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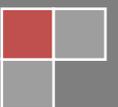
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Monitoring Report

to Middle States Commission on Higher Education

April 1, 2014



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to the Middle States Commission on Higher Education

University of Puerto Rico at Bayamón



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Monitoring Report to MSCHE

Introduction

The University of Puerto Rico at Bayamón (UPRB) 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 UPRB 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 UPRB 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.

Institutional Context

The University of Puerto Rico at Bayamón (UPRB) was established in August 1971 as a community college and was part of the University of Puerto Rico's (UPR) Regional Colleges Administration until 1998. During that year, the UPRB became an autonomous campus within the UPR System. Located at the northeastern part of Puerto Rico in an area of rapid industrial and economic development, it has been responding to the growing academic needs of the region. The UPRB mostly serves students from the municipalities of Bayamón, Guaynabo, San Juan, Cataño, Dorado, Comerío, Naranjito, Toa Alta, Corozal, Toa Baja, and Vega Alta.

The UPR at Bayamón is an institution of higher education whose mission is to facilitate significant, continuous and long-lasting learning with the ultimate goal of having students

become responsible citizens who will help transform their world with a heightened sense of ethics, esthetics and actions that will contribute to change. To achieve this, the Institution should advocate the establishment of support systems for learning, research and collaboration with the Puerto Rican society.

The UPRB offers the undergraduate programs listed below. The professional accreditation entity is indicated in parentheses for programs that are accredited.

- Technology
 - BS in Computers Science (CAC¹ of ABET², Inc.)
 - BS in Electronics Engineering Technology (ETAC³ of ABET, Inc.)
 - BS in Materials Management (seeking accreditation from ASAC⁴ of ABET, Inc.)
 - AD in Civil Engineering Technology (ETAC of ABET, Inc.)
 - AD in Engineering Technology in Construction (ETAC of ABET, Inc.)
 - AD in Industrial Engineering Technology (ETAC of ABET, Inc.)
 - AD in Instrumentation Technology (ETAC of ABET, Inc.)
- Business Administration
 - BBA in Accounting (ACBSP⁵)
 - BBA in Marketing (ACBSP)
 - BBA in Management (ACBSP)
 - BBA in Finance (ACBSP)
 - BA in Office Systems (ACBSP)
- Science
 - BS in Human Biology (currently not susceptible to accreditation)
 - BS in Biology (currently not susceptible to accreditation)
- Education
 - BA in Special and Elementary Physical Education (NCATE⁶ and NASPE⁷)
 - BA in Preschool and Elementary Education (NCATE, ACEI⁸, NAEYC⁹)

The UPRB also offers academic programs in coordinated transfer to several of the aforementioned disciplines, as well as in liberal arts. The UPRB's Learning Resources Center

¹ Computing Accreditation Commission

² Accreditation Board for Engineering and Technology

³ Engineering Technology Accreditation Commission

⁴ Applied Science Accreditation Commission

⁵ Accreditation Council for Business Schools and Programs

⁶ National Council for Accreditation of Teacher Education

⁷ National Association for Sports and Physical Education

⁸ Association for Childhood Education International

⁹ National Association for the Education of Young Children

(or CRA, its Spanish acronym) was certified by the Association of College & Research Libraries (ACRL) of the American Library Association (ALA) as meeting its quality standards. In addition, the UPRB Counseling and Guidance Department is seeking accreditation by the International Association of Counseling Services, Inc. (IACS).

The University of Puerto Rico at Bayamón is affiliated with the Council for Higher Education Accreditation (CHEA), among others. It is in compliance with all standards of excellence of the Comptroller's Office of Puerto Rico and licensed by the Puerto Rico Council on Higher Education.

The UPRB is a 99.8% hispanic-serving institution with a total enrollment of 4,632 students in the spring of 2014. A total of 83.2% of the student population studied full-time and 52.0% were female. Most of our students are enrolled in bachelor's degree programs (81.2%), 5.8% are in associate degrees programs, and 9.3% are enrolled in transfer programs. The remaining 3.7% of our students is classified in other categories. The student body is served by 306 non-faculty personnel and 279 faculty members.

UPR AUDITED FINANCIAL PROCESS

For financial reporting purposes, the University of Puerto Rico (UPR), as a whole, issues a single set of audited financial statements which includes its eleven (11) campuses: Río Piedras, Mayagüez, Medical Sciences, Cayey, Humacao, Ponce, Bayamón, Aguadilla, Arecibo, Carolina and Utuado; plus the Central Administration. Therefore, our campus does not issue audited financial statements separately; our financial results are presented as part of the UPR's financial statements.

These financial statements are subject to an annual audit and an independent auditors report is issued. For such external audit, a trial balance of the UPR as a whole is evaluated, rather than on an individual campus basis. Over the last ten years, the UPR independent auditors have been Ernst & Young.

The UPR's financial statements are generally due by the 9th month following the year-end closing (since they are filed as part of the OMB-133A report). Over the past years, the University was unable to file the audited financial statements on a timely basis. The delays were due to several aspects, but mainly to the implementation of a new accounting system that did not include various important modules, thus making the accounting closing process cumbersome with interfaces coming in from outside systems. Additional factors relative to available human resources and financial accounting infrastructure contributed to the delays.

The administrative and support structure of the UPR system, including its campuses, is a complex one where each campus has a Finance Department and an Accounting Department. In this decentralized structure, each campus personnel accounts for its campus transactions. The complexity of the financial infrastructure has been a limiting factor for timely and effective communication between the campuses and the Central Administration, where the UPR's audited financial statements are prepared.

