



UNIVERSITY OF ARKANSAS SYSTEM

Internal Audit Report

University of Arkansas at Little Rock

College of Business

Internal Controls

12-02

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Background

The Interim Provost at the University of Arkansas at Little Rock (UALR) was contacted by members of the faculty and staff of the College of Business on Friday, November 4, 2011, related to allegations regarding travel expenditures, reporting of leave time, and use of staff for personal projects for the former College of Business Dean, Dr. Anthony Chelte. The Chancellor, Interim Provost, and Vice Chancellor for Finance and Administration met the same day and contacted General Counsel. The Chancellor asked the Vice Chancellor for Finance and Administration to begin an internal investigation on Monday, November 7, 2012, and the Interim Provost informed Dr. Chelte of management's concerns and the commencement of the internal investigation. Subsequently, the Vice Chancellor for Finance and Administration requested an internal audit on November 12, 2011 from the Internal Audit Director related to his investigation of Dr. Chelte's travel and other issues. Dr. Chelte began his employment with UALR on July 1, 2009 and was terminated from the Dean position on January 5, 2012.

During his time as Dean, Dr. Chelte incurred \$75,540.73 in travel expenses for 45 trips funded by UALR. We have documented a loss to UALR of \$11,480.80 and have reported it in the UALR College of Business Report on Loss (12-03).

Scope

We have audited the Dean's office of the College of Business for the period of July 2009 through December 2011. The purpose of this audit was to 1) examine and evaluate the adequacy and effectiveness of the established internal control structure as it related to the College of Business and the Dean's office, 2) verify compliance with existing State regulations, Board of Trustees policies, and University procedures and 3) examine expenditures for unauthorized and/or non-University related business purposes.

It is the responsibility of UALR College of Business's management to comply with University policies, prescribed procedures, and applicable State regulations. Our responsibility is to express a conclusion on management's compliance with those policies, procedures and regulations.

Our audit was conducted in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States and International Standards for the Professional Practice of Internal Auditing issued by The Institute of Internal Auditors. Those standards require that we plan and perform our audit to obtain reasonable assurance that the UALR internal control system is adequate and effective in safeguarding assets, ensuring that UALR records and reports are accurate and reliable, and ensuring compliance with applicable regulations, policies and procedures. We believe our audit provides a reasonable basis for the conclusion stated in this report.

Findings and Recommendations

Internal Control

As part of our audit, we reviewed and evaluated management's internal control structure to the extent we considered necessary as required by generally accepted auditing standards. We also reviewed and evaluated management's adherence to University of Arkansas Board of Trustees policies and procedures, applicable policies for UALR and compliance with State laws. For the purpose of this report, we have outlined the significant areas of internal control as Compliance, Employment, and Questioned Costs.

Management is responsible for establishing and maintaining a system of internal control over each of these operations. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the control procedures. The objectives of the system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss and that transactions are executed in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal control, errors and irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate.

Compliance

Internal Audit obtained the detail of expenditures that the former College of Business Dean had authority to expend. The expenditures included amounts recorded in the Banner system for the College of Business Dean's office, UALR Foundation accounts, and purchases made utilizing a Purchasing Card (P-Card).

For the amounts recorded in the Banner system for the Dean's office, Internal Audit reviewed the detailed items posted to the system from July 1, 2009 through December 31, 2011 for legitimate business purpose and/or unusual items. There were no exceptions noted.

Internal Audit obtained a list of all Foundation accounts associated with the College of Business. Internal Audit selected the accounts that it appeared the former Dean would have the most discretion over the spending from the accounts. The accounts selected were:

30-003829 Dean's Fund CBA
30-003842 CBA Acct Gift/Dev
30-004099 Donald W. Reynolds Rest End
30-005328 Executive MBA Fund
30-009941 Business Advisory Council
30-010107 Dean College of Business C&C Account
30-010509 Center for Academic Excellence

We then obtained supporting documentation for the amounts in the accounts that exceeded \$1,000 or appeared to be a personal reimbursement. Internal Audit examined the support for legitimate business purpose and/or unusual items. There were no exceptions noted.

