recurring tardiness in the future. As such, the University will perform the following actions that will help distribute activities more evenly throughout the year, to include:

- Recording and analyzing activities throughout the year:
  This process will include quarterly accounting closings to ensure the ongoing completeness and accuracy of the data it collects; currently, this process is being performed thoroughly only on an annual basis.
- Closing and financial statement preparation processing:
  Due the fact that the University includes component units as part of its financial reporting entity, there needs to be early and ongoing communication with those units to ensure that the University receives all the information it needs.
- Contracting for professional services:
This process will be revised to ensure it is performed in an expedite manner. This includes the procurement for the services of an independent auditor, as well as those for professional services, other than auditing.

The resulting gains from the enhanced processes will endeavor to mirror best industry and financial reporting practices to firmly uphold the University’s MSCHE affiliation requirements, while fully complying with qualitative characteristics of an accounting system that makes quality and timely information available to all stakeholders.

**UPR-Ponce Fiscal Management and Audits**

The UPR-Ponce encourages and values the culture of receiving compliance audits carried out at the Institution from various sources. Among the agencies that carry out audits in the Institution are the Office of the Comptroller of Puerto Rico, the internal audits carried out by the UPR Governing Board, the Veterans Administration Affairs, and the financial audit along with the Single Audit of the UPR, which includes Ponce.

Appendix 22 contains the results of the last three audits carried out by the Office of the Comptroller of Puerto Rico to UPR-Ponce. These results undoubtedly show the fiscal responsibility with which UPR-Ponce manages the funds assigned to it. The audit from the Office of the Comptroller of Puerto Rico evaluates the UPR-Ponce in different areas of internal control, such as risk assessment, control environment, control activities, information, and communication and monitoring. Likewise, this audit evaluates how up-to-date the accounting transactions of the Institution are and that the UPR-Ponce has complied with its employer and fiscal responsibilities. It should be noted that for the year 2010, the UPR-Ponce obtained a score of 100% in compliance with each of the evaluated criteria. In years after 2010, the focus of the audit changed to the effect that it does not establish a score, but rather it limits itself to establishing compliance or non-compliance. For the 2013 audit, as well as that of 2015, the UPR-Ponce was in compliance with the Office of the Comptroller of Puerto Rico’ criteria.

Appendix 23 contains an additional sample of the result of another audit: Office of Veterans Affairs. This audit evaluates compliance with the allocation and management of federal funds in the fiscal accounts of students participating in the Veterans’ Program benefits. The result of the last evaluation carried out in the fiscal year 2017-2018 demonstrated compliance with the objective of the audit.

Finally, the Accounting and Finance Office of UPR-Ponce completed the trial balance accounts, in preparation for the audit process for fiscal year 2016-2017. In the same way, it is in the final stages of completing the Trial Balance for the fiscal year 2017-2018. Appendix 24 encloses evidence of the trial balances for the referred years, in a sample of compliance with the fiscal responsibility that represents keeping updated the financial accounting records of the Institution.
**MSCHE Concern 4:** Evidence that the institution demonstrates a record of responsible fiscal management, has a prepared budget for the current year, and undergoes an external financial audit on an annual basis (Standard VI and Requirement of Affiliation 11).

**Annual Budget**

The UPR responsibly prepares an annual budget taking into account the adequate institutional operation, including the academic programs and services. The process of preparing the institutional annual budget runs through eight months and is led by the UPR Central Budget Office Director, in conjunction with the Directors of the Budget Offices of the 11 campuses, which comprise the University System. This office has a group of technical specialists in charge of specific campuses. The UPR budgeting process is described on Certification 100, 2005-2006, of the UPR Governing Board (previously known as Board of Trustees) (Appendix 25). The main purpose of the regulations included in Certification 100 is to manage, in a coordinated fashion, a UPR institutional integrated budget’s formulation, execution and control, which is a fundamental instrument for the budgets’ alignment to the responsibility to fulfill the University’s academic mission, goals, and objectives.

The process starts at each campus in coordination with Central Administration and systematically continues as shown on the “Integrated Budget Project Flow Chart” (Appendix 26). The engagement of the campuses’ leadership assures that their academic programs and services are adequately taken into consideration. In the planning and budget formulation, the activities and priorities are aligned to the UPR Strategic Plan 2017-2022, “A New Era of Innovation and Transformation for Student Success” (Appendix 27) and to the strategic plan of each individual campus.

