OREGON STATE BOARD OF HIGHER EDUCATION
MINUTES OF THE EXECUTIVE COMMITTEE
BROWSING LOUNGE ROOM 238, SMITH MEMORIAL STUDENT UNION
PORTLAND STATE UNIVERSITY
PORTLAND, OREGON

CALL TO ORDER
The meeting of the State Board of Higher Education Executive Committee was called to order at 9:03 a.m. by President Jim Lussier.

ROLL CALL
On roll call, the following Executive Committee members answered present:

Mr. Roger Bassett
Ms. Leslie Lehmann
Mr. Jim Lussier
Mr. Don VanLuvanee
Ms. Phyllis Wustenberg

Absent: None.

Other Board members present: Directors Barnett, Richmond, and Watari.

Chancellor Richard Jarvis, Vice Chancellors Tom Anderes, Shirley Clark, and Diane Vines were present.

Others: Institution presidents, vice presidents, and staff; OUS staff, and interested members of the public.

APPROVAL OF MINUTES
The Executive Committee dispensed with the reading of the minutes of the September 20, 2002, Executive Committee meeting. Director VanLuvanee moved and Director Wustenberg seconded the motion to approve the minutes as presented. The following voted in favor: Directors Bassett, Lehmann, Lussier, VanLuvanee, and Wustenberg. Those voting no: none.

PRESIDENTS COMMENTS
President Lussier provided an overview of the agenda, indicating that the Executive Committee would be reviewing a matrix that attempted to pull together several aspects of Board work, including suggested assignment of tasks to the Committees.

President Risser
President Lussier announced that Dr. Paul Risser, president of Oregon State University, had submitted his resignation upon
acceptance of the position of Chancellor of the Oklahoma University System. “We wish Paul well on his journey back to his home state. We’ll have some opportunities between now and his resignation date of January 6, 2003, to celebrate his tenure with us and the things that he has accomplished at Oregon State University.”

Interim OSU President

Chancellor Jarvis, at the request of the Board President, began the process of identifying and recommending an individual to assume the position of interim president of OSU. “The Chancellor has already had a number of meetings on the campus, and he and I will be spending all day next week there meeting with various constituents and letting them know about the process we will be following,” Mr. Lussier indicated. He appointed Directors Barnett, Lehmann, and Wustenberg to assist Chancellor Jarvis in assessing the strengths and weaknesses of individuals he might recommend for the interim position.

OSA Letter

A letter was sent to the Board by the Oregon Student Association (OSA) regarding their partnership in higher education matters. President Lussier thanked OSA leadership for taking the initiative to present their ideas regarding The Deal. In addition, he noted that OSA had met several times with Chancellor Jarvis and others in attempting to visualize what higher education in Oregon will be in the coming years. "I would like to ask Chancellor Jarvis to discuss the letter with the presidents, since many of the items, in particular those about governance, are more tuned to institutional governance and not necessarily System governance.”

INTERNAL AUDIT DIVISION PROGRESS REPORT AND PLAN

Summary:
The attached report outlined the internal audit progress report for activities occurring in calendar year 2002 and plans for the calendar year 2003. In accordance with the Board audit charter, the Executive Committee has the responsibility to review and approve the resources, plans, and results of internal audit activity.

Background:
The authority and responsibilities of the Internal Audit Division (IAD) have been established in an office charter revised and approved by the Vice Chancellor for Finance and Administration, Chancellor, and the Board of Higher Education.

The IAD is an independent appraisal activity established to perform audits of Oregon University System (OUS) operations. The division’s
responsibilities include conducting reviews and providing OUS personnel with information related to the following:

- Reliability and integrity of financial and operating information;
- Compliance of systems to applicable policies, procedures, laws, and regulations;
- Safeguarding of assets; and
- Efficiency and effectiveness of resources employed.

The OUS Internal Audit Division also serves as a liaison for external audit activity conducted at OUS campuses. IAD has a number of primary stakeholders:

- Oregon State Board of Higher Education;
- Chancellor and Vice Chancellor of Finance and Administration; and
- University Presidents, Provosts, and Vice Presidents.

