

VIRGINIA STATE UNIVERSITY BOARD OF VISITORS
COMMITTEE ON FACILITIES, FINANCE & AUDIT
9:30 A.M.; Friday, November 20, 2020
(No Public Comment Period Scheduled)

AGENDA
(As of 11.17.2020)

- CALL TO ORDER Dr. Valerie Brown, Chair
- ROLL CALL
- INVOCATION
- APPROVAL OF AGENDA
- APPROVAL OF PREVIOUS MEETING MINUTES (if any)
- PRESIDENT’S REMARKS Dr. Makola M. Abdullah
- REPORTS AND RECOMMENDATIONS

Division of Finance Mr. Kevin Davenport
Vice President for Finance & Administration/CFO

- Closed Session
 - Update of National Institute for Food and Administration (NIFA)
- Approval Item:
 - Resolution Authorizing the Restructuring of Indebtedness with the Virginia College Building Authority
- Information Items:
 - Comparative Cash and Reserves Balances as of September 30, 2020
 - Auxiliary Reserve Balances Updated as of June 30, 2020
 - Recommended Auxiliary Reserves for FY 2020-21
 - Budget to Actual Financial Statements as of September 30, 2020
 - Actual to Actual Financial Statements as of September 30, 2020
 - Financial and Administrative Standards for Accounts Receivables
 - Auditor of Public Accounts (APA) Audit Update, Mike Reinholtz, APA Manager

Internal Audit Ms. Sheila Alves
Chief Audit Executive

- Information Items:
 - Office of the State Inspector General (OSIG) Hotline Work paper Review
 - Corrective Action Plan Status
 - Case Workload

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Internal Audit (continued)

- Information Items:
 - Audit Plan Status
 - Consulting Services
 - Risk Alert

Technology Services Mr. Hubert D. Harris
Chief of Staff

- Information Item:
 - Technology Services Update

- OTHER BUSINESS
- ADJOURNMENT

***All start times for committees are approximate. Meetings may begin either before or after the posted approximate start time as committee members are ready to proceed. Meetings may also end either before or after the posted time. The Board reserves the right to change its schedule as needed.*

11.17.2020

**VIRGINIA STATE UNIVERSITY BOARD OF VISITORS
FACILITIES, FINANCE AND AUDIT COMMITTEE
APPROVED MEETING MINUTES
Gateway Dining & Event Center, Second Floor
November 20, 2020**

CALL TO ORDER

Dr. Valerie Brown, Chair, called the Facilities, Finance and Audit Committee meeting to order at approximately 9:30 a.m.

ROLL CALL

A quorum was present.

Committee Members Present:

Dr. Valerie Brown
Mr. Michael Flemming (*absent*)
Mr. Charlie Hill (*electronic participation*)
Mr. Raul Herrera (*electronic participation*)
Mr. William Murray
Mr. Jay Stegmaier (*electronic participation*)
Mr. Wayne Turnage
Mr. Gregory Whirley
Mr. Huron Winstead, Rector (*ex-officio*)

Others Board Members Present:

Ms. Thursa Crittenden (*electronic participation*)
Mr. Glenn Sessoms (*electronic participation*)
Ms. Pamela Currey
Dr. Christine Darden
Dr. Ceslav Ciobanu, Faculty Representative
Mr. Kameron Gray, Student Representative (*electronic participation*)

Administration Present:

Makola M. Abdullah, Ph.D., President
Dr. Donald Palm, Senior Vice President/Provost
Hubert D. Harris, Chief of Staff
Kevin Davenport, Vice President, Finance/Administration/CFO
Regina Barnett-Tyler, Interim Associate VP, Student Success & Engagement
Charmica Epps Harris, Interim Associate VP, Institutional Advancement
Sheila Alves, Chief Audit Executive
Tanya Simmons, Office of Human Resources
Dr. Tia Minnis, Associate Vice Provost/Executive Director, OPIE
Rodney Hall, Asst. Vice President/Enrollment Services
Eldon Burton, Director, Government Relations

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Dr. Gwendolyn Dandridge, Interim Director, Communications

Dr. Annie C. Redd, Special Asst. to President/Board Liaison

Legal Counsel Present:

