

Chairman King and Chairman Hammer and the Joint Legislative Audit Committee,

Thank you for the opportunity to address your committee and share information about the University of Arkansas and concerns with the actions of three key members of the University administration as well as some of the conclusions included in the draft report from the Division of Legislative Audit. Before I address those issues I want to make clear that the actions of a few at the University should not stain the entire institution. After arriving at the University I grew to love the institution and made life-long friends with many of its faculty, staff, students and alumni. I worked many long hours to help the University and State and want to see both prosper. The University of Arkansas plays a critically important role in the success of the state. That role makes correcting the problems that exist and dealing with the individuals I will discuss very important.

I will provide key points, a chronology of events and a review of the draft audit report. I will be happy to discuss with you and your committee anything you think will be helpful to getting the truth about this sad affair out to the public.

KEY POINTS

- Dave Gearhart, Don Pederson and Jean Schook conspired to deflect attention from the fact that questionable accounting practices hid from me and others the fact that the Division of University Advancement had a deficit the day I arrived on campus; and that those practices, along with a budget director who was over her head, hid annual deficits for years.
- The deficit is the result of hiring staff without having funding in place for those staff members. Not one staff member was added without the knowledge and approval of Dave Gearhart. Based upon the financial information provided to me, and subsequently to Dave by me, we decided what positions to add. Dave Gearhart, Bruce Pontious, Mark Power and I met almost monthly beginning July 27, 2010 to plan for the upcoming campaign. Almost all of those meetings included an agenda item for campaign staffing. To request those new positions, after being assured we had funding in place, I formally sought and received approval for the positions from the Provost as required by University policy and the Chancellor. The Chancellor has told the media that we created these positions hoping that future revenue would exist to pay for the positions. That is not a true statement. We were told we had the funds for the positions.
- Dave Gearhart, Don Pederson and I were all unaware of the deficit until Joy Sharp told me about the problem. Joy only told me about the problem when the University of Arkansas Foundation froze Advancement and Chancellor accounts.
- Jean Schook never contacted me in any year to advise that Advancement was running a deficit even though the audit shows she was aware and was acting to create an appearance of an annual balanced budget. I had seen Ms. Schook

at basketball games but had never had a call, email or meeting with her until the budget issue came to light.

- Jean Schook told Denise Reynolds and me on several occasions that she did not think we needed an audit because an audit "would not tell us anything we didn't already know". With the benefit of hindsight, it is obvious Ms. Schook knew an audit would expose accounting practices that materially led to the deficit. In early October, Denise Reynolds told me Financial Affairs would really not want an audit because it would expose many accounting issues throughout the University.
- Dave Gearhart did not want an audit because it would be made public. He told me if an audit was needed he would have to inform Don Bobbitt, then the Board of Trustees would be made aware and it would become public. I told Dave "if we need an audit let's get an audit". I made that comment to him several times. Chancellor Gearhart's response to me was "Brad and audit will make you look very bad". I didn't argue with him but felt that an audit would actually help identify the true causes of the deficit.
- Jean Schook told Denise Reynolds and me on several occasions, and, she included in an October 4, 2012 email to Don Pederson the following statement: "It is clear the information provided to Dave Gearhart when he was VCAD and subsequently Brad Choate was inaccurate". Not long after that memo was sent it now appears a decision was made by Dave Gearhart, Don Pederson and Jean Schook to distance themselves from the problem and fix blame on Joy Sharp and me.
- A perfect illustration of trying to fix blame on me is an October 22, 2012 memo from Don Pederson to me. In the memo Don recalls the liquidity issue the University faced in 2009. The university's liquidity was so poor there was serious concern about being able to make payroll. Don sent an April 28, 2009 memo to Jeff Long and me asking if we would move funds from Foundation accounts to University accounts to cover deficits that existed in Athletics and Advancement at that time. In Don's October 22, 2012 memo he says Advancement never satisfied his request and goes on to say the request was disregarded. Within sixteen minutes of him sending the October 22, 2012 memo to me I shared follow-up email with Don clearly showing that I had indeed instructed Joy to fulfill Don's request; that Joy responded to Don saying she would start the process to transfer funds; and Don's response to Joy thanking her for her "quick and positive" response. I talked with Don in person about him not including these follow-up emails in his October 22 memo and he waved it off by saying that Joy never made the transfer she said she would make and that he didn't know the transfer had not been made. Don and I both trusted Joy to make the transfer and I was not made aware the 2009 transfer did not occur until October 22, 2012. This episode is a clear example of Don not looking for the real cause of the problem as much as he was trying to fix blame on me. I find it impossible to believe that Don did not have the April 28 email exchange between him and Joy since he had numerous other emails on the same topic. Another example of trying to fix

