

# **Kansas Board of Regents**

Management Review for Wichita State University

February 9, 2017



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Ms. Elaine Frisbie  
Vice President for Finance and Administration  
Kansas Board of Regents  
1000 SW Jackson, Ste. 520  
Topeka, KS 66612

Dear Ms. Frisbie:

Thank you for the opportunity to provide services for the Kansas Board of Regents regarding the Management Review of Wichita State University. Representatives of Wichita State University and their affiliates were helpful and collaborative in working with us on this project and we greatly appreciate their assistance.

Our services were provided in accordance with the Statement of Standards for Consulting Services promulgated by the American Institute of Certified Public Accountants and, accordingly, do not constitute a rendering by **BKD, LLP** or its partners or staff of any legal advice, nor do they include the compilation, review or audit of financial statements. Because our services were limited in nature and scope, they cannot be relied upon to discover all documents and other information or provide all analyses that may be of importance in this matter. For instance, any procedures we performed cannot be relied upon to give assurance that any defalcations or fraudulent transfers that might have taken place were discovered.

This report is the property of BKD. This report was prepared solely for the internal use of the Kansas Board of Regents and Wichita State University. However, if any party intends to publish or otherwise reproduce this report or make reference to our firm name, BKD must be provided with the printer's proofs and masters for our approval before printing or other reproduction and provided with a copy of the final reproduced material for our approval before it is distributed.

**BKD, LLP**

*BKD, LLP*

February 9, 2017

## Engagement Summary

### *Engagement Overview, Scope and Approach*

On October 31, 2014, **BKD, LLP** (“BKD”) was engaged by the Kansas Board of Regents (the “Regents”) to conduct Management Reviews of the state universities under its purview, including Wichita State University (the “University” or “WSU”).

The key objectives of this engagement were:

1. To evaluate management of all non-public accounts administered or controlled by Presidents Donald Beggs and John Bardo or members of the President’s Executive Team, for which they have significant discretion or latitude. Emphasis was placed on the legitimacy of the business purpose of the expense and the appropriateness of its authorization and supporting documentation;
2. To evaluate payments by the University or its affiliated corporations to Presidents Donald Beggs and John Bardo, members of the President’s Executive Team or their related party interests as disclosed on their individual Statement of Substantial Interest (“SSI”) forms. Again, emphasis was placed on the legitimacy of the business purpose of the payment and the appropriateness of its authorization and supporting documentation; and
3. To evaluate relationships between the University and its affiliated entities, with a specific interest in how conflicts of interest are managed.

An analysis of specific accounts and entities identified by the Regents and the University for the period July 1, 2011 through June 30, 2016, was conducted. The identified controlled corporations included:

- WSU Intercollegiate Athletics Association, Inc. (“ICAA”)
- WSU Innovation Alliance (“WSIA”)
- Wichita State Innovation Alliance Investment Corporation (“WSIAIC”)
- WSU Union Corporation, dba Rhatigan Student Center (“RSC”)

In addition, the following corporations affiliated with, but not controlled by, the University voluntarily participated at the invitation of the Regents:

- WSU Alumni Association, Inc. (“Alumni”)
- WSU Foundation (“Foundation”)
- Board of Trustees of Wichita State University (“Board of Trustees”)

In conducting our analysis, BKD:

- Interviewed those who reported directly to Presidents Donald Beggs and John Bardo, and other key personnel of the University, the Foundation and Alumni.
- Obtained an understanding of the identified discretionary accounts for the following entities and performed testing of certain transactions within the identified accounts:
  - ICAA

- Foundation
- Board of Trustees
- Analyzed SSI forms and Conflict of Interest forms for Presidents Donald Beggs and John Bardo and members of the President's Executive Team.
- Analyzed minutes of meetings of Boards of Directors and various committees for the relevant time period at the affiliated entities.
- Analyzed audited and unaudited financial statements to identify related party transactions and understand sources of revenue, expenses, assets and obligations shared between University and its affiliates.

