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1. CALL TO ORDER/ROLL CALL/WELCOME

Chair Don Blair called the meeting to order at 8:05 a.m. Committee members present: Directors Don Blair, Henry Lorenzen, and John von Schlegell. Other Board members present included Directors Bridget Burns, Adriana Mendoza, Tim Nesbitt (arrived at 8:30 a.m.), Gretchen Schuette (arrived at 9:12 a.m.), Howard Sohn, and Tony Van Vliet.

Chancellor’s Office Staff present included: Chancellor George Pernsteiner, Neil Bryant, Mike Green, Ryan Hagemann, Jay Kenton, Ben Rawlins, Patricia Snopkowski, and Susan Weeks. University presidents who were present included: Dan Bernstine (PSU), Martha Anne Dow (OIT), Khosrow Fatemi (EOU), Dave Frohnmayer (UO), John Minahan (WOU), and Elisabeth Zinser (SOU). Others representing campuses included: Provost Lesley Hallick (OHSU) and Vice Presidents Frances Dyck (UO) and Mark McCambridge (OSU).

2. ACTION ITEMS

a. Quarterly Investment Report

COMMITTEE DOCKET:

The investment report for the second quarter of FY2006 was included with the supplemental materials (on file with the Board’s Office). A brief summary of the information within the report is provided below for the quarter ended December 31, 2005.

As of December 31, 2005, total OUS investments had a combined market value of $273 million, summarized as follows:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Market Value December 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment Funds (pooled and separately invested)</td>
<td>$70,286,030</td>
</tr>
<tr>
<td>Donation Funds</td>
<td>53,424,872</td>
</tr>
<tr>
<td>Bond Building Funds</td>
<td>72,422,625</td>
</tr>
<tr>
<td>Bond Sinking Funds</td>
<td>50,690,036</td>
</tr>
<tr>
<td>Auxiliary Enterprise Building Repair and Equipment Replacement Reserves</td>
<td>26,542,682</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$273,366,245</strong></td>
</tr>
</tbody>
</table>
Second Quarter Highlights
The total Pooled Endowment Fund (Fund) return for the second fiscal quarter ending December 31, 2005, was 2.1 percent, which out-performed the policy benchmark return of 1.8 percent. The Fund’s allocation to large-cap equities (BGI Alpha Tilts Fund B) returned 3.2 percent, which out-performed its benchmark (S&P 500 Stock Index) return of 2.1 percent. The Fund’s allocation to small/mid-cap equities (Batterymarch) returned 2.1 percent, which out-performed its benchmark (Russell 2500 Index) return of 1.8 percent. The Fund’s allocation to foreign equities (T. Rowe Price Foreign Equity, October 2005, and Arrowstreet Capital, November and December 2005) had a combined return of 3.0 percent, which lagged its benchmark (EAFE Index) return of 4.1 percent. The Fund’s allocation to fixed income (Western Asset Core Plus Bond Fund) returned –0.4 percent, which lagged its benchmark (Lehman Aggregate Bond Index) return of 0.6 percent.

Donation, bond building, bond sinking, and repair and replacement reserve funds were invested in the Oregon State Treasury Short-Term Fund and earned 0.9 percent for the quarter.

On October 31, 2005, pursuant to OIC action, the investment in T. Rowe Price Foreign Equity Fund was sold by Treasury and transferred to a new foreign equity manager, Arrowstreet Capital.

Staff Recommendation to the Committee:
Staff recommended the Finance and Administration Committee accept the Investment Report as of December 31, 2005. (The investment report spreadsheet is available from the Board’s Office)

COMMITTEE DISCUSSION AND ACTION:
Chair Blair called on Controller Mike Green to give the quarterly investment report. Mr. Green provided the information contained within the docket. He then introduced Mr. Michael Mueller, Assistant Director of Investments, Oregon State Treasury, to provide an update on the management of the endowment fund.

Mr. Mueller advised that, in December 2005, Treasury reported to the Oregon Investment Council (OIC) that an asset/liability study on the foreign equity fund had been completed with an independent consultant, Strategic Investment Solutions. The Treasury will begin to make changes to the fund in May 2006 and will then bring additional recommendations to the OIC. The results of the study demonstrated that the expected rate of return on the portfolio would go from approximately 7.75 percent to 8.75 percent over the investment horizon that is typically two to three investment cycles (a five- to eight-year period). This would include both public and private equities with a nominal increase in risk. Therefore, large cap equities would be reduced to 25 percent of the portfolio and small cap stocks would increase to 11 percent. Treasury is also recommending that international stocks be increased from 10 percent to 24 percent of the portfolio. Fixed income is essentially unchanged from 25 to 30 percent and Treasury typically targets at zero allocation for cash. Although the prior portfolio had a range for alternative or real estate assets from zero to 10 percent, Treasury is recommending an
actual 10 percent target allocation for that sector. Treasury is anticipating bringing to the May OIC meeting a new group of investments that is known as a fund-to-funds in the private equity space; he noted, “This group is bringing to market a large cap equity/private equity offering that looks very compelling for this portfolio.” Mr. Mueller concluded his report by stating, “the bottom line is this restructuring in terms of access-allocation we think will benefit the fund going forward.” He also stated that Treasury is comfortable with the public equity managers used by OUS (Battery-March, BGI, and Arrowstreet) and with the addition of the private equity piece, he believes the portfolios will be structured very well.

In response to Chair Blair’s question concerning the determination of the appropriate balance of risk and return for the portfolio, Mr. Mueller explained that Treasury endeavors to preserve the purchasing power of the portfolio while providing current income. To maintain a balance between those two competing needs of the portfolio, they use a “sharp ratio,” which is how much risk is being taken for the return received. The sharp ratio in the portfolio was about 0.4, the expected return was 7.75, with a standard deviation of about 11 percent that yields a sharp ratio of 0.39. This revised portfolio, based on expected returns, would be 8.75 and the increase in risk would be 13.6, with a sharp ratio of 0.39.

Director Lorenzen asked what factors played into the decision to ramp up the international securities. Mr. Mueller replied that they look at several factors: the economy has become more global, and having a home-country bias isn’t in keeping with the investable universe. Secondly, there are diversification benefits to be gained by including international equities. Finally, there was a change in the benchmark when moving from T. Rowe Price to Arrowstreet to the MSCI World XUS index. He explained that allows the manager not just to invest in developed equity markets, but emerging markets, as well. This adds incremental return and diversification benefits, resulting in 12 percent of that benchmark being represented by emerging market countries, creating a more efficient portfolio by opening up the opportunity set of investments available.