Staff Recommendation to the Executive Committee
Staff recommended that the Committee review and approve the Internal Audit Division Progress Report and Plan.

COMMITTEE DISCUSSION:
Vice Chancellor Anderes introduced Ms. Patricia Snopkowski, Director of the System’s Internal Audit Division who outlined the report and highlighted important areas. Ms. Snopkowski indicated that her presentation would include a review of the Internal Audit Division’s activities for the calendar year 2002 and a discussion of the organizational structure of the Division and the work and resource allocation plans for the coming year.

The primary scheduled audit completed in 2002, according to Ms. Snopkowski, was the review of the purchasing and accounts payable functions at all seven of the universities and the Chancellor’s Office. “One of the benefits of doing the Systemwide reviews,” she reported, “is that we are able to pull together all of the reports at the end of the review and look at it from a Systemwide perspective. We noticed that there weren’t any systemic issues. It was generally agreed from the review that there should be enhancement of controls in the purchasing and accounts payable functions and there are action plans being put in place.”
A second type of audit that was conducted over the past year focused on information technology and some of the recommendations in these areas related to limiting the access to some programs and databases. Another area of inquiry related to disaster recovery.

With regard to financial irregularities, Ms. Snopkowski pointed out that the most common areas involve cash, a minimal amount of travel, and unauthorized purchases. “One of the things that shows with the financial irregularities is that the policy that was implemented last November has been working to detect the irregularities and that is one of the things we really want to happen,” Ms. Snopkowski indicated.

Another area of change related to follow-up reviews. There were 26 reviews conducted during this period of reporting. In all cases, when there was an open issue, management had plans and agreements in place and indicated that the recommendations were still valid. Internal audit will be reviewing these items again next year to assure that progress has been made in correcting them.

The professional staff of the Division consists of eight individuals: one information technology auditor, four campus auditors, a Systemwide auditor who deals with a lot of data extracts and data analysis and assists with financial irregularities, a vacant manager position, and the director.

Director Lehmann asked if there were any patterns in the irregularities or consistent mistakes that appear around the System. Ms. Snopkowski responded that one of the areas of high risk is in the use of procurement cards. On the one hand, the use of procurement cards is a cost benefit to the System, but it likewise poses risks. Continuing, she indicated that campus managers are becoming much more alert to detecting the irregularities and initiating contacts with the auditors.

Director Lussier asked if the individuals assigned to campuses rotate to other positions frequently so that there are continuing checks and balances. Ms. Snopkowski indicated that one of the benefits of the System is that there is a centralized management structure, assuring that auditing standards and protocols are the same for all auditors. “Our hope is to have some continuity and not necessarily rely on rotation. We want the auditors to get to know the campuses because they are so complex. We want to share and work as a team with the other campus auditors to assure those checks and balances are in
place and there is consistency with auditing standards,” she concluded.

In response to a question from Director Wustenberg concerning prevention and foreseeing difficulties, Ms. Snopkowski indicated that again the benefit of the System function is that there is increasing open communication with the campuses and this provides avenues for early warning.

Director VanLuvanee expressed satisfaction with the results of the past year and said he was impressed with how far the auditing division had come in the past year or so. Continuing he said, “You have taken a good institution, good people, and added more to it, as opposed to looking for the problems,” he added. Director Lussier observed that the tone of the report and activities was one that assures that the audit function is very positive and conducted in a manner to be useful to the System.

Finally, Director Lussier asked Chancellor Jarvis, through the Presidents’ Council, to provide the Board with an indication of their satisfaction with the audit procedures and the services being provided.

COMMITTEE ACTION:
It was moved by Director VanLuvanee and seconded by Director Lehmann that the Internal Audit Report and Division Progress and Plan be approved by the Executive Committee. Those voting in favor of the motion: Directors Bassett, Lehmann, Lussier, VanLuvanee, and Wustenberg. Those voting no: none.