### *Interviews*

We interviewed the following key personnel:

- **Dr. John Bardo**- University President; member of President's Executive Team; Chair of WSIA/WSIAIC Boards of Directors; Ex-officio voting member of Alumni Board of Directors; Ex-officio member of the Foundation Board of Directors; Administration member of Board of Trustees
- **Dr. Anthony Vizzini** - Provost/Senior Vice President of Academic Affairs; member of President's Executive Team; member of WSIA Board of Directors; Ex-officio member of ICAA Board of Directors
- **Dr. Keith Pickus** - Former Provost/Senior Vice President of Academic Affairs; Vice President for Corporate Relations, Foundation
- **Mary Herrin** - Vice President for Administration and Finance; member of President's Executive Team; Vice President and Treasurer of RSC; Assistant Treasurer of the Board of Trustees; Board member and Treasurer of the ICAA Board of Directors
- **Dr. John Tomblin** - Vice President of Research and Technology Transfer; member of President's Executive Team; member of Board of Directors for WSIA; President of WSIA/WSIAIC
- **Lou Heldman** - Vice President of Strategic Communications; member of President's Executive Team; Ex-officio non-voting member of Alumni Board of Directors; member of WSIA Board of Directors
- **Andy Schlapp** - Vice President of Government Relation; member of President's Executive Team; Executive Director of Board of Trustees; member of the Parking Appeals Committee; member of WSIA Board of Directors; Vice President/Secretary/Treasurer of WSIAIC
- **David Moses** - General Counsel; member of President's Executive Team; Ex-officio member of the Foundation Board of Directors; Ex-officio member of ICAA Board of Directors
- **Ted Ayres** - Former General Counsel; Former member of President's Executive Team; Former administration member of Board of Trustees

- **Dr. Marche Fleming-Randle** - Assistant to President for Diversity; Chair of the President's Diversity Council and Interfaith Chapel; member of the Budget Committee
- **Darron Boatright** - Director of Athletics; member of President's Executive Team; Ex-officio non-voting member of Alumni, Ex-officio member of the ICAA Board of Directors
- **Dr. Elizabeth King** - Foundation President/Chief Executive Officer, Ex-officio non-voting member of Alumni Board of Directors; member of WSIA Board of Directors
- **Jane Link** - Equal Opportunity Officer; member of the Title IX Committee; member of Tilford Commission Committee
- **Dr. Natasha Stephens** - Title IX Director
- **Chris Cavanaugh** - Director of Internal Audit

A draft of our report was submitted to the University for comment prior to finalization of our report.

## Findings and Recommendations

### *Primary Findings*

Our evaluation of non-public accounts administered or controlled by Presidents Donald Beggs and John Bardo or members of the President's Executive Team resulted in no findings of inappropriate disbursement of unrestricted funds during the scope period. Our evaluation of payments by the University or its affiliated entities to Presidents Donald Beggs and John Bardo, members of their Executive Team or their related party interests identified no inappropriate disbursements during the scope period. Furthermore, our evaluation of the relationships between the University and its affiliated entities found that identified potential conflicts of interest are currently being properly managed and monitored. In addition, we do make several recommendations throughout the report to assist in the strengthening of controls in particular areas.

In addition, we have included a report section of "Observations" for your evaluation. These observations are issues that were outside the scope of our services, or are observations that did not rise to the significance of a finding.

### *WSU Intercollegiate Athletics Association, Inc.*

#### **Scope**

Our work at ICAA involved interviewing Darron Boatright, Director of Athletics, and corresponding with Rege Klitzke, Senior Associate Director of Athletic for Business Operations, regarding various transaction issues resulting from our analysis. We read the ICAA Board of Directors meeting minutes for the scope period. We analyzed the audited financial statements for FY2011 through FY2016 to identify related party transactions. We read the policy on Conflicts of Interest, and the Agreement and Amendments to the Agreement between ICAA and the University.

