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Minutes

Committee members present included: Chair Kirk Schueler and Directors Allyn Ford, Orcilia Forbes, and Farbod Ganjifard. Director Lynda Ciuffetti joined the meeting by telephone at 1:50 p.m.

Chancellor’s Office staff present included: Chancellor George Pernsteiner, Doug Botkin (telephone), Mike Green, Ryan Hagemann, Ellen Holland, Jay Kenton, Bob Kieran, Jan Lewis, Di Saunders, Patricia Snopkowski, and Charles Triplett

Others present included: President Mark Weiss (WOU - telephone); Vice Presidents Lon Whitaker (EOU), Mary Ann Zemke (OIT), Mark McCambridge (OSU - telephone), Monica Rimai (PSU), Craig Morris (SOU), Jamie Moffitt (UO), and Eric Yanke (WOU); and Emma Kallaway (OSA)

1. CALL TO ORDER/Roll Call/Welcome

Chair Kirk Schueler called the meeting to order at 1:00 p.m.

2. Agenda Items

a. OUS, Internal Audit Division Quarterly Progress Report, October 2012

Chief Audit Executive Patricia Snopkowski presented the OUS Internal Audit Quarterly Progress Report for October 2012. Audit reports issued in the third quarter include the University of Oregon Vice President of Research transition and a thorough review of annual follow-up audit results. Committee members discussed timeline expectations for audit recommendations, compliance within expected timelines, and the risk rating system used to determine “high,” “medium,” and “low” ratings. Members discussed the “risk accepted” notation in the UO report and were satisfied that UO controls were appropriately focused on higher cost items with a more acceptable level of risk assumed on higher volume, lower dollar transactions.

Ms. Snopkowski reviewed the annual audit plan status for the 2012 calendar year and discussed audits in progress and projects removed from the plan. Projects canceled from the plan were due to staffing limitations with three open positions in the Division throughout the year. Ms. Snopkowski noted that OUS IAD recently filled the associate director position and has the two remaining staff audit positions in the finalist stage.
ACTION: Chair Schueler called for a motion to approve the October 2012 IAD Quarterly Progress Report. Director Ford made the motion; Director Ganjifard seconded. Motion approved.

b. OUS, Fraud, Waste, and Abuse Reporting Internal Management Directive (IMD)

Ms. Snopkowski introduced the revised OUS Financial Irregularities Reporting Internal Management Directive. She noted that the existing policy is dated and focuses exclusively on financial irregularities. The revised IMD includes other key risk areas that present financial and reputational risk to the University System, such as academic, student, human resources, and athletics. Staff recommends that the Committee approve the new IMD and, in doing so, replace the current financial irregularities policy.

Committee members discussed the new OUS hotline, reporting processes, and overlap with existing OUS areas such as legal counsel, public safety, and risk management. OUS IAD will serve as the data collector to ensure due diligence but will field hotline calls to the appropriate departments.

ACTION: Chair Schueler called for a motion to approve the revised OUS Fraud, Waste, and Abuse Internal Management Directive and recommend that the full Board consider repealing the existing Financial Irregularities Board Policy and adopting an OUS Code of Ethics Policy to be presented at the January 2013 meeting. Director Ford made the motion; Director Forbes seconded. Motion approved.

c. Review of Proposed OUS Code of Ethics

Ms. Snopkowski provided a draft of the OUS Code of Ethics policy to the Committee and noted that the draft has been circulated to presidents, provosts, and vice presidents of finance. Many comments were received and not all have been incorporated at this time. The goal is to present this policy for Board consideration in January 2013. Ms. Snopkowski welcomed questions and suggested edits from the Committee. Members noted the connection between the Code of Ethics Policy and the OUS Fraud, Waste, and Abuse IMD and suggested that the “values” in the Code of Ethics be differentiated in some way from “fraud, waste, and abuse” reported to the OUS hotline.

d. OUS, Analysis of 2011-12 Financial Statements

Chair Schueler called upon Controller Mike Green to present the financial statement analysis. Mr. Green noted that the analysis uses preliminary data that is subject to change due to the audit still underway but no substantial changes are expected. He also noted that mission differentiation can impact comparability of ratios among peer institutions and that no set of ratios can answer all questions. Ratios are selected to provide an overview of financial trends and as indicators of financial health of the System.
In FY 2012, Systemwide enrollment grew 2.4 percent over the prior year but at a less robust rate than growth seen in the three prior years. State support dropped four percentage points in FY12 to only 13 percent of total adjusted expenses. OUS institutions operate on less revenue per student than their peers yet continue to make improvement in key performance metrics. OUS institutions also have less flexibility than their peers due to less state support, higher debt burdens, and lower primary reserves. Mr. Green noted that increased reliance on tuition and fee revenue has made enrollment critical to financial health. Fiscal year 2013 enrollment is projected to increase by 2.9 percent but early indications suggest it may be lower than projected.

