BOARD OF REGENTS OF
THE UNIVERSITY SYSTEM OF GEORGIA

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September 17, 2012

Mr. Rob Watts
Interim President
Georgia Perimeter College
3251 Panthersville Road
Decatur, GA 30034-3897

Dear Mr. Watts:

The enclosed special review report has been prepared at the conclusion of the engagement recently completed on your campus by members of the internal audit staff of the University System of Georgia (USG) and Georgia Perimeter College (GPC). The report addresses observations noted in the areas audited, and where warranted, the auditors have made recommendations based on the facts gathered during the audit. These recommendations should, in our opinion, improve procedures, improve internal controls, or ensure compliance with applicable policies, laws, or regulations.

We conducted this engagement in conformance with the International Standards for the Professional Practice of Internal Auditing. Our methodology included gathering various forms of evidentiary matter to meet the objectives of the review as outlined in the May 10, 2012 engagement letter. Those primary objectives were to: 1) offer an opinion on the effectiveness and accuracy related to internal communications regarding the budgeting process, financial transactions and management decisions regarding the same and 2) offer an opinion on the internal controls for budgeting and financial reporting with a focus on areas where weaknesses may have existed in processes to allow for unauthorized or fraudulent expenditures, recording or reporting.

To accomplish these objectives, we conducted interviews with former and current employees and gathered corroborating evidence to support their statements. Some of this evidence included budget workpapers from the institution, minutes of GPC executive team meetings, GPC reports submitted to the Board of Regents, published financial statements and earning records. Our procedures included examining general ledger transactions, expenditures and journal entries. We reviewed procedures for auxiliary services and activity in auxiliary accounts. We also evaluated procedures for accounts payable, payroll, human resources and financial aid in an effort to determine how and where over-expenditures occurred. We reviewed and assessed procedures for developing, allocating and monitoring the budget.

During the engagement, the former President alluded to another audit of GPC budgeting that had been conducted, but not distributed, by GPC's internal audit director. The former President may have been referring to a planned GPC internal audit of financial reporting included on the audit plan approved by the

Board of Regents Committee on Internal Audit, Risk, and Compliance in May 2011. This special review replaces that scheduled audit. No other recent internal audit engagements were completed or issued encompassing the scope of Georgia Perimeter's budget or budget process prior to the one attached. A separate internal audit engagement encompassing GPC's position management and the associated budget processes is currently being conducted by GPC's internal audit director.

During this review, Chancellor Huckaby implemented additional measures to enhance oversight and accountability for fiscal operations across the USG. These measures generally addressed budget hearings, quarterly financial reporting, interaction with external auditors, the use of reserves, and institutional assessments. A copy of the Chancellor's letter to the Presidents outlining these measures is attached to the report as Appendix V. We believe that implementation of these directives will enhance governance and internal controls over financial and budget management across the University System of Georgia.

The attached report includes responses sent to us by the institution to each observation identified in the Issues-Detail section of the audit report. The responses were all deemed satisfactory by our office.

Sincerely,

John M. Fuchko, III

John M. Fuchko, III, CIA, CCEP
Chief Audit Officer and Associate Vice Chancellor

Enclosure

cc: Members, Board of Regents of the University System of Georgia
Henry M. Huckaby, Chancellor
Dr. Steve Wrigley, Executive Vice Chancellor of Administration, BOR
Dr. Houston Davis, Chief Academic Officer and Executive Vice Chancellor, BOR
Thomas E. Daniel, Senior Vice Chancellor for External Affairs, BOR
John E. Brown, Vice Chancellor for Fiscal Affairs and Treasurer, BOR
Burns Newsome, Vice Chancellor for Legal Affairs and Secretary, BOR
Ronald B. Stark, Executive Vice-President Financial Administration, GPC
Diane Hickey, Associate Vice-President Fiscal Affairs, GPC
Jamie Fernandes, Associate Vice-President Budgets & Strategic Financial Planning, GPC
Bethaney Willis, Chief Accounting Officer, GPC
Kwabena Boakye, Director Internal Audits, GPC
Jeanne Severns, Interim Executive Director of Internal Audit, BOR

