



Monthly Financial Update

Kentucky State University

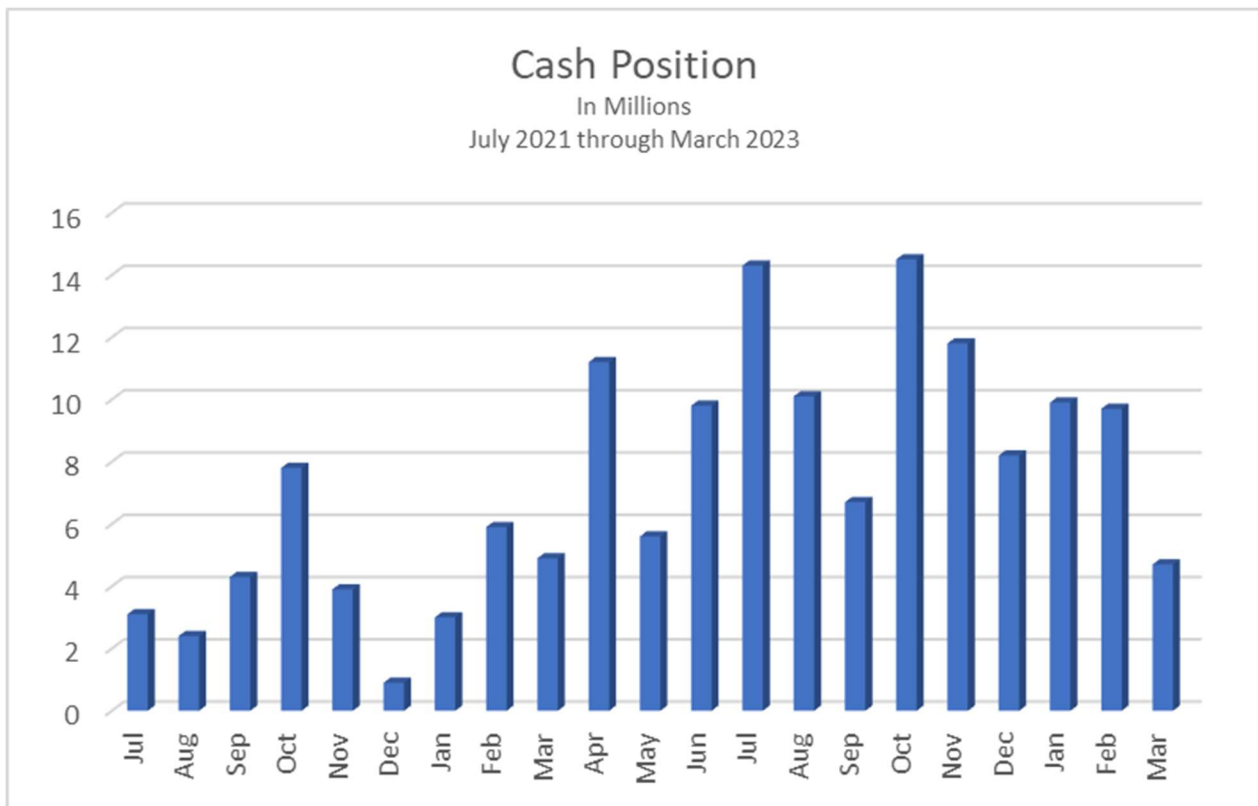
April 2023

HB 250, enacted in the 2022 Regular Session of the Kentucky General Assembly, directs the Kentucky Council on Postsecondary Education to provide a monthly financial update on Kentucky State University to the Legislative Research Commission and the Office of the Governor.

