TO: Faculty Senate Member

FROM: Chuck Henrickson, Senator from Chemistry
       Acting for the Executive Committee

RE: A Comparison of Recommendations

Attached is a side-by-side comparison of the recommendations put forth in the Arthur Andersen Report with those from the Institutional Response.

The first Resolution to be voted on next Tuesday at the Faculty Senate meeting concerns these recommendations. To vote intelligently on this recommendation, each Senator must make the comparison.

In preparing these recommendations for Senate consideration, some difficulty was had determining just which Institutional Response met a specific Arthur Andersen recommendation. In some cases, a reasonable match could not be made. In others, the Institutional Response is silent. Further, the institutional response at the bottom of page 1 exceeds the Arthur Andersen recommendation.

Please study the recommendations, make your own judgement, and be prepared to make a carefully considered vote next Tuesday.

Thank you for your effort. I know this is not an easy job, and I know free time is always difficult to come by.
A Comparison of Recommendations

The reader may have some difficulty understanding a given recommendation. Clarification by examining the appropriate pages in the Agreed Upon Procedures Report or the Institutional Response is suggested. In addition, the link between a specific recommendation in the Arthur Andersen Report with one or more in the Institutional Response is not always obvious. Page numbers are those on which the recommendation appears in the respective document. The question is: Does the Institution Response meet the recommendations of Arthur Andersen?

Recommendations of Arthur Andersen & Co.

Section A: Agency Funds

1. The University and Board of Regents should formalize a policy relating to the allocation and use of the investment earnings of the Agency Fund group of accounts to ensure that all such earnings to be used for current operating purposes be included within the University's current operating budget.

2. Pursuant to the American Institute of Certified Public Accountants' Industry Audit Guide entitled "Audits of Colleges and Universities", The Agency Funds group consists of funds held by an institution as custodian or fiscal agent for others such as student organizations, individual students, or faculty members. Because of the way in which Agency Fund receipts and disbursements are accounted for (i.e., only an increase/decrease in the assets and liabilities of the Agency Fund group) the activity of the fund (i.e., receipts and disbursements) are not reflected on the Statement of Current Funds Revenues, Expenditures and other changes of the University.

Institutional Response

Section A: Agency Funds

Recommendations, General:

We recommend that the Board of Regents approve that action taken on the University agency accounts as outlined in Appendix A to this report.

We recommend that the Board of Regents adopt the Agency Fund Investment Income Policy. (See Appendix B, attached)

We recommend that the Board of Regents adopt a policy regarding investment earnings of the Hilltopper Athletic Foundation dated September 30, 1991, which calls for a one percent maintenance fee. (See Appendix C)

We recommend that the same maintenance fee be charged for housing deposits that is being charged for Hilltopper Athletic Foundation deposits. However, this fee should be waived until the end of the 1994-95 fiscal year due to the requirement that the housing auxiliary must develop a substantial reserve over a three-year period to serve as a debt service reserve for housing bonded indebtedness.

We recommend that the Board of Regents approve receiving a quarterly statement of revenues and expenditures concerning agency accounts.

Recommendation, President's Unrestricted Account:

Approve the closing of the President's Unrestricted Account and the placing of the funds into the General Fund.
Section B: Annual Allowance

1. At the present time, it does not appear that Dr. Meredith's employment contract (specifically Section 7(a)) is being adhered to. As noted above, there has been no periodic expenditure approvals and review of the disbursements made by Dr. and Mrs. Meredith by the Finance and Investment Committee of the Board of Regents. In addition, the practice of issuing an IRS Form 1099 to Mrs. Meredith would indicate that such payments are compensation and would have been approved by personnel action requiring Board approval. The contract states that such allowance is not to be considered compensation.

Additional confusion is caused by the fact that entertainment expenditures are being incurred by the Merediths and charged directly to the University in addition to the annual allowance (see Section E. below).

The University should comply with Section 7(a) of Dr. Meredith's employment contract or the Board of Regents should make appropriate amendments to the contract. If the Board's intention is that such monthly payments are non-compensatory, then procedures to ensure accountability (i.e., receipts and other support) should be implemented and followed. Other issues will need to be addressed if the Board of Regents decides that such payments are compensatory to Mrs. Meredith such as determining her status as an employee of the University or an independent contractor. Our experience on recent Internal Revenue Service (IRS) audits is that the IRS has been aggressive in reclassifying independent contractors as employees which may result in various exposures including whether or not proper withholdings have been made, penalties, etc.

Section C: Physical Plant Dept.

