MINUTES OF THE MEETING OF THE
FINANCE AND ADMINISTRATION COMMITTEE
OF THE STATE BOARD OF HIGHER EDUCATION
PORTLAND STATE UNIVERSITY, PORTLAND, OREGON
JULY 14, 2006

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1. **CALL TO ORDER/ROLL CALL/WELCOME**

Chair Donald W. Blair called the meeting to order at 8:15 a.m. Committee members present included: Directors Don Blair and Henry Lorenzen. Director John von Schlegell was absent due to business. Other Board members present included: Directors Gerry Blakney (by telephone), Bridget Burns, Kirby Dyess, Adriana Mendoza, Dalton Miller-Jones (arriving at 8:20 a.m.), Tim Nesbitt, Gretchen Schuette, Howard Sohn, and Tony Van Vliet.

Chancellor’s staff present included: Chancellor George Pernsteiner, Ryan Hagemann, Jay Kenton, Benjamin Rawlins, Robert Simonton, Patricia Snopkowski, Marcia Stuart, and Susan Weeks.

Others present included: Presidents Daniel Bernstine (PSU), Martha Anne Dow (OIT), Khosrow Fatemi (EOU), Dave Frohmayer (UO), John Minahan (WOU), Ed Ray (OSU), and Elisabeth Zinser (SOU). Provost Lesley Hallick (OHSU) was also present.

2. **ACTION ITEM**

a. **OIT, Center for Health Professions, Phase I**

**BOARD DOCKET:**

**Summary:**
The Oregon Institute of Technology (OIT) sought Board approval to authorize the Chancellor, or designee, to seek state Legislative Emergency Board approval of an additional Other Funds limitation of $1.0 million for a revised total project cost of $12.2 million for construction of the Center for Health Professions, Phase I Project. The project was approved by the January 20, 2006, Legislative Emergency Board. The additional Other Funds limitation will be used to offset construction-related inflationary increases in the cost of the project and will consist entirely of gifts. There is no General Fund impact associated with this request.

**Staff Report to the Board**

**Background:**
The Legislative Emergency Board granted permission to spend $11.2 million to construct Phase I of the Center for Health Professions facility on the OIT campus in Klamath Falls. Phase I includes
a new, 42,000-square foot building that will house laboratories, classrooms, and faculty offices for OIT's academic health profession training programs. The new building will allow OIT to expand enrollments in these programs, which currently operate at capacity, by an additional 36 percent (or 420 students).

The project will help OIT address the shortage of healthcare professionals in Oregon. This shortage is expected to worsen as the state’s population ages and many current health care workers retire. OIT has had to turn away approximately 200-300 qualified applicants from these programs each year because of its limited capacity to serve them.

**Increases in Project Cost:**
The original authorized project anticipated a 15 percent rate of inflation for materials, not the 40 to 50 percent increase that is occurring in some of the basic building materials due to pressures on domestic supplies of steel and other materials brought on by construction in China and other events such as hurricane Katrina.

Much time was spent during the design phases in an effort to reduce cost. The project is well into its design phases and has identified cuts to stay within the original budget of $11.2 million, including the reduction of the building size. However, without the requested additional Other Funds limitation, the project will proceed with a subsequent reduction in the number of students admitted into the programs as originally planned.

**Fundraising completed to date:**
The University has raised the additional $1 million of private gift funds.

**Staff Recommendation to the Board:**
Staff requested the Board Finance and Administration Committee approve the staff recommendation and recommend it to the full Board for their approval to increase the Other Funds limitation for the previously approved Center for Health Professions, Phase I Project and that the Chancellor, or designee, be asked to seek an authorization from the State Emergency Board for an additional Other Fund expenditure limitation of $1.0 million for a total project cost of $12.2 million.

**COMMITTEE DISCUSSION AND ACTION:**

Chair Blair introduced Bob Simonton, Director of Capital Programs, to present the item. OIT sought Board approval to obtain legislative approval for an additional $1 million of gift funds for the Center for Health Professions, Phase 1. This increase was due to inflationary construction costs. In addition, OUS recently adopted a construction sustainability policy that is the equivalent of the Lead Silver program. Therefore, value engineering for the project can only take it so far. A project cannot be degraded to a poor performing building. "Therefore," Mr. Simonton said, “we’re seeing more of these requests for projects that are caught in the middle of this inflationary increase and the need to provide an efficient, energy efficient, project.
Fortunately, this increase will be covered by 100 percent gift funds from OIT’s foundation and we seek your approval to do that.”

