

Audit Committee Recommendations

September 12, 2005

BACKGROUND

AUSF 000382

BACKGROUND

- **On March 11, 2005, the Executive Committee received an anonymous letter alleging improprieties on the part of the Ladners.**
- **The Executive Committee authorized Arnold & Porter LLP to retain Protiviti, our internal auditors, to conduct an independent investigation.**
- **Ben Ladner was informed of the above and was urged to fully cooperate so that the matter could be resolved as quickly as possible, and all relevant documents were requested.**
- **Protiviti's plan was to review the University's travel and entertainment policy and use it as a base line to compare with the Ladners' behavior.**
- **On April 15 an interim report was submitted that cited numerous deviations from AU's policy and requested additional information from the Ladners. The Ladners' submission was provided in part on May 3.**
- **On May 11, Protiviti issued another report that was reviewed by the Audit Committee and then presented to the Board on May 13.**

BACKGROUND

■ Protiviti's preliminary findings at that time pointed to:

- Numerous violations of University policy
- Co-mingling of personal and University-related expenses and assets
- Lack of documentation, lack of specificity, and little, if any, oversight
- Poor judgment by the President
- General abuse of discretion and privilege
- A lavish lifestyle that was being underwritten by the University
- No formal budget process, spending guidelines, financial oversight or accountability for expenses relating to the President's Residence

BACKGROUND

■ At the May 13 Board Meeting, it was unanimously resolved:

- That the Audit Committee continue its investigation of the Ladners' travel and entertainment account and expenses relating to the President's residence and residential staff;
- That the Audit Committee review and recommend the necessary staffing for the residence and the appropriate role for, and status of, the President's spouse at the University;
- That the Audit Committee determine what, if any, taxable income must be attributed to the Ladners under applicable IRS rules relating to travel and expense accounts and household expenses and what amounts must be reimbursed to the University; and
- That the Audit Committee provide the Ladners every opportunity to respond and provide information relating to the investigation.

BACKGROUND

■ Further requests for documentation:

- Immediately after the May 13 Board meeting, George Collins briefed Ben Ladner on the Board's actions.
- On May 24, Leslie Bains and I met telephonically with Ben Ladner to expand on George Collins' synopsis and the Board's decision. We also discussed the plan to complete the investigation.
- On June 3, Ben Ladner was provided an outline of the audit's next steps and Protiviti's Interim Document Requests.
- A target date of July 1 was chosen in order to end this phase of the investigation.
- At that time, Ben Ladner was also requested to arrange interviews of Rodney Scruggs(Chef), Sally Ekfelt (Social Secretary) and Meg Clemmer and to provide whatever additional information he had by June 24. A partial and incomplete submission of the documents requested by Protiviti was received on July 1.

AUSF 000386

BACKGROUND

- On July 21, a letter "Re: Review of Expenses" was submitted by Wilmer Cutler on behalf of Ben Ladner. Its primary focus was a justification of his actions based on his 1997 employment agreement. There is substantial disagreement about the validity of the 1997 agreement, as the Board was never informed of its existence and there was no ratification process.
- On July 29, Protiviti issued a report that was provided to Ben Ladner.
- Ben's lawyers agreed that a three-week period was adequate time to respond, and the deadline of August 19 was established.
- On August 4, Ben's lawyers submitted additional documents.
- On August 19, Protiviti issued its most recent report, taking into account materials submitted by Ben's lawyers on August 4.
- Also on August 19, Wilmer Cutler submitted a response that was reviewed by the Audit Committee prior to its meeting on August 23.
- The Audit Committee met on August 23 and agreed on recommendations, which were then submitted to and accepted by the Executive Committee.

BEHAVIOR

AUSF 000388

BEHAVIOR

■ Attitude

- Ben Ladner's actions indicate that he believes he is not accountable to the Board. In fact, he has distain for many Trustees.
- He believes that he has extraordinary entitlements.
- He believes that he is not bound by the University travel and entertainment policies and does not have to follow commonly accepted procedures in incurring and reporting of travel, entertainment and residential expenses.
- He believes that many of the Ladners' personal expenses should be subsidized by the University.
- He believes that the chef, social secretary, driver, and housekeeper are, in effect, the Ladners' personal servants, rather than University employees.