In response to Director Sohn’s question concerning the percent of private equity recommended, Mueller advised that the private equity would comprise 10 percent of the portfolio, or $6 million. Presently, Treasury envisions dividing those investments into approximately equal weight—$2 million each: 1) in large fund-to-fund private buy-out space (for example Texas Pacific Group, KKR, Apollo, or Blackstone); 2) venture capital; and 3) real estate (private or public). This would result in 3.3 percent of the portfolio invested in those three subcategories of alternatives.

Chair Blair asked what the Board’s responsibility and accountability was in making investment decisions. Mr. Green replied that the Board would have input on the asset-allocation expenditures but the Treasury, working with the OIC, would be responsible for selecting investment managers and monitoring those managers.

Director Blair thanked Mr. Green and Mr. Mueller for their report and called for a motion to accept the report as presented in the docket. Director Lorenzen moved to accept the report,
seconded by Director Blair. Those voting in favor: Directors Lorenzen, Von Schlegell, and Blair. Motion passed.

b. Managerial Reporting – Quarterly Management Report

COMMITTEE DOCKET:

The quarterly management reports as of December 31, 2005, are available from the Board’s Office. After reviewing the Budget Projections Summary received from each university and comparing prior year results, the following were noted:

**Education and General–Limited:** Revenue collections are up 4.0 percent year-to-date above the prior year and are projected to be 4.6 percent above 2004-05 at year-end. The increase in revenue is primarily due to increased tuition and state funding. Spending is up 6.8 percent year-to-date above the prior year and is projected to be 6.4 percent above 2004-05 at year-end. The increase in spending is primarily due to pay raises and increased benefit costs.

Revenue is projected to be $1.8 million, or 0.2 percent, above the Adjusted Budget and spending is projected to be $5.5 million, or 0.6 percent, above budget at year-end.

The ending fund balance of the Systemwide Education and General–Limited is projected to decrease to 10.2 percent of operating revenues compared to 13.0 percent at the end of the prior year. As previously noted, this decrease is primarily a result of the following: limited tuition increases, pay increases related to the SEIU contract, salary increases for faculty and administrative staff, benefit cost increases, and retirement plan increases. At 10.2 percent of operating revenues, the Systemwide projected June 30, 2006, fund balance of Education and General–Limited is within the Board directed reserve level of 5-15 percent.

While the Systemwide fund balance is projected to be fairly consistent with the Adjusted Budget (Adjusted Budget –10.8 percent and Projection –10.2 percent), fund balances at some universities are projected to change significantly. EOU’s fund balance as a percent of operating revenues is projected to be 6.7 percent, a decrease of 35 percent from the Adjusted Budget and a decrease of 50 percent from the beginning of the year. WOU’s fund balance as a percent of operating revenues is projected to be 6.3 percent, an increase of 21 percent from the Adjusted Budget and a decrease of 55 percent from the beginning of the year.

The Chancellor’s Office ending fund balance exceeds the recommended reserve level of 5-15 percent of Operating Revenue. The current year plan projects a 21 percent spend down of the Chancellor’s Office fund balance. The remaining fund balance will continue to be spent down in the future with non-recurring items.

**Auxiliary Enterprises:** Auxiliary Enterprises is projected to have $7.2 million of expenditures over revenue compared to the Adjusted Budget of $10.1 million of expenditures over revenue.
Auxiliary Enterprises’ fund balance is projected to be $197.5 million, a 3.6 percent increase over the Adjusted Budget.

**Designated Operations, Service Departments, and Clearing Funds:** The projected ending fund balance of $24.8 million is comparable to the Adjusted Budget.

**Staff Recommendation to the Committee:**
Staff recommended that the Committee accept the Budget Projections Summary for December 31, 2005. The next management reports for the quarter ending March 31, 2006, are scheduled to be presented to the Board in May 2006.

**COMMITTEE DISCUSSION AND ACTION:**
Chair Blair called on Controller Green to provide the Quarterly Management Reports. Mr. Green first pointed out that a change was made in the realization rate calculation for the current year. In the past, that calculation was computed against the adjusted budget and that continues to be done even after projections were changed. This made it difficult to understand when comparing realization and burn rates between this year and the prior year. Therefore, that calculation was changed to calculate against the latest projected numbers that provides clarity in the reports. He also noted that the timing of the second quarter cut-off was at the end of fall term before winter term enrollment was finalized. Due to the Board’s important work on other aspects of the System management, this report was delayed and interim comments were then added to the report. It is anticipated that the legislative funding for salaries, which is approximately $29 million, may be reduced by E-Board action in June. There is an $8 million estimate in this fiscal year earmarked for that money.

Chair Blair observed that there were a lot of things that have changed from the Legislative Adopted Budget to the Adjusted Budget. “The changes are fairly significant. The state General Fund revenues go up by $10 million, but the expenses go up by $28 million. As a result, the net of all of that is that we have about $15 million more burn in the fund balance than what we had originally in the Legislatively Adopted Budget. Can you give me a quick answer as to why that is?” he questioned.

The salary work on the campuses is largely responsible for the expenditure increases. The bottom line, Director Blair summarized, is that OUS has basically banked on $10 million from the state, but there is no assurance it will be there.

**Summary of Institutional Reports**
Eastern Oregon University – the total Education and General revenues and transfer-in are projected to be $75,000, just slightly less than initial projections. This is primarily due to enrollment being under projections. Total expenditures and transfer-out are projected to be approximately $936,000, or 3.3 percent higher than the adjusted budget, primarily due to personal services cost increases not anticipated in the adjusted budget. The year-to-date
realization rates for tuition and fees and burn rates for personal services and supplies and services are consistent with the prior year. The ending fund balance is projected to be 6.7 percent of operating revenues, compared to the adjusted budget projection of 10.3 percent. EOU is finalizing a three-year plan that will result in a reduction in fund balance in fiscal 2006-07 to 4.2 percent and an increase in fund balance to 5 percent in fiscal 2007-08. Mr. Green indicated that there was risk in the planning because it anticipates some enrollment increases that may or may not be realized. “From my perspective in the Chancellor’s Office, it is difficult to predict if it is a solid, achievable plan at this point.”

President Fatemi opined that he felt it was a realistic plan, since there is a great deal of work being done in the recruitment area. With higher enrollments and some increase in tuition rates, projected reductions in expenditures, he thinks EOU will be successful. Additionally, EOU has submitted 31 grants and, of the 18 that have been announced, they have received 15 of them. “If that ratio continues, we will probably generate about $200,000 or more this year and increase it to $300,000 or $400,000 in the coming year.” It was agreed that President Fatemi would provide an update at the next Finance and Administration meeting.

Oregon Institute of Technology – The projected tuition and resource fees in the Education and General area have been adjusted downward to reflect lower than anticipated enrollment, which is four percent below the prior year and five percent below the current year projections. The projected decrease in revenues is expected to be offset by reductions in spending. Positions have been frozen. The ending fund balance is projected to be 10.5 percent of operating revenues, compared to the adjusted budget projection of 10.3 percent. The burn rate for S&S is low compared to the prior year rate.

