

October 25, 2011

Dr. Brian Noland, Chancellor  
WV Higher Education Policy Commission  
1018 Kanawha Boulevard, East, Suite 700  
Charleston, West Virginia 25301

Dear Chancellor Noland:

First, let me thank you for your willingness to provide resources to review our fiscal operation. The response was very timely.

We understand how the scope of the review would naturally expand given the complexity of the Institution but we are perplexed at the fact that the persons responsible for particular areas where comments were made were not contacted about the issues in your letter.

A comprehensive review of where we are and how we will move forward would not be complete without a brief look back at recent history. I have attached Addendum 1, which indicates that milestones in our long-running association with the Kanawha Valley Community and Technical College and our agreements or lack thereof.

If I may draw your attention to the item dated March 18, 2008, this announcement indicates that Fairmont State University will get an additional \$1.12 million for the next four years. On March 26, 2008, Mr. Kopp announced that Marshall University will receive \$5 million over the next five years to compensate for the loss of their community college.

As a result, the West Virginia State University Board of Governors unanimously passed a Fairness Resolution asking that West Virginia State

Chancellor Noland  
October 25, 2011  
Page 2

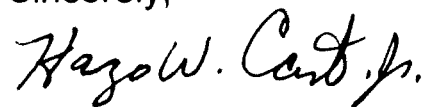
University receive the same consideration as Marshall University and Fairmont State University. (See Addendum 3). It is obvious to all that our current situation would not exist if this request had been granted.

Additionally, please review Addendum 2. This graph shows how over time West Virginia State University has subsidized the Kanawha Valley Community and Technical College.

What follows is our attempt to shed additional light and context on the issues mentioned in your letter. In some cases because of the nature of the comment, we can only provide a general assessment. If specific remedies or actions are required, we will need additional data.

We will divide our responses in to three sections, the responses to the general observations; to specific observations; and, responses to recommendations.

Sincerely,

A handwritten signature in black ink that reads "Hazo W. Carter, Jr." in a cursive script.

Hazo W. Carter, Jr.  
President

cc: Mr. David K. Hendrickson, Esq., Chairman, Higher Education Policy Commission

Mr. Larry L. Rowe, Esq., Chairman, West Virginia State University Board of Governors

## **West Virginia State University Observations and Recommendations**

### **General Observations #1:**

West Virginia State University has experienced a tradition of failing to exercise best practices in its Human Resources activities. For example, nepotism is a problem and employees are promoted into management positions without adequate knowledge and experience to be successful.

### **Response to General Observation #1**

This observation is particularly troubling because it casts a shadow on all appointments and promotions made recently. We are sure the writer did not intend to indicate that none of the recent appointments or promotions were meritorious. Every organization struggles with finding the right person for any job, we are sure that our efforts in this regard have not yielded the wrong person being appointed or promoted in every instance. We are also confused by the use of the term 'nepotism,' specifically, what relationships is the writer trying to describe? To comment further, we will need more specific information.

### **General Observations #2:**

The University does not appear to adhere to a simple vision which is aligned with its resource drivers. It does not appear that it has reviewed its support of activities that are not central to its mission and related to its revenue drivers.

### **Response to General Observation #2**

A review of all non-mission critical components of the Institution is underway, also staffing levels are under review across the University.

### **General Observations #3**

A University-wide culture of financial discipline does not exist at the current moment. Compared to its institutional peers for Fiscal Year 2010, the percentage of education and general expenditures associated with Institutional Support are significantly higher. In addition, the University's staff levels exceed the average staff levels of the public West Virginia Institutions close to its size.

**Response to General Observation #3**

As mentioned in General Response No. 2, staffing levels across the University are under review.

**General Observations #4**

The inability of the financial aid office to operate effectively is associated with its operations of the Banner system. In addition, the Office no longer has the services of an assigned information technology employee. The financial aid operations of any university require significant support from information technology employees. The frequent installation of upgrades and patches is required to comply with federal financial aid requirements.

