
MEMORANDUM

TO: PAINE COLLEGE BOARD OF TRUSTEES
FROM: WAYNE B. KENDALL
SUBJECT: AUDIT COMMITTEE
DATE: 4/20/2012
CC: FILE

I had planned to have an audit committee meeting on Friday, April 20, 2012, but the Board Chairman did not see fit to schedule an Audit Committee meeting. In light of this fact, I have decided to file the attached report concerning matters within what I deem to be the scope of the Audit Committee as it relates to the financial affairs of Paine College. This report was compiled from interviews I have conducted with the last three CFOs of the College, a former Controller, and other former senior Paine College personnel. Because it would not be proper to speak to any current employees, the scope of this report is limited to a historical perspective from the view point of those who worked in financial management at the College. It also should be viewed with the consideration in mind that it was compiled from the recollections of former employees who may believe that they were unfairly terminated or forced to resign unfairly. In most cases when reporting what was stated I have tried to cull the opinions and innuendo and tried to report only the facts as they were reported to me.

A. Investigation by the Office of Inspector General (OIG) of the U.S. Department of Education

I recently learned this week from an interview with a former employee of the College that the Office of Inspector General of the U.S. Department of Education is conducting an investigation into allegations of misappropriation of funds by the President of the College. This investigation concerns allegations that the President of the College has paid child support payments to a woman who had an out-of-wedlock child by the President. At present it seems the allegations, as to use of Title III funds, have been deemed unfounded.

On Monday and Tuesday of this week I met with and spoke to a former senior administration employee of Paine College who confirmed that the President of the College had fathered an out-of-wedlock child. Proof was provided to me in the form of a state of Virginia Dept. of Social Services Release of Income Withholding Order that had been served on the College on or around October 15, 2008. See Exhibit "A". According to this former senior level Paine College employee, the President's payroll check was

attached pursuant to an Income Deduction Order issued by the Virginia Dept. of Social Services Division of Child Support Enforcement.

This former employee of the College represented to me that he went to the President and advised him of the receipt of the Income Deduction Order and that if he did not personally handle it he would be required to deduct the amount indicated in the Order from his payroll check. He stated that about a week or so later he received the document which is attached hereto as Exhibit "A", which released the attachment.

According to this former employee the OIG investigation involves allegations that improper payments have been made to the mother of the President's child from federal Title III funds received by the College. This former employee also stated that he had been interviewed by Special Agent Rodney Fair of the U.S. Department of Education's Office of Inspector General. See Exhibit "B". He stated that he was questioned concerning the President's use of federally awarded funds to make payments to the mother of his child. He stated that the interview took place 2 - 3 months ago. This employee reportedly advised Special Agent Fair that he had no knowledge of such payments.

On Tuesday, April 17, 2012, I spoke to another former senior level Paine College employee concerning his knowledge of the U.S. Department of Education investigation. He advised me that he was familiar with the investigation as he had been interviewed twice by Special Agent Rodney Fair and had been contacted for a third interview by his superior officer. According to this employee the interviews took place in December of 2011.

Also according to this employee the subject matter of the questioning was his knowledge concerning the fiscal affairs of Paine College and his knowledge of any payments made to the mother of the President's out-of-wedlock child. He stated that his understanding was that the child was born to a former student at Norfolk State College and that the child should now be about 5 years old.

He also stated that Agent Fair questioned him about his knowledge of the Paine College Board of Trustees. Specifically, he stated that Agent Fair wanted to know if any of the Board members understood their fiduciary responsibility to the College. Agent Fair reportedly asked this employee to name the members of the Board that understood their fiduciary responsibility to the College. This employee stated that he named 5 Board members. Whereupon, agent Fair asked this employee: "Are you sure they understand their fiduciary responsibility to the College"? According to this former employee, Special Agent Fair stated that he had spoken to three Board members and he questioned whether they understood their fiduciary responsibility to the College.

