David K. Hendrickson
Chair

Brian Noland
Chancellor

West Virginia Higher Education Policy Commission
1018 Kanawha Boulevard East, Suite 700
Charleston, WV 25301
(304) 558-0699
www.hepc.wvnet.edu

October 4, 2011

Copy

Dr. Hazo W. Carter, Jr.
President
West Virginia State University
Post Office Box 1000
Campus Box 399
Institute, West Virginia 25112

Dear President Carter:

In response to your letter requesting a review of your financial operations, the enclosed report describes management practices that have lead to West Virginia State University's budget crisis and recommends actions to reverse the financial decline.

I must emphasize that the management practices that created this crisis are not confined to the Fiscal Affairs Office. Across the institution, a combination of leadership failures, mission incongruence, lack of discipline, and underutilized technology have contributed to the University's weak financial position. Success will require a concerted effort by all employees to improve the University's financial viability.

The Higher Education Policy Commission will need to receive information regarding the University's progress towards financial stability. Please provide a monthly update on the actions taken to address the report's recommendations. The update should provide the following information:

1. A plan with goals and timelines for each report recommendation;
2. A description of the progress made towards successful completion of the goals;
3. A discussion of any issues related to each goal;
4. A listing of savings associated with the goals that have been completed; and
5. A description and cost estimate of any new budgetary issues that have been identified.

These updates will be required until it is clear that the University is well on its way to achieving financial stability.

West Virginia State University has been and will remain an important driver of social and economic development in the State of West Virginia. By carrying out the recommended actions and making periodic reports to the Commission, the University will be restored to a position of strength.

Sincerely,

Brian Noland
Chancellor

cc: Mr. David K. Hendrickson, Esq., Chairman, Higher Education Policy Commission
Mr. Larry L. Rowe, Esq., Chairman, West Virginia State University Board of Governors

Enclosure

West Virginia State University
Financial Status Analysis and Recommendations

The purpose of this analysis is to address the concerns regarding the financial viability of West Virginia State University. The University experienced a significant deficit in Fiscal Year 2011. Unless its financial and operational problems are not dealt with, the University will not have sufficient resources to remain solvent.

As a public institution, West Virginia State University exists to promote the economic and social development of West Virginia citizens. The Governor and legislature invest financial resources in the University with an expectation of a return in the form of economic and social development. The flow of State funding is most likely to increase if the University demonstrates that it will provide the maximum return on the State's investment. In addition to state revenues, the University receives funding from private sources, these individuals and entities also expecting a return in the form of economic and social development. On average, private donors give to organizations that will maximize the return on their investment.

In addition to state revenues, a public institution receives funds from its operations. To create financial resources, a university must promote its services, register students, provide financial aid and efficiently deliver instructional services. Students invest dollars for their individual economic and social development. Through the efficient delivery of instructional services, the university will maximize the student's return on investment.

The University administration supports its activities by targeting physical and financial resources to accomplish goals of the strategic plan. Although the Fiscal Affairs Office has direct control and responsibility for financial resources, the financial viability of the university is dependent upon all employees' focus and action on the mission, vision and strategic plan.

A university that maximizes its investors' return exhibits certain characteristics described by Jim Collins in *Good to Great.* A strong university will place the right people in the right positions. Truth will be heard and brutal facts are confronted without losing faith. The university will have a simple vision based on the institutions capabilities, passion and drivers of economic resource flows. A culture of discipline will be supported by an adherence to structure. Technology development is aligned with its simple vision.

The characteristics described by Collins provide a framework for the transformation of West Virginia State University. To maintain financial viability, the university must adopt these characteristics.

Right People in the Right Positions

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. This trend is exemplified in the divisions where due to poor hires the University remains dependent upon substantial assistance from the previous director 18 months after she left the institution.

The Financial Aid Office must be strong to attract, retain and enroll enough students to maintain financial viability. Enrollment will decrease if students cannot fund their education.

It is recommended that the Human Resources Office policies be examined to determine if they promote the placement and retention of qualified employees across the institution. Compliance with appropriate policies should be monitored.

Leadership Concerns

It does not appear that the executive leadership promotes an environment that allows for the honest confrontation of brutal facts. When enrollment dropped significantly with the separation of the community and technical college component, the decline in average class size across the college was not addressed. Instead, the leadership focused its efforts on increased state funding. Rather than taking advantage of faculty retirements to reduce the number of faculty positions, the University has maintained its level of full-time faculty. The level of part time faculty funding has not been addressed in relation to the decreased class sizes.

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.

It appears that the Student Affairs area does not address operational issues. Consulting services were provided by Sallie Mae several years ago but the recommendations that resulted from this engagement were not implemented. 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.

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. The reports are prepared on the cash basis, which excludes important revenue and expenditure information. A financial summary relating revenues and expenditures to budget estimates for all funds is not provided. This information is needed to assess the financial status of the University.

Mission Incongruence

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. It does not appear that the Research and Development Corporation provides any services that cannot be provided by the University. It is likely that the benefits associated with the freedom from state procurement requirements do not offset the added costs. 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.

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.

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. About $50,000 was expended from the Planning and Advancement Office for a trip to China in Fiscal Year 2011. The relationship of this trip to the University mission is not clear. Other units or programs operated by the University may not be related to a simple vision. Programs should be reviewed and discontinued if they do not contribute to this vision.

Culture of Discipline

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.

Several budget units are permitted to exceed their budgets.

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.

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.

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 effort and reduce budgets accordingly.

Technology Development

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.

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.

Recommendations

West Virginia State University faces at least a $3.8 million deficit for Fiscal Year 2012 unless major changes are made. This is a serious problem because the University's cash balance as of June 30, 2011 was $6.4 million. This balance represents cash reserves that would pay only two months of Fiscal Year 2011 operating expenses.

Immediate action is required to reduce the deficit. Because it is unlikely that revenues will exceed their budget, expenditures will need to be curtailed. Expenditures can be reduced and operations improved through the implementation of the following recommendations:

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

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7. **Overspent FY 2011 Departmental 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 budgets plans are not sufficient to cover critical needs, find savings in other areas to make up the shortfall.
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.
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. .
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.
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.
12. [redacted]

Personnel matter →

These recommendations are based upon a limited review of the Universities operations. Additional initiatives may be identified to improve the institutions viability.

The State of West Virginia has historically benefited from the receipt of federal resources for the creation and operation of one of the seventeen land grant institutions created by the Second Morrill Act of 1890. For many years, the University has promoted economic and social development through its instructional services to citizens of West Virginia. Although the current financial circumstances are disconcerting, the University is positioned to make changes that will improve its operational and financial viability.