Deborah Love, Senior Assistant Attorney General, Chief, Education Section

Others Present:

Jane Harris, Asst. Vice President/Capital Outlay

Monica Brown, Staff Senate

Yourdonus James, Director, Conference Center

Benjamin Houck, Finance

Adrian Petway, Budget Office

Travis Edmonds, Technology Services

Bonnie Holmes, Office of the Legal Counsel

Danette Johnson, President's Office

Deborah Jefferson, President's Office

Mary Gromovsky, College of Agriculture

Dr. Wondi Mersie, College of Agriculture

Danika Clemmons, Student Health Center

Randy Crowder, AV

Chris Davis, AV

The following Board members participated by electronic means from remote locations identified below. The Board members participated by Cisco WebEx virtual meeting.

- Mr. Hill located in Hampton, VA; unable to attend due to medical reasons.
- Ms. Crittenden located in Suffolk, VA; unable to attend due to health and personal reasons related to the care of her mother.
- Mr. Herrera located in Burke, VA; unable to attend due to personal reasons related to the care of his mother.
- Mr. Stegmaier located in North Chesterfield, VA; unable to attend due to medical reasons related to the COVID-19 and family risks.
- Mr. Glenn Sessoms located in West Cordova, VA; unable to attend due to health reasons.

INVOCATION

Dr. Valerie Brown, Chair invited Mr. Rodney Hall to offer the invocation.

APPROVAL OF AGENDA

The agenda was approved by voice vote.

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APPROVAL OF PREVIOUS MEETING MINUTES (if any)

The minutes from the September 18, 2020 committee meeting were approved by voice vote.

PRESIDENT'S REMARKS

Dr. Abdullah stated that there is a busy agenda today and he has no comments.

REPORTS AND RECOMMENDATIONS

The Chair requested a motion to enter meeting into a closed session.

CLOSED SESSION

The Committee convened a closed session at 9:50 a.m. pursuant to Section 2.2-3711(A)(1) and 2.2-3711(A)(8) of the Code of Virginia involving the discussion of personnel matters and consultation with legal counsel regarding specific legal matters requiring provision of legal advice. More specifically, discussion about National Institute of Food and Agriculture (NIFA) matching funds. The motion called for President Makola Abdullah; Kevin Davenport, VP for Finance/CFO; Sheila Alves, Chief Audit Executive; Deborah Love, Senior Asst. Attorney General & Chief, Education Division; Dr. Annie C. Redd, Board Liaison; Dr. Donald Palm, Provost/Senior Vice President, Benjamin Houck, Finance; Dr. M. Ray McKinnie, Dr. Wondi Mersie, and Mary Gromovsky from the College of Agriculture, and Michael Reinholtz from APA to attend the closed meeting because (1) their presence in the closed meeting was deemed necessary; and or their presence would aid the Board in its consideration of this matter.

The Board re-convened in opened session at 11:22 a.m. with a roll call that the Committee discussed or considered only those public business matters lawfully exempted from open meeting requirements under the Virginia Freedom of Information Act and only such public business matters as were identified in the motions by which the closed meeting was convened.

Division of Finance

Mr. Davenport presented the corrective action plan for student receivables. He stated the requirement to not carry student receivables in excess of 10% and showed a chart outlining the plan to get the percentage back below 10%. He identified several problems including the write off not being done on time, not turning accounts over to the collections agency in timely manner, and the monitoring of the ratio. He elaborated on the staffing plan for this area including bringing the previous bursar back on a consulting basis to assist in the handoff to the new bursar.

The Chair asked several follow up questions about the calculation of the ratio and the extent to which students are allowed to return with balances. Mr. Davenport replied to these questions also providing further information about the process of sending out internal collection letters before turning the accounts over to the outside agency.

A board member asked if delays in the receipt of federal financial aid can contribute to this problem. Mr. Davenport stated that we do not assume the federal aid will come on time – many students go through a process called verification where they have to provide additional tax information that other students are not required to provide.

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A board member asked if there are opportunities to improve the handoff between the Financial Aid Office and the Bursar's Office. Mr. Davenport stated that he does see opportunities to improve this handoff, but that the issues with receivables are not attributable to this process.

