

# Transition Audit Final Report

*Presented to Kansas Board of Regents*

Kirk H. Schulz

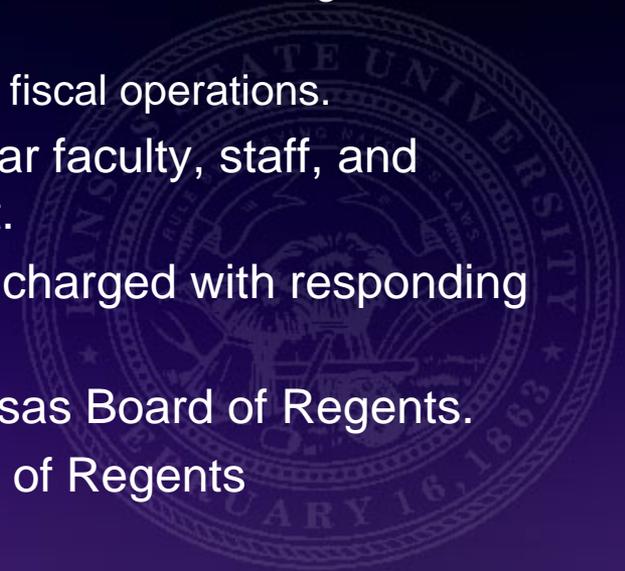
President

*November 19, 2009*



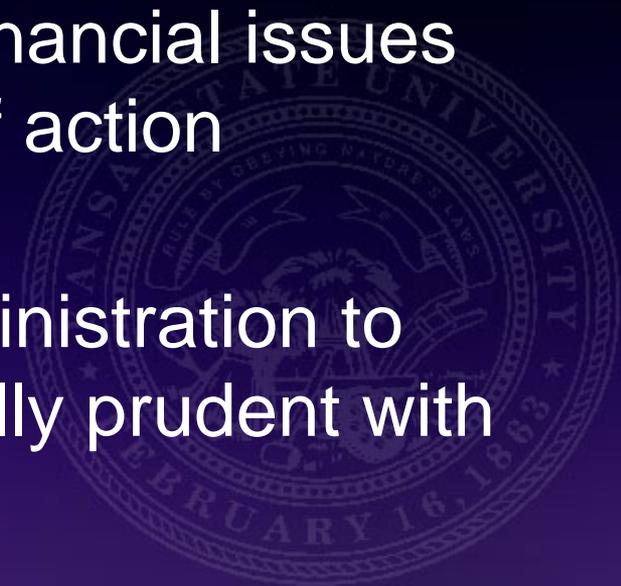
# Timeline of Events

- **June 19, 2009** - the audit was released to the general public.
- **June 22, 2009** – I wrote a joint letter with John Currie, our Athletic Director detailing how we intended to handle the issues raised in the audit – which was sent to the campus community, alumni, friends, and major donors to the university. In it, we outlined three key steps:
  - First, a campus wide forum to respond to questions and concerns.
  - Second, the establishment of a peer committee tasked with examining the issues raised in the audit.
  - Third, a continual commitment to transparency in our fiscal operations.
- **June 29, 2009** – held an open campus forum to hear faculty, staff, and student concerns with the issues raised in the audit.
- **August 5, 2009** – named a 12-member committee charged with responding to the audit.
- **October 15, 2009** – provided an update to the Kansas Board of Regents.
- **November 19, 2009** – final report to Kansas Board of Regents



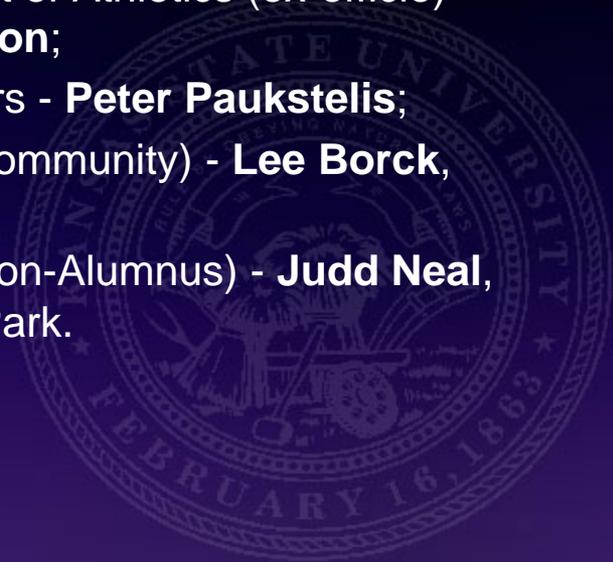
# Goals and Objectives – Transition Audit Final Report

