

ALC/JBC Budget Hearings
2020
AUDIT FINDINGS
for
Institutions of Higher Education

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92nd GENERAL ASSEMBLY
OF THE STATE OF ARKANSAS



**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
ARKANSAS STATE UNIVERSITY SYSTEM
FOR THE YEAR ENDED JUNE 30, 2019**

Finding: Arkansas State University - Jonesboro

The University had uninsured and uncollateralized deposits totaling \$328,406 at June 30, 2019 in noncompliance with Ark. Code Ann. §§ 19-8-201 – 19-8-203.

Response:

The University concurs with the finding. This error resulted from the maturing of an investment at June 28, 2019 and its temporary conversion to cash. The University's finance officers have reviewed and revised procedures to insure the appropriate monitoring and safeguarding of investments.

The following Arkansas State University System campuses had no findings:

- Arkansas State University – Beebe
- Arkansas State University – Newport
- Arkansas State University – Mountain Home
- Arkansas State University – Mid-South

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
HENDERSON STATE UNIVERSITY
FOR THE YEAR ENDED JUNE 30, 2019**

Finding 1: REPEAT

Financial statements should be presented fairly in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The University's internal control system did not detect or prevent material misstatements in the financial statements. Key errors in the Comparative Statement of Net Position included:

- Due to recording errors, net pension liability was overstated by \$530,482, deferred inflows related to pensions were understated by \$364,383, and deferred outflows related to pensions were overstated by \$685,035. The net effect of these errors to the University's unrestricted net position was an overstatement of \$518,936.
- Due to recording errors, cash and accounts payable were understated by \$196,422.

The financial statements, for the above misstatements, were corrected by University personnel during the audit. A similar finding was reported in the previous audit.

Recommendation:

We recommend the University review internal controls to ensure the accuracy of financial statements.

Response:

The University concurs with the finding. Additional review procedures of financial statements will be implemented. Ms. Rita Fleming has been hired as the new Vice President for Finance and Administration and assumed her position officially on December 3, 2019. The University appreciates the opportunity to correct the statements.

Finding 2: REPEAT

We examined the University's policies and procedures regarding enrolling students with account balances and collection on current students' accounts. The University's policy, although not written, was to allow students with a current balance of less than \$4,800 to register for the upcoming semester and to automatically enroll students in a payment plan each semester. During our examination of 10 student accounts, we noted the following exceptions:

- 8 of 10 students tested were allowed to enroll with a balance that exceeded the University's policy.
- 5 of 10 students tested did not make any payments during the fall but were allowed to re-enroll in the spring and/or summer semester.

Additionally, we examined 10 delinquent student accounts to determine compliance with the University's policies and procedures and state regulations regarding collection of outstanding debt and noted the following exceptions:

- For 8 of the 10 student accounts tested, the University was not diligently and actively pursuing collection of the outstanding balances, in noncompliance with University policy and Ark. Code Ann. § 19-2-305.

A similar finding was reported in the previous audit.

Recommendation:

We recommend the University review its policies and procedures on student accounts to ensure their adequacy, including the maximum outstanding balance allowed by students. We also recommend the University establish controls to ensure compliance with these policies and procedures as well as Ark. Code Ann. § 19-2-305.

Response:

The University concurs with the finding. Management developed a plan in August of 2019 to address the student accounts issue. This was of critical importance to collect old debts and prevent future students from accruing such debts. The board of trustees approved policies, which are reflective of industry best practices, for both current students and future students.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
NATIONAL PARK COLLEGE
FOR THE YEAR ENDED JUNE 30, 2019**

Finding No. 1:

Financial Statements are the responsibility of the College's management and should be presented in conformity with accounting principles generally accepted in the United States of America. The College has policies and procedures to properly record and classify transactions in the financial statements; however, a material misstatement in the financial statements was detected during the audit. The misstatement had no effect on the College's reported net position at June 30, 2019; and the financial statements were subsequently corrected by College personnel during audit fieldwork. The misstatement in the Comparative Statement of Revenues, Expenses, and Changes in Net Position consisted of an overstatement of student tuition and fees and scholarships and fellowships by \$1,768,788, due to the recording of an incorrect amount for scholarship allowance.

