Finance and Investment Committee

Meeting Minutes
Friday, November 4, 2022, 9:00 am
25 Main Street Conference Room (Hybrid)

https://csuchico.zoom.us/j/81266501731?pwd=Q3owcTdRZldQYkczdmYxZ0JuUTB0QT09&from=addon
Meeting ID: 812 6650 1731
Passcode: 143861
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Committee Members Present: Ron Barker, Anita Chaudhry, Bob Kittredge, Debra Larson, Mary Sidney

Members Absent: Ann Sherman, Tod Kimmelshue

Other Board Members Present: None

Also Present: Amanda Bullock, Michele Flowerdew, Vance Kelly, Dana Pitman

1. **Call to order at 9:04 am**

2. **Approval of Minutes from September 14, 2022 –** Tabled until the next meeting

3. **Presentation, review, and discussion of F&A recovery data**

   Sidney advised that she has done an in-depth review of F&A data and walked the committee through a slide presentation. Grant and contract expenditures and the indirect cost recovery year-over-year were reviewed and reflected an indirect cost recovery decline. She displayed the chart titled F&A Variances from Break-Even (BE) which was included in the packet materials. Data was reviewed project by project, then PI by PI, and finally, by each PI and center's portfolio of projects, looking at the variances from break-even. In the past, some projects provided enough reimbursement to compensate for the projects that didn't reimburse adequately. But something has changed and that is no longer the case. Management grouped projects by broad categories of variances from the organizational break-even point of 13%. They then identified who the program directors are and how many there are in each group. The centers have a break-even shortfall greater than $200K. There was good news in that, if we need to define an alternative F&A recovery strategy, there are only currently three PIs leading the centers. The magnitude of their F&A shortfall makes sense because they are doing business in the multi-millions. Most of the PIs are not doing projects at this level. So while the group of centers falls into the category of having a break-even shortfall greater than $200K, most of the campus--63 PIs-- is either in the zero-$100K shortfall from break-even category (46 PIs) or their projects operate above the break-even point.

Chaudhry asked for clarification about the chart and Sidney explained that the top row illustrates centers only and the next three rows illustrate non-center PIs. Sidney explained that break-even is defined as 13%. She also clarified that, during the initial data review, she was analyzing the data project by project, looking for how portfolios performed year-over-year. All three PIs for all three centers had an F&A shortfall based on their annual expenditures. The highest impact is coming from the centers due to the scale of their center grant and contracts and subcontractors. Subcontracting is often disadvantageous to F&A recovery because the government restricts the amount that can be collected on a subcontract. Sidney plans to have conversations with the PIs about these aspects of their funding. For example, the PI leading the Center for Healthy Communities has expanded to 53 subcontractors, but Chico State Enterprises (CSE) still only receives $25K on each subcontract. Also, there is a huge increase in stipends in some of these larger projects requiring significant CSE administrative staff effort, although we aren't receiving any additional F&A revenue. We are analyzing each PI's entire portfolio to determine their overall variance from the break-even point. Thus far, we know that a significant amount of these issues come from the centers.

Sidney has already started her conversations with the center directors whose projects are performing at less than F&A break even. The three PIs in this group are Stephanie Bianco with the Center for Healthy Communities, Joe Cobery with Passages, and Jason Schwenkler with the Geographic Information Center and the Center for Economic Development.

Further, Provost Larson will meet with two college deans, Angela Trethewey and David Hassenzahl, today to continue the discussion from the Board meeting to understand and articulate the academic perspective and priorities with regard to the low reimbursement for specific types of grants such as the Department of Education and HSI, and how we might restructure those going forward. There are many expenses that are exempt from F&A, including stipends. There are also many sponsors that cap F&A.

Sidney shared some possible alternative F&A recovery strategies

- Direct charge CSE admin staff time when the sponsor allows
- Assume a subcontractor role vs. primary contractor role with partnerships
- Re-evaluate partnership and contractor definitions: sub-awardee or service provider
- Using PI discretionary funds to help offset break-even shortfall
- Exploring administrative fees for participant costs
- Some combination of all the above

Development and clarification of relevant policies are critical.

Sidney concluded her presentation by providing the status of F&A recovery analyses noting that discussions have started with center directors about improving F&A recovery strategies and alternatives are being explored. She will receive feedback from the two dean Board members regarding academic principles and priorities and incorporation into strategies and is also seeking feedback from the Finance and Investment Committee.

Kittredge commended Sidney for her analyses thus far. He asked if she had a compilation of the composition of costs, identifying which centers or contracts have the largest subcontractor groups and other non-reimbursable F&A costs, that would illustrate the makeup of reduced F&A recovery. Sidney shared a spreadsheet that provided granular PI and center data over three fiscal years. Kittredge asked if we are spending the same level of effort when supporting subcontracts. Sidney noted that vendors likely presume that CSE is using the existing CSU infrastructure, which is inaccurate. When CSE is the primary contractor, we must validate the data, make sure it reconciles to the budget, and then submit check requests for payment. Audits go through CSE, not through the subcontractors. Flowerdew noted that we also do annual monitoring, desk, and other annual audits, using the analyst's time to verify accuracy. With cost-reimbursed projects, CSE often pays the subcontractors before we receive our payment, requiring management of cash flows. There has been some discussion with subcontractors about delaying payment to those subcontractors until CSE receives their payments, but that has not been received favorably. So there is significant effort required to support subcontracting.

Sidney has started a conversation with Joe Cobery and learned that he had received $1M in COVID-relief funds, none of which allowed for any F&A recovery to CSE. Kittredge asked about Sidney's go-forward plan. Sidney suggested that this will likely take several conversations about the practicality of supporting programs that under-recover. F&A. Sidney expects that by December she should have additional information to create both short- and long-term action plans, both for the programs/centers and for CSE, for planning purposes. Kittredge expressed his appreciation, noting that Sidney's data and focus have been very helpful in understanding this complex situation.

Larson asked the group to discuss the values of sponsored program work. She believes that the sponsored program work needs to have a clear and visible relationship to the university's mission broadly. She asked for CSE Administration's perspective, for example, the financial viability of the organization. Flowerdew suggested that CSE's priorities should support Chico State students, such as paying tuition or stipends to offset some college costs. Barker opined that other programs that have participant costs, (non-Chico State students in other school districts, etc.) should be structured differently. Reputation is very important as sponsored programs/research is how universities build reputations on the national stage. Sidney noted that organizational readiness doesn't necessarily allow for pivoting quickly. Each grant or contract has its own idiosyncrasies and infrastructure requirements and Larson suggested that that is true both on the CSE side as well as the university's side. Flowerdew suggested that there are projects that don't involve students at all, and that student participation in the research should perhaps be considered. Larson noted that newer faculty research work can be vitally important for those faculty members' career growth and opportunities. Flowerdew noted that CSE administers many projects that benefit communities but noted that the communities don't necessarily know about them. We could do a better job of telling the public about them.

Chaudhry expressed her appreciation for the data shared by Sidney. She suggested, for Sidney's conversations with the center directors, sharing administrative costs to CSE with those directors might be useful. Sidney agreed.

4. **Next meeting date and time is December 7, 2022**

5. **The meeting was adjourned at 10:03 a.m.**

Respectfully submitted,

Mary Sidney

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Mary Sidney, Secretary