BEHAVIOR

■ Actions

- Ben Ladner continually resisted and failed to cooperate with the audit, unless pressured to do so.
- He has expressed confusion about the nature and scope of the investigation although all of that had been made abundantly clear, both verbally and in written form.
- He will focus on a word or single concept, twist its meaning, and distort the purpose of any conversation.
- His recollection of meetings or conversations was often distorted; therefore, any discussions or meetings must always be attended by two or more individuals.
- He often criticizes and tries to undermine Board members, lawyers and consultants that have been selected to do various work.
- Sowing confusion, delaying and dividing are the same tactics that were employed by Ben Ladner in the compensation issue which, after more than two years, is still disputed by Ben.

BEHAVIOR

■ Actions (continued)

- I reference Pete Smith's resignation letter:

“ . . . in my 30 years as a compensation consultant with Watson Wyatt, I never had a more difficult client. More importantly, Ben wanted to control all information pertaining to his compensation very closely. At first I thought this was just a quirk, but as things evolved I began to wonder whether the intent was to hide the full scope of his compensation.”

“He did not work well with either of the compensation consultants advising the Committee; important elements of his pay were not fully understood or explained to the Board; his own CFO was in the dark concerning some elements of his pay; and the reporting of Ben's compensation on Form 990 was incomplete.”

“The irony of this is that the decision to look thoroughly into the issue of Ben's compensation was largely driven by the memo he wrote . . . requesting millions in additional compensation, a make-up for unrealized hoped-for investment gains in his split dollar insurance, etc.”

“As the [Compensation] Committee wrestled with this problem, dealing with Ben became increasingly difficult, and it began to feel like the Board reported to Ben, rather than the reverse. It was then that I decided to resign as a Trustee . . . I didn't think that it would be helpful for me continuing on the Board when I could no longer support him.”

PROTIVITI'S QUALIFICATIONS

AUSF 000392

PROTIVITI'S QUALIFICATIONS

- Leading international provider of internal audit services
- 1,500 professionals with 40 offices in North America, Europe, Asia and Australia
- Provide guidance and compliance with Sarbanes-Oxley
- Professionals assigned to AU's project are well qualified
 - Ken Yormark, Managing Director, CPA, certified Fraud Examiner
 - Pamela Stone, Director, BA & MA Justice, Director of the Forensic Practice KPMG, Associate member American Bar Association
 - Annie-Marie Minogue, BA Accounting, 25 yrs. in Forensic Accounting and formerly Assistant Special Agent in charge of IRS Criminal Investigation Unit, supervised over 100 criminal investigators

AUDIT ISSUES AND RECOMMENDATIONS

AUSF 000394

AUDIT ISSUES AND RECOMMENDATIONS

- **Events at the Residence totaled 2.6 per month during the last 3 years. Some were elaborate but many consisted of student receptions, Faculty meetings, Trustee buffets, etc.**

- **Dining**

- Food at Residence

- Imputed income for 3 years = \$68,000 is derived from data on total food purchases less amounts consumed at University events per Ekfelt files.

- Gibson Island

- Reimbursable expense for 3 years = \$16,300 is based upon testimony of the Chef who prepared meals taken to Gibson Island and estimated days spent at Gibson Island.

- Wine & Liquor

- Reimbursable expense for 3 years = \$43,500 is derived from data on total wine and liquor purchases less amounts consumed at University events per Ekfelt files. Can be reduced by valuing inventory at the Residence.

AUDIT ISSUES AND RECOMMENDATIONS

■ Dining (continued)

- Personal Entertaining
Reimbursable expense for 3 years = \$17,400. The Ekfelt files and calendars show 9 non-University events such as birthday parties for Ben and Nancy Ladner, an engagement party for Nancy Ladner's son, a party for Nancy's Gibson Island Garden Club, etc., which cost, on average, \$248.00 per person. For example, the engagement party cost \$365.00 per person.

