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Is Stevens financially secure? Faculty members raise the question as auditors threaten to leave due to lack of administrative cooperation

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motion to audit the finances of Stevens was discussed at a special faculty meeting held Wednesday, February 9. Professor Edward Friedman submitted the motion to have an independent audit conducted after finding what he believed to be questionable reports indicating that Stevens finances were in trouble. Reasons cited by Friedman included the downgrade of Stevens' bond rating as well as discrepancies between different financial reports.

Financial institutions lower Stevens' bond ratings

The Chronicle of Higher Education reported numerous institutions that had their bond ratings changed in 2004. Stevens had \$74 million in outstanding bonds, and two separate credit rating agencies, Standard & Poors and Moody's, each downgraded the bonds' ratings. According to The Chronicle,

Standard & Poor's cited "a long-

term trend of 'sharply declining' liquidity, a heavy debtload, and a history of negative operating performance since 1996." Moody's reasons included "unrestricted resources that barely cover debt and operations, a 6-percert operating deficit in the 2003 fiscal year, and fast-growing expenses."

Discrepancies
exist between
the annual
report and the
audit report
for 2003

The Stevens
administration
publishes an annual report that outlines
the operating activity of
the previous fiscal year,
which runs from July to
June. In addition to this
internally generated report,

an independent auditor produces a second report. In fiscal year 2003,

there was a significant discrepancy between the two reports. According to Stevens' annual report, the

Institute had an operational surplus of \$464,123. However the independent audit conducted by Pricewaterhouse Coopers reported a deficit of \$8,503,914 from operating activity.

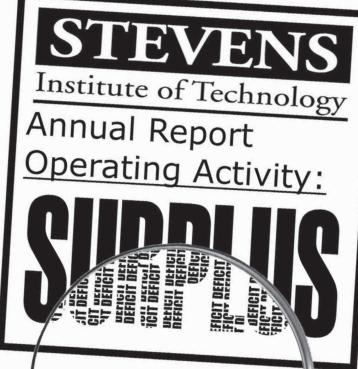
How is there such an extreme discrepancy? According to Vice President Maureen Weatherall, the two reports reflect different sets of data. Weatherall stated

that the Stevens report only analyzed daily operating costs, and did not include endowment and other sources of revenue—which she claimed accounted for the discrepancy.

Yet the administration and faculty seemed to differ on opinions about the source of the discrepancy. Professor Edward Whittaker, who is chairman of the Faculty Council, said "I don't know if there is an official explanation." Certain members of the faculty claim that even after other factors, such as depreciation, are considered, the discrepancy is still a significant issue. Stevens Trustee James Walsh, who is a member of the Board of Trustees' Budget and Investment Committee stated, "The Board has reviewed these differences and determined that they are appropriate as they reflect the different objectives of each set of statements."

The purpose of Friedman's Motion

When asked how much communication existed between the administration and faculty regarding finances, Friedman responded, "none at all." The lack of communication and troubled history of the finance department led Friedman to continued on page 3



Daniel Jabbour/Technical Editor

How do you make a deficit

look like a surplus?

Stevens in financial trouble; new CFO appointed

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a lot of work to be done," said Stefano Falconi, the incoming Vice President, Chief Financial Officer, and Treasurer of Stevens Institute of Technology in his first address to the faculty. In a special meeting held Wednesday, February 9—Falconi discussed the financial standing of the university with the faculty, the first communication the faculty has had with a university CFO in some time.

Stevens' has a very rough financial past

Stevens has had four CFOs in the past four years. The short tenure of the CFOs has prevented any one of them from being able to adequately examine the Institute's financial condition or become familiar with its financial operations.

PricewaterhouseCoopers, who perform the independent audits of the Institute, have had difficulty working with Stevens' Finance Department for this reason. Stevens' previous CFO left last summer, and Falconi, for-

merly the CFO of Carnegie Mellon University, has accepted the position of Vice President, CFO, and Treasurer of Stevens beginning February 28.

Falconi declined an interview with *The Stute* on any issues relating to the Institute as he is not yet an employee; however, he did

make a presentation to the Faculty Council on his personal views of Stevens' financial position.

Pricewaterhouse-Coopers may drop Stevens

Falconi seems to be aware of the troubled history with Stevens' Finance Department, and warned, "the audit manager has never been more frustrated. He has the feeling we are not communicating and cooperating."