ICAA had one account containing non-public funds for which the Athletics Director had significant latitude and discretion in directing the use of those funds. We tested 76 disbursement transactions from this account for appropriateness of documentation, proper approval, and legitimacy of purpose.

## Overview

The ICAA is a 501(c)(3) organization, legally separate from the University. However, the ICAA operates as a department of the University and is subject to all of the regulations and administrative policies of the University. The ICAA is incorporated to schedule, manage and promote athletic contests of WSU in harmony with the general education policy of the University. The ICAA has eight women's and seven men's sports which compete in Division I of the National Collegiate Athletic Association and in the Missouri Valley Conference. Men and women compete in basketball, golf, tennis, indoor track, outdoor track and cross country. Women also compete in softball and volleyball, while men compete in baseball. The ICAA operates the varsity intercollegiate athletics programs at the University in facilities that are owned by the State of Kansas.

In February 2002, the ICAA and the University entered into a one-year agreement that states, in general terms, their mutual responsibilities relative to the development and operation of the University's intercollegiate athletic program and the related use of University facilities. The agreement was amended in November 2002. The agreement continues automatically for successive one-year terms, subject to the right of either party to terminate the agreement at the end of the original term or at the end of any subsequent annual term by giving the other party 180 days written notice of the desire to terminate the agreement. The amended agreement provides that the University shall provide full maintenance and housekeeping for the athletic complex at Charles Koch Arena (including Geist Student Services Building, Preferred Health Systems Multipurpose Center and Via Christi Athletic Training/Weight Complex), Cessna Stadium, Wilkins Stadium, Eck Stadium/Tyler Field and the Coleman Tennis Complex. Utilities and certain other facility operating costs are also paid by the University.

The Foundation coordinates fundraising for and manages investments on behalf of the ICAA. The Foundation holds funds designated for the ICAA which are controlled by the ICAA, as well as designated ICAA funds controlled by the Foundation. The latter are comprised primarily of endowed scholarship funds.

During 2013, the ICAA commenced planning to replace and upgrade the video board and sound system in Charles Koch Arena at a cost of \$1,836,759. To partially finance the improvements, the ICAA obtained an \$847,880 loan from the Foundation. The Foundation's Board of Directors approved the unsecured loan in March 2013 and the Foundation disbursed the loan proceeds in September 2013. The loan is to be repaid over an eight-year period at an interest rate of 2%. Installation of the video board and sound system was completed in August 2013 and the \$1,836,759 cost of the improvements was subsequently transferred to the State of Kansas.

## Findings and Recommendations

In general, the documentation provided for the 76 transactions selected was good. However, the reimbursement approval process should be strengthened. During our transaction testing, we noted the following:

- We noted 73 reimbursement transactions approved by a subordinate of the requester. We recommend requiring that all reimbursement requests be approved by a superior of the requester to avoid any possibility of inappropriate influence or perception of inappropriate influence in the approval process. For instance, reimbursement requests for Athletic Director Darron Boatright should be approved by President Bardo, or his designee.

- We noted 73 reimbursement transactions approved using an electronic signature or a signature stamp. We recommend the ICAA discontinue the practice of using electronic signatures or signature stamps to strengthen the controls surrounding the approval process.
- We noted one reimbursement transaction with no approval signature present. We recommend requiring that all reimbursement requests be approved by a superior.
- We noted eight transactions missing receipt support for a portion of the reimbursement. The missing receipts were generally for cab fare or airport parking. We recommend that all receipts be required in order for reimbursement to be received.
- We noted three transactions with vague or no description regarding their business purpose. In addition, we noted many meal/entertainment reimbursements where attendees were not noted. Some of these appeared to be expenses related to team travel. We recommend requiring that all reimbursement requests state the business purpose of the expense. All attendees should be noted by name and business association. For team travel related expenses, the name of the team and the event for which the team was traveling would be sufficient.