BOARD ACTION:

AMENDMENT TO OAR 580-040-0040 ACADEMIC YEAR FEE BOOK, PERTAINING TO TUITION SURCHARGES (Temporary Rule)

Report to the Executive Committee:
The staff recommended that the Executive Committee of the Board approve a temporary rule change to the 2002-03 Academic Year Fee Book through the conditional assessment of tuition surcharges for Winter and Spring Terms 2002-03. The Executive Committee was granted this expressed delegation of authority by the Board at the October 18, 2002 meeting.
The Board also approved the concept of assessing tuition surcharges to help mitigate the further loss of state general revenues should the voters reject the proposed Income Tax Surcharge in the January 2003 special election. The Legislature, in the September 2002 Special Session 5, stipulated the Oregon University System would be subject to further state appropriation reductions totaling $26,914,987 if the Income Tax Surcharge were rejected. Approximately $23.4 million of the $26.9 million will come from instruction and instructional support allocations.

Enrollment demand at the OUS institutions is at an all time high and continues to grow. The growth, coupled with the series of general fund reductions over five special sessions of the Legislature this biennium, has resulted in a decline in the amount of total resources per student that institutions have available for instruction and support services.

The institutions, following discussions with student leadership, proposed assessing tuition surcharges to offset approximately one-half the amount of the general fund reductions should the voters reject the Income Tax Surcharge and the Legislature take no further action to offset the scheduled reductions (see supplementary materials for assumptions that underlie surcharges and tables for each university). The universities will reduce services and use limited fund balances to offset the remaining General Fund reduction.

The tuition surcharges through this temporary rule are conditional. If the voters approve the Income Tax Surcharge in January, these charges will be null and void. Any tuition surcharges assessed in advanced will be refunded. Likewise, if the voters reject the ballot measure, but the Legislature takes action to offset the scheduled general fund reductions, the tuition surcharge will be null and void. However, if the voters reject the measure and the Legislature does not offset the reductions then the surcharges will be assessed.

*Need for the Temporary Rule:*

The conditions precipitating the need for the tuition surcharges were unknown at the time the original tuition and fees were approved by the Board in July 2002. The continued eroding economic condition of the State of Oregon resulted in two additional Special Sessions of the Legislature after the 2002-03 Academic Year Fee Book was adopted.

The timing for this amendment is critical. Registration for Winter Term
2003 begins in mid-November. There are two options in dealing with the timing of tuition and fee assessment given the late date of the election. One is to assess the surcharge in advance and refund it if the voters approve the ballot measure in January. The other is to delay assessment of the surcharge until after the election and respond to the outcome at that time. Among the seven institutions, both options are being exercised.

Staff Recommendation to the Executive Committee:

Staff recommended that the Board amend OAR 580-040-0040 as follows: (Underlined material is added; brackets denote deletion.)

OAR 580-040-0040 Academic Year Fee Book
The document entitled Academic Year Fee Book, dated July 19, 2002 is hereby amended by reference as a temporary rule to incorporate assessment of tuition surcharges in the event the voters reject the Income Tax Surcharge ballot measure in the January 28, 2003 Special Election and the Legislature takes no further action to offset the scheduled reductions.

Through the amendment, the Board adopts, as a temporary rule, the document entitled Tuition Surcharges 2002-03, memos of attachment amending the draft document, and other amendments and attached schedules noted in this agenda item. Consideration of the permanent rule will occur at the earliest possible meeting of the Board of Higher Education consistent with permanent rule-making requirements.

(Roll call vote required)

COMMITTEE DISCUSSION:
Vice Chancellor Anderes reminded the Executive Committee that at the October Board meeting the possibility of additional General Fund reductions had been discussed. Each university identified a combination of tuition surcharges, expenditure and fund balance reductions to offset the General Fund reductions. Board approval is necessary to implement the surcharges in the winter and spring terms. Dr. Anderes indicated that knowledge of what might occur legislatively would come late in the academic year and, therefore, it is important to take the action at the present time.

He went on to underscore several assumptions that had been built into the process for the surcharge. First, the surcharge can be applied
to any or all of the categories of student (resident, non-resident, graduate, or undergraduate). Second, the surcharge will vary from campus to campus. Third, that an amount of the surcharge must be set aside for financial aid.

Director Wustenberg asked how the financial aid packages would be developed when it is not currently known what the tuition charges will be. Vice Chancellor Anderes responded that each institution was looking at the financial aid packages for each student to determine the implications. It is true, he added, that if the ballot measure passed in January and the cuts were not required, the institutions would have to go back to each student and change the financial aid package.