**Response to General Observations #4**

Information technology is also being reorganized. Once completed, each mission critical major system will have a dedicated information technology employee. (Subject Matter Expert- SME.)

**Specific Observation #1**

The University remains dependent upon substantial assistance from the previous director 18 months after she left the institution.

**Response to Specific Observation #1**

This item appears under the caption, "Right People in the Right Position," but the actual situation belies the category. The former employee in question gained her expertise while employed at WVSU and now uses her talent to aid multiple community and technical colleges. Her consultative assistance is voluntary and appreciated but not required.

**Specific Observation #2**

The University has maintained its level of full-time faculty.

**Response to Specific Observation #2**

As mentioned in general response No. 3, all staffing levels across the university are under review.

**Specific Observation #3**

The West Virginia State University Research and Development Corporation is controlled by a board of directors consisting primarily of West

Virginia State University employees. The funds provided by this entity in support of the University are not considered in budget deliberations or reporting to the Board of Governors. Corporation transactions are not examined by the Fiscal Affairs Office to determine if they are appropriate. No portion of the indirect costs reimbursements received by the Research and Development Corporation are transferred to the University.

### **Response to Specific Observation #3**

The West Virginia State University Research and Development Corporation was officially incorporated perpetually under West Virginia Law (Chapter 31, Article 1, Section 27 of the WV Code) in May of 1991 as a non-stock, non-for-profit entity.

As the original articles of incorporation state (Articles 5-7): "the Corporation is organized to operate as a nonprofit corporation exclusively for charitable, educational and scientific purposes within the meaning of Section 501 (C) (3) of the Internal Revenue Code of 1986, as amended, including but not limited to: solicit, receive, accept, hold administer, invest and disburse for charitable, educational and scientific purposes such funds as may, from time to time, be given to the corporation by persons, corporations, foundations, or government agencies...."

The West Virginia State University Research and Development Corporation transactions are examined by the Fiscal Affairs Office, Indirect Cost received by the Research and Development Corporation are transferred to the University, and the Research and Development Corporation financials are reported to the Board of Governors, and considered in budget deliberations.

### **Specific Observation #4**

Consulting services were provided by Sallie Mae several years ago but the recommendations that resulted from this engagement were not implemented.

### **Response to Specific Observation #4**

Sallie Mae withdrew from the engagement before it was completed. The Sallie Mae review was to provide a comprehensive review of institutional policies and procedures related to student retention. Sallie Mae withdrew

because of conflict-of-interest allegations made by the New York State Attorney General. Before Sallie Mae's withdrawal several draft recommendations were made surrounding the Financial Aid Office. All but one of the recommendations were implemented.

#### **Specific Observation #5**

The Fiscal Affairs Office has been forced to manage the residence hall check in process for the fall 2011 semester because the Student Affairs area has consistently housed students who did not pay for their room and/or were not students.

#### **Response to Specific Observation #5**

Corrective action in this area began in the early summer and also involved a management change. After which this procedure was developed collaboratively between Finance and Student Affairs.

#### **Specific Observation #6**

The financial reports provided to the Board of Governors do not provide a clear and concise summary of the University's financial position and related issues. (Important revenue and expenditure information.)

#### **Response to Specific Observation #6**

The financial reports now provided to the Board of Governors are a concise summary of the University's financial position and related issues. We continue to work on a standard reporting package with additional amplification in areas as needed.

#### **Specific Observation #7**

It does not appear that the Research and Development Corporation provides any services that cannot be provided by the University. "...The Research and Development Corporation employs its own accounting and human resource personnel. It would not be necessary to fund these additional positions if the Corporation was dissolved and its operations consolidated with the University."

#### **Response to Specific Observation #7**

The underlying reason we have a Research and Development Corporation is not because the University cannot provide these services but

because the Research and Development Corporation can provide these services in a more timely and cost-effective way. The Research and Development Corporation has a single focus and mission and can act and react to needs and opportunities much faster and more efficiently than a much larger enterprise. As we understand it, other Institutions of Higher Education have adopted this legal structure for the same reasons.