blame on me rather than working to identify and fix the problem is found in Jean Schook's October 19, 2012 memo when she alleges that I did not monitor my personal reimbursements. Out of many thousands of reimbursements Schook cites the one case where I was double reimbursed. Once the error was discovered it was corrected. At least four people missed that double reimbursement and it was a simple error. To cite that one problem out of the many thousands that were handled correctly and include it in a document addressing much more serious issues is an example trying to make me look bad rather than look for the truth.

- According to Denise Reynolds, Jean Schook told her she was instructed to write her October 19, 2012 memo. This is an important element in understanding that Gearhart, Pederson and Schook were attempting to create a rationale that placed the blame exclusively on Joy and me and away from themselves.
 - Joy Sharp's access to my BASIS password had no effect whatsoever on the budget deficit. Not a single unwanted or inappropriate expenditure was made as a result of Joy's knowledge of my password. This is again an example of trying to deflect from the true problems.
 - Before I even arrived on campus I asked that Joy Sharp's office be moved from University House to my office area in the Administration Building.... I literally could see Joy in her office from my desk. I wanted my budget person immediately available to me. My staff and I had weekly staff meetings where Joy reported on budget and human resource issues. I had monthly one-on-one meetings with Joy. Additionally, even though she was right outside my door, we scheduled the one-on-one's for one hour a month to make sure we budgeted time to discuss her area of responsibility in depth. The associate vice chancellors for alumni, development and university relations respectively also met with Joy to discuss budget and human resource issues. Some have accused me of not managing the budget and/or Joy. Those accusations have no basis in fact.
 - Until very recently, Dave Gearhart very tightly controlled the information coming from the University concerning the deficit. I was not permitted to discuss my views with anyone after November 20, 2012. In an email that day, Dave Gearhart threatened me with immediate dismissal if I blamed the issue on him, Don Pederson or others. He said "I have had several folks tell me recently that you are blaming your situation on Don Pederson. That you are disparaging his name and using him as the reason for your demise. I have also been told that you are telling folks that you inherited this problem and the budget deficit existed before you arrived. Neither is accurate and in your heart you know that. All evidence supports otherwise". We all now know as a result of the audit that in fact my concerns were accurate and valid. He further said in that same email he would withhold a favorable recommendation for me with other potential employers if I talked. This directive was in effect a gag order. That threat inhibited my ability to explain to the public and my colleagues on campus and around the country what I
-

thought caused the deficit to occur. That is why I could not and did not share my point of view with the media or others on campus that had an interest in this situation.

- When Chancellor Gearhart told me my contract would not be renewed he told me he "tried to save me" but the Board of Trustees wanted me out.
- When I met with the University Internal Audit staff I told them they needed to find a way to protect several staff members who have information that Dave Gearhart, Don Pederson and Jean Schook will not want made public. I told the auditors these people fear for their jobs. I don't think the auditors really took my comments very seriously. As we now know, three of those people have left the University. John Diamond has now come forward with some of that very information.

CHRONOLGY

- **Second week of July 2012:** Joy Sharp came into my office and said, "I've made a horrible mistake". She was ashen and obviously very upset. So much so that I thought she was unsteady and asked her to sit down. I told her to calm down and tell me what was happening. She said she had "over spent our Foundation funds" and the Foundation had frozen our funds. I asked how that could have happened and she simply looked down and shook her head in the negative and did not articulate a response. She said she would be willing to forgo the recent small salary increase she received to help with the situation. Joy's comments were the first notification I had that we had a problem. I told Joy I would talk with the Foundation to see what they had to say about the situation and to learn about our options. I called the Foundation and talked with Clay Davis and learned that indeed Advancements funds had been frozen as Joy indicated. He said we were approximately \$500,000 short. I contacted Dave Gearhart and told him what was going on. He said, "Well you must have not been watching your spending". I assured him that my team and I were very careful with our budget and frankly was very surprised at this news. Our information did not show we were over budget. I told him I didn't understand at this point what was going on but would get to the bottom of the situation. He told me to contact Don Pederson to make him aware of the situation. I then immediately talked with Don Pederson to inform him of this information. Don said he would talk with the Foundation as well. Don learned from the Foundation the deficit was \$544,000. Don told me he had looked at unrestricted account balances and that the College of Engineering had sufficient funds available to "loan" Advancement \$544,000. He said he would talk with the dean and work out a loan and payment plan that would allow
-

