EXAMINATION OF CERTAIN FINANCIAL OPERATIONS AND INTERNAL POLICIES AND CONTROLS OF KENTUCKY STATE UNIVERSITY

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March 22, 2023

Dr. Ronald A. Johnson, Interim President
Kentucky State University
400 East Main St.
Frankfort, KY 40601

Dr. Gerald Patton, Board Chair
Kentucky State University Board of Regents
13 San Marino Circle
Rancho Mirage, CA 92270

Dear Interim President Johnson and Chairperson Patton,

The Auditor of Public Accounts (APA) has completed its special examination of Kentucky State University (KSU). This report summarizes the procedures performed and communicates the results of those procedures.

The purpose of this special examination was not to provide an opinion on KSU's financial statements but to review its governance and certain financial activity. This review also provides recommendations to strengthen and improve internal controls to ensure financial management activities are accurate and transparent.

Our work was significantly impacted by KSU's inadequate or non-existent record keeping and continuously high rate of employee turnover. In some instances, requests were officially withdrawn after numerous attempts were made to collect the requested documentation, as based on KSU's responses to that date, we understood no additional documentation would be found to fulfill the request. Due to the clear failure of KSU's prior administration to follow basic, legally required record keeping protocols, alternative examination procedures were designed for multiple areas including budgeting, procurement and contracting, expenditure, travel and expense reimbursement, and federal grants.

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Detailed findings and recommendations based on our special examination are presented in this report to assist management in implementing corrective action. Overall, these findings indicate the following:

- Weak to non-existent internal controls and poor communication across the university, including over federal grants and internal endowed funds.
- Failure to ensure effective budget process to prevent overspending.
- Inaccurate and incomplete reporting of accounts payable.
- Extensive credit card usage without supervisory reviews or supporting documentation.
- Massive amount of employee turnover.
- Outdated accounting software that was improperly implemented and inadequate to keep track of financial activity.
- Outdated, rogue, or non-existent policies and procedures.
- Limited Board oversight, which was worsened by inaccurate or limited information provided from KSU administrators.
- Unallowable benefits awarded to members of former executive administration.
- Inadequate password and IT security controls.

Based on the seriousness of the findings, referrals will be made to the Kentucky Office of the Attorney General, the U.S. Attorney's Office for the Eastern District of Kentucky, the U.S. Department of Treasury, and the U.S. Department of Education.

We appreciate your assistance and the assistance of your staff throughout the examination and hope this report will help KSU make improvements for the university to thrive and continue to be an instrumental part of the public college education community of Kentucky. If you have any questions or wish to discuss this report further, please contact me, or Tiffany Welch, Executive Director.

Sincerely,

Farrah Petter

Farrah Petter
Assistant State Auditor of Public Accounts

CHAPTER 1: Introduction and Background

Following reports of severe financial difficulties at Kentucky State University (KSU), the departure of the university president, and extensive turnover of key financial personnel the General Assembly included in 2022 Regular Session House Bill 1, the Executive Branch Budget, a directive that the Auditor of Public Accounts (APA) conduct a special examination of KSU. The purpose of this special examination, which began on April 28, 2022, was not to provide an opinion on the University's financial statements or duplicate work of routine financial statement audits, but to evaluate governance and certain financial activities of KSU. Unless otherwise specified, examination procedures focused primarily on activity between July 1, 2018, and June 30, 2021. Examining Kentucky State University Foundation, Inc. was not part of the scope.

To address the objectives of the examination, the APA conducted 27 interviews, including KSU's former President, former members of the Board of Regents, as well as various former and current KSU personnel. Attempts were made to also interview the former Executive Vice President for Finance and Administration (EVP for Finance) and former Controller; however, they did not respond to several offers to be interviewed.

In addition to interviews, the APA also reviewed and analyzed thousands of documents, including but not limited to bank statements, policies and procedures, budgets, contracts, emails, credit card statements, purchase orders, invoices, federal grant awards, account ledgers, audit reports, investment reports, payroll reports, and Board of Regents (Board) meeting minutes.

Kentucky State University History

Land-Grant University

Kentucky State University is one of two land-grant universities in Kentucky. When an institution is designated by its state legislature or Congress to receive the benefits of the Morrill Acts of 1862, 1890, and 1994, it is considered a land-grant college or university. Every state and territory of the United States and the District of Columbia has at least one land-grant institution. As outlined in the first Morrill Act, the original mission of these institutions was to teach agriculture, military tactics, and the mechanic arts, as well as classical studies for members of the working class to obtain a liberal, practical education. As a land-grant university, KSU annually receives additional federal and state funding. KSU received $77.2 million in state general fund appropriations over the examination period, July 1, 2018, through June 30, 2021. The second land-grant university in Kentucky is the University of Kentucky.

Historically Black College and University

A Historically Black College and University (HBCU) is defined by the Higher Education Act of 1965, as amended, as:

> Any historically Black college or university that was established prior to 1964, whose principal mission was, and is, the education of Black Americans, and that is accredited by a nationally recognized accrediting agency or association determined

> by the Secretary to be a reliable authority as to the quality of training offered or is, according to such an agency or association, making reasonable progress toward accreditation.

The two HBCUs in Kentucky are KSU and Simmons College of Kentucky. However, KSU is the only public HBCU in Kentucky. For the Fall of 2021, KSU reported total student enrollment of 2,279.

Accreditation

In the Southern states, the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) is the regional commission responsible for the accreditation of degree-granting higher education institutions. The SACSCOC serves as the common denominator of shared values and practices primarily among the various institutions in the south that award associate, baccalaureate, master's, or doctoral degrees. SACSCOC accredits KSU to award associate, baccalaureate, master's, and doctor of nursing practice degrees. On December 10, 2019, Kentucky State University accreditation was reaffirmed by SACSCOC for a ten-year period.

Kentucky State University Leadership

Recent Presidential History

Dr. M. Christopher Brown II began serving as KSU's 18th President on May 15, 2017. He continued to serve for over four years until he resigned from KSU on July 20, 2021. The same day Dr. Brown resigned, Dr. Clara Ross Stamps was named Acting President. Additionally, on July 20, 2021, the Governor signed Executive Order 2021-504, which included the Governor directing the Council on Postsecondary Education (CPE) to "make recommendations to the KSU Board of Regents concerning KSU administrative structure and leadership." An 11-member Presidential Search Committee was formed in the fall of 2021 to begin the search for KSU's new president. However, through passage of HB 250 in the 2022 regular session, the General Assembly required the KSU Board of Regents (Board) to cease their search for a new president until April 15, 2023. When HB 250 was signed into law, the Board was required to search for an interim president with "experience in university governance with specific emphasis placed on turnaround experience to replace the current interim president, who may serve until replaced." As a result, on June 27, 2022, the KSU Board named Ronald A. Johnson interim President, and his appointment officially began on July 1, 2022.

Board of Regents Membership and Recent Changes

KSU is governed by an 11-member Board of Regents whose composition is prescribed by Kentucky state law. Kentucky Revised Statute (KRS) 164.321(1)(a), states:

> Each board of the comprehensive universities shall consist of eight (8) members appointed by the Governor, one (1) member of the teaching faculty, one (1) member of the university nonteaching personnel, and one (1) member of the student body of the respective university or college. The members appointed by the Governor

> shall be subject to confirmation by the Senate. The members of the board shall select a chairperson annually.

On March 25, 2022, the Governor signed Senate Bill (SB) 265 into law, which removed all eight gubernatorial appointees of the KSU Board but did not affect the three faculty, staff, and student regents. SB 265 required the Governor to select eight appointments to the KSU Board from 16 nominations submitted by the Governor's Postsecondary Education Nominating Committee by April 4, 2022. Those serving on the KSU Board before March 25, 2022, were considered by the Committee for nomination, and pursuant to KRS 164.321, appointees were subject to Senate confirmation. The Governor appointed eight members to the KSU Board on March 31, 2022, with only one member being reappointed. On April 14, 2022, the Senate confirmed all eight appointments to the KSU Board.

Board Bylaws

KRS 164.350 identifies the government of the University is vested in its Board and requires the Board to "adopt bylaws, rules, and regulations for the governance of its members, officers, agents, and employees." KSU Board bylaws are commonly referred to as the Gold Book. Consistent with Article VII of the bylaws, KSU annually elects a chairperson and vice-chairperson at the Board's first meeting. In addition, the Board appoints a Secretary and Treasurer. During the examination period, the Board appointed the former President to serve as the Board Secretary and the former EVP for Finance to serve as its Treasurer.

The bylaws outline the Board's basic internal operating rules. Specific to financial accountability and leadership, the bylaws include:

- Section 8.4 which states, "the Treasurer shall be responsible for the management of the financial affairs of the Board and the University in accordance with accepted budgetary procedures and state law. He/she shall receive and disburse money under the control of the Board, and perform all acts that pertain to his office under the direction of the Board. He/she shall present at each regular meeting of the Board a statement of the financial status of the University."

- Section 9.4(d) of the Gold Book provides that the Executive and Audit Committee (which is composed of the officers of the Board of Regents, the standing committee chairpersons, and the past Board chairperson), "shall also:

  (d) Monitor the effectiveness of management's system of internal control to prevent and detect fraud;

  (e) Ensure open communications among management, internal auditors, external auditors, and the Board;

  (f) Recommend to the Board the External Auditors/firm;

  (g) Discuss the annual audit report and other external audit issues with auditors and appropriate staff;

(h) Present the annual financial audit to the full Board;

(i) Review the annual internal audit plan and discuss the extent to which it addresses high risk areas with President;

(j) Review and submit the Internal Audit Charter to the Board for approval on a routine basis to include changes needed to ensure that the audit function is complying with professional standards, best practices, and addressing emerging audit issues.

The Executive and Audit Committee shall submit to the board of Regents for its ratification at the next full Board meeting a complete record of all actions taken by the Executive and Audit Committee."

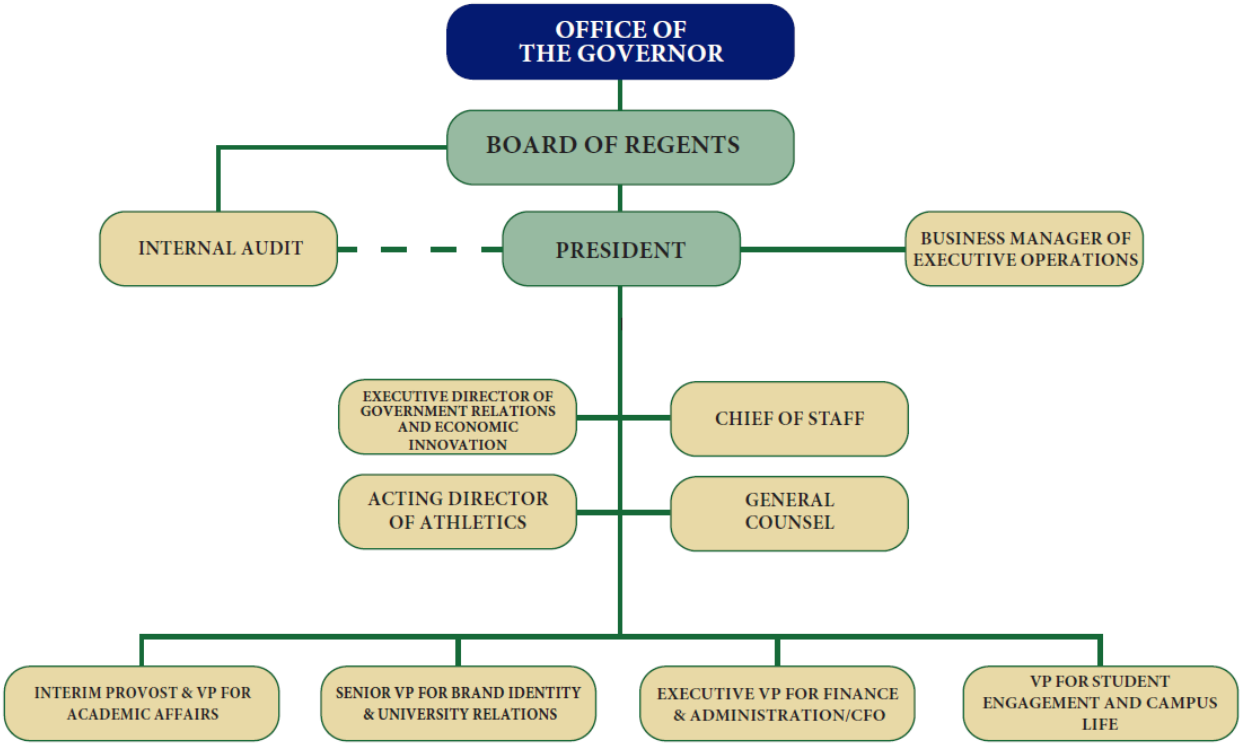
- Section 9.7 of the Gold Book states that the Finance and Administration Committee "shall review, evaluate, and provide guidance on financial and administrative issues, including the biennial budget requests submitted to governmental agencies, the annual operating budget of the University for each fiscal year, and all other financial, administrative, and budgetary matters. The President of the University shall appoint a member of the staff to serve as administrative agent to the committee."

- Section 10 of the Gold Book states that the President is the "chief administrative and educational officer of the University" and is tasked with preparing "annual budgets after consultation with, and input from, the Board and others as appropriate, and to recommend all other budgets and any modifications of these budgets as needed to the Board."

Kentucky State University Organizational Chart

In 2021, KSU had 173 faculty and 345 staff for a total of 518 total employees. Of those, 440 were full-time employees, while 78 were part-time employees. Figure 1 reflects KSU's organizational structure as of September 3, 2020, which consists of nine staff reporting directly to the President.

Figure 1: Organization Chart for KSU Senior Administration as of September 3, 2020



Source: Kentucky State University.

As identified in Figure 1, the senior administration of the University, in addition to the President, consisted of Internal Audit, Business Manager of Executive Operations, Executive Director of Government Relations and Economic Innovation, Acting Director of Athletics, Chief of Staff, General Counsel, Interim Provost & Vice President (VP) for Academic Affairs, Senior VP (SVP) for Brand Identity & University Relations, Executive VP for Finance & Administration/Chief Financial Officer (EVP for Finance), and VP for Student Engagement and Campus Life. With the exception of the Internal Auditor and Business Manager of Executive Operations, all senior administrators were considered members of the President's Council.

See Appendix A for the detailed organizational charts reflecting each divisional structure.

Kentucky State University Finances

Primary Revenue Sources & Total Fiscal Year 2020 Revenues (per KSU's audit financial statements)

KRS 164.092 outlines the comprehensive funding model for Kentucky's public postsecondary education system, including KSU. KSU receives funds each year from the Commonwealth's General Fund, from its own restricted funds, and from various federal funding sources. KSU's primary revenue sources include student tuition and fees, federal and state grants and contracts, state appropriations, draws on a revenue anticipation note, and housing and dining fees as well as other auxiliaries. Figure 2 presents the total revenue from KSU's last completed audit, covering the fiscal year (FY) 2020.

Figure 2: Total FY 2020 Revenues per Audited Financial Information

Revenue Sources	FY 2020
Operating Revenues	
Student Tuition and Fees (Net of Scholarship Allowances of $4,880,611 and $6,392,830)	$ 10,290,971
Federal Grants and Contracts	21,403,764
State and Local Grants and Contracts	1,992,740
Other Operating Revenues	971,948
Auxiliary Enterprises:	
Residence Halls	2,675,932
Dining	2,552,342
Bookstore	35,136
Other Auxiliaries	-
Total Operating Revenues	**39,922,833**
Nonoperating Revenues	
State Appropriations	25,766,500
Federal Grants and Contracts	4,703,308
Investment Income (Net of Investment Expense)	590,615
Interest on Capital Asset-Related Debt	(118,215)
Total Nonoperating Revenues	**30,942,208**
Grand Total:	**$ 70,865,041**

Source: APA, based on KSU's FY 2020 audited financial statement.

Operating Expenses (per KSU's audited financial statements)

KSU's operating expenses include employee payments, vendor payments, student payments such as scholarships and financial aid, institutional support, and operations and plant maintenance. See Figure 3 for total expenses from KSU's last completed financial statement audit, covering FY 2020.

Figure 3: Total FY 2020 Expenses per Audited Financial Information

Expense Categories	FY 2020
Operating Expenses	
Educational and General	
Instruction	$ 9,022,473
Research	6,929,355
Public Service	8,875,115
Academic Support	278,360
Student Services	8,646,414
Institutional Support	14,500,923
Operation and Maintenance of Plant	4,997,765
Student Aid	6,420,729
Depreciation	3,386,591
Auxiliary Enterprises	
Residence Halls	1,212,849
Dining	1,944,308
Other Auxiliaries	1,003,413
Book Store	1,007,162
Depreciation	299,069
Total Operating Expenses:	**$ 68,524,526**

Source: APA, based on KSU's FY 2020 audited financial statement.

Explanation of Audit Status

KSU's last completed financial statement audit was for FY 2020. In FY 2022, KSU engaged the services of a third-party accounting consulting firm to temporarily staff its accounting office and help management compile its FY 2021 and FY 2022 financial statements for audit. On October 12, 2022, a CPA firm was selected by the Board to perform the FY 2021 audit.

Kentucky State University Foundation

Established in 1968, the Kentucky State University Foundation, Inc. (Foundation) is an independent 501(c)(3) not-for-profit organization. The Foundation, as described in its Memorandum of Understanding (MOU) with KSU, is a fundraising corporation "created to raise, manage, distribute, and steward private resources to support the various missions of KSU." According to its 2016-2017 Annual Report, the Foundation's mission is stated as follows:

> The purpose of the Kentucky State University Foundation shall be to receive contributions, gifts, grants, devises, or bequests, or real or personal property or both from individuals, foundations, partnerships, associations, governmental bodies, and public or private corporations, and to maintain, use, and apply such property and inform therefrom for the benefit of Kentucky State University or for any student,

faculty, or staff member, or any line of work, teaching, or investigation of Kentucky State University.

On March 7, 2019, the Foundation and KSU entered into an MOU to advance KSU's mission (Appendix B). The MOU grants the Foundation access to use the University's name, but the Foundation is not to use the seal or other identifying marks of KSU. Additionally, the MOU states the Foundation will provide KSU access to its data and records "on a need-to-know basis in accordance with applicable laws, Foundation policies, and guidelines."

The Foundation is managed by a Board of Trustees independent from KSU. According to the Foundation's Code of Regulation, the Board of Trustees consists of three classes of 27 total trustees. Ex-Officio Trustees serve on the Board of Trustees until (a) the expiration of the trustee's three-year term or (b) the trustee's death or resignation. Elected Trustees have no limit on the number of terms they can serve and can serve until the trustee's death, resignation, or removal.

The Foundation's Board of Trustees is responsible for the control and management of all assets of the Foundation. The Foundation supports KSU by planning and executing comprehensive fundraising and donor-acquisition programs, including annual giving, major gifts, planned gifts, special projects, and campaigns. Funds from donors are invested and managed to support KSU student scholarships and research by students, faculty, and staff.

Council on Postsecondary Education Role & Management Improvement Plan

Executive Order 2021-504 (Appendix C), signed by the Governor on July 20, 2021, required CPE to independently review KSU's finances. Additionally, it required CPE to assess and report on KSU's financial status, make recommendations for the next biennial budget, and consult with the KSU Board on its administrative structure and leadership. As a result of Executive Order 2021-504, CPE released an assessment of KSU's current financial status in November 2021.

Following CPE's November 2021 assessment, the Kentucky Legislature passed 2022 HB 250 declaring an emergency, appropriating $23 million in FY 2022 to address "financial instability" at KSU. The Governor signed HB 250 into law on April 8, 2022. HB 250 requires ongoing financial oversight of KSU by CPE until such time as CPE reports to the Governor and the Legislative Research Commission (LRC) that KSU's finances are stable. Financial oversight to be provided by CPE includes but is not limited to CPE approving KSU expenditures of more than $5,000, receipt and review of monthly financial reports from KSU, and CPE providing a monthly report on the financial status of the University to the Governor and LRC.

By November 1, 2022, CPE was required to submit the management improvement plan to the LRC. As a result, CPE approved KSU's Management Improvement Plan on October 31, 2022, at a special-called business meeting.

Kentucky Auditor of Public Accounts - 2000 Audit

This special examination is not the only time the APA has conducted work at KSU. On July 28, 2000, the APA released a *Report to the Board of Regents of Kentucky State University, University Financial Controls*. The report outlined 16 findings, the actions taken to date, and recommendations. Findings included a lack of policies and procedures, no internal audit function, inconsistent and unaccountable handling of funds, inexperienced employees, incomplete reconciliations, incomplete financial statement adjustments, inappropriate information systems security, tainted reporting functions, inadequately controlled disbursements, inadequate budget preparation, deficient records maintenance procedures, ineffective management of student loan receivables, inadequate employee timekeeping, inadequate financial controls, and inequitable salary scales for employees. Many of the issues identified in the 2000 Audit persist, as reflected in the findings of this report. The July 28, 2000 Report can be found online at auditor.ky.gov.

CHAPTER 2: Overall Control Environment

Examination findings in this chapter discuss wide-ranging management and policy weaknesses at KSU that impact its overall operations. The findings in this chapter highlight the importance of having a solid foundation from which internal controls are implemented. Establishing this foundation is a basic responsibility of management.

Finding 1: KSU's Weak Internal Control Environment, Coupled with Poor Fiscal Management Practices, Led to a Pervasive Lack of Accountability.

KSU failed to fully implement and maintain an effective system of internal controls over its financial and administrative operations. KSU's administration for the period examined, July 1, 2018, through June 30, 2021, permitted and enabled poor fiscal management practices to persist, including: excess spending above budgets, consistent reliance on credit cards and charge accounts allowing for funds to be spent without encumbrance, growing outstanding accounts payable, incomplete accounting records, and an inadequate accounting system. These practices indicate a weak financial condition; however, as seen in later findings the former KSU president and KSU Board were not consistently given accurate information to understand the true picture of the University's financial condition. Failure by KSU to establish, and foster, strong internal controls and sound fiscal management practices has led to a lack of accountability to the University's students, supporters, alumni, and to the taxpayers of Kentucky.

Communication and Tone at the Top

Interviews with current and former KSU representatives identified a siloed communication environment based on hierarchy. While a hierarchy is important to help define roles and responsibilities, it can breed poor communication across departments, isolate personnel, and prevents valuable information from reaching decision makers. Current and former KSU personnel describe a communication system where information was not to be shared or discussed outside of select groups, which created a fear of retribution if communication lines were crossed. This lack of communication and fear permitted known problems identified in Findings 3, 4, 5, and 17 of this report to go unaddressed. Additionally, it permitted the abuse of spending and authority described in Findings 10 and 12, and improper reporting to decision makers as evidenced in Finding 11 of this report.

Information was not shared or discussed outside of select groups, creating fear of retribution.

Failure to Fully Address Known Issues

As evidenced by the findings of this report, KSU's prior administration did not implement needed controls to ensure funds were monitored and used in compliance with applicable policies. Additionally, the prior administration was largely reactive, addressing certain issues only after they became critical; however, as evidenced by the findings of this report, for issues communicated, short-lived solutions or controls would be created but not fully implemented or maintained to resolve the issue. To be effective and efficient in its operations, KSU must move beyond acting only in response to crises. When reacting, the organization is prone to apply a short-term fix rather than develop a long-term solution. The entire administration, top to bottom, must be vested in correcting its operations for KSU to be successful.

Examples identified in the report, include:

- In June 2018, KSU's administration requested its Board to approve an endowment spending plan for internal endowed funds, allowing the University to use endowment income to help mitigate the impact of some of the current year budget reductions. The motion, which was approved by the KSU Board, identified that funds would be used as intended by donors "for scholarships, endowed professorships, and other-directed activities," but also identified internal controls that would be implemented to develop long-term policies, oversight, and reporting of endowment income used. As detailed in Finding 9 of this report, KSU failed to fully implement those controls but still withdrew over $2.7 million to supplement its cash balances.
- As noted in Finding 3, KSU contracted a CPA firm to provide internal auditing services, but the firm's preliminary report was not communicated to its former President or Board, as the former EVP for Finance chose not to provide a response to the audit findings, and without a response, the report was not issued.
- Additionally, in Finding 3, after hiring a full-time internal auditor and developing an internal audit plan for FY 2021, no work affiliated with the plan was completed or communicated. The former Internal Auditor attributed this to a lack of or incomplete records, an inability to access people and information due to COVID, and directives from the former EVP for Finance to not cooperate with the internal audit process. KSU's former President was aware the Internal Auditor was not getting the requested financial information and stated that he requested the former EVP for Finance assist the former Internal Auditor, but the former EVP for Finance responded that he was working on the external audit.
- Related to information technology, our review identified 28 user classes that were not being used (stale accounts), as reported in Finding 17. KSU staff advised these user classes were created by a former employee in August 2010 and, while it was a known issue for years, no action was taken to address it. Stale accounts pose a security risk as they can be used to compromise an entity's system.

The administration must ensure internal controls are fully implemented and monitoring is maintained for controls to be effective. Furthermore, management should prioritize identifying and resolving weak controls to ensure operations are efficient and effective, which will reduce the University's exposure to fraud, waste, or abuse.

Lack of Internal Controls and Oversight

The review of KSU's financial operations identified several instances in which KSU provided little to no oversight of its spending, records, and financial obligations. Some examples from the report include:

- Finding 2 identifies that the substantially incomplete condition of KSU's financial records limited APA procedures in multiple areas of the special examination including budgeting, procurement and contracting, expenditures, travel and expense reimbursement, and federal grants.
- Finding 4 identifies KSU lacks internal controls to prevent overspending and has failed to ensure the completeness of its accounting records. This includes having an outstanding

accounts payable balance of up to $5.3 million while at the same time having already drawn the full amount of its $5 million line-of-credit and also owing the State an additional $5 million from funds advanced to KSU for capital projects.

- Finding 6 reports on KSU's ineffective system of internal controls over federal grant expenditures, including the expenditure of funds for unallowable purposes. KSU's failure to implement effective controls put over $3 million in federal funds at risk.
- Finding 7 identifies a lack of budget controls and inconsistent reporting which made monitoring overspending difficult.
- Finding 8 identifies insufficient controls over KSU's procurement process and failure by KSU to properly maintain an inventory of existing contracts.
- Finding 9 explains KSU's draw of over $2.7 million in endowment earnings used to supplement its cash balances and KSU's failure to ensure funds were spent in accordance with donor restrictions.
- Finding 10 reports on benefits unapproved by the Board, including bonuses given to select executives during the prior KSU administration.
- Finding 16 identifies KSU lost retention of supporting documentation for travel expenses due to failing to pay its vendor.

Turnover and Lack of Succession Planning

Maintaining an appropriate level of qualified personnel is vital in the long-term planning and operations of an organization. Current and former personnel interviewed identified continuous turnover among KSU financial personnel and a lack of succession planning. Frequent turnover of key financial personnel, coupled with outdated or unknown policies and procedures and no succession planning, drains an organization of the institutional knowledge needed to ensure continuity of services and reduce inefficiencies.

Recommendations

While each finding of the report provides specific recommendations, we recommend that KSU management work to improve the "tone at the top" of its internal control environment. Internal controls should be enforced at all levels, expenditures should be fully supported by documentation that is properly retained, budget limits should be consistently enforced, and monitoring efforts should be fully implemented and supported.