Director Bassett expressed concern about the “null and void” language of the assumptions of the docket item. “The other variable is the General Fund itself and the possibility, if not the likelihood, that the revenue forecasts will continue to slide. I’m imagining us in February with a successful January measure and a General Fund shortfall that is big enough to trigger some larger cuts. Can we still implement the tuition surcharge? Can we make it available as a major tool for the campuses to weather the uncertainties of the next six to eight months?”

Dr. Anderes replied that perhaps the Board could place a condition that most people could accept. The present surcharge is based on a $310 million problem across the state. “There could be an opening caveat,” he continued, “that suggests that, if there are further reductions, regardless of how the special election may turn out, the option of using additional tuition or other options would remain open.”

President Lussier indicated that the concern that was being expressed was that the surcharge doesn’t necessarily solve the burgeoning financial problem. “It goes beyond just the January election. So would it be better to tie this to what the magnitude of the problem is that we are willing to solve with a surcharge, as opposed to just whether or not the election is successful in January?”

Director Wustenberg cautioned that the Board must make the point that when something happens to the financial picture, tuition and the students are not the first place to go to find resources. “The problem is,” Vice Chancellor Anderes pointed out that, “the Board’s options are very limited. If this were occurring at the beginning of the biennium, or mid-term in the biennium, the opportunities to react with General Fund
reductions and program efficiencies would have been a key part in what we proposed. The problem now is that we have six or seven months left (in the biennium) and we have virtually no ability to reduce or eliminate positions or stop programs."

Director Lehmann mused that the Board has limited options. “But this larger question of affordability, which has been one of the things we have talked about in terms of how these components fit together is part of the discussion of public investment and student investment and how to balance these out.”

Returning to Director Bassett’s discussion of the “null and void language,” President Lussier asked if the language should be kept in or eliminated at this point. Mr. Bassett indicated it might be as simple as thinking about it when the permanent rule is approved. “I don’t want to trick people into thinking we’d better do one thing if we’re really going to do another. I just want to be very clear.”

President Lussier asked Mr. Grattan Kerans, System Director of Government Affairs, to comment on the present discussion. Mr. Kerans indicated that the Board would be faced with further shortfalls with the coming November 26, 2002, financial forecast. “It is, for our purposes, a phantom target now because while it may become real on November 26, we don’t know the Governor-elect’s feeling about it and we don’t know the legislative leadership’s feelings about it, either.

“Secondly, the proposal you have in front of you is the product of long and fairly extensive conversations with the parties at the campus level: with the students, their student governments, their association; conversations with members of this Board at your meeting in Ashland, talking to the students directly. They have come to an accommodation around this. It would be, I think, a very significant tactical mistake to try and unravel it and amend it after the parties have come to an understanding of what is going to be in the agreement.

“So my advice,” Mr. Kerans concluded, “would be to hold firm to the agreement you have now and then go forward and wait to see what it is we know for certain, hear the Governor’s advice, and then see how much of that new shortfall, if it does exist, comes to us and how we would address it again, collegially, across the System and in concert with our constituents.”
COMMITTEE ACTION:
Director Wustenberg moved and Director VanLuvanee seconded the motion to approve the staff recommendation.

On roll call, the following voted in favor: Directors Bassett, Lehmann, Lussier, VanLuvanee, and Wustenberg. Those voting no: none.

BOARD ACTION:

CURRENT BUDGET STATUS AND PROJECTIONS

President Lussier asked Vice Chancellor Anderes to comment on the current budget status and projections. Dr. Anderes began by observing that it is a waiting game until after the January special election is held and the outcome is known. “We all know General Fund reductions have been $52 million. However, we had to make a presentation to the Legislative Emergency Board to report what we will do since we received tuition revenues in excess of the established expenditure limitation. We received additional revenue because our enrollments exceeded projections by almost 6,000 students. When that happens, we have to go to the legislature and seek approval to use those funds. Those funds, in part, helped backfill some of the General Fund reductions. The Emergency Board also approved the use of tuition for fee remissions, a component of meeting the needs of those additional students who need financial assistance.

