

Monitoring Report to the
Middle States Commission on Higher Education

From

University of Puerto Rico
Río Piedras Campus

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April 1, 2014

Monitoring Report in
Response to the Commission's Letter
Dated November 23, 2013

Subject of the Monitoring Report:

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

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

INTRODUCTION

The University of Puerto Rico, Río Piedras Campus (UPR-RP) submits its April 1, 2014 Monitoring Report to the Middle States Commission on Higher Education in response to the Commission's statement:

... 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 obligation to ensure timely production of audited financial statements.

For financial reporting purposes, the University of Puerto Rico system, issues a single set of audited financial statements which includes its eleven (11) campuses and the Central Administration. Therefore, the Río Piedras Campus does not issue audited financial statements separately.

We are pleased to note that as of today, April 1, 2014, the UPR has submitted the audited financial statement on time for the year ended June 30, 2013. (Refer to Exhibit I) this achievement will certainly help us comply with the fundamental elements of Standard 3 of the Characteristics of Excellence.

CAMPUS OVERVIEW

The UPR-RP Campus is part of the University of Puerto Rico System, a multi-campus, state supported institution of higher education licensed by the Puerto Rico Council on Higher Education. Founded in 1903, The UPR-RP is the oldest and most complex of eleven units within the University of Puerto Rico System. As a public research-oriented comprehensive doctoral institution, its academic offerings range from the baccalaureate to the doctoral degree, through seventy undergraduate and thirty-nine graduate degree programs, includes professional fields. Research activities are developed in a variety of centers and institutes, including the widely recognized *Institute for Tropical Ecosystem Studies*, which conducts long-term environmental research on Caribbean Islands and similar tropical areas, and belongs to a global research network. Graduate offerings have grown including fifteen doctorate degrees, twelve PhDs and three Doctorate degrees in Education. There are also forty-eight master degrees and international programs in Law, at both the LLM and JD levels. Over fifty academic programs are accredited by twelve different professional accrediting agencies. Moreover, we have accreditation and certification of our services, such as, the library system, by the Association of College and Research Libraries (ACRL), American Library Association (ALA), and the counseling programs by the International Association of Counseling Services (IACS). The UPR-RP Museum of History, Anthropology and Arts has been accredited by the American Alliance

of Museums (AAM). In fact, during the period covered by this report, four additional professional accreditations were granted.

The UPR-RP Campus serves close to 15,000 students, 20% of whom are graduate students and grants an average of over 3,000 degrees a year. From 2005 through 2011, the number of doctoral degrees conferred has increased. UPR-RP has a diverse faculty whose academic degrees have been awarded by world-class universities. The student body represents the best academic profile in Puerto Rico with an increasing population of international students. Our UPR-RP campus is also custodian of artistic, documentary, cultural, environmental, and symbolic resources for teaching, research, creation, and enjoyment by the public. Our professors are distinguished with national prizes such as the 2010 “Andrew Gemant Award” awarded by the American Institute of Physics, and the “Dr. Etta Z. Falconer Award” for Mentoring and Commitment.

STANDARD 3 - INSTITUTIONAL RESOURCES AND THE PRODUCTION OF AUDITED FINANCIAL STATEMENTS

The University of Puerto Rico’s eleven campuses are currently accredited by MSCHE and they all comply with the guidance of the Commission’s Characteristics of Excellence. Recently, the MSCHE has expressed concern about the institution’s compliance with Standard 3 of these Characteristics of Excellence.

This Standard states that:

The human, financial, technical, facilities, and other resources necessary to achieve an institution’s mission and goals are available and accessible. In the context of the institution’s mission, the effective and efficient uses of the institution’s resources are analyzed as part of the ongoing outcomes assessment.

Among the several items of the Fundamental Elements of Institutional Resources, an accredited institution is expected to conduct an annual independent audit confirming financial responsibility, with evidence of follow-up on any concerns indicated in the audit’s accompanying management letter.

The UPR’s financial statements are subject to an annual audit. An independent audited report by Ernst & Young is issued on a yearly basis.