<u>Finding 2: Examination Procedures Were Limited Due to the Condition of KSU Records, Policies, and Significant Staff Turnover.</u>

KSU did not maintain adequate documentation to support its financial and operational activity for the period July 1, 2018, through June 30, 2021. Initial requests for records were met with delayed responses by the current and former KSU staff and records made available were limited and disorganized. In many cases, the records did not exist at all or could not be located. The condition of KSU's records, coupled with the lack of updated policies and procedures (see Finding 5 for further discussion), staff shortages, and turnover in key university personnel prior to and during fieldwork, significantly limited examination procedures. Numerous alternative requests and examination procedures were developed throughout the examination to meet the established examination objectives. The revised approaches were sometimes successful, but several concerns still exist as discussed within this finding. Maintaining official records in this manner and failing to provide sufficient guidance to personnel increases KSU's risk of fraud due to the lack of accountability established by the university.

Budget Analysis

As noted within Finding 7 of this report, no written policies and procedures for the budget process exist and a consistent procedure was not followed in developing the budget. The original reports generated were not maintained. We received numerous reports from KSU personnel which were generated from the accounting system, but none tied directly to the totals provided to the Board during the examination period. Staff were unable to recreate the reports and did not understand the accounting system sufficiently to obtain historical information. As a result, we were unable to perform extensive analysis in this area and were unable to determine whether the Board was provided accurate budget to actual reporting.

Contract Testing

Numerous attempts were made beginning in May 2022 to November 2022 to determine KSU's population of contracts. The planned procedure was to select specific contracts to determine if they were properly procured and to determine whether related expenditures appeared reasonable, necessary, and had a related business purpose. However, each attempt to determine the University's population of contracts was met with a new set of issues. After seven months of attempting to collect a complete population of contracts, it was determined that KSU was unable to provide all requested documentation and, as such, auditors would proceed with testing based on the information collected to that point in time. Figure 4, summarizes the requests and issues encountered:

Figure 4: Contract Review Issues

APA Request or Revised Procedure	Response to Request	KSU Issue or Limitations
Original Request: Copies of all contracts in place at any time during the examination period and a report of all contract payments made by KSU during the same period.	No records were provided.	KSU is unable to fulfill this request as it has not consistently maintained a central repository of its contracts. Additionally, KSU's accounting system is unable to produce a contract payment report or a contractor report.
Revised Request Due to Limitations and Issues Identified: A copy of each contract in place during the same period that the former General Counsel was aware of, had custody of, and/or currently retained in the contract repository.	Former General Counsel provided 173 contracts, including personal service contracts, MOAs, property leases, Information Technology contracts and various statements of work.	•Not all contracts from the period were placed in KSU's central repository by the former General Counsel, her staff, or the Purchasing Director. •At some point, between November 2019 and October 2020, KSU lost an unknown quantity of electronic procurement documents loaded into KSU's previous contract repository system after KSU failed to pay its bill and the vendor locked them out of the system. Some of these documents exist in hardcopy around campus, but the electronic collection of documents was never recovered.
2nd Revised Request Due to Limitations and Issues Identified: A report of all payments made to a single vendor during the examination period receiving more than $10,000 in a single fiscal year, by vendor and fiscal year.	No such report was provided.	Report not possible as KSU staff had difficulty running such a specific report from the Banner accounting system.
Revised Procedure Due to Numerous Issues Identified: Review general vendor payment history files to identify vendors paid $40,000 or more in a single year. Note: $40,000 is the threshold triggering the formal bid process. Through this process an additional 113 potential vendors were identified for which services may have required a contract. Additionally, auditors identified through KSU emails, another 12 vendors for which inquiry would be made.	Former General Counsel offered responses for 41 of 125 vendors. Responses included: •Nothing available for 12 vendors. •14 contracts (in various stages: complete, not signed, draft, etc.) •5 Contract addendums, renewals, or extensions. •8 settlement agreements. •1 employment contract. •1 Lease.	Limitation exists in this approach as payments in KSU's accounting system do not always reference the related contract and some portion of the cumulative amount paid to the vendor may have been for services or products outside of a contract.

Source: APA

Credit Card and Store Charge Account Expenditure Testing

Requests for supporting documentation for selected credit card and store charge account expenditures remained outstanding for over two months. After the first month, documentation provided included purchase orders associated with select store charge accounts, but no other support. Over the next month documentation trickled in. Eventually, auditors were permitted to go onsite at KSU to manually search through boxes of records to try to find the requested supporting documentation. Through this search, twenty-two documents related to the American

Express credit card selections were found. After numerous requests and follow-up, and based on responses given by KSU since the original request was made, the APA did not anticipate receiving any additional records. As such, on November 10, 2022, the APA advised KSU that the APA was officially withdrawing its request for these items. Further discussion of issues related to expenditure testing appears in Finding 8.

Travel and Expense Testing

Efforts to examine travel costs incurred by KSU between July 1, 2018, and June 30, 2021, found KSU was not able to run a report from its accounting system to identify all travel costs paid to an individual. Like credit card and store charge account expenditure testing, requests for supporting documentation associated with KSU travel testing remained outstanding for over two months. Twice, the same records were provided. In response to the APA's request for "a report of all travel or expense reimbursements to KSU personnel and Board of Regents by individual for FY 2019, FY 2020, and FY 2021" KSU provided instead individual Travel Request forms. The Travel Request Forms are used in seeking approval for travel and advance payment of travel costs. Again, after numerous requests and follow-up, and based on responses given by KSU since the original request was made, the APA did not anticipate receiving any additional records. As such, on November 10, 2022, the APA advised KSU that the APA officially withdrew its request for additional travel request support.

A manual search for reimbursements from individual staff files was then performed. As noted in Finding 16 of this report, due to unpaid invoices for a travel processing system, KSU did not have access to supporting documentation so auditors were not able to determine whether staff reimbursements were valid and allowable. Additionally, review of nine additional reimbursements found two staff reimbursements with over $1,500 in unsupported expenditures.

Federal Grant Testing

As identified in Finding 6, numerous requests were made to current KSU staff to provide supporting documentation for transactions charged to federal programs. Many of the selected items could not be substantiated due to missing documentation or insufficient documentation provided. As with travel testing and credit card and store account expenditure testing, after months waiting for records with little to no records provided, the APA advised KSU that the APA officially withdrew its request for certain records.

Recommendations

We recommend:

- KSU maintain supporting documentation for all expenditures so that audit procedures can be performed. Complete supporting documentation is required to determine the validity and allowability of expenditures.

- KSU establish an organized system for retaining its financial and operational records. This system should ensure all records documenting financial activity are maintained in a manner by which records are readily identifiable and available for review.

- KSU staff receive training on the retention of documents. This training should be repeated periodically.

- KSU invest in an updated financial accounting system and provide appropriate level training to financial personnel. Training should be given on a continual basis to build staff to a proficiency level so that they can run the reports necessary to perform their work duties and readily address operational and financial issues as they arise.

Finding 3: KSU Failed to Adequately Support Its Internal Audit Function and Minimal Effort was Made to Ensure Internal Audit Reviews Were Completed and Communicated to Its Board.

KSU's internal audit function was intermittent in its existence and execution, was inadequately supported when it did exist, and was at times actively delayed. Management's lack of support of the internal audit function contributed to the weak oversight of the control environment at KSU and prevented issues from being detected and communicated.

During the special examination time period, internal audit services were secured at the request of the Board. These services were not supported by the former EVP for Finance and limited information was communicated to the Board. A preliminary report in July 2019 was not communicated to the President or the Board. The former EVP for Finance was provided the report but did not respond to the firm and the firm's attempts to have the report finalized. Without management's response, the report was not finalized, and the results were not communicated to the Board. In December 2019, KSU hired an Internal Auditor approved by the Board. Though the Board approved an Internal Audit Plan for FY 2021, there was no evidence of any work being completed or communicated. One of the primary reasons reported for the lack of work performed by the Internal Auditor was that the former EVP for Finance would not meet with him and his access to people and records was limited.

As to the contracted internal audit work, KSU retained a CPA firm from September 11, 2018, through June 30, 2019, for a price not to exceed $110,000. On March 4, 2019, this firm was asked to provide recommendations for improving KSU's procedures, efficiency, document flow, and internal control system related to the purchase card (P-card) program. The completed draft report was initially given to KSU financial personnel in July 2019 for response, but the report was never finalized. This report's observations and recommendations included:

- Enforce appropriate segregation of duties between credit card usage and transaction approvals
  - Policy for supervisors to review and approve cardholder statements was not enforced during the review period.
  - Current structure allows cardholders to dictate appropriate usage and potentially make improper or unnecessary charges to University funds without repercussion.
- Monitor P-card usage against other forms of payment.
  - P-cards were used to circumvent the PO process after requests were denied by the Purchasing department.
- Update the P-card policies and procedures manual.
- Implement training for P-cardholders and approvers.
- Timely deactivate P-cards held by terminated employees.

None of the former KSU Board members interviewed or the former President were aware of this report, though some were aware of the contract's existence. Emails from the CPA firm to the former EVP for Finance dated January 23, 2020, and January 31, 2020, requested a meeting to discuss the report and have it finalized. The January 23, 2020, email stated that an action plan was not needed to have it finalized if that was the University's decision. According to the firm, the

University stopped communicating with their auditors, so the firm was not able to finalize its report. However, KSU paid the firm $25,736 in FY 2020 for the internal audit services provided.

On December 5, 2019, KSU Board meeting minutes document the approval to hire an individual as the Internal Auditor, whose employment began January 2020. Former Board members and the former President stated that the Board pushed for the hiring of an internal auditor instead of a firm. Before the individual was hired in December 2019, KSU's last known Internal Auditor was hired in August 2015 and left in 2017.

Board meeting minutes from June 4, 2020, document the approval of a FY 2021 audit plan. This audit plan was revised on September 3, 2020, to include concerns brought to board members' attention. The audit plan, as revised per the request of the Board, included:

1. Analysis of Title III allocations and expenditures;
2. Review of KSU's hiring, promotion, and termination policies and procedures (of staff only);
3. Analysis of the University's complaint and grievance procedures;
4. Analysis of vendor payments and processes;
5. Review of all University contracts and agreements; and,
6. Completion of an annual risk assessment (including COVID-19 related guidelines, processes, protocols, etc.).

Meeting Minutes from March 4, 2021, include an information item from the former Internal Auditor to the Board stating, "he has been unable to complete his Internal Audit Plan" as KSU's FY 2020 financial statement "audit is not complete due to the absence of the KSU Foundation audit."

Directives from the former EVP for Finance to not assist the internal auditor was one reason cited for why audit work was not completed.

According to the former Internal Auditor during an interview with the APA, the internal audit work noted in the FY 2021 audit plan was never completed. The reasons cited included a lack of or incomplete records, the inability to access people and information due to COVID, and directives from the former EVP for Finance to not assist the internal auditor. In addition, the former Internal Auditor expressed a lack of knowledge in using Banner (KSU's accounting system) and that assistance was needed. Had the internal auditor had opportunity to complete the analyses as identified in the Board approved FY 2021 internal audit plan, a number of issues addressed in this report, such as outdated policies and weak internal controls and oversight of KSU's financial operations, may have been identified and reported earlier to the Board.

KSU's former President stated he was aware that the Internal Auditor was not getting the requested financial information. He stated that he sent emails to the former EVP for Finance requesting assistance, but the former EVP for Finance responded that he was working on the external audit. He realizes now that this was a red flag.

The former EVP for Finance's lack of response and communication prevented the Board's knowledge of the internal audit report provided by the contracted CPA firm in July 2019. Once the former Internal Auditor was hired by KSU, the former EVP for Finance indefinitely delayed the work performed. Without an active and supported internal audit function, there is no method for the Board to objectively investigate concerns or evaluate the effectiveness of controls.

On October 12, 2022, the KSU Board approved a new contract for internal audit services to be provided by an external firm.

Recommendations

We recommend:

- The KSU Board or President, as appropriate, demonstrate the importance of the internal audit function by appropriately disciplining any officer, executive, or staff who fails to fully assist the internal audit function.

- The KSU Board, or committee of the Board, continue to actively engage with the firm under contract to provide internal audit services. The Board should require that all issues encountered by the external firm in conducting its work, including delays and lack of documentation, be reported directly to the committee or full Board.

- KSU, in conjunction with its contracted internal auditor, implement a hotline to receive anonymous concerns and complaints and develop policies related to an externally managed hotline to ensure a consistent process is established that will improve and document the procedures to assign, investigate, monitor, resolve, and report concerns and complaints, including those involving potential fraud and abuse. Once the policy is developed, it should be approved by the Board, and incorporated into its catalog of policies.

- KSU update its website to make the hotline more easily accessible to employees and the public.

- A summary report of hotline activity be periodically provided to the Board or a designated committee to ensure their awareness of any significant matters impacting the operations of the University.

- The Board develop a process by which it can independently keep track of approved contracts and follow up on the status of contracts, including when there should be a deliverable from the contract.

- KSU ensure findings and recommendations from the Procurement Card internal audit, performed by its prior internal auditing firm, are reviewed and considered in light of current procedures and activity.

<u>Finding 4: KSU Lacks Controls to Prevent Overspending and Failed to Ensure Completeness of Its Accounting Records.</u>

Review of the purchasing and accounting processes identified numerous control weaknesses that contributed to KSU's current financial condition.

- KSU's accounting system, Banner, does not autogenerate a hold preventing expenditures from being made when the account's budget has been exceeded.
- While KSU's policy requires select procurements be made using a purchase order process, this requirement was not routinely followed. Credit cards and direct pay check requests (which allow direct payments to individuals and vendors without a purchase order) were used, circumventing internal controls over spending.
- Credit cards were used extensively without any supervisory approvals and vendor information was not recorded in a manner that would allow staff to track all payments made to a vendor.
- Checks reported in the Banner system could be voided within KSU's check writing system causing its accounting system to incorrectly identify a payment as being made though it was still outstanding.

Without addressing these issues, KSU did not control and properly monitor its spending. Among issues identified:

Spending Controls

When a purchase is requested, KSU's accounting system will notify purchasing staff that the account does not have sufficient funds, but it will still permit the purchase to be processed. This is discussed further in Finding 7. To ensure KSU stays within the approved budget, the system should be programmed to reject the requisition and require a budget amendment to proceed. Also, KSU personnel identified, that during the examination period, the process would allow the former EVP for Finance to make the decision to move forward with the purchase even if it exceeded the budget. This practice permitted the former EVP for Finance to control the budgets of all departments at a centralized position rather than permitting department heads to have control over their budgets.

The purchase order method is the best method for controlling expenditures, as when purchase orders are created in Banner, the entire amount of the purchase order is encumbered in the system so that the applicable budget is reduced by that amount.

- KSU reports that during the period FY 2019 through FY 2021, approximately 12-24 personnel had credit cards that could be used instead of a purchase order.
- If staff did not have an approved purchase order and needed to pay an invoice, a direct check was requested.
- Additionally, if the staff person did not have a KSU credit card, a personal credit card could be used for payment and a reimbursement requested from KSU.

The control of using purchase orders to prevent budget overages and control spending was futile as other unregulated methods were allowed for purchasing.

Numerous staff had KSU credit cards for which supervisor approval was not required. While purchasing staff were to review each credit card statement and ensure a supporting receipt was attached, procedures revealed:

- Supervisors were not required to review the statement to ensure receipts existed or that the expenditures were legitimate KSU expenses and not personal in nature.
- Credit cards were paid regardless of whether budget funds existed because the payment had already been incurred by the staff member.

With the former President stating that credit cards were used to manage all KSU purchasing and operations, this lack of institutional control is a material weakness.

Addressing these weaknesses is necessary to properly monitor and control spending within the university. If these weaknesses are not addressed moving forward, KSU cannot ensure that funds are purposefully spent towards meeting the University's goals and objectives.

Recording of Financial Activity in Banner

Though the Purchasing department creates its own internal report listing the credit card transactions with the vendor information included, vendor information is not recorded in Banner. In Banner, vendor information is entered in a description field with other data, but not in a vendor field that would allow KSU to track expenditures per vendor. This type of tracking information could be used to determine duplication, excessive spending, or help KSU identify services for which a contract may be needed. See Finding 2 in which difficulties in determining KSU's full contract population were noted.

KSU has a separate check writing system that is used after a check has been entered and approved in Banner. Staff with access to the check writing system, can void a check before it is printed without the void being reflected in Banner. According to KSU Accounts Payable, this has occurred and can create additional issues for KSU in addressing outstanding accounts payable as Banner will show that a check was written even though it did not actually occur. KSU's system will consider this an expense but KSU's bank account will not be affected. KSU's accounting system and banking information will not agree for reconciliation purposes.

Accounts Payable and Cash Flows

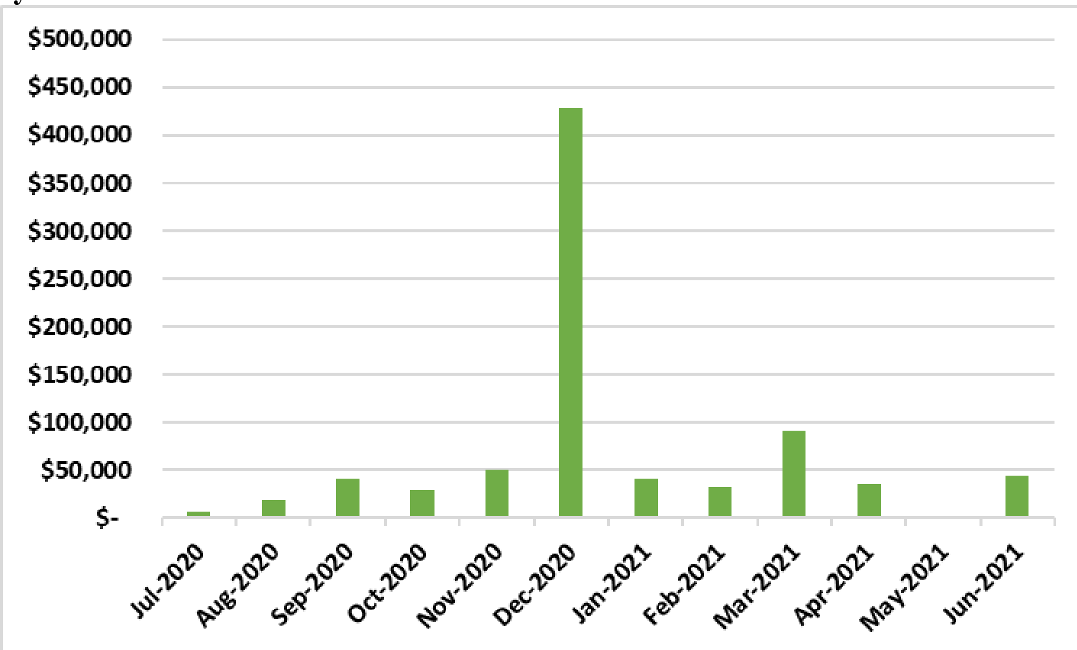
As noted by current and former KSU personnel, Banner has not been accurately implemented by KSU; a problem that has been reportedly ongoing since it was fully implemented by KSU in 2011. This has led to difficulties in extracting data from the system and caused staff to resort to maintaining financial tracking and monitoring tools external to its accounting system. Additionally, due to consistent cash flow problems encountered by KSU throughout the period, accounting and accounts payable staff were meeting and communicating regularly with the former Controller and former EVP for Finance to determine the invoices that could be paid weekly. The APA was able to reconstruct some of this data through a review of emails maintained by KSU for the period July 1, 2018, through June 30, 2021, for select members of KSU's former administration and financial personnel.

KSU utilized an accordion file to maintain a varying number of invoices outside of its accounting system.

In FY 2021, the former Purchasing Director, who was also over Accounts Payable, worked with KSU's Department of Institutional Research to develop a script through Argos, a vendor-supplied report generating software, that would extract Banner data into an excel file, allowing the creation of an official accounts payable report. This process occurred every two weeks and the report was distributed to the former Controller, the former EVP for Finance, and accounting and accounts payable staff members. At the same time, the former Controller and accounting personnel were tracking the bank balances and developing cash flow reports identifying how much money they could access at certain points in time. Under the direction of the former EVP for Finance, an amount of how much spending would be allowed week to week was determined and then invoices would be manually selected for payment using that predetermined spending allowance. Notwithstanding the foregoing software script, KSU utilized an accordion file to maintain a varying number of invoices outside of its accounting system. These invoices represented purchases not entered in Banner because a purchase order was not created or approved before the order was placed. As such, these invoices were not included in the biweekly AP reports and were not considered for payment until a purchase order or direct check request was processed.

In December 2020, after the former Purchasing Director's Fifth Third Credit Card limit was increased from $50,000 to $500,000, the former Purchasing Director began placing some portion of KSU's outstanding accounts payable on this credit card to pay vendors and give KSU more time to get the next quarterly state budget allotment to pay outstanding bills. State funds allotted to KSU are made available for draw down on a quarterly basis. On January 5, 2021, KSU received nearly $6.2 million from its 3rd quarter state allotment. Figure 5 identifies the former Purchasing Director's monthly Fifth Third credit card activity between July 1, 2020, through June 30, 2021.

Figure 5: Former KSU Purchasing Director's FY2021 Monthly Fifth Third Credit Card Activity

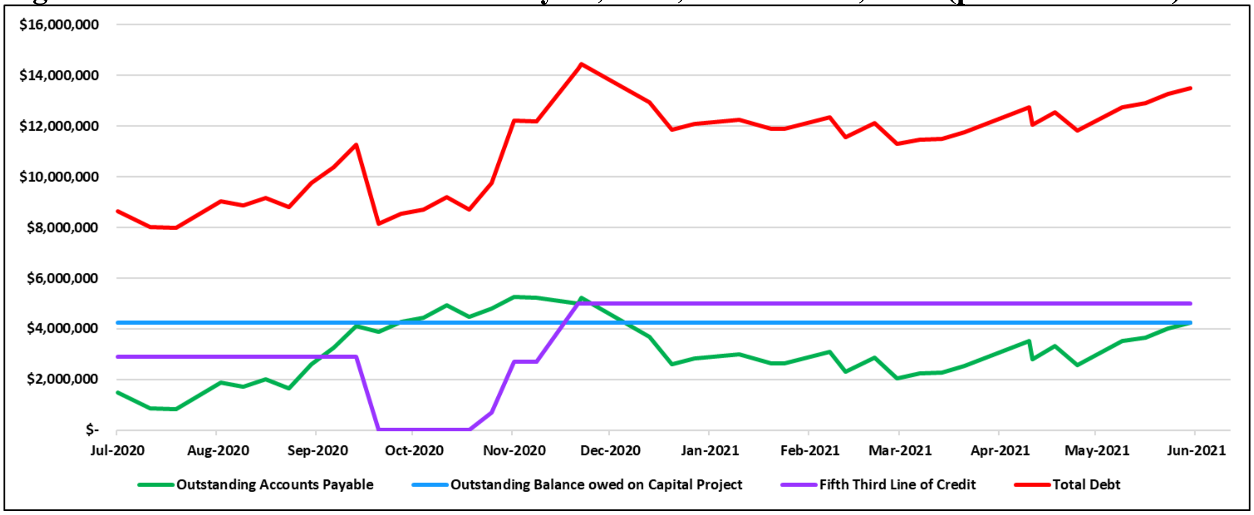


Source: APA, based on KSU former Procurement Director's FY 2021 Fifth-Third Credit Card statements.

KSU's attempt to reduce its outstanding accounts payable in December 2020, is reflected in Figure 5 by the significant spike in the former Purchasing Director's Fifth Third credit card activity. The December 2020 credit card balance of $428,871 was automatically paid from KSU's bank account on January 26, 2021. The attempt to reduce KSU's outstanding accounts payable in December 2020 corresponds with the timeline discussed in Finding 11 in which the former EVP for Finance provided incorrect accounts payable data to the President and Board Chair amidst questions and rumors of unpaid bills.

In addition to outstanding balances owed for invoices held outside of the Banner system, the official accounts payable report created through Argos did not include over $4.3 million owed to the State for funds advanced to KSU for a federally funded capital construction project and payments owed on its $5 million line of credit from the bank. In Figure 6, these items are collectively presented to give a visual graphic of KSU's total debt for the period between July 20, 2020, and June 18, 2021.

Figure 6: KSU Debt Trend between July 20, 2020, and June 18, 2021 (part of FY 2021)



Source: APA, based on KSU internal accounts payable reports, Line of Credit Reports, and OSBD email.

As identified in Figure 6:

- The green line represents KSU's outstanding accounts payable balance throughout most of FY 2021. Though incomplete, KSU's average accounts payable for FY 2021 was over $3 million, with the highest balance reaching almost $5.3 million in November 2020.
- The blue line reflects the nearly $4.3 million KSU owed to the State for an outstanding balance on a capital project throughout the year. On June 17, 2021, the former Director of Capital Planning and Facilities Management advised the former Controller and former EVP for Finance that the Office of State Budget Director (OSBD) would not approve any additional advances or cash overrides until the reimbursements were resolved. At that time, KSU owed a total of over $5 million to the state for advanced funding received for capital projects.
- The purple line represents use of KSU's $5 million Line of Credit with Fifth Third Bank. As shown in Figure 6, KSU carried $2.9 million on its outstanding FY 2020 line of credit over into the new fiscal year (FY 2021). This outstanding balance cost KSU an additional $8,885 in past due interest and was not settled until October 2020. By December 4, 2020, KSU had fully drawn $5 million from the FY 2021 line of credit and carried it as an outstanding debt into FY 2022.
- The red line represents a total amount owed by KSU throughout the year.

Given these facts, it is unclear how it was determined by KSU's former EVP for Finance that "KSU is on track to end the fiscal year in the black," which he reported to the Board's Finance and Administration Committee during its June 3, 2021, meeting. On August 18, 2021, CPE reported to KSU's Board a total of over $15 million of prior year expenditures were carried forward into FY 2022.

It is unclear how the former EVP for Finance determined KSU was on track to end FY 2021 in the black with over $15 million in prior year expenditures carried forward into FY 2022.

See Finding 11 for further discussion regarding the former EVP for Finance's reporting of outstanding accounts payable to the former President and former Board Chair in December 2020.

Recommendations

We recommend:

- KSU address the deficiency with the Banner system so expenditures that go over the budget are rejected and must be reviewed, and a budget revision be made before the override approval is given by the EVP for Finance. Budget issues should be discussed with the department head responsible for managing the budget and budget amendments should be presented to the Board.

- KSU provide continuous efforts to ensure that purchase orders are not circumvented. While emergencies will always occur, this situation should be rare. Documentation should be maintained when the PO process is not followed.

- KSU review its reliance on credit cards to meet daily operational needs. Any employee provided a credit card should require supervisory review and written approval of credit card spending. The review must ensure not only that the documentation exists, but also that the purchase was for a University necessity and not personal purpose, and sufficient budgeted funds exist to support the purchase. Additionally, if the expense relates to items purchased as gifts or for meals, documentation should include names of individual recipients or attendees. Additionally, credit card usage by executive level staff, including the president, should be routinely reviewed by internal audit and a report made periodically to the Board or a committee of the Board.

- As with all financial activity, KSU should record credit card expenditures in Banner so that the actual vendor transactions are entered in the accounting system for the expense to be attributed to a vendor when a vendor report is needed for tracking purposes.

- KSU address the issue within the system that allows voiding of checks in the check writing system without being noted in the Banner system. This is an information system issue deficiency that needs to be addressed by KSU so that the system reconciles with their bank account moving forward.

Finding 5: KSU's Outdated or Rogue Policies and Procedures Result From An Undefined Policy Setting Process.

KSU's policy setting process was not defined during the period examined, July 1, 2018, through June 30, 2021. Many of KSU's official policies and resources providing operational guidance to personnel, such as a chart of accounts and salary schedules, are outdated and do not reflect current operations or industry standards. Additionally, though efforts were made by KSU staff to establish, revise, and update select KSU policies in their work areas, often no feedback or official action was provided by management to formalize and openly communicate the policies. Due to the lack of updated policies and procedures, KSU staff have been using informal guidance to provide some level of information and operational consistency. Additionally, there were instances when policies were approved by the Board but were not communicated to employees or when revisions to policy were approved by the Board and not memorialized in formal policy. Policies are a fundamental element of providing good governance and establishing internal controls. Without properly managing, maintaining, and communicating relevant and effective policies, management is perpetuating a weak internal control environment.