When asked how did the OIG's office get involved in investigating this matter this former employee stated that an employee of Paine College contacted the Department of Education with specific allegations of what had occurred. He stated that the Department did not investigate immediately but after looking into the allegations they

opened an investigation. This employee does not think highly of Dr. Bradley and detailed for me numerous instances of alleged corruption and mismanagement pertaining to the College's financial resources on the part of Dr. Bradley.

On Thursday, April 19, 2012, I spoke to Special Agent Rodney Fair. He stated to me that he could neither confirm nor deny an ongoing investigation. He stated that if I had any information of wrongdoing at Paine College he would be happy to receive it. He did state that he had interviewed several people associated with Paine College but that he could not disclose their identities nor what was discussed. He provided me with information concerning how those with information related to misuse of federal funds should report this information to the Dept. of Ed. Office of the Inspector General.

B. Auditor's Annual Financial Report

1. Delay in Preparing the June 20, 2012 Audit Report

The Paine College annual audit report for the period ending June 30, 2012 was not completed until March 22, 2012. The report was due at the last Board meeting in October, 2011. Before the scheduled meeting of October, 2011, I received a call from Mr. Summers who explained that he felt that the audit committee meeting should be cancelled. He explained to me that the auditors had not provided him with information that he needed to prepare for the meeting. I told him at the time that we would not cancel the audit committee meeting but that he should come to the meeting to explain what had happened.

I telephoned Bonnie Cox, the auditor. She explained that instead of him waiting on her, she was the one waiting on the College to provide her with documentation of transactions in the form of bank reconciliations that had not been adequately performed and recorded. She was surprised at the statements I reported to her that Mr. Summers had made to me. Subsequently, the audit committee meeting was scheduled for 7:30 AM. Members of the committee had a problem getting to the meeting so early. Reluctantly, I cancelled the meeting because the members could not make the meeting. No substantive audit report was made at the October Board meeting. It was decided that the audit committee would meet by phone when the audit was complete.

Over the next couple of months I called Ms. Cox to inquire of the status of the audit report. The last call was in December of 2011. She explained that she had done a draft report but was still waiting on the Colleges' responses to her findings.

I made no inquiries as to the status of the audit during January or February of 2012. In March, I received a call from the Ms. Juanita Harps indicating that Dr. Bradley wanted to meet with me concerning the audit. I had previously heard that Mr. Summers and the Controller had been terminated. We agreed to meet on Wednesday, March 7, 2012 for breakfast. I telephoned Ms. Cox the day before the meeting to inquire as to the status of the audit report. Ms. Cox stated that she was still waiting for a management response to her findings. She sent me a draft copy of the audit.

I met with Dr. Bradley who informed me that he terminated Mr. Summers because he was holding up the audit. He stated that had he not terminated Mr. Summers we would never receive the audit. He also informed me that he needed to borrow \$3 million and wanted to make a loan against endowed funds. I told him that in order to get my vote for such a request he would need to submit a detailed financial plan on what the purpose of the borrowing would be and how it would be repaid. I subsequently sent him an email containing the information I would like for him to submit for this purpose. See attached Exhibit "C". I never got a response to my request for information.

After the meeting with Dr. Bradley, I asked the auditor, Ms. Cox, to send me a list of the things she would need in order to complete the audit. Her communication to me in this regard is attached as Exhibit "D". Subsequently, new personnel was brought into the College's business office. Ms. Cox and her staff were able to complete the audit and issue the final audit report on March 22, 2012. It is attached as Exhibit "E".

2. Employee turnover in the Business Office

As stated above, and as you have probably already learned, the V.P. for Administrative and Fiscal Affairs was fired, along with the Controller, and the Student Accounts manager. Later, another mid-level employee in the Business Office resigned. As a result of this sudden turnover of employees in the Business Office the fiscal management of the College was thrown into disarray.

I have spoken to Mr. Leroy Summers, the former V.P. for Administrative and Fiscal Affairs on several occasions since his employment was terminated. From my discussions with him, and on one occasion with President Bradley, it seems he was terminated as a result of not providing the auditors with information that they had requested in a timely fashion. Mr. Summers' position is that the auditors had the information but did not realize what they had. Dr. Bradley's position is that Mr. Summers was incompetently performing his duties and was not trying to get the audit completed. According to Mr. Summers, Dr. Bradley told him on a Friday afternoon to have the audit on his desk by 12:00 noon the following Monday or have his resignation on his desk by 12:00 noon. Summers says that he told Bradley he could have it (his resignation) that day.

