

**FINANCE COMMITTEE
OF THE
BOARD OF REGENTS**

October 28, 1994

Required statutory notice having been given, a meeting of the Finance Committee of the Board of Regents was called to order at 9 a.m., with the following members of the Committee present:

Mr. Burns E. Mercer, Chair
Mr. Howard Gray
Mrs. Peggy Loafman
Mr. Cornelius E. Martin
Mr. Raymond B. Preston

In addition, all other members of the Board namely, Mr. Earl Fischer, Mrs. Kristen Bale, Mr. Robert Evans, Ms. Joy Gramling, Dr. Ray Mendel, and Mr. Fred Mudge.

Also attending were President Thomas C. Meredith, Mrs. Liz Esters, Staff Assistant to the President and Secretary to the Board of Regents; Dr. James Ramsey, Vice President for Finance and Administration; Dr. Robert Haynes, Vice President for Academic Affairs; Mr. Robert Rutledge, III, Vice President for Institutional Advancement, and Dr. Jerry Wilder, Vice President for Student Affairs.

- **Recommendation for approval of a resolution authorizing additional funds to be directed into instruction, research, and libraries**

Chairman Mercer asked Mrs. Peggy Loafman for a report on the Special Budget Committee of the Board which she chaired. Mrs. Loafman thanked the individuals who served on the Committee and reported that the Committee met twice, had considerable discussion, shared a lot of information, and asked numerous questions. The Committee passed the following resolution which she presented to the Finance Committee in the form of a motion for adoption by the Finance Committee. Mrs. Loafman's motion was seconded by Mr. Martin and passed unanimously.

WHEREAS, over the past five years some increase has occurred in instructional spending; and

WHEREAS, we would expect that amount to be higher inasmuch as the institution is now on a sounder fiscal footing than it was prior to 1988; and

WHEREAS, the Special Budget Committee of the Board of Regents, after reviewing information supplied by President Meredith and information supplied by Regent Mendel, believes that additional funds need to be directed into instruction, research, and libraries.

NOW THEREFORE BE IT RESOLVED, that specific and measurable goals and timetables need to be established within

PCS categories in order that we can measure the benefits of spending dollars in those categories, all in keeping with *Western XXI* and "*Moving to a New Level While Keeping Old Traditions*," as finally adopted; and

BE IT FURTHER RESOLVED, that President Meredith develop an Operational Plan which coordinates Western's move toward quality, *Western XXI*, and "*Moving to a New Level While Keeping Old Traditions*" and that while priorities established by the Board will guide the budget development process for 1995-96, the Operational Plan will be incorporated into the budget development process for 1996-97 and beyond.

Chairman Mercer thanked the Committee for a job well done.

- **Review of First Quarter Financial Statement for 1994-95**

Dr. Cecile Garmon, Assistant Vice President for Finance and

Administration discussed the financial statement for the first quarter 1994-95 and indicated that the format for presenting this information to the Board was altered from previous reports to:

- add a final column which lists the percent realized for the same period of time in 1993-94 as appears in the preceding column for 1994-95. This information was requested in order to make comparisons from year to year.
- add in the Revised Budget column a line "Prior Year Carry Forward Grants and Contracts" which explains the increase in the Revised Budget for that area. This information was previously merged into the total for Grants and Contracts without specific identification.

The above item was information and required no action by the Committee.

Secretary's Note: A copy of the report is filed in the Board's official files.

- **Recommendation for approval of the Revised Budget for the First Quarter Financial Report for 1994-95**

Motion for approval of the revised budget as presented was made by

Mr. Preston, seconded by Mrs. Loafman and carried.

- **Recommendation for acceptance of the 1993-94 Annual Financial Report**

Board members were each provided a copy of the 1993-94 Annual Financial Report and the audit reports from Baird, Kurtz and Dobson. A copy is filed in the Board's official files.

Dr. James Ramsey, Vice President for Finance and Administration, presented the 1993-94 Annual Financial Report for consideration and recommended the acceptance of the report. He indicated that the financial statements for the year ended June 30, 1994, are strong; revenues exceeded expenditures; an increase in the fund balance was experienced, and a clean audit it

brought forward to the Board.

State law, federal requirements and prudence require an independent review of the financial statements, Ms. Sherrie Stokes, of Baird, Kurtz and Dobson summarized the information required and included in the annual financial report.

Ms. Stokes noted that the independent report is required for two main reasons: (1) if the institution receives more than \$100,000 in federal financial awards per year, a report on the financial statement as well as addition procedures is required; also (2) the Commonwealth of Kentucky requires the report on the financial statement for the HB 622 which outlines the procurement procedures at the institutional level.

A clean opinion was issued that the financial statements fairly present the University's financial position for the fiscal year ended June 30, 1994.