Business Policies and Procedures

Prior to initiating this examination, requests were made for policies and procedures in place for certain financial processes, including procurement, budgeting, contracting, receipts, and disbursements. In response, KSU's former interim President provided excerpts from KSU's Business Policies and Procedures Manual dated April 30, 2010. The policies provided predate KSU's accounting system, Banner, which was fully implemented in 2011. Interviews with current and former KSU financial personnel identified that revised policies were created but acknowledged these policies were not presented to or approved by KSU's Board.

One attempt to correct this deficiency began with KSU's former Purchasing Director who informed the former EVP for Finance that she would be drafting updated policies and procedures for the Board's consideration because the current ones were a decade old. After spending a significant amount of time drafting updated procedures, she then submitted them first to the former EVP for Finance and then to the former General Counsel, but nothing was ever presented to the KSU Board. Though the policies did not go to the Board for approval, the former Purchasing Director distributed the policies to staff within Purchasing and Accounts Payable. The former Purchasing Director felt she had the authority to develop procedures because the Board approved policies were broad. When the external CPA firm performing KSU's annual financial statement audit requested policies, the Former Purchasing Director noted that she provided them both the 2010 policies and the draft policies she developed as a show of effort.

While KSU's former General Counsel acknowledged receiving draft documents from the former Purchasing Director, she stated that these documents were guidance to staff, not policy that would be approved by the Board. Review of the revised University Credit Card Policies and Procedures Manual, part of what the former Procurement Director had drafted, provides not only guidance to personnel but establishes what is considered a violation of policy and the consequences that the employee may face after the first, second, or third violation. Guidance consists of recommendations not required actions. Additionally, based on the former Purchasing Director's statements, it is clear her efforts were to revise and update the 2010 policies, not to just expound upon or explain old, outdated policy, to university personnel.

The lack of an updated policy and procedures manual, compounded by significant employee turnover, made it difficult to determine the actual procedures used for purchasing at KSU and whether University leadership were aware of the practices followed by employees. An example is the issue of approval limits, which was used to determine what purchases supervisors must approve based on the cost. In interviews, the approval level amounts provided by staff did not agree with KSU's Business Policies and Procedures Manual established in 2010. When we asked for documentation of the levels used for approvals, staff were only able to provide the "cheat sheets," or quick referencing guides developed by the former Purchasing Director as informal guidance to staff. Staff also stated that Banner must be programmed to know these approval levels because the system automatically sends the requisition document to the required supervisors. It was then found that the approval level thresholds are historically entered in Banner by the person in the Purchasing Director position. It is concerning that there was no record that the former EVP for Finance, former President, or former Board were aware or had approved the amounts. See Finding 19, for further discussion of this separation of duties concern.

Human Resources
KSU's Human Resources (HR) Policy Manual was last updated on March 26, 2013. This policy manual contains KSU's employment policy, description of employee benefits, leave policy, conflict of interest policy, and termination policy among many others. In addition to the HR Policy Manual, KSU has presented on its public website various other policies such as grievance, sick leave sharing, and telecommuting policies. Some of the individual policies presented are contained in the HR Manual but some conflict with what is presented in the manual.

For example, the HR Policy Manual dated March 26, 2013, contains a section which states "employees separating from KSU will be paid for all hours worked *and for time in lieu of vacation earned but not taken as of the last day worked* [emphasis added]." The new vacation policy, revised December 3, 2020, by the Board, limits the payout of accumulated vacation leave "not to exceed one year's accrual of their annual vacation leave allowance." While the vacation policy was officially revised, this policy was not incorporated into the policy manual to replace the prior policy.

TOPS Initiative
Additionally, review of HR policies and the Faculty handbook found KSU had failed to incorporate within its policies, a hiring initiative approved by the Board in June 2017 as part of an academic outreach strategy. The initiative permitted KSU's Provost to target potential candidates deemed to be "purely exceptional candidates" for faculty positions in lieu of doing an open search for a candidate. The HR Director noted that the policies were not updated to incorporate this initiative as she was not aware of the program. During the examination period, the HR Director would receive a personnel action form with "Tops Initiative" identified, but she thought it might be referring to a grant. According to KSU's Provost, who began at KSU in June 2021, he has not used this initiative since coming to KSU and does not believe the criteria as established for this program are well-defined. While the initiative is not currently in use by the Provost, it does not appear this matter has gone back to the Board since his arrival at KSU to address whether this is

something they wish to continue or terminate. As demonstrated by the events discussed in Finding 9, it is important for the University to routinely review its policies to ensure good governance and reduce the risk that an outdated policy will resurface, and its application not be readdressed with the Board before it is used.

Separation Agreements

Another practice that was identified during the exam that was not found in HR policies, was the use of separation agreements by KSU. Agreements were used in association with voluntary separation incentive programs (VSIP), one approved by the Board in 2018, and another approved only by the former President in late calendar year 2020 as a cost savings measure. Additionally, the University entered into separation agreements to reduce the risk of subsequent legal action when select employees separated from the University. Each separation agreement, VSIP or otherwise, awarded individuals final earned compensation and then some amount of additional compensation beyond that earned. For example, recipients may have received an additional month to three months of compensation. The former General Counsel believed KSU's HR policies referenced employees leaving the University need to give notice of "30 days or have an agreement." Policies do address employees providing advanced notice of two to four weeks before they leave, but no language was identified as described by the former General Counsel regarding agreements.

Finally, in discussing HR policies, the HR Director noted there was no consistency in the previous administration when it came to salaries and things were not done within the parameters of the HR policies or in consultation with the HR Director. For example, the HR Director stated while watching the June 3, 2021, Board of Regents meeting she heard the former President advise the Board that her office had already reviewed or approved the employment letters presented to the Board for the Provost and SVP for Brand Identity and University Relations, when they had not. On June 4, 2021, the former President forwarded the two employment letters to the HR Director for her signature; however, the HR Director had not drafted these letters and refused to sign them. At the same time, the HR Director acknowledged that KSU's salary schedules are outdated, noting that she believes they had not been updated since 2012. Human Resources industry standards identify, as a rule, that employers should examine the overall salary structure at least every three to five years. The HR Director did not believe that the Board establishes salary ranges; however, board bylaws identify that the Board "adopts guidelines for salary ranges and benefit guidelines for all faculty, administrative and University personnel." As such, this falls under the responsibility of the Board to address.

Condition and Communication of Policies

According to KSU's former General Counsel, the former Board Chair regularly stated that KSU does not have policies, but the problem was not that they did not have policies. The problem was KSU had several manuals and when changes were authorized by the Board, an individual policy would get updated but not in the overall handbook. Additionally, when the Board approved individual policies, these new or revised policies were not consistently communicated to university staff. For example, the Board approved new per diem amounts but staff working with travel expenditures were not advised of the change. Communicating policy and policy changes to employees is just as vital as establishing the policies. Policies are only effective in managing financial controls if they are known and understood by the employees responsible for the work.

The former General Counsel noted communication between management and the Board was also an issue when the Human Resource Director and former EVP for Finance developed a dress code policy. This policy was not reviewed by the General Counsel or the Board, yet it was put on the KSU public website as an official policy of the University. The former General Counsel was not aware of who was responsible for distributing a new or changed policy or updating the policies.

Governance

KSU's former General Counsel indicated over past years it was a significant challenge to get things on the Board's meeting agenda. According to the KSU bylaws, commonly referred to as the Gold Book, the ultimate decision of what goes on the Board's meeting agenda is determined by a discussion between the President and Board Chair. In addition to the former President meeting with the former Board Chair to set meeting agendas, one former Board member pointed out that the former President also served as Secretary to the Board and, as such, "prepared all records, books and papers belonging to the Board," indicating that this also created an obstacle for items to be brought back before the Board.

The former KSU President noted that KSU did not have a policy-rich environment. He noted at previous institutions in which he worked, it was very clear what the president can or cannot do and he felt the Gold Book was a relatively nondescriptive document. The former President believes KSU relies on Presidential initiatives and actions more than policies and that will not change until KSU develops a more policy focused environment, as KSU was a President driven rich culture. Until KSU has a policy rich culture, the President will have to drive the policies. Otherwise, it allows individuals to work around policies.

Between July 1, 2018 and June 30, 2021, KSU bylaws reflect two iterations of the Gold Book existed during the examination period. The first version was dated January 23, 2015, and the second version was dated December 5, 2019, reflecting the dates each version was approved by the Board. Per each of these versions, the Board is identified as the policy-making body, adopting policy statements of governance and operation of the University. The bylaws go on to say that the Board entrusts the internal administration of the University to the President. However, meeting minutes from December 6, 2018, indicate edits to the bylaws (Sections 2 and 10) were approved by the Board to provide authority to the President "to oversee the development of a system of policies and procedures necessary to manage routine operations of the University." Specifically, as it relates to the President's role, the draft bylaw revisions approved by the Board were to include:

> The University system of policies and procedures shall include University procedures that are standards or statements that either:
> 1. Articulate processes or reporting requirements related to implementation or compliance with University policies; or
> 2. Addresses matters not specifically addressed in such policies. Does not require Board of Regents approval, but requires presidential approval. Regulations may or may not apply institution wide.

Despite the Board's approval, a revision of the Board bylaws on December 6, 2018, was not recognized in the official bylaws document. It is not known why this revision was not made although approved by the Board.

As part of 2022 HB 250, The Council on Postsecondary Education (CPE) created and oversees a management improvement plan for KSU, which includes "[a] comprehensive cataloging and review of university policies and procedures." In July 2022, the KSU Board took a step forward in the process by approving an official policy on policies. However, it appears the University is still unable to ensure policies approved by the Board are implemented as noted by CPE's February 20, 2023, HB 250 update to the Board. In that meeting, CPE identified that the University had not implemented its Financial Exigency Policy approved by the Board in the prior year. As KSU continues through this process, it is not only imperative that the Board establish policies but also that the administration follow through by ensuring policies are implemented and communicated to employees.

Recommendations

We recommend:

- KSU's Board consider employing or designating an individual whose primary responsibility is to serve as Secretary to the Board, independent of the university president position. This position would report to the Board and be responsible for timely collection and distribution of board materials to each Board member and could bring forward to the Board reminders of past tabled actions or provide status on prior Board actions, such as status of the implementation of Board approved policies. This individual may also be responsible for updating KSU's catalog of policies. Access to add a policy into the repository should be restricted to ensure policies are properly processed before being made available to employees and students.

- In establishing and updating policies, KSU consider using language in the policy identifying clearly that this policy replaces existing policies (known or unknown) to avoid the existence of conflicting policy and actions being taken by KSU employees based on an outdated policy.

- KSU provide routine training to KSU personnel impacted directly by new or revised policy changes to ensure their understanding of the policy.

<u>Finding 6: KSU Failed to Implement an Effective System of Internal Controls Over Federal Grant Expenditures Putting Over $3 Million Dollars in Federal Funds at Risk.</u>

Kentucky State University receives a significant amount of federal grant funds annually. Colleges and universities are required to spend the funds in accordance with federal guidelines, grant agreements, and laws and regulations. Federal awarding agencies require the grantee to implement and maintain a comprehensive system of internal controls to ensure funds are spent appropriately. KSU did not maintain a strong internal control system over federal grant expenditures to ensure compliance. In addition, some internal controls were deliberately circumvented by KSU executive staff.

Many of the federal grant expenditures selected could not be substantiated due to missing or insufficient documentation.

APA auditors selected Coronavirus Relief Fund (CRF), Higher Education Emergency Relief Fund (HEERF), Governors Emergency Education Relief Fund (GEER), and Title III, Part B, for Strengthening Historically Black Colleges and Universities (HBCU) Discretionary Grants and Master's Program to review. Numerous requests were made to current KSU staff to provide documentation for transactions charged to the selected federal programs. Many of the selected items could not be substantiated due to missing or insufficient documentation. However, review of the available documentation of KSU's grants yielded significant issues, including the following:

Higher Education Emergency Relief Fund (HEERF)
Beginning in Spring 2020, after the COVID-19 pandemic began, KSU and other universities began receiving HEERF funding to help address financial needs of the institutions and their students. KSU was awarded this funding under three separate HEERF programs: ALN (Assistance Listing Number) 84.425E- Student Aid Portion, ALN 84.425F- Institutional Portion, and ALN 84.425J - Historically Black Colleges and Universities.

<u>HEERF Student Aid Portion – ALN 84.425E</u>
We selected for review $671,328 of $686,039 of HEERF Student Aid Portion transactions posted to the disbursement ledger from the examination period and noted the following issues:

- KSU's former President and former EVP for Finance requested the KSU Foundation to "Hold and Release Funds" for purposes that were not allowed by the grant and did not notify the Foundation of the federal requirements that applied to the grant. These funds were given to the Foundation because the former President stated "KSU cannot disburse the cash grants and satisfy the requirements of the award." See Finding 13 for further discussion of this transfer of funds.
- All the HEERF Student Aid Portion funds received by the KSU Foundation were deposited into existing KSU Foundation bank accounts and these drawn down funds were not disbursed within the federally required time frame of within 15 days of receipt.
- KSU did not provide documentation for seven of the 11 payments tested, and auditors were unable to trace payments to students to bank statements due to incomplete records.
- Disbursements dates in KSU's accounting system did not correspond with actual dates the activity occurred, but rather when the transaction was entered in the system.

- The KSU Foundation did not remit $31,815 in earned interest to the federal grantor as federally required.
- The KSU Foundation paid itself for administrative costs of $3,689 from grant funds and used $9,600 in grant funds for graduation gifts at KSU's request, which are not allowable uses of this grant.
- Payments to 1,610 registered students of $188.60 per student, an amount selected based on the year the university was founded, were not appropriately calculated since the grant required the amount to be based on financial need.
- As of August 29, 2022, the KSU Foundation still had an account balance of $152,928 from the HEERF Student funds. There are insufficient funds in the account to pay all outstanding checks of $141,197 and the interest liability of $31,815 to the federal grantor.

<u>HEERF Institutional Portion – ALN 84.425F</u>
We selected for review $1,864,862 of the $2,366,396 HEERF Institutional Portion transactions posted to the disbursements ledger and noted the following issues:

- Only one of 65 charges to the HEERF Institutional Portion had adequate supporting documentation for the expenditure, leaving $1,859,885 as potential questioned costs.
- Many charges were for credits to student accounts with outstanding balances rather than direct payments to students as required by the grant. Credits to student accounts were posted as "BREDS ON TOP". Batches were posted to the ledgers, and individual names of students were not recorded in KSU's accounting system, Banner.

<u>HEERF Historically Black Colleges and Universities (HBCU) Portion– ALN 84.425J</u>
We selected for review $3,120,973 of $6,924,701 examination period HEERF HBCU Portion transactions posted to the disbursements ledger and noted the following issues:

- Revenue loss charged to the grant was not computed according to guidance provided by the grantor. The incorrectly calculated lost revenue projections exceeded known lost revenue by over $688,000.
- Over $100,000 in payments were for charges that occurred prior to the period of availability of the grant.
- Questionable payroll expenses such as:
    - Lump sum payment of $30,000 to the Director of Governmental Relations for being the Title III Grant Administrator;
    - Optional retirement payment of $5,244 for executive employee; and
    - Administrative staff payroll items $2,139.
- Most transactions tested did not have documentation of grant administration approval.
- Documentation was not provided for a payment of $13,761 and the second year of a service contract totaling $31,827.

Governor's Emergency Education Relief Fund (GEER) - ALN 84.425C
The U.S. Department of Education awarded grants to Governors for the purpose of providing local educational agencies (LEAs), institutions of higher education (IHEs), and other education related entities with emergency assistance due to COVID-19 to help address costs associated with the expansion of remote learning and support services, including enhancing the quality of programs,

providing equitable access to programs, and increasing non-academic remote support systems for current and prospective students. Funding may also be used to support operational recovery, including costs related to planning, manpower, equipment, and supplies as campuses prepared to reopen for in-person instruction. KSU reported GEER fund expenditures of $324,758. We selected for review $118,333 of $324,758 examination period GEER transactions and noted the following issues.

- Ineligible charges of $16,607 to the GEER grant for items such as a Pre-college Academy Event including bounce houses, water slides, and other inflatable entertainment and food charges, laser tag, promotional webcam covers and other promotional items with KSU logo.
- Included in the total above, there were $2,185 in credit card charges without supporting documentation for the expenses charged to the GEER grant.
- Thirty of thirty-nine transactions tested did not have documented grant management approval.

Title III, Part B: Strengthening Historically Black Colleges and Universities (HBCU) Program – ALN 84.031B

KSU was awarded multiple Higher Educational Institutional Aid, Title III, Part B Discretionary Grants for Strengthening Historically Black Colleges and Universities (HBCU). These include Student Aid and Fiscal Responsibility Act (SAFRA), a part of the Health Care and Education Reconciliation Act of 2010. We selected for review $624,838 of $5,593,163 examination period Title III, Part B HBCU transactions posted to the disbursement ledger and noted the following issues:

- Charges to this grant, totaling $408,848, were questionable due to various reasons, including lack of documentation of $116,821, insufficient documentation of $242,960, and unallowable per Title III, Part B guidance of $49,067.
- Unallowable spending included:
    - One $10,000 charge was supported by a contract for a VIP block and Reception at the Alexander in Indianapolis, Indiana with no supporting documentation as to the reason for the charge.
    - Credit card charges totaling $1,203 for flights with no supporting documentation noting the reason for the travel. The charges were incurred between February and March 2020.
    - One charge of $9,652 for choir robes was marked unallowable on the invoice for Title III, Part B but was still charged to the grant.
    - One charge in the amount of $6,325 was for a half-time show at the 2019 Football Homecoming show.
    - One charge in the amount of $5,812 was for tents, tables, and chairs at the President's home on Hillcrest Place with no explanation of the reason for the charge.
    - One charge of $6,750 was a separation payment to an employee who was not identified as working on Title III.
    - One charge in the amount of $6,125 was for catering provided to the Kentucky legislature.

  - One charge was a payment of $3,200 to the KSU Foundation's Executive Secretary for editing a book that was partially being written and edited by the former President of KSU. There was a request submitted to purchase the book that was denied by the former Title III grant manager.
- Additionally, 36 of the items tested were not documented as approved by grant administration.

Title III, Part B: Strengthening Historically Black Colleges and Universities (HBCU) Master's Program – ALN 84.382G

KSU was awarded multiple Title III, Part B HBCU-Masters grants to improve graduate education opportunities at the master's level in mathematics, engineering, physical or natural sciences, computer science, information technology, nursing, allied health, or other scientific disciplines where African American students are underrepresented. We selected for review 27 charges totaling $430,599 of the $942,180 examination period Title III, Part B HBCU Master's Program transactions and noted the following issues:

- Over $127,000 in transactions had either no supporting documentation, insufficient documentation, or documentation for the wrong transaction.
- Of those 10 transactions that had supporting documentation, only 1 was documented as approved by grant administration.

Coronavirus Relief Funds (CRF) - ALN 21.019

KSU was awarded $1,173,400 from the Coronavirus Relief Fund (CRF) for reimbursement of eligible expenditures in response to COVID-19. We selected for review $341,973 of $1,173,400 CRF transactions and noted the following:

- CRF expenditures totaling $52,270 were found to be for unallowable purchases including light bulbs, a regular operating expense not affected by COVID-19, and charges for "liberal leave" which was COVID leave that was allocated to employees but was not used.

Systemic failures

There were several systemic failures that allowed the issues in this finding to occur. They include the following:

- The breakdown of internal controls was caused in part by a lack of knowledge of new COVID-19 related grant requirements by KSU upper-level management. COVID-19 related grants were not properly implemented.
- There was a lack of institutional knowledge of the requirements of the many different federal grants. Due to this lack of knowledge, suitable internal controls were not put in place to make sure the federal requirements for this funding stream were followed. The normal chain of grant authority and management was not followed by KSU executive staff.
- KSU's accounting software was not properly utilized to track new grants.
- Another issue impacting KSU grant management was the high amount of turnover. According to former grant management staff, there was no organization in the Office of Grants and Sponsored Programs, and people did not know their roles.

- Federal grant dates of expenditures cannot be verified due to Banner recording transaction dates, which are the dates when the information is entered instead of the date the transaction occurred as would be needed by grant management staff for proper administration.
- Cash management issues also caused transactions to be moved from one activity to another, and the journal entries failed to reflect actual expenses paid.

If federal awarding agencies find the funds were spent inappropriately, KSU could be required to repay those funds.

Due to ineligible and unsupported items being charged to the various federal grants, KSU is now at risk for having total questioned costs of $3,341,204 (Figure 7). If federal awarding agencies find the funds were spent inappropriately, KSU could be required to repay those funds. Additionally, KSU had excess earnings on federal funds of $31,815 that is due back to the federal government. These findings could cause increased scrutiny by the awarding agency and hurt KSU's ability to receive federal grants in the future. Additionally, the Schedule of Expenditures of Federal Awards (SEFA) reporting could be incorrect due to dating issues in the Banner software. There is also the possibility that expenditures included on the SEFA had not yet actually been paid but were only entered into accounting software to post to grants. In fact, during our review of expenditures, the expenditure detail provided to APA auditors did not agree to the expenditure totals on KSU's SEFA for FY 20 or FY 21 for the following grants: Title III, Part B, HBCU and HEERF Institution Portion.

Figure 7: Potential Questioned Costs by Grant

Grant Name	Assistance Listing Number	Amount
HEERF Student Aid Portion	84.425E	$ 27,445
HEERF Institution Portion	84.425F	1,859,885
HEERF (HBCU)	84.425J	848,971
GEER	84.425C	16,608
Title III, Part B	84.031B	408,848
Title III HBCU Master's Program	84.382G	127,177
Coronavirus Relief Fund	21.019	52,270
	Total:	**$ 3,341,204**

Source: APA.

While each federal grant has specific requirements to determine how and when the funds may be spent, there are some general criteria that relate to most federal awards. The underlying federal regulation for the criteria noted below and additional criteria specific to each federal grant reviewed can be found in Appendix D.

- Sufficient Documentation - Each grantee financial management system and records documentation must be sufficient to determine that funds have been used in accordance with federal statutes, regulations, and the terms and conditions of the federal award. The records should show the amount of the federal funds, how the funds were spent, total costs for the project, any matching funds provided by other sources, and any other records necessary for the funds to be sufficiently audited.

- Internal Controls - Each grantee must establish and maintain effective internal controls over the federal awards that provide reasonable assurance that the entity is managing the federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

- Cash Management - Each grantee must minimize the time elapsing between the transfer of funds from the U.S. Treasury or pass-thru entity and disbursement by the entity. Typically, if interest is earned due to the grantee delaying disbursing funds after receiving them from the federal agency, those earnings on federal funds must be remitted to the federal government.

- Allowability - The expenditure must be necessary and reasonable for the performance of the federal award and be adequately documented.

Recommendations

We recommend:

- The University significantly improve its administration of federal grant funds. KSU should allocate sufficient staff and resources to ensure grant funds are spent in accordance with federal statutes, regulations, and the terms and conditions of the various federal awards. Specifically, the University should implement and maintain an effective system of internal controls over the administration of federal funds to ensure funds are spent appropriately and in accordance with the specific grant requirements. This includes establishing a chain of command that has the skills and knowledge to administer the funds and to ensure internal controls are not circumvented or overridden.

- The University must ensure staff working in federal grant expenditures are provided adequate training to understand the specific requirements of each grant and federal spending in general, including the factors affecting allowability of costs, that costs are necessary and reasonable for the performance of the award, and that sufficient documentation is maintained.

- The University keep records that show the amount of funds under the grant, how they used the funds, the total cost of the project, any cost-sharing source, and any other documentation necessary to facilitate an effective audit.

- The University utilize software effectively and efficiently to post transactions that are properly supported to the correct grants and other operating accounts. Transactions should include the date they occur instead of the date they are entered into the accounting system.

- The Foundation remit $31,815 in interest to the federal grantor as required.

CHAPTER 3: Financial Activity, Reporting, and Monitoring

Examination findings in this chapter discuss matters involving specific financial activity, reporting to those in governance, and monitoring of KSU finances. Findings in this chapter identify instances of excessive spending, questionable compensation and benefits, and questionable financial decisions and actions during the prior administration.

Finding 7: The University Failed to Implement Sufficient Internal Controls to Ensure an Effective Budgeting Process and Prevent Overspending.

To understand the University's budgeting process and Board oversight of the process, we interviewed board members, university management, and university staff about their understanding of the budget process. We also reviewed reports, board packets, and raw accounting data provided by the University. Our review found the University did not implement a comprehensive system of internal controls or policies and procedures to ensure an effective budget process of university revenues and expenditures. Spending was uncontrolled and there was no mechanism in place to prevent overspending the budget. Furthermore, the Board was either unaware or uninterested in identifying and correcting the system's deficiencies. The University's controls over budget execution were not adequate because they did not include key internal controls, including:

- Standard policies and procedures for management, employees, and Board members to follow when developing, implementing, and amending the budget;
- Adequate supporting documentation for budget reports;
- Consistent financial reporting across reporting periods;
- Controls to ensure the approved budget was not overspent, including controls within the accounting system that safeguard funds;
- Staff with sufficient skills, knowledge, or experience to understand and effectively work with the existing accounting system;
- A process to ensure the Board had the necessary knowledge and allowed sufficient time to review and examine the budget to ensure it was developed to further the University's goals and objectives within reasonable anticipated revenues.

Policies and Procedures

There were no written policies and procedures for the budget process and no consistent procedure followed in budget development. The lack of consistency created a chaotic process where the budget format changed from period to period, which prevents a clear picture of the changing financial position of the University. An example of the changing format is when the former President requested that the format be changed to resemble another university's budget style. The budget could change format more than once during the same fiscal year. Another example of a change in format would be when a particular department would be moved from one activity type to another. During FY 2020, the campus police department was moved from finance to student engagement then back to finance, causing confusion when it was time to develop budget reports. The changing format and movement of departments from one activity type to another made it impossible to get a clear picture of the university's financial position.

Lack of consistency prevented a clear picture of KSU's changing financial position.

Supporting Documentation/Consistency

We requested reports from KSU accounting and budgeting staff that would support the budget totals provided to the Board in the board packets for FYs 2019, 2020, and 2021. We received numerous reports from the accounting system, but none tied directly to the totals provided to the Board. Staff were unable to recreate the reports and did not understand the accounting system sufficiently to obtain historical information. Furthermore, because account reconciliations and financial statement audits were not completed timely, we were unable to determine whether the information provided to us was accurate.

Overspending

As noted in Finding 4, the University failed to implement the most basic level of internal control necessary to prevent overspending, a mechanism in the accounting system that would prevent overspending an account where no budget remained. Because the purchase order process was not followed consistently, staff could order supplies or engage services with vendors without first ensuring budgeted funds were available. Staff reported being able to contact the former EVP for Finance or former President directly to ask that payments be made even if no budget was available in the account. This override of the purchase order control or the procurement process increased the risk that funds could be used for improper purposes or that vendors were paid without a review of invoices by knowledgeable personnel.

Skilled Personnel/Accounting System

Staff interviews indicate that the accounting system was not properly set up and that internal controls were not implemented within the system. In addition, staff turnover, personnel transferring between departments, and insufficient training for new employees caused the reporting function to be ineffective and inaccurate. Without proper training and information retention, the University cannot ensure consistent accounting and reporting.