notably, the former President did not adequately review the financial statements of the institution issued under his authority. Various copies of the institution's annual financial statements included copies of original signatures in which it appeared that the former President did sign the annual financial statements. When shown copies of these signatures, the former President indicated that some of the signatures appeared to be his but that he does not recall signing any financial statements. He indicated that he did not sign any document that he believed showed a deficit and he reported a conversation with a former staff member in his office wherein that staff member confirmed that the former President had not signed a budget report or other documents showing a deficit. The same staff member indicated to us that the signature on the annual financial statements was an original signature and that it appeared to be the former President's signature.[5] In either case, the former President indicated that he did not read the statements and that they were routed to the former CBO for handling. While the President should be able to rely on the CBO to handle ongoing financial management, the President is nevertheless responsible for the financial statements – and the financial condition – of the institution. The former President also indicated that multiple other officials (USG administrators and external and internal auditors) should have informed him that GPC was spending more than it took in through revenue.[6] Nevertheless, it does not relieve the President of the responsibility to be informed of the information in the institution's financial statements.

GPC's CBO also did not perform his assigned duties. GPC's former CBO, per his job description, is the "chief financial officer of the college, responsible to the President for providing leadership and **ensuring integrity, stability and excellence in the fiscal and administrative operations of the institution**." He is to establish a "sound, stable financial base and adequate physical resources that support the mission and scope of programs and services of the institution." Further, the CBO is to "develop and administer the college budgets, financial strategic planning, and administrative program assessment to maximize

  - <u>Enrollment predictions</u> used for budget development were unreliable while the budgeted "dollars per student" amount was less than the actual "dollars per student" received. There is no evidence that the dollar projection was based on the enrollment projection.
- The overall budget was not communicated to the stakeholders and interim budget performance was not monitored.[9] The primary tool used to monitor budget performance was a spreadsheet that did not tie to the institution's financial system of record. Average cash balances declined steeply which would indicate a need for timely corrective action by the former fiscal leadership team.
- There was neither an effective process for monitoring interim budget performance nor effective oversight by the GPC fiscal leadership team.

<u>What Happened?</u>

Table 3: Budget Meeting Minutes (Excerpts)

Excerpts from minutes of budget meetings include:

- *Regarding the 2013 budget:*
  - *This year $5 million was not funded. (GPC) will submit 24,500 to the Board of Regents as the final enrollment number.*
  - *It is projected that this decrease in enrollment may result in a $2 million decrease for FY2013.*
  - *Other factors which contribute to the decrease in enrollment are the tuition increase of 3% and the FY 2012 2% state reduction.*
  - *If enrollment reaches 25,500, we will be short $1 million.*
  - *If enrollment reaches 26,500, we will be in a good shape financially.*
- *Regarding the 2012 budget:*
  - *Budget reductions are expected to continue into FY2012.*
  - *Continued discussion of the downsizing of state government in reference to positions.*
  - *Formula funds for FY2012 are not being funded.*
  - *For FY2012 the reduction will increase to approximately 8.6%.*
  - *Tuition will increase approximately 5% or $1.8M for Georgia Perimeter College.*
  - *Every 1,000 students represent an additional $2.0M in revenue.*

The minutes mention budget reductions (as required across the USG) in general terms but specific plans for reducing expenditures to offset these reductions are not mentioned. For example, the minutes note that a FY 2011 budget reduction plan consists of a possible 6%, 9%, or 12% reduction. It is further noted that the college will need to identify where these reductions can be taken. The minutes do not reflect further discussion on these reductions nor any mid-year adjustments for variances in enrollment projections compared to actual enrollments.

Although steps were taken at the end of FY 2010 and 2011 to balance the budget, which indicate an awareness of a problem, spending continued to increase. One example is spending for new faculty and staff positions. Salary reports from the State Auditor's website show salary costs increased by $16 million between FY 2008 and FY 2011.

Background

This section of the report provides background information concerning GPC's financial position and is followed by a discussion concerning institutional governance and internal controls. The budgeting process is described in some detail since it is our opinion that it was central to the financial decline. Please note that fieldwork for this special review was conducted before complete, audited data for FY 2012 was available.[11]

The declining cash position of the college is reflected in the following table that indicates the average monthly cash balance dropped by more than $11 million from FY 2009 to FY 2012 (through May 31, 2012). The average balance in 2012 was $8 million - enough cash to cover approximately 15 days of operating expenses (excluding depreciation). The bank statement balance dropped to a low of $157,000 in December 2011.