It is not altogether clear that the Accounting and Human Resources positions, currently funded 100% by the Grants received at the West Virginia State University Research and Development Corporation would continue to be funded by the Grantor if they were moved to the University's payroll. The most likely outcome is that Grantor would consider this part of the indirect allocation (which is for the most part, fixed) and cut the Grant by that amount.

A detailed Grant-by-Grant review would be needed to definitely answer this question.

#### **Specific Observation #8**

The University operates the Booker T. Washington Institute and the Capitol Center. Although the properties operated by these activities are historically important, they should not be funded by tuition and fees or state appropriations intended to fund instructional services. Special funding for these activities should be requested from the Legislature or the Department of Culture and History.

#### **Response to Specific Observation #8**

The Capitol Center is owned by the Foundation and leased to the University. The Capitol Center has hosted 89 classes and events last year. Consequently, we believe the Capitol Center should be funded by tuition and fees, as well as its' own income.

The Booker T. Washington Institute is owned by the University. Also we have and continue to explore outside support (both private and public) for the Booker T. Washington Institute. As mentioned in General Response No.1, all non-mission critical components of the University are under review.

#### **Specific Observation #9**

The University also oversees the operations of Shawnee Park. Although some costs of this operation are paid by Kanawha County, the

University contributes a portion for salary expenses. The connection of this park's operations to the University mission is not clear.

#### **Response to Specific Observation #9**

Our Strategic Plan includes this statement, "Enhance online and other nontraditional opportunities for students." Our current attempt to satisfy this objective has been offerings at Shawnee Park. These have been directed toward non-traditional students. Salaries for employees dedicated to the park are grant supported and part of the grant mission.

Please see General Response No. 2. This area is also under review.

#### **Specific Observation #10**

About \$50,000 was expended from the Planning and Advancement Office for a trip to China in Fiscal Year 2011.

#### **Response to Specific Observation #10**

The amount mentioned here is in error. It should have been approximately \$8,000 for three (3) attendees. The effort to create relationships that foster the enrollment of Chinese students at West Virginia State University is shared by other West Virginia Institutions of Higher Education, as they are now planning their own visit to China.

#### **Specific Observation #11**

During Fiscal Year 2011, Physical Facilities Office overspent its \$583,000 current expense budget by \$1 million. The Physical Facilities Office maintains its own procurement function. The purchases made by this office are not reviewed to determine if sufficient funds exist to buy the goods or services. A priority list of planned renovation projects to be funded within the existing budget is not maintained.

#### **Response to Specific Observation #11**

A number of one time projects pushed the spending in physical facilities over budget in FY2011. The Physical Facilities Department does maintain its own procurement function but this activity is a subdivision of the University's purchasing; simply put the Physical Facilities procurement function works for the University Purchasing Department. These purchases are reviewed, also a priority list of planned renovation projects is maintained and updated quarterly. Spending will be brought in line with available resources.

**Specific Observation #12**

The Planning and Advancement Office exceeded its \$34,000 current expense budget by \$355,000 in Fiscal Year 2011. The operational expectations were not aligned with the allocated financial resources. This department is on track to significantly exceed its budget for Fiscal Year 2012.

**Response to Specific Observation #12**

Operational expectations are now congruent with budgeted financial resources. This department will not significantly exceed its budget for Fiscal Year 2012.

**Specific Observation #13**

University Vice Presidents were asked to cut their budgets by \$500,000, collectively. To date only one Vice President has responded with cuts. Leadership must remain vigilant in its efforts to ensure that all Vice Presidents implement strategic finance efforts and reduce budgets accordingly.

**Response to Specific Observation #13**

The current budgeting process will produce a cohesive detailed budget of \$20,527,589. All areas of the University will be committed to achieving their individual goals.