### **Conflict of Interest Declaration**

It is recommended that the ICAA's Board of Directors consider amending the Conflict of Interest Policy to address the annual written declaration of potential conflicts of interest. Potential conflicts of interest should be disclosed for ICAA directors and management, as well as members of their immediate families and should address consulting arrangements, significant financial or managerial interests (holdings greater than \$5,000 or 5%), or employment by an outside entity. A requirement similar to that currently in place at the University would be sufficient. The annual disclosures should be reviewed by the ICAA directors on an annual basis.

### ***WSU Innovation Alliance, Inc. and WSIA Investment Corporation***

#### **Scope**

Our work at WSIA and WSIAIC involved interviewing Dr. John Tomblin, Vice President of Research and Technology Transfer and Andy Schlapp, Executive Director of Operations. We read WSIA Board of Directors minutes for the scope period.<sup>1</sup> We read the Memorandum of Understanding Regarding Occupancy Costs for 238 N. Mead Street and the Policy of Conflicts of Interests for Directors and Officers. Neither the President nor any members of the President's Executive Team control the use of any non-public funds at WSIA or WSIAIC and no payments were made by WSIA or WSIAIC to or for the benefit of the President or any member of the President's Executive Team. Therefore, there were no accounts or transactions within our scope. Thus, no transaction testing was performed at WSIA or WSIAIC.

#### **Overview**

WSIA is a 501(c)(3) organization established to assist with managing WSU-created intellectual property that is to be commercialized, to license technology and receive royalties, identify and evaluate commercialization projects, manage the Innovation Campus and distribute profits/cash flow to WSU. WSIAIC is to hold equity investments in spin-off commercialization entities and perform functions that would result in taxable income to WSU or WSIA.<sup>2</sup> WSIA, WSIAIC and the University intersect on the "Innovation Campus", which is owned by the University, but on which

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<sup>1</sup> There were no minutes for WSIAIC.

<sup>2</sup> September 4, 2014 WSIA Board Meeting minutes



the WSIA operates. The mission of the Innovation Campus is to provide a venue for researchers and technologists from private enterprise to work closely with faculty and students from WSU to create and deploy globally competitive technologies in critical areas related to aerospace, bio-medical engineering, software and software engineering and human factors psychology. A primary purpose of the Innovation Campus is to expand the economic base of the Wichita metropolitan area through economic diversification and new business formation. The Innovation Campus will also provide a new location for the Barton School of Business, and the experiential engineering laboratories of WSU's College of Engineering. Over time, it is expected that additional innovation and technology transfer facilities will also be located on this campus.<sup>3</sup>

## Findings and Recommendations

### Conflict of Interest Declaration

It is recommended that the WSIA's board consider amending the Conflict of Interest Policy to have terms that are in line with the State of Kansas for use in SSI forms. Currently the policy requires a conflict to be disclosed if there is one person with a greater than 35% ownership in an organization, two people with a 10% ownership in the same business or investment equity, or business transaction involving value in excess of \$10,000. We recommend these benchmarks be reduced to significant financial or managerial interests defined as holdings greater than \$5,000 or 5%. In addition, we recommend that the policy to be made applicable to all (future) employees, rather than limited to the directors and officers.

### Dr. Tomblin's Conflict of Interest Management Plan

As Dr. John Tomblin has many roles with the University, WSIA, WSIAIC, the National Institute of Aviation Research ("NIAR"), and personally owned entities, there is an increased risk for conflicts of interest with respect to time, compensation and fiduciary duty. For example, Dr. Tomblin and his wife own 29.33% of Aero Point Technologies, LLC ("Aero Point"). The University owns the rights and intends to exclusively license Aero Point's technology. In response to our inquiries about how potential conflicts of interest will be handled in respect to this relationship, University legal counsel drafted a "Disclosure Summary and Conflicts of Interest Management Plan" specifically for this circumstance. The plan includes providing a conflict of interest disclosure and Aero Point activity report to the University President. This is to include a report of Dr. Tomblin's financial, business, employment or investment interests that are or could be a conflict of interest with the University. The disclosure is to include all outside interests, including, but not limited to, those related to Aero Point or the technology. In addition, the plan addresses other potential conflict areas, including time commitment and University transactions with Aero Point, Aero Point transactions and agreements with third parties, and engagement of University staff and students.

