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

Chancellor’s Office staff present included: Chancellor George Pernsteiner, Vice Chancellor Jay Kenton, Michael Green, Jessica Johnson, Danielle Lambert, Karen Levear, Jan Lewis, Di Saunders, Patricia Snopkowski, Doug Botkin, Marcia Stuart, and Charles Triplett.

Others present included: Presidents Bob Davies (EOU) and Mark Weiss (WOU); Vice Presidents Mark McCambridge (OSU), Jamie Moffitt (UO), Craig Morris (SOU), Monica Rimai (PSU), Lon Whitaker (EOU), and Mary Ann Zemke (OIT). Others in attendance included: Emily McLain (OSA) and Dee Wendler (PSU).

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

1. CALL TO ORDER/ROLL CALL/WELCOME

Chair Schueler called the meeting of the Finance and Administration Committee to order at 1:05 p.m.

2. CONSENT ITEM

a. OUS, Approval of January 20, 2012 Committee Minutes

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

3. ACTION ITEMS

a. EOU Nonresident Tuition

President Bob Davies provided background and rationale for the proposed amendments to Oregon Administrative Rule 580-010-0081 pertaining to nonresident tuition. This amendment defines students attending EOU who are exempt from the OUS nonresident tuition rule as those who have graduated from a state-recognized high school in Oregon, Washington, or
Idaho within the previous three year period; or lawful residents of Idaho or Washington, who were enrolled in an institution of higher education in Idaho or Washington at any time during the preceding academic year; or were enrolled students at Eastern Oregon University during the academic year 2011-12, so long as they continue to make satisfactory academic progress toward a degree without a break in enrollment (excluding summer term). This will enable EOU to aggressively recruit from neighboring states and will also allow EOU to participate in the WUE tuition program (Western Undergraduate Exchange).

**ACTION:** Following discussion, Directors Lynda Ciuffetti and Allyn Ford made the motion and second, respectively, to approve the proposed amendment to OAR 580-010-0081 and forward to the Full Board for approval at the March 2012 meeting. Motion carried.

b. **OUS, Managerial Reporting, Quarterly Management Reports**

Controller Mike Green presented the quarterly managerial report for FY2012, which included the second quarter year-to-date operating results, annual budget, and FY2012 projections for the current unrestricted operating of the System, individual universities, and the Chancellor’s Office. Total revenues and expenditures are expected to increase compared to FY2011 by 4 and 10 percent, respectively; however, state general funds and recovery act funding are expected to be reduced by 13 percent. The 2011 legislature, in response to the economic downturn, made provision for agencies to drawdown 54 percent of the biennial appropriations in the first year of the biennia and the System opted to drawdown this full amount rather than the traditional 49 percent (an additional $29 million). The 2012 legislature may choose to take back the additional 5 percent—which will be reappropriated in the second year of the biennium—and this impact was reflected in the reports. Tuition and resource fees and net of remissions are expected to increase 12 percent over FY2011; this increase was a combination of rate increases, higher student enrollment, and a change in the student mix. Total expenses are expected to increase 10 percent, primarily due to personnel/staffing and other supply needs related to growing student enrollments.

Tuition and fee revenues at EOU are projected to increase by 9 percent compared to the prior year; however, total revenues are projected to decrease by 2 percent due to off-setting reductions in state support and one-time other revenue in 2011. Overall expenses at Eastern are expected to increase 4 percent over FY11. Fund balance is expected to be 9.0 percent of revenues but only 5.4 percent of revenues when considering the 54 percent drawdown of biennial appropriations. The projected ending fund balance is at the lower end of Board policy. President Davies advised that the campus has implemented an administrative “flattening,” early retirement notices will be sent to 38 faculty members, service and supplies- and energy-savings programs have been instituted, and a proposed 5 percent increase in tuition will be included in the 2013 annual tuition rates. All of these actions were in alignment with their sustainability plan. The impact of the reductions in faculty and staffing when vacant positions are eliminated rather than filled is of great concern.
Tuition and revenues at OIT are projected to increase by 11 percent compared, mainly due to tuition increases and net of fee remissions; however, total revenues are due to decrease by 4 percent. Overall expenses are expected to increase 3 percent over the past year. Fund balance is projected to be 11.4 percent of operating revenues with the drawdown, although, with continued decreases in revenues and increased costs, the fund balance is projected to be 5 percent by 2014.

At OSU, tuition revenues are projected to increase by 14 percent; however, overall revenue is expected to only increase by 5 percent. Overall expenses are expected to increase by 9 percent, mainly due to projected increases in personnel costs and capital outlay. The fund balance is expected to be 14.1 percent of revenues or 11.6 percent when factoring in the 54 percent drawdown in appropriation.

