SELECTED HLC CONCERNS AND RELATED CONTROL IMPROVEMENTS
NOVEMBER 5, 2015
Selected HLC Concerns and Improvements

I. Executive Summary
II. WDCB: Alleged Fraud and Control Improvements
III. Waterleaf Control Issues and Improvements
IV. Internal Audit Reporting Structure Changed (More Board Oversight)
V. Timeliness and Quality of Financial Reporting
VI. Addressing Potential Conflicts of Interest

Appendix: Draft Policy 10-65 and Draft Procedure 10-60

Each Section I-V Contains Discussion of Key Issues Related to the Topic and Summary of Actions Taken to Address Concerns and/or Next Steps.
I. EXECUTIVE SUMMARY
### Executive Summary

<table>
<thead>
<tr>
<th><strong>HLC Concern</strong></th>
<th><strong>Key Solutions</strong></th>
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</table>
| WDCB Alleged Theft                   | • WDCB management changed  
• Process to procure parts now goes through established procedures vs. emergencies  
• Strengthened language in Policy 10-65 and related procedures regarding approval of over $25k spend by department  
• Evaluating ways to improve Cabinet and Board monitoring of auxiliaries |
| Waterleaf—Alcohol Reimbursement and House Account Spending | • Waterleaf closed and cultural change regarding reimbursement of alcohol and house accounts no longer exist  
• Evaluating ways to improve Cabinet and Board monitoring of auxiliaries  
• Working with Audit Committee regarding potential situations with blanket POs and single signers and mitigating associated risks |
## Executive Summary

<table>
<thead>
<tr>
<th>HLC Concern</th>
<th>Key Solutions</th>
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<tbody>
<tr>
<td>Recommendations of Internal Auditor not Always Operationalized</td>
<td>• With Policy 5-220, Internal Auditor reports administratively to the President and functionally to the Audit Committee.</td>
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<td></td>
<td>• Audit Committee can work with Internal Auditor, President and CFO to ensure that appropriate suggestions are operationalized.</td>
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<td>May and June Financials Were Late at Time of HLC Visit</td>
<td>• May and June provided to Board by end of July</td>
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<td>• Each month after on time</td>
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<td></td>
<td>• In June/July—Interim financial team was reviewing and improving quality and accuracy of reports</td>
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<td></td>
<td>• Audit (unmodified opinion) and Budget complete on time</td>
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Executive Summary

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<thead>
<tr>
<th>HLC Concern</th>
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| Potential Conflicts of Interest with the Foundation Board Members | • In process of implementing language in RFPs that will require vendors to disclose conflicts  
• In process of evaluating/implementing protocol with the Foundation where their board members will disclose relationships to COD—which can be referenced vs. vendors |
II. WDCB: ALLEGED FRAUD AND CONTROL IMPROVEMENTS
WDCB Background

- Losses of over $400k allegedly incurred due to long-term theft involving transmitter tower equipment
- Suspected perpetrator allegedly purchased equipment through a shell company for the tower after falsely claiming breakdowns. Several enablers—
  - Due to “emergency” nature of repairs goods bypassed the warehouse and normal bid process—fewer questions. Established processes/controls would have been likely been a deterrent or prevented fraud.
  - Evidence of “stringing” or not bringing cumulative purchases from a vendor over $25k to the Board. As far back as 2003, Internal Auditor had made recommendations above improving PO compliance.
  - Radio station manager was second signer—but appeared to exercise very limited oversight. The station manager was theoretically in the best situation to recognize the fraud and prevent, and did not appear to probe repeated “emergency” purchases.
  - Personnel likely made aware of issues at Elmhurst College and did not act.
  - Oversight of the station by finance and other senior management failed to identify root problems of transmitter “failure”. More questions from finance, senior management may have helped identify or prevent alleged fraud.
# WDCB Control Improvements

