The CSU, Chico Research Foundation
California State University, Chico

Minutes for the Board of Directors Meeting
Monday, September 26, 2016, 1:45 – 4:00 pm
BMU – Room 203

MEMBERS PRESENT:
President, Gayle E. Hutchinson; Interim Provost/VP Academic Affairs, Michael Ward; VP Student Affairs, Drew Calandrella; Interim VP Business & Finance, James Hyatt; VP University Advancement, Ahmad Boura; Faculty Member, Eric Bartelink; Faculty Member, Russell Shapiro; Community Member, Dan Hunt; Student Member, Michael Pratt

ALSO PRESENT: Jessica Bourne, Russell Wittmeier, Jamie Visinoni, Jerry Fieldsted, Dan Hicks, Kevin Hansen, Gloria Quintero, Jody Strong, Kevin Kelley, Michele Flowerdew, John Miner, Matt Bently, Sandra Shereaman, Robert LaCour, Betsy Boyd, Cindy Wolff, Stephanie Bianco, Kristin Gruneisen, Brandi Aranguren, Stacie Corona, Michelle Korte, David Hassenzahl, Adam Himelson, Peter Freska

1. Call to Order – At 1:45 p.m. by Ward. Ward asked everyone at the Board table to introduce themselves to the gallery.

2. Approval of the Minutes – Ward asked for a motion to approve minutes from the May 23, 2016 Board meeting. Motion was made and seconded.
   Move to approve the May 23, 2016 meeting minutes (Calandrella/Boura)
   Motion carried (9-0-0)

3. Public Comments – Wolff told Hutchinson the CSUC Centers & Institutes would like inclusion in her listening tour.

   Boyd thanked the Board for the increased faculty representation on behalf of the faculty.

4. President’s Report
   President Hutchinson noted she has been at CSUC for about three months, and shared her commitment to examining the RF with the Board to correct the concerns of the auditing team. She will be listening closely to the proceedings today, and will come back next meeting with more comments.

5. Provost’s Report
   a. Leadership Transition
      Ward began by explaining that Catherine Thoma is no longer with the RF, decided by a closed session over summer. Bourne was appointed to serve as interim executive director for one year by the Board.
   b. Proposed Bylaw Change
      i. 2017-1
         Ward introduced 2017-1, which would amend the Bylaws to add two college deans to the Board. Ward noted that 2015-1 was not implemented to the Bylaws, and that this resolution includes those changes.
Move to approve the Resolution (Hunt/Shapiro)  
Motion carried (9-0-0)

c. 2017-2: Authorized Signers  
Ward introduced 2017-2, which would update the authorized financial signers for the Foundation to Bourne, Wittmeier and Flowerdew. Kelley requested a second RESP employee to be added to the list; Bourne stated another resolution would be forthcoming in December with the RF’s assistant financial director, and RESP could add another signer then.  
Move to approve the Resolution (Shapiro/Boura)  
Motion carried (9-0-0)

d. Audit Committee Appointments  
Ward announced Calandrella and Shapiro will continue as the RF’s audit committee this year.  
Move to approve the Appointments (Hyatt/Bartelink)  
Motion carried (8-0-1)

6. Business  
a. Audit Committee Report – Ward and Bourne introduced LaCour to deliver the report on Calandrella’s behalf. Bourne alerted the Board that the RF changed auditors this year to AKT. LaCour thanked everyone and began with a brief overview of AKT and that they worked with the UF as well as the RF this year. Afterwards, he began sharing details on the report to the audit committee. The report is essentially a status update on the RF. It is still within the intended scope of the engagement letter, and while the audit is still in progress LaCour is hopeful that an unmodified opinion on the financials will be delivered soon. LaCour transitioned to how AKT performs their audits by focusing on internal controls over various business processes. Some of the concerns they have uncovered during the audit includes:
- Material weaknesses that could lead to misstatements:
  - Accounting software that does not allow for proper financial reporting  
    Bourne expanded upon the accounting software issue by noting that the data design is flawed, making it very difficult to produce any meaningful financial information.
  - Lack of revenue recognition for grants and contracts  
    Boura asked is this a normal situation; LaCour replied that it is not. Boura questioned how these issues happened; LaCour was not able to fully answer, but he said a lot of it is likely due to classification and how certain grants have been reported. Some of these projects were noted as having funds being received in advance, while some still need to be billed out. Bourne added that historically, every agreement was assumed to be and reported as cost-reimbursable. Since the RF has assumed the preparation of its own financials, it has become clear those assumptions are not appropriate.

