



HLC Accreditation 2020-2021

Evidence Document

Office of the President

Office of Internal Audit

Financial Review of the Wichita State University Alumni Association

Additional information: Report prepared by the Wichita State University Director of Internal Audit, March 9, 2021.



WICHITA STATE
UNIVERSITY

Financial Review of the Wichita State University Alumni Association

Report date: **March 9, 2021**

Prepared by: **Chris Cavanaugh, Director of Internal Audit**

Distribution:

Richard D. Muma, Interim President, Wichita State University

Courtney Marshall, President & CEO, Wichita State University Alumni Association

Hillary Martin, Director of Finance, Wichita State University Alumni Association

REVIEW SUMMARY

Why a Financial Review?

Interim president Rick Muma requested this financial review to aid his decision about how to how to organize the Alumni Association and fund its future operations. For my analysis, Dr. Muma said to assume university support would remain flat. He also asked for an estimate of when the Alumni Association would deplete its bank cash and begin expending its endowed reserves.

What did the Auditor Review?

The principal focus of the review was on financial information for five fiscal years, FY2016 – FY2020. I also reviewed the Alumni Association's financial projections. I discussed both the five years' financial results and future years' projections with Courtney Marshall, Alumni Association President & CEO, and Hillary Martin, Alumni Association Director of Finance. Their help during the review was essential.

What did the Auditor Learn?

1. Alumni Association operating expenditures exceeded its revenues by \$344,601 over the five years reviewed.
2. The Alumni Association has an affinity group royalty licensing agreement with a bank. Beginning June 1, 2021, when the terms of the renewed agreement take effect, the annual royalty paid to the Alumni Association will be about \$145,000 less than in recent years.
3. The Alumni Association has accumulated \$387,386 of unawarded license plate scholarships. Funding for the scholarships resides in its university departmental account, where its FY2020 year-end RU cash balance was \$400,328.
4. In response to the deficit projected for FY2022 (and future years), Dr. Muma asked for more information about possible strategies to balance the forecast.
 - a. Coupled with using the spendable income generated by the Alumni Association endowment, Ms. Marshall explained she could cut personnel costs to cover the forecast deficit. Required cuts would also force an overdue restructuring of jobs.
 - b. Ms. Marshall also noted that (should they combine) the WSU Foundation has personnel with skills that could enhance Alumni Association communications and program offerings.

REVIEW HIGHLIGHTS

1. Alumni Association operating expenditures exceeded its revenues by \$344,601 over the five years reviewed.

Spendable endowment income from investments held by the WSU Foundation, and a Paycheck Protection Program refundable advance in FY2020, somewhat reduced the operating deficit's effect on cash. Presuming it meets program conditions, the Alumni Association will be able to keep the advance.

Five-year summary of financial activity

Cash in bank

Cash in bank - July 1, 2015		\$ 649,046
Cash used for operating activities	\$ (344,601)	
Paycheck Protection Program		
refundable advance received in FY2020	56,606	
Spendable endowment income		
from endowment pool	<u>25,616</u>	
Net five-year change		<u>(262,379)</u>
Cash in bank - June 30, 2020		<u><u>\$ 386,667</u></u>

Investments held by the WSU Foundation

Endowment pool - July 1, 2015		\$ 1,506,784
Net investment earnings	\$ 186,339	
Cash contributions to		
Alumni Women United Fund	84,248	
Spendable endowment income		
to cash in bank	<u>(25,616)</u>	
Net five-year change		<u>244,971</u>
Endowment pool - June 30, 2020		<u><u>\$ 1,751,755</u></u>

This summary includes only activity through the Alumni Association's bank and the WSU Foundation. The summary does not include restricted use (RU) funds held by the university for the Alumni Association. As discussed on page 4 of this report, the RU funds are primarily for the Alumni Association License Plate Scholarship Program.

- 2. The Alumni Association has an affinity group royalty licensing agreement with a bank. Beginning June 1, 2021, when the terms of the renewed agreement take effect, the annual royalty paid to the Alumni Association will be about \$145,000 less than in recent years.**

Because the five-year summary shows that the Alumni Association was already operating at a deficit, this change will significantly impact operations.

Attached to this report is a financial forecast for FY2021 and FY2022. Alumni Association President & CEO Courtney Marshall and Director of Finance Hillary Martin provided the forecast numbers using a template provided by the internal auditor.