As WSIA and WSIAIC continue to grow, we recommend using similar Disclosure Summary and Conflict Management Plans for all private enterprises for which the University, WSIA, WSIAIC, and University employees are invested or have management/employment activities. For example, we noted that other University employees have ownership in Aero Point. We recommend all University employees having ownership or management/employment activities in an entity in which the University has an interest have an appropriate Disclosure Summary and Conflict Management Plan.

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<sup>3</sup> Board of Trustees Mill Levy Budget Narrative

### *WSU Union Corporation, dba Rhatigan Student Center*

#### **Scope**

Our work at RSC involved discussions with Chuck Roush, RSC Director of Finance. We read RSC Board minutes for the scope period. We read the Memorandum of Understanding and Management Agreement between RSC and the University and the Conflict of Interest Policy. We also analyzed the audited financial statements for the scope period to identify any related party transactions. There were no payments from RSC to Presidents Donald Beggs or John Bardo, or members of the President's Executive Team, nor any accounts at RSC within our scope. Therefore, no transaction testing was performed at RSC.

#### **Overview**

RSC is a 501(c) (3) organization formed by the University to manage the student union which benefits the faculty, staff, students and visitors of Wichita State University.<sup>4</sup> All employees are employees of RSC.

#### **Findings and Recommendations**

We noted that amounts paid by the University to RSC as outlined in the Memorandum of Understanding have increased since their commencement on July 1, 2011. We recommend that the University and RSC approve an addendum of the Memorandum of Understanding detailing the current payments and their purposes.

### *Wichita State University Foundation*

#### **Scope**

Our work at the Foundation involved analyzing the Foundation's audited financial statements for FY2011 through FY2016. We read the Foundation's Conflict of Interest Policy, the Memorandum of Understanding between the University and the Foundation and the Foundation's Disbursements Policy. The Foundation declined to make their minutes available for our review.

We tested 82 discretionary account transactions and 39 payments to Presidents Donald Beggs or John Bardo and members of the President's Executive Team. Over the scope period, we selected a total of 121 Foundation disbursement transactions for evaluation of appropriateness of documentation and substantiation of business purpose.

#### **Overview**

The Foundation is a 501(c)(3) organization, legally separate from the University, created to raise, manage, distribute and steward private resources to support the mission and various needs of the University. The Foundation derives most of its revenue from contributions and earnings on investments.

In July 2014, the Foundation and the University revised their existing Memorandum of Understanding to better reflect current practices and fund-raising initiatives by the Foundation, and to provide for the payment of compensation by the University. The current Memorandum of Understanding is in effect until June 30, 2024, and provides for automatic successive five-year renewals, subject to the right of either party to terminate the agreement at the end of the original term or at the end of any subsequent five-year term by giving the other party 12 months written notice of the desire to terminate the agreement. The Memorandum of Understanding indicates that

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<sup>4</sup> According to the Memorandum of Understanding between the University and RSC.

the Foundation will be responsible for planning and executing major fund-raising and donor-acquisition programs in support of the University's mission. As compensation, the University will pay the Foundation \$150,000 for the initial period of July 1, 2014 through June 30, 2015. Thereafter, the annual fee will be determined by the University president in consultation with the Foundation CEO. The Foundation pays an agreed upon amount to the University for services including computing services, provision of media equipment, postal services and other central services, duplication services, physical plant, etc.

The Foundation maintains custody of and invests both restricted and unrestricted funds donated to the University. Determination of appropriateness of disbursements out of funds held at the Foundation is under the purview of the Foundation. The disbursement transactions tested for appropriateness of documentation and substantiation of business purpose were chosen out of a pool of discretionary funds with significant latitude on the part of the University presidents or a member of the President's Executive Team in the use of those funds.