Kelley noted that the RF had passed audits over many years with both external as well as CSU Chancellor’s Office auditors, and indeed Chico had been characterized as a gold standard by CO auditors. Boura wanted clarification on what exactly the primary problems are with the audit. LaCour stated that it’s in part due to the age of the RF; it’s a thirty year old corporation with thirty years of information to sort through, and it’s a challenge to rebuild when there’s that much data. Once this is resolved, things will definitely improve. He emphasized that this is important for the RF moving forward as it will ultimately make the organization better. That being said, he can’t pinpoint anything specific because the auditing team is looking at the RF with a superficial level to fix things. Shapiro noted that one half to three quarters of the $4.8 million is indeed in “buckets”; it took another auditing firm (AKT) to make that observation and
say that we need to reclassify the unspent funds on these grants. Kelley added that this is not insurmountable; once RESP knows where the data and money need to go for RF accounting purposes, it will follow suit. Shapiro observed that this ties back to the software issue. Bourne emphasized that some of these issues are larger than a simple reclassification; the numbers currently in review result in a $2 million prior period adjustment related to net assets – the prior year’s activity that wasn’t reported in our income statement. Also, there’s about $1 million in current year revenue over expense. Breaking down the $4.8 million adjustment on page 6, two of those items would be called net income in a for-profit environment. Those will be addressed with AKT, along with other issues with tax and reporting. Our 990s have not been reported correctly, and the RF has not fully explored potential unrelated business income (which is about to be evaluated). Bourne added that working with AKT is going to get us to the gold standard we need to obtain, and we will be redoing our accounting processes to be in alignment with the new standards. More training and modern software will be huge in getting the RF on track. Boura felt that the infrastructure needs to be addressed so it can be fixed. He brought up the multiple times the software upgrade has been presented to the Board over the past few years and how it seemingly has gotten nowhere. He wanted to see a task force present an action plan to the Board to highlight the infrastructure going forward and to eliminate errors so that the RF can avoid this type of situation in the future. He feels that the software upgrade needs to be done; it cannot continue to be “in progress.”

LaCour transitioned into the remaining items of the audit report:

- The last comment on material weaknesses that could lead to misstatements was unaccounted vacation accrual that is around $300,000 that is currently unreported in the financials. These relate to various contracted employees. Bourne added that these have been discussed since December 2014, but was not previously considered a problem by the previous auditors. It will hopefully be fixed by the end of this fiscal year.
- Journal entries need additional review from individuals beyond the financial director.
- The majority of property and equipment lack individual tagging or identification. Moving forward, all assets should be tagged and identified – no more “buckets.” Bourne stated that prior record keeping did not lend itself well to reporting, but in recent years the RF has improved detailing these items and are trying to untangle these older “buckets.”
- Notes Payable – there’s a particular long-standing note that needs to be worked out with the vendor to determine if it will ever be paid, and if not, come to an agreement to write it off. Bourne noted that this was a $70,000 loan for livestock done in the 1980s, and it’s something that needs to be remedied. Ward asked if it could be done this year; Bourne said yes.

Hutchinson asked who was recording action items; Bourne noted Fieldsted was taking minutes and reaffirmed that the meeting was being recorded.

Ward asked LaCour if there was anything further to add; LaCour stated that the above summarizes the primary concerns as they stand right now. The actual statements could change, but that is yet to be determined. The basic financial statements – outside of those line items – are fairly close to complete. The goal is to report to the Chancellor’s Office by the end of October. Ward applauded AKT and LaCour’s efforts on giving the RF financials a professional look over. Hunt questioned if management had responded to any of the line items; Bourne had not, and anything noted as “Management” was a placeholder.

Boura asked LaCour how our audit compared to other universities. LaCour answered that it’s more complicated, even in contrast to other first-year engagements with other auxiliaries. The variety of grants
is something of note; we have around 500-600 operating projects, while most other auxiliaries have around 100. This year’s management changes have also affected the audit and added its own challenges. Next year should be simpler and more straightforward.

Ward felt that the audit report should not be an action item as stated in the Agenda, so it was rendered a non-action item. LaCour was asked to attend the next meeting.

i. Board Report
This section was skipped in favor of addressing the financial report.