A board member asked for explanation of the write off process and how many receivables have been written off for 2020. Mr. Davenport outlined the process for the write off adding that typically \$1.5 million is written off. The amount just written off for 2020 was about \$2 million.

A board member asked about collection efforts before the university turns the accounts over to the external agency. Mr. Davenport stated that those efforts could be better and reemphasized the need to address staffing shortages in this area.

Board members noted that the Internal Auditor considers receivables to be a major risk. Board members discussed how receivables could have a possible impact on the university meeting its performance standard.

A board member asked about the possible impact of COVID-19 on collections rates and whether this is something the Council of Presidents has discussed. Dr. Abdullah stated that despite the challenges of COVID-19, he and Mr. Davenport believe the collections rate can be below 10%.

A board member stated that the university should be careful in requesting a change to this ratio. Dr. Abdullah agreed and added that SCHEV is clearly sensitive to the University and how this standard could be tough for the University. However, he reemphasized the importance of getting the write off done on time.

A board member clarified that these receivables go back far before the pandemic. The board member emphasized that the university did not have proper staff in place – otherwise the standard would have been met. The board member stated disagreement with the idea that having underrepresented students contributes to the current issue with receivables. The board member emphasized the need to staff up to meet the volume and that the process needs to be managed better.

Legal Counsel noted that there has been a FOIA request relating to receivables made to every Virginia higher education institution. Counsel added that most institutions are providing high level responses to the request and that we can expect to see something about this matter in the news.

Mr. Davenport presented the resolution for the debt refinancing, explaining that the Treasury is refinancing two residence halls (Gateway and Quad II) that together constitute a large portion of the university's debt. He stated that this resolution is a ratification that Treasury will need as a part of the refinancing. He compared the two scenarios that were presented, one a traditional refinancing with savings up front versus case 2 where there is a larger payment at the end of maturity. He explained that he thought Case 2 would be burdensome to future administrations. He showed a projected net present value savings of about 15 %, adding that the bonds actually closed at a savings of 18%. He stated that this refinancing will provide immediate relief to offset substantial parts of the payment due to State Treasury in May. He explained how the savings break down between the first and second years.

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A brief discussion followed regarding whether other debt issues held by VSU would be refunded. Mr. Davenport stated that these two issues being refunded represented the largest portion of debt in the portfolio. He also clarified that the savings will reduce the university's approximately \$9.7 million annual debt service payment.

Mr. Davenport presented the cash and reserve balances as of September 30th, adding context that this sheet was developed by the Budget Office and is reviewed several times per week and shared with the president. He walked through each line item also giving updates on the status of major budget items such as VCAN, financial aid, technology, tuition moderation, and stimulus funds. He noted that the overall cash positions of the university as well as Agency 234 have increased.

A board member asked about the various buckets of stimulus funds – specifically if there are any use it or lose it buckets of funds for which the university needs to be monitoring draw down schedules. Mr. Davenport expressed his agreement that this is a priority issue to monitor, stating that the earliest bucket of funds needs to be spent by December of this year. However, the HBCU stimulus funds do not end until December 31, 2021. The board member asked if the university has a spending plan. Mr. Davenport stated that overall he expects the funds to be used for computers for students and for various COVID-19 testing needs.

A board member asked whether “spending” in the context of these stimulus funds means whether the money is obligated or actually transferred. Mr. Davenport stated that he believes spending in this context refers to obligation (when the purchase order is created) but that he will seek clarification on this matter. Mr. Davenport replied to follow up questions on which stimulus items were already included in the budget.

A board member asked if the university can expect to get audited on stimulus funds. Mr. Davenport affirmed this and stated that he has already been providing information about stimulus expenditure to APA.

Mr. Davenport stated that there are still some funding sources such as debt relief that have not been factored into the budget that can help offset the \$15 million deficit. The Chair highlighted the fact that at the last meeting, the Board was concerned about needing to draw from reserves. Mr. Davenport stated that he is hoping to not have to take funds from reserves, highlighting that he expects to be reimbursed for the borrow from auxiliary reserves to float the Daniels Gym project. A board member asked if the totality of these inputs could possibly result in a surplus. Mr. Davenport stated that he is cautious because these additional sources are one-time funds.