“The reality is, “ Dr. Anderes continued, “those funds, in part, help backfill some of the General Fund reductions. But the other reality is they are there mostly to support the new students and provide the classroom instruction for them. You need to be aware that, even as we have new students coming in and we have tuition and fees that accompany them, the issue of the General Fund reductions, in combination with our tuition, on a per student basis, leaves us well below where we were in terms of the legislative budget.

“Finally,” Dr. Anderes said, “with regard to the $26.9 potential reduction, we are looking at approximately half of that coming from tuition surcharges, and the remainder coming from our fund balances and any further reductions. Timing is as much of an issue as actual funding capability.”

Director Bassett asked if there are further reductions where, besides tuition, resources could be found. Vice Chancellor Anderes indicated
that the magnitude of the reductions required would drive where the resources could be found. “If it’s a relatively small amount, then tuition surcharge would not be the only option. But if we are talking something in the range of $10, $12, or $15 million dollars, definitely tuition surcharge.”

Mr. Bassett indicated that he thought the Board should be saying that. “I need to say tuition surcharge is going to be right smack in the middle of the screen again if we have to make these significant cuts. I further need to say that as we exercise that option, the likelihood of it going away is slim, under these revenue circumstances. I feel a need to track this pretty closely.”

Director Wustenberg expressed strong objection to the language that indicated that tuition surcharge is the only source to address potential reductions. Dr. Anderes pointed out again that it is a matter of timing. “When we say ‘only,’ it is because of all of the actions that have occurred to this point in the biennium as it relates to the tuition surcharge. It’s either some sort of expenditure reduction or it’s an additional revenue. And, we’re not seeing any additional revenues. It sounds so fatalistic, but that’s where we are.”

Director Lehmann asked if there were any plans to identify the numbers of students that might potentially leave school as a result of the tuition increases. Vice Chancellor Anderes responded that each institution had identified numbers of students they considered at risk of leaving school. It will, however, be difficult to gather this type of information.

President Lussier reported to the Board that he had the opportunity to meet with Governor Kitzhaber and Governor-elect Kulongosky. The goal of the interaction was “to let the new Governor know what the Board of Higher Education is doing, why we are going it, and what our work agenda is. Underlying all of these deliberations and discussions is financing. On the other hand, at one point the recession is going to end and we’re hoping to be able to use this time to position ourselves to be in good stead when that happens. Director Lehmann indicated at the break that whatever we can do as a Board to enable the presidents to do what they need to do on their campuses, is what our charge is. This financial situation is, to some extent, reactionary because it was not really anticipated by anyone, including the Governor and, perhaps, even the Governor-elect.”
In introducing the discussion of the strategic agenda, President Lussier pointed out a matrix entitled, “The Oregon University System Goals, Priorities, and Decisions.” He indicated that it was important in the coming months to keep the major priorities in front of the Board, the Chancellor, and the presidents. “The goal is to familiarize you about this and bring it to the full Board in December for deliberation and, finally, to establish some specific goals with reference to 2003 and what we think we can accomplish and where we need to go. This will take us into some discussion about how we want to work in the coming year with reference to the Board committees and to priorities for them.”

The matrix included three headings: System Design Strategy, Status, and Next Steps for Goal Development and Proposed Board Decisions. The categories under the heading of System Design Strategy were:

1. Develop an OUS policy on governance and use of university advisory boards.
2. Develop an OUS policy on access, affordability, and excellence in OUS institutions.
3. Develop a policy on tuition and fees which sets OUS parameters and delegates within those parameters, the authority to set tuition and fees to each institution.
4. Develop an OUS policy on program initiation and approval.
5. Explore relationships with community colleges that optimize access and dual enrollment, and that assures the best use of resources.
6. Form a task force to revise the existing OUS strategic plan with specific reference to development of a new vision for OUS and differentiated mission statements for individual institutions.
7. Propose legislation and/or modification to existing statutes that would allow the OUS and member institutions more financial flexibility.
8. Propose increase in state funding to attain 80 percent of peer average in 2003-2005 and to incrementally increase to 90 percent in 2007-2009.
9. Formalize a recommendation for the improvement and administration of faculty and staff salaries within OUS.
10. Establish a task force to pursue the improvement of student financial aid.
11. Develop specific recommendations to form a new contract between the State of Oregon and OUS about what we are
attempting to achieve on behalf of the people of Oregon.