To partially offset the decreased royalty, the FY2022 forecast includes the following possible expense reductions identified by Ms. Marshall and Ms. Martin:

- Eliminate hourly pay for three positions - \$26,500
- Reduce the license plate scholarship payout from 80% to 50% - \$49,500
- Replace Alumni Association app with a digital membership card - \$3,400
- Reduce by half the annual royalty payment to WSU Athletics for the use of WuShock on the bank affinity card - \$5,000
- Total expense reductions included in FY2022 forecast - \$84,400

The largest savings listed above is from reducing the license plate scholarship payout. The next page of this report has more information about the Alumni Association's license plate scholarship program.

In addition to the hourly pay reduction, Ms. Marshall and Ms. Martin calculated the financial impact of several different personnel scenarios that also involved WSU or the WSU Foundation. The attached forecast does not incorporate the effects of any of those personnel scenarios.

Presuming the Alumni Association can implement all of the possible reductions listed, the forecast cash balance would nevertheless slide by almost \$294,000 through the end of FY2022.

Without a significant change to enhance revenue or further reduce expenses, the Alumni Association will likely deplete its bank balance in the first half of FY2023 or soon afterward.

3. **The Alumni Association has accumulated \$387,386 of unawarded license plate scholarships through the end of FY2020. Funding for the scholarships resides in the Alumni Association's university departmental account, where its year-end RU cash balance was \$400,328.**

The Alumni Association established its license plate scholarship program in 1999. Beginning July 1, 2017, the annual royalty paid by car owners is \$50.

Out of every \$50 received, the Alumni Association earmarks \$40 for scholarships, retaining \$10 as an administrative fee that it can use for operations. Previous to July 1, 2017, the annual fee was \$35 with a \$30/\$5 split.

Individual scholarships range from \$1,000 to \$4,000, with awards made based on typical scholarship criteria. Ms. Marshall said that almost everyone that applies for a scholarship receives one.

Nevertheless, the license plate program's revenue has long exceeded scholarship dollars awarded, with only about 43% of the available dollars awarded during the review period.

The Alumni Association's license plate program webpage says, "Every dollar of the royalty fee, minus a small administrative fee, goes directly to student scholarships."

The Kansas Department of Revenue license plate webpage lists nine different university license plate programs, including programs for the University of Kansas (KU) and Kansas State University (K-State).

A review of the license plate webpages for KU and K-State indicates that both schools use their license plate royalties for more than scholarships. KU uses its fees for "association programs" and K-State for "recognition of achievements."

Auditor's recommendation:

I recommend the Alumni Association, in coordination with university officials:

- a. Develop a plan to disburse the unawarded scholarship funds that have accumulated.
- b. Evaluate whether it could use a larger portion of the fees collected to support its programs.
- c. Revisit award size or other parameters so that scholarships awarded keep pace with the fees collected each year.

4. In response to the deficit projected for FY2022 (and future years), Dr. Muma asked for more information about possible strategies to balance the forecast.

Near the end of my review, I shared the Alumni Association's financial forecast, with its forecast deficit of about \$189,000, for FY2022 with Dr. Muma. I also explained that the Alumni Association could, and should, begin using the available spendable income from its endowment to aid its cash flow.

In recent years, the available spendable income generated by the endowment has been about \$70,000 annually. Using the spendable income would leave a deficit of about \$119,000 to address annually in the future.

In response, Dr. Muma asked what services the Alumni Association would need to cut to cover the remaining \$119,000 and balance the forecast. He asked for this information under three different scenarios:

- a. Cuts sufficient to cover the \$119,000.
- b. Cuts sufficient to cover \$69,000 (with the WSU Foundation taking on the \$50,000 cost of the Alumni Association's Records Supervisor position).
- c. How costs and services could be different should the Alumni Association merge with the WSU Foundation.

Alumni Association Staff

The Alumni Association has ten full-time employees. Three paid from corporate funds totaling about \$300,000 annually for salaries and benefits. Seven are university employees, paid mostly with general use (GU) funds totaling about \$400,000 annually.

The three corporate-paid employees include the:

- President and CEO
- Director of Finance
- Executive Assistant

The seven university-paid employees include the:

- Director of Communications
- Director of Marketing and Membership
- Records Supervisor
- Membership Coordinator
- Director of Alumni Programs
- Assistant Director of Alumni Events
- Communications Associate and Online Coordinator

To provide Dr. Muma with the information he requested and answer his questions, I met once more with Ms. Marshall and Ms. Martin.

Ms. Marshall explained that in the changing communications and data-driven landscape, a reorganization or refreshing of the Alumni Association team is overdue. Then she added that the need predated her hiring.

Still, because of the unique mix of university and corporate-paid employees, she has found it challenging to make the necessary adjustments.

Ms. Marshall said they could implement personnel cost reductions sufficient to cover either \$69,000 or \$119,000 using different personnel combinations, as needed. She also explained that the Alumni Association would not necessarily cut services. Instead, she would likely disburse job duties among the remaining staff. In other words, required cuts could force an overdue restructuring of jobs.