for Advancement's accounts to be unfrozen and also payback Engineering. Don told me he would not tell the dean of Engineering the funds were for Advancement.

- **The day after Joy notified me of the Foundation freeze:** Don Pederson called me to say that his people were telling him Advancement did not have enough funds to close the FY 2012 books in the black. He told me this was a result of the Foundation freezing Advancement accounts and therefore unable to transfer funds from the Foundation to the University.
- **July 16:** Dave, Don and I met in Dave's office to bring Dave up to speed with what we had learned and that Engineering was going to help with a loan. Dave asked Don and I to find out how this could have happened. I immediately communicated the situation to my team and told them we need to begin planning for a significant reduction in expenditures depending upon what we learned about the situation.
- **Over the next few weeks:** Don, Joy and I worked to identify how this situation could have occurred. The budget information provided to my staff and me did not reflect a problem. In conversations about Joy I reminded Don that my first week on the job he commented to me that "the best move I could have made was moving Joy from University House to my office". At that time, Joy was considered a star employee and one of the most knowledgeable about University procedures.
- **July 30:** Dave sent me an email saying he was not sure we could wait to find the problem and may need to make reductions in expenses now. I had already discussed this idea with my staff and informed Dave that Don's review of the situation so far did not show any problems with our annual budget and expenditures. We later learned the issue was all in personnel and not operational expenditures but we did not have that fact on July 30.
- **August 24:** After learning more about the causes of the financial problem I notified Joy that she would no longer serve in her current position and gave her 30 days' notice. I also gave her the opportunity to continue in a new position of human resources director at a salary reduced by 1/3 and told her this position could be ended depending upon the outcome of the research we were doing into the causes of the financial problem. Joy immediately accepted the change in job and salary. I had talked with Dave about what to do with Joy and he said he thought something significant should be done but

that it was my decision. I told him I did not feel we had enough facts to terminate but that I did not want her in the financial line of command. I told him my plan to split her old job into finance and human resources and to offer her the human resources position with a 1/3 reduction in salary. I had also talked with Barbara Abercrombie, Associate Vice Chancellor for Human Resources about our options and pay for human resource directors to determine an appropriate salary for Joy.

- **September 4:** Denise Reynolds began working as the new budget person for Advancement. Denise began diligently working with my staff and me to understand the problem. With Denise in place it quickly became apparent that the records and systems that had been in place in Joy's office were extraordinarily in error. Denise and I worked with Jean Schook, Associate Vice Chancellor for Finance on these issues as well.
 - **September 28:** Dave and Don called my cell from Dave's office. Dave voiced frustration that we did not have the root problem identified yet. I told him my team and I were more frustrated than anyone and we needed answers and help from Don's people. Don said he did not have staff to assign to this problem. I asked Don to tell me a more pressing issue that his staff should address. I did not get an answer. I expressed frustration that the size of the problem seemed to change every time a new spreadsheet was produced.
 - **October 4:** After several weeks of work Denise, Jean Schook and I met in my office to compile what we had learned into a memo that Jean was to send to Don Pederson outlining our findings. Since we were in my office I captured our thoughts and drafted the memo on my computer as Jean, Denise and I talked. Jean and Denise had discovered that when the University was working to close its books each fiscal year Joy was contacted and told how much money to transfer from Foundation accounts to University accounts to balance the University books. Advancement is funded by both University funds and private funds held by the Foundation. When Joy was told how much was needed to close the books the University would book a receivable for that amount and ask Joy to make the transfer. Joy would then initiate the transfer from the Foundation. In many previous years, there were sufficient funds in the Foundation to cover the amount needed. Several years before 2012 sufficient funds were not available and Joy began moving funds from one account to another and even from one fiscal year to another in an effort to, as Jean Schook termed it "mask" the problem. Jean commented to Denise Reynolds and me on three occasions that there was no way Dave Gearhart
-

