Wright State University University Audit and Consulting Services Office of the Provost Audit Report January 30, 2018

Background

The Office of the Provost is responsible for coordinating academic planning and student success for Wright State University (the University). The audit focused on financial activities in two main categories, for the five year period ended June 30, 2017, as listed below:

Provost Administration:

Earnings Support
Misc. Provost Approved Fee Waivers
Music Ensemble Classes > 18 Hours
Provost
Provost Attrition
Provost FY10 Budget Reduction
S. Narayanan Discretionary
SDA- Provost
Technology Fee Expenditures Budget
University Art
WSU Retirees Association

Provost Other:

Provost Other
OOS Student Recruitment Initiative
Summer Camp at WSIG
WSIG – China Campus
Wright State International Gateway

Other departments, which report to the Office of the Provost, but operate under the direction of their own managers, such as Faculty and Staff Affairs, Center for International Education, President of the Faculty, and various colleges and schools, among others, were not included in this audit. Throughout the scope of the audit, the Office of the Provost has operated under the senior leadership of three individuals. The term of the former Provost began in March 2013 and lasted until he was put on administrative leave in May 2015, at which time the Interim Chief Operating Officer served through July 2015. The current Provost was appointed in August 2015.

A summary of the historical budget to actual expenditures is presented below:

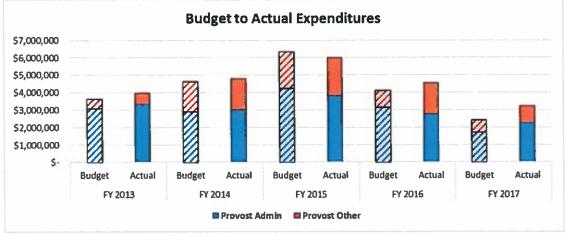


Figure 1

The increase in both actual and budgeted expenditures in fiscal year 2015 is primarily due to the 218400 Provost Org and 218200 Provost Other, which have provided strategic funding campus-wide. The 218231 Wright State International Gateway (WSIG) initiative contributed to over-spending for fiscal years 2014-2017. The unfavorable variance in fiscal year 2017 can also be attributed to 218238 WSIG - China Campus and the 218240 OOS Student Recruitment Initiative.

As of June 30, 2017, the Office of the Provost's general fund balance had a deficit of approximately \$729,000, as described below:

Cumulative Fund Balance Summary*

Administration	Jun	e 30, 2013	Jur	e 30, 2017		Change
213011 Misc Provost Approved Fee Waivers	\$	-	\$	(809,085)	\$	(809,085)
213013 Music Ensemble Classes > 18 Hours		(146,938)		(308,985)		(162,047)
218400 Provost		185,494	-	(379,482)		(564,976)
218401 SDA- Provost		1,202,615		972,302		(230,313)
218404 Technology Fee Expenditures Budget		A A	1	1,432,187		1,432,187
218405 University Art		126,500		154,340		27,840
218406 WSU Retirees Association		(506)		9,532	A.	10,038
218411 S. Narayanan Discretionary		22,392		92,633		70,241
Total Administration	\$	1,389,557	\$	1,163,442	\$	(226,115)
Provost Other						
218200 Provost Other	\$	(138,166)	\$	28,420	\$	166,586
218231 Wright State International Gateway		(963)		(1,718,782)		(1,717,819)
218235 Summer Camp AT WSIG		-		14,298		14,298
218238 WSIG- China Campus				(73,183)		(73,183)
218240 OOS Student Recruitment Initiative		A COLOR	300	(143,150)		(143,150)
Total Provost Other	\$	(139,129)	\$	(1,892,397)	\$	(1,753,268)
Total Surplus (Deficit)	\$	1,250,428	\$	(728,955)	\$	(1,979,383)

Figure 2

The 213011 Misc Provost Approved Fee Waivers Org has accrued a fund deficit, primarily in fiscal years 2014-2015, because of overspending the budget in order to satisfy past commitments. The deficit in the 218400 Provost FOAPAL occurred mostly in fiscal year 2016, and can be attributed to unfunded positions and over-budgeted software costs for the Student Success Collaborative. The Technology Fee Expenditures Budget, 218404, has been disbursed to various other activities under the Office of the Provost, including University Libraries and Computing and Telecommunications Services. It has been consistently over-budgeted, hence the significant surplus. The 218231 WSIG initiative carries a significant fund deficit, which mostly accumulated in fiscal years 2014-2017. The primary cause of the deficit was that, in an attempt to increase international enrollment, new positions were created and filled, but left unbudgeted.

Scope

This audit focused on compliance to University Policy during the five-year period ending June 30, 2017, based on information available as of December 19, 2017. During our review, we interviewed

^{*} Orgs with a zero fund balance in the years presented were excluded from this table.

certain key personnel, and tested randomly selected financial transactions, various human resource documentation, and transactions to certain affiliated entities, including Wright State Applied Research Corporation (WSARC) and Wright State Research Institute (WSRI).