### **Findings and Recommendations**

The documentation for disbursements out of Foundation accounts was generally good. For a payment to be processed, a Requisition for Expenditure of Funds form must be filled out which includes all of the basic information relating to the payment, as well as an explanation of the purpose of the payment and several approval signature lines. According to Foundation policy, all disbursement requests must be signed by a superior, or in the case of the President, the Foundation Board Chair. The Requisition for Expenditure of Funds form must be accompanied by the relevant support such as a receipt or invoice. All requests for reimbursements must be made within 120 days of the date the expense was incurred.

- We noted six transactions for which the required receipts were missing. In addition, the receipts provided for three of these transactions did not match the amount reimbursed. We recommend matching the amounts on the receipts to the requested reimbursement.
- We noted 13 transactions which had no approval noted. We recommend requiring proper approval before any disbursements are made.
- We noted four transactions which were approved by a subordinate of the employee requesting the reimbursement. We recommend requiring that all reimbursement requests be approved by a superior of the requestor to avoid any possibility of inappropriate influence or perception of inappropriate influence in the approval process.
- We noted one transaction for \$2,482.52 where a credit card statement was used as support. Foundation policy states that reimbursements over \$75.00 require an itemized receipt in order to be approved.
- We noted one transaction where the approving signature appeared to be a signature stamp or electronic signature. We recommend the Foundation discontinue the practice of using electronic signatures or signature stamps to strengthen the controls surrounding the approval process. We noted one reimbursement that was approved a month after the expense was incurred. As per the Foundation's policy, we recommend requiring all reimbursements to be submitted within two weeks of the receipt date.

### **Conflict of Interest Policy**

The Foundation maintains a Conflict of Interest Policy which requires that all potential conflicts of interest, including memberships in or affiliations with other non-profit or proprietary organizations, business affiliations with possible vendor implications, elected office at any level, and involvement

in any other activity that might be construed as in conflict with the mission, goals or purpose of the Foundation, shall be presented in writing to the chairman of the Foundation board and the Foundation president and CEO for the purpose of review and possible remedial action. Elected or ex-officio members of the Foundation are asked to sign the Conflicts of Interest policy indicating their compliance with it.

It is recommended that the Foundation's board consider amending the Conflict of Interest Policy to address the annual written declaration of potential conflicts of interest. Potential conflicts of interest should be disclosed for Foundation directors and management, as well as members of their immediate families and should address consulting arrangements, significant financial or managerial interests (holdings greater than \$5,000 or 5%), or employment by an outside entity. A requirement similar to that currently in place at the University would be sufficient. The annual disclosures should be reviewed by the Foundation directors on an annual basis.

### *WSU Alumni Association, Inc.*

#### **Scope**

Our work at Alumni involved reading the minutes of the Board of Directors, Executive Committee and the Finance Committee for the scope period. We read the Alumni's Conflict of Interest Policy. In addition, we analyzed the audited financial statements and agreed upon procedures for FY2015 to identify related party or reportable transactions. There were no payments from Alumni to Presidents Donald Beggs or John Bardo, or members of the President's Executive Team, nor any accounts at Alumni within our scope. Therefore, no transaction testing was performed at Alumni.

#### **Overview**

Alumni is a 501(c)(3) organization, legally separate from the University, organized to assist in creating, maintaining and fostering relationships among University students, alumni, faculty, staff and friends that will promote loyalty, interest and support for WSU.

Alumni has entered into various agreements with the Foundation related to services, grants and funding. There is a Funding and Services Agreement between Alumni and the Foundation, originated July 1, 2009 and amended June 1, 2016, which details the coordination of some Alumni activities with Foundation activities that may collectively result in fundraising by the Foundation. In addition, the agreement provides for a minimum grant of \$16,500 by the Foundation to Alumni on an annual basis. There are also three Memorandums of Agreement between Alumni and the Foundation which set forth the terms and policies governing the investment management of the Alumni Association Unrestricted Quasi-Endowment, the Alumni Women United Quasi-Endowment, and Life Income Fund. Alumni pays the Foundation an annual fee of 1.5% of the average fund balance for these services for the Unrestricted Quasi-Endowment and the Life Income Fund. The fee paid by Alumni to the Foundation for the Alumni Women United Quasi-Endowment is determined annually by the Foundation Board.