when he was VCAD or I when I became VCAD could have known our real financial situation because the information Joy was providing was inaccurate. Joy did not make anyone aware of the true financial situation. In July 2012 the funds needed on the University side to balance their books far exceeded funds available from the Foundation and the Foundation froze Advancement accounts. Only then did Joy come to me to share that we had a problem. All of these facts were discussed at the October 4 meeting in my office. Once the three of us were confident we had the facts captured on my computer and focused into a good memo Jean asked if I would email the information to her so she could send it in a memo to Don. I emailed the draft the three of us created to her and she sent it to Don that same day. Later I learned from Bill Kincaid, Associate General Counsel, that Jean alleged that she felt forced to write this memo and did not agree with the findings. This was a shocking accusation since Jean, Denise and I put considerable work into researching the issues and articulating the findings into this memo and all three of us participated in creating the memo. The key findings in the memo are:

1. I feel the problem is with unfunded personnel, not operational spending.
 2. This issue has been building for many years and is not a one year problem.
 3. It is clear the information provided to Dave Gearhart when he was VCAD and subsequently Brad Choate was inaccurate.
 4. Funds from the foundation have been available over the years to "mask" the deficits in the 0392 accounts. In FY '12 sufficient foundation funds were no long available to provide such masking and the problem was revealed.
 5. There are significant inaccuracies in the system concerning staffing and budget units. For example, Stephanie McGuire who works in the VCAD office is listed in Development and is paid from the World Trade Center. These types of inaccuracies in the accounting system further confused salary and fringe requirements.
 6. In summary, we have two areas requiring action:
 - a. We need to immediately begin to identify ways to address the remainder of FY '13's budget. Brad, Denise and his team have already begun that process.
 - b. We need to begin conversations about the longer term "fix" for the unfunded positions.
-

- October 5:** After not hearing from Don or Jean I emailed Jean at 10:18am to ask if she had heard from Don. She had not. Later that day she got a response with several changes Don wanted made to the spreadsheet that had been prepared by Jean and Denise and a phone conversation with Don was to take place that afternoon. Subsequently, Don emailed that he could not talk on the phone that afternoon.
- October 15:** Don, Dave and I met in Dave's office to share what we knew about the situation up to that point. Don and I shared the information from the October 4 memo with Dave. Dave charged Don and I with developing a plan for the remainder of the current fiscal year and a "fix" for the longer term. Dave and I had previously discussed the idea of a gift tax and I was working on such a plan. I shared an analysis of possible gift tax numbers with Dave in an email on October 5. I left the meeting with the understanding that Don and his team and my team and I were to develop a plan for the remainder of fiscal year 2013 and a plan to provide funding for Advancement for the future.
- October 19:** Don Pederson hand delivered to me an email from Jean Schook to him. The tone and tenor of Jean's email came as a complete surprise to me. Jean had worked with Denise and me to identify the cause of our financial problem and to articulate our finds in the October 4 memo. The October 19 memo made accusations about me that were unsubstantiated and inaccurate and had never been raised with me. Jean says she interviewed "key personnel" and goes on to say "Advancement staff were unable to explain the circumstances that led to the deficit balances, were not aware of the magnitude of the deficits in both the University and Foundation accounts, and could not propose curative steps to achieve a sound financial position." Jean did not interview any of Advancement's associate vice chancellors so I am unclear about who the "key" personnel would be that she references. Further, as Jean told Denise and me on multiple occasions Joy gave Dave Gearhart when he was VCAD and subsequently me inaccurate information and, therefore, we could not have known of the problem. And, as for not being able to propose curative steps, we had been discussing and drafting a gift tax plan and reductions in expenditures as curative steps so that accusation also does not ring true. I called Dave's cell to discuss this memo with him. When he did not answer I left a voice message.
- October 20:** Dave returned my call. It was clear from the conversation he did not want to discuss the specifics of Jean's memo or my response. He