The State of Ohio's Office of the Inspector General's report no. 2016-CA-00002 prompted our office to review certain University payments to WSARC, as the former Provost and the previous Director of Strategic Initiatives, who was later appointed the Senior Advisor to the Provost, played key roles within WSARC during the scope of our audit.

Due to various expenditures from Office of the Provost, testing related to WSARC and the Center for Manufacturing Sciences (CMS) initiative was performed. Testing lead to inquiries and the review of some documentation from the Interim VP of Research, WSARC, and College of Engineering and Computer Science (CECS). In addition, certain information could not be obtained from university affiliates, which limited the scope of our review.

Conclusion

The Committee of Sponsoring Organizations of the Treadway Commission's (COSO) *Integrated Framework* provides internal control best practices, and our review identified weaknesses in various levels, including control environment, risk assessment, control activities, etc. As the University looks to develop its strategy, strengthen internal controls, and enhance administrative transparency, the following should be considered:

- Initiatives should be linked to the University's overall strategy and evaluated based upon the business case, investment, and return and appropriate budgets should be developed;
- Budget development and management need to be enhanced, including a mechanism to properly account for the usage and retirement of fund surpluses and deficits;
- Internal controls and procedures related to affiliated entities should continue to be strengthened to reduce the risk of improprieties and increase transparency;
- Certain human resource practices need to be improved to allow for consistent competitive hiring and reasonable compensation;
- Policies and procedures related to university employees and their external businesses and employment should be strengthened to reduce risks associated with conflicts of interest and commitment, and potential legal liability to the University;
- Transactions, including procurement, travel, and human resources, should be well documented and justified with sufficient clarity to validate the business purpose.

Most exceptions noted within this report occurred during the former Provost's administration of fiscal years 2013-2015, and should not be construed as a reflection of the current operation. As the Chief Academic Officer, the Office of the Provost not only provides a critical administrative function, but is also responsible for influencing culture within the University. By adopting recommendations of the COSO *Framework*, further internal control improvement could be achieved to provide the University with enhanced enterprise risk management to improve transparency and better align operations with its strategies and mission.

These s	ymbols should	Legend: Observation Risk facilitate quick, easy recognition of each observation's associated risk.
0	VERY HIGH	The observation's implementation is critical to the University's effective operation and warrants immediate attention and action by executive management.
0	HIGH	The observation's implementation is important to the University's effective operation and warrants timely attention and action by functional management.
	MODERATE	The observation's implementation will improve the University's operation and warrants attention and correction by functional management.

Action Plan Expectations

Please resolve all issues identified in the final report within 90 days of the report's issue date, pursuant to management's responsibility for establishing and maintaining internal controls to achieve effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. For your convenience, we will electronically forward a corrective action worksheet to report audit plan status.

Observation 1: Unrelated Business Expenditures

Testing of sampled disbursements indicated the Office of the Provost paid two vendors for services seemingly unrelated to its business objectives, and without discernable benefit to the University.

For example, testing revealed the Office of the Provost paid an invoice for \$255,000 for "CLEAT Support and Development" from WSARC/WSRI in April 2015. This invoice has been discussed at length in the Plante Moran Report and lacked sufficient support to validate benefit to the University.

In addition, in fiscal years 2014-2015, the Office of the Provost paid approximately \$59,000 to Native Solutions RI LLC (NSRI) for consulting services, which is approximately 19% of university-wide NSRI spending associated with the CMS initiative. The validity of this spending is questionable, as NSRI's website has shown a "webpage under-construction" message for months. Expenditures associated with this initiative appear to be disjointed, as costs were to be paid by multiple Orgs, including affiliated entities. Appropriate internal controls were not developed for complete project budgeting and accounting. In addition, the University cannot provide a reconciliation associated with the return and performance of the investment, related to this initiative.

Recommendation:

The University should address the control deficiencies mentioned above to improve administrative transparency and fiscal accountability.

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Observation 2: Budgetary Mechanism

As indicated by *Figure 2* above, certain initiatives within the Office of the Provost have significant fund deficits, either due to lack of budgetary planning or overspending. Most of these deficits were accumulated prior to fiscal year 2016. For example, WSIG, Provost Approved Fee Waivers, and the general Provost fund all have consistent unfavorable variances. In addition, there were some Orgs, like the Technology Fee Expenditures Budget, that were consistently over-budgeted. We also noted in 218200 Provost Other, millions of dollars were expended with a budgetary allocation entered at year end, which defeated the value of the budgeting process.

In addition, the University has not developed mechanisms for using reserves and/or retiring fund deficits, making it difficult to maintain appropriate budget accounting and fiscal forecasting.

Recommendation

The University should consider developing standards that would evaluate the business case, investment, and return, as they relate to university strategy before any major initiative begins. Marginal investment versus marginal return should be measurable and considered regularly for management decision. Appropriate reconciliations and sufficient documentation should be maintained for complete accounting and periodic project review.

