



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

**Friday, January 20, 2017
9:30 – 11:30 a.m. (or until business concludes)
DeBoer Room, Hannon Library**

MINUTES

Call to Order and Preliminary Business

Chair Thorndike called the meeting to order at 9:33 a.m. He said the board just had a great breakfast meeting on strategic planning.

President Schott expressed sorrow over the death of Coach Howard. Chair Thorndike said Coach Howard was the definition of pride. They extended their thoughts to his family, team members, the other SOU athletes and everyone at SOU.

Chair Thorndike introduced Julie McFadden, SOU's Director of Government Relations.

The following committee members were present: Bill Thorndike, Lyn Hennion, Teresa Sayre, April Sevcik and Judy Shih. The following member was absent: Paul Nicholson. Trustees Les AuCoin, Daniel Santos, Joanna Steinman, Steve Vincent and Linda Schott (ex officio) also attended.

Others attendees included: Dr. Susan Walsh, Provost and Vice President for Academic and Student Affairs; Craig Morris, Vice President for Finance and Administration; Jean Bushong, CliftonLarsonAllen; Sabrina Prud'homme, Board Secretary; Jason Catz, General Counsel; Ryan Schnobrich, Internal Auditor; Steve Larvick, Director of Business Services; Patti Eliot, Accounting Manager; Ryan Lamanna, Accountant; Jayne Atkins, Accountant; Julie McFadden, Director of Government Relations; Debbie Jones, Fiscal Coordinator; John Stevenson, IT User Support Manager; Don Hill, Classroom and Media Services Manager; and Kathy Park, Executive Assistant.

Trustee Sevcik moved to approve the October 20, 2016 meeting minutes as drafted. Trustee Hennion seconded the motion and it passed unanimously, with Trustee Sayre abstaining since she was not present at that meeting.

Public Comment

There was no public comment.

Presidential Evaluation Policy (Action)

Chair Thorndike said the committee and the board have discussed the presidential evaluation policy. This committee previously reviewed a draft of the policy and the final version in the day's meeting materials included one change the board secretary proposed to address the potential for future changes to the board's meeting schedule. President Schott expressed her approval of the proposed policy.

Chair Thorndike read the following proposed motion: I move that the Executive and Audit Committee approve the Presidential Evaluation Policy as proposed. I further move that the committee recommend the policy to the full board for approval and adoption. The motion was moved by Trustee Sevcik, seconded by Trustee Sayre, and passed unanimously.

President's Goals (Action)

Chair Thorndike said President Schott mapped out her direction during her first year as president. President Schott submitted her proposed goals to Chair Thorndike and Vice Chair Sevcik. They reviewed the goals and provided input for the final version.

President Schott discussed her eight main goals: 1) Continue to work with the board; 2) Build a leadership team and develop relationships on campus and in the community; 3) Launch a strategic planning process; 4) Conduct a review of recruitment and retention efforts to enhance enrollment, retention and graduation rates; 5) Work closely with the Vice President for Development; 6) Enhance her understanding of Oregon's politics and legislators; 7) Enhance relationships with other leaders of higher education, business leaders and employers; and 8) Ensure SOU continues to meet the targets established in the retrenchment plan.

President Schott said she would do many other things but she thought keeping an eye on these goals would enable everyone to feel good about her work and the progress of the university. Chair Thorndike added that many of the duties are enumerated in the president's contract with SOU and these goals reflect trustees' input on areas they considered important.

Trustee Hennion asked about quantifying the president's performance to measure success. Chair Thorndike said the president posed that same question and it seemed the board is interested in the quality of the work relative to specific metrics, with the exception of fiscal goals and enrollment. Those can be measured going forward as long range goals. President Schott said the evaluation process will go into effect going forward and next fall there will be a more mutual development of goals and metrics. Responding to Trustee Sayre's inquiry about President Schott actualizing these goals with those who support her, President Schott said she has asked her direct reports to develop their goals. Those goals are not fully aligned but can be going forward.

Vice Chair Sevcik thought the proposed goals reflect what they hope to accomplish and she is interested in the quality of the work accomplished.

Chair Thorndike read the following proposed motion: I respectfully request that the Executive and Audit Committee approve these goals as proposed and, with that, recommend them to the full board for review and approval. The motion was moved by Trustee Hennion, seconded by Trustee Shih, and passed unanimously.

