

D. Finance, Audit and Infrastructure Committee

Mr. Fitzpatrick, chair, will report on the committee meeting of September 15, 2017.

**Finance, Audit and Infrastructure Committee
Meeting of September 15, 2017**

Minutes

Present: M. Bridges, S. Fitzpatrick, B. Langos, J. Large Kingsley, W. Montgomery, C.D. Moore, A. Rains, G. Ramos

Guests: M. Behme, W. Branson, L. Chan, P. Cheng, J. Creeden, T. Heigel, J. Hensley, D. Kimpton, N. Laskey, G. Sample, S. Sherbet, T. Sudkamp, J. Ulliman, C. Woolley

Mr. Fitzpatrick, committee chair, called the meeting to order at 8:08 a.m. and read the conflict of interest statement. With a full agenda, no comments from the chair were offered.

Annual Audit Status Update

The University is required to change external auditors on a regular basis and has recently engaged the services of BKD, LLP for the upcoming 5-year audit cycle. Mr. Jim Creeden, partner for BKD, LLP and Mr. Mike Behme, senior manager, briefed the Board on the scope and the standards under which their audit is conducted.

Mr. Creeden reviewed areas of risk applicable to institutions of higher education, tests for fraud, and the potential for current and future impact from GASB legislation on a university's balance sheet and income statement.

The audit process began in May and covers the University's financial statements and University compliance with requirements applicable to federal award programs. Draft reports are almost complete with the final report due to the Auditor of State by October 15, 2017. Also included in the report are audits of the Wright State Research Corporation (WSARC) and the Wright State University Foundation.

Monthly Financial Performance Reporting

Mr. Jeff Ulliman, vice president and chief financial officer, reviewed the monthly financial performance metrics.

- **Budget Variance Report- Budget versus Actual:**

The Budget Variance report has been expanded to include the Year-End actual for FY-2017. The final year-end numbers reflect a net University operating loss of \$24.6 million, which is less than the previously projected \$31M deficit.

The University's FY 2018 Adopted Budget was designed to have a net surplus of \$6.1M to begin replenishing reserves. The actual 2018 adopted budget will be short \$2.3M for creating this reserve amount. Measures will be discussed shortly to address this shortfall.

Looking at the report, the "2018 Budget to date" is an internally calculated column based on prior spending trends. The "Actual to Date" FY18 and FY17 both reflect two months of real data tracking of revenue and expenses and are used to calculate the variance between last year and this year. The "Budget Reforecast" takes into account any deviation between the comparisons and determines a need to increase or decrease the amount of funds required to balance the budget.

Variances of note include a shortfall of \$4.8M in revenue attributed to a decrease in enrollment for Summer semester and this includes a projected decrease of \$1.8M in gross revenue production for Fall and Spring semester.

On the expense side, the budget reductions and remediation measures have helped to reduce expenses for compensation and other non-labor expenses. However, the College Credit Plus program has created a need for an additional \$2.2M due to state provisions that require the University to discount tuition for those high school students enrolled in the program.

Overall, in order to balance the FY 2018 budget and contribute the \$6.1M to reserves, an additional budget remediation of \$9.2M will be required. Mr. Ulliman described measures the administration is proposing to accomplish this 2018 remediation and explored future considerations for 2019.

2018 Plan for Budget Remediation:

<http://www.wright.edu/sites/www.wright.edu/files/uploads/2017/Sep/meeting/Budget%20Remediation%20Plan%20Calculation.pdf>

Remediation measures for 2018 include eliminating currently vacant positions (\$3.25M in savings), not filling or deferring future vacancies (\$4.5M), incorporating the savings realized from summer's decrease in faculty teaching loads (\$1M), and further reductions in discretionary spending (\$1.5M). The measures proposed total \$10.25M.

Further actions under consideration for FY 2019 include:

- Benefit cost increase avoidance
- Academic restructuring
- Housing management contract
- Property and lease dispositions
- Maximizing Nutter Center usage
- Enrollment management enhancement strategies
- Increased efficiencies and shared services

Trustee Montgomery asked the possibility of outsourcing the Nutter Center. Mr. Ulliman indicated that consideration is currently being given to having an event management company manage some of the Nutter Center operations. Mr. Sample, chief real estate officer, indicated that conversations subject to a nondisclosure agreement are taking place relative to the Nutter Center management.