Auditors requested the funds and account codes used in the budget to actual reports submitted to the Board of Regents for FY 2019, FY 2020, and FY 2021, so that we could recreated those reports. Although we verified that we were given accurate information about the accounts and codes, we found that we could not recreate the actual amounts in the budget to actual reports provided to the Board of Regents. Differences were noted, as evidenced in Figure 8.

Figure 8: Comparison of Actual Receipts and Disbursements Based on New and Historical Reporting

FY19:		FY20:		FY21:	
RECEIPTS:		RECEIPTS:		RECEIPTS:	
Actual per APA Request	38,816,491.63	Actual per APA Request	44,039,610.51	Actual per APA Request	48,718,724.06
Actual Per Board Packets	44,403,894.89	Actual Per Board Packets	46,714,304.00	Actual Per Board Packets	49,231,525.00
Difference	(5,587,403.26)	Difference	(2,674,693.49)	Difference	(512,800.94)
DISBURSEMENTS:		DISBURSEMENTS:		DISBURSEMENTS:	
Actual per APA Request	43,121,376.15	Actual per APA Request	45,213,514.24	Actual per APA Request	60,331,730.28
Actual Per Board Packets	58,761,571.00	Actual Per Board Packets	46,296,276.00	Actual Per Board Packets	50,664,098.00
Difference	(15,640,194.85)	Difference	(1,082,761.76)	Difference	9,667,632.28

Source: APA, based on data and account code information provided by Kentucky State University's Budget Director.

Budget forecast was not based on actual prior year revenues.

The budgeting office and the accounting office did not work together to develop budget to actual reports that reflected actual revenues and expenditures from the accounting system that could be used to develop the next budget. As a result, the budget forecast would not be based on actual prior year revenues. For example, in 2019, the University had revenues of $44.4M, when $46.9M had been budgeted. For the 2020 budget, instead of developing the next year's budget with a reasonable increase or even steady revenue amount, the budget was increased to $48.6M. Entering this budget into the accounting system gave various departments an unrealistic estimate of the amount they could spend during the school year.

Board Review

According to interviews, the Board had no role in developing the budget and there were no budget workshops held to educate board members. Furthermore, there was no evidence the Board questioned the budget as presented to them or requested adjustment to the budget before approving it. Because information provided to the APA was inconsistent and requested reports contained varying totals for revenues and expenditures, we could not determine whether the Board was provided accurate information in budget to actual reports.

During the fourth quarter of 2019, expenditures increased from a year-to-date total of $35,803,618 as of March 31, 2019, to $58,761,571, an increase of $22,957,953, evidencing significant spending in the last quarter of FY 2019. On September 5, 2019, the fourth quarter budget was presented to the Board. The Board was informed that the University incurred several unbudgeted expenses during FY 2019. No detail was given as to what those expenses were and there was no documented discussion regarding the issue.

A sound budgeting process requires well-defined written policies and procedures to establish goals and objectives, set priorities, and allocate resources. Budgeting for a college or university allows a board to align resources with priorities and informs the board of the full scope of the entity's revenue and spending. This enables the board to responsibly allocate funds to match appropriate expenses based on anticipated revenues for the upcoming year.

Good internal controls require a budget process that allows for sufficient time for an oversight body to review, question, and approve a budget. The process should be built on accurate, verifiable data to ensure decisions are made that allow the University to provide services to students while operating within existing budget parameters.

An effective internal control system cannot exist without a clear tone at the top that sets the organization's commitment to honesty, integrity, and ethical behavior. Controls should also be in place to standardize the procurement process so that every department spends only within its approved budget, and there should be a mechanism in the accounting system that prevents the obligation of funds if the funds are not available within that budgeted account.

Recommendations

We recommend:

- The KSU Board of Regents implement a comprehensive internal control system over the budgeting process, including written policies and procedures for all University departments to follow.

- The Board should ensure board members are sufficiently knowledgeable about the budgeting process and the intricacies of college and university budgeting.

- There should be sufficient time built into the budget approval process to allow the board to comprehensively review and analyze the budget before voting for approval.

- The accounting system should include general controls that ensure the board receives accurate, reliable information in the budget packet and that prevent overspending of budgeted accounts.

- Strong internal controls should be implemented that would discourage and prevent any attempts to subvert the normal procurement process, including appropriate discipline for noncompliance. An effective internal control system cannot exist without a clear tone at the top that sets the organization's commitment to honesty, integrity, and ethical behavior.

- The Board of Regents and KSU's Administration develop and communicate a strong ethical tone to all faculty and staff.

<u>Finding 8: KSU Provided Insufficient Oversight of Its Procurement and Expenditure Processes.</u>

Review of KSU procurement and expenditure activity found a consistent lack of documentation, and inadequate support to evidence the processes followed and approvals granted. While a significant lack of documentation limited reviews, questionable spending and poor fiscal management practices were identified, including a heavy reliance on credit card and store accounts and failure to reserve or encumber funds for travel and credit card usage. Additionally, KSU was not able to provide evidence that certain expenses selected for review were ever recorded in their accounting system. Such poor fiscal management and oversight places KSU at high risk for fraud, waste, and abuse of public funds under its control.

Procurement Testing

As documented in Finding 2, numerous attempts were made to determine KSU's population of contracts from which a selection would be reviewed to ensure KSU was properly procuring goods and services. Each attempt was met with a new set of issues or challenges. Among the issues, it was found that KSU did not consistently maintain a central repository of its contracts, KSU's accounting system was unable to produce a contract payment report, and KSU lost an unknown quantity of electronic procurement documents loaded into a previous contract repository system after failing to pay its bill and the vendor locking them out of the system. Though KSU was unable to provide all requested documentation, auditors proceeded with testing based on the limited information collected.

A selection of 24 vendors with whom KSU had procured goods or services between July 1, 2018, and June 30, 2021, was reviewed. From this review, the following issues were identified:

- KSU was not able to provide procurement documentation evidencing the selection method used to engage 10 vendors, or approximately 42% of the vendors selected for review. Further, KSU could not locate at least one element of the procurement process documentation needed to support the selection of an additional five vendors. Examples of missing information included the fully executed contracts, the Request for Proposals (RFP) issued, public notices, all successful and unsuccessful bids received, scoring sheets, and nondisclosure forms signed by selection committee members. See Finding 15 for discussion of record retention requirements.

- Due to limited information provided by KSU it could not be determined whether four contracts reviewed had been modified or amended.

- For one modified/amended contract, it could not be determined if the modification/amendment had been reviewed and approved prior to costs being incurred.

- For nine vendors, evidence could not be found to confirm KSU presented an associated contract or expenditure greater than $50,000 to the Board. KSU Board Bylaws require the Board to approve disbursements or contracts greater than $50,000.

The former General Counsel acknowledged that there were times when a fully executed version of the contract was not returned to her to maintain in the contract repository. Additionally, while she tried to encourage staff to document everything in a contract, they did not always ensure this was done. The former General Counsel recalled one occasion when a vendor sought additional payment for a task that was not specified in the contract. The contractor advised that KSU staff had directed the contractor to complete the task in question, though it was not specified in the contract. The former General Counsel eventually obtained an email evidencing a staff member requested the vendor to provide service that was not specifically identified in the contract. Because the former General Counsel felt that it could be argued that this was a written agreement despite it not being documented as an official amendment to the contract, she recommended KSU pay for the services.

Credit Card and Store Account Expenditures

During the examination period, KSU frequently used credit card and store accounts for daily procurement of goods and services. Between FY 2019 and FY 2021, KSU used a variety of different credit cards. The three primary credit card types were: Fifth Third credit cards/purchasing cards (P-cards), American Express credit cards, and Go Cards (pre-paid cards for per diem and travel). As identified in Finding 4, credit cards were often used instead of a purchase order and numerous staff had credit cards for which supervisor approval for spending was not required. Additionally, KSU had a Diners Club account on which travel costs could be charged, and held lines of credit with various stores, such as Best Buy, Kroger, Lowe’s, Amazon, John Deere, Lyon’s Lumber, and Staples.

In FY 2019, KSU used Fifth Third credit cards (P-cards), which were assigned to individual cardholders to be used for small dollar goods, services, and travel. Beginning in May 2019, with the issuance of an American Express credit card to its former President, KSU reduced its number of Fifth Third credit cards though the Fifth Third credit account remained open. Throughout FY 2020, KSU reported 17 individuals were authorized to use an American Express credit card issued to the University.

In late February 2020 American Express reduced KSU’s credit card limit from $900,000 to $191,000 based on recent credit bureau information.

In late February 2020, the former KSU Purchasing Director advised the former EVP for Finance that American Express was reducing KSU’s $900,000 program credit limit to $191,000 based on recent credit reporting bureau information. In March 2020, the former EVP for Finance advised a Fifth Third representative that KSU was “very dissatisfied with American Express and the University would like to increase our purchasing power through” the use of the Fifth Third card program “to utilize the benefits and manage operating cash flow.” While KSU received an increased credit card limit and began using Fifth Third credit cards again in late FY 2020 into FY 2021, KSU also continued to use American Express credit cards, although it reported a slight reduction in the number of American Express card holders in FY 2021 to 15. Additionally, in FY 2020, KSU began using Go Cards, a program offered through American Express, which works like a pre-paid card in that a specific amount is loaded to the card, and the charges cannot exceed the amount loaded to the card. Figure 9 reflects KSU's credit card activity between July 1, 2018, and June 30, 2021.

Figure 9: Credit Card Activity by Fiscal Year

Card Type	FY 2019		FY 2020		FY 2021		Grand Totals	
	Number of Transactions	Amount of Purchases	Number of Transactions	Amount of Purchases	Number of Transactions	Amount of Purchases	Number of Transactions	Amount of Purchases
Fifth Third	4,728	$ 1,390,740	30	$ 18,668	293	$ 822,963	5,051	$ 2,232,371
American Express	3	3,029	2,490	1,098,843	1,453	453,457	3,946	1,555,329
Go Card	-	-	6,167	183,148	590	67,036	6,757	250,184
Totals	**4,731**	**$ 1,393,769**	**8,687**	**$ 1,300,659**	**2,336**	**$ 1,343,456**	**15,754**	**$ 4,037,884**

Source: APA, based on KSU credit card statements.

Finally, in addition to the numerous credit cards used by KSU during the examination period, KSU held charge accounts at Best Buy, Kroger, and Lowe's, had a Diners Club card for travel reservations such as hotels and airfare, and maintained standing purchase orders for select vendors such as Amazon to allow for reoccurring purchases to be made.

Supporting documentation from a selection of credit card and store charge account transactions from July 1, 2018, through June 30, 2021, were requested for review. As a result, and due to the conditions of the records, auditors could not determine if expenditures were reasonable in amount, benefited the public, or were personal in nature. Figure 10 reflects the number of transactions for which documentation was requested and provided by KSU by card type.

Figure 10: Amount of Supporting Documentation Provided by Card Type

Credit Card / Account Name	Number of Transactions Selected for Testing	Amount of Documentation Provided by KSU
Fifth Third Credit Card	40	0
American Express Credit Card	51	36
Go Cards	30	0
Diners Club	30	0
Best Buy	5	5
Kroger	10	10
Lowe's	10	10
Amazon	35	35
John Deere	5	4
Lyon's Lumber	5	5
Staples	10	0

Source: APA, based on supporting documents provided by KSU.

As reflected in Figure 10, KSU could not provide any supporting documentation for Fifth Third credit cards, Go Cards, Diners Club, and Staples transactions. Additionally, almost 30% of supporting documentation for American Express cards was not provided or could not be found. As such, review to determine the appropriateness of certain expenses could not be performed, such as over $8,000 to Men's Warehouse, $657 payable to a hotel in Nassau, $313 to Churchill Downs, and $138 to Shari's Berries (online fruit vendor).

Though some support was provided for transactions made through other credit and store accounts, the documentation did not consistently identify the purpose or details associated with an expense to determine whether the expense was beneficial to the public or personal in nature. For example, no purpose or explanation was documented to support a $1,437 American Express card charge for airflight for the former President to travel from Cincinnati to Atlanta, and then to Las Vegas where the former President lived. Additionally, no evidence was provided for 12 of those 36 American Express transactions, totaling $16,185, to verify the expenditures were recorded in Banner and coded to the appropriate account/budget unit.

Beyond the lack of documentation encountered, examining the credit card expenditure process during the period revealed multiple issues that were the result of a lack of effective oversight by the responsible parties. Issues noted include:

- Evidence of questionable spending that does not appear to be beneficial to the public or may be personal in nature, such as:
  - $238 paid to a Las Vegas florist for flowers for the former President's spouse,
  - $322 paid for Sirius XM Radio for the former EVP for Finance,
  - $20 for airflight seat upgrade for the former EVP for Finance,
  - $180 for an edible arrangement sent to the former Board Chair with a message stating, "Happy birthday office of the President! – Kentucky State University,"
  - $5.78 for a kid's meal at a local restaurant for the SVP.

- Funds are not encumbered when KSU personnel use credit cards and budgeted funds may not have been available to cover expenses charged.

- Between July 1, 2018, and June 30, 2021, the amount of late payment fees, interest, and other fees on KSU credit cards totaled $7,621. The American Express credit cards also incurred sales tax totaling $467, and Best Buy transactions included $62 in sales tax.

- Inconsistent support for store accounts, such as:
  - For four of the five John Deere transactions, two invoices, and zero requisitions were provided to explain the rationale for the purchase and approval signatures.
  - No requisitions, receipts, or invoices were provided for Kroger and Lowe's transactions.
  - One requisition was provided for the five Lyon's Lumber transactions, but no invoices or receipts.
  - No requisitions were provided for the five Best Buy transactions.
  - Only four of 35 requisitions were provided to support Amazon transactions.

- KSU did not begin to maintain receipts for Go Cards until FY 2022.

Travel and Expense Reimbursement Testing

Efforts to examine travel costs incurred by KSU between July 1, 2018, and June 30, 2021, found KSU was not able to run a report from its accounting system to identify all travel costs paid to an individual. In response to the APA's request for "a report of all travel or expense reimbursements to KSU personnel and Board of Regents by individual for FY 2019, FY 2020, and FY 2021" KSU provided instead individual Travel Request forms. The Travel Request Forms are to be used in seeking approval for travel and advance payment of travel costs. A review of 50 Travel Request forms found:

- More than half did not have proper approval.
- Six instances employees appear to have received travel advances against KSU travel policy. KSU's policy prohibits travel advances except to provide meals to students. In each of these six instances, no students were identified in the travel.

From individual staff files, 20 staff reimbursements were selected for review to determine if the expenditures incurred by KSU were supported, approved, and allowable. Testing of these reimbursements found:

- KSU failed to retain access to support for over half of the reimbursements. This is discussed further in Finding 16.
- Of the remaining reimbursements, two reimbursements had a total of $1,502 in unsupported expenditures and one instance where the per diem rates used were higher than the reported allowable rate.

Travel expenses are not encumbered and not seen under budget commitments. Additionally, no supporting documentation was provided to determine if the expenditures were properly coded to the correct account/budget unit in Banner. According to KSU staff, one should be able to tell how KSU paid for the travel and the per diem, by looking at the Travel Request forms, but this was not the case. For one Travel Request form searched, the KSU staff could not find any charges in the financial system. It is also unclear from the Travel Request forms who the vendors were, if the expenses were paid by check or credit card, and if the expenses presented were the only expenses related to that travel request form.

Recommendations

We recommend:

- All appropriations, expenditures, disbursements, or contracts greater than $50,000 be presented to the KSU Board of Regents for approval prior to purchase or execution of contract.
- KSU bundle repeat purchases that may in total exceed the threshold for formal or informal bidding to obtain the best price on all items purchased or services provided.

- KSU ensure that final, signed copies of all contracts are provided to KSU's official records custodian such as General Counsel, Purchasing Director, or other designated party as deemed appropriate per policy.
- KSU work with Banner to create a method to query their data to generate a list of all contracts and contract expenditures.
- KSU upload any missing contracts or supporting documentation that are missing from the contract management system but have not met the threshold for destruction. See additional discussion and recommendations pertaining to KSU's record retention at Finding 15.
- KSU develop training for credit cardholders to ensure consistent application of policies and procedures. This should include, at a minimum, guidelines on appropriate usage, tracking, receipt requirements, and approvals.
- KSU develop and implement training procedures for employee travel.
- Travel expenses be encumbered.

<u>Finding 9: KSU Failed to Fully Implement Controls Over Its Internal Endowed Funds, Then Withdrew Over $2.7 Million, Supplementing Its Cash Balances.</u>

Between June 2019 and December 2020, KSU withdrew $2.7 million from its internal endowed funds. These funds were then deposited into KSU's general bank account, bolstering the University's cash balance figure, and were used to partially cover operational spending. While an approved 2018 endowment spending policy permitted KSU to begin spending at a rate of 4.8% for FY 2019, the policy contained specific monitoring and reporting controls that were not implemented, including:

- The creation of a committee to, among other things, monitor investment performance and the use of endowment income, and
- Annual reports as to the disposition of endowment income to donors.

Though funds were drawn, KSU also lacked appropriate controls to prevent donations made with a restricted purpose from being spent for unrestricted purposes such as general operating expenses. By not implementing and maintaining proper controls over endowed funds entrusted to it, KSU failed to provide adequate oversight and may not be meeting the standard of conduct in management and investment of institutional funds required by KRS 273.605.

The 2018 policy, as presented to the Board of Regents on June 7, 2018, states in part:

> The President will also appoint an Investment and Endowment Committee which will develop an investment policy and a spending policy to be presented to the Board of Regents. The committee will also monitor investment performance, the use of endowment income, and evaluate and select investment managers used by the University.
>
> A full endowment report will be developed as required by the Council on Postsecondary Education. Donors will also receive annual reports as to the disposition of endowment income.

Investment and Endowment Committee and Policies

Interview with KSU personnel and the former KSU President identified that no such committee was appointed. The former President stated that at no time did the Board ask about an investment committee, and he did not know who at KSU would have the competency to be on an investment committee.

Additionally, KSU has not developed a new investment policy or spending policy. University email correspondence identifies that KSU personnel discovered a 2012 Investment Policy in July 2018, a month after presenting the 2018 Endowment Spending Policy to the Board. In the email correspondence, KSU's former General Counsel advised that she was not aware that the 2012 Investment Policy existed and that the only way to know if the policy was still in place, would be to go through board meeting minutes from January 2012 forward to see if there were any subsequent amendments. This action would be required because KSU has not historically maintained a database of its policies. In response to the former General Counsel's statement, another former KSU employee, states that this policy will need to be revised or updated by the investment committee that the President will name. Again, no appointment of an investment and endowment committee was made, and this policy has not been updated or revised as intended.

Draws

Draws approved by KSU's former EVP for Finance after the Board's approval of the 2018 Spending Policy on June 7, 2018 are presented in Figure 11.

Figure 11: KSU Draws from Internal Endowed Funds by Date, Amount and Spend Rate

Date Internal Endowed Funds Drawn	Amount Drawn	Spend Rate
June 26, 2019 (FY 2019)	$ 851,258	4.8%
March 23, 2020 (FY 2020)	$ 956,484	4.8%
December 15, 2020 (FY2021)	$ 964,217	5%
Total:	**$ 2,771,959**	

Source: APA, based on KSU Internal Endowment Monthly Statements and Emails

As demonstrated in Figure 11, KSU used a 4.8% spending rate when making draws from its internal endowed funds on June 26, 2019, and March 23, 2020. Notwithstanding the adoption of the 2018 policy and its 4.8% spend rate, emails maintained by KSU identify that the former KSU Controller requested the December 15, 2020, draw at a 5% spend rate after discussions with the former EVP for Finance. KSU's request to draw was based on terms found in the 2012 KSU Endowment Investment Policy, which states, in part:

> The University anticipates annual spending of five percent (5%) of the average market value for the past three years, the amount of which shall be determined in January of each year and is fully described in its Endowment Spending Policy, which is fully incorporated by reference herein.

In June 2020, KSU's former EVP for Finance was advised by the former KSU General Counsel that the 2012 Investment policy allowed the University to spend up to 5% and that the policy may still be in effect despite the 2018 spending policy. This advice was given despite the 2012 policy being labeled as an investment policy, not an expenditure policy, with the five percent language being used as anticipated spending to be authorized in the future. This information was shared to assist the former EVP for Finance in addressing questions posed by the former Board Audit Committee Chair on behalf of the full Board. Consciously utilizing a 2012 policy after adopting a 2019 policy is indicative of a poor control environment.

Use of Endowed Funds

According to CPE and KSU personnel, internal donor records have been incomplete for years as to whether specific donations have been made for general purposes or if they have been made with restrictions as to use, requiring CPE to recently assist KSU in rebuilding its records. Without complete donor agreements, KSU is

KSU internal donor records have been incomplete for years.

placing its endowed funds at further risk to be used in a manner contrary to donor restrictions.

In June 2020, after learning of KSU's draw of over $956,000 from its internal endowed funds from earlier that year, the Board requested the former President provide details of how the funds were spent. In response, the former President provided the Board with a chart describing KSU's academic scholarship program, a summary of total institutional scholarships paid in FY 2020, and a report of scholarships paid by student ID number. However, University accounting records evidence that KSU did not apply these funds to scholarships. Additionally, endowment schedules show less than half of the funds would be potentially eligible to be applied to student scholarships, as over half of the internal endowed funds are to be used for other purposes related to endowed chairs, professors, IT, and KSU's library.

Ultimately, University bank records show all three draws from internal endowed funds were deposited into KSU's general bank account and at least a portion of the funds were transferred to KSU's vendor account from which KSU general operational expenses were paid.

Reporting

As noted previously, KSU's 2018 Endowment Spending Policy identifies specific endowment reports that will be made, including: (1) a full endowment report, as required by CPE, and (2) annual reports to donors notifying them of the disposition of endowment income. Though KSU drew nearly $2.7 million from the endowment between FY 2019 and FY 2021, no reporting has been made as indicated by the policy.

In an interview with KSU's Director of Institutional Advancement, he expressed that he was excited when he first saw the annual donor reporting requirement within the 2018 Endowment Spending Policy. However, he never received any details on the spending of the funds and, as such, he was not able to share details with donors as indicated by the 2018 policy.

Finally, CPE representatives confirmed KSU has not submitted "a full endowment report" as is required by the Endowment Match Program over the last couple of years. They noted all universities are required to submit reports detailing the fiscal year activity and the impact that it has had on their endowment matched by the State.

Recommendations

We recommend:

- KSU consider updating their Endowment Spending Policy and until such time should follow all aspects of the approved 2018 Endowment Spending Policy. In addition, KSU update their Investment Policy.

- KSU consider addressing whether the 2012 policy remains in effect and, if so, harmonizing the 2012 and 2018 policies.

- The President appoint an Investment and Endowment Committee. This includes implementing monitoring and reporting controls.

- Reporting to CPE and to applicable donors should occur as prescribed and in a transparent manner.

- KSU confirm what percentage their drawdowns may be.

- Donor agreements should be obtained with each donation and maintained indefinitely.

- KSU review spending from drawn funds and repay the funds to the endowment to ensure donor funds are made whole.

<u>Finding 10: Former KSU Administration Rewarded Select Members with Unallowable Benefits, Including Bonuses, and Granted the Former President an Excess Housing Allowance and Utilities.</u>

KSU paid bonuses totaling over $138,000 to select administrators in FY 2020 and FY 2021. These bonuses were awarded though no policy or contract existed to permit the award. Further, payroll records identify supplemental medical insurance, costing KSU over $97,000, was granted to only the former President, former EVP for Finance, and other select members of the former administration. Additionally, over $84,400 was awarded in December 2018 to the former President as a retroactive payment for a housing allowance for calendar year 2018. This retroactive payment, along with an additional $5,329, were paid to the former President though he did not reside in his own private residence at that time. Finally, KSU paid $3,752 for the former President's home utilities for his personal residence for the period July 1, 2019 through December 2019. Not only were these payments unjustified, but the spending was also irresponsible given the financial condition of the University at the time. Good fiscal governance should promote integrity and transparency.

Supplemental Medical Insurance

Emails maintained by KSU contain evidence that the Human Resources (HR) Director and former EVP for Finance were engaging KSU's insurance provider for supplemental medical insurance proposals in June 2019. The extra coverage provided executive health care benefits including coverage for a broad range of healthcare expenses, reimbursement to members for out-of-pocket medical expenses, and travel and medical emergency services. The proposed coverage at that time included coverage for seven KSU administrators, including three for "Employee Only" coverage, three for "Family" coverage, and one for "Employee + Spouse" coverage. Additionally, the proposal presented four different plan levels with varying premium costs: Diamond Plan (most costly), Platinum Plan (2nd most costly), Emerald Plan (2nd least costly), and Sapphire Plan (least costly). Ultimately, KSU began coverage for five administrators in July 2019, with the former President, former EVP for Finance, and the SVP for Brand Identity and University Relations on the Diamond Plan and the former Interim Provost and former Vice President of Student Engagement and Campus Life on the Sapphire Plan.

HR Director and former Payroll Director pushed back on idea of executive supplemental medical coverage as it would upset other employees.

KSU's HR Director stated that the coverage was initiated by the former EVP for Finance, and she and the former Payroll Director attempted to push back on the idea, noting that other employees would be upset to discover this coverage was being provided only to select administrators. In discussing the matter with the SVP for Brand Identity and University Relations, she was unaware how this benefit, or the level of coverage provided to each individual, was determined. The SVP stated that she was first advised of this coverage when she and other recipients were called into a room, handed insurance cards, and informed by the former EVP for Finance that the former President had selected an additional layer of executive insurance coverage. The former President stated that the coverage came from the former EVP for Finance and Human Resources and he was not aware of the associated cost as the budget to actual reporting was not detailed to determine where that type of spending was included. The former Board Chair advised that the supplemental insurance coverage was never part of the former President's contract negotiations. Furthermore, per KSU bylaws, the Board is to fix the compensation of employees at the vice-president level and above but that Board approval did not occur.

The supplemental medical insurance coverage was provided at no cost to the executives and was in addition to routine medical insurance benefits provided to all full-time employees. See Figure 12 for a breakdown of cost to provide this supplemental medical insurance coverage by fiscal year and administrator.

Figure 12: Total Cost to Provide Supplemental Medical Insurance Coverage by Fiscal Year and Administrator

Administrator's Title	Coverage Level	FY 2020	FY 2021	FY 2022	Totals
Former President	Diamond Plan - Employee + Spouse	$ 7,920	$ 10,710	$ 900	**$ 19,530**
Former Executive Vice President for Finance and Administration	Diamond Plan - Employee Only	5,038	6,819	-	**11,857**
Senior Vice President for Brand Identity and University Relations	Diamond Plan - Family	14,399	19,469	19,632	**53,500**
Former Vice President for Student Engagement and Campus Life	Sapphire Plan - Employee Only	2,153	1,587	-	**3,740**
Former Interim Provost and Vice President for Academic Affairs	Sapphire Plan - Employee + Spouse	3,927	5,569	468	**9,964**
Totals:		**$ 33,437**	**$ 44,153**	**$ 21,000**	**$ 98,590**

Source: APA, based on KSU Payroll Reports and Data from July 1, 2018, through June 30, 2022.

As identified in Figure 12, the SVP for Brand Identity and University Relations, former President, and former Provost continued receiving coverage into FY 2022. Coverage for the former President and former Provost terminated July 31, 2021. The SVP stated that she was not aware of the costs associated with the plan until it was brought to her attention as Interim President following the former President's departure. She indicated she immediately wanted to stop the insurance coverage at that time, but her understanding was that the coverage had to continue until the end of the plan year.

Bonuses

In March 2020, six members of KSU's former administration received bonuses totaling $71,798. The bonuses equaled 10% of annual salary for three administrators and 5% for the remaining three. In the second round of bonuses, in March 2021, four members of the former administration received bonuses totaling $66,681. These four administrators received bonuses in the prior year. Two of the four administrators received bonuses equal to 12.5% of their annual salary and the remaining two were paid bonuses equal to 7.5% of their annual salary. Figure 13 shows each recipient's title, annual salary, bonus percentage, and amount received for each award period.