Recommendation, C. General:

Authorize Dr. James Ramsey, Vice President for Administration and Technology, to study the policies involving charges for Physical Plant.
1. The University should ensure that all departments include within their budget amounts estimated for capital improvements that will be needed in the upcoming fiscal year.

All departments requesting the services of the physical plant department in assisting with these capital improvements should follow the requisitioning procedures described above. [see p 17] Upon completion of such work, all charges (including material and labor) relating to the capital improvement should be charged to the applicable department on a timely basis. This would include all such service provided to the President's residence and office as well as all other departments throughout the University.

2. University personnel should meet with management of the College Heights Foundation to come to a formal agreement (i.e., an addendum to the lease) as to whose responsibility it is to maintain the premises. A definition of maintaining the premises in good repair and tenantable condition should be explicitly stated in such addendum.

In addition, an agreement should be reached outlining whose responsibility it was to incur the expenditures associated with the air conditioning unit at the President's residence during fiscal 1991.

3. Procedures should be instituted to require formal documentation of the reasons for significant differences between budgeted and actual amounts (both expenditure and revenue). This should be performed on an annual basis as well as periodically throughout the year.

The University's accounting system has the capability of producing, and does produce, numerous reports which contain a summary of the original budget, revised budget, actual activity, variance with budget and % budget balance remaining. Periodic comparisons work and make a recommendation by no later than October 29, 1992, to clarify this situation.

Recommendation, C.1: P 9

Authorize Dr. Ramsey to study the possibility of the institution transferring the required dollars necessary to reimburse the Physical Plant for extraordinary expenses associated with special events that have not been budgeted. He should bring a policy recommendation forward by no later than October 29, 1992.

Recommendations, C.3: P 10

Approve a policy that states that charges incurred by the Physical Plant at the President's Home and Office should be handled in the same manner as those for all other departments on campus, which is to invoice the charge to the budget of the unit where the work was performed.
between planned objectives and actual performance should be made, and the appropriate individual in each area should prepare a written "operations memorandum". The "operations memorandum" should cover the following:

- Reasons for significant variations between actual and budgeted results.
- Planned strategies for areas in which there are or may be a significant variance of actual costs versus budgeted costs.
- Address implications on future operations of the department.

Such procedures would help to provide for increased accountability throughout the University especially in times of revenue constraints and will assist management and the Board of Regents in carrying out their fiduciary responsibilities.

Recommendations, C.4: P 12

We recommend that any capital construction work at the President's Home or Office, outside of the President's budget for each entity, be approved first by the Executive Committee of the Board.

Recommendation, C.5: P 13

Approve the renewal of the current lease for the President's Home with the College Heights Foundation by September 1, 1992, with options for renewal in the future.

The University will continue to be responsible for all maintenance, repair, and improvements at the President's Home including those associated with air conditioning units.

Recommendation, C. General: P 13

Authorize Dr. James Ramsey and Dr. Cecile Garmon, Director of Budget and Planning, to immediately further refine the current policy of monitoring budgets on campus in terms of expenditures versus budget at regular intervals during the fiscal year. This refinement should include most of the major points made by
Section D: Food Service Dept.  

1. Several recommendations would be appropriate relating to the above findings, [see pp 22-28] however, since the University has entered into a contract to out-source food services to an unaffiliated third party, any recommendations specifically related to the food services department would no longer be applicable. Reference, however is made to Section E - Expenditures Made by and for the Office of the University's President where there is discussion of food service charges charged to General Institutional Expenditures relating to functions of the President.

2. As noted above, during fiscal 1989 and 1990, the Food Services Department sold prepared foods and other items to an unaffiliated third party totaling approximately $11,400. Given the potential tax and legal implications associated with such activity, the University should identify and closely monitor any type of activities within the University dealing with non-student/faculty business concerns. Tax and legal implications become more significant in situations where the University is generating unrelated business income (UBI) and/or resources of the University are used and fair compensation is not received by the University.

During the three years ended in June 30, 1991, the University filed IRS Form 990T, Exempt Organization Business Income Tax Return. Filing of such return is certainly a positive step, however, based upon the high volume of IRS activity in the higher education industry, the University should ensure that a thorough UBI review is performed and documented on a University-wide basis each fiscal year.
Section E: Expenditures of Dr. and Mrs. Meredith, and the Board of Regents

1. Dr. and Mrs. Meredith's Entertainment Expenditures

As indicated above, entertainment expenditures have been incurred by the University that directly relate to entertainment at the President's home and office that are in addition to the annual allowance stipulated in Section 7(a) of the President's employment contract. The practice of providing the annual allowance as well as allowing entertainment to delineate which expenditures should be covered by the annual allowance and those, if any, that are allowed to be charged directly to the University. Reference to Section B – Annual Allowance is made for further details.