The Trustees debated the merits of implementing an immediate hiring freeze versus the strategic hiring practice of allowing the Deans and Vice Presidents to review their staffing needs and request to fill critical vacancies. Dr. Schrader spoke in favor of the current practice and explained that some areas targeted positions for reduction and subsequently lost additional staff members through retirements or normal attrition. Now facing severe shortages in staff, prioritized, strategic hiring could address these challenges.

Meetings are scheduled this month with the Dean's and Vice Presidents to review their strategic priorities and create a list of the positions that will not be filled so that the dollar value of those savings can be identified. In addition, the Deans and Vice Presidents are being asked to reduce operational budgets by 10% to arrive at the projected \$1.5M in "further reductions in discretionary spending" called for in the 2018 Remediation plan.

The Trustees reiterated that while improvements have been made, it is imperative that everyone remain focused on increasing revenue, rebuilding reserves, controlling spending and improving the University's cash position. Without dedication and adherence to these efforts, the University will continue in a cycle of budget reductions that is not sustainable long-term.

- **Wright State Cash Forecast Report:**

Mr. Ulliman began the Cash Forecast discussion by answering Trustee Bridges' question "Why would cash flow go in the opposite direction?" The answer has to do with the timing of several outflows, which include the payout of the second installment of the Voluntary Retirement Plan Incentive (VRIP) (\$2.8M) and the projected payback of Title IV funds (\$1.94 to \$2M).

In April of 2015, Wright State received a routine review of student's Title IV federal loan program funds by the Department of Education. Title IV funds such as Direct Loans, Parent Plus Loans, Supplemental Aid, and Pell Grants are granted by the federal government to help students pay for tuition and are tied to student attendance. The program review verifies that students receiving funds are attending, or did attend, their courses. Unverified attendance triggers a return of a prorated portion of funds to the federal government.

The committee asked what measures are in place to track student attendance. Mr. Steve Sherbet, university bursar and director of treasury services, explained

there are several operational methods to verify participation including student's use of "Pilot", the online learning system, the faculty practice of "taking attendance" for classes, and the awarding of a "K" grade for students who participated, but subsequently withdrew from a course. A communication plan is being developed to reach those students impacted by the request for repayment of loan funds. The final dollar value of the Title IV Financial Aid funds to return should be determined in the next 30-60 days.

Other factors having an impact on cash flow include termination payouts of accrued vacation and sick pay for those individuals who have left the University (about \$1M), funds for ongoing litigation expenses (about \$500K) and planned capital project expenses (\$900K).

When asked if these timing differences will affect Wright State's Senate Bill 6 score, Mr. Ulliman indicated they would not. A question was raised about the likelihood Wright State would go on fiscal watch. Wright State ended the year stronger than anticipated financially. With a planned \$6.1M contribution to expendable net assets, there is a very reasonable chance Wright State would avoid fiscal watch.

Trustee Langos requested that Dr. Schrader and Provost Sudkamp develop a measurable, tactical plan for reducing academic expenses prior to the next meeting. He indicated that the Board needs a plan in place should additional cuts be warranted and since the support side is already stretched thin, expense reductions need to target the academic side. Mr. Langos also asked about the issue of deferred maintenance. He requested a report be presented at the next Finance committee meeting prioritizing deferred maintenance issues by severity and estimated cost. Mr. Sample indicated that one is being developed.

- **Cash and Investment Income Activity Report:**

The Cash and Investment Income report compares the cash and investment activity patterns over previous years. The Fiscal 2018 trend is paralleling previous years and the year-end forecast is for about \$40 million in cash and investments.

- **FY 2018 Capital Project Spending Report:**

The committee received a report outlining all the planned capital projects for fiscal year 2018, their project initiation and completion dates, the source of funds, and the total project budget. Numerous projects listed are for maintenance upgrades and repairs.

A question was asked about the "CAC Expansion and Renovation" entry noted on the report and whether this was additional work or the completion of last year's project. Work has been completed on the project and is in the warranty phase. The final contractor payments are being reviewed for release.

To improve project management and oversight, the Facilities department underwent a restructure and reorganization last year. A new project management system was put in place to prevent cost overruns by defining project scope and monitoring changes.

Annual Financial Governance Policy Reporting

The recently adopted changes to the Financial Governance Policy require the Board receive a series of updates and reports delivered through the Finance Committee. Mr. Ulliman indicated that the report on financial performance metrics such as the debt rating, the composite financial index and the operating performance measures would be delivered in November after the University's audited financial statements are completed.