These statements are due by the 9th month following the fiscal year end, in accordance with the OMB-133A report. Due to several situations, including the implementation of a new accounting system, available human resources and financial accounting infrastructure, over the past years, the University was unable to file the audited financial statements on a timely basis.

Since the administrative and financial system of the UPR is a complex one, efforts have been made recently to ensure a flow of information between the RRP and the Central Administration, where the UPR's audited financial statements are prepared.

The UPR has identified many factors that have limited our ability to complete the reports on time and these issues are currently an active part of our agenda. Some of these factors have led to various deficiencies as indicated by external auditors and need to be addressed. These include the lack of adequate controls during the implementation of the Oracle accounting system, which in turn affected the efficiency of the financial statements closing process.

Also, in an effort to improve efficiency, the UPR has already implemented the General Ledger, Accounts Payable and Purchasing modules of an Enterprise Resource Planning system (ER Oracle e-Business).

In order to improve monitoring control of the financial information that is reviewed on a yearly basis we are currently implementing the internal auditor's recommendations to ensure a stronger and more efficient finance structure.

Recommendations include a change or reinforcement of the organizational structure, improvement of monitoring controls over the accounting and financial reporting functions of units, and more efforts to centralize the financial reporting responsibilities of the unit. In this way campuses respond directly and in a timely manner to the Central Administration Finance Director and Controller.

UNIVERSITY ACTIONS AND INITIATIVES

The UPR has given utmost priority to ensuring an independent audit and follow-up of the concerns cited by the external auditor. In this context, special consideration was given to the fiscal year 2011-12 Financial Statement. On August 23, 2013 this statement was issued along with the independent auditors report.

As a follow-up to the August 2013 Supplemental Report, on November 22, 2013, the Middle States Commission on Higher Education (MSCHE) sent a letter to UPR-RP accepting the supplemental information report and requesting a monitoring report.

On September 23, 2013, MSCHE had a meeting at the University of Puerto Rico Central Administration in which the Commission expressed concern about the delays of the UPR audited financial statements. The meeting included the MSCHE President and two Vice-Presidents. The UPR group included, among others, the Acting President, Acting Vice President for Academic Affairs and the Director of Finance. At this meeting the UPR presented to MSCHE the plans for preparing the financial statement for fiscal year 2012-13 on schedule, which were well received.

As mentioned, subsequent to the completion of the 2011-12 audits, the UPR immediately started its closing process for the fiscal year 2012-13. Since the current year closing started near the previous year financial statement submission, most concerns prevailed.

Notwithstanding that scenario, the UPR committed to the goal of issuing its audited Financial Statement for fiscal year 2012-13 on time, by March 31, 2014.

Added to these efforts at the system level, the UPR-RRP campus has also taken actions to improve our efficiency in this area. Among other actions taken are:

- Prepared the action plan and timeline for the Fiscal Year Closing (FY-13)
- Identified human, financial, facilities and technological resources necessary for the action plan
- Prepared the financial documentation and appendix to be provided as part of the audit process
- Participated in several meetings for Finance Directors at the Central Administration Office
- Communicate the action plan and timeline to the administrative units
- Held several follow-up meetings with the administrative units
- Revise the action plan and timeline
- Make adjustments to the plan, accordingly
- Maintain close communication with Central Administration Finance Office and consultants

MEETINGS BETWEEN CENTRAL ADMINISTRATION AND UNITS

Immediately after the 2011-12 Audited Financial Statement was submitted, 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 process (Refer to Exhibit II).

On September 23, 2013, the Governing Board appointed a new Finance Director for the UPR System, meeting one of the recommendations of the external auditors.

In October 2013, the 2012-13 audit work plan included the projection of having a final draft of the Financial Statement by February 28, 2014. This new deadline limited the available time for the closing and prior year audits (2011-12 vs. 2012-13).

During this time, several meetings between the Central Administration and the campuses helped to monitor and ensure completion of deadlines and deliverables.

CLOSING THE TRIAL BALANCE

For fiscal year 2012-13 we closed our books prior to delivering a trial balance to the external auditors in order to reduce the adjustments. In the past, delivering an incomplete trial balance was one of the causes of numerous audit adjustments and time delays due to corrections to be made. With this approach, the UPR was in a better position to have an efficient audit.