Vice President Maureen Weatherall was quick to make assurances that Stevens is in no way trying to withhold information. Weatherall explained that the previous CFOs "didn't have the experience or depth of knowledge or time" to properly work with the auditors.

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Faculty analyzes growth plan

finds decreasing endowment per student

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he Faculty Council's Academic Planning and Resource Committee (APAR) released an internal report to the faculty, outlining an academic analysis of the Stevens' growth plan and recent bond downgrades. This report, released Wednesday, February 9, coincided with other financial discussions taking place regarding the newly appointed CFO, Stefano Falconi, and a motion for conducting an independent audit of Stevens' financial information

This report marks the APAR committee's first official document on the matter, signed by three members of the committee, Professors Stephen Bloom, Richard Cole, and Deborah Sinnreich-Levi.

However, an interim report was released in December by the Chair of the APAR Committee, Professor Donald Merino. Merino's report has been highly controversial among faculty members. Neither of the reports have been officially released to the public.

"These are things of a sensitive nature, that maybe would not be appropriate to release to people ... We need to be careful what we say to the outside world, because our reputation can be damaged," commented Professor Edward Whittaker, Chairman of the Faculty Council, who refused to provide a copy of either report to *The Stute*.

Contents of the APAR report

The APAR report details that the Stevens bond ratings have been downgraded by two separate continued on page 3

Faculty committee analyzes financial info

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credit rating agencies. Moreover, APAR analyzed a new growth plan created by the administration and noted that the endowment per undergraduate student has decreased, and the university has been operat-

ing at a loss, not a surplus. Also, a complete audit of fiscal year 2004 has yet to be completed. Merino noted, "the budget ends June 30, and we get the audit report in early October. We still don't have the audit report from last year yet, and the auditor wants to walk away."

APAR unable to diagnose effects of bond downgrades

"The down-grading of our bond rating is a fact. The down-grades were accompanied by explanations which highlighted several different aspects of the Institute's fiscal situation. To date, APAR has been unable to determine what impact these cited factors have on Stevens' overall resources and on the Growth Plan," explained the APAR report circu-

lated to the faculty on Wednesday. However, Merino's interim report speculated that the bond downgrades may have negative effects. The report asks, "is a growth plan feasible given continued operating losses from existing activities?"

Growth Plan

The growth plan is a series of goals, released by administration, which, according to the report "includes growing the faculty, the student body, and adding new buildings... APAR hopes to meet very soon with our incoming CFO Stefano Falconi or his designate to determine the impact of our high level of debt and bond downgrad-

Sampling of cost items in the Growth Plan

- Increase faculty from 168 (2003) to 220 (2009)
- Increase full-time researchers and postdocs from 61 (2003) to 140 (2009)
- Increase our offerings in masters and continuing professional education enrollment
- Increase ratio of doctoral students who are U.S. citizens from 40% (2003) to 60% (2009)
- Offer new academic programs
- Spawn two to three candidate startups per year (by 2009)
- Finish the top two floors of the Babbio building: 25,000 sq. ft. at a cost of \$4 million
- Renovate the square tank in Davidson Lab 20,000 sq. ft. at a cost of \$5 million

ing on the Growth Plan."

The plan itself includes some goals which did not call for input from the faculty. The APAR report suggested that the faculty be consulted in relation to the plan since, "the addition of new curricula is clearly a matter of faculty governance."

Endowment Declining

The Institute's endowment

size remains almost unchanged since 1999. However, since Stevens has grown since then, the average endowment per student has decreased, and the ratio of debt to endowment has increased. The analysis of the declining en-

> dowment concludes by stating, "the size of a school's endowment is a critical factor in providing financial aid to students, undergraduate and graduate; support for endowed chairs; and support for infrastructure such as buildings and equipment."

Report Conclusions

The report stated that the "current Board of Trustee and administrative initiatives to improve budgeting and financial oversight need to be given some time to be implemented (e.g., the arrival of the new CFO Stefano Falconi, and the adoption of 5year budgets)." Yet the interim report stated that "the lack of financial transparency and accountability inhibit

discussion, analysis, policies and actions that if implemented might improve SIT's financial condition which could improve education and research." Professor Edward Friedman, Director of the Center for Technology Management for Global Development added, "Doing a review right now, by the institution itself, is the best thing to do ... obviously, people in the administration are trying to put the best face forward."