Cash Position

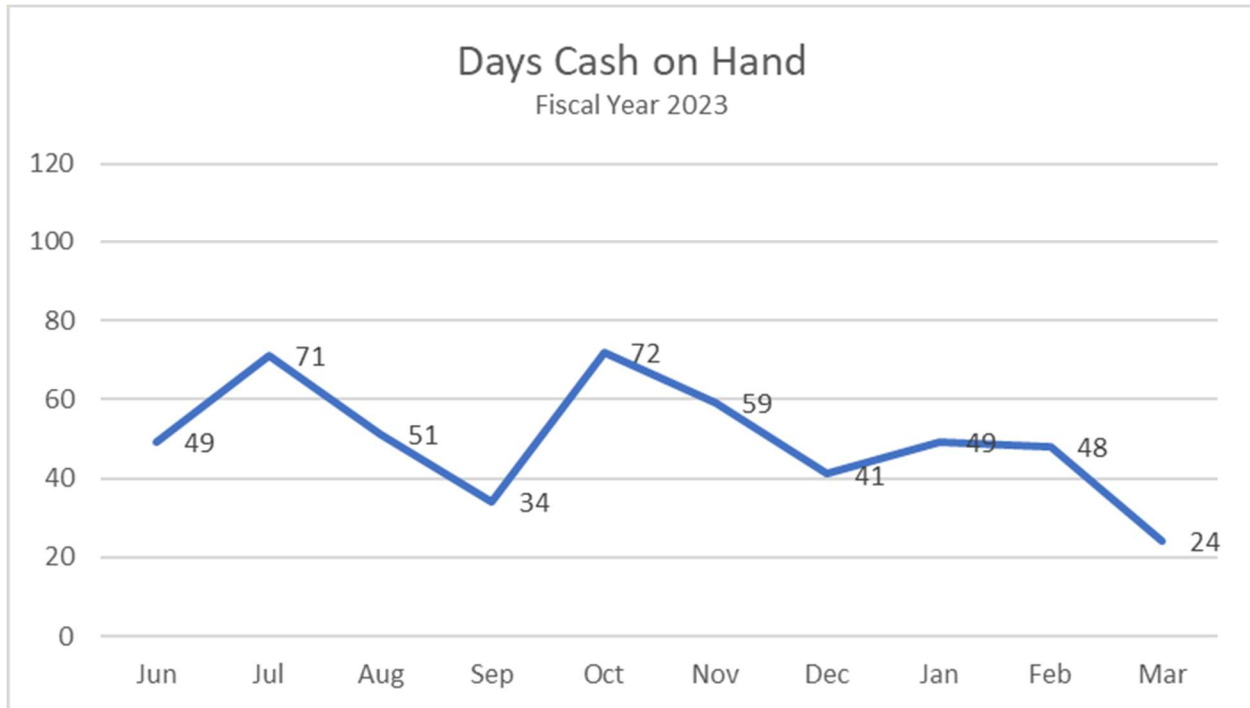
The university's cash balance (unaudited) on March 31, 2023, was \$4,737,375.01. The March cash balance includes the following items:

- \$2.3 million is reserved for asset preservation projects and is not available for general expenditure.
- A negative balance of \$2.2 million for expenditures incurred on the "Roof Repair and Replacement Pool" capital project, which was approved to be funded with state bonds in the 2020-2022 biennial budget. A transfer is expected from the state to cover the expenditures on this capital project. However, the university has no control over when the funding is transferred.



Days cash on hand (DCOH) decreased significantly in March, dropping to 24 days as of March 31, 2023. This decrease is concerning given industry standards recommend maintaining 146 days or approximately five months of cash on hand to cover expected operating expenses. Note that cash was positively impacted in April with receipt of the fourth quarter state allotment of \$5,575,100, and additional inflows are expected related to HB 250 (2022) incentive funding and reimbursement of capital projects funded by state bonds. In partnership with the

independent verification firm, the Council on Postsecondary Education (CPE) currently is reviewing cash flow summaries and forecasts to validate the forecasting process and projected cash balances. Additional information on forecasted cash balances will be provided in future reports.



FY 2023 Financial Reporting

As noted in the prior updates, CPE and KSU staff collaborated on a task list to improve timely financial reporting. However, this month, a transition from the task list to monthly verification of the following took place as part of CPE's Management Improvement Plan:

- Monthly budget to actual reports for E&G, Auxiliaries, Land Grant Match and Asset Preservation
- Budget projection prepared monthly for E&G, Auxiliaries, Land Grant Match and Asset Preservation
- Clearing accounts reconciled within 14 days of end of each month
- Bank accounts reconciled within 14 days of end of each month
- Monthly closing entries posted within 14 days of end of each month
- Month closed by the 15th day of each month
- Monthly credit card account reconciliations

In partnership with a firm contracted by CPE to provide independent verification of KSU's progress, verification work will begin soon on the March 2023 Management Improvement Plan deliverables. Additionally, CPE and the independent firm will meet with KSU staff to validate the accuracy and integrity of the procedures and internal controls related to the above financial reports and processes.

For more information on progress toward financial reporting and other Management Improvement Plan deliverables through March 30, 2023, please see CPE's March 2023 Management Improvement Plan Quarterly Report attached to this report.