Internal Audit also obtained copies of all P-Card Logs for the former Dean and his Assistant from July 1, 2009 through December 31, 2011. Internal Audit reviewed this documentation for compliance with UALR's P-Card Policy. There were no exceptions noted.

Internal Audit also obtained the detail for budget transfers for the College of Business for fiscal years 2010 and 2011. Internal Audit reviewed the budget transfers to determine that the UALR procedures in place at the time had been followed and to determine if appropriate. There were no exceptions noted.

Travel Policy

Internal Audit reviewed all 45 of Dr. Chelte's travel authorizations and the corresponding travel/expense reconciliation forms since he began his employment with UALR on July 1, 2009. The review noted two instances where the travel authorization was not approved by the Travel Administrator or Travel Supervisor, seven instances where the travel authorization was not approved prior to the departure date of the trip, and 39 instances where the travel authorization was not approved prior to the purchase of the airfare.

The review also noted that the travel expense/reconciliation forms did not always contain all charges to UALR's business travel account. Internal Audit noted 22 instances where Dr. Chelte's business travel account charges were not included on the form.

It was also noted that Dr. Chelte incurred 17 charges to the UALR travel credit card and one personal reimbursement for ticket change fees totaling \$5,296.30. The corresponding travel authorizations were not revised and resubmitted for approval by Dr. Chelte.

UALR's Travel Policy and Procedures requires that charges to the business travel credit card may not be made without an approved travel authorization. It also requires that all charges be included on the travel expense/reconciliation form.

Recommendations: 1) We recommend that management enforce the requirements of the Travel Policy and Procedures by requiring submission of an approved travel authorization with the transaction logs for the business travel account charges. 2) We also recommend implementing analytical comparisons of the charge date to the approval date and to the departure date for the trip. 3) We recommend that management enforce the Policy to require that all business travel account charges are included on the travel expense/reconciliation form. 4) We recommend that management update the Policy to include specific guidelines related to ticket change fees.

Management's Responses: 1) Management has instructed employees matching travel authorizations with the travel card transaction logs to ensure that charges to the travel card are approved by the appropriate approving authority. Unauthorized charges may be requested to be repaid by the employee making the charge. 2) Staff involved in processing payments on the university's travel card and reimbursements to employees for travel expenses will make comparisons of charge dates, approval dates, and departure dates. Employees incurring expenses without appropriate and timely approvals may be held personally responsible for the expense. 3) Management will enforce the Policy to require that all business travel account charges are included on the travel expense/reconciliation form. 4) The Travel Policy will be updated to include specific guidelines related to ticket change fees. The revision will be completed by June 30, 2012. Unauthorized ticket change fees incurred strictly for the convenience of the employee will be charged to the employee.

Agreements (Foreign Schools)

UALR has exchange agreements with four international schools. None of the agreements were reviewed by General Counsel and all the agreements are in UALR's name and are signed by the Associate Vice Chancellor for Academic Affairs. University of Arkansas Board of Trustees Policy 300.1 states "Contracts are not to be made in the name of a campus as a contracting party since there is only one legal entity capable of contracting for the one institution ("University of Arkansas"), either in that institutional name or in that of its governing board ("Board of Trustees of the University of Arkansas")." This Policy also states "The President is authorized to delegate, or withdraw such delegation, to the Chancellors, Vice President for Agriculture, or other appropriate individuals, the authority to contract in the name of the University of Arkansas for business activities in the normal course of operations when it is deemed that the efficiency, effectiveness, and best interests of the University will be well served by such delegation."

Recommendations: 5) We recommend that management comply with the University of Arkansas Board of Trustees Policy 300.1 by contracting in the correct legal name and by ensuring that agreements are appropriately signed. 6) We also recommend that all exchange agreements be reviewed by the General Counsel's office.

Management's Responses: 5) Management will comply with the correct legal name in contracts and agreements. Deans and other academic officers have been instructed that contracts may only be signed by staff with authority to sign for the university. All other administrators will be instructed by May 18, 2012. 6) Management has directed that all exchange agreements with institutions of higher education in other countries be reviewed by the General Counsel's office prior to executing such agreements. All existing agreements are currently being reviewed by the General Counsel's office.