Table 4: Average Monthly Cash Balance

The declining cash balance was one warning sign that GPC was overspending. The consistent overspending resulted in a decline in net assets

Table 6: Audited Expenditures for Personal Services and Non a Personal Expenses „ ƒ • ‹ •

	2009 (Agreed Upon Procedures)	2010 (Audited)	2011 (Mgt Rpt)	2012 (Unaudited)
Personal Services				
Faculty	31,614,776	36,097,093	39,180,027	40,240,138
Staff	39,923,513	42,423,420	45,463,745	48,103,631
Benefits	16,786,783	19,191,796	21,972,942	23,541,787
Other	337,547	524,777	739,064	536,958
	88,662,619	98,237,086	107,355,778	112,422,514
Non personal				
Travel	562,652	691,261	840,775	832,666
Utilities	3,544,319	3,324,257	3,673,397	3,803,994
Supplies*	27,952,942	28,328,147	13,706,148	22,738,088
Non personal excluding scholarships and depreciation	32,059,913	32,343,665	18,220,320	27,374,748
Scholarships	18,530,748	32,178,792	35,612,521	36,439,609
Depreciation	6,655,067	6,160,396	7,291,822	7,484,634
Total				

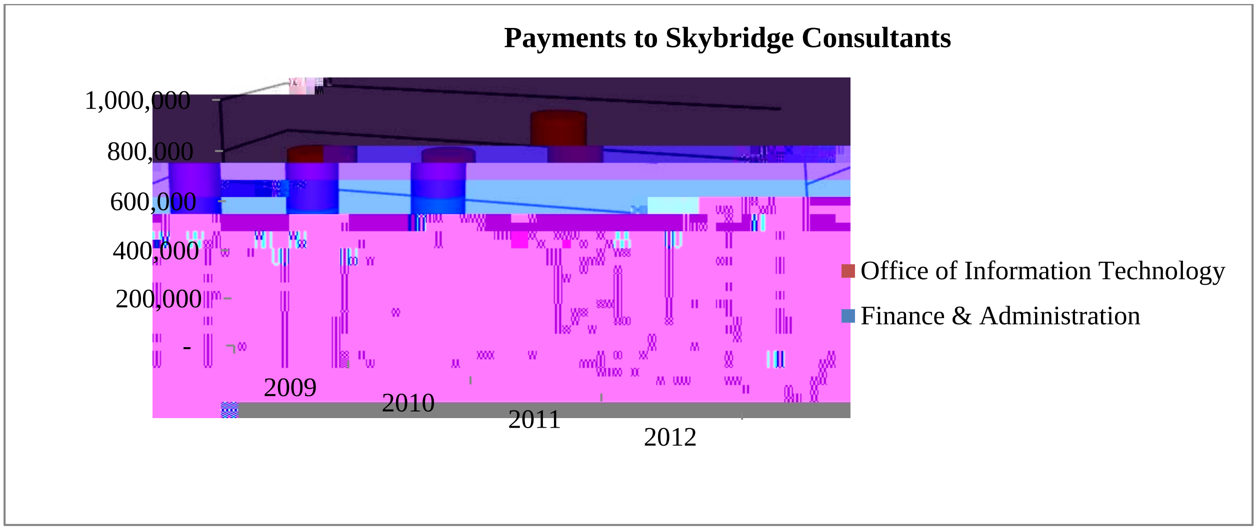
Even though we can tell salaries increased, poor management of position control by the former budget director makes it impossible to know how many new positions were added during the time period. This lack of control manifested itself in many ways: individual departments could not manage their personal services because employees were attached administratively to one department, yet were funded by another. A departmental budget may have included people from other departments while excluding some of its own people. Budget managers had inaccurate data but were told by the budget director not to worry about it. Because of lack of position control, no one knew how much it cost to fund a position in a specific department. An internal audit of GPC's position control by GPC's internal audit director was underway prior to the start of our engagement and will be addressed in detail in that report.

A significant inaccuracy regarding personal services was budgeting of fringe benefits. GPC understated the fringe benefits that corresponded with each employee on the payroll. This understatement has been estimated at $6.7 million. Understating fringe benefits allowed other budget areas to be overstated. When funds were spent against the overstated areas, deficit spending occurred.