Other requirements include changes in the approval process for purchases and expenditures. Several new reports were presented to the Finance, Audit and Infrastructure Committee as detailed.

- **External Consultants for Fiscal Year Ended June 30, 2017**

The External Consultant report is new and details a list of external consultants who were paid \$50,000 or more for services performed. Mr. Ulliman explained the difference between "consultants", who are typically hired for a special project or service, and "professional services", which are ongoing and reoccurring such as yearly auditors. The list presented identified only consultants.

The committee members requested that future lists include both consultants and vendors performing professional services. The report should also include the contract value and contract expiration date in addition to the total of payments made. The committee members encouraged the University to use contract expiration dates as an opportunity to seek concessions from vendors on costs or to negotiate for more-favorable terms.

- **Allowances, Bonuses and Stipends for Fiscal Year Ended June 30, 2017**

This new report detailed bonuses, allowances and stipends broken out by type, number, total-dollar amount, and funding source. Bonuses are typically tied to duties outlined in employment contracts. Dr. Schrader shared that the University is exploring a new policy relative to car allowances. The recent budget remediation has resulted in the elimination of all but two of the cell phone allowances previously offered last fiscal year.

Ninety-five percent of the stipends paid out were for academic positions and are normally triggered when a faculty member assumes an administrative role. The stipend is compensation for the administrative duties and is curtailed when the faculty member leaves administration and returns to teaching. This practice is typical in higher education.

Mr. Fitzpatrick requested the administration continue to monitor and evaluate the scope and use of allowances, bonuses and stipends.

Operational Updates

Mr. Ulliman indicated that the University is looking to make changes in the area of healthcare for staff and non-bargaining employees. This is probably the most aggressive level of changes ever proposed within a single year. The changes will help mitigate the projected 10% or \$2.9 million increase in yearly healthcare costs.

Currently employees are offered two PPO plans, the 90/10 plan and the 80/20 plan. Moving to a single plan with the elimination of the 90/10 plan would save \$2.2 million. The creation of a tier for specialty drugs in the prescription drug plan carries an anticipated savings of \$40,000. The Health Savings Plan contribution by the University for the High Deductible Plans would be reduced for individuals and families with a projected savings of \$330,000. Employees would be asked to pay 20% of their healthcare premium starting in January (\$225,000 in savings). Lastly, implementing a 30-day waiting period for new employees would save \$60,000.

Wright State University is self-insured for healthcare and these plan changes would address the rising costs and in some areas create savings. In addition, the changes would position the university more towards where the market is in terms of industry standards for healthcare plans.

A discussion ensued about accrued funds set aside for healthcare expenses. The question was whether it makes sense to track claims on a quarterly basis and release unused funds back to the P/L or hold funds through the year-end and adjust the IBNR (Incurred but not recorded) reserve at that point. Wright State uses the IBNR and year-end review method since their claim history has been mostly constant from year to year.

Mr. Jerry Hensley, representing the Unclassified Staff Advisory Council, addressed the committee about the immediate impact the plan redesign would have on classified and unclassified staff. He pointed out that the rise in deductions and premium costs would trigger a much more significant out-of-pocket cost for employees, especially those in the lower pay ranges. In addition, employees have heard messages that while their wages may be below industry standards, their health care benefits exceed and make up for it. The proposed changes would negate this argument. Mr. Fitzpatrick acknowledged all the points made and indicated the Board has a lot of factors to weigh when making a decision.

Mr. Ulliman indicated that Wright State is in the middle of consolidating their Alternative Retirement Plan (ARP) vendors and their 403b vendors as part of a state-wide initiative led by the Ohio Department of Higher Education. The proposed changes would go into effect on January 1, 2018 and would reduce the ARP vendors to 5 and the 403b vendors from 12 to 5. The consolidation would reduce administrative costs, increase customer service and allow for enhanced educational opportunities for the investors as to their risks and understanding of investments.

Investment Report

Mr. Steve Sherbet, university bursar and director of treasury services, presented the SEI investment report as of August 31, 2017. Questions were asked about the fee structure and yearly management fees that are paid to SEI for their investment services and how this compares to other firms.

Trustee Fitzpatrick asked about the University's Alternative investments, their lock up, and what it would cost to liquidate those holdings to free up cash. He requested a report and recommendations for the Finance Committee's consideration next month.

Mr. Bridges reminded the committee that while we have had excellent relationships and received good service from vendors like SEI and Horan, Wright State is in a different place in 2017. Moving forward, the University should renegotiate contracts as they come due and shop for vendors with the highest level of service and cost containment. Mr. Langos indicated that now is the time to review all purchasing agreements and call each vendor to request concessions and cost reductions.