- Thoroughly examine all issues raised in the transition audit for accuracy.
- Hire outside legal firms to examine business practices at NISTAC and in K-State Athletics.
- Seek assurance that all critical financial issues had been identified and a plan of action developed.
- Provide suggestions to new administration to ensure that K-State was financially prudent with our resources.



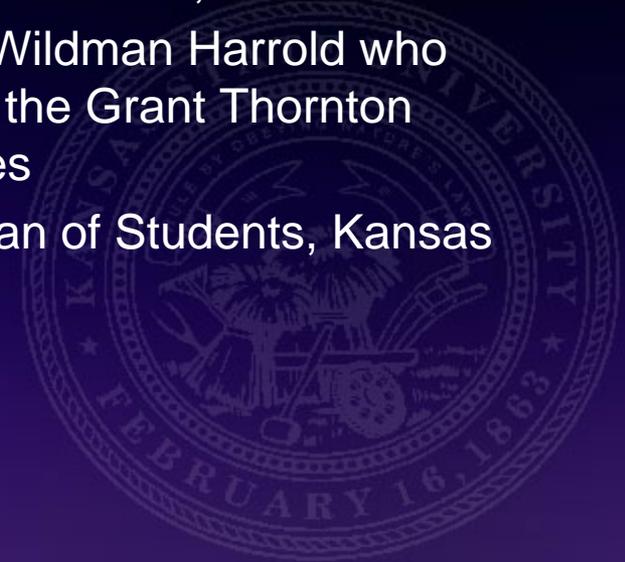
# Audit Oversight Committee

- Chair - **Brian Spooner**, University Distinguished Professor and interim dean, College of Arts and Sciences;
- Faculty Senate president - **Melody LeHew**, College of Human Ecology;
- Faculty Senate - **Fred Fairchild**, College of Agriculture;
- Classified Senate president - **Carolyn Elliott**, office of student life;
- Student government president - **Dalton Henry**, College of Agriculture;
- Dean - **Lori Goetsch**, dean of libraries;
- Department head - **Eric Higgins**, department of finance, College of Business Administration;
- University Distinguished Professor (faculty) - **M.M. Chengappa**;
- Faculty, K-State at Salina - **Les Hannah**;
- Department of Athletics (ex-officio) - **Reid Sigmon**;
- Legal Affairs - **Peter Paukstelis**;
- External (community) - **Lee Borck**, Manhattan;
- External (non-Alumnus) - **Judd Neal**, Overland Park.



# Personnel Interviewed

- **Bruce Shubert**, Vice President for Administration and Finance, Kansas State
- **Alan Klug**, Vice President for Administration and Finance, KSU Foundation
- **Ron Trewyn**, Vice President for Research, Kansas State
- **Charles Reagan**, Chief of Staff and Deputy to the President, Kansas State
- **Beth Fancsali** and **John Luburic**, attorneys from Wildman Harrold who were retained by NISTAC to provide an analysis of the Grant Thornton report and to review NISTAC's operating procedures
- **Pat Bosco**, Vice President for Student Life and Dean of Students, Kansas State.



# Documents and Materials Examined

- ***Alumni Association***
  - A letter from Amy Button Renz regarding the statements in the Grant Thornton report related to the Alumni Association
- ***Kansas State University Golf Course Management and Research Foundation (“KSUGCMRF”)***
  - A copy of the KSUGCMRF Board of Directors analysis of the Grant Thornton report
  - A listing of the membership of the KSUGCMRF Board of Directors
  - The January 1, 2006 operating lease between the KSUGCMRF and Golf Generations
  - Correspondence between Tim Weiser and Mark Truitt (then President of the KSUGCMRF) regarding the Athletic Department’s commitment to pay the KSUGCMRF \$20,000 per year