repeated several times "you just need to take responsibility". I told him I certainly take responsibility for leading Advancement but to blame me for this financial situation is not supported by the facts or appropriate, nor does it help solve the problem. The conversation was heated and it was apparent that Dave did not want to discuss the details. Later that afternoon I received an email from Dave that made it clear he believed the accusations in Jean's memo. In his email he makes several accusations that are incorrect. For example, he said I was not approving any expenditure...that is not true. He said none of my senior staff had involvement with the budget and that they had admitted to him and others that they would ask about their budgets but would be given no information. Dave had one brief "hallway" conversation with Bruce Pontious soon after the problem was made known to all of us. Other than that very brief, informal conversation neither Dave nor Jean interviewed Bruce Pontious, John Diamond, Graham Stewart, Mike Macechko or Dan Hendrix about the budget problem. It is clear from this memo also that Dave continued to believe the problem was a result of operational overspending when in fact it was a result of unfunded positions. The memo also illustrates an objective of placing blame on me rather than identifying the real cause of the problem and creating a solution to the problem.

- **October 22:** Don Pederson sent an email to me with several emails from 2009 attached. The 2009 emails described a situation the University faced with a lack of liquidity. Don's 2009 email asked Athletics and Advancement to let him know if we were unable to eliminate current debt by May 1. The request essentially is to transfer funds from Foundation accounts to University accounts. Don's October 22 email asserts that Athletics "resolved their part of the problem completely to my satisfaction during subsequent years. Advancement never did". Don neglected to include in his attachments 2009 email that indicates that I instructed Joy Sharp to make the requested transfers and that she notified Don that she will "start the process for transferring funds to cover the balance". Don responded to Joy via email stating "Thank you for your quick and positive response. I appreciate your cooperation". When I pointed out to Don that he did not include the email from Joy or his response to her he said he did not do so because Joy never made the transfer. I asked why he didn't let me know and he said it was because he didn't follow up to see if she actually made the transfer. I pointed out to him that was the exact situation I was in with Joy. The fact that Don chose to not include Joy's email and his response is indicative of his attitude to find blame rather than facts in my view.
-

- **October 27:** I emailed Don Pederson telling him we need to get busy addressing the charge we left Dave's office with on October 15. Don responded via email that he didn't have time and further that he was not sure how he could be of help and that I should work with the provost on the gift tax idea.
 - **November 6:** Dave informed me that my appointment would not be renewed after June 30, 2013. He said, "I couldn't save you". He went on to tell me the Board Of Trustees in executive session discussed the Advancement budget and that the Board wanted me fired. He said they had seen the second Jean Schook memo and my response. He told me he told the Board he did not feel right about that action and they agreed and decided my appointment would not be renewed. He said I would have full pay and benefits through June 30, 2013 and that my job was now to find a new job. He said I could keep my office and conduct my search from the office.
 - **November 20:** I received an email from Dave saying he has been told I am blaming Don Pederson for my "demise" and that the budget problem existed before I arrived. He goes on to say "If I continue to hear these reports I will be forced to remove you from this building and assign you space elsewhere. The other alternative is to dismiss you immediately for cause".
 - **Second Week of January:** Dave came to my office and asked if I had considered going to work for a consulting firm for a year or two. I told him I had thought of that possibility and that Julie and I decided to pursue the searches I was currently in before considering consulting. Dave said I could consult for a couple of years and wouldn't have to move from Fayetteville allowing time to let this whole thing blow over. I told Dave we had given that consideration but that I thought one of the several options I was investigating would be better for my family.
 - **January 24:** Dave Gearhart called my cell phone on January 24 at 10:13am and the call lasted 13 minutes. Dave told me that he was under pressure from the Board of Trustees to fire me. He said that Don Bobbitt might make him fire me as a result of an anonymous letter sent to the Board. That letter and continued Freedom of Information requests from the media have kept pressure on the Board, Bobbitt and Dave he said. He also said all copies of the letter have been destroyed. He did not tell me the content of the letter but implied that the author complained about me being on the payroll.
-

Dave again pressured me to resign my position and to talk with a consulting firm about accepting a position. I told Dave that I have not had any contact with a consulting firm.

Dave said the sooner I leave the better. I told him that I plan to leave as soon as possible and that I have been very active in the job search. The holidays slowed the process because universities were closed. Once the holidays were over the process has been vigorous. I told Dave that I had five very good irons in the fire and expected one or more offers within 60-90 days. Dave said he hoped I was not being naïve and to not let my ego lead me to believe that I would get one of these jobs. He went on to say I should take a consulting.