2016 Audited Financial Statements (Action)

Craig Morris introduced Jean Bushong from CliftonLarsonAllen (CLA) and commended Steve Larvick, Patti Eliot and all of their staff for their excellent work on the audit. Ms. Bushong said she would discuss responsibilities under auditing standards, what an audit is and is not, the results of the audit, and required communications. This is SOU's first wholly independent, stand-alone audit.

Ms. Bushong said CLA will issue an opinion on whether SOU's financial statements are free from material mistakes. Mistakes fall into three areas: error, fraud and non-compliance. CLA is not SOU's internal control system and will not issue an opinion on that; however, CLA would notify management if there were material weaknesses or significant deficiencies in the internal control system relating to financial statements.

There are two buckets for CLA's work: the financial statement audit and the single audit. SOU's financial statements were materially correct and CLA issued an unmodified opinion. SOU had one past adjustment and no audit adjustments, which is a great testament to the product SOU provided to CLA.

In the Management's Discussion and Analysis section, CLA reconciles all the information and numbers to audited information. That section provides a quick glimpse of why numbers changed from one year to the next.

Ms. Bushong then discussed the Statement of Net Position. The section includes comparative statements but these are the most uncomparative comparative statements that will be seen for a bit. She highlighted two items that caused some of the differences this year. As this is SOU's first year as a stand-alone organization, there were many accounting changes that impacted the financial statement. The biggest piece is that, before the reorganization, the state could assign SOU certain debt; it can no longer do that so the debt came off SOU's financial statements. When that net liability came off, it caused a \$57 million increase to the net assets. The second change resulted from the Oregon Supreme Court's Moro decision, which changed the treatment of PERS COLAs from a net pension asset to a liability. That \$4.7 million asset is now a net pension liability of \$11 million and some of that change is going through the operating expenses.

Total assets are \$150 million, which is a decrease of \$47 million. This is due to the net pension asset swinging to a liability and to the removal of cash reserves related to the state-imposed debt that came off the books. Liabilities are also down about \$90 million, due, primarily, to the debt that came off the books.

Ms. Bushong mentioned SOU's net position, thought of as equity. The largest piece of the equity is in the net investment in capital. Unrestricted assets are negative this year, driven by the net pension liability of \$11 million. Chair Thorndike clarified that the nonexpendable endowments are what SOU has through the university's system, which is independent of the SOU Foundation's assets. CLA is required to include the SOU Foundation's statement of financial position but does not audit the Foundation, instead relying on the Foundation's auditor's report.

Ms. Bushong covered the statement of revenues, expenses and changes in net position. Operating losses are common for universities; SOU's loss was \$47 million. Accounting principles dictate that many of the funds used to operate the university, such as Pell Grants and state appropriations, be called nonoperating funds. Mr. Morris added that trustees are used to seeing fund categories and these statements combine all funds.

Operating revenues are up about 7 percent. There was a slight increase in tuition revenue due to increased rates; there was a \$1.2 million increase in auxiliaries attributable to the North Campus Village. Operating expenses increased 28 percent, largely due to the net pension asset swinging to a liability. If that impact were removed, operating expenses really only increased about 8 percent.

Regarding nonoperating revenues, government appropriations increased \$3 million and interest expense is down because a large portion of the debt was removed. The \$57 million special item is the change in reorganization, primarily the removal of the debt.

Covering the statement of cash flows, Ms. Bushong said two big things happened to change the cash flow: the \$30 million cash reserve that went back to the state and some cash was moved into the SOU Foundation, which is now an investment. For universities, cash from operating activities is going to be negative because other cash flows are included later in the statement.

Ms. Bushong highlighted a few of the footnotes. Note 5, Capital Assets: Some projects were completed and moved from construction in progress to the depreciable category. Note 10, Long-Term Liabilities: A lot of debt came off the books simply due to the reorganization. Note 11, Unrestricted Net Position: SOU's net position is negative; a lot of universities' net positions went negative after implementation of GASB 68. This footnote displays SOU's operations fund balance if pension-related entries were not included in the report. Note 13, Operating Expenses by Natural Classification: This shows natural categories of expenses. Note 15, Employee Retirement Plans: Ms.

Bushong stressed that SOU's net pension liability is an estimate and the Sensitivity Analysis in this note shows how the discount rate impacts the estimate. Note 19, Change in Entity: This addresses all the things that changed SOU's balance sheet.