Figure 13: Bonuses paid to Select Administrators in March 2020 and March 2021, along with Individual Salaries and Bonus Percentages

Administrator's Title	Annual Salary	March 2020		March 2021	
		Bonus Percent of Salary	Bonus Payment Received	Bonus Percent of Salary	Bonus Payment Received
Former Executive Vice President for Finance and Administration	$ 210,600	10%	$ 21,060	12.5%	$ 26,325
Former Chief of Staff	81,250	5%	4,063	7.5%	6,094
Former Vice President for Student Engagement and Campus Life	145,000	10%	14,500	-	-
Former Director of University Policies and Governance	120,000	5%	6,000	-	-
Former General Counsel	123,500	5%	6,175	7.5%	9,263
Senior Vice President for Brand Identity and University Relations	200,000	10%	20,000	12.5%	25,000
Totals:			**$ 71,798**		**$ 66,681**

Source: APA, based on KSU Payroll Reports from July 1, 2018, through June 30, 2021.

KSU's Human Resources Director and former Payroll Director each advised they were not given any documentation or reasons to substantiate the bonuses. The former Payroll Director stated she was just given a vague directive by the former EVP for Finance to process the payments. She stated that she refused to award the bonuses without something in writing. For the March 2020 bonuses, unsigned letters were found in KSU payroll records indicating these payments were performance bonuses reflecting the employee's "excellent performance." However, KSU's Human Resources Director stated that she drafted these letters at the direction of the former EVP for Finance and was also provided no basis for the awards.

HR Director and former Payroll Director each advised they were not given documentation or reasons to substantiate the bonuses.

The Human Resources Director was unaware of the 2021 bonuses, noting that she only became aware of those bonuses when reviewing an employee's salary in the system. The former Payroll Director stated that she recalled once getting an email from the former EVP for Finance containing initials and dollar amounts, noting that the correspondence was vague. She stated that if she questioned her supervisor, the former EVP for Finance, he would ask her, "Do you work for me?" The former Payroll Director was not aware if the former President approved the bonuses.

KSU's former President was aware of the bonuses to select administrators; however, he stated that he never saw the paperwork and was not aware of the amounts awarded to individuals. The former President stated that the former EVP for Finance had "ran the numbers" and presented the information to the former Board Chair. Afterwards, when the former President met with the Board Chair to discuss the Board's next meeting agenda, the Board Chair advised him of her meeting and told him that she saw no issue with the bonuses. The President acknowledges that he then authorized the bonuses. In an interview with the former Board Chair, she denied having any conversation of bonuses with either the former EVP for Finance or with the former President. Furthermore, this matter was not brought to the Board and the only person authorized at that time to have a bonus was the former President, which was allowed for by his contract and resulted from his performance evaluation.

According to OAG 62-1, the granting of a bonus from public funds would violate Section 3 of the Kentucky Constitution as it would be using public funds to pay for services not actually performed. Section 3 of the Kentucky Constitution states:

> All men, when they form a social compact, are equal; and no grant of exclusive, separate public emoluments or privileges shall be made to any man or set of men, except in consideration of public services…

To comply with this section of the Kentucky Constitution, any payment to a public employee should be for consideration of public service, which has been interpreted to mean for salary and wages for work performed. No support was identified to substantiate these payments. As such, these payments are considered unallowable.

Excess Housing Allowance

KSU payroll records identify that the former President received a retroactive housing allowance of $84,415 just over a week after the Board revised his contract on December 6, 2018. Among the contract changes, the following benefit was added to the former President's contract upon approval of the Board:

> KSU shall provide a monthly housing allowance in the net amount of ($4,030) (after deduction for all applicable withholding and payroll taxes). The University will pay the housing allowance in the first payroll period of each month.

The retroactive payment appears to cover the time between January 2018 through December 2018; however, during that entire period, the former President was living at Hillcrest, a property owned by KSU. After taxes, this retroactive housing allowance resulted in an additional $48,360 of personal compensation to the former President, to cover the cost of private housing in which the President did not live.

The former President stated that he was not aware of a retroactive housing allowance and thought perhaps the payment may have been his performance award. However, KSU records clearly identify the award as a retroactive housing allowance. The former Board Chair stated she also was not aware of a retroactive housing allowance payment, noting that the former EVP for Finance had told her that the payments to the former President would not begin until he was living off campus. The former President reports that he moved off campus to a new personal residence in February 2019. A KSU email identifies that the former President updated his residential address to his new home in May 2019, to be effective June 8, 2019. While a definitive move-in date could not be determined, it appears KSU awarded at least another $5,329 to the former President for housing allowance in January 2019 while he was still residing at Hillcrest.

Utilities

In addition to a retroactive housing allowance, KSU records show the University paid nearly $4,000 towards the former President's home utilities including electric, water, sewer, classic and preferred cable services, digital equipment, data equipment and services, and home security service. These costs were for services provided to the former President's new private residence off campus beginning June 10, 2019. Emails retained by KSU document the former EVP for Finance requested the first bill from the local utility on August 1, 2019 and then forwarded it to his assistant advising her that the cumulative bill, totaling $3,242, needed to be paid. After inquiry as to the budget from which this expense should be charged, the former EVP for Finance advised to charge it to Facilities' budget, though this bill was associated with the former President's personal residence, not a KSU owned facility.

The second utility invoice paid by KSU for service provided to the former President's personal residence was made on December 12, 2019, in the amount of $510. KSU email correspondence from the former EVP for Finance's Senior Executive Assistant to the former Controller and former Accounts Payable Director, dated December 11, 2019, stated "The President gave this to EVP Allen as it has not been added to the general KSU account and has not been paid… As per EVP Allen, payment must be made today." The document submitted for payment was a past due notice from the local Utility for $535, advising that the account was "subject to disconnect on or after" December 18, 2019. While KSU paid the bill, again coding it to the KSU Facilities budget, it does not appear that the University paid the associated $25 late charge.

The former Board Chair advised that she called the former General Counsel and former EVP for Finance once she became aware of KSU paying utility bills associated with the former President's personal residence. The former Board Chair stated that the former EVP for Finance had pulled the former President's employment contract and noted that it did not say utilities were not to be paid. The former General Counsel noted that it was an oversight and that the contract should have been amended so KSU did not cover utilities. The former General Counsel and former EVP for Finance were referring to contract revisions the Board had approved in June 2019, including striking a portion of the contract's Article IV, Section 4.7, which required the former President to live at Hillcrest. Though part of this was struck from the contract, the remaining portion of the original contract terms remained, including KSU paying for utilities at the President's residence. The former President's contract was revised to strike Section 4.7 officially on March 6, 2020. The former Board Chair stated that the former President and former EVP for Finance should have known better.

The former Board Chair stated that the former President and former EVP for Finance should have known better.

Finally, KSU payroll records identified another unusual payment to the former President made in December 2018, presented as a one-time payment of $12,500. However, KSU was unable to provide support and lacked institutional knowledge of the transaction to provide any explanation for the payment.

Recommendations

We recommend:

- KSU provide only those benefits outlined in service contracts and HR documents for applicable employees that are properly approved and supported.

- KSU discontinue awarding bonuses to employees in violation of section 3 of the Kentucky Constitution.

- Changes made to benefits both in service contracts or in policy include an effective date and specifically state whether or not retroactive payment is necessary.

- KSU HR Director and KSU Board of Regents Chair (or the full Board or a member of the Board) meet periodically to review benefits received by and payroll payments issued to all Vice President level and above employees and compare to similar information from prior periods. Any issues or concerns identified with compensation or benefits awarded should be presented to the full Board.

Finding 11: Former EVP for Finance and Administration Submitted an Inaccurate Accounts Payable Amount to Former President and Former Board Chair Amid Questions and Rumors of Unpaid Bills.

In December 2020, KSU's former EVP for Finance, instead of tendering a true report, submitted a "scenario" report to the former President in response to a request by the former Board Chair for a report of outstanding accounts payable. The employee who created the report believed it was being used only by the former Controller and former EVP for Finance for internal consideration. The employee stated that the report was never intended to be a true reflection of KSU's outstanding accounts payable. However, the former EVP for Finance submitted this report to the former President who in turn immediately submitted it to the former Board Chair. When submitting the report to the former President via email, the former EVP for Finance did not identify that this was a hypothetical report. By these actions, the former EVP for Finance misrepresented KSU's true outstanding accounts payable balance for that period and denied management the information necessary to properly address a significant financial matter impacting the operations of the University.

According to KSU's former President and former Board Chair, outstanding accounts payable information was requested in late 2020 due to rumors of KSU not paying vendors timely. The SVP for Brand Identity and University Relations specifically recalled a KSU employee contacting her around the fall of 2020 advising that a utility was going to publicly disclose that KSU had not paid the utility for a period of six months. In response, the SVP contacted the former President, who advised he was not aware of the matter, and then the SVP contacted the former EVP for Finance to determine why the bills had not been paid. The SVP states that she was advised by the former EVP for Finance that staff had not followed proper processes to get the bills paid.

Former Board Chair requested a report of outstanding accounts payable from the fall of 2020 and a report of bills paid.

After the former Board Chair discussed matters with the former Board Vice Chair, it was determined that a report of outstanding accounts payable from the fall of 2020 coupled with a report of what bills had been paid by the University was needed. This request was shared with the former President and the former EVP for Finance. However, the former Board Chair's request was not known by the former KSU Purchasing Director who created the report. In fact, the former KSU Purchasing Director did not believe a report of outstanding accounts payable was ever made to the full Board until after the prior administration left and CPE came to campus in 2021.

After the report was initially created by the former Purchasing Director, it was then submitted to the former EVP for Finance. This report was revised and submitted twice more to the former EVP for Finance before being passed along. The former Purchasing Director noted that the former EVP for Finance called and asked her to see what the report would look like if they paid the "screamers." The "screamers" was a term used by KSU financial personnel to describe vendors who contacted the University for payment of delinquent bills. The former Purchasing Director noted she was working from home at the time of this request, receiving a series of phone calls from the former EVP for Finance, as it was over the holiday break.

The report shared with the former President and former Board Chair on December 21, 2020, identified a total of $2,146,861 in open, unpaid invoices for the fall 2020 period. Review of this report, as reflected in Figure 14, identified over $136,100 in outstanding accounts payable were incorrectly identified as paid and $50,522 in paid invoices were incorrectly identified as open, resulting in a net overreporting of paid invoices by KSU at that time by nearly $86,000. Additionally, over $1,165,000 in additional outstanding accounts payable from the fall 2020 were not included in the report, under reporting accounts payable for this period by just over $1.2 million.

Figure 14: APA Comparison of Fall 2020 Outstanding Accounts Payable and Bills Paid

Invoice Status	Reported by EVP for Finance	Actual	Over(Under) Reporting
Open *Vendor Invoice has not been Paid*	$ 2,146,861	$ 3,397,674	$ (1,250,813)
Paid *Vendor Invoice is Paid*	7,236,675	7,151,097	85,578
Totals:	**$ 9,383,536**	**$ 10,548,771**	**$ (1,165,235)**

Source: APA, based on various KSU financial data, including December 21, 2020 report by former EVP for Finance and January 1, 2021 Argos Accounts Payable Report.

After inquiry regarding the discrepancies in the report, the former Purchasing Director reiterated that the report was not intended by her to be a comprehensive report of outstanding accounts payable. Additionally, she explained the missing accounts payable of $1,165,000 resulted from her manually trying to pull data from the University's accounting system when fulfilling the former EVP for Finance's report request, noting that the system does a poor job at producing reports.

The provided report did not account for an unknown number of invoices that had yet to be entered into the Banner system.

The report provided to the former President and former Board Chair also did not account for an unknown number of invoices that had yet to be entered into the Banner system. According to the former Director of Purchasing, who also managed KSU's accounts payable office for a portion of the examination period, accounts payable staff would routinely receive invoices without a corresponding purchase order. Staff would not be able to enter the invoice into KSU's accounting system until a purchase order could be set up. In the interim, invoices without a corresponding purchase order were maintained in an accordion folder until staff had an opportunity to address them. It is not known how long invoices would be maintained outside of the accounting system before being entered or the dollar amount of the vendor invoices maintained outside of the system at that time.

KSU's former President stated that he was not aware of how KSU managed its accounts payable until early July 2021. While meeting directly with staff, the former President learned that though the accounting system could produce reports, the reports were incomplete. Furthermore, the accounts payable process was being managed manually, with staff using a spreadsheet to track invoices, as not all the invoices were entered into the accounting system.

As noted in Chapter 1 of this report, attempts were made to speak with the former EVP for Finance, but he did not respond to requests for an interview.

Recommendations

We recommend:

- KSU record all accounts payable into their accounting system. Recording should be done timely to properly reflect liabilities and eliminate the practice of maintaining invoices outside of Banner.

- KSU develop a standard report template for showing outstanding accounts payable balances.

- KSU document, in writing, the procedure for creating the outstanding accounts payable balance report, including the sources of information involved.

Finding 12: KSU Failed to Apply a 5% Salary Reduction to Executive Salaries Despite a Signed Resolution.

On June 2, 2020, the President's Council, consisting of the former President and eight high-level University Administrators, adopted and approved a resolution announcing a voluntary 5% salary reduction for its members to be applied to the period July 1, 2020, through December 31, 2020. This resolution, signed by all members of the Council, was then presented as part of the former President's quarterly report to the Board and shared further through campus news coverage of the Board meeting. Despite these announcements, KSU's former Payroll Director and HR Director each stated that they were advised by the former EVP for Finance not to make any changes as the cut would not be implemented. Furthermore, it appears the matter was not brought back up to the Board or campus community. KSU payroll records confirm that a salary reduction for the former President and eight other members of the former President's Council did not occur. While the 5% salary reduction would have resulted in only minor cost savings for the University, the willful disregard to implement this intended action demonstrates both a toxic work environment and unprincipled leadership. Additionally, four members of the President's Council received bonus compensation later in the same fiscal year, March 2021, as discussed further in Finding 10.

The SVP for Brand Identity and University Relations is the only current KSU employee who served on the President's Council during the prior administration. According to the SVP, the President's Council was what is currently referred to as the President's Cabinet, with two exceptions: (1) when the bodies convened and (2) who the President invited to attend. The SVP stated that the Council had no decision-making authority and stated its focus was on keeping every department at the University informed of the University's work and how to move forward as directed by the President. At the time of the President's Council Resolution, the Council included nine members: (1) former President, (2) former EVP for Finance and Administration, (3) SVP for Brand Identity and University Relations, (4) former Acting Provost & VP of Academic Affairs, (5) former VP for Student Engagement & University Relations, (6) former General Counsel, (7) former Executive Director for Government and Economic Innovation, (8) former Chief of Staff and Director for Strategic Initiatives, and (9) former Acting Director of Athletics. See signed President's Resolution dated June 2, 2020 at Appendix E.

When asked why the reduction did not occur and who made the determination to not implement the resolution, the former General Counsel stated that she was unaware the resolution was not implemented. However, she was aware that she did not get a reduction to her salary. After noticing her salary was not reduced, the former General Counsel asked the former EVP for Finance about the matter and he advised her that the resolution did not apply to her because she was not a vice president and did not receive the same level of compensation. That was the only conversation she had discussing the matter. The former General Counsel stated that it was her understanding at the time the resolution was signed that it was not definitive that the reduction was going to happen.

The former General Counsel was not aware that the resolution was not implemented but she knew her salary was not reduced.

However, language contained in the resolution appears definitive. The only portion of the resolution that indicates the potential for uncertainty is when consideration will be given to whether the reduction will be applied to the second half of the year. Specifically, the resolution reads, in part:

> **THEREFORE, BE IT HEREBY RESOLVED,** that a 5% salary reduction shall apply to all members of the President's Council from July 1, 2020 until December 31, 2020; and
>
> **BE IT FURTHER RESOLVED,** that the salary reduction be reviewed in light of campus revenues and expenses with a decision to be made regarding the second half of the fiscal year.

The Board did not act on this resolution and it is not clear what authority the President's Council had to pass such a resolution. However, the former Board Chair and former President both agreed that they anticipated that the salary reduction would take place and were not aware otherwise. The former President remembers the resolution and assumed the money came out. He noted that the resolution was something the Board had wanted the Administration to do as a symbolic gesture. The resolution followed KSU's reduction in force, which was approved by the Board in May 2020. Through the reduction in force, KSU eliminated 32 jobs to reduce its payroll costs due to the COVID pandemic. The following month, June 2020, the President's resolution was introduced as a way for the President's Council "to further contribute to the overall reduction in personnel costs."

The former President stated that both the former EVP for Finance and the SVP for Brand Identity and University Relations did not want the salary cut. When asked if she knew why the salary reduction did not occur, and who made the determination to not implement the resolution, the SVP for Brand Identity and University Relations stated she was not included in any of those discussions or decisions. Additionally, the SVP noted that she had not had a chance to read the resolution beforehand and she signed it just before it was presented to the Board.

As noted in Chapter 1 of this report, attempts were made to speak with the former EVP for Finance, but he did not respond to requests for an interview.

Recommendations

We recommend:

- KSU determine the authority of President's Council/Cabinet.
- In addition, the KSU HR Director should provide confirmation of action taken at meetings of the Board of Regents, standing committees, and the President's Council, whenever resolutions or motions are passed that will affect payroll and benefits provided to any or all staff.
- The Board of Regents keep track of resolutions passed and request a status update to ensure passed resolutions are implemented.

Finding 13: Insufficient Communication and Relationship Between KSU and Its Foundation Has Led to Ineffective Oversight of Public Funds.

A review of the process by which public funds are transferred by KSU to its Foundation identified that control weaknesses and poor communication exist between KSU and its Foundation. In two instances, federal funds were transferred to the Foundation to distribute to students, but KSU failed to properly identify the source of these funds to the Foundation resulting in the Foundation recording these funds as private donations. In one instance, public university funds managed by KSU on behalf of the former President for the purpose of Faculty, Staff, and Student Recognition, were used to cover a university Board retreat. In another instance these same recognition funds were used to cover an advertisement and table reservation to an unknown event with no request or approval from the University documented. Despite a mutually signed Memorandum of Understanding (MOU) indicating how the two entities engage in strategic planning for the University, KSU and Foundation representatives described very limited communication and synergy between the two entities. Though separate organizations, the relationship between KSU and its Foundation is critical to ensuring the proper use of funds entrusted to them and providing assurance and confidence to its donors and stakeholders.

Memorandum of Understanding (MOU)

As identified in Chapter 1, the KSU Foundation is a separate organization with its own board and personnel. In March 2019, KSU and the Foundation signed an MOU identifying the role of each party and describing how they will engage. Interviews with KSU personnel and Foundation representatives indicate that elements of the MOU do not appear to be a true representation of engagement. For example, the MOU identifies that "[t]he Foundation has the right to assess administrative fees to support its operations not to exceed 35% annually." However, the Foundation's Executive Secretary identified the Foundation charges 1% to 2.5% per year, as approved by the Foundation's Board on October 17, 2003, an amount nowhere near as high as that anticipated by the MOU.

KSU personnel and Foundation representatives indicate that elements of the MOU do not appear to be a true representation of engagement.

Additionally, the MOU states "[t]he University shall include the Foundation as an active and prominent participant in the strategic planning for the University." Foundation representatives identified that they have had "zero" participation in strategic planning for the University and that the MOU was created by KSU to fulfill requirements for accreditation. A SACSCOC preliminary report of findings, identified KSU as noncompliant with SACSCOC standard 5.3 as of November 2018.

Standard 5.3 requires:

> For any entity organized separately from the institution and formed primarily for the purpose of supporting the institution or its programs:
> (a) The legal authority and operating control of the institution is clearly defined with respect to that entity.
> (b) The relationship of that entity to the institution and the extent of any liability arising from that relationship are clearly described in a formal, written manner.

> (c) The institution demonstrates that (1) the chief executive officer controls any fund-raising activities of that entity or (2) the fund-raising activities of that entity are defined in a formal, written manner that assures those activities further the mission of the institution.
> *(Institution-related entities)*

Though Foundation representatives noted that the University created the MOU and had it signed in a few days, email correspondence maintained by KSU identify some discussion of a draft MOU between the Foundation and KSU having occurred earlier that fall without being finalized at the time, and subsequent edits appear to have been made by KSU. An official MOU was not signed until March 2019. On December 10, 2019, the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) announced KSU's accreditation was reaffirmed for the next 10 years.

Interaction and Communication

As it relates to communication between KSU and the Foundation, the MOU identifies the President as responsible for communicating KSU's priorities and long-term plans, as approved by KSU's Board, to the Foundation. While no written internal policies or procedures documenting KSU's processes for engaging the Foundation exist, KSU implemented the use of a standardized expenditure request form to document requests and associated approvals. All requests require at least the President's approval but may also include the account administrator and a supervisor or vice president. For the period July 1, 2018, through June 30, 2021, KSU was unable to provide documentation of KSU expenditure requests submitted to the Foundation.

KSU accounting personnel, including one of its former Controllers, noted that KSU's accounting staff would be unaware of any requests made to the Foundation. As such, they would be unaware if denied expense(s) would be presented to the Foundation for payment or if the Foundation paid for the same expense(s) KSU incurred. While it may be appropriate for some distance to exist in the operations of each entity, this separation should not prevent or restrict communications as this increases KSU's risk for inappropriate use of funds or for those funds to be improperly recorded.

Transfer of Public Funds

Between July 1, 2018, and June 30, 2021, KSU transferred over $60,000 from KSU's current unrestricted funds to the Foundation for the purpose of funding a President's Recognition account. This funding was provided in accordance with the former President's employment contract, which identified that KSU would contribute $30,000 each year to a fund to equally benefit KSU students, faculty, and staff.

As identified in his contract and in a letter to the Foundation dated November 16, 2017, the President states:

> KSU shall distribute the $30,000 to the Presidential Fund annually in the following manner:
>
> - Ten Thousand Dollars ($10,000.00) for student recognition initiatives that promote recruitment and retention;
> - Ten Thousand Dollars ($10,000.00) for staff incentive and service award; and

- Ten Thousand Dollars ($10,000.00) for faculty recognition of excellence and service to the University community.

As was recommended by KSU's former General Counsel, the funds were transferred to the Foundation with the stipulation that the Foundation maintain three separate and distinct accounts for students, staff, and faculty. The letter identifies that this recommendation was made "to ensure the orderly administration of these funds and to ensure that these funds are expended for the purposes identified in the agreement."

Review of Foundation records for the Presidential Recognition account identify that the Foundation maintained the funds in a single account with different subaccounts for each of three categories. In addition to a subaccount for Faculty, a subaccount for Staff, and a subaccount for Students, the Foundation created a subaccount titled "Presidential Recognition Other." This additional subaccount is primarily used to record associated investment transactions and Foundation administrative fees, which are allowed per the MOU. Figure 15 shows the balance of the Presidential Recognition account in total and by subaccount as of September 14, 2022.

Figure 15: Balance of Presidential Recognition Account by Subaccount and Total, as of September 14, 2022

Foundation Account ID	Account Balance
KSIF0369A - Faculty Recognition	$ 23,788
KSUF0369b - Staff Incentive	17,540
KSUF0369C - Student Recognition	(4,195)
KSUF0369 - Presidential Recognition Other	(6,609)
Grand Total	**$ 30,524**

Source: APA, based on account ledger provided by KSU Foundation Inc.

As identified in Figure 15, the Foundation has allowed overspending in the Student Recognition subaccount. According to the Foundation's Executive Secretary, the Foundation takes what it terms a "holistic" approach, meaning as long as the total account shows funds available, the Foundation will allow an expense. However, this approach fails to properly establish requirements for funds and monitoring compliance with the intent of the funds as outlined in the former President's contract and as clearly identified in the letter from KSU's former General Counsel to the former President, which was shared with the Foundation.

Review of spending from the President's Recognition fund identified questionable expenses, including rental of the Kentucky Castle for a daylong KSU Board Retreat.

Additionally, review of spending from the President's Recognition fund identified questionable expenses, such as a reimbursement to KSU for the expense of renting the Kentucky Castle in September 2019 for a daylong KSU Board retreat. This expense, totaling $9,270, was initially paid by the University and included facility rental, lunch, and dinner. The request for reimbursement was made by the former President; however, the President did not identify from which account the reimbursement was to occur. It is not clear who determined from which fund this expense would be paid. The Foundation's ledger shows that the funds were paid from the "KSUF0369 Presidential Recognition Other" subaccount.

Another expense, payable to a fraternity was also recorded against the "KSUF0369 Presidential Recognition Other" subaccount in the amount of $3,700 on November 29, 2018. Documentation provided by the Foundation to support this expenditure included only a Bill History printout from the Foundation's accounting software on September 20, 2022. The memo for this payment states "Full Page Ad and Reserved KSU Table;" however, no invoice or expenditure request form documenting the expenditure purpose or authorizations given were evidenced.

As noted in Finding 6 of this report, KSU also transferred to the Foundation over $671,000 in federal Higher Education Emergency Relief Fund (HEERF) Student Aid portion funds during the period examined. The first two payments to the Foundation were made in April 2020 and May 2020, for $18,886 each. A third payment of $633,556 was made on July 16, 2020. In review of Foundation ledgers for the HEERF Student funds, the Foundation failed to recognize these first two payments, totaling $37,772. After inquiry of the Foundation, it was determined that the Foundation had erroneously identified and recorded the first two payments of federal funds as privately sourced donations.

It appears KSU failed to properly notify the Foundation of the source for the $37,772 as KSU did not address this matter with the Foundation until June 18, 2020, when they sent a request to the Foundation to "Hold And Release" HEERF Student funds. Finally, by its actions, KSU denied the Foundation and its Board the opportunity to consider the request. The MOU between KSU and the Foundation identifies that the Foundation "shall not accept grants from state or federal agencies except in special circumstances when approved by the Foundation Board and the governmental agency." It is also not known if KSU ever notified the U.S Department of Education of this arrangement, let alone received federal approval.

Recommendations

We recommend:

- KSU follow its own MOU and establish more consistent and clear communication with the Foundation. This should include not only the President's office, but KSU's Accounting and Institutional Advancement offices, as appropriate, to promote integrity, accountability, and transparency in this process.

- KSU establish written policies and procedures to provide guidance for how requests for support from the Foundation are to be made and approved.

- KSU establish written policies and procedures to provide guidance for how University funds sent to the Foundation are to be processed and approved.

- KSU maintain its own records documenting expenditure requests and amounts the Foundation paid.

- KSU require monthly or quarterly reporting of available funds held at the Foundation be submitted to institutional support or accounting so that reports can be reconciled to KSU's documentation to ensure charges and deposits are applied to the appropriate accounts as intended.

- MOU should be updated to reflect actual operations/procedures between KSU and its Foundation.

<u>Finding 14: Former EVP for Finance and Administration Failed to Notify KSU of His Dual Employment Creating a Conflict of Commitment.</u>

Records from KSU and Tennessee State University (TSU) confirm the KSU's former EVP for Finance, who now serves as TSU's Vice President (VP) of Business and Finance, was concurrently employed at both institutions between May 1, 2021, and June 25, 2021. By KSU's Conflict of Commitment policy, "[e]mployees are expected to devote their primary professional loyalty, time, and energy to Kentucky State University teaching, research and service endeavors." If intending "to engage in an external activity that involves significant effort outside of the University and that may present a Conflict of Commitment" an employee "must complete a Conflict of Commitment and Interest Disclosure" and have written supervisory approval. KSU's HR Director and former President each stated that the former EVP for Finance did not advise them of his ongoing employment at both institutions, did not complete the required disclosure, and did not seek approval from the University to permit dual employment.