2. During the course of performing the agreed-upon procedures relating to the expenditures of Dr. and Mrs. Meredith and the Board of Regents, personnel within the purchasing department of the University informed us that present University policy is that all disbursements will be approved by the purchasing department (i.e., follow procurement policies) except those charged through the following group of accounts:

   Development Funds
   - Unrestricted (i.e., development program-unallotted contingency account)
   - Restricted

   Agency Funds (i.e., President's unrestricted account)

II. Travel Expenditures of Dr. and Mrs. Meredith

The University should ensure that the policies established for travel expense and reimbursement, implemented by the University and Commonwealth of Kentucky, are applied consistently for all University employees and the Board of Regents and any exceptions, if deemed appropriate, should be formally included within said policies.

Recommendation, E.1:

Authorize Dr. Ramsey to review current purchasing procedures as they relate to development accounts and make a recommendation on this matter by no later than October 29, 1992. He should ensure that his proposed recommendation contains purchasing procedures which are in compliance with the regulations set forth by the state as they pertain to private gifts.

Recommendations, E.2:

It is the intent of the University to follow the recommendation offered by Arthur Andersen & Co. The few times these policies were not followed appear to have been an oversight on the part of the institution. No policy approval is necessary on this point. However, the Board
The reasons for using chartered flights (and not using commercial flights) should be formally documented along with obtaining the necessary involvement/approvals of the University's purchasing department.

III. Maintenance and Improvements of President's Home PP 48-49

Reference is made to the following sections where recommendations have been provided which also relate to the above findings:

- Section C - Physical Plant Department (recommendations 1 and 2).
- Section E.1 - Dr. and Mrs. Meredith's Entertainment Expenditures (recommendation 2).
- Section F - Unrestricted Gifts (recommendation 1).

IV. Board of Regents' Travel and Entertainment Expenditures P 50

1. The University should ensure that the policies established for travel-expense and reimbursement, implemented by the University and Commonwealth of Kentucky, are applied consistently for all employees and the Board of Regents.

V. Other Disbursements P 53

- The University should ensure that the policies and procedures established by the University's purchasing department are adhered to. This includes policies and procedures relating to personal service contracts. See also Section E.1 - Dr. and Mrs. Meredith's Entertainment Expenditures (Recommendation 2).
- Reference is made to Section F - Unrestricted Gifts (recommendation 1 and 2) where recommendations have been provided which also relate to the above findings.

of Regents should develop a policy which clarifies the expectations of the University regarding travel by the President's wife.

Recommendation, E.3: P 17

As stated previously, I am asking Dr. Ramsey to review purchasing procedures related to the accounts under discussion and to make a recommendation prior to the October 29, 1992, meeting of the Board.

Recommendation, E.4: P 17

Confirm that all future reimbursements for expenditures incurred by members of the Board of Regents will follow University regulations.
Section F: Unrestricted Contributions

1. The University and Board of Regents should reevaluate the above noted policy that is presently in use and determine whether or not funds from this account were intended to be used for expenditures associated with the President’s home, entertainment and other operating purposes.

2. The University and Board of Regents should reevaluate the above noted policies regarding the transfers (i.e., 15% of development funds) to be made to the Academic Excellence Fund and make it clear at what point such transfers are to stop. Presently, the only restriction relates to when earnings of the fund can be expanded not when unrestricted contributions should no longer be transferred to this fund.

3. The University should consider transferring $10,000 back to General Institutional Funds from the development program unallotted contingency account.

Section F: Unrestricted Contributions

Recommendation, F.1:

Approve the following addendum to the current policy for Unrestricted Funds Distribution and place the addendum at the end of the first paragraph: Once the goal of $250,000 has been reached, the percent of the unrestricted development funds to be placed in the academic excellence fund each year should be reduced from 15 percent to 10 percent. Only 90 percent of the interest earnings from the endowment may be expended each fiscal year, with the remaining 10 percent of the interest earnings being returned to the corpus of the endowment. The 90 percent - 10 percent policies shall become effective July 1, 1992, while the reduction in the percent of unrestricted development funds from 15 - 10 percent shall become effective at the time the goal is reached.

Recommendation, F.2:

The $10,000 that was transferred to the Development Program - Unallotted Contingency Fund from General Institutional Funds during fiscal year 1990 was used for meeting the obligations incurred by the Unrestricted Funds Review Committee for faculty, staff, and student development. These funds will be returned to the General Institutional Fund during the 1993 fiscal year.