# Documents and Materials Examined

- ***NISTAC***
  - Brief response from NISTAC board regarding the exit audit
  - Documents relating to KSURF's relationships with NISTAC
  - NISTAC's 2008 strategic plan
  - Slides from NISTAC's Sept. 11, 2009 board meeting
  - NISTAC's conflict of interest policy
  - 2009 Wildman Harrold report



# Documents and Materials Examined

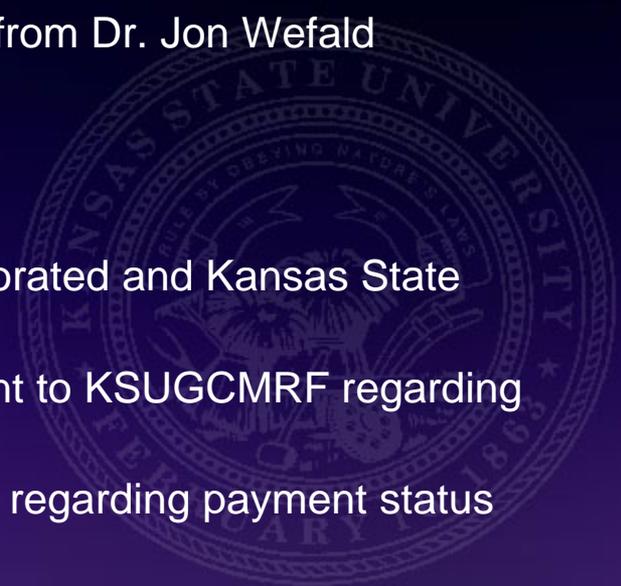
- ***NISTAC (continued)*** - A copy of the materials provided to the KSU Foundation in response to the Grant Thornton report that includes:
  - 1998 State Science and Technology Institute Review
  - Memo from Ron Sampson to Kent Glasscock regarding the structure and governance of NISTAC
  - Memo from Ron Sampson to Kent Glasscock regarding NISTAC's responses to the 2006 Wildman Harrold report
  - Listing of Directors for NISTAC and affiliates
  - Summary of Manhattan Holdings, LLC financials
  - Directors for NISTAC's client companies
  - NISTAC organizational chart
  - NISTAC or MTM memberships in outside corporations



# Documents and Materials Examined

- ***K-State Athletics***

- Bylaws for the newly restructured K-State Athletics, Incorporated
- A copy of the “K-State Athletics Pledge”
- List of the 13 missing transactions noted in the audit with reconciliation as to the payees
- Former bylaws of The Intercollegiate Athletic Council of Kansas State University, Inc. (“the IAC”).
- Bob Krause overload payment approvals and memo from Dr. Jon Wefald
- Tim Weiser employment agreement
- Tim Weiser loan agreement
- Tim Weiser separation agreement
- Formal agreement between K-State Athletics, Incorporated and Kansas State University
- Payment documents regarding January 2008 payment to KSUGCMRF regarding Bill Snyder Founders Club membership
- April 25, 2006 letter from Bernie Haney to Bill Snyder regarding payment status



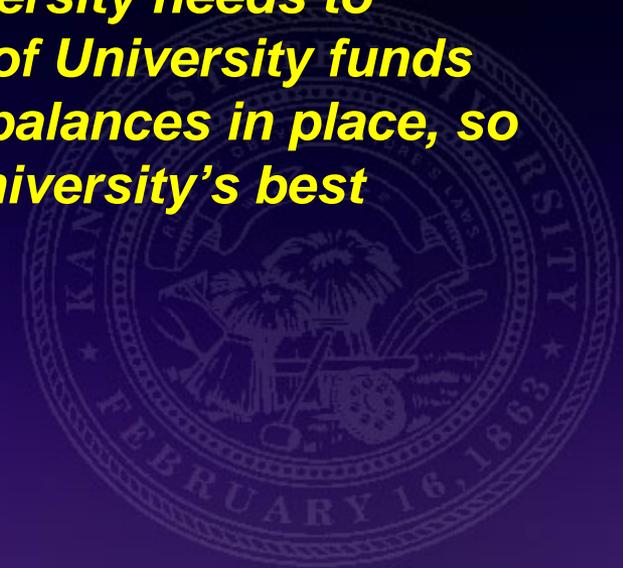
# Major Findings

- Following careful review of these documents and interviews with key individuals, specific recommendations are contained in 12 page report.
- The report provided 4 summary recommendations.