AUDIT ISSUES AND RECOMMENDATIONS

■ Personal Use of University Employees

- Chef
 - Imputed income for 3 years = \$220,400, based upon EKFELT files and calendars indicating that only 32 events per year were held at the Residence. After allowance for preparation, it was concluded that the chef spends 23% of his time on University-related events.
- Social Secretary
 - Imputed income for 3 years = \$105,300 or 50% of Sally EKFELT's salary plus benefits, based on documentary evidence and EKFELT's testimony. Documentation submitted by Mrs. Ladner does not justify much of her activities as University-related. The calendars and event folders submitted confirm that Nancy Ladner's activities are only 36-50% University-related. EKFELT's time supporting Mrs. Ladner's University-related activities was determined to be on the high end of this range, with the remaining time being spent providing personal services to the Ladners.

AUDIT ISSUES AND RECOMMENDATIONS

■ Personal Use of University Employees (continued)

- Driver

- Imputed income of \$53,800 based upon the fact that Nancy Ladner is not entitled to a driver under the Contract even if on University business (a fact which cannot be supported); that, according to the drivers' records and other calendars submitted, much of the use was personal or to run errands for and/or with her—hair, nail, facial and doctors appointments, dry cleaning, shopping; As just one example, the driver takes Nancy to the salon, picks up her friends for lunch, returns to the salon, then drives them to lunch, waits and then takes them home.

AUDIT ISSUES AND RECOMMENDATIONS

■ Travel

- Paris May 2003. \$4,700 should be reimbursed to the University. No University business was indicated. This was a stop on the way to Sharjah for 2 ½ days and 2 days on the return to DC. Limousine was constantly at their disposal. Total cost per day \$1,045.
- London February 2004. \$4,000 should be reimbursed to the University. No University business was indicated. This was a stop on the back from Sharjah for 3 days. Limousine was used extensively. Total cost per day of \$1,143.
- Rome June 2004. \$2,300 should be reimbursed to the University. Counter claims of University business (lunch) with John Creagan of John Cabot University; but that fact is in doubt. Creagan has been contacted to resolve the issue. Even so, 1 ½ days in Rome for a single business lunch at a cost of \$1,533 per day.

AUDIT ISSUES AND RECOMMENDATIONS

■ **Travel** (continued)

- Florida February 2005. Cost of the trip was \$3,600 a portion of which (\$1,000) should be reimbursed to the University unless Nancy Ladner's participation can be justified.
- South Carolina July 2003. The trip was admittedly personal and \$600 should be reimbursed to the University.
- Atlanta April 2005. \$300 should be reimbursed to the University representing the cost of Nancy Ladner's airfare to Atlanta, Greenville, Charlotte and other cities with no apparent University business.

AUDIT ISSUES AND RECOMMENDATIONS

■ **Travel** (continued)

- New York September 2003. BL/NL Dinner at Jean Georges: \$90 of \$180 charge should be reimbursed to the University as Nancy Ladner had no University-related business. Calendar indicates Ben and Al Checcio met with two Trustees, then had lunch together, and met with a third Trustee in the afternoon.
- New York February 2003. BL/NL Dinner at Daniel: \$185 of \$370 charge should be reimbursed to the University as Nancy Ladner had no University-related business. The University driver was used to transport the Ladners to New York on Sunday morning and then to chauffeur Nancy Ladner around Manhattan the following day—according to the calendar entry, for example, to Sotheby's—while Ben and Al Checcio met with a Trustee and lunched with Bill Jacobs.
- New York December 2002. BL/NL Dinner at “57-57” in The Four Seasons: \$100 of \$200 charge should be reimbursed to the University as Nancy Ladner had no University-related business. The University driver was used to transport the Ladners to New York on Sunday afternoon and then to chauffeur Nancy Ladner “as she directs until departure” Tuesday from Newark Marriott where Ben Ladner was attending a Patriots League Meeting.