Committee members discussed the composition of OUS peer groups and the impact of those groups on comparative analysis. It was noted that while the comparative analysis is somewhat limited, it remains a worthwhile exercise to collectively discuss the macro trends that influence System fiscal health and student success. Members also discussed the effect of current financial trends on tuition costs and the student services necessary to achieve the state’s 40-40-20 goal. Mr. Green concluded his remarks by noting the variability in state appropriations over the past five years and applauding OUS campuses for prudent financial management in such a volatile environment.

e. Risk Management Update

Vice Chancellor Jay Kenton opened the risk management update by introducing Ms. Ellen Holland, OUS Chief Risk Officer and reporting that OUS has transitioned all programs from the Department of Administrative Services (DAS) and has concluded negotiations with DAS for the final separation of risk funds. He noted that the Committee will receive quarterly reports on risk management as the program continues to develop and mature. Ms. Holland thanked the campuses for their time and efforts and highlighted key areas related to insurance policies and financials. Ms. Holland noted that the transition from DAS resulted in fewer policies overall through consolidation and all transitions were accomplished within the existing funds allotted to the program. She noted that additional financial savings are predicted in the future through stronger claims management.

Discussion focused on the improvement in risk management under the new program and the increase in claims information available to risk managers. Members discussed balancing the cost of insuring full replacement value vs. “MFL” or “maximum foreseeable loss” value given the diverse properties under management by OUS. Re-insurance markets were also discussed as higher cost options for additional flood and earthquake insurance. Campus representatives expressed their appreciation for the improved level of service and for the transition to a System-managed Risk Management Program. The Risk Management program has increased awareness across campuses, promoting a proactive management culture that mitigates risk overall. Members requested that the reporting dashboard presented for consideration include an indicator of “positive” or “negative” in future updates.
f. Consideration of F&A Detailed 2012-13 Committee Work Plan

Dr. Jay Kenton presented a detailed 2012-13 work plan for Committee consideration. He noted that the UO Erb Memorial Union Project is a possible item on the work plan but remains subject to a student referendum. Vice President Jamie Moffitt provided a brief update on the project, noting that the student referendum, possibly in November, will dictate the project approval process. Dr. Kenton closed by noting that details further into 2013 are subject to change.

g. Senate Bill 242 Issues, Goals, and Anticipated Outcomes

Dr. Kenton introduced the next agenda item by acknowledging the request from members for an update on Senate Bill 242 implementation and its success related to expected outcomes. The matrix provided in the docket color codes the issues and goals into green for “successful,” yellow for areas that remain “unsure,” and red for “unsuccessful” items. Of the 16 issues under consideration, none are “unsuccessful,” six are recorded as “successful,” two have aspects that are both “successful” and “unsure,” and eight are considered “unsure.” Among those, the majority are “unsure” due to the length of time that OUS has been managing new processes and many of the new authorities such as revenue bond authorization remain untested.

Committee members requested data on expected cost savings where available and current expenditures in future reports. Members suggested continued updates in the future.

h. “Guidance” to Campuses for 2014-15 Tuition-Setting

Assistant Vice Chancellor Jan Lewis presented the campus process for tuition recommendations for the academic year 2013-14 for Committee consideration and feedback. Members complimented the six elements outlined in the recommendations. Dr. Kenton noted that the Committee will receive tuition presentations during the May 2013 meeting with the full Board considering tuition proposals at the June 2013 meeting. He also noted that the tuition-setting process isn’t necessarily in sync with the state’s budget development process. Both DAS and LFO have requested projected tuition revenues for their legislative budget development. Oregon statute requires student involvement in the tuition-setting process and, to date, OUS has responded that it’s inappropriate to usurp the tuition process by projecting tuition revenues at this time.

Members asked campus representatives to comment on “lessons learned” from last year’s process. Comments included beginning the process earlier to better educate students on university finances and the tuition-setting process overall, providing an opportunity for students to ask questions in a more personal environment, and outlining financial aid packages earlier due to their direct impact on tuition. Dr. Kenton noted that throughout last year’s tuition-setting process, the state General Fund appropriation was known because it was mid-biennia. During this year’s process, state appropriations are unknown and could potentially make the process more challenging.
i. **2013-2015 Budget Process, Update on New Developments**

Ms. Lewis offered a brief update on the 2013-2015 budget process. The Governor’s Education Funding Team issued their recommendations and priority categories include: debt service, strategic investments, formula funding, state infrastructure, and “other.” The Eastern Promise was included among the “strategic investments” and the team recommended allocating 30 percent of formula funding on “outcomes” basis. Members asked for clarification on “formula” funding but the report is unclear on any specific allocation formulas. Discussion focused on who would determine appropriate outcomes formulas and the transition process. Dr. Kenton informed the Committee that a workgroup including OUS, community colleges, OSAC, and K-12 was convened to discuss appropriate outcomes and transition planning. The goal is to move towards funding “credentials” such as certificates and degrees rather than enrollment which is considered an “input.” Dr. Kenton noted that the transition will be a multiyear process and that there is uncertainty about how the legislature will absorb the changes. Members asked about the impact of this change on “targeted programs,” which remains unclear. The legislature has shown a preference for funding targeted program areas so reconciling the two processes remains unclear.

3. **Adjournment**

With no further business, Chair Schueler adjourned the Committee at 4:00 p.m.