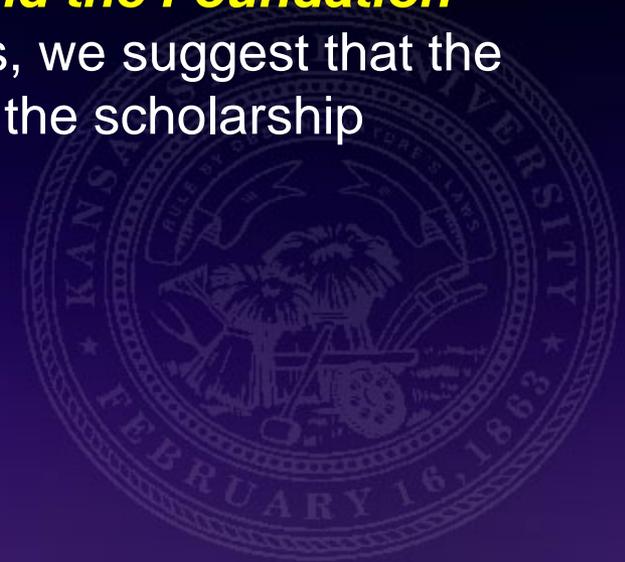
# Final Recommendation #1

- First, it is apparent to us that Jon Wefald invested too much power in Bob Krause and provided inadequate oversight and supervision of him. Additionally, Dr. Wefald did not place adequate checks and balances on financial controls, allowing Mr. Krause far too much influence over a variety of University-related funds. Mr. Krause treated these funds as one pool of money, which created a variety of accounting and governance issues. ***The University needs to ensure that there is appropriate oversight of University funds and that there are reasonable checks and balances in place, so that University administrators act in the University's best interests.***



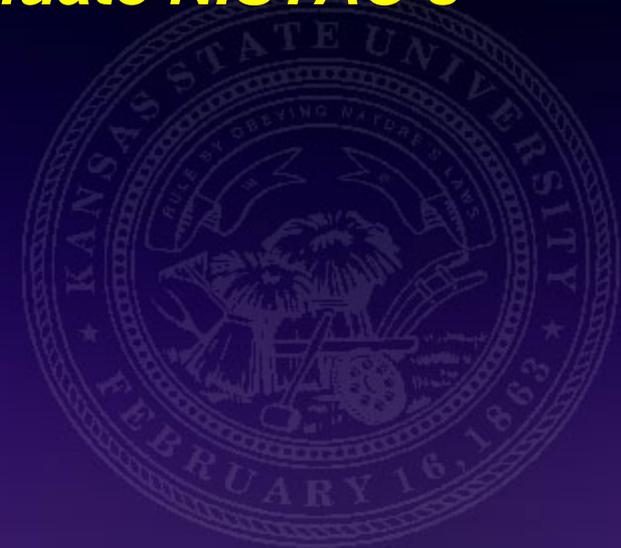
# Final Recommendation #2

- Second, we have concerns regarding the scholarship deficit that accrued over several years. We were unable to assign specific blame for this oversight. But we believe that this deficit resulted from a lack of communication between University administration and the Foundation. ***Moving forward, better communication between the University and the Foundation is critical. For the University to be successful, University administration and the Foundation must work in concert.*** As part of this process, we suggest that the Foundation and the University work to reduce the scholarship deficit's burden on the University.



# Final Recommendation #3

- Third, we have general concerns regarding the University's relationship with NISTAC, because NISTAC's overly complex structure clouds its benefits to the University. ***The benefits from NISTAC need to be better defined and communicated to the University and the public, so that they can evaluate NISTAC's overall utility.***



# Final Recommendation #4

- Finally, we are encouraged by the current administration's approach to financial and decisional transparency. This is most apparent in Athletics, where the new corporate structure encourages strong oversight by University administrators and the new Athletic Director has adopted a new code of transparency and fiscal accountability. ***We hope that the University administration will continue to emphasize this transparency, because we believe that it will lead to appropriate decision-making in the institution's best interests.***

# Summary

- The President's Cabinet will ensure that appropriate business practices will be put in place.
- I have a strong commitment to transparency in university finances, which will help alleviate future financial issues.
- K-State must continue our quest towards becoming a world-class land grant university, and put these issues behind us.