



## **UPRRP Presentation, Show Cause MSCHE meeting**

**March 14, 2019**

By: Dr. Luis A. Ferrao, Acting Chancellor

Good Afternoon Everyone.

President Sibolski, Commissioners. Thank you for giving us the opportunity to appear before you, here in the room where it happens.

We acknowledge the difficult situation that we are facing, but we'll clarify throughout this presentation that our Rio Piedras Campus will assume its responsibility in order to successfully overcome it. In no way do we intend to downplay the issues at stake, but rather want to assure you that we are working hard to place our university within the parameters of accreditation of the MSCHE.

Since 1946, when we were first accredited by the MSCHE, UPR Río Piedras has evidenced a history of responsible management, balanced budgets and effective allocation of resources. Such professional partnership, spanning nearly three quarters of a century, is a respected asset for our university, and I'm sure that the commissioners here understand that a relationship as long as this one must be maintained.

Keeping the accreditation of the Rio Piedras Campus, the flagship unit of our state university system, will continue to benefit tens of thousands of students and will also positively impact the island's higher education. For 116 years the Rio Piedras Campus has played a pivotal role in the social, economic and cultural development of Puerto Rico. The Campus is a valued icon of high academic quality and enriching learning experiences. The need for a state university system in modern societies requires no justification for an audience like yours, in the case of Puerto Rico, having an accredited public university will lead to enhance its cultural and economic development.

The Río Piedras Campus has been the source wherefrom a highly competitive middle class has emerged, and said graduates of ours are placed in the most coveted professional fields of modern day society, both on the island and on mainland USA. Twenty-four of our academic programs are unique to the Island, such as the PhDs in Mathematics and English just to mention two of them.

The Río Piedras Campus has consistently been, and continues to be today, a main source of hope, pride, opportunity, and worldwide mobility for our 21<sup>st</sup> century graduates. In this presentation I will demonstrate that Río Piedras fully complies with MSCHE Standard of Accreditation VI and Requirement of Affiliation 11.

As you all know on January 25<sup>th</sup>, 2019 we submitted the Show Cause Report as required by this Commission. Subsequently, a *Show Cause Team* visited the Río Piedras Campus from February 3 – 6. As we expressed in our Institutional Response of February 18, UPR Río Piedras appreciates the effort and commitment of this visiting team. The Show Cause Team also found that UPR Río Piedras continues to meet Requirement of Affiliation 14 and the *Related Entities Policy*.

In their Final Team Report, the visiting team established the following requirements:

*“The institution must provide timely and accurate financial audits; i.e. FY 17 Single Audit and FY 18 Financial Statement Audit to the Commission, US Department of Education, and other parties as required by regulation and/or law.”*

To meet the above requirements we did the following:

- ✓ 1. *On February 18, UPR Río Piedras submitted **FY 17 Single Audit**, included as Appendix 1 of the Institutional Response to the Team’s Final Report. The University of Puerto Rico **Corrective Action Plan for FY 17 Single Audit** was attached as a second appendix to the Institutional Response. The Corrective Action Plan addresses management improvements to the System Annual Closing Process to effectively monitor controls over the financial information.*
- ✓ 2. *On January 25, The Audited **Financial Statements FY 17** were provided to MSCHE as part of the Show Cause Report.*

- ✓ 3. *Currently and in progress, the auditing process of the forthcoming **FY 18 Consolidated Financial Statement Audit** of the eleven UPR institutional units is being conducted and is to be completed by the due date.*

As I will detail farther ahead in my talk, UPR Rio Piedras has embarked in an intense campus-wide reengineering of its accounting and financial practices. A redesign of critical tasks and schedules is going on at the campus level for the reliable delivery of timely and accurate financial information to Central Administration and auditors for the completion of the upcoming **Consolidated FY 18 Financial Statement Audit**.

I will now proceed to focus on the topics listed in the letter of January 10, from Dr. Elizabeth Sibolski, concerning the following:

1. UPR Rio Piedras financial overview including resources, funding base, plans, and balanced budgets through fiscal year 23,
2. Annual Institutional compliance with timely external audits, and
3. The effect on our campus of restructuring the eleven institutional units.

Firstly, I will center my next observations on UPR Rio Piedras' financial overview, including plans for financial development, financial resources, and funding base, and the resulting five-year budgets.

Based on an understanding of the fiscal challenges ahead, and the transformations we must implement, in May, 2018 the Rio Piedras Campus Academic Senate approved a five-year Strategic Plan, Titled **Commitment 2023**. This plan marks a new route for UPRRP's operational model. Priority area # 4 establishes that the Rio Piedras Campus must become a more financially sustainable institution to successfully advance its mission. This action sends a clear call for renovation and innovation in the way we have operated for decades. The Campus community recognizes **that change is a mandate** that must be integrated in our operational model gradually and consistently in the form of:

1. restructuring of administrative units,

2. reduction of expenditures through process improvements and increasing efficiency,
3. identification of new sources of income through government, alumni and private sector alliances,
4. budget allocation according to strategic priorities, and
5. efficiency in academic planning and faculty involvement.

The New Fiscal Plan for University of Puerto Rico, as certified by the Fiscal Oversight Management Board (FOMB) on October 23, 2018, establishes a system wide five-year \$233 million reduction in government appropriations.