Oregon State University – Education and General Funds total revenues and transfers-in are projected to be $310 million, which is approximately $2.6 million or 0.8 percent higher than the adjusted budget. The increase in projected revenue is due to: increases in other revenue related to higher than expected indirect cost recovery and sales and service income and a downward adjustment to tuition and fees related to lower than projected enrollment. The indirect cost recovery is primarily due to the amount of federal grant activity in which OSU is involved and there is a question of whether this is sustainable in the immediate future. Total expenditures and transfers out are expected to be $323 million, or approximately $4.2 million or 1.3 percent higher than the adjusted budget. The projected net loss has increased from $10.9 million in the adjusted budget to $12.5 million. Consequently, the projected ending fund balance is expected to be 8.1 percent of operating revenues, compared to 8.7 percent in the adjusted budget and 12.5 percent at the prior year-end. OUS is planning a balanced budget for fiscal year 2006-07.

Portland State University – Total revenues and transfers-in are projected to be $181 million, which is consistent with the adjusted budget. Expenses and transfers-out are projected to be $1.1 million or .6 percent higher than the adjusted budget. Increases are due primarily to estimated salary raises related to the AAUP contract settlement. Year-to-date realization rates for tuition and fees and burn rates for personal services are consistent with the prior year. The
ending fund balance is projected to be 10 percent of operating revenues compared to the adjusted budget projection of 11.3 percent and prior year ending fund balance of 12.8 percent. PSU is currently taking steps to curb its spend-down of fund balance for the 2006-07 fiscal year. Year-to-date realization for auxiliary enterprises for revenue and expenses are higher than the prior year, primarily due to the timing of revenue from University Place and the Broadway building beginning in 2004.

**Southern Oregon University** – Total revenues and transfers-in are projected to decrease $238,000 or 0.6 percent from the adjusted budget. This is primarily due to decreased enrollment of approximately 1 percent. Total expenses and transfers-out are projected to decrease $184,000, or 0.5 percent from the adjusted budget due to reduced services and supplies (S&S), partially offset by smaller increases in personal services due to the salary increases. Year-to-date realization rates for tuition and fees and burn rates for personal services are consistent with the prior year. The ending fund balance is projected to be 6.9 percent of operating revenues compared to the adjusted budget projection of 7 percent and prior year ending fund balance of 9.9 percent. The latest information from SOU indicates additional spend down of fund balance of approximately $200,000 above what is shown which results in a lower projected ending fund balance to 6.3 percent of operating revenues.

**University of Oregon** – Education and General Funds projected total revenues and transfers-in have been reduced by $500,000, or 0.2 percent from the adjusted budget. This is due primarily to a 0.9 percent reduction in tuition and resource fees from decreased enrollment, partially offset by an increase in other revenue related to the indirect cost recoveries and revenue from the sale of easement rights to the Lane Transit District. Year-to-date realization rates for tuition and fees and burn rates for personal services and S&S are consistent with the prior year. Ending fund balance is projected to be 12.3 percent of operating revenues compared to the adjusted budget amounts of 12.5 percent and the prior year ending balance of 11.7 percent. The February 2006 realizations rates are in line with expectations.

**Western Oregon University** – Total expenditures and transfers-out are projected to decrease $305,000 or 0.8 percent from the adjusted budget due to deferment of hiring to fill vacancies and reduced S&S expenditures. Year-to-date realization rates for tuition and fees are consistent with the prior year. The ending fund balance is projected to be 6.3 percent of operating revenues compared to the adjusted budget projection of 5.2 percent and prior year ending fund balance of 14 percent. The latest projections show a $360,000 reduction in spending primarily due to strategic cost reductions. The resulting projected 2006 ending fund balance, as a percent of operating revenues, is 7.3 percent.

**Chancellor’s Office** – Total revenue and transfers-in are projected to increase $500,000 from the adjusted budget due to higher than anticipated centralized activities and the indirect cost recovery from the institutions. Total expenditures and transfers-out are projected to increase $353,000 from the adjusted budget primarily due to previously unbudgeted expenditures for the sustainability project, presidential compensation study, and technology support. Ending fund balance is projected to be 46.1 percent of revenues compared to the adjusted budget.
projection of 46.7 percent and the prior year at 58.3 percent. As an interim update, realization rates are in line with expectations. Additionally, the Emergency Board approved a $2 million funding for the Integrated Transfer System. Revenue and expenditure projections will be increased for the third quarter report.

Director Nesbitt observed that many of the institutions reported lower than anticipated enrollments and questioned the impact of that on the next biennium funding. Chancellor Pernsteiner responded that there would be less in the way of tuition income in 2005-06 and, therefore, a lower basis for tuition income in 2006-07, unless there is major enrollment growth in that year. “Since more than two-thirds, or roughly two-thirds of the Education and General budget now comes from tuition, it puts greater pressure on the campuses financially. If you noticed, we have five campuses that have under-realized revenue in the current year,” he pointed out. “We are in a situation where most of the campuses are using fund balances to get through this year. It shows the fragility of the System now that we are as dependent on tuition income as we are. It bears very close watching,” he concluded.

Another area that needs to be watched is the increased energy costs that are in the millions of dollars above budget. “At EOU alone, it is $400,000 and Eastern is the campus with the smallest physical plant. Those are unanticipated costs and they have to be covered somehow and the historical way in which they were covered the last time there was an energy cost spike was a resource fee. That opportunity is no longer available because of a budget note,” Chancellor Pernsteiner reminded the Board.

In concluding the discussion, Chair Blair commended staff of the Chancellor’s Office and the institutions for how the process has developed. “This is infinitely clearer than where we were a year-and-a-half ago,” he offered. Secondly, he observed that the nature of some of the trade-offs that have to be made are extraordinarily painful. On the one hand, faculty are one of the most critical aspects of the institutions and their salaries are below where they should be. At the same time, he added, “When we look at these numbers, we’re clearly in a vice. We have a situation where we are constrained on revenues and we are not entirely in control of our cost structure. My comment for the institutions is that you are doing a remarkable job trying to keep these organizations together financially. In our long-range planning, we are trying to give ourselves a little bit more flexibility to make some of the tradeoffs that we think we can do to operate in this environment,” he concluded.

It was moved by Director Von Schlegell and seconded by Chair Blair to accept the staff report. Motion carried.

c. **2006-07 OUS Operating Budget Adoption Process**

**COMMITTEE DOCKET:**

The purpose of this docket item was to discuss with the Board the process and schedule for preparing and adopting the 2006-07 OUS Operating Budget.
The following assumptions were made in developing the budget:

1. The 2006-07 campus allocation of General Fund will be based upon the Resource Allocation Model (RAM) using the 2001-2003 enrollment and will result in the same cell allocation as 2005-06. Allocations for the Western Undergraduate Exchange Program (WUE) and Fee Remission Equity will no longer be made.
2. The allocation for the tuition and resource fee buy-down has not been finalized as the budget staff is working with the campuses to ensure compliance with the budget note requirement to limit the undergraduate resident tuition increase to no more than 3 percent and limit resource fees to 9.1 percent of gross tuition.