ii. Financial Report
Bourne wanted to briefly go over some of the financial report with the Board because it does summarize last year’s financial activity in the RF, and the bulk of its contents are unlikely to change. Bourne commented that the easiest place to look at overall activity would be the Activity by Fund Type (pages 23-24 of the draft financial statements). Bourne gave the Board an overview of the data presented here, in particular the highlighted items mentioned above and the 25/35 Main bond on the buildings. Boura inquired about the board designated fund, specifically the long-term investment fund. Bourne explained that those are invested funds that have been requested to be in their own investments, like licensing revenues from the university. Boura next asked about the unbilled revenue, wanting some clarification on what that exactly meant. Bourne described the process of grant billing, and how oftentimes a particular grant or contract has specific billing parameters outside of the usual items issued by Accounts Receivable. This year, the unbilled revenue was broken out from the more general AR numbers to have a better level of comfort with these items. Flowerdew gave an example of a quarterly system of billing where we (RESP) are a quarter behind in billing. Each contract is unique, with its own terms of payment. Boura asked if the amount of unbilled revenue was normal. Kelley said it may be a little high. Flowerdew emphasized the types of contracts RESP receives and the amounts they bring in. Boura asked how much money in grants we bring in a year. Kelley said around $25-27 million a year. He went on to say that RESP needs to have that versatility and flexibility to be able to fund research for the university. Kelley asked Shereman for her opinion given her expertise in the CSU system; Shereman felt Flowerdew gave a good overview, noting that Chico is similar to Long Beach in terms of unbilled revenue. Boura asked for figures; Shereman said that $25-30 million was a good estimate. LaCour noted that the $4.6 million on the statements resulted from an adjustment to unearned revenue; funds we receive in advance of completed services. Those two numbers used to be netted together, and when combined it’s close to that ideal range. Boura asked if there are “red flag” numbers; Kelley said that now is a great time to look at it, but this unearned or unbilled revenue will always be there for RESP. Bourne added that once we have completed this project, we will be able to create that number as a management tool to work from. Hyatt stated that the big change here is that the deviation of what was reported historically and what is reported now is massive, and we are trying to work through these items to clean them up for the future. This does raise the point of how we are managing grants and contracts, and if what we currently have sitting as unbilled is appropriate moving forward. Kelley noted that that will vary depending on what the different sponsors require, and that RESP can’t perform any better than what the sponsors require. Hyatt observed that typically – not necessarily with our RESP office – sponsored projects billing gets delayed. Kelley stated that RESP is looking at this as an opportunity to improve, and that prompt billing is one thing that his office performs pretty well. Boura inquired about staffing; Kelley iterated that it has certainly been an issue and that the RESP staff is overworked. Hunt asked if the unbilled revenue number would change; Flowerdew said that yes, the number would change depending on the time of year. Final billings get quite large due to projects
ending. Some invoices are not recorded in June due to the billing requirements and are recorded in the next fiscal year. Hyatt noted that a subcontract is its own complex entity as well. Ward requested that for the interest of time we had to move to the next topic.

b. Software Report
Ward noted that the software contract that Boura had alluded to was believed to have been signed and underway prior to Ward stepping into the Provost position, but in reality had not actually happened. Bourne added that the Software Agreement is not signed, but the RF and UF now have executive sponsorship from Ward, Hyatt and Boura to make sure this gets done right and with the right level of review. The UF will get a timeline and scope presentation on the software on October 6th – 7th. A tentative date for a proper kick-off is November. Reporting and timekeeping are two major facets of the software we will be considering. Calandrella asked who will manage the project. Bourne says that the RF needs to organize – deciding on an implementation team, a timeline, etc., which she expects to be done in the next two weeks. Calandrella suggested having a software vendor be a part of the process. Bourne noted that the vendor has been involved and have been very patient with the RF thus far. They were ready while the RF was not. We need an internal team that can act. Kelley noted that Fullerton recently did this and offered some advice to make sure to include all stakeholders as part of the implementation, observing that Fullerton’s RESP office suffered due to a lack of communication on the software. Sac State just changed to the same software package we are trying to put in, so they could be useful to consult moving forward. Bourne wanted to point out that a big part of the delay was staff turnovers, herself included. From mid-May until recently, staffing challenges prevented the update from making any ground because the team wasn’t totally in place. Boura added that there will be a project manager to help manage this process. Hunt asked Lacour if he had any familiarity with the software package the RF is considering. Lacour said if it suits the needs of the organization, then we should move forward with it as it’s a perfectly fine reporting package. Boura asked when we last updated the software. Bourne thought it was around 2007. Kelley said this package is something several CSUs and other campuses use and are quite happy with.