**Specific Observation #14**

The University has not developed its technology capabilities in alignment with its vision. For example, the Banner financial system is not operated on the accrual basis. As mentioned above, cash based accounting processes exclude important information. The Fiscal Affairs Office is planning to utilize the services of SunGard to convert to an accrual based-process.

**Response to Specific Observation #14**

The SunGard agreement is in process and we will pursue the work as quickly as the vendor and proper purchasing procedures will allow.

**Recommendation #1 : Courses with low enrollments**

Review the courses that had low enrollments for the Spring 2011 semester and adjust the course schedule for the Spring 2012 semester; eliminate or reduce to the greatest extent possible adjunct faculty expenses; and develop a process to efficiently assign new course sections.

### **Response to Recommendation #1**

Courses are being reviewed with the intent of increasing the student/teacher ratio. See Specific Response No. 2.

### **Recommendation #2: Review Research and Development Corporation operations**

Transfer indirect cost reimbursements to the University for overhead expenditures associated with the research corporation; eliminate the Research and Development Corporation and consolidate its operations with the University; and, direct the Fiscal Affairs Office to review all Research and Development Corporation transactions until it is eliminated.

### **Response to Recommendation #2**

Federal, State, and private resources come with strict accountability, including stringent fiscal and reporting procedures (e.g. OMB A-133 Single Audit). To avoid some of the pitfalls observed at other institutions, the University's administration decided to segregate the fiscal management of these resources by using the Research and Development Corporation. A transparent administration of these funds has been the result of this action. For more than a decade now, the University's Land-Grant programs and its corporation have been self-sustaining with minimum support from the University and the State. One must challenge the fact that efficiencies or economic benefits would have been resulted if these aforementioned functions had been provided by the University.

The Fiscal Affairs Office currently reviews all Research and Development Corporation transactions. Indirect costs reimbursement are now being transferred to the University. The Research and Development Corporation should not be eliminated. The structure has served us well since it's creation in 1991. Other Institutions of Higher Education have adopted this form and have endorsed it's effectiveness. In addition to the reason set forth in Specific Response No. 7, the lengthy effort to cancel and reissue so many grants would not be productive. Also, cancelling and re-issuing the current grants might give Grantors reason to question the University's commitment to Research.

This particular recommendation must call in to question the existence of Research and Development Corporations throughout the State. Surely if they are of no benefit to West Virginia State University, they are of no benefit to West Virginia University and Marshall.

**Recommendation #3: Renovation projects**

Create a priority list of repair and alterations projects. The projects should be categorized by safety, necessary maintenance, and renovations. Projects should be postponed to future fiscal years unless their delay would result in unacceptable safety or facility deterioration problems.

**Response to Recommendation #3**

This recommendation is in place.

**Recommendation #4: Physical Facilities Department purchases**

Require approval of Physical Facilities Department purchases by the Fiscal Affairs Office.

**Response to Recommendation #4**

This recommendation is in place.

**Recommendation #5: Budget review**

Create a budget subcommittee within the strategic planning committee to determine if the University is funding programs that are not central to its mission, vision and resource generation; eliminate these programs and apply the savings to deficit reduction or strategic goals identified by the plan; use statistics from the National Center for Education Statistics to identify areas with excess funding and staff and make appropriate reductions; align the budget process with the newly created strategic plan; include the Research and Development Corporation in the strategic planning and budget processes.

**Response to Recommendation #5**

This recommendation is being put in place with only cosmetic changes. University metric's are being bench marked. Appropriate adjustments will be made.

**Recommendation #6: Budget enforcement**

Suspend Purchase card privileges for departments that exceed their budgets and notify vendors that purchase orders are not valid unless signed by the Chief Procurement Officer. Implement the budgetary savings measures as directed by the interim CFO in his September 7, 2011 memo regarding budgetary issues. These measures include a hiring freeze as well as restrictions on overtime, travel, and capital and other expenditures.