On February 12, 1999, the University, ICAA and Alumni entered into a license agreement for the use of WSU logos and marks by Alumni in relation to the Alumni Affinity Credit Card program. In exchange, Alumni annually paid \$10,000 to ICAA. On May 31, 2011, the license agreement was renewed through May 31, 2021, and retained the annual payment of \$10,000.

#### **Findings and Recommendations**

None

## *Wichita State University Board of Trustees*

### **Scope**

Our work at the Board of Trustees involved analyzing the entity's audited financial statements for FY2011 through FY2016. We read the Board of Trustees' Mill Levy Disbursements Policy. We read the Board of Trustee's minutes, as well as the minutes for the Finance and Audit Committee, the Facilities and Golf Committee and the Nominating Committee. The Board of Trustees did not have a Conflicts of Interest Policy or a Memorandum of Understanding with the University.

### **Overview**

The Board of Trustees is a governmental entity responsible for the management of the mill levy monies arising out of the tax levy upon the citizens of Sedgwick County, Kansas and was established for the education enrichment purposes of the University as a whole, consistent with the objectives, operation and management of WSU. The Board of Trustees is also responsible for the endowed funds of the University prior to it becoming a state institution in 1964. The Board of Trustees was established under State of Kansas statute 76-3a16 and for accounting purposes is a component unit of WSU which is a component unit of the State of Kansas. The Board of Trustees is not financially accountable for any other organizations.

Certain assets related to endowed funds were transferred to the Foundation for management in accordance with a management services agreement. The Foundation charges the Board of Trustees an annual fee of \$12,500 for time spent by Foundation employees on Board of Trustees' business.

There were two transactions at the Board of Trustees that were within our scope. Documentation for those payments was acceptable and we had no findings with regard to those payments.

### **Findings and Recommendations**

#### *Conflict of Interest Policy*

The Board of Trustees does not have a Conflicts of Interest Policy. It is recommended that the Board of Trustees consider adopting a Conflicts of Interest Policy similar to the one in place for the University. A Conflicts of Interest Policy should address the annual written declaration of potential conflicts of interest. Potential conflicts of interest should be disclosed for Board of Trustee members, as well as members of their immediate families and should address consulting arrangements, significant financial or managerial interests (holdings greater than \$5,000 or 5%), or employment by an outside entity. The annual disclosures should be reviewed by the Board of Trustees on an annual basis.

#### *Memorandum of Understanding*

There is no Memorandum of Understanding in place between the Board of Trustees and the University or the Foundation. It is recommended that Memorandums of Understanding be drafted to delineate the relationship of the parties and their resulting respective responsibilities.

### ***Conflict of Interest Policies and Analysis***

The University has a policy on Conflict of Interest, Conflict of Time Commitment, Consulting and other Employment within the University Handbook. According to this policy, as part of the annual appointment process, all faculty and unclassified staff are to disclose whether they or their immediate family, personal household or associated entities have consulting arrangements, significant financial or managerial interests or employment in an outside entity. This report and

information is to be provided to the University no less than once a year. The Annual Declaration and Disclosure form is accessible online and is to be completed at the same time the annual contract is signed.

We requested all of the conflict of interest disclosures made by Presidents Donald Beggs and John Bardo or members of the President's Executive Team. We were provided disclosures for the affiliated entities, but not for the University for the following individuals.