In addition, the University should consider adjusting its budgetary process for better planning of resource allocations at the onset of initiatives. Mechanisms to allow for the retirement of deficit and usage of surplus balances should also be developed.

Office of the Provost Action Plan	Time Line

Observation 3: University Interactions with WSARC

Traditionally, the University has paid and reimbursed WSARC for various services and expenditures, including certain costs, such as subcontracting, travel reimbursements, stipends, and management fees. At times, detailed information supporting these expenditures have not been provided.

For example, WSARC presented various invoices to the University related to services for agency fund 992702 — Center for Operator Performance (COP). Approximately 72% of the invoices, totaling \$770,000, during fiscal years 2012-2015, lacked third-party supporting documentation. In one instance, where detailed third-party invoices were provided, we noted an invoice from the former Provost requesting payment to himself in the amount of \$7,278 for a "COP management stipend for fiscal year 2015." In addition, we were provided three similar invoices totaling approximately \$17,000, as well as, a contract between WSARC and the former Senior Advisor to the Provost for consulting services. These payments were not reflected in the University's human resource records.

Certain university officials were able to exercise significant influence over WSARC, while being paid by them. Without clear authorization, accounting, supporting documentation, and defined policies and procedures for interaction, transparency and accountability between the entities cannot be achieved and represent control deficiencies. In addition, as all staff of WSARC have been employees of the

University, the above mentioned transactions were potentially non-compliant with IRS and State retirement regulations and present additional risk to the University.

Recommendation:

The University needs to address the deficiencies mentioned above and develop appropriate policies and agreements with affiliated entities to identify and assess risks, and mitigate these weaknesses in the future.

Office of the Provost Action Plan	Time Line



Observation 4: Positions and Compensation

The Office of the Provost created, or was the recipient of, several positions that were not filled competitively. The existing policy allows for certain provost exceptions. The Office of the Provost used this mechanism at least seven times in fiscal years 2014-2015, in addition to approving two Named-in-Grant positions in fiscal year 2014. The compensation level and responsibilities for these positions were not always defined or substantiated, which gave the appearance of favoritism to the campus. At times, some of these positions, along with their related strategic initiatives, were either under-budgeted or unbudgeted.

Recommendation:

The Office of the Provost should enhance its human resource management to address the deficiencies above.

Office of the Provost Action Plan		Time Line
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Observation 5: External Employment

Through our testing, we identified several employees within the Office of the Provost, who own personal businesses. Outside of Research and Sponsored Programs, no appropriate policy exists to define procedures, disclosure responsibilities, boundaries or interactions when these types of businesses exist.

Recommendation:

In order to protect the University from actual, or the appearance of, conflict of interest, a policy should be considered concerning any employee working outside the University.

The policy should include at least the following:

- All outside work should be disclosed, including any potential conflicts of interest, and approved by the University;
- Employees cannot be paid during time spent working externally, whether this work is paid or not. Unpaid leave or vacation should be claimed for this time;

- Employees may not use university time, resources, or other employees for external work;
- The University's name, logo, trademark, etc. cannot be used for any external work, as this may give the impression of endorsement.

Office of the Provost Action Plan	Time Line



Observation 6: Travel

Sample testing indicated travel documentation could be improved. Itineraries did not always provide the detailed information necessary to assess the reasonableness of the trip, confirm the employee's attendance, and validity of certain expenses. Out of the 59 tested, 25 Travel Expense Reports (TER), totaling approximately \$69,000, had insufficient or missing itineraries.

The following observations were noted during testing:

- Two employees indicated the use of personal vacation days on TERs, but did not report such leave to Human Resources, resulting in a total of 14 unreported vacation days amounting to approximately \$15,000;
- One trip involved location discrepancy between the flight and supporting documentation;
- The purposes of several trips were noted as meetings with various universities, but there was no documentation that supports these meetings took place;
- Many trips used multiple procurement cards (procards) within the same trip, which makes accounting difficult;
- One trip involved two payments: one for an invoice from the Altour travel agency and one for a receipt directly from the airline, both of which seem to pertain to the same flight. While both charges appear on the procard, those from the Altour invoice were not included in the cost of the trip or the prepaids of the TER.

Additionally, as reported in previous audits, current travel policy is silent regarding amendments made to the itinerary after travel purchases have been made. TERs should also be routinely reconciled with procard statements to avoid discrepancies.

Recommendation:

The University should consider implementing the necessary measurements to address the above observed deficiencies.

Office of the Provost Action Plan	Time Line



Observation 7: Procard

Procard transaction testing indicated the following issues:

- Approximately 44% of the sample could not be tested because either the procard statements could not be located, or supporting documentation was inadequate;
- Several statements tested were not reviewed by a supervisor in a timely manner, sometimes over a year later;

• The reasonableness of certain expenditures could not be determined.

Recommendation:

The University should consider the above observations to enhance day-to-day operations.

Office of the Provost Action Plan	Time Line	