**Response to Recommendation #6**

The Finance Department manages this process. This recommendation is in place.

**Recommendation #7: Overspent FY2011 Department Budgets**

Review the Planning and Advancement Office and Physical Facilities Department budgets. Require that these offices submit and justify an expenditure plan that will accomplish the institutional goals established for their offices. If the budget plans are not sufficient to cover critical needs, find savings in other areas to make up the shortfall.

**Response to Recommendation #7**

The University has had a change in management in this area. The Office of the Vice President for Business and Finance manages this process. This recommendation is in place. See Response to Specific Observation No. 10, 11 and 12.

**Recommendation #8: Budget Cuts**

Allow Vice Presidents two weeks to submit budget cuts and require the Fiscal Affairs Office to choose budget lines to reduce if proposed cuts are not received by the deadline.

**Response to Recommendation #8**

While the time frame is slightly different, the substance of this recommendation is in place.

**Recommendation #9: Vacant Positions**

Prevent the expenditure of savings from vacant positions. Review these positions to determine if the duties can be assigned to other employees.

**Response to Recommendation #9**

We have a hiring freeze in place, consequently this recommendation is in place. If any exceptions are needed, the administration will take appropriate action.

**Recommendation #10: Financial System and Reporting**

Engage SunGard and WVNET personnel to assist with the conversion of the financial system to the accrual basis. Create new financial reports to provide more complete and relevant information to the Board of Governors.

**Response to Recommendation #10**

The University has already begun these corrective actions. This recommendation is in process. See Response to Specific Observation No. 14.

**Recommendation #11: Financial Aid Office**

Review the Sallie Mae report and make recommended changes if they are still appropriate. Hire a financial aid consulting firm to evaluate the financial aid office and make recommendations for improvements.

**Response to Recommendation #11**

We will be hiring a Financial Aid Consultant (Noel Levitz) to evaluate the operation of the office.

