

**KENTUCKY STATE UNIVERSITY  
BOARD OF REGENTS  
SPECIAL CALLED MEETING  
Tuesday, October 19, 2021  
10:00 a.m.**

**\*\*MEETING WAS CONDUCTED BY TELECONFERENCE\*  
Board of Regents Room  
2nd Floor Julian M. Carroll Academic Services Building  
Frankfort, Kentucky 40601  
(Primary Physical Location)**

**MINUTES**

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**I. Call to Order**

Chairperson Elaine Farris, Ed.D. called the meeting to order at 10:04 a.m.

**II. Roll Call**

Elise Borne, Board Liaison, conducted roll call:

Regent Ron Banks	Present
Regent Carolyn Burns, MD	Present
Regent Elaine Farris, Ed.D.	Present
Regent Paul Harnice, Esq.	Present
Regent Dalton Jantzen	Present
Regent Rahul Reddy, MD	Absent
Regent Roger Reynolds	Present
Regent Jason Robinson	Present
Regent Herman Walston, Ed.D.	Present

Eight Regents were in attendance. Quorum was established.

**III. Adoption of the Agenda**

**MOTION** by Regent Harnice:

Move the Board to adopt the agenda of the October 19, 2021 Special Called Meeting.  
Seconded by Regent Banks and passed without dissent.

**IV. Closed Session**

**MOTION** by Regent Reynolds:

Move the Board to go into Executive Session to discuss pending litigation pursuant to KRS 61.810 (1)(c), individual personnel matters pursuant to (KRS 61.810 (1)(f), and RFP Bidder Selection Discussion pursuant to KRS 61.810 (1) (n).  
Seconded by Regent Burns passed without dissent.

## **VI. Open Session**

**MOTION** by Regent Jantzen:

Move the Board to reconvene in general session at 1:22 p.m.

Seconded by Regent Robinson and passed without dissent.

## **VII. Public Action**

**MOTION** by Regent Harnice:

Move the Board to authorize KSU staff to complete the process that was outlined in the RFP for the executive search firm and to give KSU staff the opportunity and authorization to make the contract award.

Seconded by Regent Jantzen and passed without dissent.

## **VIII. Finance Assessment and Management and Improvement Plan Update**

Dr. Aaron Thompson, President of the Council on Postsecondary Education (CPE), and Hon. Travis Powell, Vice President and General Counsel of CPE, presented the Board with an update on CPE's Finance Assessment and Management and Improvement Plan Update. They expressed their gratitude to KSU's staff and faculty, Susan Krauss, Shaun McKiernan, Bill Payne, and Ryan Kaffenberger for their cooperation and hard work.

Mr. Powell commenced his presentation with a review of the July 20, 2021 Executive Order Related to KSU and then transitioned to an in-depth review of the Kentucky State University Financial Assessment performed by CPE. He assured the Board that this was not an audit or an investigation, but an exercise to assess the financial status of KSU. The final report will be approved by CPE at its meeting of November 5, 2021.

Mr. Powell stated that the review of KSU's cash reserves and working capital found that KSU's liquidity crisis began in 2019 when KSU experienced a significant drop in cash combined with an increase in liabilities. Among the major issues noted were overdue payments, staff being instructed to not pay certain vendors, students with outstanding balances, and asset preservation fee receipts used for operations. KSU's current cash position experienced some relief due to an advancement of the fourth quarter allotment from the Commonwealth and CARES Act debt forgiveness dollars. Current projections indicate that cash reserves will be depleted by March of 2022 and the \$5 million Revenue Anticipation Note will be used for April operations. Additionally, a non-recurring appropriation from the General Assembly is needed for continued operations beyond April.

Mr. Powell noted that CPE used widely recognized best practices and KPMG's publication titled, *Strategic Financial Analysis for Higher Education* to prepare the Financial Assessment. The team considered five fundamental research questions: does KSU have sufficient liquidity to meet its short and intermediate term obligations, does KSU have sufficient resources and are they flexible enough to support the university's mission, is KSU strategically managing its resources (including debt) to advance the university's mission, does KSU's asset performance and management support the university's strategic direction, and do KSU's operating results indicate that the university is living within available resources.

The team calculated four primary ratios using audited financial statements: primary reserve, net operating revenues, return on net assets, and viability. These ratios were then used to create a Composite Financial Index (CFI) score to measure KSU's financial health. It was discovered that KSU's primary reserve ratios were relatively financially healthy until 2018-19 when operating expenses exceeded operating revenues. KSU's descent into a financially unhealthy condition was driven by poor performance in the primary reserve and viability ratios, which make up 70% of the CFI score. Additionally, the net operating revenues ratio shows the structural imbalances causing the institution to finance operations with reserves, negatively affecting all three of the other ratios.