Recommendation:

The College should implement internal controls to ensure amounts reported in the financial statements are accurate

Response:

The College incorrectly overstated the Student tuition and fees and scholarships by \$1,768,788 due to miscalculating the scholarship allowance. During the College's final review the scholarship allowance calculation was determined to be consistent with previous year's presentations. Close examination during the Audit of the programming coding revealed that the College had mistakenly left off one of the financial aid codes for the calculation which caused the overstatement in the financial statement presentation. The allowance miscalculation affected the presentation of the student and fees revenue and scholarship expense, and did not have an effect on the overall increase in Net Position. The College has updated the controls for the calculation query, and has implemented a dual preparation process to strengthen the completeness of the scholarship allowance for the future reporting periods.

Finding No. 2:

The College discovered, and we confirmed, eight unauthorized withdrawals totaling \$11,493 from February to March 2020 made from the College's bank account. Entity personnel discovered the unauthorized withdrawals upon review of the affected bank account and the charges were reversed by the bank.

Response:

The College discovered fraudulent banking transactions totaling \$11,493 occurring February, 2020 and March, 2020 related to unknown debit card use. The activity was reported to Regions Bank, and the charges were investigated and removed by the bank. The College has implemented an ACH alert system through Regions Bank, and reviews all ACH banking on a daily basis for substance. The College can reject any ACH charge of unknown origin before the transactions are posted to the bank account.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
NORTHWEST ARKANSAS COMMUNITY COLLEGE
FOR THE YEAR ENDED JUNE 30, 2019**

Finding:

On August 17, 2018, the College discovered that an employee's payroll direct deposit had been fraudulently diverted to another bank account, after the employee contacted the College about not receiving his August 17 payroll direct deposit. It was determined that on August 8, 2018, the College made the direct deposit change request after receiving an email from what appeared to be the employee's campus email account. This transaction resulted in a \$2,533 loss to the College.

Response:

This employee responded to a phishing scam and as a result his NWACC official email account was compromised. In response to this event, NWACC Human Resources staff no longer accept e-mail direct deposit changes, even those that originate from the employee's NWACC provided e-mail account, without additional verification of identity. Generally, this means that the employee is contacted via telephone number of record to verify identity and confirm that the changes are intended. Additionally, employees may provide a copy of their photo ID if scanning the documents. In new ERP System, Workday, where these changes will be accomplished via self-service, a secondary ID step will be required to update direct deposit information, and no changes will be made without payroll approval, which will include the additional identity verification steps outlined above.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
SOUTH ARKANSAS COMMUNITY COLLEGE
FOR THE YEAR ENDED JUNE 30, 2019**

Finding 1: REPEAT

The College discovered, and we confirmed, nine improper charges totaling \$1,558 to College P-card accounts from October 2018 to June 2019 after account information was fraudulently obtained. Subsequently, the cards were cancelled, and the funds were recovered. A similar finding was reported in the previous two audits.

Response:

P-card transactions are reviewed on a timely basis and the cardholder and the procurement office research any questionable charges. US Bank is notified immediately of any charges that are not made by college personnel. The bank will cancel the card and reissue a new one to the holder. Once US Bank verifies the fraudulent charges, the charges are credited to college on the next monthly statement. Additionally, the employee cardholder must sign an official affidavit provided by US Bank testifying they did not make the charges in question. The Office of State Procurement prescribes this process.

Finding 2: REPEAT

Financial Statements are the responsibility of the College's management and should be presented in conformity with accounting principles generally accepted in the United States of America. The College has policies and procedures to properly record and classify transactions in the financial statements; however, a material misstatement in the financial statements was detected during the audit. This misstatement had no effect on the College's reported net position at June 30, 2019; and the financial statements were subsequently corrected by College personnel during audit fieldwork. The misstatement in the Comparative Statement of Revenues, Expenses, and Changes in Net Position consisted of an understatement of supplies and other services expenditures and an overstatement of administration building remediation costs by \$586,551.

A similar finding was reported in the previous four audits.

Response:

The misclassification involved the capitalization of the reconstruction costs of the administration building that was damaged by a fire in April 2018. The costs capitalized for the new roof were included in the Remediation Costs, but the journal entry to record the capitalization was deducted from Supplies and Service expenditures. The VPFA/Controller's office will review the supporting documentation for the financial statements in more detail to ensure that the financial statements accurately report the information reported.