In an effort to improve efficiency, the UPR has 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 implemented.

The multiple factors mentioned have led to various deficiencies pointed out by external auditors. They indicate that the lack of adequate controls during the implementation of the Oracle accounting system may have affected the efficiency of the financial statements closing process. The auditors have made recommendations to improve the annual process for more effective monitoring controls over financial information.

Regarding to the Finance structure, the external auditors recommended to the University a change or reinforcement of the organizational structure to improve monitoring controls over the accounting and financial reporting functions of units. The accounting and financial reporting responsibilities should be centralized and campuses should respond directly, in a timely way and effectively to the Central Administration Finance Director and Comptroller.

The Institution acknowledges the external auditor's recommendations and concurs with them that by implementing these. The monitoring of the accounting and financial reporting activities of the University will be reinforced.

STANDARD 3 – INSTITUTIONAL RESOURCES

The University of Puerto Rico's eleven campuses are currently accredited by MSCHE and they all follow 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 use of the institution's resources is analyzed as part of ongoing outcomes assessment. An accredited institution is expected to conduct an annual independent audit confirming financial responsibility, with evidence of follow-up on any concerns cited in the audit's accompanying management letter. The Commission's concern is relative to the University's annual independent audits.

UNIVERSITY ACTIONS AND INITIATIVES

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

On September 23, 2013, MSCHE had a meeting at the University of Puerto Rico Central Administration premises in which the Commission's concern about the delays of the UPR audited financial statements was discussed. The meeting was held with Elizabeth H. Sibolski, Tito Guerrero, Andrea Lex from the MSCHE and from the UPR, Celeste Freytes, Acting President, Delia Camacho, Acting Vice President for Academic Affairs and Angel Vega, Director of Finance. University plans for preparing the financial statements for fiscal year 2012-13 on schedule were well received.

As a follow-up to the August 2013 Supplemental Report, in November 2013, the Middle States Commission on Higher Education (MSCHE) sent letters to all UPR units accepting the supplemental information report and requesting a monitoring report. Subsequent to the completion of the 2011-12 audits, the UPR initiated its closing process of fiscal year 2012-13. Since the current year closing started so close to the previous year submission of the financial statements, most, if not all, of the same issues of concern still existed.

Notwithstanding that scenario, 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

Meetings between Central Administration and Units

Immediately 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 process (**Exhibit III**).

On September 23, 2013, the UPR hired a new Finance Director for the Central Administration. This met 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 extremely aggressive as it considered reducing by half the time spent on the closing and prior year audit (2011-12 vs. 2012-13).

Several meetings were held throughout the course of the process between the central administration and the campuses to follow-up on meeting deadlines and deliverables.

Closing the trial balance

For fiscal year 2012-13, the University closed its books prior to delivering a trial balance to the external auditors in order to reduce the volume of adjustments. 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, the UPR expected to be 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 Unit figures. 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 to the above, a group of certified public accountants and retired employees were contracted to assist in the closing.

The UPR also started the process of contracting a Comptroller or Chief Accounting Officer for the entire institution. The main responsibilities of this position are to standardize procedures and establish controls that will strengthen the financial closing process.

Lastly, an industrial engineering consulting firm was contracted to evaluate the finance organizational structure and make recommendations on the design of a more efficient one. The final report and recommendations are expected by the end of April 2014.

CLOSING COMMENTS

University Systems

The timely closing of fiscal year 2012-13 and having issued the financial statements with the corresponding audit reports represents a significant accomplishment for the University. Having complied with the corresponding deadlines, UPRB goal is geared towards issuing the UPR's audited financial statements for fiscal year 2013-14 by December 31, 2014. Meeting this goal will affirm our commitment with MSCHE Standard 3. As part of this commitment, we have already initiated the implementation of two new Oracle modules, Human Resources (including Payroll) and Cash Management. Also, a contract is underway for the implementation of the Fixed Assets Module for all units. The institution is currently reviewing the checklists and guidelines for the year-end closing of 2013-14.

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.

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

University of Puerto Rico at Bayamón

As previously mentioned in the introduction, the Central Administration is responsible for issuing an audited financial statement for the eleven (11) campuses and Central Administration. To accomplish this goal, the campuses including UPRB, provide the required financial data upon.

Since October 2013, UPRB has been very proactive, participating in all the meetings and efforts called by the Central Administration in order to produce the required financial data in a timely manner. The communication has significantly improved and UPRB has been able to respond in a timely and effectively manner to all the request of external and internal auditors. Although the development of a better financial infrastructure will take some time, UPRB will be hiring an additional accountant and computer specialist in order to reinforce human resources availability.

The UPRB's Finance and Budget personnel have worked with the system required by Central Administration and adequate controls are now in place with clear and explicit documentation. Starting from the budgeting stage, suitable formats and procedures have been established to enable better fiscal control. They also have been able to take care of the recommendation and concerns by internal and external auditors and have responded on time to all Central Administration requirements. As a result, our fiscal, academic and administrative operations have been addressed without delay.

In conclusion, UPRB is fully directed and committed to continue improving its financial operations in continuous communication with Central Administration in order to fully comply with the fiscal timetable and to address the annual independent audit and its finances responsibly.

Supporting Documents List

Exhibit I: Meeting among all Finance Directors and the Central Administration

Exhibit II: Independent Auditors Report

Exhibit III: MSCHE letter requesting the monitoring report

Exhibit IV: Audited Financial Statements for FY 2012-13