<table>
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<tr>
<th>Control Issue</th>
<th>Solution</th>
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<tbody>
<tr>
<td>Due to the “emergency” nature, goods received bypassed the warehouse and</td>
<td>Enforce requirement of goods to pass through warehouse to maximum extent possible. This has been implemented with respect to radio station. This makes theft less likely, as there would be one more “pair of eyes” looking at goods received.</td>
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<tr>
<td>competitive quotes not sought.</td>
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<tr>
<td>Bypassing the warehouse allowed goods to be purchased with fewer questions</td>
<td>Continue enforcement of Procedure 10-60 followed regarding quotes.</td>
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<td>and oversight.</td>
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<tr>
<td>There was evidence of “stringing”, or incurring over $25,000 of purchases</td>
<td>In cases such as this, board being made aware of spend may have caused more questions to be asked.</td>
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<tr>
<td>from a vendor without going to the board for approval, or bypassing other</td>
<td>Draft of Policy 10-65 (appendix) has requirement for purchases which in aggregate are expect to exceed $25k from a given department need to go to board.</td>
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<td>purchasing controls at lower levels (such as written quotes at $15,000)</td>
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## WDCB Control Improvements (Continued)

<table>
<thead>
<tr>
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<th>Solution</th>
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<tbody>
<tr>
<td>Radio station manager exercised limited oversight as a second signer and had</td>
<td>Management of the radio station has been changed. Repair has been outsourced and current manager has taken ownership of process.</td>
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<td>limited involvement in repairs and may have ignored Elmhurst warnings.</td>
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<tr>
<td>Oversight by senior management and finance lacked effectiveness with respect</td>
<td>Propose improved interaction with auxiliaries:</td>
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<td>to identifying root issues.</td>
<td>1) Quarterly, regular meetings among sr finance, auxiliary head and the SMT member he/she reports to</td>
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<td>2) Regular update on auxiliary performance to the board</td>
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<td>3) Sampling of key invoices to determine any unusual patterns</td>
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<td></td>
<td>Interim finance management has had dialogs with WDCB management along these lines.</td>
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III. WATERLEAF CONTROL ISSUES AND IMPROVEMENTS
• Waterleaf closed in August 2015 after sustaining annual losses of at least $500k (excluding depreciation and allocation of overhead).

• Key business risks and control issues identified included:
  • Use of “house accounts” to charge meals
  • Alcohol purchases which may have violated spirit of expense procedures
  • Goods received bypassed the ware house and were received by same person who ordered them
  • Accounting system not designed for the restaurant and did not provide visibility into margins or inventory
  • Information provided to the Board of Trustees regarding auxiliaries did not regularly break out performance in a manner that allowed effective decision making
## Waterleaf Internal Controls and Remediation

<table>
<thead>
<tr>
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<th>Solution</th>
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<tbody>
<tr>
<td>House accounts were avenue for potential expense abuse</td>
<td>House accounts closed. Current Board of Trustees and Acting Interim President and Interim CFO do not intend on allowing house accounts.</td>
</tr>
<tr>
<td>Alcohol purchases</td>
<td>Change in culture toward Procedure 5-200 regarding reimbursement for alcohol. New Board of Trustee majority and Acting Interim President have continued to appropriately enforce enforcement of procedure.</td>
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# Waterleaf Internal Controls and Remediation

<table>
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<tr>
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<th>Solution</th>
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<tbody>
<tr>
<td>Single person ordering, receiving and signing for product (also potential</td>
<td>Goods should be received into warehouse where possible.</td>
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<td>issue at other Auxiliaries).</td>
<td>Review of open POs and risks of single signers and possible solutions to be discussed with audit committee early November.</td>
</tr>
<tr>
<td>Accounting systems for Waterleaf not designed for restaurant business.</td>
<td>Finance supporting other auxiliaries in upgrading systems where possible (example inventory system at SLEA, accounting system for MAC).</td>
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<tr>
<td>Certain information (perpetual and margin) not readily available.</td>
<td></td>
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<tr>
<td>Reporting for auxiliaries did not historically break out economics of</td>
<td>Recommend regular review of Auxiliaries with Board of Trustees to further understanding of key issues and engage in dialog on direction/plans.</td>
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<tr>
<td>individual auxiliaries for Board of Trustees</td>
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IV. INTERNAL AUDIT REPORTING STRUCTURE CHANGED (MORE BOARD OVERSIGHT)
Audit Committee Charter and Internal Audit

• In August 2015, Board of Trustees approved Policy 5-220* which established the Audit Committee.

• Responsibilities include: “Assessing risk and addressing matters such as financial statement reporting, internal controls, and compliance with applicable laws, rules and board policies.”

• Consists of at least three Board of Trustee members and at least one member qualifying as financial expert—committee can include outside resource.