**ARKANSAS LEGISLATIVE AUDIT
REPORT ON:
UNIVERSITY OF ARKANSAS SYSTEM
FOR THE YEAR ENDED JUNE 30, 2019**

Finding 1: UNIVERSITY OF ARKANSAS, FAYETTEVILLE

The University of Arkansas System Internal Audit Department (IAD) conducted an audit to detect unauthorized changes to the University's vendor master file and resulting losses primarily for the period September 1, 2018 through November 30, 2018. After a suspected automated clearing house (ACH) payment fraud, management filed a report with the University Police Department. IAD found that one vendor's banking information was altered through a domain not belonging to the vendor, resulting in 15 unauthorized ACH payments totaling \$132,079 to an apparent fraudulent recipient. Of this amount, \$13,108 was recovered by the bank, leaving a loss of \$118,971 to the University.

Response:

We agreed with and implemented Internal Audit's recommendation as previously communicated in Compliance Internal Audit Report – University of Arkansas, Fayetteville – ACH Payments 19-09. Business Services has developed standard communications for Supplier Services to use in verifying vendor information related to payment information changes. These new communications have been tested both by University management and Internal Audit with preventative communications determined to be effective and operating as expected.

Finding 2: UNIVERSITY OF ARKANSAS AT LITTLE ROCK

The University of Arkansas System Internal Audit Department (IAD) conducted an audit of rental property agreements and payment information, provided by management, for the University's 17 rental properties for the period July 1, 2017 through June 30, 2018. Property management is handled by multiple departments, and records are maintained manually. IAD noted the following:

- Six previous tenants owe \$10,140, and one current tenant owes \$148 for a total of \$10,288 in past due rental payments. As of the report date, the six tenants still owe \$10,140.
- Two current Campus Living employees did not transfer utilities into their names upon signing lease agreements, and the University improperly paid the utilities for these two properties for 10 months before the error was noted. The employees reimbursed the University through payroll deduction.

Response:

Management is currently pursuing collections of all past due rental payments identified in the audit. Past due amounts have been recorded to appropriate receivable accounts, have been submitted to our collection agencies and will be turned over for debt set off in January of 2020

Finding 3: UNIVERSITY OF ARKANSAS AT MONTICELLO

The University of Arkansas System Internal Audit Department (IAD) conducted an audit regarding a loss of \$1,195 as the result of a payroll identity theft for the period December 14, 2018 through December 31, 2018. An employee contacted the Payroll Department after she did not receive her payroll direct deposit on December 14, 2018. After verifying that all payroll processes ran correctly and there were no issues with the direct deposit file sent to the bank, the Payroll Department staff inquired about the changes made to the employee's direct deposit information in the self-service portal and found that this information changed from a local bank to an online bank. The Chief Information Officer noted the employee's self-service portal and email accounts were hacked, and the employee did not make the changes.

Response:

The University of Arkansas at Monticello accepted the report for the identity theft that occurred on December 14, 2018. In response, management implemented new procedures to verify any changes to an employee's direct deposit information. This policy was implemented April 24, 2019, in which a copy was sent campus-wide to inform employees of the change. A report is now being generated daily and the Payroll Services Coordinator and Payroll Manager are confirming all changes. The report indicates if the change was initiated by a paper form or online by the employee through their self-service portal. Any changes indicated by a physical form are then reconciled to forms received. Those forms that indicate a self-service change are now verified through an email and followed up with a verbal confirmation from the Business Manager. The dual verification process will assist us in identifying compromised accounts quicker than our previous policy, which was done through a negative confirmation process. If the employee cannot be reached, payroll staff will notify Information Technology to trace the IP address that the change was initiated through. Running the report daily allows time for positive confirmation prior to the payroll deadline.

Finding 4: UNIVERSITY OF ARKANSAS COMMUNITY COLLEGE AT HOPE - TEXARKANA

The University of Arkansas System Internal Audit Department (IAD) conducted an audit regarding a loss of \$1,889 as the result of a payroll identity theft for the period February 26, 2019 through March 27, 2019. Working with their Information Technology (IT) Department, management reported that an employee's email account was compromised, which the IT Director later confirmed. Through an email with documentation sent to the Payroll Department, the employee's direct deposit information was changed to an apparent fraudulent account. Management filed a report with the Hope Police Department on March 18, 2019, and indicated they believe this was an isolated incident and no other systems or emails were affected.

Response:

The College has implemented a Direct Deposit Process Change policy to discontinue accepting direct deposit changes by email and require employees to request changes in person with the Payroll Department. If an employee is unable to request the change in person, the Payroll Department is required to perform phone call verification to a phone number previously on file for the employee and obtain an employee notarized Authorization Agreement for Direct Deposit form.