Moving Forward

Obtaining a complete financial reporting and assessment of the institution is still a work in progress. However, CPE staff believe the situation is improving, as reported in the March 2023 Quarterly Report. If things continue to progress until the end of the fiscal year (and beyond), CPE will be able to truly monitor the fiscal status of the institution on a month-to-month basis. Furthermore, the completion of these and other Management Improvement Plan items will allow CPE to provide more information in these reports each month.

One area of concern discussed at the April 12, 2023, Board of Regents meeting was the untimely approval process for purchase orders and new requisitions. This matter resulted in \$1.8 million of invoices without an approved purchase order (PO) as of April 6, 2023, as determined and reported by KSU staff. It is CPE's understanding these invoices are not entered into the accounting system until they are paid, resulting in an understatement of accounts payable in the system and manual processing to manage and report appropriately. CPE considers this to be a serious issue as accurate reporting of accounts payable and encumbrances is critical to cash management and to obtaining a complete financial assessment of the institution. Additionally, goods or services purchased without a PO increases operational risk for the institution and may result in increased costs or possible disputes with vendors. KSU currently is revising the policies and procedures related to the requisition/PO approval process and training on the revised policies and procedures will be provided to employees. CPE will provide an update on the resolution of this issue in subsequent reports.



Management Improvement Plan for Kentucky State University:

Quarterly Report



Prepared by
the Council on Postsecondary Education
at the Direction of the Kentucky General Assembly

March 2023

About the Council on Postsecondary Education

The Council on Postsecondary Education is Kentucky's higher education coordinating agency committed to strengthening our workforce, economy and quality of life. We do this by guiding the continuous improvement and efficient operation of a high-quality, diverse and accessible system of postsecondary education.

Key responsibilities include:

- developing and implementing a strategic agenda for postsecondary education that includes measures of progress.
- producing and submitting a biennial budget request for adequate public funding of postsecondary education.
- determining tuition rates and admission criteria at public postsecondary institutions.
- collecting and distributing data about postsecondary education performance.
- ensuring the coordination and connectivity of technology among public institutions.
- licensing non-public postsecondary institutions to operate in the Commonwealth.

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Background, Scope & Methodology

House Bill (HB) 250 provided the Council on Postsecondary Education (CPE) with \$23 million in emergency funding to cover Kentucky State University’s (KSU) current-year shortfall. HB 250 also set forth a myriad of duties and responsibilities for KSU and CPE related to KSU’s recovery. Among these is the requirement that CPE create and oversee a Management Improvement Plan (MIP) for KSU designed to assist with organizational and financial stability. The MIP includes, but is not limited to, the following elements:



A comprehensive cataloging and review of university policies and procedures to ensure efficiency and compliance with state and federal law;



Guidelines for salary ranges and benefits for all faculty, staff and administrators;



Mandatory board member training and development, including but not limited to financial oversight and effective committee structure;



Academic program offerings, course offerings and faculty productivity guidelines;



Accounting and fiscal reporting systems, collections, budget and internal controls over expenditures and financial reporting;



Student success and enrollment management strategies;



Student academic progress and results; and



Development of online curricula with the intent of offering bachelor’s and master’s degrees.

Background, Scope & Methodology

Following the November 2022 adoption of the Kentucky State University Management Improvement Plan (MIP), KSU administration immediately began working to meet the plan objectives. In addition to the MIP, HB 250 mandated adoption of a financial exigency policy, the hiring of a new interim president, CPE approval of all expenditures over \$5,000, a performance evaluation of all KSU faculty and staff and an assessment of the viability of current academic programs. The financial exigency policy is in effect through June 30th, but it has yet to be implemented. Designated CPE staff continue to review and approve all expenditures over \$5,000 in accordance with CPE policy. The performance evaluation involves two processes: staff evaluation and faculty evaluation. Both processes are underway and scheduled to be completed by the HB 250 deadline. The evaluation of the current academic portfolio continues and is incorporated as part an objective included in the MIP. Therefore, progress on the evaluation of the academic portfolio is detailed in this report. HB 250 also prohibited the hiring of a permanent president before April 2023. The KSU Board of Regents commenced the search for a permanent president in March 2023.

This report covers progress on MIP objectives and related deliverables from November 2022 through March 30, 2023. Although there were a few objectives with deadlines in November and December 2022, they were not substantive enough to warrant a stand-alone report. Therefore, the late 2022 objectives are included in this report. This reporting period includes seventeen (17) objectives and twenty-seven (27) related deliverables across five of the eight elements of the MIP.