Chair Blair wanted assurance that OIT and the Board did not miss the scope of the project and that it was entirely due to the fact that the project was priced at a certain level of pricing on steel and concrete and that had changed. Mr. Simonton assured him that those were the reasons for the cost increase. Chair Blair and Director Lorenzen agreed by acclamation to approve the staff recommendation.

3. REPORT ITEM

a. OUS, Internal Audit Progress Report

BOARD 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 provided information regarding the following audit charter provisions:

- The Board shall approve annually the Internal Audit Division’s audit plans and budget.
- 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 Board has delegated these audit duties to the Finance and Administration Committee. The F&A Committee shall report the results of internal and external audit findings to the full Board at least once a year.

Scheduled Audits Issued – March 27, 2006, through June 30, 2006

<table>
<thead>
<tr>
<th>Institution</th>
<th>Title</th>
<th>Risk Rating (as of 6/30/06)</th>
<th>Management Action Addresses Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>PSU</td>
<td>Restricted Fund Expenditures</td>
<td>Low</td>
<td>Yes</td>
</tr>
<tr>
<td>SOU</td>
<td>Office of Admissions</td>
<td>Low</td>
<td>Yes</td>
</tr>
<tr>
<td>OSU</td>
<td>Accounts Payable and Purchasing</td>
<td>Medium</td>
<td>Yes</td>
</tr>
<tr>
<td>WOU</td>
<td>Office of Admissions</td>
<td>Medium</td>
<td>Yes</td>
</tr>
</tbody>
</table>
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 six reports related to special requests and no follow-up reports between March 27, 2006, and June 30, 2006.

COMMITTEE DISCUSSION:

Ms. Snopkowski, Director of the Internal Audit Division, shared a copy of the new organizational chart for the Division. In 2005, the Finance and Administration Committee authorized an additional five positions for the Division. It has been a challenge for the Division to recruit for the positions, given the tight audit market. There is still one position vacant – all the others have been filled.

An orientation plan for the new employees is under development and will include several weeklong processes.

In terms of the Audit report, Ms. Snopkowski highlighted that no reports had been issued for OIT or the UO over the past quarter. The audit at WOU was on the admissions department and had a mid-level risk rating. Management is making improvements in the areas of cash management, further utilizing the computer systems in ITS.

Two reports were issued at Oregon State University. One was a scheduled audit of accounts payable and purchasing functions and was rated a mid-level risk. It was noted that management is making improvements in the areas of documenting authority as to who reviews and who approves contracts on behalf of the University. Director Blair asked why it took so long to get procedures in place for P-Cards. Ms. Snopkowski indicated that OSU was implementing some procedures now and are going to try to go across the University by the end of the year.

Director Blair wanted to make clear that, “Number one – when you do a new systems implementation, the controls can’t be an afterthought. I mean, you don’t put it in and then figure out how you’re going to control it. Secondly, particularly when we’re talking about things like P-Cards, which are basically cash, we have to put those controls in place quickly. I don’t think nine months is necessarily an appropriate period of time,” he emphasized.

The second audit at OSU was related to the Horse Center operations. Because this audit stemmed from complaints, both inside and outside the OSU community, it led the OSU Vice President for Finance and Administration to request that Internal Audit do a full department review. Internal Audit noted that the facilities were used to run private businesses, evaluations,
and some other operational issues. One of the things that the College is doing with business services, as a result of the audit, is having a full review of all the Animal Science Department contracts and assuring that they are in compliance. The College Business manager is implementing control self-assessments at all of the departments.

At Southern Oregon University there was one scheduled audit and one management request. The scheduled audit was over the Admissions Department, which was a satisfactory rating. In fact, they received commendations on several of the operational functions to improve the efficiencies and effectiveness of the department. The management complaint from SOU had to do a review of the camp and the fundraising operations in the athletics department. As background information, Ms. Snopkowski said these camps are typical in all universities. Sometimes coaches run them by themselves almost like a private business. They rent the facilities from the universities. In other cases, the university actually employs the coaches to run the camps as a designated operation.

At SOU, it was noted that the contracts with the coaches as to the level of responsibility weren’t up-to-date, so it was difficult to determine whether or not all of the revenue should be coming into the University. The University has outlined revised contracts for all of the coaches and the vice president for Finance and Administration met with all of the athletics personnel to explain the importance of the new policies and procedures that have been put in place.