Mr. Powell provided a comparison of the CFI scores calculated by CPE versus the CFI scores previously reported in KSU's Management and Improvement Plan. He said that both scores were sound until 2018-19 when there was a drop in the score produced by KSU. Regent Harnice commented that the previous CFI scores were prepared by President Brown and CFO Allen and reported to the Board with the understanding that the information would go to CPE for further review. Dr. Thompson stated that under the HB303 management plan, CPE did not have direct oversight over KSU but did reach out to the former CFO to verify the scores and were provided with paperwork that corresponded with the scores. He further stated that the scores reported by KSU in the future will be verified.

Mr. Powell stated that CPE selected eight peer institutions for its Peer Group Comparison using the following criteria: HBCU; land-grant institution; located in continental United States; public four-year; degree granting, baccalaureate and above; and enrollment between 1,000 and 3,600. The comparison showed that KSU measured favorably in areas such as state appropriations, government grants, and student success but measured below in areas such as staffing levels and academic spending.

Mr. Powell asserted that all financial information provided to the KSU Board of Regents by KSU's current CFO was validated using audited financial statements and other information from financial institutions, the Commonwealth of KY, federal agencies, accounting systems, and an internal accounting analysis. All information communicated externally since the issuance of the Executive Order has been accurate.

Mr. Powell then summarized CPE's review of KSU's financial controls. The team concluded that the Banner system currently employed by KSU is inadequate for financial control and needs a complete overhaul. Additionally, the internal audit function was down for three years and the tip line was discontinued, KSU does not have a policy related to treasury management, no long range financial planning function or enterprise risk management function exists, KSU has a lack of sufficient budgetary controls, there was a failure to follow existing policies, has inadequate interim financial reporting, was subject to numerous external financial audit findings, and consistently missed audited financial statement deadlines.

CPE's preliminary recommendations to improve KSU's financial health include creating a culture of accountability and compliance, improving budgetary controls, providing a quarterly budget to actual report and GAAP statements to the Board of Regents, improving the accounting and reporting system and internal controls over financial reporting, outsourcing or co-source the Internal Audit function, reinstating the externally managed tip line, implementing a formal accounting and reporting framework for endowment distributions, improving collection of student accounts receivable, implementing a

comprehensive review of expenses to ensure that expenses are charged to the correct function and that costs are appropriately allocated to grants and auxiliary units, completing a review of academic programs and establishing appropriate faculty productivity metrics, creating a long-range planning process to support the strategic and capital investment decision-making process, implementing an enterprise risk management process to identify, evaluate and mitigate key risks facing KSU.

Mr. Powell highlighted the key takeaways from the assessment, including KSU's significant operating deficits in recent years, especially from 2019 forward, have resulted in the depletion of KSU's cash reserves and the existence of poor leadership over financial management. However, KSU compares very favorably to peer institutions in state appropriations, government grants and contracts, and tuition and fee revenue per student.

During the question and answer period, Regent Walston asked if much of this work would be done before the next President is appointed. Dr. Thompson replied that the work has already begun on moving towards a balanced budget and other measures such as student success.

Regent Harnice remarked that the meetings have been recorded and anyone can go back to hear the questions that were asked by the Board and to whom they were asked over the past four years. He then inquired about what is being done to rectify the faculty to administrative staff salary ratio. Dr. Thompson stated that there has been a lot of financial misreporting so further analysis is needed but the work has begun. Regent Harnice said that after hearing that employees were told to not attend the meetings and told to ignore certain policies, he wants to know if the financial tip line is now in place so employees are comfortable coming forward. President Stamps stated that a tip line was put in place by the internal auditor after learning that the former tip line had been discontinued.

Regent Banks noted that KSU needs leadership and staff, including alumni, who are not here for the paycheck and are here for the institution. Dr. Thompson agreed that alumni needs to be included in the conversation.

Regent Jantzen commented that the Board continually asked questions about KSU's finances and always received positive answers and asked for proof but received none. He also stated that it has been recorded in the minutes that our financial position was solid.

Regent Jantzen also stated that Banner is the perfect system for those who want to hide things so multiple checks and balances need to be put in place. Dr. Thompson agreed that technology needs to be updated. He stated that KSU's audit system needs to be functioning in a way that reports to the Board. The Board will be undergoing professional development so it knows what it needs to see.

Regent Farris stated that the Board has been talking about the importance of policies and procedures for many years but when leadership that does not comply with policies, the number of policies does not matter. She stated that the Board's disappointment lies with the leadership who chose to not follow policies and gave misrepresented and inadequate financial information. She said that KSU needs a robust evaluation system to create a culture where expectations are high.

Susan Krauss from CPE was available for questions from Board members. She commented that when interviewing financial staff members, that they truly love KSU.