c. RESP
i. Research Update
Kelley gave a short presentation on the current state of campus research and RESP. He began by introducing new RESP directors Bently and Shereman. Bently is an attorney who is serving as director of contracts and proposal development; Shereman brings extensive experience in both the CSU and R1 environments and is serving as director of research administration. Kelley then transitioned to the increased recognition of the importance of research throughout the CSU system, focusing on the CSU website. A recent meeting attended by President Hutchinson further emphasized the importance of research throughout the CSUs. Over half a billion dollars is brought in to support CSU research system-wide yearly. CSU, Chico is the 8th largest in the CSU in terms of research dollars. Kelley turned to RESP’s award and proposal numbers next; last year we had 383 submitted proposals worth around $71 million; we are around 80 proposals this year as of today, worth around $10 million. Boura asked where RESP could be in 3 – 5 years. Kelley felt there was ample room to grow and climb up the ranks. Boura asked how much beyond the $26 million or so our RESP office currently handles could we go; Kelley felt it could be doubled. Hutchinson agreed, noting the faculty was there to do it. Shapiro also agreed, observing that as the chair for his department he feels that the potential is certainly there. There’s been concerns about time and pushbacks, which has led some faculty to not even try writing proposals. Ward mentioned the new faculty, which Kelley concurred with. Boura stated that this is much more than just money; it is creating campus prestige and quality of education as well. Kelley
next discussed the F&A rate, which has gone up about 2% since he has been in office. He shared information on some of the proposal highlights from last year. Next, he brought up the 52 new faculty who have joined the university this year and that they bring cutting edge research and a high level of enthusiasm with them. He shared some of the equipment these new faculty have brought to our campus and their unique potential. Shapiro stated that there has been a shift on how research is getting accomplished since he began ten years ago. He felt that the university itself has shifted its position on research, which Kelley agreed. Hutchinson asked if Kelley had information on assigned weighted teaching units and faculty buyouts; he said that he does, and would provide it to Hutchinson. Shapiro asked if today’s presentation slides would be made available to the Board; Kelley said yes.

ii. Special Set-ups
Miner discussed three grants and contracts that had been approved as special set-ups to provide faculty PIs with funds to support their work in advance of sponsor’s transfer of committed funds.

d. Human Resources
i. Benefits
Wittmeier opened with an introduction to the two LBL Group agents, Himelson and Freska, and then began his presentation on a proposed change to the benefit plan of the RF for 2016-17. He explained the guiding tenets of the approach: to attract and retain talent, offer competitive benefits packages in the marketplace, and to follow the Chancellor’s Office directive to be comparable. He shared statistics of the RF employees utilizing the current benefits offerings available to them and their families. Next, he discussed the history of the RF using the Auxiliary Organization Association (AOA) for their insurance needs, but noted that only 6 of the 88 auxiliaries participate in the AOA’s medical benefits. AOA plan rates increase by about 9% overall this year. Blue Shield provided a competitive bid, which Wittmeier broke down, that was significantly reduced in price. He next showed the breakdown of the RF/employee divide in terms of costs, and then he shared some Blue Shield options and discussed each in detail. Next he talked about the different rates for these options. Ward complimented Wittmeier on the presentation. Hunt wondered if the Chancellor’s audit had any impact on the benefits; Bourne stated that it did not. Boura asked what Wittmeier would recommend. After giving some background on how Strong and LBL assisted him in presenting these tables and some anecdotes from other employers in Chico, he stated that Option 1 is the one everyone would benefit from. Shapiro observed that stateside is about to experience a huge increase next year, so he wondered how the RF would be able to keep the RF lower or the same to stateside. Wittmeier posited being separate of the AOA group plan that rates quoted for the 2015 plan year were based only on RF census versus traditional claims experience; for the 2018 plan year, depending on our 2017 claims history, we could see minor to significant increases. Shapiro wanted clarification on the motion if the Board was voting to change benefits; Hunt also wanted to make sure we were agreeing to leave the AOA. Ward concurred on both questions.

Move to approve Option 1 with Blue Shield and leave AOA for RF benefits (Calandrella/Boura)
Motion carried (9-0-0)

7. Other Business
   a. Dean Appointments
   b. Ward wanted to announce, thanks to the change to the Bylaws, the two deans who will be joining the Board next meeting: David Hassenzahl and Angela Trethewey.
c. Mechoopda MOU
   Ward gave a quick update on the status of the Mechoopda tribal council and the recent arrival of the latest draft of the MOU. It will be reviewed and brought to the Board at the next meeting.

d. Reserves – BCCER, Eagle Lake, BCEP
   Ward brought up a desire to set up a committee for the three nature properties under the RF: BCCER, Eagle Lake and BCEP. The goal would be to discuss specific actions on what to do with the properties by the end of the year. Ward nominated Dean Hassenzahl to join the committee and asked for other Board members (and non-Board members) to help serve. Boura asked if a timeline was in place; Ward noted that this proposal is very early and with Hassenzahl joining the Board, a timeline will be determined. Bartelink and Kelley volunteered to join Hassenzahl. This will be discussed at the May meeting, and Ward asked for any suggestions for faculty members to further enrich the community.

8. **Closed Session** – Ward stated they would now be moving to the posted closed session and that only board members would remain.

   Report on closed session – Pursuant to the California Education Code Section 89923.

9. **Adjournment** – The meeting adjourned at 4:00 pm.

   Respectfully submitted,

   [Signature]

   Jessica Bourne, Secretary