Ms. Bushong then moved to SOU's first stand-alone single audit: the audit of federal programs, student financial aid in particular. The university expended \$43 million of federal program money through the year, \$42 million of which was student financial aid. The single audit does not test 100 percent. Within the single audit report, there are two independent auditor reports. The first is about financial reporting and would indicate if the university had material weaknesses or significant deficiencies. The university did not but CLA issued a management letter about operational items SOU can clean up (bank reconciliation items that could have been cleared earlier and two USSE employees who had access to the payroll system).

The second report is testing of federal programs. CLA focused on student financial aid. Last year, Ms. Bushong said SOU would probably have some findings because her team understands student financial aid and this was SOU's first time undergoing the process. There were five findings. 1) Reporting Pell data - Within 15 days of dispersing Pell to a student, SOU has to report that to COD [the U.S. Department of Education's Common Origination and Disbursement system]. In one case out of the 40 reviewed, CLA was unable to find a record of disbursement being reported to COD. 2) Reconciliations with direct loan programs have to be completed monthly. Due to the reorganization, these reconciliations did not start until the last three months of the year. This issue has been fixed. 3) This finding applies to most public universities across the nation because they use the National Student Clearinghouse (NSC) as a third-party service provider to submit student enrollment information to the Department of Education (DOE). As of a couple years ago, schools have 10 days to fix any errors in the process. Because data was not matching, many errors were coming back so schools have been telling NSC to get this fixed. Errors are now declining. CLA found two students whose enrollment information had not been updated within the 10-day time period. 4) In accordance with DOE requirements, SOU was properly verifying certain student information but there was no documented internal control to make sure it was being done right. For every compliance requirement, CLA has to see the internal control. Mr. Morris commented that the management of federal financial aid is very complex and the failure to follow the rules can create serious problems. CLA has experts on federal financial aid compliance and that was one of the reasons it was selected as SOU's auditor. During the course of the audit, SOU's financial aid director resigned, a former director was hired in the interim and SOU is in the process of hiring a permanent director. 5) Out of 22 Pell award records reviewed, CLA found one student who was under-awarded. The student adjusted his enrollment status but the Pell award was not adjusted properly.

In conclusion, CLA opined that SOU was materially in compliance and none of these items resulted in a modified opinion. SOU still received a clean opinion.

Ms. Bushong discussed required communications. There are qualitative aspects to the financial statements, such as estimates that could impact the bottom line (e.g., net pension liability, North Campus Village receivables and doubtful accounts) and changes in accounting policies that were implemented. CLA encountered no difficulties in performing the audit; management was very helpful.

There was one past adjustment, which was not material; CLA thought a \$70,000 past adjustment on donated radio equipment was overvalued. There were no corrected misstatements and no disagreements with management.

Mr. Morris said there are two big components that go into preparing the audited financial statements that are beyond CLA's work. The University Shared Services Enterprise prepares the actual statements that CLA reviews and audits; Mr. Morris complimented Diana Barkelew and her team on their work. The other component is actually doing the accounting work correctly. Mr. Morris recognized and complimented Steve Larvick and his team, Patti Eliot, Ryan Lamanna, Jayne Atkins and Debbie Jones.

Chair Thorndike read the following proposed motion: I hereby move that the Executive and Audit Committee recommend that the SOU Board of Trustees accept the audited financial statements of the 2016 Annual Financial Report for Southern Oregon University for the fiscal year ending June 30, 2016. The motion was moved by Trustee Sevcik, seconded by Trustee Hennion, and passed unanimously.

Proposed Revisions to Committee Meeting Schedule (Action)

Chair Thorndike said the trustees operate under a number of different calendars and have many responsibilities to fulfill and their time should be respected. Sabrina Prud'homme explained the proposed changes as detailed in the meeting materials. The proposed changes would allow the committee to incorporate internal governance issues and briefings from the internal auditor.

Trustee Sayre moved that the Executive and Audit Committee adopt the revisions to the committee's meeting schedule as presented. Trustee Shih seconded the motion and it passed unanimously.

