

333 KENTUCKY STATE UNIVERSITY
APA SPECIAL EXAMINATION
MANAGEMENT RESPONSE

May 18, 2023

Findings, Recommendations and Management Responses

Poor Fiscal

Management Practices, Led to a Pervasive Lack of Accountability.

Recommendations:

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

Management Response: Concur

While each of the specific findings and recommendations have been addressed separately in our responses below, KSU has taken steps to address findings noted. Internal control environment. We understand that Internal controls must be fully implemented and monitored to maintain efficiency effectiveness of operations. Also, identifying and strengthen weak internal controls should be a priority to ensure operations are efficient and effective to reduce fraud, waste, or abuse.

Establishing and maintaining complete financial records is critical in the reliability of financial data for decision making in the areas of budgeting, procurement and contracting, expenditures, travel, expense reimbursement, and federal grant funding.

Preventive controls as it relates to unapproved or over budgeted spending will be address in the revise policy and procedures for Capital Project, Endowment, Payroll and Payroll Related Expense and Travel Disbursements and other functional areas as needed.

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

Recommendations:

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

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

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

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

Management Response: Concur

KSU shall ensure all supporting documentation is attached for all expenditures. Information relating to expenditures will be retained in Banner accounting system.

KSU shall establish an organized system for retaining financial and operational records through a centralized repository.

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

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

KSU staff shall receive initial and periodic training on the retention of documents.

KSU is currently reviewing the Ellucian Spend Management suite. This software further extends Banner functionality in the areas of purchasing, invoicing and travel. Banner training is ongoing and training will continue Summer 2023. Training shall be given on a continual basis to build staff to a proficiency level so that they can run the reports necessary to perform their work duties and readily address operational and financial issues as they arise.

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

Recommendations:

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

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

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

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

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

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

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

Management Response: Concur

The internal auditor reports directly to the Audit Committee and any infractions respecting the internal audit function are directed by the committee chair to the President for action.

As noted on page 21 of the Draft Audit Report dated March 10, 2023, KSU Board approved a new contract for internal audit services to be provided by external firm. On October 10, 2022 the KSU Board approved CBIZ RISK & ADVISORY

SERVICES, LLC to fulfil its Internal Audit function. CBIZ is currently working with the Audit Committee to perform audit procedures as directed. Areas include; operational, financial, information technology, compliance, risk assessments, fraud investigations, advisory and consulting, data analytics and professional training.

Also, CPE has been given oversight responsibilities and has conducted a review of key areas. The review commented in a Management Improvement Plan (MIP). Weekly meeting is held with management and the Board.

Moreover, the Board selected the accounting firm Blue & Co. as the External Auditor. Quarterly reports are provided to management and the Board on outstanding findings and recommendations. Also, a schedule of audit activities is presented to management and the Board.

KSU ethics tip-line hosted by The Security Voice has been fully executed. Testing was completed on May 15th. Security Voice is our external firm hired to managed hotline to ensure a consistent process is established that will improve and document the procedures to assign, investigate, monitor, resolve, and report concerns and complaints, including those involving potential fraud and abuse.

KSU, in conjunction with its contracted internal auditor and third-party firm, has implement a hotline to receive anonymous concerns and complaints and develop

Finding 4: Lacks Controls to Prevent Overspending and Failed to Ensure Completeness of its Accounting Records.

Recommendations:

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

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

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

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

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

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

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“ As with all financial activity, KSU should record QFLV

Board or a committee of the Board

the existence of conflicting policy and actions being taken by KSU employees based on an outdated policy.

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

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

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

Management Response: Concur

Board appointed Deputy General Counsel to serve as Secretary to the Board, independent of the university president position. This position reports directly to the Board and is responsible for timely collection and distribution of Board materials to each Board member and brings forward to the Board as agenda items of past tabled actions or provide status on prior Board actions, such as status of the implementation of Board catalog of official documents to include policies, procedures and contracts.

Access to add an official document (policies) into the repository has been restricted to ensure official documents (policies) are properly processed (vetted) before being made available to stakeholders (employees, staff, vendors and students.

Deputy General Counsel will be responsible for maintain and updating the central repository along with newly hired librarian.

KSU has implemented a template for clearly identifying policy status which identifies various elements on the policy cover. Upon Board approval, KSU will include in the heading of the document the following; effective, termination or cancellation date. Whether it is a revision or newly created on all policies and procedures.