Responses to the Management Letter Recommendations have been addressed by the University staff, and a copy of the response from Vice President Ramsey to President Meredith regarding each issue follows:

WESTERN KENTUCKY UNIVERSITY
Office of the Vice President
for Finance and Administration
July 16, 2009

MEMORANDUM

TO: Dr. Thomas C. Meredith, President

FROM: James R. Ramsey
Vice President for Finance and Administration

We are extremely pleased with the results of the audit of the financial statements of Western Kentucky University for the year ended June 30, 1994, as prepared by the independent certified public accounting firm of Baird, Kurtz & Dobson (BKD). We believe that the financial statement of WKU continues to reflect an improved financial picture for WKU as evidenced by:

- 1) revenues that exceeded expectations;
- 2) expenditures that were within budget expectations; and
- 3) an increase in the unrestricted fund balance.

As part of the audit of the financial statements, BKD has included four recommendations in the Management Letter to you and the Board of Regents. Also, as required by the Single Audit Act and OMB Circular A-133, BKD has prepared various letters that address the federal audit requirements for federally funded programs. The Independent Accountant's Report on Compliance with Specific Requirements Applicable to Major Federal Award Programs, provides several findings for your attention. It should be noted that BKD indicated that based upon their audit procedures, these findings represent immaterial instances of noncompliance with the requirement of OMB Circular A-133.

In an effort to respond to the recommendations and findings of BKD, we have prepared the attached analysis that addresses each of the management recommendations made to you and the Board. We have also responded to each of their findings pertaining to federal programs. We believe that we have addressed each recommendation and findings. If you or any member of the Board has any questions, feel free to contact us.

JRR:ttc

Annual Financial Report

MANAGEMENT LETTER RECOMMENDATIONS:

1. Refund checks from Vendors: BKD noted several instances in which refund checks were not remitted to the Commonwealth for up to two or three months after the date of receipt. It was recommended that these items should follow the proper channels in a timely manner so that the payment voucher can be promptly prepared to remit the funds back to the Commonwealth.

Response:

For those checks held in the Department of Purchasing, no delays were reported after October 1993. This recommendation was made in the 1992-93 Annual Report that was communicated to the Board of Regents and to departments October 1993. Purchasing put in place procedures to correct delays. No violations by this department occurred after they were made aware of this problem in the prior year audit.

Two other departments on campus were cited for delays. These two departments have indicated that they will promptly submit to Frankfort refund checks--one paying voucher in accordance with state regulations.

2. HB 622 reporting: BKD noted that the University is required to file a report of single source and emergency purchases made during the fiscal year--90 days following the fiscal year. This was not done for the fiscal year 1992-93.

Response:

We employed a new Director of Purchasing during this period, and this individual was unaware that this report was required to be filed in Frankfort. The Director of Purchasing has indicated that given this knowledge, the report will be filed in a timely fashion in the future.

3. Investments: BKD noted that the rate of return on investments held by the Trustee appeared to be less than expected. BKD recommended the University management investigate the reasons for this variance, and BKD recommends that specific investment guidelines be prepared and discussed with the trustee.

Response:

University management has had detailed discussions with the trust manager at the bank. University management has also had detailed discussions with the President of the bank concerning the rate of return on the portfolio for the most recent year. The University Internal Auditor is currently evaluating the performance of the bank.

Money managers are normally evaluated over a period of time, such as 5 to 10 years. According to information provided by the bank, the bank's performance on the accounts held in trust under the bond indenture averaged 9.8% for the last 10 years, 7.3% for the last 5 years, and 3.3% for the current year.

University management has drafted a detailed set of investment guidelines to be discussed with the bank. These guidelines have been reviewed by professional portfolio managers with the Commonwealth of Kentucky. They have provided information and suggested changes.

The Bank is currently assigning a new portfolio manager to the University's accounts and at the appropriate time these guidelines will be discussed with this individual.

4. Accrued Sick Pay and Salary Benefits: BKD had noted that GASB Statement #16 suggests that the liability for sick pay benefits and other salary related benefits applicable to either sick pay or vacation days be recorded. Given the June 30, 1994, effective date of this new GABS requirement, the current liability for Western Kentucky University is considered immaterial. The University intends to designate a portion of its four million dollar reserve to cover this liability.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FINDING NO. 1: ADMINISTRATION

PROGRAM:
Perkins Loan

RESPONSE: The two students in question were done in the early 80's prior to formalized procedures being adopted. Efforts are being made to comply with counseling requirements of Perkins Regulations.

FINDING NO. 2: ADMINISTRATION

PROGRAM:
Federal Work Study

RESPONSE: The Athletic Trainer has been advised of not accepting volunteer services from any paid employee. This practice has ceased in that area.

