Minutes

Committee members present included: Chair Kirk Schueler, Lynda Ciuffetti, Allyn Ford, and Farbodd Ganjifard.

Chancellor’s Office staff present included: Chancellor George Pernsteiner, Vice Chancellor Jay Kenton, Michael Green, Jan Lewis, Di Saunders, Patricia Snopkowski, Marcia Stuart, Charles Triplett, and Alice Wiewel.

Others present included: President Mark Weiss (WOU); Vice Presidents Jamie Moffitt (UO), Craig Morris (SOU), Monica Rimai (PSU), Lon Whitaker (EOU), and Mary Ann Zemke (OIT).

Others in attendance included: Emma Kallaway (OSA) and Dee Wendler (PSU).

Materials for this meeting may be accessed at:
http://ous.edu/sites/default/files/state_board/meeting/dockets/ddoc120217-FA.pdf.

1. CALL TO ORDER/ROLL CALL/WELCOME

Chair Schueler called the meeting of the Finance and Administration Committee to order at 1:27 p.m.

2. CONSENT ITEM

a. OUS, Approval of February 17, 2012 Committee Minutes

ACTION: Chair Schueler called for a motion to approve the minutes; Directors Allyn Ford and Lynda Ciuffetti made the motion and second, respectively. Motion carried.

3. ACTION ITEM

a. OUS, 2011-12 Budget Allocation Adjustment

Chair Schueler called upon Associate Vice Chancellor Jan Lewis, who informed the Committee of the three Senate Bills affecting the System (1579, 5701, and 5702) that were passed during the February legislative session. Areas affected by the adjustment included reducing the first year allocation from 54 percent to the historical practice of 49 percent (the adjustment does not represent a loss of funding but will affect the
ending fund balances for FY12; a reduction in General Fund for operations applied only to clinical legal education at the University of Oregon (an institution that provides civil legal services to victims of domestic violence, stalking, or sexual assault); and a 3.5 percent holdback applied to debt service funding applied to Article XI-G bonds, COPs (Certificates of Participation), SELP (State Energy Loan Program), and sports action lottery. The changes in debt service and sports lottery will be applied during FY2013.

Overall, the 2011-12 operating budget and debt service approved by the Board as of November 4, 2011, was $357,372,243; however, the February legislative revision reduced the operating budget by $29,080,051, for a resulting total of $328,292,192. (See page 4 of the docket for actual distribution.)

At Director Ciuffetti’s query, it was noted that SOU’s fund balance will be adversely affected, dropping below the 5 percent threshold, but that with the accelerated reductions to faculty in 2013, they project the fund balance to be above 5 percent at the end of the biennium. Dr. Kenton advised that the Board’s 5-15 percent fund balance policy only applies to the end of the biennium.

**ACTION:** Chair Schueler called for a motion to approve the revised fiscal year 2011-12 allocation of General Fund for Educational and General Services and Statewide Public Services as represented by Table 2 in the docket materials with the stipulation of the Governor’s approval of the bills. Directors Lynda Ciuffetti and Farbodd Ganjifard made the motion and second, respectively. Motion carried.

4. **REPORT ITEM**

   a. **UO, Capital Projects Requiring Further Investment**

Dr. Kenton prefaced the report item by noting that this is the first instance, since the passage of Senate Bill 242 and the delegation of authority to campuses, of a campus adjusting a capital project funding authorization. Cost overruns and whether the Board or the institution would ultimately be held responsible for those overruns was discussed. It was emphasized that the Committee is responsible for campus compliance with Board policies and procedures pertaining to prudent debt burden thresholds and fund balance parameters. With SB 242’s implementation and transition, to promote the delegation of day-to-day campus operations and responsibilities, each institution would be required to submit a multi-year financial plan, including capital, for Committee approval. Only if that plan needed adjustment would the campus report back and/or resubmit the plan for additional approval. It is anticipated that this process will capitalize on the flexibility and efficiency provided under SB 242. At the Committee’s request, a summative report on capital construction activities, to include original budget, revisions, and actual cost, will be provided on an annual basis.
Vice President Jamie Moffitt was called upon to advise the Committee concerning the further investment in the Allen Hall expansion and remodel and to the central power station. With respect to the Allen Hall project, the increase in cost is not due to cost overruns but an expansion in the scope of the project; however, the central power station has been impacted by an increase in costs, an expansion in scope, and the loss of a tax credit. The increased scope for Allen Hall relates to the inclusion of a campus-wide server colocation facility for research and administrative computing needs in the basement and addressing deferred maintenance issues. An additional $7.5 million will be applied to this project. An additional $8.2 million in SELP loans will be applied to the central power station project in order to compensate for not only the expansion of scope but the discontinuation of the Department of Energy, Business Energy Tax Credit (BETC) incentive program. The final stage of the project is the co-generation turbine that will generate auxiliary electricity to be sold on the market and thereby create a revenue stream to cover the projected debt payments.