I told Dave I had a video interview last night; that I have another video interview next Thursday about another position; that I had an email from a third university this very morning saying their search committee was meeting in "the next week or so"; and that a fourth possibility was waiting on discussions with their board which is meeting the last weekend of January. Dave continued to say I should take a consulting job now even though he acknowledged the compensation would be much less than I currently earn or would earn with one of the positions under consideration. Dave ended the phone call by saying we would talk more.

- **February 4:** Dave came to my office to again tell me he thought I should resign and go into consulting. He said the Trustees were again talking about wanting him to fire me but he was not in favor of that decision. I reiterated what Dave already knew: I was in several searches and wanted to leave soon. Dave said he was not sure how long he could hold off President Bobbitt and the Board.
 - **February 8:** Dave came to my office and asked how the various searches I am in were progressing and wanted to know if I had a date that I could give him when I would be resigning. Dave's tone was completely different than from every other time we have talked since he told me he was not going to renew my contract. He was much softer and was not threatening. In fact, the discussion was almost cordial. I told him the searches were progressing but that I could not provide a date. He said he wanted to move forward with hiring the next VCAD and couldn't do so until I was out of the position. We discussed the idea of moving me into a different position so he could hire a new VCAD. I reminded him that we did that same thing with Mike Macechko when we hired Graham Stewart. That tactic allowed us to move forward with a search and bring Graham on the staff without missing a beat. Dave said he was not sure we could make such personnel moves but I reminded him we had indeed already done exactly the same thing. I suggested he talk
-

with HR to determine what was feasible. I told Dave that if we made such a move and I had a work from home assignment that I would try to be helpful. Dave also told me that there were going to be news stories coming out that allege that he was not paying attention to Advancement because he and I had been friends and that he didn't fire me because we had been friends.

- **February 8:** Dave came to my office a second time on this day. Again the conversation was cordial. Dave again asked about my timeline and I shared the same information again. I was able to add that I had been contacted since we talked earlier in the day by a potential employer giving me the name of someone who would be calling me to schedule a visit. Dave went on to say that the reason he was asking was he wanted to make an announcement next week naming the next VCAD. He said the Board had told him they did not want a double salary situation so the new person cannot begin until I am gone. He said they had decided to announce the person's name but not a start date. He said the media would "beat him up" by not naming a start date but "that is just the way it is". I asked why he couldn't simply wait to name the person until I had a date and he indicated that would be a problem for the person who will become the next VCAD. He asked for me to let him know as soon as I knew a date when I would leave. He stated two times "I'm not going to throw you out". He also said "I gave you a letter that said you have until June 30 and I am going to stick by that letter". As he was leaving my office he again asked for me to let him know as soon as I have a departure date.
- **February 13:** Scott Varady and I met in my office to discuss an agreement that would provide a "remote work assignment" for me. I had mentioned to Scott that it was uncomfortable for me and others to be in the office every day with no real assignment and Scott asked if I would be interested in a work from home assignment. The University had made similar arrangements for numerous other employees in the past and, in fact, made such an arrangement recently for John Diamond. The University attorneys and my attorney worked through variations of the agreement. Late in the process Scott came to my office and asked if we could have the remote work assignment aspect of the agreement be a verbal, gentlemen's agreement and not include it in the written document. The University was concerned that the document would become public and the media would take the University to task for paying me to "work" from home. I told him such an agreement would be acceptable to me but I wanted to talk with my attorney John Burnett. When I discussed the request with John he said he knew the University attorneys to be ethical attorneys and we could make that part of the agreement unwritten. In spite of everything that had happened I trusted

people at the University and John felt he could trust his counterparts at the University.