Also, when existing policies are revised, amended or updated, the revision number and supersede information will be listed.

KSU will conduct routine training to KSU personnel impacted directly by new or revised policy changes to ensure their understanding of the policy. In accordance with the Management Improvement Plan - all polices will be reviewed and revised as needed with clear, concise language. Training will start following final Board approval.

KSU Grant personnel maintain the amount of funds under each grant, how the funds will be used, the total cost of the project, any cost-sharing source, and any other documentation necessary to facilitate an effective audit. Weekly reconciliations are completed and forwarded to CFO/VP of Finance and Administration for review.

Banner software is used to effectively and efficiently to post transactions that are properly supported to the correct grants and other operating accounts on the date of occurrence

A formal letter has been prepared and sent to request remit of interest of \$31,815.

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

Recommendations:

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

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

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

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

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

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

Management Response: Concur

The KSU Board of Regents will implement a comprehensive internal control system over the budgeting process, including written policies and procedures for all University departments. The Budget manager shall revise/create policies and procedure with step-by-step instructions for end users. Once final approval is

Management Improvement Plan will address policy and procedures that address the ethical climate of the University. Personnel will receive training once approved.

Finding 8: KSU Provide Insufficient Oversight of Its Procurement and Expenditure Processes.

Recommendations:

~ All appropriations, expenditures, disbursements, or contracts greater than \$50,000 be presented to the KSU Board of Regents for approval prior to purchase or execution of contract.

~ KSU bundle repeat purchases that may in total exceed the threshold for formal or informal bidding to obtain the best price on all items purchased or services provided.

~ KSU ensure that final, signed copies of all contracts are provided to KSU's official records custodian such as General Counsel, Purchasing Director, or other designated party as deemed appropriate per policy.

~ KSU work with Banner to create a method to query their data to generate a list of all contracts and contract expenditures.

~ KSU upload any missing contracts or supporting documentation that are missing from the contract management system but have not met the threshold for destruction. See additional discussion and recommendations pertaining to KSU's record retention at Finding 15.

~ KSU develop training for credit cardholders to ensure consistent application of policies and procedures. This should include, at a minimum, guidelines on appropriate usage, tracking, receipt requirements, and approvals.

~ KSU develop and implement training procedures for employee travel.

~ Travel expenses be encumbered.

Management Response: Concur

In accordance with KSU policy and Management Improvement Plan (CPE) all purchases of \$5,000 and below are approved by CFO or designee. All purchases \$5k or more are approved by President and CPE. Greater than 50k require President, Board, and CPE. Purchases must conform to the KSU Purchasing policy and when applicable KY Model Procurement Code and the Government Contract Review Committee. KSU submits all appropriations, expenditures, disbursements, or contracts greater than \$50,000 to the KSU Board of Regents for approval prior to purchase or execution of contracts. Also, all expenditures greater than \$5,000 must be reviewed and approved by VP of Finance and Administration.

KSU will review financial feasibility of bundle purchases to obtain the best price on all items purchased or service provide if they meet quality and performance standards.

KSU is developing processes in which all contracts and agreements made on behalf of the University must first be vetted, approved by the President and/or the Board then given to record custodian for cataloging and uploading in central repository.

The central repository maintains contracts whereas Banner purchasing module host expenses tied to the contract. However, KSU will be adopting the Ellucian Spend Management suite which will extends Banner functionality in the areas of purchasing, invoicing and travel and contracts in one location.

KSU is in the process of identifying and recording all "fully executed" contracts. Contracts and supporting documentation will be uploaded into the central repository by Legal.

KSU shall conduct training for new card issuers and periodic training for existing/current card users to ensure consistent applications of policies and procedures are followed.

KSU is currently reviewing/updating travel policy and procedures. Once the policy and procedure have been reviewed and approved by the Board, employees will be required to attend travel training to ensure consistent applications of policies and procedures are followed.

KSU will explore the ()7(c)-6(o)7([]TJET091)7([13(g)7()-6(n)7(t)-6(r)-6(s)-6(l)7()7(r)-6(n)7(t(e)-6

~ KSU confirm what percentage their drawdowns may be.

