MINUTES

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Committee members present included: Chair Kirk Schueler, Lynda Ciuffetti, Orcilia Forbes, and Farbodd Ganjifard.

Chancellor’s Office staff present included: Chancellor George Pernsteiner, Vice Chancellor Jay Kenton, Michael Green, Karen Levear, Jan Lewis, Marcia Stuart, and Charles Triplett.

Others present included: Presidents Mike Gottfredson (UO), and Ed Ray (OSU); Vice Presidents, Jamie Moffitt (UO), Craig Morris (SOU), Monica Rimai (PSU), Lon Whitaker (EOU), Eric Yanke (WOU), Mary Ann Zemke (OIT); and Becky Johnson (OSU-Cascades) and Liz Shelby (SOU).

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

   Chair Schueler called the meeting to order at 1:00 p.m. Chair Schueler called upon Ms. Karen Levear for an update on the sale of the bonds. She advised that although the market moved up and down in December, bonds totaling $303 million were successfully negotiated and priced. Most of the bonds sold were for refundings. The underwriting team estimated the interest saved over the life of the refunded bonds is $26.9 million. The sale will settle the week of February 11, 2013.

2. **CONSENT ITEMS**

   a. **Approval of Minutes, December 21, 2012**
   b. **Approval of Minutes, January 9, 2013**

   With no discussion, Directors Forbes and Ganjifard made the motion and second to approve the minutes as provided; motion carried.

3. **ACTION ITEMS**


   Chair Schueler called upon Controller Michael Green to present the item; before introducing the external auditor, Mr. Craig Popenhagen of CliftonLarsonAllen, who provided the report, Controller Green advised that, in October 2012, a comprehensive review of the financial status and health of the System and universities was reported to the Committee and, since that report, minor adjustments have been made. Mr. Popenhagen advised he was the lead auditor...
assigned to the review and provided background on CliftonLarsonAllen. The financial and compliance audit resulted in the System receiving an unqualified opinion, with no material weaknesses or significant deficiencies noted with the financial statements and the student financial aid compliance testing. Significant internal control processes (both people- or paper-driven and technology-driven designs) were reviewed and reported no significant weaknesses. He advised that it is a notable accomplishment to have a “clean” audit of the student financial aid cluster due to the complications relating to rules and regulations governing financial aid, with up to 14 different compliance requirements reviewed.

Controller Green thanked his staff – noting the contributions of Diana Barkelew and Mary Gaffney in particular – and campus personnel for their work in the 2012 financial report and the requisite audit. Chair Schueler congratulated Controller Green on the clean audit.

ACTION: Chair Schueler called for a motion to accept the 2012 annual financial report. Directors Ciuffetti and Forbes made the motion and second, respectively; motion carried.

b. OUS, 2012 Internal Audit Division Final Progress Report and 2013 Internal Audit Annual Plan

Ms. Patricia Snopkowski, chief audit executive, was called upon to provide the 2012 final progress report and 2013 annual audit plan. She reviewed the organizational structure of the function and advised that the office underwent major restructuring during the year due to turnover. She noted the turnover provided an opportunity to restructure the organization to better meet the needs of the system office and universities. She also noted all vacant positions have been hired.

Snopkowski reported the audit reports issued during the fourth quarter, two were departmental fiscal reviews (at EOU and WOU), and one capital construction contracting at the UO; each audit resulted in control improvements being made to help strengthen processes.

As part of the 2012 final progress report, Snopkowski reported on the office goals and accomplishments for the year and provided a summary of complaints received. Snopkowski noted that of the 48 complaints received during the year, no fraud was substantiated and three audits resulted in released reports identifying internal control improvements. Among the remaining logged complaints, she remarked that of these complaints involved audit work, but did not require issued reports because they were not substantiated and as a result of work already performed by the campuses.

Snopkowski highlighted the audit plan for 2013 and noted the internal audit plan includes a macro risk assessment of industry trends, past audit experience, fiscal and organization changes, and management and Board input. The priorities for the 2013 audit coverage include compliance and fiscal pertaining to athletics and research, information technology, university
advancement, student health centers the UO and SOU, and fraud prevention (departmental fiscal audits). Snopkowski noted there are other risks noted in the annual planning process that are outside of the scope of the 2013 audit plan. They include governance changes (opportunities and change management processes), revenue growth sustainability, environmental health and safety, student housing and dining, campus public safety, and human resource management (recruiting, retention, and development).

**ACTION:** Chair Schueler called for a motion to accept and approve the internal audit division’s 2012 final progress report and 2013 annual audit plan. Directors Forbes and Ganjifard made the motion and second, respectively; motion carried.

c. **UO, Approval of License Agreement for (gift of) Autzen Stadium Landscape, Exiting and Accessibility Improvements**

Vice Chancellor Jay Kenton, President Mike Gottfredson, and UO Vice President Jamie Moffitt were called upon to present the proposed license agreement request. President Gottfredson noted that this generous gift will substantially remodel the north end of Autzen Stadium, improving the accessibility and egress of the stadium, with an enhanced landscape design. The University of Oregon requested approval to enter into a license agreement with Phit Too, LLC, permitting the construction improvements with a value in excess of $5 million. The proposed agreement is substantially similar that the donor entered into with the University during June 2010 for the Casanova Center extension. Phit Too, LLC, will pay for the construction of the project and subsequently donate it to the University as gifts-in-kind, and will be obligated to require its contractor to use good faith efforts in the solicitation of minority, women, and emerging small businesses for the project, maintaining records of such efforts and document the actual use of such firms. In response to Director Forbes’ question, Dr. Kenton advised that prevailing wage and selection of subcontractors/suppliers issues could potentially cause public-relations difficulties, but have been addressed at the outset.