- **February 15:** The agreement was signed on this date. Later that night it occurred to me that I should have asked for the right to come into the office on occasion even though I had a work from home assignment. I asked John Burnett to discuss this idea with the University. Scott Varady and Dave Gearhart were together in Phoenix earlier the following week and Scott approached Dave with my request to have access to the office even though I had a work from home assignment. Scott told me Dave told him he wanted to "mull it over" and would get back to me. No one ever got back to me on the topic. I didn't realize I had a problem until I received a time sheet that had been completed for me for the month of February charging me for vacation days rather than recognizing the work from home assignment. I contacted my attorney and he contacted Jeff Bell and Fred Harrison multiple times about this issue. I talked with Scott Varady about the issue but he said because I had legal counsel he could not talk with me about this issue and that I need to meet with Dave.
 - **March 15:** I met with Dave Gearhart to discuss the work from home issue. He told me he didn't know anything about such an agreement. I told him I knew he and Scott Varady discussed the topic in Phoenix. Dave told me there must have been a breakdown in communication and simply didn't want to discuss it with me. The agreement was very clear among the attorneys and I do not believe Scott Varady would not have been very clear with Dave. When I left Dave's office I immediately went to Scott's office and told him what Dave had said. Scott told me "well, I'll have to talk with Dave".
 - **March 19:** I received a text message from Scott saying he had talked with Dave and he had not changed his position.
 - **April-June:** For approximately three months I was assigned to a conference room and not allowed to work. I was required to come to the conference room but was not allowed to do much. I had one assignment and that was to prepare a brief on each of the University's largest donors and donor prospects. I prepared the document within a week of being given the assignment. When Chris Wyrick was named vice chancellor for advancement I told him I had the document ready to go. Scott Varady came to me and said Fred Harrison suggested I destroy the document and give my brief to Chris verbally. The University was concerned that the document would be requested by the media and didn't want such sensitive information made public. I destroyed the document as instructed and briefed Chris in his office as my last official duty for the University.
-

Response to the Audit

When an audit was finally requested I was happy to hear Legislative Audit would be involved. I was concerned that internal University Audit would be under too much pressure from the Board of Trustees and administration to address the very serious and high reaching issues I knew existed. As it turns out I commend the auditors for their work and most of their conclusions. I also commend your committee for its work to uncover the truth. It would have been very easy to simply accept the audit as drafted and everyone move on....back to business as usual. Until the audit the only perspective presented to the public was that of Gearhart, Pederson and Schook. Thank you for your efforts; please keep working to get all the facts.

It should be clear to everyone by now that the auditors were misled and as a result included findings in the draft audit that are not accurate. I have serious concerns that the auditors put too much faith in the work of a former legislative auditor, Jean Schook, and her October 19, 2012 memo that attempted to place exclusive blame for the deficit on me and Joy Sharp. As described above, this memo was a concerted effort by Dave Gearhart, Don Pederson and Jean Schook to deflect fact finding. The October 19 memo is at best very shoddy work and at the worst a deliberate effort to obscure the truth. Jean Schook did not talk with a single associate vice chancellor in advancement to gain knowledge for the memo and she did not ask me detailed questions about issues that she included in the memo. The memo was a complete surprise from someone who, at the time, I thought was working with me to understand how the problem occurred, what we could do to prevent such an occurrence again and what we were going to do to solve the immediate problem.

I hope that with the information that has come to light recently that the auditors would look at the accusations made by Dave Gearhart, Don Pederson and Jean Schook about me and reconsider the facts.

Below are statements included in the draft audit report and my comments:

☐ The University's Code of Computing Practices states that passwords should not be shared. In violation of this policy, the VCAD gave his computer login credentials to the Budget Director, who then approved Advancement expenditures.

I have always been open that I did indeed share my password with my Budget Director. At the time I shared my password the University's approval system could not be accessed from any place other than my desk. The reality of modern life and my particular job required me to be away from the office very often. Rather than allow our work to stop until I returned to the office my Budget Director, ONLY WITH MY APPROVAL, would act on my behalf to access the system to enter MY APPROVAL....not her approval. The last part of the first accusation is not accurate....I approved all expenditures that required my password.

Further, it is very important to understand that no one believes the budget

director's access to my password had any impact on the creation of the deficit. Her access to the password is irrelevant to the budget deficit.

The University's Transaction Approval policy dictates that a Primary Reviewer approve all transactions subject to applicable materiality thresholds. Under certain conditions, an Alternate Reviewer may be designated. In violation of this policy, the VCAD allowed the Budget Director to become an Alternate Reviewer, through the use of his computer login credentials as noted above, although policy criteria were not met. The Budget Director indicated to DLA staff that she approved all BASIS transactions from January 2010 forward.