John Bardo (FY2012, FY2013, FY2014, FY2015, FY2016)

Donald Beggs (FY2012)

Tony Vizzini (FY2012, FY2013, FY2014, FY2015, FY2016)

Mary Herrin (FY2012, FY 2014, FY2015, FY2016)

John Tomblin (FY2012, FY2013, FY2014, FY2015, FY2016)

Lou Heldman (FY2012, FY2013, FY2015, FY2016)

Andy Schlapp (FY2012, FY2013, FY2014, FY2015, FY2016)

David Moses (FY2016)

Ted Ayres (FY2012, FY2013, FY2014, FY2015)

Darron Boatright (FY2016)

Eric Sexton (FY2012, FY2013, FY2014 and FY2015)

Wade Robinson (FY2012, FY2013, FY2015)

We recommend University administration ensure all employees file the Annual Declaration and Disclosure form as required by the policy.

As stated previously, we recommend that the Board of Trustees develop a Conflict of Interest Policy. We further recommend ICAA and the Foundation's boards consider amending their Conflict of Interest Policies to address the annual written declaration of potential conflicts of interest. We recommend WSIA's board amend the Conflict of Interest Policy to more closely align with Kansas Board of Regent's disclosure levels for significant financial or managerial interests (holdings greater than \$5,000 or 5%). In addition, as WSIA and WSIAIC continue to grow, we recommend using the newly established Disclosure Summary and Conflict Management Plans for all private enterprise for which the University, WSIA, WSIAIC, and University employees are invested or have management/employment activities.

## Observations

As previously indicated, a primary purpose of the Innovation Campus is to expand the economic base of the Wichita metropolitan area through economic diversification and new business formation. This is being accomplished in a unique and cutting-edge manner. However, the uniqueness of the Innovation Campus, and its on-going development, have raised some questions and concerns. During our interviews, some individuals expressed a variety of concerns regarding a perceived lack of transparency and possible conflicts of interest regarding the development of the Innovation Campus. For instance, a common topic was the involvement of developer MWCBC, LLC, which we understand is owned, in part, by Regent David Murfin. We discussed this issue



with President Bardo, who indicated that MWCB's initial involvement in the Innovation Campus predated Mr. Murfin's role as a regent.<sup>5</sup> In addition, we read the Kansas Board of Regents minutes for September 2015 and October 2016 and noted that Regent Murfin's ownership in MWCB and MWCB's business relationship with the University were disclosed to the Kansas Board of Regents.<sup>6</sup> Therefore, this particular matter appears to have been appropriately identified and managed. However, based on our interviews with members of the President's Executive Team, other concerns remain. The University may choose to take steps to address any perceived lack of transparency surrounding the Innovation Campus within the President's Executive Team.

## Conclusion

Our procedures identified no inappropriate disbursements of funds by the University or its affiliated corporations within the defined scope of our services. Furthermore, potential conflicts of interest appear to be appropriately managed and monitored. However, we urge University administration to consider the recommendations made in this report to assist in further strengthening the controls in the areas reviewed.

All University and affiliated entity personnel were responsive and helpful in regard to BKD's requests for documents, interview time and additional explanations. Records were retrieved quickly and were well organized. BKD would be delighted to make its project team available to discuss any of the findings and recommendations in this report. This firm also welcomes discussion with the Kansas Board of Regents or University personnel about ideas for supporting the University's objectives in this subject area prospectively.

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<sup>5</sup> MWCB's involvement in the Innovation Campus was publicly announced as early as March 24, 2015. David Murfin's appointment to the Kansas Board of Regents was announced June 16, 2015.

<sup>6</sup> The disclosure from the Kansas Board of Regents September 2015 minutes read, "Regent Murfin has an ownership interest in a company (MWCB, LLC) that has one or more construction related contracts with Wichita State University or its affiliated corporations." The disclosure from the October 2016 minutes read, "Regent Murfin has an ownership interest in two companies (MWCB, LL; BGC Developers, LLC) that have one or more construction or land management related contracts with Wichita State University or its affiliated corporations, three companies (Executive Airshare, LLC; Gladiators, LLC; Air Capital Flight Line, LLC) that have one or more working relationships with the University of Kansas, Kansas State University and Wichita State University or their affiliated corporations."