



**Board of Trustees
Executive and Audit Committee Meeting**

**Friday, January 19, 2018
9:30 a.m. – 11:30 a.m. (or until business concludes)
DeBoer Room, Hannon Library**

MINUTES

Call to Order/Roll/Declaration of a Quorum

Chair Bill Thorndike called the meeting to order at 9:31 a.m. and welcomed two new staff members, Greg Perkinson and Dr. Blaine Steensland, and Jean Bushong from CliftonLarsonAllen (CLA), SOU's external auditing firm.

The following committee members were present: Bill Thorndike, Lyn Hennion, Paul Nicholson, Teresa Sayre and Steve Vincent. Trustee April Sevcik was absent. Trustees Daniel Santos, Shanztyn Nhipali and Linda Schott (ex officio) also attended the meeting.

Others attendees included: Jason Catz, General Counsel; Greg Perkinson, Vice President for Finance and Administration; Dr. Blaine Steensland, Acting Vice President for Enrollment and Student Life; Ryan Schnobrich, Internal Auditor; Sabrina Prud'homme, Board Secretary; Patti Eliot, Accounting Manager; Ryan Lamanna, Accountant; Jayne Atkins, Accountant; Debbie Jones, Fiscal Coordinator; Steve Larvick, Director of Business Services; Joe Mosley, Director of Community and Media Relations; Devon Backstrom, ASSOU; Garrick Imatani, Assistant Professor; John Stevenson, IT User Support Manager; Don Hill, Classroom and Media Services Manager; and Kathy Park, Executive Assistant.

Public Comment

There was no public comment.

Consent Agenda

Trustee Vincent moved to approve the minutes from the October 20, 2017 meeting, as presented. Trustee Sayre seconded the motion and it passed unanimously.

Action Items

Fiscal Year 2017 Audited Financial Statements

Jean Bushong explained responsibilities under generally accepted auditing standards, the scope of engagement, audit results, and required communications to governance. She commended and thanked the accounting staff for their helpfulness. The audit is conducted in accordance with generally accepted auditing standards and indicates whether SOU's financial statements are free from material misstatements. There is a financial statement audit and a single audit of a major program: student financial aid.

Ms. Bushong said CLA issued an unmodified independent auditor's report—the cleanest opinion that can be issued. This is the type of opinion management should expect and it means SOU's financial statements are materially correct. The vendor fraud revealed an area where controls need to be tightened up, which SOU has already addressed. Ms. Bushong said the number of audit adjustments made is a great indicator of how the audit really went; SOU had only two adjustments.

Ms. Bushong said this is year three of Governmental Accounting Standards Board (GASB) 68, which requires the PERS net pension liability be included on SOU's books. SOU's liability increased from \$11.4 million to \$27.3 million. This is an issue nationwide. Ms. Bushong explained the accounting for that liability by highlighting certain entries in the 2017 Annual Financial Report: net pension liability (page 18), decreased operating expenses (page 20) and deferred outflows of resources (page 18).

Ms. Bushong discussed other items in the report: the independent auditor's report, where CLA indicates SOU's financial statements are free from material misstatements (pages 6-7); management's discussion and analysis (page 8); statement of net position (page 18); Note 11, unrestricted net position (page 35); statement of financial position of the SOU Foundation, which is not audited by CLA but must be included (page 19); and the statement of revenues, expenses and changes in net position (page 20).

Responding to Trustee Nicholson's inquiry, Ms. Bushong said the fraudulent activity is accounted for on page 20 on the "other nonoperating items" line. The issue is also addressed in management's discussion and analysis on page 15.

Continuing with the report, Ms. Bushong addressed the statement of cash flows (page 22). Turning to the footnotes, she said there were no major accounting policy changes this year and the footnotes are consistent with what happened in the past. She then highlighted Note 5, capital assets; Note 10, long-term liabilities; Note 15, employee retirement plans, in particular the sensitivity analysis; and note 17, risk financing, which mentions recovery efforts in the fraud incident. The last item highlighted was the required supplementary information, which shows what SOU contributes to PERS on an annual basis.

Turning to the single audit, which includes results of the financial statement audit and the federal audit, Ms. Bushong said CLA issued one material weakness as it related to the fraud. Regarding the testing of the federal program, she said there were five findings last year. This year there was only one, which related to awarding Federal Supplemental Educational Opportunity Grant money to a second pool of applicants who were not in the lowest level of expected family contribution; Ms. Bushong said she expects this issue will be resolved. Responding to Trustee Nicholson's inquiry, Ms. Bushong said there was potential liability of about \$137,000 in questionable costs but the Department of Education will determine if it will collect those monies. It was not recorded as a liability because it did not rise to CLA's materiality or certainty level.