Other significant, consistent expenses include payments to a consulting firm for various information technology and financial services. Some of these consultants were hired on a long-term basis. Notably, GPC paid Skybridge Consultants $1.6 million for a consultant to help with general ledger and other accounting duties from October 2005 through February 2012, and $964,000 to another consultant to assist with payroll during the same time period. (See Table 7 on p.15.)

Also, several new initiatives were introduced at the college during this time. The budget impact of these initiatives was relatively small. The total amount spent on these initiatives in 2012, according to the GPC General Ledger department accounts, was approximately $570,000. Nonetheless, there was no stated requirement for a new initiative to be self-sustaining (self-funding) after the first year. However, we found no documented evidence showing which GPC budget areas were cut to fund these initiatives; rather vice-presidents from responsible areas were expected to allocate their resources to absorb any additional spending.

Table 7: Payments to Consultants



(GPC Financial Records FY 2009, 2010, 2011, 2012)

Another expenditure to note is the spending of fees that were collected for debt service on seven public-private venture (PPV) projects on four campuses. The college began collecting fees for this construction before debt service began. The fees, which were allowed to accumulate as part of auxiliary reserves instead of student activities, were liquidated along with other auxiliary reserves as the college overspent available funds.

(At that time, there was no requirement that the institution maintain reserves for PPVs as the PPV debt is held by a third-party. GPC has made the required rental payments to the third-party. The debt service on the seven projects has been paid timely by the third party and is not in arrears.)

To summarize, it cannot be determined where the budget was overspent because it was not allocated correctly and contained errors and omissions.

budget to actual comparisons meaningless; original budgets were consistently overspent and expenses exceeded revenues. The budget would be brought into balance at year end by moving expenditures to funds where balances might be available. Over several years, this approach resulted in depleted reserves and an overall structural deficit.

GPC's former fiscal leadership team did not remedy the institution's precarious financial position.[13] The former President has stated that he was unaware of the college's financial straits and that he relied on the former CBO for accurate financial and budget information. Similarly, the former CBO stated he was not aware of the college's actual financial condition (as reflected in the audited financial reports) and that it would have been the former AVP's and former budget director's responsibility to notify him. The former AVP asserted that she was excluded from many of the discussions and much of the decision-making with respect to budget matters, even though the budget director reported directly to her. Consequently, she possessed limited knowledge of the decisions made with respect to GPC's budget, including whether or not budget reductions should be implemented.

[redacted]

Finally, ongoing and persistent state budget challenges across the USG were highlighted by the University System Office, the news media, and others. Budget updates frequently were included on the agenda at USG presidents' meetings. Budget topics also were discussed in GPC executive meetings.

It appears that the information the executiv

Subsequently, senior personnel changes were made resulting in the appointment of an interim president, an EVP for Finance and Administration (CBO) and an Associate Vice-President for Fiscal Affairs. The budget manager had resigned shortly before the deficit was reported and an Assistant Vice President for Budgets and Strategic Financial Planning was appointed in his stead. The new financial leadership team took immediate steps to address the deficit in the short term and to prevent its recurrence:

- State appropriations in the form of institutional loans were increased $9.5 million (paid back in FY 2013)
- $1.4 million of purchase orders were closed
- $4.7 million in summer 2012 revenue was moved from FY 2013 to FY 2012
- A reduction in force was implemented
- $400,000 savings from implementation of other short term strategies

Two hundred eighty two staff members (215 full-time and 67 part-time) were laid off, which GPC projects will result in financial savings of $7.5 million in FY 2013 and $9.4 million in 2014. This number includes 215 full-time and 67 part-time employees.

Additional spending cuts were made in an effort to balance the budget. This June 29, 2012 message from Interim President Rob Watts to GPC Faculty and Staff Colleagues describes these cuts:

> *I have been asked several times about the internal institutes and centers we had to close for budget reasons. There are five: The Atlanta Center for Civic Engagement and Service Learning, the Southeastern Institute of Sustainability, the Southern Academy for Literary Arts and Scholarship, the Center for International Education, and the Center for Organizational Development. These centers did good work, but the college is not able to continue these initiatives in their current form*

1.2 GPC leadership use information from the USG's official financial reporting system (PeopleSoft). This includes using available analytic tools such as running budget to actual financial reports and holding managers accountable to their budgets.

1.3 GPC develop a transparent and open budget process to include regularly held budget meetings throughout the year with financial, academic and operational stakeholders. These meetings should include, at a minimum, the current state of the budget and action steps to adjust operations and spending to align with the actual financial position of the college.