AUDIT ISSUES AND RECOMMENDATIONS

■ Limousine Expenses

- \$6,400 should be reimbursed to the University as they were incurred by Nancy Ladner. She is not authorized to use limousines, and many of the charges have no University-related purposes. Additionally, a car is provided for her use at University expense.

AUDIT ISSUES AND RECOMMENDATIONS

■ Credit Card Charges

- \$10,300 should be reimbursed to the University for miscellaneous purchases by the Ladners that have little, if any, documentation.
- \$1,700 should be reimbursed to the University for staff gifts purchased by the Ladners.

AUDIT ISSUES AND RECOMMENDATIONS

■ Miscellaneous

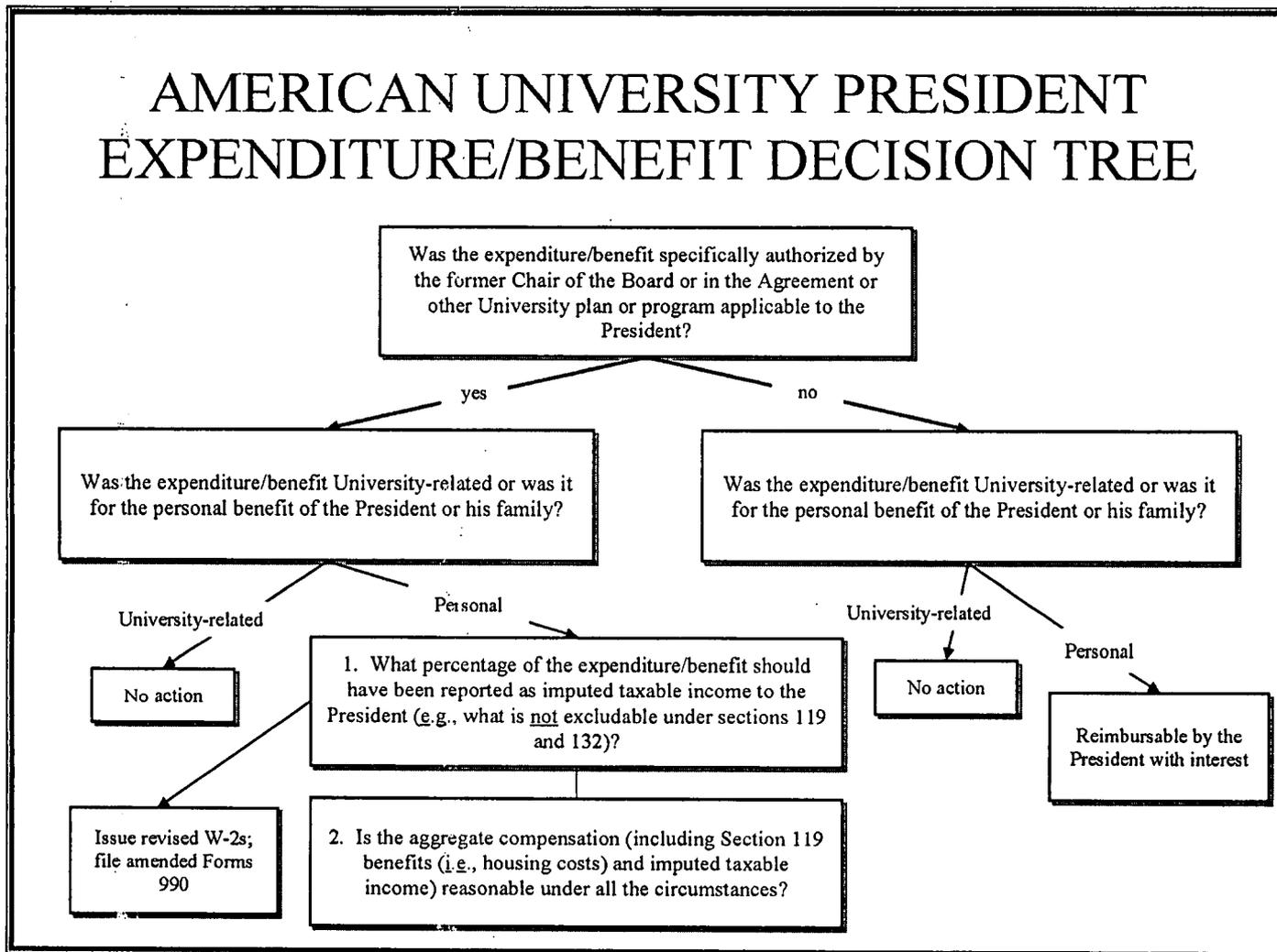
- Metropolitan Club Dues: \$6,000 should be imputed income to the Ladners as the membership is rarely used for University purposes—i.e., only 9 reported uses over 3 years, but used frequently for personal purposes (i.e., frequent mid-day work-outs, dinner). Determined to be 90% personal.
- Financial Services:
\$750 should be imputed income to the Ladners.
- Medical Charges:
\$400 should be imputed income to the Ladners.
- Automobile Lease/Nancy Ladner: \$9,900 should be imputed income to the Ladners as Protiviti has determined that there is no documentation for use of her automobile on University-related activities.