The recommended 2006-07 budget and the associated proposed fee book will be presented for discussion and approval to the Board at the June meeting. In addition, the budget staff will report on the impact of the public service cuts on each campus.

The request for release of the 2005-2007 funding for salary increases is expected to be submitted to the June Emergency Board. Subsequent to the release of funding, the Board will be presented with a proposed adjustment to the 2005-06 and 2006-07 budgets.

Additionally, the Fee Book proposal will also reflect an adjustment to the staff fees benefit program to comport with the new IRS definition of a dependent, as well as other minor housekeeping changes. The change will require a first reading at the May Board meeting and be presented for approval at the June Board meeting.

**Staff Recommendation to the Committee:**
The staff recommended the Finance and Administration Committee approve this approach and process.

**COMMITTEE DISCUSSION AND ACTION:**

Assistant Vice Chancellor for Budget Operations, Glen Nelson, reviewed the process for adopting the Operating Budget. The following assumptions were made:

- The 2006-07 campus allocation of General Fund will be based on the RAM, using the 2001-2003 enrollment figures. This will result in the same cell allocation as the 2005-06 budget.
- Staff is working on the allocation of the tuition and resource fee buy-down and with the institutions to ensure compliance with the budget note requirement to limit the undergraduate resident tuition increase to no more than 3 percent and to limit the resource fees to the 9.1 percent of gross tuition.

The impact on the campuses of the public services cuts will be discussed in May. There will be a fee book proposal that will reflect an adjustment to the staff fees benefit program as well as some minor housekeeping updates.
Director Nesbitt questioned continuing to use the 2001-2003 enrollment base in the calibration of the RAM. Chancellor Pernsteiner responded that staff has looked at bringing the RAM up to current enrollment. “In doing that,” he added, “there would be major shifts away from the regional campuses and to OSU and PSU. But, as we just discussed with regard to the fragility of the financial condition of those campuses, I would opt not to do that for 2006-07. We will be bringing you, for 2007-2009, a policy option package that would fund the regional campuses on a different basis than we do right now. That will allow us, then, perhaps to recalibrate the budget in ways that may make more sense without having to immediately go into what would be some fairly major budget reductions at some of the regional campuses if we were to re-index the RAM to current enrollment.”

It was moved by Director Lorenzen and seconded by Director von Schlegell to approve the staff recommendation. Motion carried.

d. 2007-2009 OUS Biennial Operating Budget Request Process

COMMITTEE DOCKET:

The purpose of this docket item was to discuss with the Board the process for developing and adopting the OUS Operating Budget request for the 2007-2009 biennium. The budget request is due to the Department of Administrative Services (DAS) on September 1, 2006.

In order to meet this deadline, numerous activities must occur during the next three months. There are three key components for preparing the OUS operating budget submission to DAS. The budget staff prepares the Essential Budget Level (EBL) per DAS instructions; this is a mechanical task that is currently being addressed by budget staff.

The second component is the preparation of exception requests. These requests are exceptions that reflect extraordinary increases to be incorporated into the EBL; the budget staff is preparing the following exception requests:

1. **Library acquisitions.** This request acknowledges the continued increase in costs associated with replacing library materials and subscriptions and requests an adjustment for the difference between the increased cost and the rate of inflation.
2. **Utilities.** This request factors in the large utility rate increases that OUS has experienced during the current biennium. It is only based upon the increase in rates per unit rather than the volume increase.
3. **Building Materials.** Costs for building materials have increased at a rate greater than inflation and this request asks for the increased costs above inflation to be added to the EBL.
4. **HEPI.** Use of the Higher Education Price Index (HEPI), rather than the CPI, to calculate the inflation adjustment.
5. **Graduate Assistant Health Insurance.** This request seeks inclusion of the cost for graduate assistant health insurance into the EBL.

6. **Faculty Step Increase.** Step increases are included in the roll-up for classified employees, but step increases for faculty are not included in the salary roll-up. This request includes a step increase for faculty to be included in the EBL.

7. **Assessment – Fund Split.** This exception rebalances the fund split for state assessments to OUS between the General Fund and other funds.

The exception requests are submitted to DAS and subject to their approval for incorporation into the EBL.

The third component is the development of the Policy Packages. A Policy Package does not require a change in statute. It is a request for an appropriation of funds for a specific purpose. The policy packages are being prepared by the working groups, assisted by University and Chancellor’s Office Staff. The policy packages currently being developed are listed below:

<table>
<thead>
<tr>
<th>Policy Package</th>
<th>Owner</th>
<th>Board Liaison</th>
<th>Work Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunity Grant</td>
<td>Robert Mercer</td>
<td>Nesbitt</td>
<td>AAWG</td>
</tr>
<tr>
<td>Healthcare Initiative (Nursing and Health Profession)</td>
<td>Martha Anne Dow</td>
<td>Dyess</td>
<td>AEED</td>
</tr>
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<td>SB 853 ($10 million Tax Credit)</td>
<td>Ben Rawlins</td>
<td>Dyess</td>
<td>AEED</td>
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<td>Sustainability</td>
<td>Susan Bragdon</td>
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<td>Ben Rawlins</td>
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<td>Faculty Salaries—Market Adjustment</td>
<td>Susan Weeks</td>
<td>Dyess</td>
<td>AEED</td>
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<td></td>
<td>Jay Kenton</td>
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<td>ETIC</td>
<td>Bruce Schafer</td>
<td>Dyess</td>
<td>AEED</td>
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<td>Economic Development—Statewide Public Service Programs</td>
<td>Nancy Heiligman/OSU</td>
<td>Dyess</td>
<td>AEED</td>
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<tr>
<td>Veterinary Diagnostic Lab</td>
<td>Nancy Heiligman/OSU</td>
<td>Dyess</td>
<td>AEED</td>
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<td>Institute for Ecosystem and Climate Change</td>
<td>Nancy Heiligman/OSU</td>
<td>Dyess</td>
<td>AEED</td>
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<td>General Education Outcomes</td>
<td>Karen Sprague</td>
<td>Schuette</td>
<td>EDP</td>
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<td>Math/Science/Bilingual Education</td>
<td>Yvette Webber-Davis</td>
<td>Schuette</td>
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<td>OTM and AAOT Related Items</td>
<td>Robert Mercer</td>
<td>Schuette</td>
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<td>ATLAS</td>
<td>Mark Endsley</td>
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<td>IDTS Phase II</td>
<td>Robert Mercer</td>
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</tr>
<tr>
<td>Pre-Engineering and Applied Science Strategy</td>
<td>Bruce Schafer</td>
<td>Schuette</td>
<td>EDP</td>
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<td>Rural Access/Distance Education</td>
<td>Khosrow Fatemi</td>
<td>Schuette</td>
<td>EDP</td>
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<td>First Generation Student Support</td>
<td>Robert Mercer</td>
<td>Schuette</td>
<td>EDP</td>
</tr>
<tr>
<td>Retention/Graduation</td>
<td>Dave Woodall</td>
<td>Schuette</td>
<td>EDP</td>
</tr>
</tbody>
</table>
Each policy package will be reviewed by a working group or a Board committee. During April and May, the working groups will be reviewing and prioritizing the packages for their area of emphasis. It is recommended that the Board be included in the process of prioritizing all policy packages at the June Board meeting.