At PSU, tuition revenues are projected to increase by 3 percent, while overall revenues are anticipated to decrease by 1 percent. Expenses are expected to increase by 7 percent over FY2011 and fund balance is projected to be 19.7 percent of operating revenues, above Board policy. When concern was expressed on the level of the fund balance, Vice President Rimai advised that they purposely planned on the increased fund balance to offset the anticipated increases in expenses and reductions in state funding without offloading the burden onto the students.

Tuition revenues at SOU are projected to increase by 10 percent; total revenues are projected to be 2 percent over the prior year. Overall, expenses are projected to increase by 12 percent over FY2011. The fund balance is projected at 6 percent of the operating revenues; however, due to drawdown change, the adjusted fund balance will be 3.5 percent of revenues. The combination of these factors will create a financial challenge on the campus for the second year of the biennium. Vice President Morris advised SOU is implementing budget cuts and working with students to develop strategies for tuition increases combined with reductions in mandatory student incidental fees. This translates to an increase in Education and General revenue and decreased auxiliary funding, thereby increasing the fund balance.

At the UO, tuition revenues are projected to increase by 16 percent (due to increased nonresident student enrollment) with an overall revenue increase of 8 percent. Overall expenses are projected to increase 14 percent; fund balance is anticipated to decrease over the prior year balance to 12.6 percent of revenues or 13.5 percent excluding the drawdown.

At WOU, tuition revenues are projected to increase by 8 percent with the total revenues projected to be relatively flat. Overall expenses are anticipated to increase by 8 percent over FY2011 and fund balance is projected to be 19.9 percent of revenues or 17.9 percent with the drawdown.

The Chancellor’s Office overall revenues are projected to be 3 percent lower than FY2011 and overall expenses are expected to be relatively flat. Fund balance is projected to be 21 percent of operating expenses with the drawdown.
Concern was expressed with the plans to cut faculty in order to reduce costs and the impact of those cuts to the increased workload and decreased morale of the remaining faculty. It was also acknowledged that reductions in classified and administrative staff are equally demoralizing.

**ACTION:** Following discussion, Directors Farbodd Ganjifard and Lynda Ciuffetti made the motion and seconded, respectively, to accept the quarterly management report for December 31, 2011. Motion carried.

c. **OUS, Report on Investments – As of December 31, 2011**

Chair Schueler called upon Ms. Karen Levear for the report, who advised that the feds are committed to keeping interest rates low through 2014 and 30-year bonds are at historic lows; therefore, investment yield expectations must be adjusted accordingly. Allocations were reviewed in December 2011 by the consultant and deemed appropriate.

**ACTION:** Following the presentation and discussion, Directors Allyn Ford and Lynda Ciuffetti made the motion and seconded, respectively, to accept the quarterly report on investments for December 31, 2011. Motion carried.

d. **OUS, 2011 Internal Audit Division (IAD) Progress Report and 2012 Internal Audit Annual Plan**

Chief Auditor and Executive Director, IAD, Patricia Snopkowski presented the progress report and the proposed 2012 annual audit plan. With respect to audit staffing, it was noted that auditors have been placed in three offices (on the OSU, PSU, and UO campuses), not with the intent to serve only those campuses but to reduce travel expenses as auditors bring very diverse auditing skills and specialties to all the public universities across the System. Snopkowski walked the Committee through the three highlighted audit reports and addressed Committee member questions.

**ACTION:** Following the presentation, Directors Allyn Ford and Farbodd Ganjifard made the motion and second, respectively, to accept the Internal Audit 2011 final progress report and approve the proposed 2012 annual audit plan. Motion carried.

e. **Supplemental Guidance to Campuses for Tuition Rates for the Academic Year 2012-13 and Summer Term 2013**

Associate Vice Chancellor Jan Lewis provided background on the proposal, emphasizing that the proposed administrative rule on student involvement has been vetted and supported by concerned student associations and is in compliance with Senate Bill 242 requirements.

**ACTION:** Following discussion, Directors Farbodd Ganjifard and Lynda Ciuffetti made the motion and second, respectively, to approve the Supplemental Guidance to Campuses
for Tuition Rates for the Academic Year 2012-13 and Summer Term 2013 and thereby incorporate the Roles and Responsibilities into the overall guidance to campuses; and to approve the draft Oregon Administrative Rule and recommend to the Full Board for approval at the March 2012 meeting. Motion carried.

4. **DISCUSSION ITEMS**

   a. **Internal Control Environment Self-Assessment (OSU/SOU)**

   Vice Presidents Mark McCambridge and Craig Morris shared the results of their internal control self-assessments. At OSU, with the university having a presence in almost all counties in Oregon, Vice President McCambridge noted that there were many opportunities for financial improprieties to be committed; however, with the reorganization of financial and administrative responsibilities and an implementation of cross-training of staff, these opportunities have been diminished. Continual awareness of internal controls is a priority on each campus.