SUMMARY CHART		
ISSUE	AUDIT COMMITTEE	
	Imputed	Reimbursable
Dining		
Food at Residence	68,000	
Gibson Island	-	17,000
Wine & Liquor	-	43,500
Personal Entertaining	-	17,400
Personal Use of University Employee		
Chef	220,400	
Social Secretary	105,300	
Driver	53,800	
Travel		
Paris May 2003	-	4,700
London February 2004	-	4,000
Rome June 2004	-	2,300
Florida February 2005	-	1,000
South Carolina July 2003	-	600
Atlanta April 2005	-	300
New York September 2003	-	90
New York February 2003	-	185
New York December 2002	-	100
Limousine Expenses		
	-	6,400
Credit Card Charges		
Miscellaneous Purchases	-	10,300
Staff Gifts	-	1,700
Miscellaneous		
Metropolitan Club	6,000	
Financial Services	750	
Medical Charges	400	
Automobile Lease/Nancy Ladner	9,900	
TOTALS	\$464,550	\$109,575

N.B. The President certified to the University each year that his imputed income relating to the personal benefit received from living in the Residence was \$8,336.00, \$5,842.00, and \$7,345.00 in 2002, 2003, and 2004, respectively, for a total of \$21,523.00 for the 3 years.

AUSF 000405

AMERICAN UNIVERSITY PRESIDENT EXPENDITURE/BENEFIT DECISION TREE



PERSONAL USE OF THE DRIVER'S SERVICES

DATE	DESCRIPTION/ACTIVITY
01/03/02	Pickup NL for 1:00 apt at Luciene & Yvettes [REDACTED]
01/15/02	At 10:45 Take dry cleaning to fashion craft Bethesda, Md take watch to Repair Shop in Bethesda, MD
1/17/02	At 12:15 Go to residence Pickup NL drive her to [REDACTED] for Doctor's appt. Drop off @ 12:40 pm... Return to [REDACTED] Pickup NL @ 2:15 pm Return to Residence @ 2:20pm
01/17/02	At 3:00 pm Return to residence Pickup NL @ 3:20pm Drive to [REDACTED] Drop off @ 3:30pm... Return back to [REDACTED] St pickup NL @ 3:45pm return to residence
01/17/02	3:15 pm pick up NL for appt with Mustafa - [REDACTED]
01/31/02	Pickup NL from residence @ 9:45am To [REDACTED] For Doctor's Appt Wait and Return to residence @ 10:45am @ 12:00pm Drive NL to Renee Robinson's For lunch Wait and Return to residence @ 2:30pm
02/4/02	Some time today - package to post office and dry cleaning.
2/4/02	Go to resid. Take package to Postal Office Laundry to Dry Cleaner's... Return to resid Pickup NL Drive her to [REDACTED] @ 12:40pm for Luncheon Wait and return NL; to resid. @ 3:00pm
02/5/02	12:25 Pick up BL at POB 12:30 Hair Cut with Mustafa, [REDACTED] BL to residence for lunch
02/8/02	10:20 AM pickup NL for 10:30 AM appt with [REDACTED]
02/12/02	Pickup NL for 9am appt. [REDACTED]
02/12/02	Sometime before noon today pick up and deliver NL/BL dry cleaning for a one day turn around.
02/13/02	Anytime today please... fill a prescription for NL
02/15/02	9:30 AM- pickup NL for 10 AM appt - "lasik" consultation with Dr. [REDACTED] e, MD
02/19/02	Sometime today please take NL prescriptions.
02/19/02	10:15 AM: pickup NL for 10:30 AM Appt [REDACTED]
02/20/02	1:30 pickup NL for 2:00 [REDACTED] appt with [REDACTED]