Proposed Amendment to "Board Statement on Board Committees" to Add Board Governance to the Express Responsibilities of the Executive and Audit Committee (Action)

Introducing this agenda item, Chair Thorndike said it speaks to the board's desire to integrate governance work. The proposal would modify the committee's charter to

recognize the importance of board governance work and to continue the use of the work group to move governance issues forward. Ms. Prud'homme said the committee approved adding the governance function to its responsibilities at the October meeting, which included the charge to bring back necessary changes to policies to formally codify that responsibility. She then discussed the proposed changes to the Board Statement on Board Committees to effectuate that addition.

Chair Thorndike read the following proposed motion: I hereby move that the Executive and Audit Committee approve the amendment to the Board Statement on Board Committees to add board governance to the express responsibilities of the Executive and Audit Committee. The motion was moved by Trustee Shih, seconded by Trustee Sevcik, and passed unanimously.

Internal Governance Work Group Update

Trustee Shih discussed the Board Self-evaluation that evaluated individual trustees on certain elements and the board as a collective. She said it was an action required to fulfill one of the board's responsibilities. Each trustee was asked to complete the form and twelve of the fourteen responded. Trustee Shih and Ms. Prud'homme compiled the data. Ms. Prud'homme prepared the executive summary that was included in the meeting materials and Trustee Shih reviewed those results for the committee members.

Although many trustees were willing to accept leadership roles, Trustee Shih noted no one indicated a desire to serve as the board chair. The work group will assess collective expertise to determine areas that need to be filled and will develop a matrix of competencies. Ms. Prud'homme thanked trustees for taking the time to answer the questions candidly. The responses and comments allow her to improve office operations and meeting efficiency and help set priorities for the board.

Significant discussion ensued regarding trustees' terms, staggering the terms and filling vacant positions and the processes the various constituent groups use to submit recommendations to the governor's office. Chair Thorndike encouraged trustees to coordinate with the board secretary regarding any suggestions they have for possible candidates for new trustees.

Returning to the discussion on the evaluation tool, Trustee Shih said the survey has been modified slightly to better meet the needs of the board. The revised version was included in the meeting materials. Changes were made to capture who is completing the survey, obtain specific information about that person and allow that person to evaluate his or her individual level of expertise in certain areas. Changes will also be made from year to year to address issues relevant for that particular evaluation period.

Trustee Shih said the work group is also assembling a handbook for trustees and an outline of the proposed elements was included in the meeting materials. The goal is to

have the handbook available in a web-based format. Trustee Shih referred to the matrix of competencies and asked the trustees to complete the matrix so the board would know where strengths and weaknesses lie.

Internal Audit Update

Ryan Schnobrich read the quarterly update included in the meeting materials. He said he is trying to set a pace to that of management and take cues from the president about the pace at which some of these actions should occur. He asked trustees to let him know if they want him to speed up or slow down any of the actions he is working on. Updating the number of allegations he has received since the last committee meeting, he said he has now received four, not three as mentioned in his written update. He has reached approximately 100 people through his fraud awareness presentations and thanked Dr. Walsh and Craig Morris for encouraging attendance at the presentations.

Mr. Schnobrich said he now has 19 cases in 10 months, which is unusual, but he sees it as an indicator of success. Mr. Morris said people see Mr. Schnobrich and the hotline as safe, confidential ways to communicate concerns, founded or not, and he also considers this to be positive. Responding to Trustee AuCoin's inquiry, Mr. Schnobrich said he does not see this as a sign of a cranky campus but rather as a way for people to report their concerns. If he encounters anything he thinks management should be addressing, he refers the issue to them. He said he focuses on the substantiation portion of the allegation, whether there is validity to what is being said, and coordinates with executive management to determine how they want to address it. He would bring an issue to the Executive and Audit Committee if it were one where he thought management was accepting more risk than it should.

Mr. Schnobrich then addressed the time he spends on different activities, saying the start-up activities, such as training, will decrease over time.

Chair Thorndike expressed appreciation to Mr. Schnobrich for jumping into this unknown pool and doing as well as he has.

Future Meetings

Chair Thorndike said the next meeting would be on Saint Patrick's Day.

Adjourn

Chair Thorndike adjourned the meeting at 11:37 a.m.

Date: April 21, 2017

Respectfully submitted by,

A handwritten signature in cursive script, appearing to read "Sabrina Prud'homme", written in black ink on a white background. The signature is fluid and connected, with a prominent initial 'S'.

Sabrina Prud'homme
University Board Secretary