Within the MIP, objective deliverables include, but are not limited to, both summative and monthly reports, awarded contracts and information verified by KSU's accounting system. Each objective deliverable displays a result of "Implemented," "Partially implemented," "Not implemented" or "Undetermined" as defined below:


- **Implemented:** KSU fully implemented the objectives as of March 30, 2023.
- **Partially implemented:** Steps toward implementation were noted as of March 30, 2023; however, KSU deliverable exceptions were identified.
- **Not implemented:** Evidence of implementation or steps toward implementation by KSU were not available as of March 30, 2023.
- **Undetermined:** Implementation could not be determined or evidence could not be verified.

Procedures to assess progress toward completion vary based on the nature of the deliverable. Procedures will be briefly explained in the progress narrative for each respective deliverable. CPE staff maintains the necessary verification detail and documentation for each deliverable, which may be provided upon request.

Effective March 15, 2023, CPE engaged Moss Adams LLP as an external third-party evaluator. While this report has been solely prepared by CPE staff, future reports will be prepared in conjunction with Moss Adams, which will provide an independent assessment of KSU's progress toward the completion of deliverables.

Element 2: Salary Ranges & Benefits


Objectives in Element 2 are tied to the productivity and efficiency of faculty, staff and administrators. These four objectives begin laying the foundation for a transparent, consistent and competitive salary and benefit structure to position the institution to be fiscally responsible and to maximize the student experience.

 OBJECTIVE	DELIVERABLE	RESULT
Establish a master position list and develop protocols for adding and subtracting positions to and from the list.	Master position list and modification policy	Implemented
Review all currently offered benefits, vacation, sick leave, and holiday policies at other Kentucky institutions for competitiveness and consistency.	Summative Report	Implemented
Review all positions at the institution, including those filled and unfilled, to determine need.	Summative Report	Not implemented
Identify positions that should be eliminated or reconstituted to meet the needs of the institution.	Summative Report	Not implemented

- A master position list is established with protocols to add and subtract positions. The list is complete with salary information by cabinet level and department. The master position list compilation revealed multiple assignments for which some employees are responsible. For example, an employee may have two or more full-time responsibilities assigned as a result of a reduction in the workforce. The list should be reviewed monthly or quarterly to ensure any hiring, dismissal or reassignment is accounted for and reconciled. The process for the addition and subtraction of positions is drafted and awaiting approval from senior administration.
- KSU staff has completed the review of benefits in comparison to Kentucky public and peer institutions. The review found that general benefits are competitive with other Kentucky public institutions. A review of paid holidays found the median number of paid holidays is 19, while KSU offers 31 paid holidays (more than every Kentucky public institution). KSU also offers higher than average minimum/maximum vacation leave at 15 and 25 days, respectively. Next steps include a policy update and realignment of paid holidays, which will supplement the findings of the ongoing salary/benefit study.
- Finally, the team (including Gallagher Human Resources & Compensation Consulting) has initiated the process to compare staffing levels at similar-sized peer institutions. In addition to the peer institution comparison via organizational charts, the master position list (specifically as it pertains to multiple assignments) can serve as a supplement in identifying institutional needs in eliminating or reconstituting positions.

Element 3: Board Member Training & Development


The objectives in Element 3 are connected to the Kentucky State University Board of Regents. Ultimately, the objectives are designed to maximize the capacity, impact and efficiency of the KSU Board of Regents.

 OBJECTIVE	DELIVERABLE	RESULT
Complete Association of Governing Boards (AGB) training on Foundational Aspects of Trusteeship.	Summative Report	Implemented
Make regent attendance at the annual CPE Trusteeship conference mandatory.	Board Action	Implemented
Conduct review of current board committee structure as compared to those at peer institutions and best practices for structure and charge of effective university board committees.	Summative Report	Partially implemented

- The KSU Board of Regents participated in the Association of Governing Boards’ (AGB) Foundational Aspects of Trusteeship training in fall 2022, as well as SACSCOC-facilitated board training in summer 2022. A select number of regents are actively participating in the Governing Board Equity in Student Success project.
- In a January vote, the Board of Regents took the following action as it pertains to the CPE Trusteeship Conference. The action as approved was: “Regents’ attendance at the Annual CPE Trusteeship Conference is expected and strongly recommended with adequate and advanced notification of conference dates.”
- Overall, the nature and number of the KSU Board of Regents’ committees closely aligns with the Board structure at other Kentucky institutions. The median number of committees is six, and the broad committee charges generally align. However, there is inconsistency with the number of advisory members on Board subcommittees. A reduction in the number of advisory members or the addition of Board members assigned to subcommittees ensures any recommendation and actions from the subcommittee have been fully evaluated and vetted by voting members of the Board of Regents, which would allow for a consent agenda to streamline meetings. CPE staff has submitted to the Board a report of the committee makeup and composition at all state universities and KCTCS to assist in making a final decision on Board committee structure and composition.