AUSF 000407

Audit Committee Recommendations

September 26, 2005

AUSF 000416

BACKGROUND

AUSF 000417

BACKGROUND

■ Compensation Review

- In January 2004, Ben Ladner made a request to George Collins, the then-Chairman of the Board, for a \$1 million retention bonus payable over 5 years.
- Mr. Collins requested that the Compensation Committee review this request and Ben's overall compensation.
- Initially, PricewaterhouseCoopers ("PWC") provided assistance to the Compensation Committee, but the Committee was concerned that the data collected by PWC was not complete.
- Towers Perrin, an international compensation consulting firm, was then retained. Towers Perrin issued a report on July 19, 2004 concluding that Ben's compensation was 150% above the 75th percentile of the presidents of comparable institutions.
- Ben questioned the accuracy of Tower Perrin's findings.
- In November 2004, Pete Smith, the Chair of the University's Compensation Committee, resigned from the Board.

BACKGROUND

■ Compensation Review (continued)

- Also in November 2004, the law firm of Arnold & Porter LLP was retained by the Board to assist in completing the review of Ben's compensation.
- In January 2005, Arnold & Porter retained Mercer Human Resource Consulting to analyze compensation data from comparable institutions.
- On February 25, 2005, the findings of Arnold & Porter and Mercer were presented to the Board. As part of this presentation, the Board was provided with a copy of Ben's 1997 employment agreement, which the vast majority of trustees agree they had never seen.
- Ben objected to the findings of Arnold & Porter and Mercer.
- A final vote on Ladner's compensation package was delayed, at Ben's request, with the Board finally voting on a final package on April 12, 2005.

AUSF 000419

BACKGROUND

■ Investigation

- On March 11, 2005, the Executive Committee received an anonymous letter alleging improprieties on the part of the Ladners.
- The Executive Committee authorized Arnold & Porter LLP to retain Protiviti, our internal auditors, to conduct an independent investigation.
- Ben Ladner was informed of the above on March 15 and was urged to fully cooperate so that the matter could be resolved as quickly as possible, and all relevant documents were requested.
- Protiviti's plan was to review the University's travel and entertainment policy and use it as a base line to compare with the Ladners' behavior.
- On April 15 an interim report was submitted that cited numerous deviations from AU's policy and requested additional information from the Ladners. The Ladners' submission was provided in part on May 3.
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 - Co-mingling of personal and University-related expenses and assets
 - Lack of documentation, lack of specificity, and little, if any, oversight
 - Questionable judgment by the President
 - General abuse of discretion and privilege
 - A lavish lifestyle that was being underwritten by the University
 - No formal budget process, spending guidelines, financial oversight or accountability for expenses relating to the President's Residence

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- **At the May 13 Board Meeting, it was unanimously resolved:**
 - That the Audit Committee continue its investigation of the Ladners' travel and entertainment account and expenses relating to the President's residence and residential staff;
 - That the Audit Committee review and recommend the necessary staffing for the residence and the appropriate role for, and status of, the President's spouse at the University;
 - That the Audit Committee determine what, if any, taxable income must be attributed to the Ladners under applicable IRS rules relating to travel and expense accounts and household expenses and what amounts must be reimbursed to the University; and
 - That the Audit Committee provide the Ladners every opportunity to respond and provide information relating to the investigation.