Is Stevens financially secure?

continued from page 1 present a motion to the faculty. This motion would call on the Board of Trustees to initiate a review by "an independent financial management consulting firm of national stature in higher education, that has not been engaged with Stevens during the past decade."

Friedman explained, "The purpose of this review is to assist the Board of Trustees, the Administration and the faculty to better understand the financial status of the Institute and to assure success as the Stevens community looks to the future."

some of their requests as fast as we should."

Weatherall added that the current auditors, Pricewaterhouse-Coopers, may see the call for an independent review as a lack of confidence in their reporting, and acknowledged that if PricewaterhouseCoopers drops Stevens, it could present problems.

Others agree with Friedman and believe having an independent review is simply a prudent business practice. Professor Donald Merino, Chairman of the Faculty Council's Academic Planning and Review Committee, compared it to

"I'm more worried about what's right and wrong for Stevens, not what publicity says."

-Professor Merino

Reaction to the motion

The motion has not been well received by all—some see the call for an independent review as an attack on the current administration. Whittaker stated, "it could be seen as 'we don't believe you."

"I think Professor Friedman's motion is ill-timed and ill-advised ... the university brought in a new CFO and is audited by a prestigious institution," Weatherall stated, "the faculty don't feel like they are getting the answers they want and they want to understand. I think they are a little frustrated with us because we haven't responded to

his own work, stating, "am I happy that I have to have peer reviews for my articles and proposals, and some get rejected? The name of the game in life is that you go to third parties, and it's necessary for them to go through it."

Merino explained, "I'm more worried about what's right and wrong for Stevens, not what publicity says. What do we have to do to make the finances better, to clean up the system?"

At the last two faculty meetings, the council failed to achieve quorum. Therefore, the motion was not voted on and still stands.

Stevens in financial trouble; new chief financial officer appointed

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"PricewaterhouseCoopers feels that the administration hasn't responded to their requests as quickly as they would like." However, Weatherall was optimistic about the future of Stevens' finance department.

Falconi acknowledged the Institute's troubled financial history, and while he officially denied comment on the issue as he is not yet a Stevens employee, at the Faculty Council meeting he stated, "we don't take care of the auditor's needs". He added, "if PricewaterhouseCoopers drops Stevens, we are in trouble."

What this means for students

"If you don't have a stable financial system, it's going to reflect on the quality of the education. Is it a one-to-one thing? No. Right now, we just did all this capital building and that's had a positive effect on Stevens. But, if it's not

being done correctly, you may need to retrench. Who's going to pay for that?" asked Professor Donald Merino, Chair of the Faculty Council's Academic Planning and Review Committee. He continued, "you may have higher tuition and less service."

"It's not like we're going to stop teaching physics, or that anyone is going to get fired," added Professor Edward Whittaker, Chairman of the Faculty Council.

Poor bond ratings will impact growth

In regard to future growth, Whittaker stated, "What this means

is that for students in five years, or six years ... if you don't have a financial situation [where people are] willing to invest in you, then

"I have extremely high confidence in Mr. Falconi's abilities. He has phenomenal credentials..."

—Vice President Weatherall

you can't have the growth. It's sort of a chicken and egg situation."

The first 5 of the Stevens' 10-Year Plan called for improvements to facilities and undergraduate academics. This has drawn to a close and the next five years will focus on Ph.D programs and research. Weatherall does not see the next five years being as tight. "When you pay for a building, you have to do it all at once... but [over the next five years] those sorts of investments you make as you go."

Weatherall equated Stevens' situation to a family buying a new home. "We're in the first year of paying a mortgage on the Babbio Center. So it's not surprising that we're sort of tight."

Frustrated faculty asked to give Falconi a chance

"I haven't been able to work with the administration because they haven't shared information," explained Merino. Like the independent auditors, many faculty members are frustrated with the lack of organization and reporting that existed in the finance department for years.

"[Falconi] has an academic approach, he wants to teach in the math department," said Vice President Weatherall. She went on to discuss Falconi's record, which is rather executive in nature. Falconi was previously CFO and Vice President for Administration at Carnegie Mellon University. Previously, he also held financial positions at MIT and Harvard, and authored software application packages in the areas of office automation and accounting. He holds a JD from the University of Padua, in Italy, and an MBA from the Harvard School of Business Administration.

Weatherall concluded, "I have extremely high confidence in Mr. Falconi's abilities. He has phenomenal credentials from an educational background. Problems are that we have grown dramatically, and we needed someone with more experience in that area."