12. Develop a comprehensive advocacy program for higher education targeted to the general public, government, and business.

President Lussier asked Chancellor Jarvis to brief the Board on the status of each of the 12 items. The Chancellor indicated that many of the areas would be addressed under the rubric of The Deal that was included in the Report of the Strategic Planning Work Group. Various actions would be recommended, with time lines for completion, at the December Board meeting.

Director Wustenber raised a question about increasing access to the System. “I get the feeling that there are places in our System where we’re really not taking care of the students that we have now. For example, on the surcharge on the students who can afford to come to our institutions, either because their parents are paying their way or the student has worked to pay his/her way. Then we say we would charge them more so that we can give financial aid to the other students. I’m really opposed to that. If we can get money for new engineering buildings, new stadiums, more seats in stadiums, we can get financial aid for students. I think that is the wrong place to start.”

President Lussier responded that what was being proposed in the matrix was that items like this should be considered by the appropriate group. “What we want the Board to do is to make the kinds of decisions that are necessary in a policy context to resolve those issues. But we have to make sure we have the goals in mind about what the policy should look like, what can be determined at the Board level, what should be the prerogative of individual universities, and come out with a working model that the presidents and Chancellor feel are good directions from the Board.”

Director Bassett observed that “what needed to be factored into the plan is a fourth column that indicates likely Board decisions needed in the next year so that the flow of work towards a decision is at least anticipated. My hunch is that some of the decisions we are going to have to make are going to require some of this work to be done sooner than others.”

Ms. Lehmann agreed with Mr. Bassett and added that the discussion earlier in the meeting around tuition surcharges was an example of the direction in which the Board was moving and that it was important
to be able to look at the decisions and the context in which the pieces fit together. It was mentioned that the Board needed to exercise some amount of caution when it requests additional information or background material from the Chancellor and his staff, because of the current workload as well as what will be required in the upcoming legislative session. Mr. Lussier responded that one of the purposes of a work plan is to attempt to keep the work of the Board focused and addressing areas of priority.

Director Bassett indicated that he would like to have a third point under the topic of OUS policy on tuition and fees labeled, “Oregon Public Finance Policy. I know that’s not our responsibility, but it’s not unusual in other states these days for the post-secondary education community to be proposing percentages of General Fund or some sort of benchmark as to the proper level of support. I don’t see a better place for it here and I think it is a good place for it to have some active Board discussion of what makes sense to us,” he added.

Ms. Lehmann commented that the relationship of the Board with community colleges was extremely important. “I would suggest that we identify that among our priorities on access, affordability, and enrollment since all of these directly relate to the community colleges. Finally, I would like to have some talking points about The Deal and other priorities for Board members.”

President Lussier closed the discussion and indicated that there would be a revised copy of the Work Plan that would also include an additional column indicating time lines for consideration and completion.

AN APPROACH TO GOVERNANCE, ASSIGNMENTS AND USE OF COMMITTEES

The Executive Committee was provided with a discussion document regarding “An Approach to Governance, Assignments, and Use of Committees.” Because of the press for adjournment, President Lussier suggested that the Board review the document and relay suggestions and revisions to the Chancellor’s Office. Director Wustenberg added that, since the document also included Board visits to the campuses, that the presidents be invited to provide input as well.

Director Bassett indicated that it would be helpful if the responses were sent early enough to do a careful analysis to process the differences of input. “At some level this is cosmetic; but on other
levels it really does organize our work in ways even more fundamental than the prior plan we have been considering.”

Director Lehmann observed that there is a tension built into the plan between a desire for maximum inclusion of every Board member in every decision and the point about individual limitations of time. “We are going to have to think carefully about that,” she added.

**ADJOURNMENT**

Director VanLuvanee moved and Director Lehmann seconded a motion for adjournment.


The meeting adjourned at 10:50 a.m.

Virginia L. Thompson
Interim Secretary of the Board

James T. Lussier
President of the Board