• Committee has typical oversight of external audit and controls.

• Audit Committee is to “provide oversight of the director of internal audit and the activity of the Internal Audit department.”

• Internal Audit reports administratively to the President and functionally to the Audit Committee.

*Summarized on this page for discussion. Please see policy 5-220 for actual language.
Audit Committee and Internal Audit

- New Audit Committee Policy includes additional Board level responsibilities relating to Internal Audit including*:
  - Provide oversight to Internal Auditor and department activities
  - Provide input regarding Internal Auditor work stream and present Internal Auditor budget to the Board of Trustees for approval
  - Can conduct internal investigations through the Internal Auditor
  - Review findings of audits (including internal) and management response and time table to remediate any issues
  - Approve personnel changes and compensation increases related to the Internal Auditor and staff
  - Review all internal audit reports
  - Review effectiveness of College’s process to manage significant exposures and risks and steps management has taken to mitigate them
  - Review complaints/whistleblower reports and report to Board Chairman
  - May retain counsel or accountants to conduct investigations

*Summarized on this page for discussion. Please see policy 5-220 for actual language.
V. TIMELINESS AND QUALITY OF FINANCIAL REPORTING
# Timeliness and Quality of Financial Reporting

<table>
<thead>
<tr>
<th>Reporting Issue</th>
<th>Solution/Comments</th>
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| HLC report raised issues regarding timelines of financial reporting to the Board “As of the July 2015 meeting, the Board had not been presented financial statements for May, June and July 2015 presumably because of reporting changes requested by the Board Chair.” | • Senior financial management was put on leave in mid-June 2015; Interim CFO and Controller started in Mid-June 2015  
  • Interim CFO/Controller reviewed and improved May/June 2015 monthly financial reports  
    • Released May/June Financials at July 30, 2015 Board meeting  
    • Revised and improved investment reporting after identifying errors  
    • Construction spending reconciliation  
  • July 2015 financials were released on time at the regular August 2015 Board meeting; all subsequent monthly financials have been released on-time  
  • Other Key Accomplishments:  
    • Completion of FY2016 Budget  
    • Timely completion of FY2015 Audit with Unmodified Opinion |
VI. ADDRESSING POTENTIAL CONFLICTS OF INTEREST
## Potential Conflicts of Interest

<table>
<thead>
<tr>
<th>Control Issue</th>
<th>Solutions under Evaluation/Implementation</th>
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<tbody>
<tr>
<td>The College has entered into various contracts with member of the College of DuPage Foundations Board of Trustees.</td>
<td>• Currently RFP process does not require any affirmative statement on potential conflicts of interest</td>
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<td>• Amend the RFP process to require all vendors/contractors to affirmatively disclose potential conflicts/relationships with the College</td>
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<td>• Historically no coordination between the Foundation and College to identify potential conflicts between Foundation Board members and the College</td>
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<td>• Coordinate process to have Foundation Board members disclose business relationships, so College can cross reference with vendor database</td>
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Vendor Payment

The Board of Trustees shall exercise its authority with respect to the payment of the orders and bills consistent with Section 3-27 of the *Illinois Public Community College Act*, 110 ILCS 805/3-27. Consistent with this authority, the Board may establish revolving funds by resolution authorizing the Treasurer of the College (appropriately bonded) to make payments from these revolving funds and the College’s cash management system to vendors prior to approval of the Board, subject to the following conditions and limitations:

1. Payments for items not previously approved by the Board between the values of $15,000 and $25,000 (or $50,000 for construction related) may be paid without pre-approval by the Board, but shall be presented to the board for ratification.

2. Payments made for items not previously approved by the Board of trustees which are greater than $25,000 will require approval by the board prior to payment consistent with Purchasing Authority bid limits of policy 10-60 (e.g.—over $25,000 for non-construction contracts requires board approval, over $50,000 for construction related contracts requires board approval), except as noted below:

3. Certain items will be deemed previously approved through the annual budget approval process, including aggregate benefit, payroll funding and withholding payments, as well as payments for utilities, corporate credit cards, student field studies, athletic travel, bond interest and postage. These payments will still be shown for ratification.

4. Policy 10-95 allows for contracting of certain auxiliary professional services (such as MAC performers) without board approval provided that they are within budget limits. These payments will not require pre approval but will be presented for ratification.