Next, we discussed how combining the Alumni Association with the Foundation could provide efficiencies or improve services. Ms. Marshall said she remains concerned that the Foundation's donor engagement mission could overwhelm the Alumni Association's broader alumni engagement mission.

Nevertheless, when she referred to the WSU Foundation's online directory, Ms. Marshall identified personnel with skills that possibly overlap those of Alumni Association staff. Further, the Foundation has personnel with skills that could enhance the Alumni Association communications and program offerings.

The Foundation positions she identified relate principally to programming, communications, data analytics, and finance:

- Director of Communications
- Graphic Designer
- Digital Marketing Coordinator
- Content Marketing Coordinator
- Marketing Coordinator
- Director of Signature Events
- Controller (accounting functions)
- Prospect Research Analyst (data analytics)

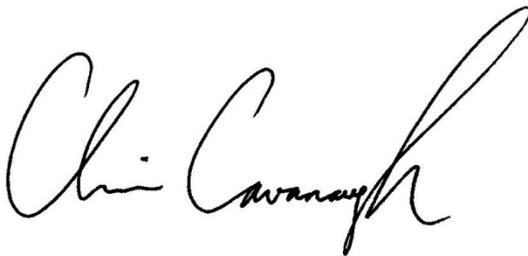
Ms. Marshall also mentioned benefits and possible savings related to the Alumni Association using the same internet platform as the Foundation.

CLOSING STATEMENTS

Statement on Auditing Standards and Auditor's Opinion

Internal auditing standards require that auditors plan and perform engagements to obtain sufficient and appropriate evidence to support their conclusions based on engagement objectives.

In my opinion, the materials and information obtained for this **Financial Review of the Wichita State University Alumni Association** meet those requirements and support my conclusions.



Chris Cavanaugh
Director of Internal Audit

Wichita State University Alumni Association

Financial Forecast

Attachment to Financial Review of the Wichita State University Alumni Association

	<u>FY2021</u>	<u>FY2022</u>
Support and revenue		
University general use support	\$ 398,000	\$ 398,000
Affinity and other royalties	237,700	92,300
License plate fees	165,000	165,000
Sponsorships and other contributions	66,831	64,000
Dues - annual members	26,000	25,000
Dues - three-year members	15,000	15,000
Dues - life members	6,000	6,000
Tickets, events, and special items	-	26,250
Rent income	20,000	10,000
Total support and revenue	<u>934,531</u>	<u>801,550</u>
Expenses		
Salaries and benefits	744,700	708,500
Scholarships	132,000	82,500
Equipment rental and maintenance	53,200	54,200
Grants to others	10,500	5,150
Travel	6,414	12,000
Professional fees	10,000	10,000
Printing and production	14,486	20,200
Promotion	18,891	20,500
Outside services	6,400	11,200
Entertainment	6,560	10,500
Insurance	5,400	5,800
Dues and subscriptions	4,900	4,500
Postage	8,601	5,925
Food and beverage	2,894	21,800
Other interest and fees	3,800	3,860
Conferences and meetings	1,900	3,150
Telephone	3,585	3,185
Supplies	4,471	6,725
Other	501	701
Total expenses	<u>1,039,203</u>	<u>990,396</u>
Forecast decrease in cash for the year	(104,672)	(188,846)
Cash at beginning of year	<u>386,667</u>	<u>281,995</u>
Cash at end of year	<u>\$ 281,995</u>	<u>\$ 93,149</u>

Alumni Association President & CEO Courtney Marshall and Director of Finance Hillary Martin provided the forecast numbers using a template provided by the auditor. The template generally followed the format used for the Alumni Association's audited financial statements.

The forecast does not include investment earnings, which grow the endowment and vary each year considerably. Nor does it include depreciation, a non-cash expense.

To partially offset the decreased affinity card royalty (highlighted), the FY2022 forecast includes the following proposed expense reductions identified by Ms. Marshall and Ms. Martin:

- * Eliminate hourly pay for three positions - \$26,500
- * Reduce the license plate scholarship payout from 80% to 50% - \$49,500
- * Replace the Alumni Association app with a digital membership card - \$3,400
- * Reduce by half the annual royalty payment to WSU Athletics for the use of Wu Shock on the bank affinity card - \$5,0000 (reflected in the "Grants to Others" expense line)
- * Total expense reductions included in FY2022 forecast - \$84,400

In addition to the hourly pay reduction, Ms. Marshall and Ms. Martin calculated the financial impact of several different personnel scenarios that also involved WSU or the WSU Foundation. This forecast does not incorporate the effects of any of those personnel scenarios.