Other specific issues to address are detailed in Issue #2 – Internal Controls.

Management Response (Provided by Ronald B. Stark, Executive Vice President, Financial and Administrative Affairs, Georgia Perimeter College)

Recommendation #1.1:

GPC leadership foster a culture of senior management accountability for fiscal performance – this includes ongoing review of revenues, expenses and cash flow, accurate budget reporting, remediation of financial audit issues, and careful financial planning at the senior level.

Management response:

We agree with this recommendation. In fact, the new leadership team began immediate action to change the culture and improve accountability the first week of its appointment. The current GPC leadership team recognizes the immediate need for implementing strong fiscal controls surrounding accounting, reporting and budgeting at the College.

Actions already taken to date include:

- GPC's Budget Office reports directly to the Chief Business Officer instead of the AVP for Financial Affairs. This change highlights the importance to senior management that the budget issues at the College are corrected.
- The FY2013 budget was both reduced and recast to more accurately reflect available resources.
- New purchasing procedures were communicated to College staff outlining requirements for obligating funds by purchase order/requisition. This includes prior approval for all purchases at the Director or Dean level, with the exception of emergency purchases.
- The AVP for Financial Affairs and Chief Accounting Officer/Controller completed all required statutory reporting for FY2012 and met the prescribed due dates. The financial reporting submissions are currently under audit by the Department of Audits and Accounts.

Management believes that fiscal controls and accountability are well in process and will be completely in place before the end of fiscal 2013. Due to the depth and breadth of financial issues at GPC, however, management anticipates that the College will not be free from budget reductions that occurred as a result of the FY2012 budget shortfall until fiscal 2015.

Additionally, management believes that accountability is necessary to ensure proper budget management and oversight. In order to ensure accountability at GPC, the Budget Office, with the cooperation of the Executive Team, has implemented the following:

- All budget managers are now at the Dean or Director level. Budget managers are to be held accountable for their budget vs. actuals via performance management.
- The Executive Vice President for Financial Affairs and the AVP for Budgets and Strategic Financial Planning will review the college-wide budget vs. actuals on a monthly basis.
- The Executive Vice President of Financial Affairs and the AVility is n

Department managers have access to PeopleSoft budget progress reports to monitor their department performance against budget. In addition, the College will be implementing iStrategy, which is a reporting tool that pulls data from PeopleSoft, to provide a more user friendly alternative to PeopleSoft delivered reports. Training for iStrategy as well as overall budget principles will begin in mid-October. As a result of these efforts, management considers this recommendation already implemented.

Recommendation #1.3:

GPC develop a transparent and open budget process to include regularly held budget meetings throughout the year with financial, academic and operational stakeholders. These meetings should include, at a minimum, the current state of the budget and action steps to adjust operations and spending to align with the actual financial position of the college.

Management response:

The current GPC leadership team agrees that the appropriate stakeholders must be aware of the College's performance against budget so that adequate planning can take place to prioritize and optimize limited resources.

GPC's financial leadership will formalize periodic budget reporting to senior management, which will be evidenced in meeting minutes. This will occur no less than quarterly, beginning with the end of the first quarter of fiscal 2013.

Communication and transparency are vital to ensure proper budget oversight and management. To ensure proper transparency the Budget Office will initiate the following communication strategies and tools:

- Budget Website
  - The Budget Office will maintain its independent website. The website will contain pertinent information for all budget managers including:
    - How to Complete a Budget Transfer
    - Policies and procedures for Travel
    - List of Budget managers and their chartfield strings
    - The Budget Principles
    - Roles and Responsibilities for Budget Managers
    - Budget Office contact information
    - Revenue Projections
- Budget Managers' List Serve

- Periodically it is necessary to communicate information to the Budget Managers. The Budget Managers' List Serve is the fastest method of communication. The List Serve is managed by the AVP for Budget and Strategic Planning.

- Office Hours and Accessibility
  - The Budget Office will be open daily to assist Budget Managers with any questions or concerns. The AVP for Budgets and Strategic Financial Planning will return all communication in the order in which it is received. The AVP will remain available for individual meetings as needed to review spending plans, budget concerns, or any issues as they arise.