Investment Policy Statement

Mr. Sherbet asked that the discussion on proposed updates and edits to the Financial Policy Statement be addressed at the next Finance Committee meeting to allow more time for review. Mr. Fitzpatrick concurred.

Approval of Contracts \$500,000 and Above

Under the new Financial Policy, the Board is being asked to review state capital projects at or above \$500,000. This change allows the Board to verify if the state capital allocation does cover the full cost of the project or if there is a requirement for other funding prior to starting a project. Mr. Ulliman presented the following contracts and state capital projects for review and approval.

Contracts

Vendor	Description of Services	Current Contract Amount	Previous Contract Amount	Term of Contract
AMS-Y Ltd. Partnership	Residence & Housing	\$1,165,000	\$1,155,870	3/6/1991-6/30/2018

State Capital Projects

Project	Project Cost	State Capital Allocations
IT Disaster Recovery	\$1,250,000	\$1,250,000
Envelope Repairs	\$2,000,000	\$2,000,000
Wellfield Remediation	\$1,500,000	\$1,500,000
LAR Renovations	\$314,500	\$314,500
Instructional Lab Modernization	\$3,000,000	\$3,000,000
Elevator Upgrades	\$2,500,000	\$2,500,000
Electrical Infrastructure	\$1,500,000	\$1,500,000
Lake Campus Infrastructure/Shoreline	\$975,000	\$975,000
Lake Campus Connector Building	\$2,525,000	\$2,525,000

RESOLUTION 18-

WHEREAS, in order for the University to conduct business on an on-going basis, and provide products and services in a timely manner, purchases must be made; and

WHEREAS, these expenditures may exceed \$500,000; therefore, be it

RESOLVED that authorization is granted for the accompanying contracts now before the Board of Trustees be, and hereby are approved.

I offer this motion:
 Is there a second:
 Roll Call Vote:

Approval of Contracts between \$250,000 and \$499,999

Again, a change from the previous process. Under the Financial Governance Policy, the Finance Committee must review and approve all contracts between \$250,000 and \$499,999 where previously contracts in that range were presented for information only.

Vendor	Description of Services	Current Contract Amount	Previous Contract Amount	Term of Contract
Yankee Book Peddler	Books	\$300,000	\$400,000	7/1/17 – 6/30/18

The Finance Committee reviewed the contract presented and moved to approve the expenditures as submitted. Mr. Fitzpatrick offered the motion, Mr. Bridges seconded and the motion was approved by voice vote.

Contracts between \$150,000 and \$250,000

The following contracts between \$150,000 and \$250,000 were presented to the committee for review. No action was required.

Vendor	Description of Services	Current Contract Amount	Previous Contract Amount	Term of Contract
Dissinger Reed, LLC	Athletic Accident Insurance Coverage	\$177,500	\$165,959	7/1/17 - 06/30/18
Minnesota Life Insurance Company	Term Life Insurance	\$170,000	\$170,000	7/1/17 - 06/30/18
AT&T	Phone Service	\$164,000	\$180,000	7/1/17-06/30/18
Ohionet	Library Subscriptions	\$160,000	\$150,000	7/1/17 - 06/30/18
Interpreters of the Deaf, LLC	Professional Service	\$160,000	\$165,000	7/1/17 – 6/30/18
Horan Associates Inc.	Consulting Service	\$160,000	\$160,000	7/1/17 – 6/30/18
Vistar Corporation	Food Service	\$155,000	\$150,000	7/1/17 – 6/30/18
Postmaster Dayton OH	Postal Service	\$151,000	\$150,000	7/1/17 – 6/30/18
Treasurer, State of Ohio	Tax	\$150,000	\$150,000	7/1/17 – 6/30/18
State of Ohio Attorney General's Office	Collection Services	\$195,000	\$280,000	7/1/17 – 6/30/18
Walter Haverfield LLP	Legal Counsel	\$185,000	\$124,000	7/1/17 – 6/30/18
Dayton Mortuary Services Inc.	Professional Services	\$165,000	\$165,000	7/1/17 – 6/30/18
Simplex Grinnell LP	Maintenance for Fire Alarm System	\$150,567	\$136,622	7/1/17 – 6/30/18

The meeting adjourned at 10:21 a.m.

Respectfully submitted by
Deborah Kimpton