Vice Chancellor Kenton explained that in the early 1980s the Board, or a subset of the Board, adopted a policy regarding this issue. Frequently, part of the compensation packages for coaches includes the ability to run a sport camp during the summer as a way to both recruit prospective students – to give them skill training – and as a way to supplement the salaries of both the head coach and the assistant coaches.

Director Blair asked who was responsible for the safety and security of the children and youth in the camps. “Even if this is legally something that is somewhat separate from the institution, I think we want to make sure that it is being done under the umbrella of the institution and making sure that we have the right framework for taking care of participants.”

During the past quarter, three reports were issued related to complaints that were received or audits were requested by EOU management. The first report was related to the unauthorized use of the University phone card within the athletics department for long-distance calls. The phone card was used by coaches and shared among students and staff to make personal calls that led to unauthorized charges in the thousands of dollars. The Athletic Department made some staffing changes, canceled all of the cards, reissued new cards to each employee, and are routinely monitoring the bills going forward. Collection efforts have been made and there has been about $2,000 recovered to date. Internal Audit has communicated to all campuses the importance of reviewing the way in which phone cards are distributed and assuring there are controls over that monitoring.
Another report was issued related to the Military Science Department. The Department is actually administered by the U.S. Army personnel through the Oregon Military Science Department. They have been given a small space and an allotment of budget to provide some courses for Eastern. The business office, through their monitoring procedures, noted some unusual purchases in the procurement card area. EOU contacted Internal Audit to do a more full-scale review. Some personal charges were noted, as well as unallowable charges that were made by Army personnel. The Oregon Military Department was contacted and they have been very responsive, are taking appropriate actions, and have made some personnel changes. They’re going to be reimbursing EOU for these charges. A new Memorandum of Understanding is going to be implemented and the budget will be reduced as a result.

The last report at Eastern was related to a federal grant. Internal Audit concluded that there were unallowable charges on the grant and, as a result, there have been transitions in personnel. Additionally, some of the charges have been reimbursed either by the employee or the University in order to remove them from the federal government grant.

Chair Blair asked President Fatemi to respond to the situations. In every instance, the president noted, personnel actions have been taken, monies recovered, or other changes made as indicated. Further, he noted that in all three cases, Eastern’s Business Office made requests to Internal Audit. “We do have a problem. The basic problem is, in part, the issues that we have discussed over and over – the salary issue. Then add the isolation of La Grande and it’s not easy to recruit personnel,” he observed. “Marv Wigle (EOU Vice President for Finance) is retiring at the end of this month and we have been looking for a replacement since January and we still don’t have a person. We advertised every way we could – again, it is partly a salary issue.”

“I certainly appreciate the difficulties,” Chair Blair added. “This area, to me, is just foundational. If it’s a rotten foundation of finance and administration, then our credibility as a System just collapses, so I really appreciate your personal leadership in continuing to try to get these issues resolved.”

At Portland State University, one report was complaint related and the second was a scheduled audit. In terms of the complaint audit, the Vice President for Finance and Administration contacted Internal Audit about a cash theft of deposits within the cashier’s office. “We did note that controls were unsatisfactory, given that they weren’t designed to mitigate the risks of cash theft. We made several operational recommendations and we also recommended that they evaluate staff, including qualifications and training needs.”

Recently there was another theft within the cashiering department and, as a result, Internal Audit has made recommendations to have campus police complete an investigation. Management is re-evaluating the entire organization and developing an action plan.

Internal Audit issued a satisfactory report on the restricted funds accounting at PSU.
In terms of the cashiering incidents, Chair Blair asked if he understood correctly that originally there was a problem; changes were made in some procedures; yet there was still a second problem. Ms. Snopkowski acknowledged that he was correct and the reasons may have been in staffing and their qualifications and training. “Those procedures did not get followed and there was transition in the department. Additionally, staffing levels, compared to other campuses, is low.” President Bernstine concurred and responded that PSU is taking steps to improve salaries and hire additional staff as needed to correct the irregularies.

Finally, Ms. Snopkowski highlighted that a priority for her office was preparing for and completing the peer review that they hope serves to identify further operational improvements within her office. Additionally, there will be a lot of focus on orientation and training of new staff.

4. **ADJOURNMENT**

With no further business proposed, the meeting adjourned at 8:50 a.m.