The budget director did not approve all BASIS transactions from January 2010 forward or at anytime I was VCAD. Despite what the Budget Director indicated to DLA staff, she approved transactions below the applicable materiality threshold and I approved all others. I find it difficult to believe that the Budget Director would lie about this situation and suspect the facts got lost in translation.

The VCAD relied on information and budget reports prepared by the Budget Director without implementing verification or monitoring procedures.

This is an accurate statement but the implication is that I, and other departmental leaders, should have done something different. Every dean, department head and even chancellors count on the information they received from their budget directors to be accurate and honest. The University's systems and my budget director let us all down. The budget director let us down by providing inaccurate information and the University's financial systems let us down by not being able to catch the problem until it was too late, and in fact helping hide the fact that deficits were occurring. Several deans and other leaders at the University have commented to me that "there but for the grace of God go I"it is a very accurate sentiment.

The initiation of recruitment for new employee positions was verbally authorized by the VCAD, based solely on verbal assurance by the Budget Director that sufficient funds were available.

This statement is inaccurate. I and the provost as directed by the Chancellor approved all new positions in writing. All of us trusted the financial information we had been given. The situation here is much like the accusation above, yes; we all counted on accurate budget information from our budget director and University systems. The Chancellor, Associate Vice Chancellor for Development and Assistant Vice Chancellor for Development and I put a significant amount of time and effort into determining what positions should be added to prepare the University for the next capital campaign. We all knew what positions we were creating and trusted the financial information given to us. At some point, we have to trust our team members to do their job.

The VCAD did not review or monitor his personal reimbursement claims, resulting

in a duplicate payment. The VCAD was reimbursed \$2,052 in September 2011 for an Advancement staff event expense that was paid directly to the vendor in August 2011. The Treasurer discovered this duplicate payment and reported it to the VCAD in June 2012. Subsequently, the VCAD reimbursed Advancement \$2,052 in October 2012.

Based on review of available documents that were tested for propriety, DLA staff noted no other duplicate payments or improper expenditures.

In my five years at the University I had many thousands of reimbursements. To include this one incident and conclude that I was not watching my personal reimbursements is ludicrous. Not only was I watching my reimbursements, my wife was watching, my assistant was watching and of course my Budget Director was watching. This was a simple, honest error that was easily corrected. When the Vice Chancellor for Finance and I were first made aware of the error we both decided to see how long it would take the Budget Director to bring the error to my attention....she never did. When I replaced her we corrected the error. To include this case in the audit report is very improper. Further, it is completely in error to conclude I (and several others) was not watching my personal reimbursements. This is simply a false statement.

CONCLUSION

Chairman King and Chairman Hammer, I want to thank you and your committee for going the extra mile to get to the truth of this situation. It has been almost fifteen months since Joy walked into my office to first inform me that a big problem existed. It has been almost one year since I received the October 19, 2012 memo and, from a telephone conversation the following day with Dave Gearhart, understood I was to be sacrificed in an effort to hide serious errors in accounting practices and protect a few individuals. I have not been afforded the opportunity to share what I know until now, thank you for that opportunity. Not once in my thirty-plus years in higher education did I exceed a budget. Even at Arkansas, we stayed within the budget we were given. Unfortunately, the budget numbers we were given were inaccurate as a result of staff failures, poor systems and highly questionable accounting practices. My staff and I worked hard to stay within budget yet still accomplish our goals. I am proud that for the first time in the University's history it has enjoyed gifts exceeding one hundred million dollars in three consecutive fiscal years.

Dave Gearhart was a friend and colleague for twenty-three years. His bringing me to Arkansas was the second time he hired me....I trusted him completely. Don Pederson had the complete faith of Dave Gearhart, and even though he is a former physics professor and not a C.P.A., as a result of Dave's reliance on him as CFO I also trusted Don and his Financial Affairs staff and systems. Joy Sharp had been in her

position under Dave Gearhart when he was VCAD and had his complete confidence. Further, Don Pederson during my first week at Arkansas complemented me for moving Joy's office and told me the best move I could have made upon my arrival was to bring Joy Sharp from University House to my immediate office. Even looking back now it does not seem reasonable to have predicted what was to come.

Thank you for your time and work. I will be very happy to talk with you further if you would like more information from me or if you would like anything I've documented clarified.