While concurrent employment is not a statutory or regulatory violation, without prior notice and KSU approval, it does appear to violate the terms and conditions of the former EVP for Finance's terms and conditions of employment. The lack of prior approval notwithstanding, considering the role and full-time work responsibilities held simultaneously at KSU and TSU, it is questionable whether the former EVP for Finance was able to fulfill his full-time job responsibilities at KSU over the two-month period.

TSU records identify that the former EVP for Finance began work at TSU as its VP of Business and Finance at least a month prior to submitting his letter of resignation to KSU.

The former EVP for Finance's letter of resignation is dated May 31, 2021, to be effective June 30, 2021. On June 17, 2021, the HR Director forwarded the former EVP for Finance's resignation to the former President advising that the resignation letter was submitted to the former Payroll Director in the HR Director's absence the week prior. A campus-wide announcement was then made on June 23, 2021, advising that the former EVP for Finance was leaving KSU to accept a position at TSU. While the former EVP's letter of resignation was dated May 31, 2021, TSU records identify that the former EVP for Finance began work at TSU as its VP of Business and Finance on May 1, 2021; at least a month prior to submitting his letter of resignation. Additionally, despite indicating his last day would be June 30, 2021, KSU's HR Director confirmed the former EVP's last day as June 25, 2021.

KSU emails identify that the former EVP for Finance was sending emails from his KSU email account to his TSU email account as early as May 24, 2021. On May 24, 2021, the former EVP for Finance forwarded to his TSU email account preliminary Board meeting materials that would later be presented, discussed, and acted upon by KSU's Board of Regents at is June 3, 2021, regular meeting. Given that the former EVP for Finance had access to this information through his KSU account, it is unclear why he would need to transfer preliminary KSU documents, including a presentation and update on KSU's internal endowed funds, proposed budget materials, and a preliminary contract to his new employer's email system. This does not appear to be appropriate management of KSU records.

From KSU and TSU combined, the former EVP for Finance received over $37,133 in monthly gross pay for May 2021 and June 2021, $17,550 from KSU and $19,583 from TSU. At both institutions, the former KSU EVP for Finance was not required to submit time records, other than for leave taken. KSU records identify that between May 1, 2021, and June 25, 2021, the former EVP for Finance took one day of sick leave, and one holiday. TSU records indicate that the same individual took no leave for the entire two-month period. As such, for the entire month of May 2021, and the majority of June 2021, the former EVP for Finance was reporting to his two employers, working 7.5 hours each on their behalf, for a total of 15 hours worked daily. Without documentation of the specific hours worked at each institution, it is not known how these hours overlapped. But based on statements made by KSU personnel, it appears the former EVP for Finance's dual employment was dividing his time and energy.

KSU's former Director of Capital Planning and Facilities Management stated the former EVP for Finance advised his staff in mid-June 2021 that he was resigning from KSU at the end of the month. However, the former Director stated that it was a "weird situation" as staff knew the former EVP for Finance had been absent without telling anyone where he was or what was going on in the weeks prior to his announcement. A former accounting staff member similarly noted that the former EVP for Finance stopped responding to emails and texts from staff some time before leaving KSU.

The former President stated that he became aware the former EVP for Finance held dual employment just before he left KSU and recalled seeing a picture of the former EVP for Finance at a TSU ribbon cutting ceremony on a workday for KSU. Research identifies the ribbon cutting ceremony the former EVP for Finance attended took place on June 17, 2021, for TSU's Health Sciences Building. On the same day, the former EVP for Finance also attended TSU Board of Trustees Regular Meeting and was identified in official meeting minutes as TSU's VP of Finance and Budget.

In addition to holding dual employment, KSU's former Payroll Director stated that before the former EVP for Finance left KSU in June, he demanded she pay out his full vacation balance of approximately $34,000, though KSU's policy had been revised in December 2020 to limit the amount of vacation time that could be paid out to employees upon separation. The former Payroll Director said that she was advised by the former EVP for Finance that the former President said she could pay this out to him. An email dated June 9, 2021, documents the former EVP for Finance advised the former Payroll Director that she was "approved to process the vacation payout."

KSU's former General Counsel stated the former EVP for Finance was also texting members of KSU's Legal Office asking them to permit the payout. Later, on June 21, 2021, the Payroll Director forwarded the former EVP for Finance's email request to the former President, members of KSU Legal Office, and the SVP for Brand Identity and University Relations, asking for guidance on how to handle the request. KSU's former General Counsel then advised that the former Payroll Director should proceed in accordance with University Policy. While KSU appropriately denied the request, the request and subsequent pressure reportedly applied by the former EVP for Finance to his subordinate and members of KSU's Legal Office is concerning. Particularly in light of other findings of this report, which indicate potential self-gratuity and abuse of authority by the former EVP for Finance and Administration. See Findings 10 and 11 for discussion of bonuses and supplemental insurance provided to select members of KSU's former administration and failure to apply a 5% reduction to President Council members' salaries.

As noted in Chapter 1 of this report, attempts were made to speak with the former EVP for Finance, but he did not respond to requests for an interview.

Recommendations

We recommend:

- KSU seek legal guidance to determine options that may be available to recoup any payment for services not rendered by the employee.

- KSU provide annual training to all staff with a focus on select KSU policies, to include at a minimum Ethics, Conflicts of Interest, and Conflicts of Commitment.

- KSU create an explicit dual employment policy that requires KSU employees to obtain approval before acquiring secondary employment, whether through revision of the Conflict of Commitment policy or by adoption of a separate stand-alone policy.

<u>Finding 15: KSU Violated Record Retention Requirements.</u>

KSU's inability to provide requested documentation throughout the special examination demonstrates its failure to maintain an effective system of controls over its official records leading to violations of record retention requirements at the state and agency level. KSU is required by KRS 171.680 to "establish and maintain an active, continuing program for the economical and efficient management" of its records. KSU's Business Policies and Procedures Manual identifies record retention as the responsibility of "a central administrative office," such as payroll, accounting, or purchasing. During the special examination period, KSU's former General Counsel served as the official records custodian for the University. Failure to properly maintain records consistent with retention policies impacts the agency's ability to properly manage and monitor its financial activities, limits its ability to address legal and administrative matters that arise, and restricts transparency and accountability to the public.

General Financial Records
The *State University Model Records Retention Schedule,* approved by the Kentucky State Libraries, Archives, and Records Commission, "governs retention and disposal of records created, used and maintained by Kentucky's public colleges and universities." Within this retention schedule, *Series U02369 General Financial Records*, identifies the university is to retain records including but not limited to accounts payable records, canceled checks, invoices, procurement card materials, travel authorizations, and reimbursements for a period of "three (3) years or until after audit is completed, whichever is longer." KSU's 2010 Business Policies and Procedures Manual contains a blanket requirement that KSU financial records, including contracts, be retained for seven years. As noted in Finding 2, 6, 7, 8, and 16 of this report, numerous financial records for the period July 1, 2018, through June 30, 2021, could not be provided or located to allow for complete analysis of KSU's financial activity.

Contracts
Relating to contracts, the *State University Model Records Retention Schedule* identifies several series of records for which the University has varied retention requirements. For example, *Series U0208 Contracts, Leases and Agreements* identifies that that all contracts, including amendments, are to be retained for "three (3) years after termination or expiration, or three (3) years after terms have been met." *Series U0247 Invitation for Bid/Request for Proposal File* requires unsuccessful bid/proposal files only be maintained for one year or until audited, whichever is longer, and *Series U0700 Applications/Awards to Construct University Buildings* requires university building construction applications and award records be retained until three years after construction has been completed and audited. Again, KSU's 2010 Business Policies and Procedures Manual contains a blanket requirement that KSU financial records, including contracts, be retained for seven years.

As identified in Finding 2, numerous attempts were made from May 2022 to November 2022 to determine KSU's population of contracts. Each attempt was met with a new set of issues and, after seven months of attempting to collect a complete population, it was determined that KSU was unable to readily provide all requested documentation. Review of what contract documentation was provided found that not all contracts provided were the final, signed versions. The former General Counsel acknowledged that a fully executed version of the contract was not always returned to her for placement in the electronic contract repository and she had to go back to her emails to find things she often asked others to upload or expected the Purchasing Department to have maintained. In addition, the former Purchasing Director indicated that there were instances when the Purchasing Department had not initially been advised or made aware of a contract. The more recent former Purchasing Director, who during the completion of the examination was reassigned to another department by KSU, noted that one contract in our selection for review was facilitated through the former President's Office; as such, her office did not have or maintain a copy of that contract. This contract was for consulting services to assist KSU in the SACSCOC accreditation process.

In FY 2020, KSU lost an unknown quantity of procurement documents that had been uploaded to a prior contract repository system when KSU failed to pay its bill and the vendor locked KSU out of the system. Vendor services were paid through mid-November 2019, but the actual date access to the system, and KSU's data, was lost is unknown. Although hardcopy versions of some of the documents existed on campus, this specific electronic collection of documents was never recovered.

KSU lost an unknown quantity of procurement documents when it failed to pay its bill and the vendor locked KSU out of the system.

KSU started using its current contract management system on September 30, 2020. This system serves as a central repository for contracts using a cloud-based, user-authenticated software program. This gives everyone at the University who needs access, access to their contracts. The Office of the General Counsel and the Purchasing Director have administrator rights allowing them to add contracts and users to the system and to run system queries. Purchasing staff have viewer rights allowing them to see contracts and run system queries only. Currently, the program serves the entire campus.

KSU staff interviewed indicated that no training was provided during the examination period concerning records retention. The former General Counsel noted that KSU did not have a robust records retention program and that she told the former KSU President that university-wide training was needed, but he didn't respond. As such, she indicated that she would often take the opportunity to explain the retention policy during conversations with staff.

Recommendations

We recommend:

- KSU ensure proper retention and destruction of KSU's financial records in accordance with approved state and University policies.
- KSU develop and implement training for all "central administrative office" personnel, responsible for ensuring proper retention and destruction of KSU's financial records and undergo training by Kentucky Department for Libraries and Archives.
- KSU ensure systems used for records retention be adequately maintained so that access to the records is not lost.

- The KSU Purchasing Director and General Counsel work together to ensure that all contracts and necessary supporting documentation are uploaded to the contract management system.

- KSU appoint an official records custodian and ensure that final, signed copies of all contracts are provided to the University's official records custodian.

- KSU upload all contracts and supporting documentation that are not already in the contract management system but have not met the threshold for destruction.

Finding 16: KSU Failed to Maintain Access to Records Due to Unpaid Invoices.

Due to unpaid invoices, KSU lost access to a vendor travel processing system that maintained supporting documentation for some travel expenses selected for review. As a result, testing could not be performed on documentation from the system to determine whether staff reimbursements processed through that system were valid and allowable. Though KSU can regain access to the records upon payment of its outstanding balance, KSU failed to ensure continued access to its records. As stated in Finding 15, KSU has an obligation to properly maintain its financial records in accordance with both state and University policies and to ensure adequate support is available for fiscal monitoring and oversight.

From individual staff files, 20 staff reimbursements were selected for review to determine if these expenditures were supported, approved, and allowable. When support for these expenditures was requested, KSU staff explained 11 of the travel reimbursements had been processed in an outside system named Concur. KSU purchased Concur to assist in processing staff reimbursements beginning in 2017. After travel documentation was uploaded into the Concur system, KSU did not maintain hard copies of the travel documentation. Because the University failed to address its outstanding balance with the vendor in FY 2022, KSU could not access the stored supporting documentation to substantiate the expenditures. Due to this limitation, review of 11 selected transactions totaling $18,241 could not be performed. As identified in Finding 8, testing of the remaining nine reimbursements found two reimbursements with a total of $1,502 in unsupported expenditures and one instance where the per diem rates used were higher than the reported allowable rate.

Accounts Payable staff reported that using Concur for processing travel ended in the spring of 2021 and that leadership made the decision to pay a monthly fee of $142 to access the documents. The reasons given by KSU personnel for discontinuing Concur was that is was not used during the pandemic and the cost of using the program.

In confirming that KSU did not have access to Concur documentation, we found that KSU's Chief Information Officer (CIO) was not aware that Concur had been discontinued. After contacting a Concur representative, the CIO was told that KSU signed a new contract on October 28, 2021 for the lowest tier of services effective November 1, 2021, because KSU planned to revert to a manual process. The CIO was also told that KSU had 5 outstanding invoices totaling $684 as of August 2022. While three of these invoices were paid, KSU had two outstanding invoices and did not get access to the documentation before fieldwork ended.

Recommendations

We recommend:

- KSU ensure that any documentation supporting an expenditure from University funds is maintained for review.

- KSU make the necessary payments to retrieve the documentation maintained in third-party systems to comply with record retention requirements.

- KSU determine whether to continue using a third-party system.
- If a third-party database is used, KSU policies and procedures incorporate actions necessary to prevent the temporary or permanent loss of data.

CHAPTER 4: Information Technology

Examination findings in this chapter discuss matters involving logical security controls, which are controls that restrict a user's access to information technology systems to prevent unauthorized access. Findings in this chapter identify inappropriate system configurations and naming conventions. In addition, the Findings identify a lack of system access controls, user monitoring, and separation of duties.

Finding 17: KSU Did Not Implement Adequate Access Controls Over Its Accounting and Payroll Systems.

KSU did not implement adequate controls over user access to the Banner accounting system and Automatic Data Processing (ADP) payroll system. The various security policies KSU has in place do not explain the processes required to grant, change, or delete access to Banner and ADP. Also, the security audit procedures, dated November 2017, do not reflect current procedures used by staff to monitor access to KSU systems. Rather, data owners (individuals responsible for a module) are made aware of the current audit procedures and schedules via email or during manager meetings. By not properly implementing adequate access controls, KSU is at risk for allowing inappropriate access to University resources.

Security Audits

According to KSU's Data Classification Policy, data owners must actively monitor and review their systems and procedures for potential misuse and/or unauthorized access. KSU's Information Technology (IT) staff indicated that Banner and ADP audits are conducted quarterly. As part of the security audit, the Banner module managers are to ensure users have appropriate access to modules. If inappropriate or unnecessary access is identified during these reviews, changes are submitted to IT for processing. As reflected in Figure 16, Banner is made up of eight modules:

Figure 16: Banner Modules and Descriptions

MODULE	DESCRIPTION
F	FINANCE FINANCE - PURCHASING
G	GENERAL
H	HR
N	POSITION CONTROL
P	PAYROLL/PERSONNEL
R	FINANCIAL AID
S	STUDENT STUDENT - ADMISSIONS
T	ACCOUNTS RECEIVABLE

Source: APA, based on email communication from KSU CIO.

Review of Banner audit reports and change documentation provided for FY 2019 through FY 2021 identify that all eight modules were not consistently reviewed by KSU. Figure 17 identifies the modules that were reviewed by KSU during the period.

Figure 17: KSU Modules Reviewed in Fiscal Years 2019, 2020, and 2021.

MODULE	DESCRIPTION	2019				2020				2021			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
F	FINANCE - PURCHASING		✔	✔	✔				✔	✔	✔	✔	✔
G	GENERAL		✔	✔					✔				✔
H	HUMAN RESOURCES	✔	✔	✔							✔	✔	✔
N	POSITION CONTROL	✔	✔	✔									
P	PAYROLL/PERSONNEL												
R	FINANCIAL AID		✔	✔						✔	✔	✔	
S	STUDENT - ADMISSIONS		✔	✔					✔	✔	✔	✔	✔
T	ACCOUNTS RECEIVABLE			✔						✔	✔	✔	✔
	ADP								✔	✔	✔	✔	✔

Source: APA, based on information provided by KSU's Chief Information Officer.

KSU stated that prior to FY 2020, the reviews were completed by calendar year. Also, due to the COVID-19 Pandemic, audits for the first three quarters were completed during the fourth quarter of FY 2020. In addition, the documentation provided shows that while audit reports were generated for ADP during FY 2019, these reports were not reviewed.

Banner Configuration
Per KSU's Chief Information Officer (CIO), configuration of Banner was not handled properly in August 2010 when the system was first being implemented. To grant access to Banner, accounts and users are assigned to a user class. The user class contains forms or jobs that a user may access, and users can either be granted query or modify access to these forms and jobs. There are 27 user classes currently not assigned to Banner users. Necessity of these user classes could not be confirmed.

Also, there are 28 additional user classes that contain '_KSU' in the name. While these user classes are being used by staff, they do not adhere to KSU's standard naming convention. According to KSU staff, these were created by a former employee in August 2010. KSU's IT staff indicated that this has been a known issue over the years and discussed in the past, but no action was taken to address the issue. KSU staff are currently investigating to determine if these user class names can be changed without affecting current staff.

Banner Access
Review of Banner access identified the following issues:

- Use of four group accounts, with both query and modify access:
    - Three of these accounts existed for use by external auditors during annual audits by state, federal, and external agencies.
    - The fourth group account was established for the Bursar/Registrar offices to remove exclusive holds on student accounts.

  Use of group accounts is a security concern since they do not allow organizations to track or identify who is using the account. Access level should be granted based on individual need. Additionally, short-term access needed for reviews or audits, should be limited to only the duration of time needed. Once that specific audit or review is finished, the access should be terminated.

- One user class associated with training was assigned to two staff. However, KSU acknowledged that this user class was no longer needed, indicating that unnecessary access existed and would be removed.
- There was also a duplicate account identified. KSU's IT staff confirmed that one of the duplicate accounts was removed on October 19, 2022.

User access authorizations

Testing was conducted to determine whether appropriate documentation and authorization was maintained to support access to Banner. Out of 73 users that were granted access to Banner between FY 2019 and FY 2021, 7 were selected for review, representing 9.6 percent of the population. The employees selected for review were: (1)Dean of Student Leadership, Conduct, and Health, (2)Title III Assistant Director, (3)Chair, School of Criminal Justice, (4)Internal Auditor, (5)Interim Dean, School of Nursing & Health Sciences, (6)Senior Woman Administrator/Associate Athletic Director, and (7)Executive Vice President for Finance and Administration.

Testing revealed exceptions with all seven users examined:

- Three users did not have a new hire email on file to request the initial setup of their network/email/system access;
- Four users were missing supervisor signatures approving their New Hire/Department IT Access Request Forms;
- Four users were missing supervisor signatures from their Acknowledgment of Receipt of University Policies & Procedures Forms; and,
- All seven users were missing signatures approving their Banner Access Request Forms and/or the forms did not support the security roles/access granted. For each user reviewed and found not to have support on file for the access granted, the review found:
    - The Dean of Student Leadership, Conduct, and Health had forms on file for the Finance and Student modules, but had query and modify access to all 8 modules.
    - The Title III Assistant Director, the Chair of School of Criminal Justice, the Interim Dean of School of Nursing & Health Sciences, and the Senior Woman Administrator/Associate Athletic Director had forms on file for the Finance module, but had query and modify access to all 8 modules.
    - The Internal Auditor had forms on file for Human Resources, Financial Aid, Student, and Accounts Receivable modules, but had query and modify access to all 8 modules.
    - The former EVP for Finance had a Banner Access Form on file that authorized his access to the Finance Module, Human Resources Module and Accounts Receivable module, but he had query and modify access to all 8 Banner modules approved by the former President.

According to KSU, many of the Banner user classes are cross populated with forms from different modules. For example, the former EVP for Finance was granted access to a job or form in the Accounts Receivable (T) module, which then gave him access to a separate job or form within a completely different module. At some point, KSU determined that, based on the function of the user, it was more efficient to add jobs and forms to a user class that was relative to the user role. As such, they believe the initial Banner Access Form is the only support that was needed to grant the additional access. KSU also relied on verbal approval to grant and change access to Banner.

KSU staff stated that IT knows how to set up the security roles and grant query or module access based on the job function and/or the request from a user's supervisor or Banner module manager. KSU's IT staff will contact the user or Banner module manger to find out what is needed if the Banner Access Form does not have selections noted or if they do not know the user's role or job function. This is done either through email or verbally over the phone. The user's Banner Access Request Form is not updated to reflect what action is taken based on the verbal communication.

The former EVP for Finance's access request forms associated with the Finance, Human Resources, and Accounts Receivable modules requested the same access as the individual who held the EVP of Finance position prior to him. Granting access in this manner is considered access cloning and is not a good business practice. With access cloning, users collect access rights over time that should be revoked when they change roles, or they complete projects. Risks with access cloning primarily come from users who can circumvent controls and self-approve transactions for personal gain.

As KSU's Information Technology department reported directly to the former EVP for Finance, a transaction history report was requested for the former EVP for Finance to review his activity in Banner between FY 2019 and FY 2021. KSU's Banner vendor advised KSU on how to retrieve these transactions from Banner using the Transaction History Table and Transaction Detail Tables. KSU indicated that these two tables did not have any transactions for the former EVP for Finance during this time period. Therefore, the former EVP for Finance's activity in Banner could not be reviewed to determine if it was appropriate based on the access granted to him.

The former EVP for Finance's activity in Banner could not be reviewed to determine if it was appropriate based on the access granted to him.

As noted in Finding 18, Banner was not configured to capture access-related security events. Therefore, historical audit reports generated by KSU during quarterly audits were reviewed to compare the former EVP for Finance's access in Banner between FY 2019 and FY 2021. This review revealed additions and deletions to various jobs and forms. Also, changes to the access level (from query to modify and vice versa) of certain forms was also identified. None of these changes was supported by a properly authorized Banner Access Form or email.

ADP Access

Six ADP users were selected and reviewed to determine whether documentation was maintained by KSU to support the access granted to this payroll system. From review, it was determined that none of the six users selected had documentation on file to support the access granted to ADP. According to KSU staff, documentation for employees is not needed since new employees only get employee or self-service access, which is a read-only access. However, of the six users reviewed, there were at least three different profiles that were assigned to employees. How KSU identified the profiles to assign to each individual could not be determined.

In response to the APA's request for support to substantiate ADP users, KSU's IT staff provided HR forms for some employees. However, HR documentation was not provided for all six selected users. Review of HR forms identified the following inconsistencies:

- Four users did not have the University Policies & Procedures form on file.
  - For the two forms received, one user signed as the Supervisor for herself and the other user's supervisor did not sign the form.
- Five users did not have the Departmental Checklist on file.
- Five users did not have the Receipt of Acknowledgements form on file.
  - The one form received was properly signed.

One of the six users identified above was an ADP consultant. KSU does not have a process or procedure in place to address vendor or consultant access to ADP.

Additionally, review found two out of 173 users assigned a Manager profile had not logged into ADP to register to create an ID. One of these two users was also assigned the Time and Attendance profile. Because these users had been granted access but had not registered to create an account to login, it does not appear their access to ADP is necessary.

Again, in light of the role of the former EVP for Finance over both KSU's financial operations and Information Technology, the former EVP for Finance's access to ADP between FY 2019 and FY 2021 was reviewed. Using historical audit reports that were generated by KSU during quarterly audits, it was determined that the former EVP for Finance was a Product User during FY 2019 and was downgraded to a basic Self-Service User beginning FY 2020. A Product User is responsible for administering ADP services such as payroll, human resources, or benefits. They can also access and update their personal account information. A Product User cannot perform security administrative functions such as resetting passwords or issuing administrator access. KSU did not have any documentation on file to support the former EVP for Finance's access and was unable to explain the change in access.

User Passwords

Finally, KSU's Password Policy states that a user is locked out of the system after three failed login attempts. However, in practice, KSU's setting allowed five failed login attempts. While locking a user out of the system after three failed login attempts is more secure than five failed attempts, KSU staff stated they plan to update their policy to reflect the setting of five failed login attempts in order to bring them in line with other state universities.

Recommendations

We recommend:

- KSU update all Banner and ADP policies and procedures to ensure staff can properly perform their job duties. Given the amount of turnover at KSU, it is imperative to have up-to-date policies and procedures that staff can follow to ensure processes are performed as intended by management.

- KSU follow their Password Policy and have a failed login attempt setting of three as opposed to five.

- KSU IT staff return Banner Security Forms to supervisors and Banner module managers if the proper selections are not made, and proper signatures are not captured on the form. Actions taken by IT that affect a user's access to Banner should be documented on the form or emails should be retained to support communications. Also, KSU should create a security form to be used when granting access to ADP.

- KSU continue performing quarterly audits of Banner and ADP. Adequate documentation should be obtained from each of the Banner module managers to ensure reviews are being performed for each module. The full audit reports should be used by IT staff and Banner module managers to compare and confirm access is appropriate for all users.

Finding 18: KSU Does Not Have User Security Auditing Enabled for The Banner Accounting System.

KSU does not have user security auditing enabled for the Banner accounting system. Auditing is the monitoring and recording of selected user database actions. Banner was fully implemented by KSU in 2011 and runs on the Oracle database. At the time of implementation, KSU did not configure the Banner Oracle database to capture events related to user security. As a result, changes made to user account profiles cannot be viewed within the system.

For example, a user is granted BAN_DEFAULT_M access to the Student Course Registration form in the Student module of Banner. This access would allow the user to view and maintain or change the data associated with the registration form. If the manager subsequently decides that incorrect access was given to the user and changes the access to BAN_DEFAULT_Q, then this would only allow the user to query, or view, the form and its contents. Since security auditing is not enabled, there is no history of individuals' access in Banner. As such, an auditor can only see the user's current access, or in this example, the BAN_DEFAULT_Q access level. An auditor would not see that the user was ever granted the BAN_DEFAULT_M access.

Due to the lack of security auditing, examination procedures were limited as to what testing could be performed. KSU provided historical audit reports for FY 2019 through FY 2021. These reports allowed a manual comparison of Banner user access. However, the authenticity of these reports could not be verified and there was no way to verify any changes made to a user's access that was identified by this comparison via Banner.

According to the National Institute of Standards and Technology (NIST) Special Publication (SP) 800-92, Guide to Computer Security Log Management, "Routine log analysis is beneficial for identifying security incidents, policy violations, fraudulent activity, and operational problems. Logs are also useful when performing auditing and forensic analysis, supporting internal investigations, establishing baselines, and identifying operational trends and long-term problems."

Additionally, according to the Oracle Help Center, auditing is typically used to:

- Enable future accountability for current actions taken in a particular schema, table, or row, or affecting specific content
- Deter users from inappropriate actions based on that accountability
- Investigate suspicious activity
- Notify an auditor that an unauthorized user is manipulating or deleting data and that the user has more privileges than expected which can lead to reassessing user authorizations
- Monitor and gather data about specific database activities
- Detect problems with an authorization or access control implementation.

Recommendations

We recommend:

- KSU work with the vendor to enable security auditing on the Banner Oracle database.
- KSU management regularly monitor changes to user access, and reports on this monitoring should be included in the quarterly audits.

<u>Finding 19: KSU Did Not Establish Proper Controls Over Procurement Approval Levels within the Banner Accounting System</u>

KSU did not establish proper controls within the Banner accounting system to ensure that any changes to approvers or approval limits were authorized and tracked. Purchase approvers and approval limits are established within the system's Approval Queue. This information is used to ensure that purchases are approved by the correct staff person based on the dollar amount of the purchase. Due to the lack of controls, the Purchasing Director was able to establish and alter users and limits without any authorization. In addition, Banner does not track when edits or changes to the Approval Queue occur. Purchasing personnel administer the purchasing procedures and should not be able to establish or alter Banner's purchasing controls.

KSU provided a report showing the current purchase Approval Queue configuration and access. A report showing the approvals established in Banner between FY 2019 and FY 2021 could not be provided. KSU management stated past Purchasing Directors did not use effective or termination dates when changing the users in the queue. When an approver changed an approval level or a user no longer needed to be in the Approval Queue, instead of using effective or termination dating for the change, both former Purchasing Directors would either delete or overlay the old approver's name with the new approver's name.

KSU could not provide a report showing approvals established in Banner between FY 2019 and FY 2021.