## ADDENDUM 1

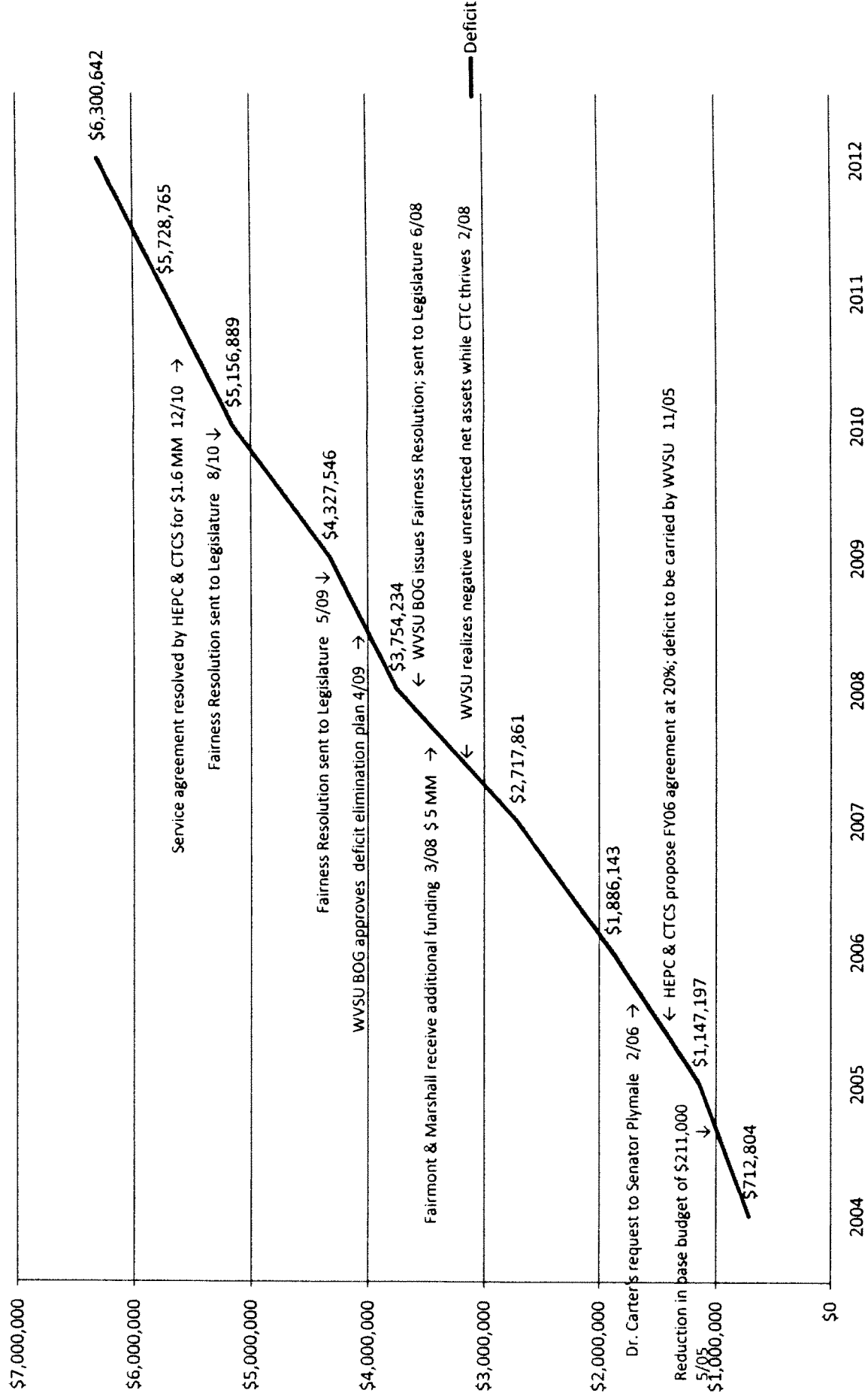
**WEST VIRGINIA STATE UNIVERSITY**  
**SUMMARY OF BACKGROUND CORRESPONDENCE/DOCUMENTS REGARDING**  
**WVSU'S FINANCIAL PERFORMANCE/PICTURE**  
**AS OF 10/21/11**

DATE	ADDRESSEE/ORIGINATOR/IDENTIFICATION	TOPIC
6/28/2005	James Skidmore, Chancellor WV Council for CTC Education	\$211,916 transferred from WVSU to CTC and anticipated loss of \$800,000 of Title III funding
11/30/2005	To: Drs. Carter & Ervin Griffin From: Dennis Taylor & Patricia Hunt, HEPC	proposed chargeback agreement - WVSU to bear FY 2006 \$410,695 deficit bringing total deficit borne by WVSU to \$1,900,695 from FY 2004 to FY 2006
2/7/2006	Honorable Robert Plymale Senate Education Committee	request for \$1,775,800 to fund lost revenues due to CTC separation
2/11/2008	Dr. Brian Noland, HEPC Chancellor James Skidmore, CTC Chancellor	explanation of negative net assets for FY 2007 due to bearing deficits created in the CTC chargeback agreement
2/15/2008	Dr. Brian Noland, HEPC Chancellor	consequences of subsidizing the CTC by bearing deficits created in the CTC chargeback agreement
3/18/2008	TimesWV.com	Newspaper article related to Fairmont State University receiving supplemental \$5 million appropriation due to CTC separation
6/5/2008	WVSU Board of Governors	WVSU BOG Fairness Resolution adopted related to \$5 million request
6/11/2008	Honorable Joe Manchin, Governor	provide a copy of the Fairness Resolution
6/20/2009	Honorable Joe Manchin, Governor	requesting \$1.25 million annual supplemental appropriation
8/17/2010	Honorable Robert Plymale Senate Education Committee	provide a copy of the Fairness Resolution
	History of Subsidies	6 years of subsidies from WVSU to WVSCTC
2/27/2009	Dr. Joseph Badgley, President WVSCTC	request for \$373,712 balance due for full payment of chargeback services for FY 2008-2009
4/8/2009	Dr. Brian Noland, HEPC Chancellor	notification of \$373,000 2008-2009 chargeback deficit in payment from WVSCTC to WVSU
4/13/2009	Three-Year Budget Deficit Reduction Plan	Excerpt from 4/23/2009 Board of Governors minutes and full draft of 3-Year Budget Deficit Reduction Plan
1/28/2010	Three-Year budget Plan Progress Report	Draft of progress report
5/13/2010	Dr. Brian Noland, HEPC Chancellor	Notification of intended KVCTC Service Agreement (chargeback) reduction of \$1.6 million for FY 2011
10/18/2010	To Drs. Hazo Carter & Joe Badgley From Dr. Brian Noland & Mr. Jim Skidmore, HEPC	Memo requesting detailed written summary of matters in dispute related to the services agreement