Table 9: Expenditures Moved to Balance Budget

	FY 2011		FY 2010	
	From	To	From	To
State Appropriation	(12,519,803)		(1,907,421)	
Tuition	(731,213)		(1,345,838)	
Other General		7,256,731		
Auxiliary Stores and Shops		3,035,348		
Auxiliary Other		359,574		1,907,421
Student Activities		588,002		
Indirect Cost		296,903		
Technology Fees		1,714,458		1,345,838
	(13,251,016)	13,251,016	(3,253,259)	3,253,259

(From GPC financial records FY 2010 and 2011)

d. A review of select journal level detail of building and facilities improvement additions revealed $11.1 million in reported FY 11 asset additions that were expended in prior years. Over $9 million of these additions were posted on or after June 30, 2011. This may have been an attempt to manage the FY11 reported decrease in total net assets and should have been treated as an adjustment to beginning balances (this would not have affected current year expenses as exemplified in Table 6).

e. Despite job descriptions describing budget responsibilities, no individual accepted responsibility or took ownership of the budget process. The institution did not have an established or reliable budget process to inform responsible persons (including the President, the executive team, and the budget managers) the status of the budget; neither did the budget office maintain control of the budget.

3. **Budget Monitoring**: The overall budget was not communicated to the stakeholders and interim budget performance was not monitored. The primary tool used to monitor budget performance was a spreadsheet that did not tie to the institution's financial system of record.

   a. Some steps for monitoring performance might have included analytical reviews. Had

2.3 Use conservative and consistent enrollment projections when developing its budget. Enrollment projections should take into account the impact of changes in Federal financial aid such as the availability of Pell Grants for summer classes, new rules regarding admission of Learning Support students and other current trends.

2.4 Ensure that current and relative budgets are properly loaded in the financial system and that only a limited number of individuals are authorized to override the budget and only with proper authorization.

2.5 The budget process should be transparent and inclusive of key stakeholders. Consider the establishment of a budget committee that includes executive leadership and department heads from all functional areas. The committee's purpose would be to develop an annual budget that is ultimately recommended to the President. At a minimum, ensure that those managers charged with budget responsibility are given the necessary information to understand the budget allocated to their department and their progress in adhering to that budget.

2.6 Design and implement procedures for continual monitoring of performance with explanations of variances. Variances in both revenues and expenditures should be explained and adjustments made as required to maintain a balanced budget. Responsibility for performance monitoring should be assigned to functional budget managers. Responsibility for adjustments and re-allocation of resources should be assigned to the budget department.

2.7 Establish a calendar for regularly held budget meetings throughout the year. Incorporate budget performance monitoring and reallocate resources as indicated to ensure the continued effective use of resources. Minutes of the meeting should be recorded.

2.8 Guidelines for preparing, recommending and adopting the budget with special attention to the strategic allocation of resources to align with the institutions goals. These guidelines should address responsibility for calculating realistic revenue projections with procedures for adjusting the budget as revenue projections fluctuate.

Management Response (Provided by Ronald B. Stark, Executive Vice President, Financial and Administrative Affairs, Georgia Perimeter College)

Recommendation #2.1:

At a broad level, those charged with responsibility for financial management should design, document, and monitor an effective budget process. For the controls to be effective, the budget requires continuous monitoring of actual results compared to budgeted projections followed by decisive action to correct variances.

Management response:

The current GPC financial leadership team agrees GPC should design, document, and monitor an effective budget process.

Actions already taken to date include:

We are in the process of adopting and implementing Budgeting Principles, which is a document outlining objectives and goals for revenue projections and review of revenues and expenses by the GPC Budget Office. These principles will continue to be refined as needed during fiscal 2013. The principles as currently defined include:

The Budget Office will provide thoughtful and accurate projections for all unique sources of revenue. In order to ensure a sound budget the projections must be in line with the actual revenue received. In an effort to ensure accurate projections, the budget office will provide the following:

- Tuition and fee projections to build the next fiscal year budget in April.
    - Given GPC's student population, which often applies and registers as the semester opens, this is a difficult process. With the help of the Office of Institutional Research and the Enrollment Management Committee the Budget Office will use a sound enrollment figure in the projection model.
- Revised tuition and fee projections in July as the new fiscal year budget rolls out.
    - As the Fiscal Year opens the Budget Office will use the revised enrollment figure to adjust the budget if necessary prior to opening the period. Any revised estimates will be reflected in GPC's amendment #1 to the USG Budget Office.
- Review Revenue on a monthly basis
    - The Budget Office will monitor revenue on a monthly basis and track trends
- Adjust revenue projections on a quarterly basis