REINFORCEMENT OF ACCOUNTING PERSONNEL

The University contracted the services of the CPA firm named BDO, to assist with the closing of the books and to perform pre-audit services. These consultants were assigned to review all units with a complex financial system. The pre-audit procedures were designed to detect and correct errors before delivering the final trial balance to the external auditors and in order to reduce the time spent in the audit. In addition to the above, a group of certified public accountants and retired experienced employees were also contracted to assist in the closing.

Also, the UPR has initiated the selection process for contracting a Controller or Chief Accounting Officer for the entire institution. The main responsibilities of this officer will be to standardize procedures and establish controls to strengthen the accountability of the financial processes.

To evaluate, make recommendations and design a more efficient organizational structure, the UPR is contracting an industrial engineering consulting firm.

CONCLUDING COMMENTS

The timely closing of fiscal year 2012-13 and having issued the financial statement with the corresponding audited reports, represents a significant accomplishment for the University. As we have complied with the corresponding deadlines, our goal is now geared towards issuing the UPR's audited financial statement for fiscal year 2013-14 by December 31, 2014. Meeting this goal will affirm our commitment with MSCHE Standard 3.

The University has also set the goal to compete for the Certificate of Achievement for Financial Reporting issued by the Government Finance Officers Association of the United States and Canada. This award is issued to government units whose comprehensive annual financial reports achieve the highest standards in government accounting and financial reporting.

We expect to achieve these goals by reinforcing the finance organizational structure, establishing standardized financial guidelines and procedures to all units and by investing in information technology. All these aspects will assure timely issuance of the financial statements and eliminate accounting errors.

As part of this commitment, we have already initiated the implementation of two new Oracle modules, Human Resources (including Payroll) and Cash Management. Besides, shortly, a contract is in progress for the implementation of the Fixed Assets Module for all units. We are currently reviewing the checklists and guidelines for the year-end close of 2013-14.

The UPR-RP Campus is actively working with the Finance Office in Central Administration to ensure that the Institution submits its financial statement on time. As is evident by the information presented, many system-wide efforts, as well as unit based

actions, have been implemented. These actions will ensure a stronger process and a more efficient organizational structure.

NATIONAL SCIENCE FOUNDATION

In the MSCHE letter of November, 23, 2013 addressed to the Río Piedras Campus Chancellor the following information was requested:

To remind the institution of its obligation to inform the Commission about any and all significant developments related to the investigation of the National Science Foundation. The Commission expects to be informed of such developments within ten business days of their occurrence.

In the past Monitoring Report that the UPR sent to MSCHE during the month of August 2013 specific information about the NSF initiative was included. Moreover, at that time a special report was prepared by the Office of the Vice President of Research and Technology of the University of Puerto Rico.

It is important to indicate that some professors and researchers from the UPR-RP Campus actively participate in activities of the Resource Center for Science and Engineering, (RCSE) which is physically located on Campus; yet, the unit is under the supervision of the UPR Central Administration. As such, the RCSE Director, and affiliated projects and programs report directly to the Vice President for Research and Technology (VPRT). Effective lines of communication exist with the VPRT, while upholding the responsibility as Chancellor of evaluating time and effort commitments, and overall research progress, to assure their alignment with the University's and Campus strategic goals and objectives. Further interactions with the Office for Research Integrity and Compliance under the VPRT; provide additional internal controls for fulfillment of all required expectations and commitments with federal and institutional norms governing research.

Included in Exhibit III is an up to date report of NSF recent and significant developments. It must be underscored, that after intensive interactions with NSF, final lifting of the suspension status of the affected units was achieved on November 21, 2013. The University of Puerto Rico is most pleased with NSF's determination to lift the suspension status of the two units under consideration. The decision is of paramount significance, underscoring the assertive and intensive University's actions to address all concerns and recommendations of the agency. It further delineates the UPR's commitment, synergy and openness for full research compliance and integrity in our interactions with NSF and all federal agencies.