5. Payment may be made only for items delineated in a category of the College’s budget, or otherwise approved by the Board.

6. No payment shall be made under the terms of this Policy unless there is documentation that the services and goods have been received and that the invoice is consistent with the transaction.

7. No payment shall be made in an amount in excess of the dollar amount established by the Board in its resolution.
8. Expenditures exceeding the bid threshold, including planned aggregate spend in excess of the bid threshold, will be approved by the Board of Trustees prior to purchase. Planned aggregate spend is considered the planned purchase of related items from the same vendor by a single department within a fiscal year. Unforeseen aggregate expenditures that exceed the bid threshold must be approved by the board prior to purchase that exceeds the bid threshold.

9. On at least a monthly basis, the College shall provide to the Board a listing of all payments made by the College (regardless of amount, or classification of payment). Because of issues related to personally identifiable information, payroll and student reimbursement, or other info with personally identifiable information, will be provided in aggregate. Such a listing shall be made in an electronic format that is searchable, and shall also be made available to the public on the College’s website (in the same searchable format).
1. **Centralized Purchasing Function**
   In order for centralized purchasing to be effective, there must be meaningful cooperation between all departments and the Purchasing Department. Purchasing Department decisions will be made on the basis of serving the overall needs of the College as a whole. All purchases exceeding $500 in total value shall have an authorized purchase order issued by Purchasing. The payment for any unauthorized purchases will be the sole responsibility of that person placing the order.

2. **Purchasing and Contracting**
   A. **Competitive Bidding**
      College of DuPage will operate in accordance with the Illinois Public Community College Act, paragraph 3-27.1, Contracts.
   
   B. **Bid Deposit**
      A bid deposit for 15% (fifteen percent) of the base bid amount is normally required for all bids with an estimated value exceeding four (4) times the bid limit. Bid deposits will be in the form of a cashier’s check, certified check or bid bond. All bid deposits must accompany the respective bid and will be held by the College until award of the bid is made. Bid deposits may be waived at the discretion of the Purchasing Department when such a requirement is detrimental to competitive conditions or other reasons contributing to the best interests of the College.
   
   C. **Request for Quotations**
      1) $1 to $4,999 - Quotes will be solicited at the discretion of the Purchasing Department.
      2) $5,000 to $14,999 - A minimum of three verbal quotes will be solicited by the Purchasing Department before processing a requisition.
      3) $15,000 to $24,999 - A minimum of three written quotes will be solicited by the Purchasing Department before processing a requisition.
      4) $25,000 and over - Subject to formal bid procedures.
   
   D. **Governmental Consortium/Cooperative Agreements**
      The Board of Trustees delegates authority to the Purchasing Department to purchase from governmental contracts or cooperative/consortium agreements that fully meet the requirements of Illinois law, in lieu of competitive bidding. A monthly report of all such purchases of $25,000 or greater shall be submitted for approval to the Board of Trustees.
   
   E. **Professional Service Contracts**
      Contracts for services of individuals possessing a high degree of professional skill, where the ability or fitness of the individual plays an important part, shall be selected through a competitive proposal process unless the service is a sole source purchase that is appropriately documented. Professional Service Contracts exceeding the established bid limit shall require approval by the Board of Trustees. Selection of a professional service provider shall be based on a variety of criteria including, but not limited to, demonstrated competence, knowledge, references and unique qualifications to perform the services, in addition to offering a fair and reasonable price that is consistent with current market conditions.
F. **Construction Contracts**
   Contracts for building repair, maintenance, remodeling, renovation, or construction and professional services related thereto shall also be in accordance with Board Policy 10-90, Construction Contracts.