5. DISCUSSION ITEMS

a. OUS, 2013-2015 Budget Update

Ms. Lewis provided an updated budget process calendar for 2013-2015. During March, the Department of Administrative Services will release the budget instruction and the Oregon Education Investment Board/Governor will release request for proposals. During April, presentations on capital budget requests will be received for campuses and Systemwide projects for Committee prioritization. In May, the campuses will present proposals on tuition and fees. The Committee was advised that the June Board meeting may require rescheduling to accommodate this new budget process and, if so, the Finance and Academic Committees should meet in a joint meeting for prioritization of budget proposals for submittal to the Funding Team in June.

b. Internal Control Environment Self-Assessment
   i. Eastern Oregon University
   ii. Oregon Institute of Technology
   iii. University of Oregon

Vice President Moffitt advised that the UO works in a decentralized environment, with business offices in the schools, colleges, auxiliaries, and units. Due to that environment, the UO focused on three key areas: 1) training, 2) communications, and 3) other tools and processes to assure that controls are being maintained. A number of mandatory trainings are conducted for those employees who process financial transactions and then, for a certain time period, each new employee’s transactions are reviewed through a “training queue” to ensure consistency, accuracy, and compliance; those who are delegated signatory authority attend required training; and there are also many voluntary training opportunities across the campus (for example, the financial stewardship institute that covers topics such as budgeting, accounting, and grants & contracts). Monthly meetings are conducted with the managers of budgeting and
business functions and human resources and payroll within the units, with the goal of enhanced communication in the areas of campus activities, policy changes, and the like. About five years ago, a mid-year fiscal clean-up week was established to focus units on questions and issues normally addressed during the end-year process, thereby giving the campus a ‘heads-up’ to spotlight issues that require attention.

Areas that will be addressed going forward include the development of an online policy library and a formal review process of policies, and actively developing more structured processes around policies and policy review. In noting the number of highly-qualified staff at the UO (attorneys, CPAs, MBAs, etc.), it was pointed out that, at the smaller institutions, compensation for the lack of redundancy in the “thin-walled” areas of the organization can become a stumbling block. These campuses must rely on walk-throughs to ensure control and with auditors reviewing those controls. It becomes more and more difficult to maintain the level of separation of duties when staffing levels continue to be thinned.

Vice President Whitaker advised that, prior to his arrival at EOU eight months ago, the campus had gone through many changes—the financial sustainability plan, a flattening of administrative levels, and business practices as a whole. On a positive note, because the campus draws upon the La Grande community, the EOU workforce tends to stay in place over their career and, as a result, institutional memory is maintained. However, they have had to work through inefficiencies within those institutional memories. As a result of these many changes, a very well controlled and strong infrastructure has emerged. The president, provost, and vice president for finance are committed to focusing on and the maintenance of environmental controls but, if further cuts are necessary, these cuts must be applied to the academic arena. Due to the shortage of time to dedicate to on-the-job training, Eastern is working with the Controller’s Division to develop online training. Although there are policies and procedures in place, they are not easily accessible. To provide better access, EOU is developing a handbook that can be provided to all employees (electronic and hardcopy). Of final note, the Finance and Administration division has been very involved in the development of the campus strategic plan, which ties financial foundational goals with the mission of the University, and this focus should help the campus weather future cuts.

Vice President Zemke advised that OIT has a statewide and regional presence—Klamath Falls, Portland, Salem and La Grande dental programs, and Seattle (located at Boeing). Although the financial environment was decentralized, in recent years these functions have become more centralized due to skill set issues and this centralization has provided greater efficiencies. During this environmental control review process, OIT focused on two specific areas of responsibility—business affairs/controller and budget and fiscal planning. Other areas will be reviewed as this process continues. In these two areas, current staffing levels are adequate for ensuring the integrity of the accounting records and safeguarding the assets, but much more could be achieved in time and proper planning if staff levels were more appropriate. Of major concern is the risk of negative impact with the loss of technical expertise when different areas of expertise are housed in one individual within one operational area. Also of impact is succession planning when staffing levels have thinned in Klamath Falls; however, with the
consolidation of the metro campuses into the Wilsonville campus and advances in technology, some services may be positively impacted by their transfer to that campus (for example, the director of contracting and purchasing is stationed in Portland but easily communicates with the other campuses via email and audio- and video-conferencing).

Another concern is the negative impact of excessive workloads on employee health and morale; due to reductions in force, a 60-hour work week has become the norm. As with EOU, OIT has encountered resistance when historical attitudes toward internal control adherence and monitoring have had the ‘bar raised’ on professionalism. Upper management has implemented these changes in a non-adversarial manner in order to minimize risk. In conclusion, Ms. Zemke noted that the review has confirmed that OIT’s internal controls can be relied upon to ensure the integrity of the accounting system but that there is little human bandwidth to spare and the institution could be weakened further with the loss of any key person.

6. **ADJOURNMENT**

Prior to adjourning, Vice Chancellor Kenton announced the recruitment of a Chief Risk Officer; Ms. Ellen Holland has 20 years’ experience, most recently with the University of Denver, is a past president of the University Risk Management and Insurance Association, and will begin fulltime with OUS in April. The System is also in the process of finalizing the DAS separation agreement and has recently closed an RFP process for third-party claims administration responsibilities.

With no further business proposed, the meeting was adjourned at 3:17 p.m.