- Enrollment projections from the Office of Institutional Research and the Enrollment Management Committee
- Actual enrollment figures
- Projected then actual credit hours
- Review of withdrawals at 50% & 60% of the semester and monitor refunds
- Review unofficial withdrawal at the end of the semester for those students that may qualify for a refund.
- Online students vs. on-campus students
- Tuition Waivers

Recommendation #2.2:

Follow the steps mandated in the June 6, 2012 correspondence from Chancellor Huckaby to the USG Presidents as outlined in Appendix V regarding budget hearings, quarterly financial reports and external audits.

Management response:

The current GPC leadership team will comply with Chancellor Huckaby's June 6, 2012, correspondence. We have drafted a cash flow model and are currently testing it.

Recommendation #2.3:

Use conservative and consistent enrollment projections when developing its budget. Enrollment projections should take into account the impact of changes in Federal financial aid such as the availability of Pell Grants for summer classes, new rules regarding admission of Learning Support students and other current trends.

Management response:

The current GPC financial leadership team agrees that a solid process is needed for enrollment projections. The Budgeting Principles draft previously mentioned addresses projections, their frequency and the items that will be considered.

As mentioned above, GPC will also develop a revenue model by December, 2012, that will include enrollment projections and other variables affecting revenue. This will enable GPC to conduct "what if" analyses that will put GPC in a better position to anticipate and therefore plan for the impact of one or more changes.

<u>Recommendation #2.4</u>:

Ensure that current and relative budgets are properly loaded in the financial system and that only a limited number of individuals are authorized to override the budget and only with proper authorization.

Management response:

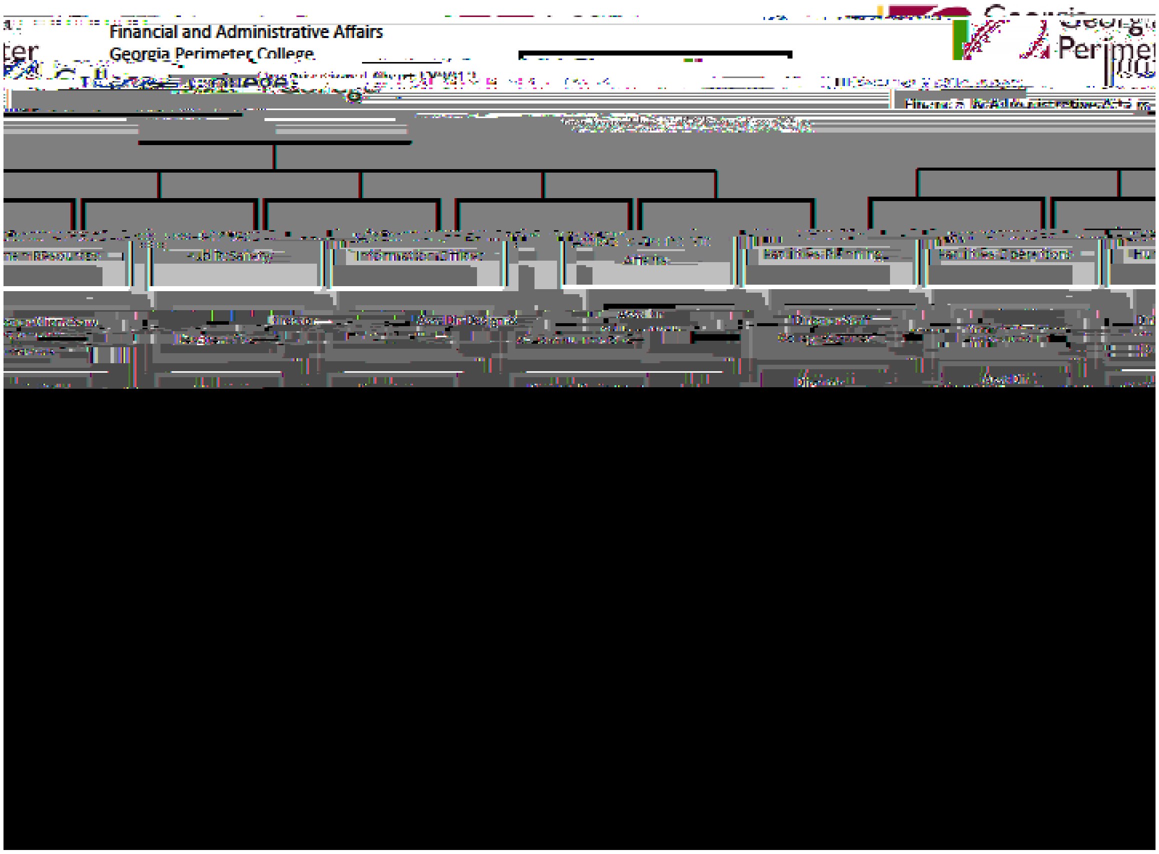
The current GPC leadership team agrees that only a select few individuals should have the capability to override budgetary controls in PeopleSoft. As discussed above, this change has already been implemented, with only four employees possessing budgetary override access. The Chief Business Officer is the only position that may approve budget override access.