The following Monday, the Controller, Kelly Kindell, was also summarily terminated. Nancy Summers, Mr. Summers' wife, who was the Student Accounts Manager was also fired that Monday. Melissa Evans-Hall, the Asst. Controller, resigned three weeks later. In the span of three weeks time the entire mid to upper level management in the Business office at the College was gone.

Chaos ensued in the aftermath of these terminations and resignations. Student refund checks bounced. A group of students lead a protest on campus. The College received negative publicity in the local TV and print media. Students have posted many negative comments on www.studentreview.com urging other students not to attend the College because of mismanagement, fraud and corruption at the College on the part of its

administration. To this day students are still claiming to have been short changed by the College on student refund checks.

In the wake of the Business Office fallout I have also spoken on numerous occasions with Kelly Kindell, the College's former Controller. Based upon these conversations I have gotten a better understanding of how the fiscal affairs at the College were handled under Mr. Summers. Additionally, Kelly Kindell provided me with a Narrative Statement as to how he came to be terminated from the College. It is attached as Exhibit "F". I asked Mr. Summers to provide me with a narrative statement from his perspective, however, he sent me an email indicating that he would decline my invitation to do so.

a. Financial Aid Issues

According to Kelly Kindell, the College was required by Dept. of Education regulations to transmit student financial aid refund checks to students within 14 business days of receipt of funds from the Dept. of Ed. His statement to me was that in December, 2011, the College made a draw of funds in the amount of approximately \$800,000. A portion of these funds were to be refunded to students. According to Kindell, these funds were used entirely to pay payroll. He estimated that at the time the College had over \$1.2 million in bills due, or past due. He stated that Mr. Summers presented the total of these bills to the President and the President approved paying only the bills that were over 60 days past due. According to Mr. Summers, he stated to me that he broke the bills down into the amounts that were over 60 days past due. He stated that the bills over 60 days past due amounted to about \$800,000. Mr. Summers stated that he got approval to pay this amount. Both men indicated that the portion of the draw due to the students as a refund was not made.

In January of 2012 another draw was taken. According to Kindell the draw was approximately \$1,000,000. This time the funds were used almost exclusively to pay the bills that were past due by 60 days or more (approx. \$800,000). Again, the student refund portion of the draw was not made to the students as required by federal financial aid requirements. According to Mr. Summers, at the end of the calendar year 2011 he ran a report that showed the total amount of student refunds that was still outstanding and owed to students at calendar year end was \$1.2 million. He stated that many students did not know they were entitled to a refund. He stated that the policy of the college was to apply any positive refund balance to the next semester's bill if there were funds owing to the College.

b. Audit Issues

Mr. Kelly Kindell, became the Controller at Paine College on July 18, 2011. He had previously been in a similar role for 11 years at FAMU. According to Kindell, when he arrived at Paine the main operating account nor the subsidiary accounts had been reconciled for the reporting period. He advised that the accounts should be reconciled on a monthly basis but that when he got to Paine College the accounts had not been

reconciled all fiscal year. He stated to me that a business office team of persons worked on the reconciliations to get the books in order for the auditor's review. He said he did the detail work and analysis to make the reconciliations tie in on a month to month basis and submitted the completed reconciliations to the auditors.

He stated that later in the process, i.e. months later, the auditor's asked for the post period reconciliations for the month of July, 2011. Reportedly, the person responsible for the reconciliations did not know how to perform her job to get the reconciliations done. He stated that he reported this to Mr. Summers with a recommendation to remove her from employment. He stated that Mr. Summers refused to do so on the grounds that she was in with the President. Kindell stated that he refused to show her how to do the work because she was making too much money not to know how to perform her job. As a result, he said that Mr. Summers did a spreadsheet template in order to guide her in performing the reconciliations. The work was completed and sent to the auditors.