Element 4: Academic Program Offerings

There is only one objective within Element 4 for the third quarter of 2023. KSU evaluated the viability of all current academic programs.

 OBJECTIVE	DELIVERABLE	RESULT
Evaluate the viability of all current academic programs.	Summative Report	Implemented


KSU, in collaboration with CPE, conducted a thorough evaluation of its current program portfolio and identified potential new program opportunities. Gray Associates completed a Program Portfolio Analysis and facilitated three data-informed workshops. Gray analyzed KSU’s current program portfolio using external market and KSU’s program economics data. The team also evaluated potential new programs to identify high-demand offerings that could be launched in an on-campus or online modality or both. This information will facilitate both on-ground growth and the implementation of online program development outlined in Element 8 of the MIP. KSU faculty and administrators identified programs to Start, Sustain, Grow/Fix, or Sunset. KSU has charged a small workgroup with evaluating the large group recommendations for each program obtained from the workshops. This workgroup will finalize recommendations on programs to Sunset and reallocate financial investments to programs identified to Grow/Fix by the end of the fiscal year. These decisions, finalized by the Board of Regents, will help move the institution forward with fiscal responsiveness and efficiency.

Element 5: Accounting & Fiscal Reporting

Most of the objectives in the MIP center around accounting and fiscal reporting policies and procedures. The ongoing financial issues at KSU from the previous administration will take time to rectify. The turnover from the previous administration, along with other key business operations staff, adversely impacted the ability to accurately assess financial stability. However, KSU has been an active partner in resolving these issues and returning to financial stability. Many of the objectives are assigned various tasks for completion with monthly completion milestones. Therefore, objectives will continue to appear in future reports. This report focuses on tasks completed through March 30, 2023. Partially implemented results will be carried forward to the next reporting cycle ending in June.

 OBJECTIVE	DELIVERABLE	RESULT
Outsource or co-source the internal audit function and reinstate the externally managed tip line.	Award contract for internal auditing services	Implemented
	Adopt audit plan for internal audit	Implemented
	Reinstitute external tip line	Partially implemented
Implement a long-range planning process to support the strategic and capital investment decision-making process.	Contract for custodial, grounds and facilities management	Implemented
Improve the collection of student accounts receivable, including implementation of a comprehensive Student Financial Responsibility Agreement and utilization of external collection agencies, including Kentucky’s Department of Revenue.	Monthly report of collection activity	Partially implemented
	Executed student financial responsibility agreement	Partially implemented
	Revised collection policy	Partially implemented
Evaluate and revise internal budgetary controls and provide quarterly budget to actual report to the Board of Regents.	Monthly budget to actual reports	Partially implemented
	Budget projection prepared monthly	Partially implemented

Element 5: Accounting & Fiscal Reporting

 OBJECTIVE	DELIVERABLE	RESULT
Improve the accounting and reporting system, as well as internal controls over financial reporting, and provide quarterly GAAP statements and other financial information to the Board of Regents.	Issue RFP and award contract for accounting services to assist in ongoing issues	Implemented
	Clear accounts reconciled within 14 days of the end of each month	Partially implemented
	Reconcile bank accounts within 14 days of the end of each month	Partially implemented
	Post monthly closing entries within 14 days of the end of each month	Implemented
	Close each month by the 15th day of that month	Implemented
	Reconcile credit card account	Partially implemented
Implement quarterly reporting to the Board of Regents on the president’s travel, entertainment and discretionary expenses.	Quarterly Report	Partially implemented
Develop appropriate policies and procedures governing the key functions of treasury management including cash management, operating investment management, debt management and internal loans.	Annual cash flow projection	Partially implemented
Complete software audit to identify if all purchased and licensed software is necessary and being used effectively.	Summative Report	Partially implemented


- KSU entered into a contract with CBIZ for internal audit services in November 2022. Kentucky's Government Contract Review Committee approved the contract on November 9, 2022. CBIZ has created an internal audit plan, which is currently being implemented.
- Blue and Co. is working to complete the FY21 and FY22 audited financial statements with respective issuance dates scheduled for July 31, 2023 and August 31, 2023.
- The external tip line was reinstated in the middle of 2022. However, the line rings internally to the former internal auditor, who now serves in another role at the institution. KSU Information Technology identified two external vendors to handle all calls received so the tip line may be truly external. Quotes are being reviewed by the CFO for final selection and approval.
- KSU's Board of Regents approved Sodexo's contract on December 28, 2022 to oversee the facilities management function. Kentucky's Government Contract Review Committee approved the contract on January 10, 2023.

