



March 31, 2014

Dr. Barbara Gitenstein
Chair

Dear Dr. Gitenstein:

The University of Puerto Rico at Carolina is submitting as requested the Monitoring Report due April 1, 2014. Attached is the corresponding documentation providing 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). We were reminded the obligation to ensure timely production of audited financial statements. We are pleased to inform you that UPRCA has fulfilled the above request.

The process of developing this Monitoring Report was highly enriching to our Institution. If you need further information, please contact us.

Sincerely,

Luis D. Torres Torres, Ph.D.
Acting Chancellor

Attachments

c Dr. Andrea Lex
CHE Staff Liaison
Middle States Commission on Higher Education

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University of Puerto Rico at Carolina
Office of the Acting Chancellor

**Monitoring Report to the
Middle States Commission on Higher Education**

From

University of Puerto Rico at Carolina

Luis D. Torres, Acting Chancellor

Uroyoán R. Walker-Ramos, President

Delia M. Camacho-Feliciano, Vice President of Academic Affairs

Awilda Nuñez, UPRCA-MSCHE Liaison

April 1, 2014

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

Subject of the Monitoring 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) ¹. To remind the obligation to ensure timely production of audited financial statements. The Periodic Review Report is due June 1, 2016."

¹ Standard 3 of the Characteristics of Excellence on Higher Education issued by the MSCHÉ.

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Supporting Documents List

- 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 Carolina (UPRCA) 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 UPRCA 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 UPRCA 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 below.

CAMPUS OVERVIEW

The University of Puerto Rico at Carolina is a unit of the University of Puerto Rico System (UPR), a multi-campus, state supported institution of higher education licensed by the Puerto Rico Council on Higher Education and accredited by the Middle States Commission on Higher Education. UPRCA was founded in 1974, and MSCHE first accredited the Institution, known at the time as Carolina Regional College, in 1978. By the time of the 2011 Self-Study, UPRCA had become an autonomous campus within the UPR System and was in the midst of an academic and technological transformation.

As affirmed in its Mission Statement, UPRCA is committed to providing a student-centered education that fosters high values such as integrity, ethics, and academic excellence with a curriculum that integrates general and specialized education. In September 2008, the Academic Senate ratified modifications to the mission ensuring that goals and objectives appropriately reflect current institutional standards.

Since 2005, the Institution has channeled efforts and resources to obtain professional accreditation for its programs and service offices from the appropriate accreditation agencies. As a result, in 2007 the Learning Resource Center received its professional certification (Association of College and Research Libraries), in 2008 the School of Hotel and Restaurant Administration (Accreditation Commission for Programs in Hospitality Administration), in 2011 Business Administration and Office Systems (Association of

Collegiate Business Schools and Programs), and in 2012 the Counseling and Guidance Office were accredited by their respective professional accreditation agencies (International Association of Counseling Services). At present, the Social Sciences, Design, Education, and Industrial Maintenance departments are revising their programs as a step towards achieving professional accreditation.

UPRCA is the only campus in the UPR system that operates under a quarter-term calendar system. Typically, students obtain their baccalaureate or associate degree in a shorter period of time when compared to semester calendar systems. The academic term consists of three quarter-term sessions that run from September to June.

The student body at UPRCA is served by 228 faculty and 235 non-teaching staff members. Total student enrollment for the first academic quarter term 2013-14 was 3,994. Of the student population, 2,511 (55%) studied full-time, approximately 2,502 (65.2%) received financial aid, and 2,468 (62%) was female. In addition, 2,623 (66%), of students are enrolled in baccalaureate degree programs, 490(12.8%), in associate technological programs, and 734(18%), in transfer programs.

FINANCIAL STATEMENT PROCESS

In terms of finances, UPRCA and all other units are regulated by the University of Puerto Rico's financial office at the Central Administration. Thus, UPR as a whole issues a single set of audited financial statements which includes the Central Administration and its eleven (11) campuses: Río Piedras, Mayagüez, Medical Sciences, Cayey, Humacao, Ponce, Bayamón, Aguadilla, Arecibo, Carolina and Utuado. Our campus, therefore, does not issue audited financial statements separately; our financial findings are rendered in the audited financial statements of the UPR system. Over the last ten years, the independent auditors have been Ernst & Young.

The UPR's financial statements are generally due by the 9th month following the year-end close, since they are filed as part of the OMB-133A report. Over the past few years, the University has been unable to file the audited financial statements on a timely basis. The main cause for the delays was the partial implementation of a new accounting system that still lacked several important modules and made the accounting closing process cumbersome, with interfaces coming in from outside systems.

In an effort to improve efficiency, the UPR invested approximately \$82 million in an ERP system (Oracle e-Business). The modules already implemented include General Ledger, Accounts Payable and Purchasing. However, some important modules such as: Accounts Receivable, Capital Assets, Payroll, Cash Management, and Billings, among others, are not yet operational.

External auditors identified deficiencies that affect the smooth operation of the financial statements closing process. A probable cause was the lack of adequate controls during

the implementation of the Oracle accounting system. The auditors recommended improving the annual process for more effective monitoring controls over financial information.

The external auditors also recommended changing the organizational structure to enhance monitoring controls over the accounting and financial reporting functions of units. Each campus has a Finance Department and an Accounting Department, with a Finance Director and an Accounting Sub-Director or Supervisor. They and their staffs carry out all transactions within every single campus. This administrative infrastructure has been a limiting factor for timely and effective communication among the campus and the central administration, where the UPR's audited financial statements are prepared. The accounting and financial reporting responsibilities should be centralized and campuses should respond directly, effectively, and in a timely fashion to the Central Administration Finance Director and Controller.