To offset all these projected reductions strong measures have been implemented, initiated at the Campus Level and/or determined by the Fiscal Oversight Board and the UPR Governing Board, without losing sight of our commitment to the principles embodied in our mission. These measures include actions to increase funds, reduce costs and provide for restructuring. These are included in the Show Cause Report of January 25<sup>th</sup>, 2019:

1. New tuition rates, fees, and related charges will increase gradually for the next five years.
2. A 100% increase in technology fee for fiscal year 22, to \$50 per semester.
3. A 100% reduction in other payroll benefits payments for FY 20 through fiscal year 23.
4. A 9% reduction in procurement for the next five years,
5. Central Administration allocation of unrestricted income from general fund decreases annually over 5 years to a level of \$166 M by FY 23.

An additional second set of assumptions and measures at Campus level underlies the preparation of projected balanced budgets, such as:

1. An enrollment management project has been designed and implemented to counteract possible reductions in student enrollment. Nonetheless, we

project a 2% annual reduction in UPRRP's student population for the five-year period through FY 23.

2. New administrative practices aimed at greater efficiency are contributing to reduce electricity expenditures, an average of 15% annual reduction, for a total of \$6M through FY 23. Current projections are being met.
3. Increases in projected indirect costs, from \$1.2 to \$1.8 million in FY 20 and constant thereon, based on an expected rise in external funds. Projections are based on the upward trend in external funds since FY 14 and the improvements in processes and infrastructure made to support wider faculty involvement.
4. Income from new initiatives is being materialized based on newly identified projects, improved campus potential, and assessment of recent initiatives. The unit of Continuing Education and Professional Studies has been restructured into the Campus Economic Engine with new income projections through FY 23. For example, projections for FY 20 include approximately \$900,000 for a second round of a STEM project for teachers training with the PR Department of Education. Projections for new income range from \$3.4 M to \$7M for FY 23.
5. Reduction in salary expenditures and related fringe benefits based on attrition is incorporated in the annual projected budgets. In particular: reductions in expenditures for faculty salaries through FY 20; and for non-teaching staff through FY 21, according to the student population estimates and faculty and staff attrition. These reductions have been met for the current year as projected.

Academic planning is ongoing to ensure more efficient course/sections programming for fall 2019. Costs, as well as quality parameters are being taken into account for a reduction of close to 5%, approximately 150 sections less in the coming fall semester for a reduction in costs of approximately \$3.5 M.

In the context of these measures and assumptions, please refer to Budget Table of the Show Cause Report that presents balanced budgets through FY 23. Continuous monitoring of planned expenditure reductions, projected new revenues, project

implementation, as well as constant and inclusive communication with the campus community through various means is ongoing.

To ensure compliance, with annual independent audits for **FY 18**, first priority has been assigned, and decisive actions have been taken, for the completion of the upcoming *FY 18 Consolidated Financial Audits*. Based on Central Administration's latest calendar, the Rio Piedras Campus has developed an internal timetable with revised dates to comply with requests.

It must be underlined that UPRRP does not produce its own Financial Statements, but delivers financial information to Central Administration and external auditors so that **Consolidated Financial Statements** can be prepared for the eleven units of the UPR System. Our campus main responsibility at present is to submit the required information correctly and on time to support the preparation of these statements. Notwithstanding this, UPR Rio Piedras is confident that, if it is so determined, we are prepared to complete our Financial Statements and comply with MSCHE and the Federal Education Department requirements.

An immediate short- term plan is underway to complete FY18 consolidated financial audit. We have done the following:

- Appointed ten additional employees, including accountants and analysts, from other units on Campus to support the financial audit FY18. These staff members are experienced with the financial and accounting systems,
- Appointed a Compliance Coordinator responsible for monitoring compliance with the established work plan. This action will provide more effective monitoring controls over financial information and operations, and
- Authorized the payment of overtime, work on week- ends as needed.

**Furthermore**, to ensure campus- wide delivery of information **from FY 18 forward**, UPR Rio Piedras has taken significant steps to advance the recommendations provided by the visiting team geared to improve closing processes, monitor financial information and assumptions, generate sustainable budgets and to evaluate the possibility of assigning financial statement preparation to the

individual units. These recommendations go hand in hand with our objectives of reliability, accuracy and timeliness of financial statements. The steps being taken are:

1. A critical task schedule was developed to achieve monthly reconciliations and to balance accounts on time.
2. An administrative restructuring plan is being implemented to strengthen the operations of the Finance Office. This action will support agile financial operations and result in more effective budget allocation according to Campus strategic goals and objectives.
3. A re-engineering of purchases and registration for payment is in progress to simplify and expedite processes and the closing of books.
4. A highly specialized curriculum is being designed for all internal finance personnel, collections, purchases and administrative assistants of the different academic programs and administrative units. Trainings will be offered during the month of June 2019.

With regards to the impact of the Fiscal Oversight Management Board's plan and proposed restructuring on the institution's status and finances included in Dr. Sibolski's letter, we must indicate that in his communication of February 19 to the UPR academic community, the president of the University, Dr. Jorge Haddock declared that the proposal currently being considered would maintain UPR Rio Piedras as a single campus. Our planning and actions are advancing under that assumption.

**We trust that with our actions and, above all, with sustained determination and commitment to Puerto Rico and the Rio Piedras Campus, our institution has attained full compliance with MSCHE Standard of Accreditation VI and Requirement of Affiliation 11. Thus, we respectfully request that the Commission reaffirms Middle State's accreditation of the University of Puerto Rico, Rio Piedras Campus.**

**Thank you.**