BACKGROUND

■ Further requests for documentation:

- Immediately after the May 13 Board meeting, George Collins briefed Ben Ladner on the Board's actions.
- On May 24, Leslie Bains and Len Jaskol met telephonically with Ben Ladner to expand on George Collins' synopsis and the Board's decision. They also discussed the plan to complete the investigation.
- On June 3, Ben Ladner was provided an outline of the audit's next steps and Protiviti's Interim Document Requests.
- A target date of July 1 was chosen in order to end this phase of the investigation.
- At that time, Ben Ladner was also requested to arrange interviews of Rodney Scruggs (Chef), Sally Ekfelt (Social Secretary) and Meg Clemmer and to provide whatever additional information he had by June 24. A partial and incomplete submission of the documents requested by Protiviti was received on July 1.

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- On July 29, Protiviti issued a report that was provided to Ben Ladner.
- Ben's lawyers agreed that a three-week period was adequate time to respond, and the deadline of August 19 was established.
- On August 4, Ben's lawyers submitted additional documents.
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- Also on August 19, Wilmer Cutler submitted a response that was reviewed by the Audit Committee prior to its meeting on August 23.
- The Audit Committee met on August 23 and agreed on recommendations, which were then submitted to and accepted by the Executive Committee.

BACKGROUND

- Also on August 23, the Executive Committee voted to place Ben on administrative leave.
- On September 10, Wilmer Cutler responded to a series of long-outstanding questions.
- The Board met on September 12 to consider the Audit Committee's findings. At that meeting, the Board voted to have the Audit Committee analysis recently received information from Ben and report back to the Board.
- On September 20, Wilmer Cutler provided additional arguments regarding Ben's expenses and declined to provide a legal opinion regarding the appropriateness of taxable income relating to Ben's personal expenses reported by Ben and University.
- On September 26, Protiviti issued an addendum to its August 19 report, taking into account additional information collected by the Audit Committee and submitted by Wilmer Cutler.
- Arnold & Porter and Marriott Phelps are in the process of completing legal opinions for the Board detailing how each item raised by Protiviti in its investigation should be treated for tax purposes.
- A meeting of the Board has been scheduled for October 10, 2005 to consider the Audit Committee's final recommendation.

PROTIVITI'S QUALIFICATIONS

AUSF 000426

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- **Leading international provider of internal audit services**
- **1,500 professionals with 40 offices in North America, Europe, Asia and Australia**
- **Provide guidance and compliance with Sarbanes-Oxley**
- **Professionals assigned to AU's project are well qualified**
 - Ken Yormark, Managing Director, CPA, certified Fraud Examiner
 - Pamela Stone, Director, BA & MA Justice, Director of the Forensic Practice KPMG, Associate member American Bar Association
 - Anne-Marie Minogue, BA Accounting, 25 yrs. in Forensic Accounting and formerly Assistant Special Agent in charge of IRS Criminal Investigation Unit, supervised over 100 criminal investigators

AUDIT ISSUES AND RECOMMENDATIONS

AUSF 000428

AUDIT ISSUES AND RECOMMENDATIONS

- **Events at the Residence totaled 2.6 per month during the last 3 years. Some were elaborate but many consisted of student receptions, Faculty meetings, Trustee buffets, etc.**
- **Dining**
 - **Food at Residence**
Imputed income for 3 years = \$68,000 is derived from data on total food purchases less amounts consumed at University events per Ekfelt files.
 - **Gibson Island**
Reimbursable expense for 3 years = \$17,000 is based upon testimony of the Chef who prepared meals taken to Gibson Island and estimated days spent at Gibson Island.
 - **Wine & Liquor**
Reimbursable expense for 3 years = \$43,500 is derived from data on total wine and liquor purchases less amounts consumed at University events per Ekfelt files. Can be reduced by valuing inventory at the Residence.