The OUS operating budget request, including the final policy packages in priority order, will be presented at the July Board meeting for Board approval.

The OUS capital budget is also due to DAS on September 1, 2006, and Certificates of Participation (COP) financing requests are due to DAS on May 15, 2006. OUS staff will recommend the level of COP financing needed at the May Board meeting. The campuses will present their capital projects at the June Board meeting for consideration and prioritization. The OUS capital budget request will be presented at the July Board meeting for Board approval.

The following calendar summarizes the proposed schedule.
Proposed Budget Calendar

<table>
<thead>
<tr>
<th>2007-09 Operating Budget</th>
<th>2007-09 Capital Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 10, 2006</td>
<td>Draft Policy Packages Due (brief)</td>
</tr>
<tr>
<td><strong>APRIL BOARD MEETING</strong></td>
<td>No action required</td>
</tr>
<tr>
<td>April Board Workgroups</td>
<td>Priority Policy Packages</td>
</tr>
<tr>
<td>April 4 – AAWG</td>
<td>Priority Policy Packages</td>
</tr>
<tr>
<td>April 6 – EDP</td>
<td>Priority Policy Packages</td>
</tr>
<tr>
<td>April 10 – AEED</td>
<td>Priority Policy Packages</td>
</tr>
<tr>
<td>April 28, 2006</td>
<td>Detailed Draft Policy Package Due</td>
</tr>
<tr>
<td><strong>MAY BOARD MEETING</strong></td>
<td>Discussion and approval of 2007-2009 COPs request</td>
</tr>
<tr>
<td>May F&amp;A Committee</td>
<td>Priority Policy Packages</td>
</tr>
<tr>
<td>May Board Workgroups</td>
<td>Priority Policy Packages</td>
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<tr>
<td>May 4 – EDP</td>
<td>Priority Policy Packages</td>
</tr>
<tr>
<td>May 8 – AEED</td>
<td>Priority Policy Packages</td>
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<tr>
<td>TBD – AAWG</td>
<td>Priority Policy Packages</td>
</tr>
<tr>
<td><strong>JUNE BOARD MEETING</strong></td>
<td>Discuss, Integrate and Set Priorities for all Policy Packages</td>
</tr>
<tr>
<td><strong>JULY BOARD MEETING</strong></td>
<td>Adopt Budget Request including Policy Packages</td>
</tr>
</tbody>
</table>

Staff recommendation to the Committee:
The staff recommended the Finance and Administration Committee approve this recommended approach and process.

COMMITTEE DISCUSSION AND ACTION:
Vice Chancellor for Budget Operations, Glen Nelson, reminded the Board that the budget request is due to the Department of Administrative Services (DAS) on September 1, 2006. The budget request will have three major components: 1) preparation of the Essential Budget Level (EBL) per DAS instructions; 2) preparation and submission of exception requests that reflect extraordinary increases in certain items that OUS would request that DAS incorporate into the EBL; and 3) development of the policy packages. Twenty-two policy packages were listed in the docket materials and three more have been added: 1) Policy Consensus Institute; 2) Regional University Support; and 3) Chancellor’s Office package to improve accountability.
The Capital Budget also must be submitted to DAS at the same time in September. There are several parts to this budget: 1) the COPs financing requests are due December 15; 2) proposed 2007-2009 capital budgeting evaluation criteria; and 3) the capital projects will be presented to the Board at the June meeting, at which time the Board will be asked to prioritize and approve the projects.

Director Lorenzen reminded the Board that, for the last legislative session, three critical overarching areas were identified where the System was deficient: faculty salaries, deferred maintenance, and student-faculty ratios. He observed that he didn’t see those emphasized for the coming session. Chancellor Pernsteiner responded that faculty salary issues were being developed in the EBL rollup and in the policy option packages. Deferred maintenance will be a part of the capital budget which has not yet been presented to the Board, and there is nothing in particular with regard to student-faculty ratios, but enrollment growth is being dealt with at the margin. He opined that there isn’t anything in the budget request that deals with the fundamental change that has occurred over the last several years, having gone from about 20-1 to roughly 27-1 in terms of the ratio of students to regular faculty.

Director Van Vliet said that he didn’t feel the Board could “operate on a $691 million budget in 1991 and a little over that amount in 2005 and tell the public that we are going to keep the System the way it is by continuing to raise the tuition levels. Additionally, the long-range plan is not complete so the campuses don’t know what to expect and they continue to start new programs. And the Cascade campus is indicating that they do not have sufficient operating funds. I think you have to shoot the moon and really go for it. I think we have to yell and scream and be in the newspaper all of the time. If we’re not, we won’t get any attention. People say, ‘Well, you got by last time, you’re doing a great job, keep going again,’ and that is not the message that we want to send.”

In response, Chair Blair indicated that there is a process of mechanically putting together the pieces of the budget. Then there is another whole strategy around how we approach the budget process in the next biennium. “To some degree, Tony, what you’re talking about is the second one and the thing that is a little shocking about this is I thought we just finished this and here we are starting it again.”

Chancellor Pernsteiner added that in this special session, it is not a revenue problem. Rather, the ability of the state to actually move money around is so limited by the constitutional requirements of the “kicker” that it is very difficult for the governor or the legislature to deal with what they recognize are major issues. “The discussion on K-12 that they will have will be limited to lottery profits and, in relative terms to the needs, are fairly minor amounts of money compared to what K-12, or the community colleges, or the universities would need just to maintain operations,” he concluded.

It was moved by Director Lorenzen and seconded by Director von Schlegell to approve the staff recommendation. Motion carried.
3. **REPORT ITEMS**

   a. **First Read/Draft of Proposed OUS Employee Background Check Policy**

   **COMMITTEE DOCKET:**

   **Background:**
   House Bill 2157 (Oregon Laws 2005) permits the State Board of Higher Education to adopt rules to conduct background checks on employees holding certain positions. The draft rule has been circulated for review and comment to the Human Resources directors. The first-read draft rule is before the Finance and Administration Committee for review and comment.