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

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

Management Response: Concur

KSU shall continue to adhere to the approved Spending Policy until a revised Spending and Investment Policy has been reviewed and approved by the Board.

The responsibility for investments and endowments is the responsibility of the Board, the Board will establish a subcommittee. KSU shall continue to adhere to the approved Spending Policy until revise Spending and Investment Policies have been approved by the Board.

KSU Finance and Administration personnel meet weekly with CPE to provide updates. Any and all issues identified are communicated during this meeting. Also, Institutional Advancement is currently establishing policy and procedures to communicate endowment activities to CPE and applicable donors.

KSU will confirm allowable percentage for drawdowns.

KSU uses a third-party software provider (Blackbaud) to record and track all information and agreements.

President is currently working with CPE to resolve this matter. BOR took corrective at April 12, 2023

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

Recommendations:

~ KSU provide only those benefits outlined in service contracts and HR documents for applicable employees that are prop2 2 reW440 62 2 re(re)bW44/F1 12 U(m)-(e)-(r)-at a0tva

basis and submitted to AVP of Finance and Administration for review and approval.

KSU Accounts Payable working with a report writer from Intuitional Research created a template (platform) that integrates with Banner to capture invoice aging.

payable balances.

KSU retains the procedure (report script) for creating the outstanding accounts payable balance report on file (hard copy for reference).

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

Recommendations:

~ KSU determine the authority of President's Council/Cabinet.

~ In addition, the KSU HR Director should provide confirmation of action taken at meetings of the Board of Regents, standing committees, and the President's Council, whenever resolutions or motions are passed that will affect payroll and benefits provided to any or all staff.

~ The Board of Regents keep track of resolutions passed and request a status update to ensure passed resolutions are implemented.

Management Response: Concur

KSU has implemented the recommendations. The President's Council/Cabinet no longer exists. The Board of Regents is responsible for tracking resolutions passed and ensuring they are implemented. The President's Council/Cabinet is no longer a part of KSU's governance structure.

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

Recommendations:

~ KSU seek legal guidance to determine options that may be available to recoup any

“KSU appoint an official records custodian and ensure that final, signed copies of all

~ If a third-

and process mapping is being provided through our Banner Optimization project, Banner Advisory Services, and Your Part Time Controller.

Current password policy was update to only allowed three attempts instead of five. It was originally 3 but changed to 5 during COVID to provide further customer service for employees and students access systems remotely.

The management of Banner Approval queues has been reassigned from the monitor the approval queues quarterly. This reassignment and quarterly review change will be included in the revised Finance and Administration policy as stated below:

The management of Banner approval queues shall be the responsibility of the the AVP of Finance to ensure that only properly authorized users and approvals are configured. This policy is intended to ensure the security and integrity of our

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

Recommendations:

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

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

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

Management Response: Concur

The management of Banner Approval queues has been reassigned from the

Additionally, the EVP of Finance monitors the approval queues quarterly. The reassignment and quarterly review change will be included in the revised Finance and Administration policy as stated below:

The management of Banner approval queues shall be the responsibility of the
be monitored quarterly by
the AVP of Finance to ensure that only properly authorized users and approvals
are configured. This policy is intended to ensure the security and integrity of our
financial systems, and to prevent unauthorized access or misuse of these
systems .

KSU shall implement procedures to monitor the Banner Approval Queue regularly, the EVP of Finance will monitor the approval queues quarterly.

KSU will begin using effective and termination dates when altering approval levels within Banner. Also, training on the use of effective and termination dates in approval queues was conducted by an Ellucian Purchasing Consultant on

in attendance.

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

Recommendations:

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

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

Management Response: Concur

Plans are underway to require new employees to change their current password prior to first use and for current users upon next log-in attempt.

KSU will regularly monitor and document Banner and ADP naming convention are established within the written policy. Adequate documentation will be maintained from all Banner module managers to ensure reviews are being performed for each module. An additional level of review will be conducted by the either the AVP for Finance and Administration and/or Supervisor of respective areas.

Management Response: Non-concur

KSU current Network, Banner, and ADP passwords exceeds current industry standards using multi-factor authentication and complex passwords. According to NIST Special Publication 800-63B, password expirations are no longer necessary; KSU has benchmark with other Kentucky Higher Institutions which were found to be similar to KSU standards.

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

Management Response- Non-concur

KSU current Network, Banner, and ADP