As previously stated, the KSU Purchasing Director is responsible for all changes to the Approval Queue. This includes making changes to their own approval level. Further noted, Banner does not generate any type of notification when changes are made to the Approval Queue. Also, since creator/approver access is based on the Banner Request form that is submitted to the Purchasing department, the only changes reviewed or approved are for employees the former EVP for Finance supervises.

According to the National Institute of Standards and Technology (NIST) 800-53, control AC-5 Separation of Duties, the organization should:
a. Identify and document organization-defined duties of individuals requiring separation; and
b. Define system access authorizations to support separation of duties.

Further noted by NIST 800-53, separation of duties addresses the potential for abuse of authorized privileges and helps to reduce the risk of malevolent activity without collusion. Separation of duties includes dividing mission or business functions and support functions among different individuals or roles, conducting system support functions with different individuals, and ensuring that security personnel who administer access control functions do not also administer audit functions. Because separation of duty violations can span systems and application domains, organizations should consider the entirety of systems and system components when developing their policy on separation of duties.

Recommendations

We recommend:

- KSU remove the Purchasing Director's ability to approve or alter their own approvals within Banner. KSU's IT department should be responsible for all changes made to the approval queue within Banner.

- KSU should implement procedures to monitor the Banner Approval Queue regularly to ensure only properly authorized users and approvals are configured.

- KSU begin using effective and termination dates when altering approvals within Banner. This will allow KSU to maintain a historical account of the approval queue and properly monitor changes made to the information within the queue.

Finding 20: KSU Did Not Implement Adequate Password and Identification Controls

KSU did not implement adequate identification and authentication (IA) controls for their Network, the Banner accounting system, and ADP payroll system. IA is critical to securing organizational information; it focuses on the assignment and management of accounts to users and devices.

Unlike ADP, the KSU network and Banner do not automatically require users to change their passwords at initial login. As a result, the user's default password, which is set by KSU, can be used for 180 days until the password expires. KSU provided a listing of 417 users that have a KSU network account. Of the 417 listed, 47 users, or 11.3 percent, had not changed their password since their account was created. As such, they are using the default password provided when their account was created.

11.3 % of KSU network account users had not changed their password since their account was created.

KSU has password complexity requirements in place for the KSU network, Banner, and ADP. The Network and Banner passwords must:

- be at least 12 characters in length.
- contain at least one of the following:
  - Upper-case alphabet character (e.g., A, C, Q, etc.) or
  - Special character (e.g., *, %, !, etc.) or
  - Numeric character (e.g., 1,2,4, etc.)

Network and Banner passwords cannot match the last 3 passwords used.

ADP passwords can range from 8 to 64 characters in length and must contain one or more characters from the following:

  - English uppercase or lowercase letters (e.g., A,B,C,...Z or a,b,c,....z)
  - Westernized Arabic numerals (e.g., 0,1,2,...9)

Use of mixed case and special characters is permitted, but not required. All special characters on the keyboard are accepted. In addition, ADP passwords cannot match the last 4 passwords used.

Neither complexity requirement setting agrees with Commonwealth Office of Technology (COT) standards, which adhere to the National Institute of Standards and Technology (NIST).

In addition, ADP applicant and self-service user accounts are suspended 480 days after creation and 480 days after last login if no activity. Administrator accounts are suspended 365 days after last login if no activity. These settings are also not in agreement with COT standards.

Furthermore, KSU has not documented the formal naming convention of IDs to be used by the Network, Banner and ADP. The naming convention of Network, Banner and ADP IDs is *FirstName.LastName*. However, the Banner user listing shows all IDs are setup as *FirstName_LastName*. KSU stated that Oracle does not allow periods in the naming convention; therefore, underscores were used instead. Multiple naming conventions are used for ADP. Review of the ADP user listings revealed IDs used could include the user's email address, initial of first name followed by the last name, an 8-digit number (i.e. 10040621), a combination of letters and numbers (i.e. APOSTLE_11008065), or a name that included all letters (i.e. RUHRI).

Recommendations

We recommend:

- KSU configure their Network and Banner to require passwords to be changed prior to first use.

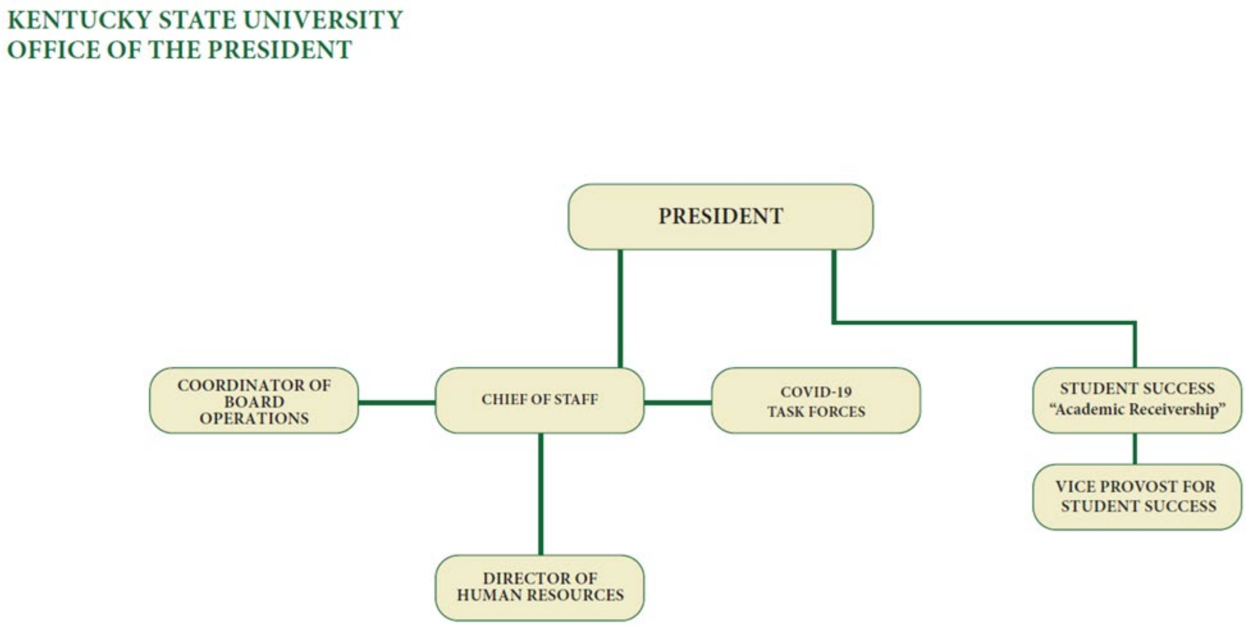
- The Network, Banner, and ADP require passwords to be changed at least every 60 days for all privileged accounts and every 90 days for all non-privileged accounts.

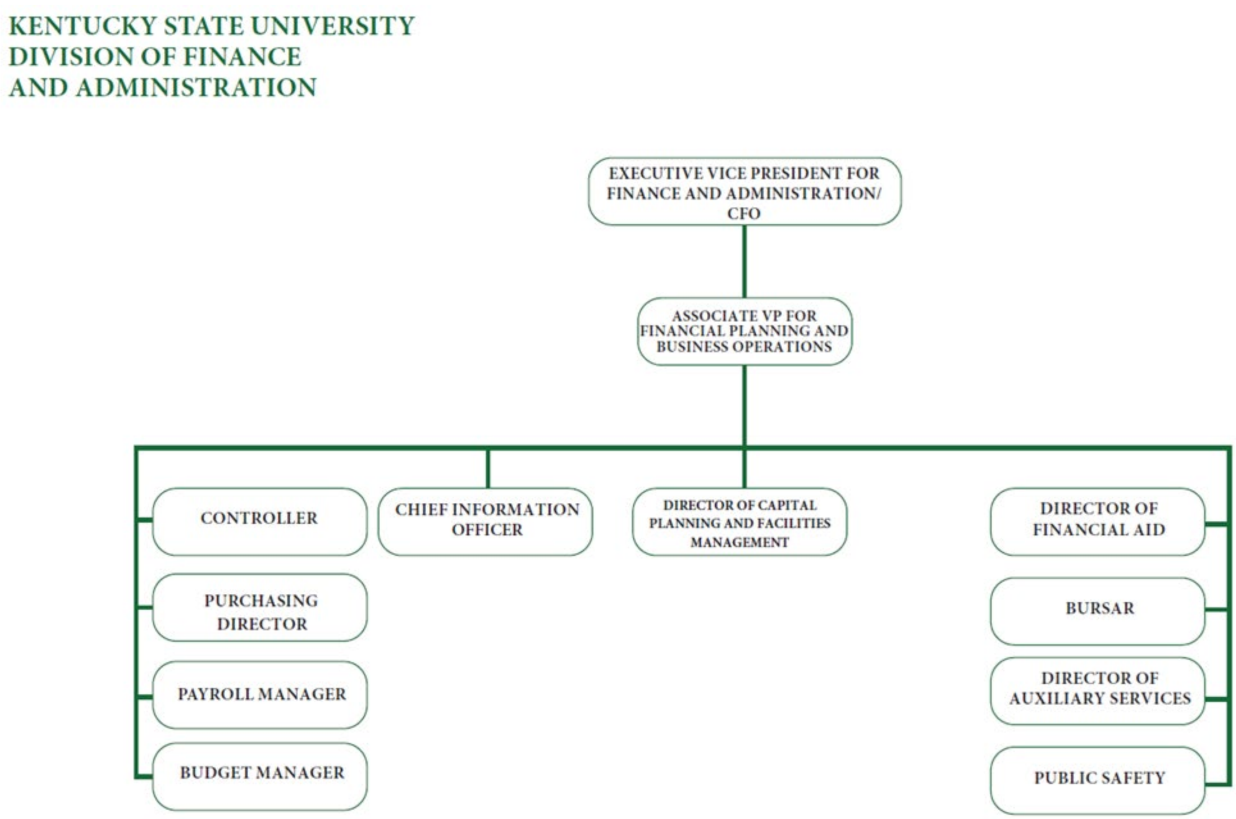
- Banner passwords be required to contain both alphanumeric and special characters. The password history for both Banner and ADP should be increased to 24 passwords.

- KSU document the naming convention of Banner and ADP user IDs within a written policy. KSU should then regularly monitor user IDs established within Banner and ADP to ensure these adhere to the naming convention established within this policy.

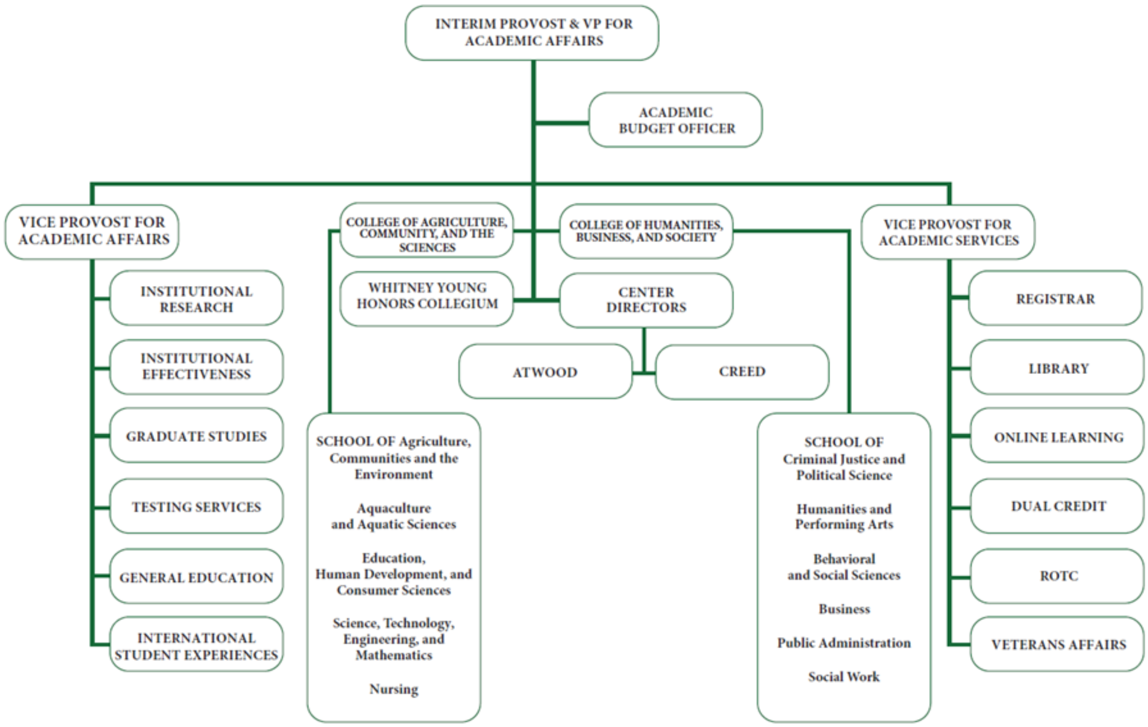
Appendices

<u>Appendix A</u>: Continuation of Kentucky State University Organizational Chart as of September 3, 2020

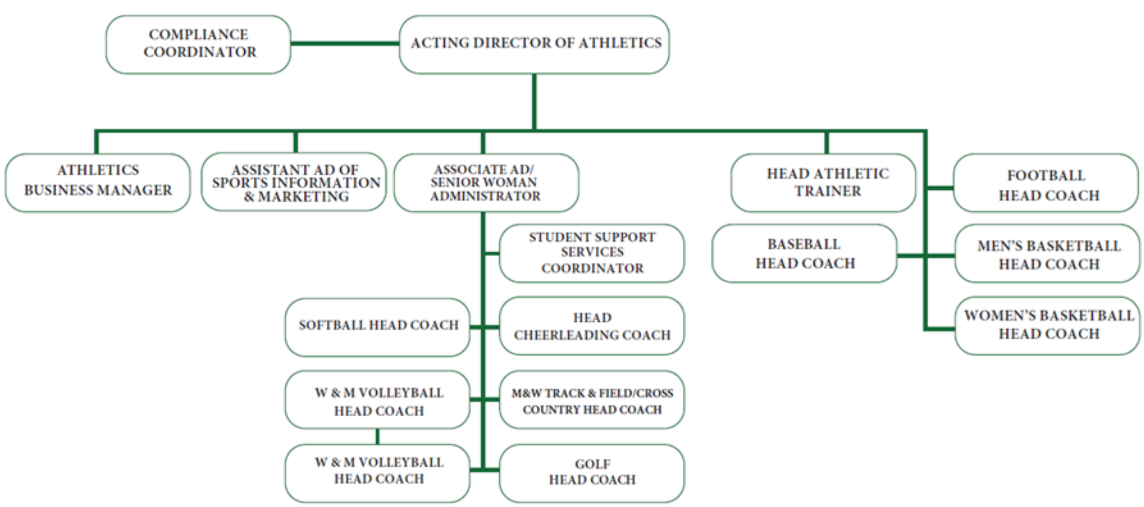




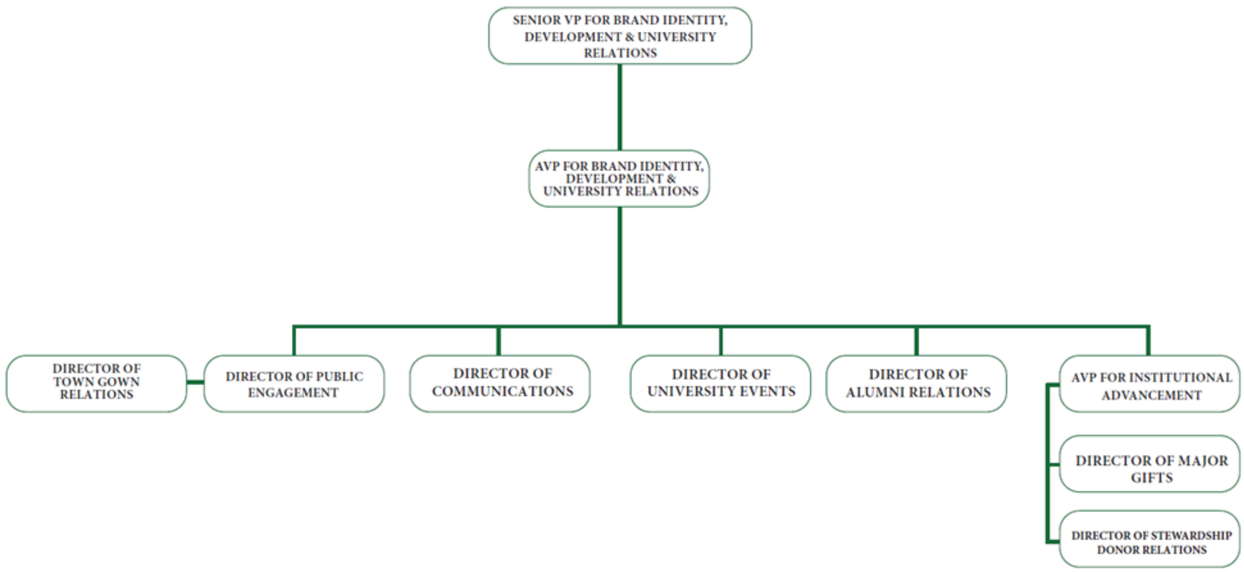
KENTUCKY STATE UNIVERSITY
DIVISION OF ACADEMIC AFFAIRS



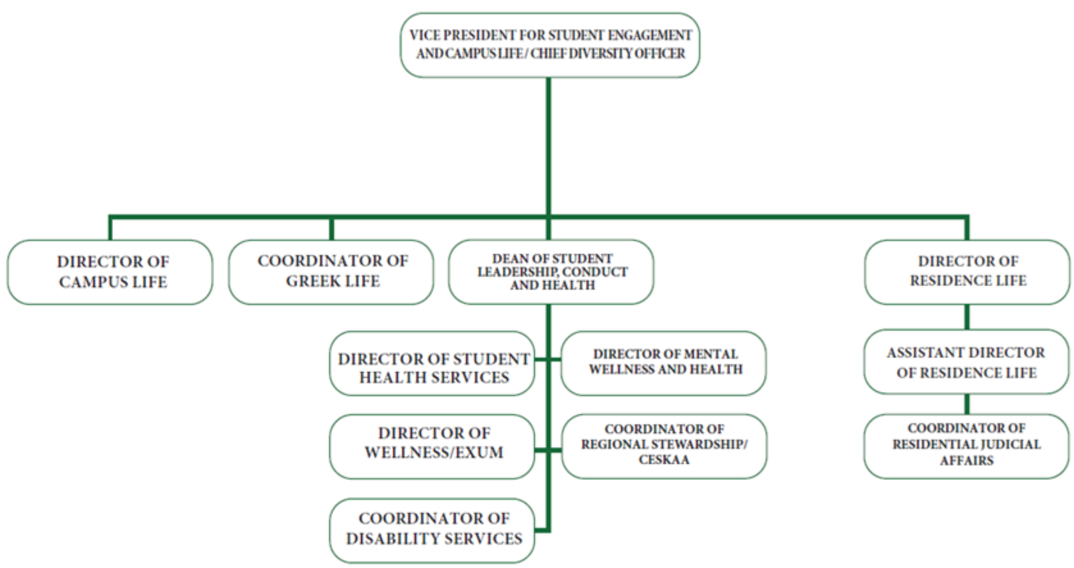
KENTUCKY STATE UNIVERSITY
ATHLETICS



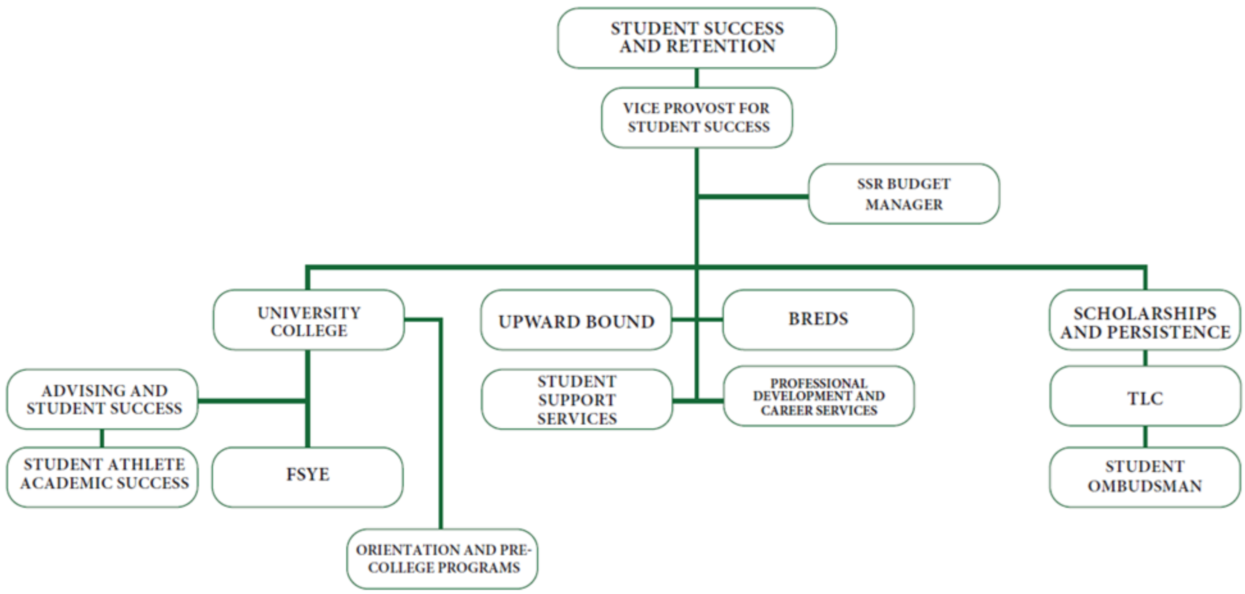
KENTUCKY STATE UNIVERSITY
DIVISION OF BRAND IDENTITY
AND UNIVERSITY RELATIONS



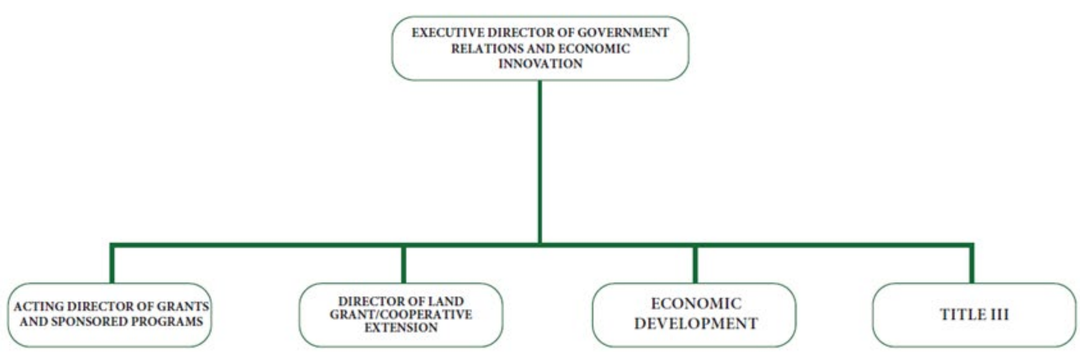
KENTUCKY STATE UNIVERSITY
DIVISION OF STUDENT ENGAGEMENT AND CAMPUS LIFE



KENTUCKY STATE UNIVERSITY
STUDENT SUCCESS AND RETENTION
"RECEIVERSHIP"



KENTUCKY STATE UNIVERSITY
DIVISION OF GOVERNMENT RELATIONS AND ECONOMIC INNOVATION



***Appendix B*: MOU Between KSU and KSU Foundation, Inc.**

MEMORANDUM OF UNDERSTANDING BETWEEN COMMONWEALTH OF KENTUCKY, KENTUCKY STATE UNIVERSITY AND KENTUCKY STATE UNIVERSITY FOUNDATION, INC.

THIS AGREEMENT, entered into as of this 7th day of March, 2019, by and between Kentucky State University (University), a public agency of the Commonwealth of Kentucky, and the Kentucky State University Foundation, Inc. (Foundation), wholly owned private not for profit entity is done so freely for their mutual benefit and convenience to advance the mission of Kentucky State University.

The Foundation was organized and incorporated in 1968 for the purpose of stimulating voluntary private support from alumni, parents, friends, corporations, foundations, and others for the benefit of the University.

The Foundation exists to raise and manage private resources supporting the mission and priorities of the University, and provide opportunities for students and a margin of institutional excellence.

The Foundation is dedicated to assisting the University in the building of permanently restricted, temporarily restricted, and unrestricted funds and in addressing, through financial support, the long-term academic and other priorities of the University.

As stated in its Articles of Incorporation, the Foundation is a separately incorporated 501 (c) (3) organization and is responsible for identifying and nurturing relationships with donors and other friends of the University; soliciting cash, securities, real and intellectual property, and other private resources for the support of the University; and acknowledging and stewarding such gifts in accordance with donor intent and its fiduciary responsibilities.

Furthermore, in connection with its fund-raising and asset-management activities, the Foundation retains personnel experienced in planning and managing private contributions and works with the university to assist and advise in such activities.

In consideration of the mutual commitments herein contained, and other good and valuable consideration, receipt of which is hereby acknowledged, the parties agree as follows:

Foundation Name, Seal and Logotype

Consistent with its mission to help advance the plans and objectives of the University, the Foundation is granted the use of the name, Kentucky State University; however, the Foundation will operate under its own seal and logotype and shall not use the University seal or other identifying marks in the promotion of its business and activities.

University Governance

The Board of Regents of Kentucky State University is responsible for overseeing the mission and leadership of the University.

The Board of Regents of Kentucky State University is responsible for setting priorities and long-term plans for Kentucky State University.

The Board of Regents of Kentucky State University is legally responsible for the performance and oversight of Kentucky State University.

The Board of Regents is responsible for the employment, compensation, and evaluation of the President of Kentucky State University.

The Foundation's Relationship to the University

The Foundation is a separately incorporated 501 (c) (3) non-profit organization created to raise, manage, distribute, and steward private resources to support the various missions of the University.

The Kentucky State University Foundation's Board of Trustees is responsible for the control and management of all assets of the Foundation, including the prudent management of all gifts consistent with donor intent.

The Foundation is responsible for the performance and oversight of all aspects of its operations based on a comprehensive set of Bylaws that clearly address the Foundation Board's fiduciary responsibilities, including expectations of individual Board Members based upon ethical guidelines and policies.

The Foundation is responsible for the employment, compensation, and evaluation of all its employees, including the Foundation Chief Executive.

The President of Kentucky State University, however, shall be the principal fundraiser for the University.

The University's Relationship to the Foundation

The President of the University is responsible for communicating the Kentucky State University's priorities and long-term plans, as approved by Kentucky State University Board of Regents, to the Foundation.

The University recognizes that the Foundation is a private corporation with the authority to keep all records and data confidential consistent with the law.

The Foundation's Chief Executive will be able to meet with the University's senior administrative team who are compensated by the University at agreed upon times throughout the calendar year and the Foundation will make an annual report to the Kentucky State University Board of Regents in accordance with University policy.

The University shall include the Foundation as an active and prominent participant in the strategic planning for the University.

The President of the University may attend meetings of the Foundation.

The Foundation does not receive compensation or funding from the University or use of University staff.

The University shall establish and enforce policies that support the Foundation's ability to respect the privacy and confidentiality of donor records.

Foundation's Responsibilities

Fund Raising and Stewardship

The Foundation shall create an environment conducive to increasing levels of private support for the mission and priorities of the University.

The Foundation shall support the University with the planning and executing comprehensive fund-raising and donor-acquisition programs in support of the University's mission. These programs include annual giving, major gifts, planned gifts, special projects, and campaigns as appropriate.

The Foundation will establish, adhere to, and periodically assess gift-management and acceptance policies. It will promptly acknowledge and issue receipts for all gifts on behalf of the Foundation and University and provide appropriate recognition and stewardship of such gifts.