   **Overview:**
   The draft rules propose to do the following:

   Authorize the Chancellor’s Office and each OUS institution to establish policies to conduct criminal background checks on an employee, contractor, vendor, or volunteer who will be working on providing services in a capacity that is designated as “critical” or “security-sensitive.”

   This rule is structured by having the Board provide an overall authorization to conduct background checks. The campuses would then be free to more specifically delineate which categories of employment and which positions will be subject to the checks.

   Codify the Chancellor’s Office and each OUS institution’s policies to perform employment history checks, educational history checks, industry-specific credentials checks, motor vehicle checks, and credit history checks.

   **OREGON UNIVERSITY SYSTEM**
   **DIVISION X**
   **BACKGROUND CHECKS**

   580-XXX-XXXX
   Purpose
   The Oregon University System is committed to protecting the security, safety, and health of faculty, staff, students, and others, as well as safeguarding the assets and resources of OUS and each of its universities. To meet these objectives, the Board delegates to the Chancellor and president of each university electing to conduct background checks responsibility for developing institutional policies governing the conduct of fingerprint-based criminal records checks, criminal history checks, employment history checks, educational history checks, industry-specific credentials checks, motor vehicle checks, and credit history checks. Institutional policies must be consistent with this rule and applicable Oregon State Laws and Federal Law.
Definitions

(1) “Credit history check” means information provided by a consumer reporting agency, which is used or expected to be used or collected in whole or in part for the purpose of serving as a factor in determining if anything in the individual’s background would make the individual unsuitable or ineligible to perform the responsibilities of the position.

(2) “Criminal history check” means the process used by the Chancellor’s Office and OUS institutions to conduct criminal records background checks on candidates to verify that that candidate does not have any undisclosed criminal convictions or pending criminal charges and accurately states the disposition of criminal charges. A conviction includes a plea of no contest, plea of guilty, or any court determination of guilt. Criminal offender information will be obtained using computerized and/or fingerprint-based processes. Statewide criminal records checks will be performed by the Department of State Police (OSP) using the Oregon Law Enforcement Data System (LEDS). A nationwide criminal records check and/or a state-specific criminal history check may be obtained from the OSP through the Federal Bureau of Investigation (FBI).

(3) “Critical” or “Security-Sensitive Position” means and is limited to positions or contracts for services in which a person:

(A) Has direct access to persons under 18 years of age or to student residence facilities because the person’s work duties require the person to be present in the residence facility;

(B) Is providing information technology services and has control over, or access to, information technology systems that would allow the person to harm the information technology systems or the information contained in the systems;

(C) Has access to information, the disclosure of which is prohibited by state or federal laws, rules or regulations, or information that is defined as confidential under state or federal laws, rules or regulations;

(D) Has access to property where chemicals, hazardous materials, and other items controlled by state or federal laws or regulations are located;

(E) Has access to laboratories, nuclear facilities, or utility plants to which access is restricted in order to protect the health or safety of the public;

(F) Has fiscal, financial aid, payroll, or purchasing responsibilities as one of the person’s primary responsibilities; or

(G) Has access to personal information about employees or members of the public including Social Security numbers, dates of birth, driver license numbers, medical information, personal financial information, or criminal background information.

(4) “Education history check” means verification of the relevant educational credentials beyond high school listed on a candidate’s application, resume or vita, or otherwise cited by the candidate that qualify the candidate for the position sought.

(5) “Employment history check” means a review of all employment during a specified period of time preceding application for the position to ensure the candidate actually worked in the
positions cited that qualify him/her for the position sought. Verification includes dates of employment and reasons for leaving each position.

(6) “Fingerprint-based criminal record check” means a criminal background check using subject individual’s fingerprints. Fingerprint-based criminal record checks and criminal records checks may only be requested from the Department of State Police for non-criminal justice purposes. If a nationwide criminal records check of a subject individual is necessary, the Chancellor’s Office or OUS institutions may request that the OSP conduct the check, including fingerprint identification, through the FBI.

(7) “Industry-specific credentials check” means verification that the candidate possesses all the degrees, licenses, and certifications listed on the application, resume, or vita required for the position sought and that license, or certifications are current.

(8) “Motor vehicle check” means verification that the candidate possesses the appropriate type of driver’s license and does not have any undisclosed motor vehicle violations and citations that would make the individual unsuitable or ineligible to perform the responsibilities of the position.

(9) “Subject individual” means a person from whom the Chancellor’s Office or OUS institutions may require criminal history checks, employment history checks, educational history checks, industry-specific credentials checks, motor vehicle checks, and credit history checks as a condition to provide services as a contractor, vendor, employee, or volunteer. Subject individual includes persons currently serving as a contractor, vendor, employee, or volunteer who seek appointment as an employee or volunteer or engagement as a contractor or vendor that is designated as a critical or security-sensitive position.

(10) “OUS institution” means an institution of higher education in the State of Oregon under the authority of the Oregon State Board of Higher Education.

Stat. Auth.: ORS 181.534, ORS 352.012
Stats. Implemented: ORS 181.534, ORS 352.012
Hist:

580-XXX-XXXX

Background Check Policy

(1) The Chancellor’s Office and OUS institutions may conduct background checks only on subject individuals that are applying to provide services as an employee, contractor, vendor, or volunteer.

(2) The Chancellor’s Office and OUS institutions may conduct fingerprint-based criminal background checks or criminal background checks only on subject individuals who seek to provide services as an employee, contractor, vendor, or volunteer that will be working on providing services in a capacity that is designated as a critical or security-sensitive position.

Stat. Auth.: ORS 181.534, ORS 352.012
Stats. Implemented: ORS 181.534, ORS 352.012
Hist:
580-XXX-XXXX

Obtaining Criminal Offender Information
Any criminal background check policy instituted by the Chancellor’s Office or OUS institution must be in consultation with the Department of State Police and must be implemented through institution specific policies that include but need not be limited to:
(1) Specifying categories of subject individuals who are subject to criminal records checks.
(2) Specifying the information that may be required from a subject individual to permit a criminal record check.
(3) Specifying which programs or services are subject to the checks.
(4) Specifying the types of crimes that may be considered in reviewing criminal offender information of the subject individual.
(5) Specifying when a nationwide fingerprint-based criminal records check must be conducted.
If a nationwide fingerprint-based criminal records check is to be required, the Chancellor’s Office or OUS institution must take into consideration the additional cost associated with the check.
(6) Establish fees, if any, in an amount not to exceed the actual cost of acquiring and furnishing background information. An established fee may be waived by an appropriately designated official of the employer.
Stat. Auth.: ORS 181.534, ORS 352.012
Stats. Implemented: ORS 181.534, ORS 352.012
Hist:

580-XXX-XXXX

Background Check Notice to Applicants
Application forms and solicitations for contract and vendor services must give sufficient notice to any prospective employee, contractor, vendor, or volunteer that the position may require a fingerprint-based criminal record check, criminal history check, employment history check, education history check, industry-specific credentials check, motor vehicle check, or credit history check.
Stat. Auth.: ORS 181.534, ORS 352.012
Stats. Implemented: ORS 181.534, ORS 352.012
Hist:

580-XXX-XXXX

Confidentiality
Any information obtained in the background check, including criminal offender information is confidential. The Chancellor’s Office and OUS institutions in adopting policies must restrict dissemination of information obtained in the background check. Only those persons, as identified by the Chancellor’s Office or OUS institutions, with a demonstrated and legitimate need to know the information may have access to background check records.
Stat. Auth.: ORS 181.534, ORS 352.012
Stats. Implemented: ORS 181.534, ORS 352.012
Hist:
Subject Individual’s Access to Background Check Records

The Chancellor’s Office and OUS institutions must permit a subject individual for whom a fingerprint-based criminal records check or criminal background check was conducted to inspect the individual’s own state and national criminal offender records and, if requested by the subject individual, provide the individual with a copy of the individual’s own state and national criminal offender records.

The Chancellor’s Office and OUS institutions must permit a subject individual for whom a background check was conducted to inspect and provide the individual with a copy of obtained background check records, if requested by the subject individual.

Stat. Auth.: ORS 181.534, ORS 352.012
Stats. Implemented: ORS 181.534, ORS 352.012
Hist:

Pre-employment Status

(1) The Chancellor’s Office and OUS institutions must determine when and under what conditions a subject individual may be hired on a preliminary basis pending a criminal records check or other background information check.

(2) The Chancellor’s Office and OUS institutions must define the conditions under which a subject individual may participate in training, orientation, and work activities pending completion of a criminal records check or other background information check.

Stat. Auth.: ORS 181.534, ORS 352.012
Stats. Implemented: ORS 181.534, ORS 352.012
Hist:

False Statements or Refusal to Consent to Background Records Check

(1) The Chancellor’s Office and OUS institutions must determine whether a subject individual is fit to hold a position, provide services, or be employed if background information check evidences that the applicant made a false statement regarding the background information provided.

(2) If a subject individual refuses to consent to background records check or refuses to be fingerprinted, employment to the individual must be denied.

Stat. Auth.: ORS 181.534, ORS 352.012
Stats. Implemented: ORS 181.534, ORS 352.012
Hist:

Fitness to Hold Position Based on Criminal Records Check

The Chancellor’s Office and OUS institutions must use these and resulting policies to determine whether the subject individual is fit to hold a position, provide a service, or be employed based upon the criminal records check obtained, or on any false statement made regarding criminal
history. In making the fitness determination, the Chancellor’s Office or OUS institution must consider:
(1) The nature of the crime;
(2) The facts that support the conviction or pending indictment or that indicate the making of the false statement;
(3) The relevancy, if any, of the crime or the false statement to the specific requirements of the subject individual’s proposed position, services, or employment; and
(4) Intervening circumstances relevant to the responsibilities and circumstances of the position, services, or employment. Intervening circumstances include but are not limited to:
(A) The passage of time since the commission of the crime;
(B) The age of the subject individual at the time of the crime;
(C) The likelihood of a repetition of offenses or of the commission of another crime;
(D) The subsequent commission of another relevant crime;
(E) Whether the conviction was set aside and the legal effect of setting aside the conviction; and
(F) A recommendation of an employer.
Stat. Auth.: ORS 181.534, ORS 352.012
Stats. Implemented: ORS 181.534, ORS 352.012
Hist:

580-XXX-XXXX
Contested Case Process for Criminal Records Check
The Chancellor’s Office and OUS institutions must establish a contested case process by which a subject individual may appeal the determination that the individual is not fit to hold a position, provide services, or be employed on the basis of information obtained as a result of a criminal records check. Challenges to the accuracy or completeness of information provided by the OSP, the FBI, and agencies reporting information to the OSP or FBI must be made through the OSP, FBI, or reporting agency and not through the contested case process.
Stat. Auth.: ORS 181.534, ORS 352.012
Stats. Implemented: ORS 181.534, ORS 352.012
Hist:

580-XXX-XXXX
Notice of Adverse Fitness Determination Based on Criminal Records Check
The Chancellor’s Office and OUS institutions shall inform the subject individual, who has been determined not to be fit, via certified mail, of such disqualification. The notice will indicate that the subject individual:
(1) Has a right to inspect and challenge their Oregon criminal offender information in accordance with the Oregon State Police procedures as adopted per ORS 181.555(3) and OAR 257-010-0035.
(2) May challenge the accuracy or completeness of any entry on the subject individual’s criminal records obtained from the FBI by filing a challenge with the FBI in accordance with Title 28 Code of Federal Regulations Part 16.34 (28 CFR 16.34) or the then current regulation; and
(3) May appeal the determination of fitness through the process described in this rule.
Stat. Auth.: ORS 181.534, ORS 352.012
580-XXX-XXXX
Challenging a Fitness Determination
If a subject individual wishes to dispute an adverse fitness determination, the subject individual may appeal the determination by requesting a contested case hearing.

(1) The subject individual must notify the Chancellor’s Office or OUS institution in writing of his/her intent to challenge the fitness determination and to request a contested case hearing not later than ten calendar days from the date the subject individual received the denial notice. The Chancellor’s Office or OUS institution may extend the time to appeal if the Chancellor’s Office or OUS institution determines the delay was caused by factors beyond the reasonable control of the subject individual.

(2) The Chancellor’s Office and OUS institution has no jurisdiction over allegations that the criminal offender information received from OSP, the FBI, or other entities is inaccurate, incomplete, or maintained in violation of any federal or state law.

(3) The Chancellor’s Office and OUS institution is entitled to rely on the criminal offender information supplied by OSP, the FBI, or other entities until the Chancellor’s Office or OUS institution is notified that the information has been changed or corrected.

(4) Any contested case hearing under this rule is not open to the public.

(5) The issues at a contested case hearing shall be limited to:
   (A) Whether the subject individual has made a false statement as to the non-conviction of a crime;
   (B) Whether the criminal offender information provided to the Chancellor’s Office or OUS institution by OSP, the FBI, or other entities describes any crime that the Chancellor’s Office or OUS institution has determined disqualifies a subject individual for the position;
   (C) Whether the Chancellor’s Office or OUS institution’s determination that the nature of the crime for which the subject individual was convicted is relevant to the position that the subject individual is seeking; and
   (D) Whether the Chancellor’s Office or OUS institution considered the relationship of the facts that support the conviction and all intervening circumstances to the position at issue in determining the fitness of the subject individual to hold the position, provide a service, or be employed.