With the inclusion of new requests by FAAFA and FOMB, the formulation process of FY 2019 was modified. The guiding principles and measures of the UPR Fiscal Plan imposed revenue enhancement and expense measures, among these, the increase in tuition fees while maintaining affordability and access to quality education. Also, maximizing opportunities to achieve an efficient and leaner administrative structure while increasing other sources of funding, such as, procurement efforts, federal grant awards, adjustments of benefits to employees and students, the partial elimination of tuition fee waivers, medical plan coverage and limited recruitment of non-teaching personnel to substitute retirees (attrition). After determining the budget’s baselines, configuring multiple possible scenarios for the budget’s allocations and distributions, the University of Puerto Rico Budget FY 2019 was approved by the UPR Governing Board on July 20, 2018 (Certification 2, 2018-2019 UPR Governing Board) (Appendix 28). It was also submitted to the FOMB. For additional details on the UPR Budget FY 2019, please refer to Appendix 26 and pages 14-16 of this Show Cause Report.
Annual External Audit

The UPR commissions and undergoes an annual independent audit. Annually, the finances of the institution should close by October of the next fiscal year. Then, the process conducting to the auditing of the institutions’ finances starts at all of the units of the UPR System with the collection of supporting files. The files include the trial balances and other evidences. These are uploaded into an electronic repository by the campuses’ Finance Offices Directors. At the Finance Office of the Central Administration, the Accounting Office Director is responsible of uploading the central files and monitoring the progress of the process. After all of these files are checked, corrected by the UPR finance personnel, these are submitted to the independent private auditing firm Ernst and Young (EY). The minimal time required by the independent firm EY to complete the preparation of the statements is approximately 18 weeks.

The Federal Department of Education granted an extended deadline to submit the annual of the Audited Financial Statements FY 2016 and FY 2017 by March 30, 2018. Regardless of the multiple challenges presented by these events, the University was able to submit the FY 2016 statements which were issued on March 29, 2018 and its related compliance audit (Single Audit) on May 15, 2018. An agreement was posteriorly established with the Compliance Manager of the Federal Department of Education for submission of the audited financial statements for FY 2017 and FY 2018. At the present moment, UPR received the Audited Financial Statement FY 2017 on January 14, 2019. This is presented on Appendix 29. Filing of Audited Financial Statement FY 2018 shall be submitted by March 30, 2019. The Department issued an extension for the territories affected by last summer hurricanes to submit the 2017 Single Audit up to March 30, 2019.

MSCHE Concern 5: Certification by the related entity that it recognizes the Commission’s compliance requirements and will ensure that responsibilities of the related entity are fulfilled, including making freely available to the Commission accurate, fair, and complete information through disclosure of information required by the Commission to carry out its accrediting responsibilities (Related Entities Policy; Requirement of Affiliation 14).

Appendix 30 contains the certification issued by the UPR Governing Board for the UPR-Ponce. It recognizes the Commission’s compliance requirements and ensures that responsibilities of the UPR Governing Board are fulfilled.

CONCLUSION

Since its foundation and first accreditation in 1970, UPR-Ponce has evidenced a proven commitment to academic excellence and institutional effectiveness. External evaluations by accrediting, federal, and state agencies have consistently confirmed UPR-Ponce’s effectiveness and continuous improvement. This Show Cause Report has provided evidence of UPR-Ponce’s compliance with MSCHE Standard VI and Requirement of Affiliations 11 and 14.
UPR-Ponce is not exempt from the fiscal constraints faced by most institutions of higher education, not only in Puerto Rico, but also in the nation, and it is not UPR-Ponce’s intention to close operations in the near future. Taking this into consideration, firm discipline and adherence to the Institution’s plans will be needed, so that the Institution maintains its academic quality and keeps fulfilling its mission.

Through almost five decades, the Institution has demonstrated its commitment and compliance with accreditation, its great responsibility with accountability, its exemplary academic quality, excellent student services, a strong assessment culture, and stable retention and graduation rates. Even after been severely affected by a category five hurricane, UPR-Ponce has found the way to accomplish its mission and keep serving its students, the vicinity, and the country. Current students and alumni are UPR-Ponce’s best presentation card. They can attest the Institution’s relevance and importance in their future and in their lives.

In conclusion, it is not the first time UPR-Ponce is facing financial challenges, but its linked planning and budgeting processes will ensure that the Institution keeps using its budget effectively, and that it improves its mechanisms for resource allocation. The Institution is strongly committed to seeking further external funding that would provide additional resources for supporting its programs and services and to effectively comply with the fulfillment of its mission, while maintaining financial stability. Finally, UPR-Ponce’s leadership is committed in making all the necessary adjustments for the Institution to comply with all the requirements of affiliation established by MSCHE and to keep on fostering its mission on behalf of academic excellence.