The Foundation recognizes and defers to the University, which bears majority responsibility to fundraising. University representatives will coordinate fund-raising initiatives including major gift solicitations with the Foundation. The University will promptly acknowledge and issue receipts for all gifts on behalf of the Foundation and University and provide appropriate recognition and stewardship of such gifts.

The Foundation will collaborate with designated University official(s) to identify and cultivate prospects for private gifts and share in, as needed and appropriate, soliciting the gift(s).

The Foundation shall not accept grants from state or federal agencies except in special circumstances when approved by the Foundation Board and the governmental agency.

The Foundation shall establish and enforce policies to protect donor confidentiality and rights.

Asset Management

The Foundation has established asset-allocation, disbursement, and spending policies that adhere to applicable federal and state laws including the Uniform Prudent Investor Act and the Uniform Management of Institutional Funds Act.

The Foundation will receive, hold, manage, invest, and disperse contributions of cash, securities, patents, copyrights, and other forms of property, including immediately vesting gifts and deferred gifts that are contributed in the form of planned and deferred-gift instruments.

The Foundation will engage an independent accounting firm annually to conduct an audit of the Foundation's financial and operational records and will provide the

University with a copy of the audited financial statements including management letters.

Institutional Flexibility

The Foundation will explore current opportunities, including acquisition and management of real estate on behalf of the University for future allocation, transfer, or use.

When distributing gift funds to the University, the Foundation will disclose any terms, conditions, or limitations imposed by donor or legal determination on the gift. The University will abide by such restrictions and provide appropriate documentation as required by law.

Transfer of Funds

The Foundation is the primary depository of private gifts and will transfer funds to the designated entity within the institution in compliance with applicable laws, University policies, and gift agreements.

The Foundation's disbursements on behalf of the University as authorized by the University's President must be reasonable business expenses that support the institution, are consistent with donor intent, and do not conflict with state, local, and federal laws on giving, receipt of gifts, and subsequent disbursements.

Foundation Funding and Administration

The Foundation will maintain its tax-exempt status under Section 501(c)(3) of the Code and carry on its work exclusively for the charitable and educational purpose of Kentucky State University.

The Foundation is responsible for establishing a financial plan to underwrite the cost of foundation programs, operations, and services.

The Foundation has the right to assess administrative fees to support its operations not to exceed 35% annually.

The Foundation, at its own expense, will provide office space, computer and telephone systems, utilities, adequate personnel, office supplies, and other such services that may be necessary or required to fulfill its responsibilities and obligations.

The Foundation shall maintain copies of the plans, budgets, and donor and alumni records developed in connection with the performance of its obligations.

The Foundation will provide access to data and records to the University on a need-to-know basis in accordance with applicable laws, Foundation policies, and guidelines. The Foundation will provide copies of its annual report, and other information that may be publicly released.

Terms of the Memorandum of Understanding (MOU)

This Memorandum of Understanding, made this 7th day of March, 2019 by and between the Board of Regents of Kentucky State University and the Kentucky State University Foundation (an Internal Revenue Code §501 (c)(3) nonprofit corporation), is intended to set forth policies and procedures that will contribute to the coordination of their mutual activities.

To ensure effective achievement of the items of the agreement, the University and Foundation officers and Board representatives shall hold periodic meetings to foster and maintain productive relationships and to ensure open and continuing communications and alignment of priorities.

The parties agree to indemnify and hold harmless the other party, its governing board, officers, agents, employees and students in their official capacities from and against any and all claims, damage, liability, injury, expense, demands, causes of actions, judgments, including court costs and attorney's fees (hereafter "loss") arising out of or resulting from the gross negligence and/or intentional acts of its officers, agents or employees. In the event such loss is proximately caused by the acts of both parties or their officers, agents or employees, each shall be responsible for its proportionate share of claimant's damages under the laws of the Commonwealth of Kentucky. The parties agree this provision shall survive the termination of this Memorandum of Understanding.

Either party may, upon 90 days prior written notice to the other, terminate this agreement. Notwithstanding the foregoing, either party may terminate this agreement in the event the other party defaults in the performance of its obligations and fails to cure the default within a reasonable time after receiving written show cause notice.

The parties agree that notice to either party of this agreement must be in writing signed by the party giving it and shall be deemed given when mailed postage prepaid by U.S. Postal Service, first class, certified or express mail, or other overnight mail service or hand delivered when addressed as follows:

Chair
Board of Regents, Kentucky State University
Kentucky State University
400 East Main Street
Frankfort, Kentucky 40601

President
Kentucky State University Foundation, Inc.
P.O. Box 4210
Frankfort, Kentucky 40604

Should the University choose to terminate this agreement, the Foundation may require the University to pay, within 180 days of written notice, all debt incurred by the Foundation on the University's behalf including, but not limited to, lease payments, advanced funds, and funds borrowed for specific initiatives. Should the Foundation choose to terminate this agreement the University may require the Foundation to pay debt it holds on behalf of the Foundation in a like manner.

Consistent with provisions appearing in the Foundation's Bylaws and its Articles of Incorporation, should the Foundation cease to exist or cease to be an Internal Revenue Code §501 (c)(3) organization, the Foundation will transfer its assets and property to the institution, to the University, to a reincorporated successor foundation, or to the state or federal government for public purposes, in accordance with the law and donor intent.

IN WITNESS WHEREOF, the parties have caused this Memorandum of Understanding to be executed by their duly authorized officers as of the day and date first above written.

Elaine Farris
Chair

Board of Regents, Kentucky State University
Date: March 11, 2019

President

Kentucky State University
Date: March 11, 2019

Chair

Kentucky State University Foundation, Inc.
Date: March 11, 2019

Willie E. Peale, Jr.
Executive Secretary

Kentucky State University Foundation, Inc.
Date: March 11, 2019

Appendix C: Governor's Executive Order 2021-504

ANDY BESHEAR
GOVERNOR

EXECUTIVE ORDER

2021-504
July 20, 2021

Secretary of State
Frankfort
Kentucky

RELATING TO KENTUCKY STATE UNIVERSITY

As recent news reports have indicated, members of the Kentucky State University (KSU) Board of Regents and the Council on Postsecondary Education (CPE) have voiced concerns about the financial stability of the University. The purpose of this Executive Order is to ensure that CPE is able to provide guidance, oversight, and resources to the KSU Board of Regents for a review of KSU's financial condition, so that KSU may continue to provide a high-quality education to its students.

CPE is charged with "evaluating the performance and effectiveness of the state's postsecondary system." KRS 164.020(4). It is further charged with the development and implementation of "policies to be used in making recommendations to the Governor for consideration in developing recommendations to the General Assembly for appropriations to the universities," as well as "policies that provide for allocation of funds among the universities." KRS 164.020(9). To carry out these duties, CPE is empowered to: "[d]evelop a financial reporting procedure to be used by all state postsecondary education institutions," KRS 164.020(26); to "[r]equire reports from the executive officer of each institution it deems necessary for the effectual performance of its duties," KRS 164.020(12); and to "[e]xercise any other powers, duties, and responsibilities necessary to carry out the purposes of this chapter," KRS 164.020(38). CPE also develops and implements "a system of accountability for the postsecondary education institutions that measures," among other things, each institution's "use of resources," KRS 164.095(3)(d), and reports on these accountability measures to the Governor and the General Assembly, KRS 164.095(5).

NOW, THEREFORE, I, Andy Beshear, by virtue of authority vested in me pursuant to the Kentucky Constitution and KRS Chapters 12 and 164, do hereby Order and Direct as follows:

ANDY BESHEAR
GOVERNOR

EXECUTIVE ORDER

2021-504
July 20, 2021

Secretary of State
Frankfort
Kentucky

1. CPE shall provide an assessment of the current financial status of KSU, and shall provide a report to the Governor detailing its assessment prior to providing recommendations concerning appropriations for the next biennial budget.

2. To assist CPE in performing its assessment, KSU shall provide CPE access to any records CPE deems necessary to preparing its assessment.

3. CPE shall assist the KSU Board of Regents in developing a management and improvement plan with goals and measurable metrics, which shall be subject to the approval of CPE. The management and improvement plan shall be designed to assist with organizational and financial stability. The management and improvement plan shall provide for continuing oversight by, and reporting to, CPE concerning the implementation of the plan.

4. CPE shall make recommendations to the KSU Board of Regents concerning the KSU administrative structure and leadership.

Andy Beshear

ANDY BESHEAR, Governor
Commonwealth of Kentucky

Michael G. Adams

MICHAEL G. ADAMS
Secretary of State

<u>Appendix D</u>: Federal Grant Criteria and Regulations Related to Finding 6

Uniform Guidance 2 Code of Federal Regulations (CFR) Part 200 criteria applicable to all grants in this finding:

2 CFR 200.302(a)
Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.

2 CFR 200.303(a)
The non-Federal entity must:
(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

2 CFR 200.403 Factors affecting allowability of costs.
(a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
(g) Be adequately documented.

Higher Education Emergency Relief Fund (HEERF)

1. HEERF Student Aid Portion

The HEERF Student Aid Portion grant agreement award notification requires HEERF Student Aid grant funds were to be "liquidated within 15 days of receipt" consistent with 2CFR 200.305. "Grantee must maintain drawn down grant funds in an interest-bearing account, and any interest earned on all Federal grant funds above $500 (all Federal grants together) during an institutions fiscal year must be returned (remitted) to the Federal government."

2 CFR 200.305(b) states, "For non-Federal entities other than states, payments methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means."

Additionally, HEERF Roll-up FAQ question 9 says "In accordance with 2 CFR § 200.305(b) of the Uniform Guidance, which applies to the HEERF grants, grantees must seek to minimize the time between drawing down funds from the G5 system and applying those funds to support a grant award's activities. Consistent with this requirement, grantees must maintain grant funds in interest-bearing accounts, and any interest earned on grant funds above $500 per year must be remitted to the Federal government. Therefore, the Department encourages grantees to establish a distribution plan prior to an initial draw down of grant funds. In addition, we urge grantees to only draw down the minimum amount of grant funds necessary, and where the grant funds are able to be applied promptly to each HEERF grant's purposes. Based on the circumstances described above, an institution should refund any portion of the HEERF award that it does not have an immediate ability to expend on emergency financial grants to students, until the institution has a plan for the orderly distribution of the remainder of the funds."

Question 23 of the FAQ states "Section 2 of the Funding Certification and Agreement for the Emergency Financial Aid Grants to Students states: "Recipient shall not use [these] funds to reimburse itself for any costs or expenses, including but not limited to any costs associated with significant changes to the delivery of instruction due to the coronavirus and/or any refunds or other benefits that Recipient previously issued to students."

The Supplemental Grant Funds For Students also states, "Recipient may not charge any indirect or administrative costs to funds made available under this supplemental award because the allocation in this grant award represents the minimum amount of funds that must be distributed to students."

2. HEERF Institutional Portion ALN 84.425F

2 CFR 200.305(b) states, "For non-Federal entities other than states, payments methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means."

Additionally, HEERF Roll-up FAQ question 9 says "In accordance with 2 CFR § 200.305(b) of the Uniform Guidance, which applies to the HEERF grants, grantees must seek to minimize the time between drawing down funds from the G5 system and applying those funds to support a grant award's activities."

"In addition, we urge grantees to only draw down the minimum amount of grant funds necessary, and where the grant funds are able to be applied promptly to each HEERF grant's purposes. Based on the circumstances described above, an institution should refund any portion of the HEERF award that it does not have an immediate ability to expend on emergency financial grants to students, until the institution has a plan for the orderly distribution of the remainder of the funds."

3. HEERF: Historically Black Colleges and Universities (HBCU)

The HEERF lost revenue frequently ask question 5 states “An institution may only estimate lost revenue “associated with coronavirus” as specified by CRRSAA section 314(c)(1). Therefore, if the lost revenue is directly attributable to a cause other than the COVID-19 pandemic (e.g., lost housing revenue due to previously planned dormitory remodeling, previously planned elimination of a degree program, research grant income ending, one-time royalty payments), the institution may not include those lost revenues in its estimation of its lost revenue for the HEERF grant programs.”

Question 9 says, the CRRSAA does not specify how institutions may calculate their lost revenue. Accordingly, institutions have flexibility to reasonably calculate their estimated lost revenue. For example, an institution may use:

- A year-over-year comparison using the prior year;
- A semester-over-semester comparison using the prior year semester (fall 2019 compared to fall 2020 or summer term 2019 compared to summer term 2020);
- A comparison using a 3- or 5-year combined average revenue as baseline revenue;
- A comparison to previously budgeted revenue or projected revenue for the period; or
- A comparison with a baseline year of a fiscal year prior to the March 13, 2020 national emergency declaration, such as the fiscal year from July 1, 2018 – June 30, 2019.

HEERF Roll-up FAQ question 43 institutions must provide documents demonstrating year-over-year decreases in revenue that are the result of a decline in enrollment, a decline in student fees including housing fees and meal plans, a decline in parking and facilities revenue, or a decline in revenue from summer programs or other activities disrupted by COVID-19.

2 CFR 200.305(b) states, “For non-Federal entities other than states, payments methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means.”

Supplemental Grant Funds for Institutions Agreement – Page 2
Recipient acknowledges that no supplemental grant funds may be used to fund construction; acquisition of real property; contractors for the provision of pre-enrollment recruitment activities; marketing or recruitment; endowments; capital outlays associated with facilities related to athletics, sectarian instruction, or religious worship; **senior administrator or executive salaries**, benefits, bonuses, contracts, incentives stock buybacks, shareholder dividends, capital distributions, or stock options; or **any other cash or other benefit for a senior administrator or executive. (Emphasis Added)**

Governor’s Emergency Education Relief (GEER) Fund

Governor's Emergency Education Relief Fund Part B: Programmatic, Fiscal, And Reporting Assurances

Solely as authorized by Section 18002 of Division B of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), Pub. L. No. 116-136 (March 27, 2020), and subject to all other applicable laws, funds will be used for one or more of the following:

- To provide emergency support through grants to institutions of higher education (IHEs) serving students within the State that the Governor determines have been most significantly impacted by COVID-19 to support the ability of such institutions to continue to provide educational services and support the on-going functionality of the institution; and

- To provide support to any other IHE, LEA, or education-related entity within the State that the Governor deems essential for carrying out emergency educational services to students for authorized activities described in Section 18003(d)(1) of the CARES Act or the Higher Education Act of 1965, as amended (HEA), the provision of childcare and early childhood education, social and emotional support, and the protection of education-related jobs.

TITLE III, Part B: Strengthening Historically Black Colleges and Universities (HBCU) Programs

Federal Listing Number Guidance on SAM.gov states:

Title III Part B provides funds to undergraduate HBCUs and graduate HBGIs. Funds may be used for purchase, rental, or lease of scientific equipment; construction, maintenance, renovation, improvement in classroom, library and other instructional facilities; support of faculty exchanges and fellowships; academic instruction in disciplines in which African Americans are underrepresented, purchase of library books, periodicals, and other educational materials; tutoring, counseling, and student services; funds and administrative management; acquisition of equipment for use in funds management; endowment funds; and joint use of facilities.

Program Description
Title III-B authorizes the Strengthening Historically Black Colleges and Universities (HBCUs) program award grants to eligible institutions to assist them in strengthening their academic, administrative, and fiscal capabilities.

Activities (that) are In accordance to section 1068h(a)(2) of this title may include Institution services; educational equipment, acquisition of real property in connection with the construction, renovation, or additional improvement of campus facilities; to improve the financial and economic literacy designed for students; financial management information; faculty and staff development; and the implementation of other project activities described under the Legislative Allowable Activities (LAA) outlined in the program statute. Endowment development is also an activity with exception that no more than twenty percent of the grant funds may be used for this purpose.

Types of Projects
Funds may be used for the purchase, rental, or lease of scientific or laboratory equipment. Also supported are the construction, maintenance, renovation, and improvement of instruction facilities and physical plant. Funds support faculty exchanges and the development of academic instruction in disciplines in
which black Americans are underrepresented. Projects may support the purchase of library materials as well as tutoring, counseling, and STEM programs too. Additionally, supported are: funds and administrative management; joint use of facilities; establishment or improvement of development offices; establishment or enhancement of programs of teacher education; establishment of outreach programs; and other activities that a grantee proposes in its application that contribute to carrying out the purposes of the program and are approved by the Secretary as part of the review and acceptance of the grant application.

Title 34 – Education

34 CFR 75 Direct Grant Programs

§ 75.1 Programs to which part 75 applies.
(a) The regulations in part 75 apply to each direct grant program of the Department of Education.

§ 75.620 General conditions on publication.
(b) Required statement. The grantee shall ensure that any publication that contains project materials also contains the following statements: The contents of this (insert type of publication; e.g., book, report, film) were developed under a grant from the Department of Education. However, those contents do not necessarily represent the policy of the Department of Education, and you should not assume endorsement by the Federal Government

§ 75.700 Compliance with the U.S. Constitution, statutes, regulations, stated institutional policies, and applications. A grantee shall comply with § 75.500, applicable statutes, regulations, and approved applications, and shall use Federal funds in accordance with those statutes, regulations, and applications.

§ 75.702 Fiscal control and fund accounting procedures.
A grantee shall use fiscal control and fund accounting procedures that insure proper disbursement of, and accounting for, Federal funds as required in 2 CFR part 200, subpart D - Post Federal Award Requirements.

§ 75.730 Records related to grant funds.
A grantee shall keep records that fully show:
(a) The amount of funds under the grant;
(b) How the grantee uses the funds;
(c) The total cost of the project;
(d) The share of that cost provided from other sources; and
(e) Other records to facilitate an effective audit.

2 CFR 200.302

(b) The financial management system of each non-Federal entity must provide for the following (see also §§ 200.334, 200.335, 200.336, and 200.337):

(1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the Assistance Listings title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.

(2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.328 and 200.329. If a Federal awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient must not be required to establish an accrual accounting system. This recipient may develop accrual data for its reports on the basis of an analysis of the documentation on hand. Similarly, a pass-through entity must not require a subrecipient to establish an accrual accounting system and must allow the subrecipient to develop accrual data for its reports on the basis of an analysis of the documentation on hand.

(3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, financial obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.

(4) Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. See § 200.303.

(5) Comparison of expenditures with budget amounts for each Federal award.

(6) Written procedures to implement the requirements of § 200.305.

(7) Written procedures for determining the allowability of costs in accordance with subpart E of this part and the terms and conditions of the Federal award.

TITLE III, Part B: Strengthening Historically Black Colleges and Universities (HBCU) Programs: Master's Program

Types of Projects
(U.S. Department of Education website
https://www2.ed.gov/print/programs/hbcumasters/index.html)

Institutions may use federal funds for activities that include:

- Purchase, rental or lease of scientific or laboratory equipment for educational purposes, including instructional and research purposes;
- Construction, maintenance, renovation and improvement in classroom, library, laboratory and other instructional facilities, including purchase or rental of telecommunications technology equipment or services;

- Purchase of library books, periodicals, technical and other scientific journals, microfilm, microfiche, and other educational materials, including telecommunications program materials;
- Scholarships, fellowships, and other financial assistance for needy graduate students to permit the enrollment of students in, and completion of a master's degree in mathematics, engineering, physical or natural sciences, computer science, information technology, nursing, allied health, or other scientific disciplines in which African Americans are underrepresented;
- Establishing or improving a development office to strengthen and increase contributions from alumni and the private sector;
- Assisting in the establishment or maintenance of an institutional endowment to facilitate financial independence pursuant to Section 331;
- Funds and administrative management, and the acquisition of equipment, including software, for use in strengthening funds management and management information systems;
- Acquisition of real property that is adjacent to the campus in connection with the construction, renovation, or improvement of, or an addition to, campus facilities;
- Education or financial information designed to improve the financial literacy and economic literacy of students or the students' families, especially with regards to student indebtedness and student assistance programs under Title IV;
- Tutoring, counseling, and student service programs designed to improve academic success;
- Faculty professional development, faculty exchanges, and faculty participation in professional conferences and meetings; and
- Other activities proposed in the application that are approved by the Secretary as part of the review and acceptance of such application.

Coronavirus Relief Fund (CRF)

Application for funding includes the following guidance:
Eligible Expenditures: US Treasury Site: https://home.treasury.gov/policy-issues/cares/state-and-local-governments

<u>The CARES Act provides that payments from the Fund may only be used to cover costs that:</u>

1. are necessary expenditures incurred due to the COVID-19 public health emergency;
2. were not accounted for in the budget most recently approved as of March 27, 2020 for the State or government; AND
3. were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020.

The following guidance sets forth Treasury's interpretation of these limitations on the permissible use of CRF payments.

Necessary expenditures incurred due to the public health emergency
The requirement that expenditures be incurred "due to" the public health emergency means that expenditures must be used for actions taken to respond to the public health emergency. These may

include expenditures incurred to allow the State government to respond directly to the emergency, such as by addressing medical or public health needs, as well as expenditures incurred to respond to second-order effects of the emergency, such as by providing economic support to those suffering from employment or business interruptions due to COVID-19- related business closures.

Funds may not be used to fill shortfalls in government revenue to cover expenditures that would not otherwise qualify under the statute.

The statute also specifies that expenditures using Fund payments must be "necessary." The Dept. of the Treasury understands this term broadly to mean that the expenditure is reasonably necessary for its intended use in the reasonable judgment of the government officials responsible for spending Fund payments.

Costs not accounted for in the budget most recently approved as of March 27, 2020
The CARES Act requires that payments be used only to cover costs that were not accounted for in the budget most recently approved as of March 27, 2020. A cost meets this requirement if either (a) the cost cannot lawfully be funded using a line item, allotment, or allocation within that budget or (b) the cost is for a substantially different use from any expected use of funds in such a line item, allotment, or allocation.

The "most recently approved" budget refers to the enacted budget for the relevant fiscal period for the particular government, without taking into account subsequent supplemental appropriations enacted or other budgetary adjustments made by that government in response to the COVID-19 public health emergency. A cost is not considered to have been accounted for in a budget merely because it could be met using a budgetary stabilization fund, rainy day fund, or similar reserve account.

Costs incurred during the period that begins on March 1, 2020, and ends on December 30, 2020 "as A cost is "incurred" when the responsible unit of government has expended funds to cover the cost.

<u>Appendix E</u>: KSU President's Resolution Dated June 2, 2020

RESOLUTION AUTHORIZING A VOLUNTARY SALARY REDUCTION FOR THE KENTUCKY STATE UNIVERSITY PRESIDENT'S COUNCIL

WHEREAS, the declaration of a global coronavirus (COVID-19) pandemic on March 3, 2020 has resulted in a general recession within the national economy and has concomitantly caused a decline in state revenue; and

WHEREAS, Kentucky State University has engaged in prudent budget measures in response to COVID-19, including permanent reductions in personnel and operating cost; and

WHEREAS, the Kentucky State University's President's Council seeks to further contribute to the overall reduction in personnel costs mirroring anticipated reductions in general fund appropriations from the Commonwealth of Kentucky;

THEREFORE, BE IT HEREBY RESOLVED, that a 5% salary reduction shall apply to all members of the President's Council from July 1, 2020 until December 31, 2020; and

BE IT FURTHER RESOLVED, that the salary reduction be reviewed in light of campus revenues and expenses with a decision to be made regarding the second half of the fiscal year.

ADOPTED AND APPROVED this 2nd day of June 2020 by the Kentucky State President's Council.

ATTESTATION:

M. Christopher Brown II, Ph.D.
President

Douglas R. Allen II, M.B.A.
EVP for Finance & Administration/CFO

Clara Ross Stamps, M.B.A.
SVP for Brand Identity & University Relations

Beverly E. Schneller, PhD

Beverly E. Schneller, Ph.D.
Acting Provost & VP of Academic Affairs

Derek F. Greenfield, Ph.D.
VP for Student Engagement & Campus Life/CDO

Lisa K. Lang, J.D.
General Counsel & Records Custodian

Rachelle M. Johnson, Ph.D.
ED for Government & Economic Innovation

Tymon M. Graham, Ed.D.
Director for Strategic Initiatives

Terrance D. Slater, B.S.
Acting Director of Athletics

Kentucky State University Response

Kentucky State University's Response

OFFICE OF THE PRESIDENT

March 21, 2023

Ronald A. Johnson, PhD
Interim President
Kentucky State University
207 University Drive, Suite 201
Frankfort, Kentucky 40601

Ms. Farrah Petter
Assistant State Auditor
Auditor of Public Accounts
209 St. Clair Street
Frankfort, Kentucky 40601

RE: Response to Special Audit Report

Dear Assistant Auditor Petter:

I begin by expressing my sincere appreciation and gratitude to you and your team at the Office of the Auditor of Public Accounts for the special audit of Kentucky State University and for providing me and my team with the draft report. Your diligent work in examining the University's accounts and activities during the specified three-year period (2018 – 2021) has been invaluable in identifying areas that require immediate attention and continuous improvement.

As the draft report indicates, several of the issues identified in the audit findings are pertinent to the period during which the prior president and his administration were responsible for the University's operations. As the current interim president of Kentucky State University, I assure you that my administration is committed to addressing the concerns outlined in the audit report and that the institution operates with the highest standards of transparency, accountability, and fiscal responsibility.

Many of the issues and recommendations cited in the audit report are parallel to those identified by the 2022 Kentucky General Assembly (22 RS HB 250). As a result, several remedies are already in progress through the ongoing implementation of our **KSU Intended Future Plan**, which seeks to **restore**, **realign**, and **reignite** the promise of a sustainable future for the institution through improved practices, policies, and a comprehensive focus on innovation.

Through this plan, we have also begun taking actions in response to the recommendations provided in the audit report:

- **Tone at the Top**: The reconstituted Kentucky State University Board of Regents (22 RS SB265) along with new leadership—Interim President, Interim Chief of Staff/CFO, AVP of Finance, Legal Counsel, Title III Director, Controller, Grant Manager, and Budget Manager and others—strengthens the internal control environment. Additionally, we have engaged a new external auditor, an internal audit firm, and an accounting consultant. We have also leveraged the extensive financial and administrative expertise of the Interim President who has become the champion for change, leading the charge for a paradigm shift at KSU.

- **Policy Updates and Implementation**: We are in the process of reviewing and updating the University's policies to ensure that they are aligned with best practices and regulatory requirements. We will also execute a more efficient policy approval and implementation process and enforce compliance across all departments.

- **Financial Oversight**: We recognize the importance of prudent financial management and will work closely with our finance team to ensure that budgets are monitored and controlled and optimized to better serve our students, faculty, staff, and other stakeholders.

- **Board Involvement**: Our highest priority is to continue to ensure that the University's Board of Regents is kept informed of external and internal audit reports and any improvement opportunities that arise from these audits. This will enable the Board to provide valuable guidance and oversight in addressing these matters.

- **Record Maintenance**: We understand the significance of maintaining accurate and secure and complete and transparent records. We are committed to improving our record-retention policies, procedures, and practices by implementing more robust systems and processes.

- **Staff Training**: We are actively investing in the training and development of our staff, particularly in the use of accounting software and the appropriate policy implementation application of policies. These efforts will enhance the competencies of our staff and raise accountability at the University.

To further demonstrate our commitment to implementing the audit recommendations, I have attached to this letter a summary of the status of implementations and the corresponding personnel. Please do not hesitate to reach out if you require further information or have any questions. We appreciate your guidance and support.

Once again, I would like to express my sincere gratitude for your invaluable work, and we look forward to working together to enable an Intended Future for Kentucky State University.

Sincerely,

Ronald A. Johnson

Ronald A. Johnson, PhD
Interim President
Kentucky State University

president@kysu.edu | 502.597.6260 | Hume Hall, Suite 201
400 E. Main Street | Frankfort, KY 40601 | KYSU.EDU