(9) The Chancellor or president of the university shall select an appropriate hearing officer. The role of the hearing officer is limited to conducting the hearing and developing a proposed order for the Chancellor or president or his/her designee.

Stat. Auth.: ORS 181.534, ORS 352.012
Stats. Implemented: ORS 181.534, ORS 352.012
Hist:

COMMITTEE DISCUSSION:

OUS General Counsel Benjamin E. Rawlins reviewed the proposed OUS Employee Background Check Policy and indicated that the policy of background checks follows the authorization of Senate Bill (SB) 2157 in the 2005 Legislative Session. In that bill, the legislature authorized state
agencies to conduct background checks and to promulgate rules to implement them. The current rule would authorize background checks for employees, contractors, vendors, and volunteers for those persons who are working in critical or security-sensitive capacities. The rule would authorize the conducting of background checks by delegating to the Chancellor and to each campus, through its president, the authority to more specifically define which categories of employees and which positions would be subject to individual checks. Additionally, the rule will result in recognizing that campuses have heretofore had other types of background policies. The rule, if approved by the Board, would be a directive for those policies to be further codified. The other policies that are in existence and are part of the Human Resources policies, are checks on employment history, educational history, specific credential checks, motor vehicle, and credit history.

The new policy would apply prospectively to job applicants rather than to current employees. Vice Chancellor Kenton commented that these could have some labor relations implications such as in retrenchment or layoff situations. This may have to be discussed with the labor unions and adjustments made to collective bargaining agreements.

President Frohnmayer commented that contested cases can be an elaborate and expensive administrative proceeding with great attended consequences of cost and he asked why that was provided here. Mr. Rawlins responded that the requirement for a contested case hearing was a specific by-product of the legislature, but that it is left to OUS to define it. He indicated he understood and shared President Frohnmayer’s concerns and that staff was attempting to reconcile the requirements of the statute and then determine its relevancy.

Director Blair asked if OUS did not implement the rules, would it be out of compliance with statute or would the Chancellor’s Office and the institutions continue as they have been, looking at the application for services or employment holistically and assessing this, among other considerations, and making an appropriate judgment. Counselor Rawlins indicated that now that the legislature has passed the law, if OUS is to have background checks, then the procedures that have been set out in SB 2157 must be followed. “The value of the statute exists in another respect, though, and that is that it allows agencies access to the FBI database. Based on federal requirements, agencies cannot access that directly unless specifically authorized by their state legislature,” he pointed out. Several directors expressed concern that there was no flexibility in the rule and it was highlighted that it does propose flexibility to the campuses in allowing their definition of which cases and which positions to test to and that the policy is conformed to the dictates and philosophies and situations of a particular campus. Additionally, OUS will gain wider access to the federal database and also gain immunity established by the statute that if we are operating under the rule, there is no liability to employees for its application.

In concluding the discussion, President Frohnmayer asked if there was any room in the statute to include presumptions about the validity of an administrative determination of fitness so that institutions wouldn’t have to bear the burden of proving it made a decision based on its own rational criteria. Counselor Rawlins replied that the statute does not account for this, but “I
think, as we investigate with the Department of Justice the options that you have identified, we will look at that specifically.”

b. Quarterly Audit Update

COMMITTEE DOCKET:

Background:
As outlined in the Oregon State Board of Higher Education Audit Charter, the Oregon State Board of Higher Education (the Board) has oversight responsibility to ensure that Oregon University System (OUS) management is performing its duties of financial reporting, ensuring effective and efficient internal controls, and complying with laws, regulations, and ethics. This report provides information regarding the following audit charter provisions:

- The Board shall review, at least semi-annually, the results of Internal Audit recommendations and follow-up procedures. More frequent meetings will be held as deemed necessary.
- The Board shall have and exercise all other powers, as it shall deem necessary, for the performance of its duties.
- The Oregon State Board of Higher Education has delegated these audit duties to the Finance and Administration Committee. The Finance and Administration Committee shall report the results of internal and external audit findings to the full Board at least once a year.

Reports Issued from January 1, 2006, through March 24, 2006

<table>
<thead>
<tr>
<th>Audit Type</th>
<th>Institution</th>
<th>Title</th>
<th>Risk Rating (as of 3/24/06)</th>
<th>Management Action</th>
<th>Addresses Risks</th>
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<tbody>
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<td>Technology Transfer</td>
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<tr>
<td></td>
<td>OSU</td>
<td>Office of Post Award Administration Restricted Funds</td>
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<td>SCARF Database</td>
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<td></td>
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**Ratings** – The rating relates to the selected financial, compliance, and operational areas tested. The rating is NOT a global performance rating.

- **High** – Some controls exist, but they are generally not functioning as intended and additional controls are needed.
- **Medium** – Controls exist, but some controls are not functioning and additional controls are needed.
- **Low** – Controls are in place and functioning effectively except for the recommendations outlined in the report.

The Internal Audit Division issued no reports regarding complaints between January 1, 2006, and March 24, 2006.

**Follow-up Reports Issued from January 1, 2006, through March 24, 2006**

The Internal Audit Division also issued three follow-up reports during the period being reported. All three of the audits have 100 percent compliance.

<table>
<thead>
<tr>
<th>Institution &amp; Title</th>
<th>Original/Open Recommendations</th>
<th>Implemented</th>
<th>In Progress</th>
<th>Not to be Implemented</th>
<th>Percent Implemented</th>
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<td>0</td>
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**COMMITTEE DISCUSSION:**

Director of Internal Audit Patricia Snopkowski began the report by introducing the new Associate Director of Internal Audit Mary Nickelson-Hill, who was formerly the University of Oregon Senior Auditor. There will be a search now to fill that vacancy.

Over the past quarter, a great deal of time has been spent on scheduled audits that are based on the Audit Plan. The areas that have the high and medium risks are generally in those departments where transitions were occurring. “We were asked to look at the controls so that we can help with the system and management in identifying areas for improvement going forward. As outlined in the docket, actions are being taken by management to mitigate the risks identified.” Ms. Snopkowski added that brief follow-up reports were issued, all of which had 100 percent compliance.

The high-risk report that was issued was on Oregon State University’s technology transfer department. “The infrastructure for the whole office has not been formalized and this report is being used in conjunction with the strategic analysis that was done by the campus to outline some of the infrastructure that needs to be put in place relative to just organization, policies and procedures, marketing plans to external constituents and also to the internal parties in the university.”
Chair Blair added that it was important for everyone to do the planning in advance when transitions such as this one are being undertaken or when there is employee turnover, to be sure people are prepared, as opposed to making the transition and then figuring out the controls that are needed. Finally, Chair Blair added that he wanted to commend Western Oregon University for a perfect follow-up.

4. **ADJOURNMENT**

The meeting adjourned at 10:20 a.m.