Element 5: Accounting & Fiscal Reporting

- The Student Financial Responsibility Agreement has been updated and awaits final approval. The revised financial responsibility agreement is being implemented in FY24. Current students are receiving monthly balance statements as an additional method to collect on balances. Moreover, KSU has engaged the Keys to Recovery collection agency in an effort to collect on outstanding student balances from former students.
- KSU is working to improve the collection of students' accounts receivable. Prior to this year, the outstanding student account balances totaled several million dollars. Standard receivables reports are available within Banner; however, KSU is working on customized aging and collection reports to allow for better monitoring of delinquent accounts.
- In late 2022, KSU entered into a contract with Your Part-Time Controller (YPTC). The vendor provides supplemental accounting services, as well as budgeting and forecasting services, allowing KSU to address ongoing accounting issues directly tied to improving the accounting and reporting systems.
- KSU completed an Educational and General Fund budget to actual report for January 2023, but CPE did not receive information far enough in advance of the quarterly report to fully validate the integrity and accuracy of the budget to actual report. KSU plans to complete budget to actual reports for the other fund groups in the near future. CPE will work with KSU staff and Moss Adams LLP to validate the budget to actual reports moving forward.
- CPE is working with YPTC on budget projections for all fund groups.
- CPE staff reviewed the clearing account reconciliations for February 2023, noting efforts are being made to clear the balances and current month activity. Several accounts still need to be reconciled, and several accounts have carry-forward balances from prior fiscal years.
- CPE reviewed closing entries for February 2023 and noted the entries were completed by the 14th day of March. Additionally, CPE reviewed documentation noting that February 2023 was closed in the Banner accounting system on March 10, 2023.
- Closing entries for February 2023 were reviewed and noted completed by the 14th day of March. Additionally, CPE reviewed documentation noting that February 2023 was closed on March 10, 2023.
- The documentation for credit card reconciliation is in progress.
- The quarterly report for the president's travel, entertainment and discretionary expenses has been prepared for the first two quarters of fiscal year 2023. The report is being finalized and will be distributed to the KSU Board of Regents.
- CPE reviewed the All Funds Cash Forecast for January through June 2023 provided by KSU, but did not receive the information far enough in advance of the quarterly report to fully validate the integrity and accuracy of the forecast. CPE will work with KSU staff and Moss Adams LLP to validate the forecasting process and related projections as the process evolves and projections are revised.
- The software audit has been divided into two phases. In phase 1, KSU audited software directly related to student support services. Recommendations for improvement included the creation of strong technology planning processes and an evaluation of end-user engagement to ensure product efficacy. Phase 2, to be completed in the second quarter of FY24, includes the creation of a cross-divisional team to begin a campus-wide software audit focused on utilization, effectiveness and fit, costs and feedback from users.

Element 6: Student Success

Similar to Element 4, there is only one objective in Element 6 in this reporting period. The restructure of Student Engagement and Academic Affairs is detailed in this report.

 OBJECTIVE	DELIVERABLE	RESULT
Review the current reporting and organizational structure across student success and enrollment management.	Summative report and updated organizational chart	Implemented

The Student Services division at KSU is a collection of campus services to support students and promote academic success. Departments in the division focus on student success and growth, which ensures students are equipped to thrive in the KSU learning environment. Previously, the division was limited to functions related to student engagement only. The division has been restructured to refocus student services on creating intentionality in the conditions that enhance student learning and development, as well as encouraging student commitment to educationally purposeful activities both inside and outside of the classroom. The following departments will be housed under the auspice of Student Services in the new structure: Enrollment Services, Student Success, and Dean of Students.

Conclusion

The goal of the MIP is to assist in the improved organization and financial stabilization of Kentucky State University. KSU faces ongoing challenges in balancing the needs and prioritization of daily operations with the implementation of the MIP. However, as the MIP is designed to assist and improve the daily operations of the campus, conducting these activities concurrently will benefit the university in the long run. KSU's administration, along with support from key external stakeholders, continues to make strides in improving the overall business model and student experience.



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