FINDING NO. 3: ALLOWABLE EXPENDITURES

PROGRAM:
Student Financial Aid

RESPONSE: The Department of Student Financial Assistance mails award notifications to the student. It is the responsibility of the Department of Student Financial Assistance to properly notify students of all federal awards. Award notifications are generated by the automated system and mailed to the student within a week of the award. The system indicated that an award notice was generated, however, there was not a copy in the student's file. The Department will make every effort to ensure proper notification to all students in the future.

FINDING NO. 4: ALLOWABLE EXPENDITURES

PROGRAM:
Pell 93-94

RESPONSE: The Department makes effort to file all reports, requests and corrections in a timely manner. The correction form had been completed and ready to mail. The delay was the result of an ice storm that closed the University for four days.

FINDING NO. 5: REPORTING

PROGRAM:
Research and Development Coal Bulk Analysis
Grant No. FG2293PC9321

RESPONSE: This is a first year grant and through oversight the report was submitted in March. Efforts will be made to file on a more timely basis.

FINDING NO. 6: REPORTING

PROGRAM:
Upward Bound
Grant No. PO47A20461

RESPONSE: There were some difficulties in acquiring some of the information needed to complete the report causing a delay. The Department of Education was notified and the University was granted an extension by phone.

FINDING NO. 7: ELIGIBILITY

PROGRAM:
Student Financial Aid

RESPONSE: The Department computed the cost of attendance based on a projected tuition increase. When the actual tuition increase was calculated, the Department failed to adjust the cost for graduate students. The Department will take every precaution to ensure that all cost calculations are correct.

Ms. Stokes noted that the Corrective Action Plan will be filed with the U.

S. Department of Education and with the State. All points noted in the financial package have been addressed and follow-up will be done in future audits to determine the status of the corrections.

Following a period of discussion, a motion for acceptance of the 1993-94 Financial Report was made by Mrs. Loafman, seconded by Mr. Gray and carried.

- **President Thomas C. Meredith recommends the following fund balance allocations:**

Academic

Instructional equipment	\$ 300,000
Ivan Wilson Auditoria seats	40,000
President's Special Grant Fund	75,000
Journalism remodeling	75,000
Consumer and Family Sciences (disposals)	4,275
Teacher Education (testing materials)	2,600
Psychology (laser jet color printer)	5,320
Education Technology (projection panels)	15,200
Graduate Studies (Faculty Research Fund)	40,000
Academic Advising (Advisers' Handbook)	4,200
Debt service on faculty computers	94,000
Upgrade faculty computers	40,000
Interactive Television (matching funds)	100,000

Student Affairs

Admissions (printer)	800
Financial Assistance (computer)	5,300

Institutional Advancement

Major Gift Campaign and Marketing Plan	350,000
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Institutional

Potter landscaping	25,000
Vans (3) (faculty, staff, and student travel)	60,000
Tennis courts (renovation and redirection)	40,000
Restroom and concession facility (ADA)	50,000
WAB (relocation to WAB)	100,000
Former President's Home (prepare for new tenants)	40,000
Facilities Management (equipment)	<u>150,000</u>

Total *** \$1,616,695**

***Note:**

The total of \$1,616,695 does not represent the total fund balance available. There is approximately one million dollars still available. A recommendation will be presented to you on that amount at the January meeting. More information is needed on a few additional items before a recommendation can be made. More definitive information has been requested regarding the need to replace fume hoods in Ogden and to reconstruct the replacement air system. This situation will be very expensive to correct, and the balance of the fund balance should be reserved until these unknown costs are received.

In addition to all of the above, a four million dollar institutional reserve will be maintained. *

Dr. James Ramsey, Vice President for Finance and Administration, and President Thomas C. Meredith led a lengthy discussion on the fund balance and the recommended allocations.

* Chairman Mercer noted the recommendation does not reflect an increase

in the reserve for next year and expressed an interest in seeing the University **continue to increase the reserve by the same percent as the percent of revenue increase for next year and keep the same percent that is currently shown in order to not deplete the reserve on a percentage basis.** Dr. Cecile Garmon indicated that it would take approximately \$200,000 to stay at the same percentage as 1992-93.

The Committee felt that this possibility of increasing the reserve should be further explored at the January meeting.

Motion for approval of the fund balance allocations was made by Mrs. Loafman, seconded by Mr. Preston, and carried.

- **President Thomas C. Meredith recommends the following items as budget priorities for 1995-96:**
 1. Resolution from the Special Budget Committee calls for an increase in funds directed into instruction, research, and libraries;
 2. Enhance faculty and staff salaries;
 3. Enhance student retention;
 4. Enhance minority student recruitment;
 5. Fund "Moving to a New Level..."

The last item on the agenda for the Finance Committee was a recommended budget priorities for 1995-96. Following a lengthy discussion regarding the recommended priorities, no action was taken by the Finance Committee on this item; rather it was referred to the Board as a whole.

With no further business to come before the Committee, motion for adjournment was made by Mr. Gray and seconded by Mrs. Loafman. The meeting adjourned at approximately 10:20 a.m.