   Vice President Morris emphasized that, in this current environment, SOU works toward efficiency even with reduced staffing in the finance and administration division, therefore operational and financial controls are critical. A new reporting format (RCM) was created in order to provide relevant financial information to each dean as a management tool, thereby affording responsibility over budget and expenditures at the department level. Morris acknowledged the challenge to remain in compliance with internal controls while working within a lean staffing organization. Both campuses utilize the OUS Internal Audit to review and identify the areas of risk and compliance.

   b. **Fraud Risk and Control Presentation**

   Chief Auditor Patricia Snopkowski shared that the intent of the report was to provide an overview of the risk that exists for any organization and offer a level of comfort to the Committee that IAD is evaluating the risks, controls, and gap analysis of risk areas. A typical organization loses an estimated 5 percent of its annual revenue to fraud and the median loss is $160,000. The median duration of a fraud is 18 months before detection and the estimated risk for higher education is much lower given the revenue stream controls over major sources, budget constraints, and lack of retail operation inventory shrinkage. During the period of January 2001-June 2011, 136 OUS irregularities were identified: 18 instances of corruption, 69 asset misappropriations, four fraudulent statements, and 45 instances of no abuse found. However, the extent of loss is difficult to determine due to insufficient documentation and actual losses are likely much higher. Much more important is the loss of reputation resulting from a financial irregularity.

   The federal government has established sentencing guidelines for organizations to: exercise due diligence to prevent and detect criminal conduct, promote a culture that encourages ethical conduct and compliance, and periodically assess the risk of criminal conduct and to take
appropriate steps to reduce the risks identified. The System and universities take fraud very seriously and have taken steps to prevent such; these steps include police and district attorney involvement if a crime is suspected, referrals to state ethics commission, termination of employment, repayment, organizational restructuring, and the implementation of preventive/detective controls. Snopkowski walked the Committee through the myriad prevention controls used throughout the System, emphasizing “employee awareness training” as essential. The universities were encouraged to continue with their self-assessments of internal controls and risk analysis.

c. Cost Drivers

Vice Chancellor Kenton advised this report was presented to the House Higher Education Committee on February 14, 2011. Costs are driven by demand and enrollment, bargaining contracts, employee benefits, assessments, general inflation, and quality of education. Prior to Ballot Measure 5 (1990), a higher percentage of the cost of higher education was subsidized by state funding but since 1991, the entire state appropriations budget has increased 210 percent while OUS appropriations have only increased by 39 percent; operating costs have increased 135 percent from 1996 to 2011. Many of OUS’ costs are increasing faster than inflation, including facilities, student aid, healthcare, state assessments, and retirement costs. With the passage of Senate Bill 242, cost management has transferred to System accountability and control. Prior to SB 242, compensation issues were not under System control and are a significant portion of these costs: 78 percent of total Education & General Fund and 63 percent of all funds expenses; salaries lag the market (especially at the associate and full professorial ranks), benefits costs have increased significantly and are among the highest in the nation; bargaining parameters have been largely dictated by the State and benefits programs are designed for all state agencies and do not always match the needs of OUS employees.

During this same period, OUS enrollment increased 62 percent, from 62,847 FTE to 10,316, and research grew by 127 percent, from $178 million to $406 million, while, in general, employee headcount has increased 34 percent. Healthcare and retirement costs in the System are much higher than other states; but total employee compensation (including salaries) are still below peers.

Capital and facilities costs have also increased due to growing enrollments, with a 221 percent increase since 1996. Student aid has increased 451 percent during the same period, increasing per FTE from $2,147 to $7,633; undergraduate tuition creased from $3,105 to $7,102 per FTE. Total operating expenditures increased by 135 percent while administrative costs, as a percentage of the total operating expenses, decreased from 10 percent in 1996 to less than 8 percent in 2011 and that decrease is attributed to increased efficiencies.

The average costs of providing education per student FTE increased by 44 percent (from $6,285 in 1990-91 to 2010-11 in $11,670). In 1990, the state General Fund provided 74.2 percent of the resident education but in 2010, that had declined to 35.7 percent. Efficiencies experienced within the System are attributed to its employees—per-student instructional costs have stayed
relatively constant—productivity has increased as enrollment and research have grown at faster rates than employment numbers, and student success rates are at record levels.

In conclusion, Dr. Kenton encouraged the Committee that with the passage of SB 242, the System enterprise has more control over costs and the ownership of revenues will lead to better plans for capacity planning and flexibility.

5. **ADJOURNMENT**

With no further business proposed, Chair Schueler adjourned the meeting at 4:11 p.m.