Also, as indicated above, the fiscal 2013 budget was loaded into PeopleSoft in July. As a result of these

financial improprieties from the former President and the Board of Regents. The former AVP indicated it appeared the former Budget Director was manipulating the accounts.

We certainly agree with an assessment of inaccurate internal financials; however, we did not find evidence to substantiate that this was an intentional attempt to mislead or derive personal gain.

Appendix II: Organizational Chart



Appendix V: Effective Monitoring of Financial Oversight

CHANCELLOR HENRY M. HUCKABY PHONE: (404) 656-2202 270 WASHINGTON STREET, S.W. FAX: (404) 657-6979 ATLANTA, GEORGIA 30334 EMAIL: CHANCELLOR@USG.EDU

"Creating A More Educated Georgia" www.usg.edu

June 5, 2012
Presidents of the
University System of Georgia
270 Washington Street
Atlanta, Georgia 30334

SENT VIA EMAIL

Dear Presidents:
Effective oversight of fiscal operations is a shared responsibility among our presidents, our chief business officers, and the University System Office. Our external and internal auditors are partners in this endeavor as they fulfill their associated roles, respectively, of rendering an opinion on our financial statements and in performing internal audits. In an effort to strengthen our fiscal operations, the System Office will be implementing enhanced review of each institution's financials. Accordingly, I am implementing the following procedures. These procedures will be formalized shortly; however, please implement these at your respective institutions as follows:

1) Budget Hearings: We will continue the practice of conducting in-person budget hearings for each institution. In addition to proposed budgets, institution presidents and chief business officers must be prepared to discuss their financial resources/reserves as well as current financial performance as compared to their current year budget. The System Office also will be implementing more detailed monitoring of cash flows and budget to actuals on a quarterly basis. This review will require submission of additional data by your business office; details will be provided by the Office of Fiscal Affairs.

2) Quarterly Financial Reports: Effective July 1, 2012, institutions will be required to submit quarterly financial statements, including a report of financial actions, designed to reveal the presence of any serious cash flow problems and to provide early warning of significant problems with the current year budget, a summary balance sheet, and a summary statement of revenues and expenditures. This quarterly report also will include a certification form that requires the signature of both the president and the chief business officer, attesting to the accuracy of the information contained in the report. The format for these statements will be provided by the Office of Fiscal Affairs.

3) External Audits: I expect institutional presidents and chief business officers to attend external audit exit conferences to ensure that they are fully aware of audit issues. Please make this a high priority when planning your schedules. Representatives from the Office of Fiscal Affairs and the internal audit function also will be invited to these exit conferences in order to ensure that

immediately to the Office of Fiscal Affairs. The Office of Fiscal Affairs will subsequently notify the appropriate offices within the System Office and the appropriate Board of Regents' Committees, including the Committee on Finance and Business Operations and the Committee on Internal Audit, Risk, and Compliance.

5) Institution Visits: The Office of Fiscal Affairs will conduct visits to selected institutions to review accounting records and related financial information. If deficiencies are noted, the Office of Internal Audit and Compliance will be asked to investigate these deficiencies. At the conclusion of the internal audit engagement, the Office of Fiscal Affairs will assist the institution by providing guidance to use in correcting any issues noted.

I appreciate the essential role each of you has in ensuring our financial position is properly reported, carefully monitored and remains strong.

Sincerely,
Henry M. Huckaby
Chancellor

HMH/jf

cc: Members, Board of Regents
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