**ACTION:** Chair Schueler called for a motion to authorize the University of Oregon to enter into a License Agreement with Phit Too, LLC, permitting the construction of improvements to real property with a value in excess of $5 million, consistent with the terms and conditions described in the docket and in the license agreement. Directors Ganjifard and Forbes made the motion and second, respectively; motion carried.

d. **OUS, Outcome-based Budget Development Process and Timeline**

Dr. Kenton provided an update on the outcome-based budget methodology being considered to allocate 30 percent of the 2013-2015 OUS biennial budget. The University Support Fund includes $483.9 million for enrollment funding; regional support and regional university funding; engineering programs (both graduate and undergraduate); OSU Fifth Site, PSU OCATE, EOU SWOUC, and OWEN; EOU rural access; health professions; research funding (sponsored research and faculty salaries); PSU New Leadership Institute; OSU Veterinary Diagnostic Lab and phase-in funding; campus public service programs; Chancellor’s Office and Systemwide
programs and expenses; and OSU Statewide Public Services building maintenance. Discussions were held with Community College and Workforce Development leaders who advised that they hired the National Center for Higher Education Management Systems (NCHEMS) to assist in developing an outcome-based budget allocation methodology for the community colleges. Dr. Kenton recommended contracting with NCHEMS to assist in the development of an OUS outcome-based budget methodology.

In response to Director Ford’s question concerning a “bottom-up” approach and the use of NCHEMS, the Chancellor advised that the Governor’s Office had contacted Dr. Dennis Jones at NCHEMS about his recommendation on funding elements for achievement funding and that informed what the Governor’s Education Funding Team included in their postsecondary formula redesign recommendations. An OUS working group with institutional representatives (to include student leadership) will provide input in the development of the redesigned funding allocation model.

President Weiss expressed concern that, with the development and implementation of a new outcome-based budgeting methodology, campuses would encounter difficulty in determining what their allocation would be when building their 2014 and 2015 budgets. Vice Chancellor Kenton advised that there is a stop-loss provision to ensure that institutions do not experience dramatic changes in funding upon implementation of the new formulas. Chancellor Pernsteiner added that the OEIB and the Postsecondary Education committees will suggest how the transition should be managed, whether a stop-loss or a phase-in will be used. Chair Schueler mentioned that the remaining budget (outside of the outcome-based budget) will continue to be allocated based on current budget methodology and asked if the OEIB will be allocating to the individual campuses. Dr. Kenton advised, to his knowledge, the proposed Department of Postsecondary Education will be making the allocations.

Director Forbes recommended using the NCHEMS to provide the needed assistance in developing the outcome-based budgeting model, thereby providing the OEIB with a common framework and language, leading to the breaking down of “silos.” It will be important that the Committee identify potential changes to the current budget model during this process and facilitate discussion with Academic Strategies Committee in making recommendations.

Dr. Kenton mentioned that he and Jan Lewis will continue to meet with Community College and Workforce Development Commissioner Cam Preus during the development of these outcome-based budgeting methodologies.

**ACTION:** Chair Schueler called for a motion to authorize the following actions:

1. Authorize the Chancellor, or designee, to establish an outcome-based budget working group with institutional representatives to include finance vice presidents, provosts, student affairs vice presidents, and student leaders.
2. Direct that the working group be coordinate with the Finance and Administration and Academic Strategies Committees of the Board.
3. Direct staff to contract with Dennis Jones, NCHEMS, to ensure consistent precepts with CCWD in the development of an outcome-based budget process. Pending the completion of the seven day notice requirement, this procurement will be done using sole-source authority found in OAR 580-062-0020 (8).

Directors Ford and Ciuffetti made the motion and second, respectively; motion carried.

4. **REPORT ITEM**

   a. **OUS, Update on the 2013-2015 Governor’s Balanced Budget**

   Assistant Vice Chancellor Jan Lewis advised that the Education & General Fund will be divided between Public University Support Fund and the OUS Statewide Programs. The budget also recommended the elimination of the Sports Lottery Fund, and a bill will be submitted to the legislature for approval by the OEIB. Although the OUS requested a $20 million offset for increased PEBB costs, the Governor’s budget referenced proposed PERS changes will help offset the increased PEBB costs. The Governor’s balanced budget reflected a 7.1 percent increase in E&G funds over the 2011-2013 Legislatively Approved budget and an all funds increase of 6.6 percent; however, Statewide Public Services did not receive an increase in funding. Chair Schueler expressed concern with the 206.2 percent increase in debt service burden over 2005-2007. Dr. Kenton advised that this number has garnered attention by legislative leadership, advising that Senator Devlin has expressed concern that more and more budget is going to debt service leaving less monies for operations. Director Ciuffetti asked whether or not there will be further conversation in the legislature concerning the Sports Lottery fund or will the fund be eliminated without discussion. Kenton advised that there have been numerous newspaper articles written and various lobbying groups are actively pursuing the topic. The monies have been shifted from Sports Lottery into the Oregon Opportunity Grant fund. Dr. Ciuffetti expressed concern as the monies have been used to provide assistance to students in need.

5. **ADJOURNMENT**

   With no further business proposed, the meeting was adjourned at 2:56 p.m.