AUDIT ISSUES AND RECOMMENDATIONS

■ Dining (continued)

- **Personal Entertaining**

Reimbursable expense for 3 years = \$17,400. The Ekfelt files and calendars show 9 non-University events such as birthday parties for Ben and Nancy Ladner, an engagement party for Nancy Ladner's son, a party for Nancy's Gibson Island Garden Club, etc., which cost, on average, \$248.00 per person.

For example, the engagement party cost \$345.00 per person.

AUDIT ISSUES AND RECOMMENDATIONS

■ Personal Use of University Employees

- **Chef**

Imputed income for 3 years = \$206,000, based upon EKFELT files and calendars indicating that only 32 events per year were held at the Residence. After allowance for preparation, it was concluded that the chef spent 27% of his time on University-related events.

- **Social Secretary**

Imputed income for 3 years = \$19,000 or 25% of Sally EKFELT's salary plus benefits, based on documentary evidence and EKFELT's testimony. Documentation submitted by Mrs. Ladner does not justify much of her activities as University-related.

The calendars and event folders submitted confirm that Nancy Ladner's activities are only 36-50% University-related. EKFELT's time supporting Mrs. Ladner's University-related activities was determined to be above this range, with the remaining time being spent providing personal services to the Ladners.

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Imputed income of \$53,800 based upon the fact that Nancy Ladner is not entitled to a driver under the Contract even if on University business (a fact which cannot be supported); that, according to the drivers' records and other calendars submitted, much of the use was personal or to run errands for and/or with her—hair, nail, facial and doctors appointments, dry cleaning, shopping; As just one example, the driver takes Nancy to the salon, picks up her friends for lunch, returns to the salon, then drives them to lunch, waits and then takes them home.

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AUDIT ISSUES AND RECOMMENDATIONS

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- \$1,700 should be reimbursed to the University for staff gifts purchased by the Ladners.

AUDIT ISSUES AND RECOMMENDATIONS

■ Miscellaneous

- **Metropolitan Club Dues:** \$6,000 should be imputed income to the Ladners as the membership is rarely used for University purposes—i.e., only 9 reported uses over 3 years, but used frequently for personal purposes (i.e., frequent mid-day work-outs, dinner). Determined to be 90% personal.
- **Financial Services:**
\$750 should be imputed income to the Ladners.
- **Medical Charges:**
\$400 should be imputed income to the Ladners.
- **Automobile Lease/Nancy Ladner:** \$9,900 should be imputed income to the Ladners as Protiviti has determined that there is no documentation for use of her automobile on University-related activities.

IMPUTED INCOME VS. REIMBURSABLE AMOUNTS

- The items identified by Protiviti as having no apparent University-related purposes fall into two categories:
- Unauthorized: If the items are not authorized by Ben's contract or otherwise, Ben must reimburse the University for value of these costs, plus interest.
- Authorized: If the items are authorized by Ben's contract or otherwise, the value of such items must be included in Ben's taxable income.
- The President certified to the University each year that his imputed income relating to the personal benefit received from living in the Residence was \$8,336.00, \$5,842.00, and \$7,345.00 in 2002, 2003, and 2004, respectively, for a total of \$21,523.00 for the 3 years.

SUMMARY CHART		
ISSUE	AUDIT COMMITTEE	
	Imputed	Reimbursable
Dining		
Food at Residence	68,000	
Gibson Island	-	17,000
Wine & Liquor	-	43,500
Personal Entertaining	-	17,400
Personal Use of University Employee		
Chef	206,000	
Social Secretary	19,000	
Driver	53,800	
Travel		
Travel	-	14,000
Limousine Expenses		
	-	6,400
Credit Card Charges		
Miscellaneous Purchases	-	12,000
Staff Gifts	-	1,700
Miscellaneous		
Metropolitan Club	6,000	
Financial Services	750	
Medical Charges	400	
Automobile Lease/Nancy Ladner	9,900	
TOTALS	\$383,850	\$120,575

AUSF 000439