Finding 5: COSSATOT COMMUNITY COLLEGE OF THE UNIVERSITY OF ARKANSAS

The University of Arkansas System Internal Audit Department (IAD) conducted an audit regarding a loss of \$1,322 as the result of a payroll identity theft for the period January 23, 2019 through March 31, 2019. Working with their Information Technology (IT) Department, management reported that an employee's email account was compromised, which the IT Director later confirmed. Through an email with attached documentation sent to the Payroll Department, the employee's direct deposit information was changed to an apparent fraudulent account. Management filed a report with the University Police Department on February 28, 2019, and indicated they believe this was an isolated incident and no other systems or emails were affected. Subsequently, on April 8, 2019, the University recovered \$1,322 from the bank.

Response:

UA Cossatot made updates to CCCUA Procedure 404-2 for payroll direct deposits and the Vice Chancellor for Business Services trained the Payroll Department on the updated procedures to ensure that new and/or changes to Direct Deposits are always pre-noted during the payroll process so that there is a catch point for any potential fraud that may occur. This was completed during the course of the internal audit and was put into effect in April of 2019.

Finding 6: PHILLIPS COMMUNITY COLLEGE OF THE UNIVERSITY OF ARKANSAS

The University of Arkansas System Internal Audit Department (IAD) conducted an audit regarding an allegation of identity theft for the period June 1, 2018 through July 31, 2018. University management reported that an employee did not receive her payroll deposit of \$1,732 scheduled for June 28, 2018. The Director of Information Technology discovered that the employee's email account was compromised and accessed through an unauthorized VPN. Management notified the bank of the theft; however, the transaction had already been processed and could not be recalled. Management stated they believe this is an isolated incident and no other systems or emails were affected.

Response:

Immediately upon discovery, procedures were implemented that require all changes to payroll direct deposit be made in person and verified by a payroll or business office employee. In addition, email security settings have been tightened to help prevent delivery of similar email requests. These new policies and procedures have already proven effective in stopping additional email attempts similar in nature to the one noted above.

Finding 7:

In accordance with Ark. Code Ann. § 6-60-209, we performed tests of the student enrollment data for the year ended June 30, 2019, as reported to the Arkansas Department of Higher Education, to provide reasonable assurance that the data was properly reported. During our review, we noted the following items:

- **UNIVERSITY OF ARKANSAS AT PINE BLUFF**
In our review of supporting documentation for fifty students tested, one student which was reported as enrolled in two courses as of the eleventh class day for the Fall 2018 semester, was determined to have never attended.
- **UNIVERSITY OF ARKANSAS COMMUNITY COLLEGE AT BATESVILLE**
Two students out of seventy-nine students tested withdrew prior to the eleventh class day (or equivalent) but were included in enrollment numbers submitted to the Arkansas Department of Higher Education.

Response:

University of Arkansas at Pine Bluff

Per recommendation to the internal audit finding, to prevent the substance of this finding from reoccurring in the future and to ensure that faculty report students that are in attendance prior to the 11th day of instruction, each faculty member will be required to have students enrolled in their courses to complete at least one assignment prior to the 11th day of instruction and report only those students that have successfully submitted the assignment as attending. A memo to the deans, department chairs, and faculty will be sent to remind them of the aforementioned requirement.

University of Arkansas Community College at Batesville

The two students in question initiated a complete withdrawal prior to the 11th day census date. The withdrawals were processed. At the same time, faculty are asked to report non-attending students; these two students were not reported. Faculty reports are utilized to build the file submitted to ADHE. UACCB Registrar will inform the UACCB faculty and staff of the ADHE reporting requirements and will provide training to ensure ADHE reporting procedures are followed. The Registrar will emphasize the importance of verifying class attendance records against the updated rosters available in the Student Information System. Notifications and training will be provided to UACCB faculty and staff on the student withdrawal process and of ADHE reporting guidelines to ensure the student's status as of the institution's census date is reflected in the ADHE report. Information Services will review the validation report to address report timing.

The following University of Arkansas System campuses had no findings:

- University of Arkansas at Fort Smith
- University of Arkansas Community College at Morrilton
- University of Arkansas Community College at Rich Mountain
- University of Arkansas for Medical Sciences (Financial Statements and Reports on Federal Awards in Accordance with the Uniform Guidance) - *Audited by KPMG, LLP*
- University of Arkansas – Pulaski Technical College