Dr. Abdullah explained that the university's existence is stable during this difficult period. He also noted that he does not expect COVID-19 related layoffs this year. He stated that he plans for the University to open for the spring, but doing so is not a certainty at this point.

A board member stated that, if the institution comes out of the worst public health crisis in years with a financial situation as currently projected, it would be amazing. The board member stated that phase one vaccines may be out by February. Then by April going into summer, there will be broad distribution of millions of vaccines. The board member noted the challenge of ensuring students get vaccinated.

A board member explained that the university will need to fight against anti-vaccination sentiment that is prevalent on social media. The board member emphasized the importance of launching a campaign that is effective in reaching students, noting that the university can use stimulus funds to do so.

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A board member stated that, in the event there are surplus funds, it would be beneficial to have a reserve fund set aside to address a gradual ramping up of enrollment to pre COVID-19 levels. The Chair also emphasized that if there are additional funds available beyond reserve targets, it would be prudent to earmark these funds. Dr. Abdullah agreed that it is essential to always look for opportunities to invest in making the institution better.

A board member stated that Finance Committee should have input into budget process for the upcoming year. The board member emphasized that the Committee should be able to consider possible options for investment in the context of the strategic plan, such as business process review or review of the athletic programs. Dr. Abdullah noted that it has been a challenging time for athletics, but that he sees opportunities.

A board member expressed concern that a 1% replacement reserve is not enough. The board member asked if the university has a replacement schedule that lays out facility needs for the next ten years. The board member asked what that schedule looks like in relation to the reserves available to cover those needs. Mr. Davenport stated that the university tracks the level of deferred maintenance on each building, also citing the FCI which compares the level of deferred maintenance to replacement value for each building. He stated that the administration tries to keep the FCI under a certain threshold, before it is necessary to create a capital project.

The board member followed up that the university should know what facilities maintenance costs are coming up on the horizon further out than just one year.

Ms. Jane Harris discussed what data is tracked in the facilities database. She cited the historic dorms, which have the greatest need. She discussed building inspection practices, which take place once per year. Dr. Abdullah added that it is the intent of his finance team to carry \$21 million in auxiliary reserves, noting that this is a larger amount than typically carried by schools of similar size to VSU.

Mr. Davenport presented the Budget to Actual and Actual to Actual reports as of September 30, 2020, walking through each of the notable line items. Dr. Abdullah noted that the process of developing a budget for next year will be even more challenging situation than the current year. The Chair thanked Mr. Davenport for his work in presenting this information.

The Chair addressed the topic of giving to support the University, citing the value of board members giving to the institution. She expressed a goal of 100% board members giving to VSU. She also outlined an idea where students could be utilized in a work-study arrangement to assist in reaching out to alumni on a consistent basis.

Division of Internal Audit

Ms. Sheila Alves presented an update on an Office of the State Inspector General (OSIG) work paper stating that VSU's Internal Audit processes and techniques were audited by OSIG, and that the audit techniques and processes were favorably reviewed. The Chair and board members congratulated Internal Audit and its staff.

A board member suggested that Internal Audit consider obtaining a standing contract with an outside company that can perform audits to be used on an as needed basis. This company could be used if the department needs to perform an emergency review, but does not have staff to perform such review.

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Ms. Alves presented a corrective action plan update showing a total of 42 items including 11 new items since last board meeting. She presented a breakdown of which areas the cases fall and a breakdown of the timing of corrective action.

The Chair asked what average expectation is for closing cases. Ms. Alves stated that the reason why certain cases are not closed would be best addressed by management. She stated that outstanding audit items could be a hindrance to attaining Level 2, and also noted that the University is at risk of losing its card program. She stated that there are a number of audit items where no movement has been made in two years.

A board member asked what needs to be done to see progress, also asking if there is plan in place. Ms. Alves explained that the summary of the findings and management's plans to correct can be found in the diligent reports. The Chair asked why the plan has not been met. Ms. Alves stated that when an area is ready, Internal Audit can test to see if the control put in place has been adequate.

Ms. Alves presented a breakdown of hotlines and special investigations.

Ms. Alves presented an update on the Capital Outlay audit. She noted eleven findings and explained core areas of findings, including issues related to project management oversight, support, and retention and safeguarding of documentation.