Ms. Bushong discussed the required communications to governance. CLA must remind the board there are estimates in the financial statements and that adopted accounting

policies can impact the numbers. CLA must also advise of any difficulties encountered in performing the audit; there were none.

CLA must advise of any uncorrected or corrected misstatements. There was one that resulted from information from the Department of Administrative Services (DAS) about calculating the net pension liability on SOU's books. This issue was common to all Oregon universities but rose to a material level for SOU. It was not a deficiency or material weakness in controls, but rather an issue with the level of information DAS provided.

Regarding the other required communications to governance, Ms. Bushong said there were no disagreements with management, management represented that it provided all necessary information, there were no issues with the SOU Foundation auditors, and the fraud issue was highlighted.

Responding to Chair Thorndike's inquiry, Ms. Bushong said CLA also audits EOU, OIT and OSU, which creates great synergy. CLA does not issue a stand-alone report for USSE but does work closely with USSE throughout the audit.

Ms. Bushong mentioned several upcoming GASB standards that would impact financial statements. She highlighted three trends in higher education: Moody's negative fiscal outlook; federal tax reform and changes to the Higher Education Act; and cybercrimes and security.

Responding to Trustee Hennion's inquiry, Ms. Bushong said she could create slides comparing SOU to the other Oregon universities. The focus for SOU is whether it is climbing out of the economic condition of five years ago. Greg Perkinson is attempting to obtain timely statistics comparing the institution.

Trustee Nicholson moved that the Executive and Audit Committee approve a resolution to recommend the Board's acceptance of the Audited Financial Statements of the 2017 Annual Financial Report for SOU for the fiscal year ended June 30, 2017. Trustee Hennion seconded the motion and it passed unanimously.

Amendments to Internal Audit Charter

Ryan Schnobrich said one of his recent governance projects was updating the Internal Audit Charter, in particular, the definition of internal auditing to comply with the update in The Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. He also streamlined the charter and made the formatting more consistent.

Responding to inquiries from Trustees Vincent and Nicholson, discussion ensued on the individuals from whom Mr. Schnobrich takes direction and advice; his limitations stemming from not being a member of management; his options if employees are resistant to his suggestions; interactions with non-employees; and the scope of investigative services. There was also discussion on consistency in style among board documents.

Trustee Sayre moved that the Executive and Audit Committee of the Board of Trustees of Southern Oregon University approve the proposed resolution in the meeting materials to amend the internal audit charter. Trustee Nicholson seconded the motion and it passed unanimously.

Information and Discussion Items

The Guardians Initiative

This item was omitted in favor of having the discussion at the meeting of the full board.

Internal Audit Update

Ryan Schnobrich provided the committee his periodic update. Starting with assurance services, he and the Director of Human Resources agreed to change the focus of the Human Resources audit from personnel file management practices to the processes around the use of irregular employment agreements and the processing of those agreements; he said he intends to reconsider personnel file management for next year's internal audit plan. The Director of Housing asked to be audited regarding key control practices; Mr. Schnobrich said this is an important safety topic and he wants to encourage directors reaching out to him so he will add this audit.

On the consulting side, the scope of engagement with Athletics has broadened based on need. He and the Directors of Athletics and Business Services continue to identify "micro-integrations" between the departments that would benefit from everyone's attention. They are coordinating with the Directors of the Service Center, Human Resources and Housing to encourage integration of processes and internal controls.

Mr. Schnobrich said the Director of Financial Aid is preparing to expand compliance activities and asked that he wait until this expansion happens and is staffed before continuing consulting activities. The Director of Campus Recreation is making progress preparing for the opening of the Student Recreation Center and the ASSOU advisory committee has been actively involved in establishing governance of the recreation center. The Chief Information Officer has made remarkable progress on implementing enterprise risk management.

Mr. Schnobrich said there were several more allegations made during this last quarter and he is coordinating resolution with management. He is still spending a significant amount of time on investigative services, which comes at the cost of consulting services and has delayed the start of assurance service for Human Resources.

Future Meetings

Chair Thorndike said the next committee meeting is on March 16. With the board coming up on the end of its third year, Chair Thorndike said it is probably time to review the bylaws. He encouraged trustees to submit their comments on the bylaws and requests for agenda items to the board secretary. Sabrina Prud'homme provided an update on the appointment and reappointment of trustees.

Adjournment

Chair Thorndike adjourned the meeting at 11:22 a.m.

Date: June 22, 2018

Respectfully submitted by,

A handwritten signature in cursive script, appearing to read "Sabrina Prud'homme", written in black ink on a white background.

Sabrina Prud'homme
University Board Secretary