DATE	ADDRESSEE/ORIGINATOR/IDENTIFICATION	TOPIC
12/23/2010	To Drs. Hazo Carter & Joe Badgley From Dr. Brian Noland & Mr. Jim Skidmore, HEPC	Joint decision related to services agreement dispute
10/15/2010	Summary of Receivables from KVCTC	Summary of Funds receivable from KVCTC for FY 11 as of 10/15/10
10/14/2010	Dr. Joseph Badgley, KVCTC President	Memorandum from Dr. Carter to Dr. Badgley requesting payment of funds receivable from KVCTC for FY 11 as of that date
11/4/2010	Dr. Joseph Badgley, KVCTC President	Follow-up to 10/14/10 Memo requesting payment of funds
11/29/2010	Dr. Hazo Carter, WVSU President	Memo from Dr. Badgley requesting invoice to begin transferring residence hall and dining funds of \$247,226.93 related to FY 11
10/21/2010	Dr. Joseph Badgley, KVCTC President	Memo from Dr. Carter responding to refusal to transfer student activity fees totaling \$492,317 for FY 11
	WVSU - KVCTC Separation of Assets and Liabilities agreement	Copy of Agreement signed in July, 2009

## ADDENDUM 2

# Timeline - Deficit Progression



## ADDENDUM 3

**Fairness Resolution Adopted by the  
West Virginia State University Board of Governors**

West Virginia State University was established in 1891 by the West Virginia Legislature as a land-grant institution to educate former slaves and their descendants. The University has evolved into a fully accessible, racially diverse, and multi-generational institution.

Declines in State appropriations are challenges that West Virginia State University has met. Monies from State annual land-grant matching funds and Title III Part B funds are restricted. While it is commendable that the Legislature has financially supported Fairmont State University and Marshall University, it is important that West Virginia State University be treated in a fair and equitable manner.

**Whereas**, Fairmont State University will receive \$1.25 million annually for several years from the West Virginia Legislature to keep it financially whole due to the separation of its community college; and

**Whereas**, Marshall University will receive \$1.25 million annually for several years from the West Virginia Legislature to keep it financially whole due to the separation of its community college; and

**Whereas**, the West Virginia State University President and Vice President for Planning and Advancement met with House Education Committee leaders during the 2008 Legislative Session to discuss the financial impact that West Virginia State Community and Technical College becoming completely independent would have on West Virginia State University; and

**Whereas**, documentation of the financial impact of the separation of these administratively linked institutions was presented to several legislators, including the Senate Education Committee Chair, Finance Committee Chair, and House Finance Committee Chair; and

**Whereas**, the projected amount is more than \$1.2 million annually;

**Therefore be it resolved**, as a matter of fairness, that immediate action be taken that will result in the allocation of \$1.25 million per year to West Virginia State University as was appropriated to Fairmont State University and Marshall University.

Respectfully submitted by:  
West Virginia State University Board of Governors

  
\_\_\_\_\_  
Eric Coleman, Chair

6/5/08  
\_\_\_\_\_  
Date