A board member asked what it means to "assume the risk" of the audit. Ms. Alves stated that it means that we are leaving the university open to this risk factor that we cited.

A board member asked if there is a way that these risks can be prioritized in order of their likelihood to actually happen. Ms. Alves stated that this is something her area can assist with, noting that her report does give an associated dollar risk for each category.

A board member stated concern over the university administration's rejection of the entire audit, stating that in their entire career they've never seen an entire audit rejected by management. The board member expressed that similar actions have placed the university in positions where amounts in excess of a million dollars need to be repaid.

A board member expressed concern about the possible impact of the Capital Outlay audit on accreditation.

A board member stated a different view regarding management's response to the audit, noting they viewed the university's response letter as providing good explanations of the status of the items as opposed to dismissing the audit. The board member also expressed some concerns over possible inaccuracies in the audit. The board member also stated that, with respect to accreditation, it is their view that the University would not be seen as negligent.

Ms. Alves stated that Internal Audit sought to find concrete evidence for the findings. She stated that she spent time reviewing the responses from management and they do not provide any written documentation that supports their position. She stated that if proper documentation is provided, Internal Audit can clear the item. However, in most cases proper documentation has not been provided.

Board members engaged in a discussion regarding Level 2 and the pertinent requirements and objectives.

A board member suggested that university leadership go back to the table with the Chief Audit Executive and develop a plan to fix this issues so that the university does not miss any SCHEV standards. The board member also emphasized that people on the state level have gone out on a limb to assist VSU in attaining Level 2 and failure to address these audit findings will not look good.

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A board member added that many of the findings in the audit were related to documentation and controls, suggesting that a list be made to prioritizing the items that may affect the university's ability to attain Level 2.

A board member asked if there is step that can be taken to reconcile the perspectives of the university administration and Internal Audit with respect to their disparate views on the Capital Outlay audit. Ms. Alves stated that Internal Audit needs to be provided with documentation in order to clear the findings, noting that in some cases the documentation is old or missing, even in instances where documentation is supposed to be kept for the life of the building.

A board member noted some complexities than can accompany projects where the university did something innovative such as building the water tower, where there was a complex partnership with the county. The board member stated that there could be issues where the project would be non-compliant with policy from Internal Audit's perspective, even though the end result of the project was very advantageous. Ms. Alves stated that Internal Audit is never trying to stop people from being innovative. But she stressed the need in such cases to create documentation in place which states reasons why it might not be possible to follow all terms of a policy. Such documentation serves as a safeguard.

Dr. Abdullah stated that a second look needs to be taken at the response letter. He stated that an emphasis was placed on what was happening at the time as opposed to going through policy statements.

A board member stated that Level 2 status is based on a much broader assessment of categories set out by SCHEV, adding that the restructuring act was based on schools wanting more independent authority. The board member stated that as long as the university is meeting those statewide SCHEV goals, the board should not paint a picture that VSU is disqualifying itself based on an audit that the auditor and university disagree on. The board member suggested that the university and auditor find ways to improve their working relationship.

The Chair emphasized the way to mitigate findings such as these is to write memos to file justifying what compliance with a certain policy was not met.

Dr. Abdullah stated that he has heard the Board's comments and will make sure that addressing these matters is prioritized for February's meeting.

Division of Technology Services

Mr. Harris presented various slides outlining the digital divide issues faced by VSU students, such as not having broadband or computers. He explained that lots of students were using smartphones to perform writing assignments, which yielded lower quality writing. He outlined the many financial and logistical hurdles that his department had to clear in order to get laptop computers to the students. He explained how ultimately the technology stipend was the best solution, enabling students to buy a computer from the bookstore rather than having to use their smartphones.

The Chair asked about the presence of so many of these roadblocks given that many schools are utilizing a variety of platforms for online instruction. Mr. Harris explained that this is an example of where the Higher Education Restructuring Act puts VSU at a disadvantage, citing many of the additional steps that must be taken with respect to technology related procurement.

ADJOURNMENT

There being no further business, the Chair adjourned the meeting at approximately 1:00 p.m.

Approved*

Valerie Brown (acr)

2/5/21

Dr. Valerie Brown, Chair

Date

***Approved by the Facilities, Finance, & Audit Committee at its virtual meeting, February 5, 2021**