They want to follow policy and comply with reporting but were told not to. This was truly an issue with senior leadership.

## **IX. Action Items**

### **A. Biennial Budget Request**

**MOTION** by Regent Jantzen:

Move the Board to approve the biennial budget request to cover the projected FY 21-22 cash shortfall of \$23 million and an additional \$1 million per year for the biennium strategic initiatives.

Seconded by Regent Banks and passed without dissent.

### **B. Management and Improvement Plan Recommended by CPE**

Mr. Powell reported that the broad areas of the Management and Improvement Plan include a comprehensive cataloging of university policies and procedures; guidelines for salaries and benefits; Board member training and development; organizational structure and development of human infrastructure; academic program offerings, course offerings, and faculty productivity guidelines; accounting and fiscal reporting systems, collections, budget and internal controls over expenditures, and financial reporting; and student success and enrollment management strategies.

**MOTION** by Regent Reynolds:

Move the Board to approve the areas for the Management and Improvement Plan.

Seconded by Regent Banks and passed without dissent.

### **C. Presidential Search Committee Composition and Charge**

Mr. Powell stated that the Presidential Search Committee will be composed of eleven (11) members, including one representative from the CPE selected by the CPE President who will serve as chair of the search committee; two KSU students, elected by the Student Government Association; two KSU faculty Members, elected by the Faculty Senate; two KSU staff members, elected by the Staff Senate; two KSU Alumni, elected by the KSU Alumni Association; two Frankfort community members, selected by the CPE President; one (1)-Frankfort community at-large representative; and one Frankfort K-12 Representative. The selected or elected presidential search committee members shall not be current members of the KSU Board of Regents.

The Search Committee is charged with identifying finalists for the KSU President; preparing a report for the Board of Regents that will provide a summary of the search process; identifying and evaluating candidates, including the strengths and areas of concern of each of the finalists; and making a recommendation to the Board of Regents of no more than three but not less than two finalists. The Committee will work with the executive search firm selected by the Board of Regents through the RFP process.

**MOTION** by Regent Reynolds:

Move the Board to approve the Presidential Search Committee Composition and Charge.

Seconded by Regent Harnice and passed without dissent.

**D. Courseleaf Software**

**MOTION** by Regent Jantzen:

Move the Board to approve the Courseleaf Software Contract.

Seconded by Regent Harnice and passed without dissent.

**E. Ellucian Contract Amendment**

**MOTION** by Regent Banks:

Move the Board to adjourn.

Seconded by Regent Reynolds and passed without dissent.

**F. Crowe Contract**

CFO Rush stated that the contract cost is \$18,000 more than the previous year because KSU didn't have a controller from May to September and had a new CFO so additional work is anticipated.

**MOTION** by Regent Walston:

Move the Board to approve the Crowe contract.

Seconded by Regent Reynolds and passed without dissent.

**G. McCarthy Strategic Solutions Contract**

**MOTION** by Regent Harnice:

Move the Board to approve the contract with McCarthy Strategic Solutions.

Seconded by Regent Jantzen and passed without dissent.

**H. Purchase and Installation of Keyless Door Locks**

CFO Rush stated that one of the allowable uses for CARES Act dollars are items that reduce touch and the number of times people have to be in common facilities.

**MOTION** by Regent Banks:

Move the Board to approve the purchase and installation of keyless door locks for residence halls.

Seconded by Regent Reynolds and passed without dissent.

**I. IT Upgrades**

CFO Rush stated that the CARES Act allows universities use the funds to upgrade their technology infrastructure to support faster internet services.

**MOTION** by Regent Reynolds:

Move the Board to approve information technology infrastructure upgrades.

Seconded by Regent Jantzen and passed without dissent.

**J. Halls HVAC Upgrades**

CFO Rush stated that CARES Act allows universities to use the funds to heating and ventilation improvements.

**MOTION** by Regent Harnice:

Move the Board to approve The Halls HVAC upgrades.

Seconded by Regent Reynolds and passed without dissent.

**K. Authorization to Dispose/Sell Property**

Regent Walston shared that surplus property can also be transferred to charitable organizations under USDA federal grants and requested that this suggestion to be taken under consideration.

**MOTION** by Regent Harnice:

Move the Board to approve the authority to dispose, sell and/or transfer surplus property.

Seconded by Regent Jantzen and passed without dissent.

**X. Adjournment**

**MOTION** by Regent Jantzen:

Move the Board to adjourn.

Seconded by Regent Reynolds and passed without dissent.

The meeting adjourned at 3:53 p.m.

Submitted by:

  
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Roger Reynolds, Board Secretary  
Kentucky State University  
Board of Regents

  
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Dr. Elaine Farris, Chair  
Kentucky State University  
Board of Regents

\_\_\_\_\_ Approved with no corrections

Approved with corrections