International Data Plans

Review of Dr. Chelte's P-Card logs for the audit period noted that Dr. Chelte incurred \$1,349.88 for 11 charges of international data plans. UALR's P-Card Policy states that data plans for the iPad are an allowable charge. However both UALR's P-Card Policy and iPad Policy do not specifically address international data plans.

Recommendation: 7) We recommend that management revise policies regarding iPad usage to include criteria for when the purchase of international data plans would be appropriate.

Management's Response: 7) The UALR policy regarding iPad usage and data plans will be revised to include the purchase of international data plans. The revision will be completed by June 30, 2012.

Use of Signature Stamp

During the review of Dr. Chelte's travel authorizations and budget transfers, it was noted on several occasions that a signature stamp was used by the Dean's office to indicate Dr. Chelte's signature.

Recommendation: 8) We recommend that the Dean's office discontinue use of a signature stamp for the Dean.

Management's Response: 8) Signature stamps are no longer authorized for use by any Dean or any other department head.

Employment

Employment Offer

Dr. Chelte's employment offer from the former Provost included the allocation of a special discretionary fund in the amount of \$20,000 (\$10,000 for each of the first two years as Dean) which was to be used for Dr. Chelte's own professional development or for other purposes related to his duties as Dean. However, we noted that Dr. Chelte submitted \$75,540.73 in travel expenses over this time period and we were unable to determine which trips were part of this allocation. We also noted that his employment letter did not outline goals or expectations for the use of the \$20,000 in funds or a requirement for the accounting of the use of the funds by Dr. Chelte to the former Provost.

Outside Employment Policy

UALR Policy #440.70 - Outside Employment of Faculty & Non-Classified Staff for Compensation states that "Written approval from department head and/or dean shall be obtained in advance of such outside employment." This Policy also states that a record of outside employment for each college or administrative unit shall be submitted to the Chancellor by September 30 of each year. Dr. Chelte provided a 1099 to Internal Audit for 2010 showing that he earned \$3,000 from the Association to Advance Collegiate Schools of Business (AACSB) and the Groupe Sup De Co Amiens Picardie in Amiens, France, confirmed that this school paid Dr. Chelte 5,400€ for teaching courses. We asked for and did not receive evidence from Dr. Chelte that he disclosed this compensation to the Chancellor in compliance with University policy.

Questioned Costs

Internal Audit noted a loss of \$11,480.80 related to Dr. Chelte's travel. This loss is documented in the internal audit report on UALR's College of Business Report on Loss (12-03). There were additional costs that we identified as questionable and are noted below.

Leave Time

We examined Dr. Chelte's calendar and other documentation during his time of employment with UALR. Dr. Chelte appears to have under reported his leave time by 182 hours or \$16,346.18 based on his annual salary at the time the leave occurred. The 182 hours were recorded on his calendar or in other documentation as vacation (annual) leave time but were not reported in the University's Banner system as vacation (annual) leave taken.

Per UALR Policy #402.34, employees whose titles are listed in the appropriation acts as twelve-month non-classified positions will receive 22.5 days of paid vacation from the on-set of employment, earned at a rate of 15 hours per month. While administrative duties cannot be limited to a five-day, forty-hour week, for purposes of annual leave the normal work week shall be considered Monday through Friday.

We have provided our analysis on Dr. Chelte's leave time to UALR's management and the General Counsel's office for further review.

Conclusion

As documented in the report, we have questioned \$16,346.18 in apparent unreported leave time by Dr. Chelte. We have also identified a net loss to the University of \$11,480.80 in the Report of Loss (12-03) related to duplicate travel expenses and unauthorized and/or non-University related travel expenses submitted by Dr. Chelte.

The University of Arkansas at Little Rock's established system of internal controls should be strengthened in the above documented areas in order to enhance the effectiveness and accuracy over expenditures and to effectively promote compliance with University of Arkansas Board of Trustees policies, Federal and State regulations, and campus procedures.

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05/02/12

Date

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Date