**Purchase Requisitions**
A. The Purchasing Department will not institute any action until it has received a valid requisition.
B. Requisitions will be submitted electronically via the current designated Purchasing system in accordance with Purchasing Department and Finance Office procedures.
C. Expenditures exceeding the bid threshold, including planned aggregate spend in excess of the bid threshold, will be approved by the Board of Trustees prior to purchase. Planned aggregate spend is considered the planned purchase of related items from the same vendor by a single department within a fiscal year.
D. Certain items will be excluded from requirements above in C. including items deemed previously approved through the annual budget process, including aggregate benefit, payroll funding and withholding payments, as well as payments for utilities, corporate credit cards, student field studies, athletic travel, punchout catalog purchases, bond interest and postage.
E. Requisitions for bid items must be in the Purchasing Department with full specifications and rationale by the posted deadlines at least six (6) weeks prior to anticipated Board review to allow time for bid process and Board review preparation.
F. Requisitions for goods and/or services purchased with Grant funds must be approved by the Grants Accountant and will be processed in the same manner as a regular requisition, unless superseded by specific Grant provisions.
G. Requisitions for goods and/or services purchased through barter must be authorized by the Purchasing Department and supported by written rationale prepared by the initiating department. All barter purchases will be competitively evaluated to equivalent cash value.
H. All requisitions for goods and/or services which must be secured under formal contractual basis must be approved by the CFO.
I. The Purchasing Department will have the authority to consolidate requests for similar goods and/or services for procurement on a competitive basis. Special approvals will be required for computer equipment, telephone equipment, audiovisual equipment, copier equipment, publications and furniture.
J. The issuing of multiple requisitions to circumvent the competitive bidding process will not be allowed.
K. The Purchasing Department may issue procurement cards to employees authorized by the Administration in accordance with Purchasing Department and Finance Office procedures.
L. On at least a monthly basis, the College shall provide to the Board a listing of all payments made by the College (regardless of amount, or classification of payment). Because of issues related to personally identifiable information, payroll and student reimbursement, or other info with personally identifiable information, will be provided in aggregate. Such a listing shall be made in an electronic format that is searchable, and shall also be made available to the public on the College’s website (in the same searchable format).
3. **Bid Process Requirements**
Prior to the bidding process, the requisitioner will provide the Purchasing Department with a rationale for the expenditure which will include the following:
   A. Intended use of goods or services
   B. Specifications for goods or services required
   C. List of vendors to receive solicitation directly
   D. Supplemental requirements, including Installation, maintenance, trade-in or disposal services

4. **Modification of Orders**
Requests for modifications of purchase orders (before shipping) will be directed to the Purchasing Department by an authorized individual. Any changes in purchase orders must be authorized by the Purchasing Department. Reasons for the request will be submitted in writing, with reference to the purchase order number and vendor. Modifications involving bid items in excess of 10% of the approved amount will be approved by the Board of Trustees. Bids will be reviewed by the Purchasing Department to verify the award of low bid.

5. **Invoice Processing**
The Finance Office may issue checks for invoices on bid items which were approved by the Board of Trustees, after the goods and/or services are received and determined to be satisfactory. Payments for items not previously approved by the Board of Trustees shall require Board approval consistent with Policy 10-65 (ratification between $15,000 and $25,000 (or $50,000 if construction), pre-approval for amounts above $25,000 (or $50,000 for construction) as consistent with Purchasing Authority bid limits.

   Certain items will be deemed previously approved through the annual budget process, including aggregate benefit, payroll funding and withholding payments, as well as payments for utilities, credit cards, student field studies, athletic travel, punchout catalog purchases and postage.

6. **Emergency Expenditures**
Requests for emergency expenditures which have a total cost of less than $100 may be processed through the Cashier as a petty cash item within thirty (30) days of their occurrence. Forms are available from the Cashier and must be accompanied by an original receipt and be approved by an authorized signator. Charges will be allocated to the appropriate College budget.

   Requests for emergency expenditures exceeding the bid limit shall be authorized by the President in accordance with Board Policy. The Administration shall set forth, with specificity, the nature of the emergency which shall be certified by a person with direct knowledge of the emergency. Details of the nature of the emergency and the certification shall be submitted for ratification by the Board of Trustees at the next Regular Board Meeting.

7. **Requests for Samples**
Any samples submitted will be at no cost to the College and will become the property of the College upon receipt. Samples will be returned at the discretion of the College, but only upon specific request of the bidder within fourteen (14) calendar days after submission of the bid. The College reserves the right to subject such samples to tests and inspections which, in its judgment, are deemed necessary. The College does not guarantee that samples returned to the bidder will be in the same condition as when submitted. Employees will not accept samples or gratuities for personal or non-College use.

8. **Purchase of Products with Recycled Content**
The College will show preference for the purchase of products with recycled content whenever specifications, standards and availability are equivalent to products which do not contain recycled content, and without incurring unreasonable additional costs.
10. **Electronic Bid Submissions**

Electronic submission of bids may be utilized for competitive bid requests in accordance with state law.