He stated that the auditors then asked for back up information to tie in numbers from the financial aid module to the general ledger. This required that they had to get information from the financial aid people. He said this information was transmitted to the auditors at least three times but to different people on the audit team from Cherry, Baekert and Holland. It was at this point that there were communications between Mr. Summers and Bonnie Cox wherein Ms. Cox stated that she did not have what she needed.

It was her email to Summers on Friday, February 3, 2012, that was copied to Dr. Bradley that led to Dr. Bradley terminating Mr. Summers. According to Kindell, it was Summers finally standing up to Dr. Bradley that lead to his demise. When asked what was his opinion as to what was wrong with the Business Office at Paine College he stated that they did not have the qualified personnel to perform the tasks needed. He stated that they did no actual accounting only processing. As a result, he stated, transactions were often recorded to the wrong accounts. This conclusion is born out by the financial statement findings of the auditors.

c. Spending Issues

Both Mr. Kindell and Mr. Summers stated that the spending was way out of control and that the administration did not know how to manage expenditures. They both pointed to many wasteful expenditures. Mr. Kindell cited the fact that Dr. Bradley would randomly give out raises and bonuses to his favorite employees, for example, he gave Dr. Tilley a \$15,000 bonus; Michael Summers a \$28,000 raise; Ms. Harps two (2) \$4000 bonuses; and gave Brandon Brown a \$2000 raise.

Mr. Summers echoed this sentiment that the spending was uncontrolled. He cited the example of how Brandon Brown called him one Saturday morning to inform him that he was at a car dealership purchasing five (5) vehicles. Summers said he had not previously been informed of these purchases and did not know there was a need. Almost universally, those interviewed cited the fact that at one time or another they had reported

the credit card abuse of Brandon Brown to the President or to Brandon Brown himself. They all reported that this was an unpopular thing to do and did not engender them to the President or Mr. Brown. A couple of the interviewees cited this as a cause of their termination.

3. The Audit Findings

The June 30, 2011 audit report indicates two (2) findings from the Financial Statement portion of the Audit; Eleven (11) findings associated with Federal awards and five (5) repeat findings from previous years, four (4) of which were noted as not corrected. (Audit pps. 32 -49). Given the sheer number of negative findings and uncorrected repeat findings, if Paine College were a state funded institution it would rate a 5, which is the worst rating a school could obtain. The significance of such a poor audit cannot be overstated given the dependency of the college on federal funding.

The purpose of this report is not to go into detail as to the particulars of each finding. That is the purpose of the audit committee meeting where each attendee can question the auditors as to the means and methods by which they have made the findings and conclusions they have reached.

CONCLUSION

In the reporting period Paine College received almost \$17.5 million in federal funding of one type or another. Of the total federal funds received almost \$13.6 million came from the Dept. of Ed. (Audit p. 24). Given the number and severity of the findings associated with Dept. of Ed. programs and the fact that many of these findings are uncorrected repeat findings, in my opinion, puts the College in jeopardy of receiving crippling future sanctions or suspensions of funding from the Dept. of Ed. As noted in the audit, the Perkins Loan program has been taken from the College. Also as noted, the college is not eligible to again participate in the program until 2014. (Audit Note 2 p. 25). I am told that the loss of the Perkins Loan program will be reported to SACS and that this report is likely to trigger further SACS review.

For the college to have an ongoing Dept. of Ed. OIG investigation, for any reason, is a major threat to the continued viability of the College given the potential that the Dept. of Ed. could determine a systemic inability to perform in accordance with Dept. of Ed. requirements for Title IV or Title III programs. In my general discussions with other professionals in the higher education community, concerning Dept. of Ed. procedures and policy it is my understanding that uncorrected repeat findings are likely to trigger a department review. An OIG investigation implicating the character and integrity of the College's CEO is particularly detrimental to the reputation and status of the college and calls into question the governance mechanisms of the College. This investigation, combined with the extremely poor audit, particularly as it relates to federal awards, is an ominous sign to governmental regulators. I have been told they are watching this Board to see what, if any, corrective action will be taken.