STANDARD 3 - INSTITUTIONAL RESOURCES

The University of Puerto Rico's eleven campuses are currently accredited by MSCHE. Recently, MSCHE expressed concern about compliance with Standard 3 of the *Characteristics of Excellence*. This Standard states that the resources necessary to achieve an institution's mission and goals are evidently 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. An accredited institution, as well, 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 relates to the University's annual independent audits.

UNIVERSITY ACTIONS AND INITIATIVES

The University of Puerto Rico has given utmost priority to complying with MSCHE's standards and recommendations; for the purpose of this monitoring report it specifically aims to demonstrate that it undergoes audited financial reports and is putting in place procedures and the technological capability to follow-up on any concerns cited by the external auditor. Special consideration was given to fiscal year 2011-12 Financial Statements and on August 23, 2013, the University issued these along with the independent auditors report (Exhibit II).

On September 23, 2013, a meeting was held between representatives of MSCHE and officers from the UPR's Central Administration in the premises of the Central Administration. Present at the meeting were Elizabeth H. Sibolski, Tito Guerrero, and Andrea Lex from MSCHE, and Celeste Freytes, Acting President, Delia Camacho, Acting Vice President for Academic Affairs and Angel Vega, Director of Finance, from the UPR. At this meeting the Commission's concern about the delays in providing audited financial

statements was discussed. University plans for preparing the financial statements for fiscal year 2012-13 on schedule were acknowledged.

As a follow-up to the August 2013 Supplemental Report, in November 2013, MSCHE sent letters to all UPR units accepting the supplemental information report and requesting a monitoring report.

As mentioned, subsequent to the completion of the 2011-12 audits, the UPR directly started its closing process for fiscal year 2012-13. The current year's closing took place almost following the previous year's submission of the financial statements, so that most, if not all the same issues of concern still existed. Notwithstanding, the UPR committed to the goal of issuing its audited Financial Statements for fiscal year 2012-13 on time by March 31, 2014.

STEPS TAKEN

1. Meetings between Central Administration and Units

- After the issuance of the 2011-12 Audited Financial Statements, a meeting among all Finance Directors was held at the Central Administration to discuss a work plan for the 2012-13 audit and the lessons learned during the previous 11-12 year process. (Exhibit III) Single audit requirements per unit and a timeframe with compliance requests were discussed and presented during this meeting.
- On September 23, 2013, the UPR hired a new Finance Director for the Central Administration, meeting one of the recommendations of the external auditors.
- In October 2013, the 2012-13 audit work plan was revised to consider having a final draft of the Financial Statements by February 28, 2014. The plan was particularly aggressive as it considered reducing by half the time spent on the closing and the prior year's 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.

2. Closing the trial balance

For fiscal year 2012-13, books were closed prior to delivering a trial balance to the external auditors in order to reduce the volume of adjustments. In the past, delivering an incomplete trial balance was one of the causes of numerous audit adjustments and time delays due to corrections that had to be made during the course of such audit. With this approach, it is expected that the UPR will be in a better position to achieve an efficient audit.

3. Reinforcement of accounting personnel

The University contracted the services of the CPA firm BDO of Puerto Rico to assist with the closing of the books and to perform pre-audit services. The consultants were assigned to review all unit figures; in fact, most of the support went to the Mayaguez and Medical Sciences campuses. 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 hours incurred by them during the course of the audit. In addition, a group of certified public accountants and retired employees were contracted to assist in the closing. As regards to UPRCA, an auditor from the firm visited the Finance Office to verify the information of receivable accounts. The recommended adjustments were completed by the UPR Central Administration Finance Office.

The UPR also started the process of contracting a Controller or Chief Accounting Officer whose main responsibilities will be to standardize procedures and establish controls to strengthen the financial closing process. Lastly, an industrial engineering consulting firm was contracted to evaluate the organizational structure and make recommendations for a more efficient design. The final report and recommendations are expected at the end of April 2014.

CLOSING COMMENTS

The University of Puerto Rico has closed the financial analysis for fiscal year 2012-13 and issued the corresponding audited report. Having complied with the corresponding deadlines, efforts are now directed towards issuing UPR's audited financial statements for fiscal year 2013-14 by December 31, 2014. Meeting this goal will affirm our commitment to MSCHE Standard 3.

To assure timely issuance of the financial statements and eliminate accounting errors, the University expects to strengthen the organizational structure of its financial section, establish standardized financial guidelines and procedures for all units, and invest in information technology. As part of this commitment, two new Oracle modules, Human Resources (including Payroll) and Cash Management are being implemented. Also, a contract is underway for the implementation of the Fixed Assets Module for all units. At

present the checklists and guidelines for the year-end close of 2013-14 are being reviewed.

The University has also set the goal to revamp its financial reporting processes so as to be able 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 units whose comprehensive annual financial reports achieve the highest standards in government accounting and financial reporting.

The UPR System engaged in a singular effort to improve financial processes and its reporting practices to the University's constituents, including the state and federal agencies the University is required to maintain informed. It established adequate protocols to further the flow of requested information from institutional and external auditors in an efficient and timely fashion. UPRCA has been a major component of this effort, and the Institution's financial, financial aid, and registrar procedures have benefited with the recruitment of additional qualified personnel to advance these operations.

UPRCA acknowledges the external auditor's recommendation and concurs that by implementing these recommendations, the monitoring of the accounting and financial reporting activities of the University will be strengthened. The University of Puerto Rico at Carolina is committed to ascertain the soundness of all institutional processes, as well as to the efficiency and excellence of all academic endeavors.