MEMBERS PRESENT:
Belle Wei, Paul Zingg (arrived at 1:55 pm), Lorraine Hoffman, Richard Ellison, Drew Calandrella, Dan Hunt, Russell Shapiro

MEMBERS ABSENT:
Tim Colbie, Lindsey Siegel

ALSO PRESENT:
Katy Thoma, Karen Finley, Fred Woodmansee, EK Park, Cindy Wolff, Jason Schwenkler, Stephanie Bianco-Simeral, Mike Magrey, Dan Pickard

1. CALL TO ORDER – Belle Wei
The Provost called the meeting to order at 1:03 pm. She explained this was special meeting in that they were welcoming the new Executive Director, Katy Thoma. She thanked the search committee for their efforts during the search process and thanked Karen Finley for her role as Interim Director.

2. PUBLIC COMMENTS – Cindy Wolff, chair of the External Funding Coordinating Council, spoke on behalf of the visitors present explaining they were bringing to the attention of the Board a proposal for a new policy that is in addition to the current policy, for the disposition of surplus funds from fixed priced agreements awarded to the centers, institutes and major programs. She explained this policy addresses the need of these programs to have funding for infrastructure which is not otherwise provided, and to assist with getting through lean times and developing proposals for additional funds. She brought copies to share with board members. Hoffman stated that she had not known this was being brought to the Board. There is an item later in the meeting that is addressing the policy (EM 02-2007 on Centers and Institutes). She is not proposing a change, but there may be a way, rather than a separate policy that it could be incorporated. It may involve Faculty Senate. This will become clearer when the discussion occurs about a recent audit resulting from a whistleblower complaint. She suggested that on the next agenda it be listed as an information item, and that prior to that they work in concert so as not to get in trouble with the Chancellor’s Office. Wolff and attendees indicated their agreement with that approach. Shapiro asked if they could receive copies of the information Wolff brought to the meeting. Hoffman responded it would be irregular to accept something like that during a public comment period. A working group consisting of Russell Shapiro, Lori Hoffman, Katy Thoma, and Carol Sager was created to work with a group from the external funding group.
3. **MINUTES**

Motion to approve the minutes of 12/20/2012. (Shapiro/Calandrella) Motion carried. (5-0-0) – Hunt absent during vote.

Motion to approve the special board meeting minutes of 1/20/2013. (Hunt/Ellison) Motion carried. (6-0-0)

Motion to approve the special board meeting minutes of 2/12/2013. (Hunt/Ellison) Motion carried. (6-0-0)

4. **FOUNDATION PRESIDENT’S REPORT** - Belle Wei

Provost Wei commented that in the past year when the budget was passed there were financial difficulties noted. Going forward, working with the new Executive Director and Lori, it needs to be kept in mind that the mission of the Research Foundation is to support the mission of the University. We will see what needs to be done in order to have a more robust budget going forward. It will take some time as Katy becomes familiar with the organization, staff and programs. This is important to all of us.

5. **UNIVERSITY PRESIDENT’S REPORT** - Paul Zingg

Wei noted that Paul Zingg would be joining the meeting later and give his report at that time.

6. **QUARTERLY FINANCIAL UPDATE**

**Budget to Actual Projections for 3/31/13 and Significant Activity** - Fred Woodmansee

provided the quarterly financial update on the budget projected through 3/31/2013. He point out that in the Administration Office we are above projected income at 78% and below in expenses at 71%. We are seeing an increase in administrative fees collected.

The sponsored programs office is ahead at 85% of revenue and at 75% of projected for expenses. The increase in income in sponsored programs is a result of increased net indirect at $2.9 million, about $1/2 million more than projected.

Wei noted that these are good numbers. Hunt asked if the numbers were reflective of any early payments. Woodmansee responded there are early payments, but they are prorated based on ¾ of the year. Finley noted that Sager could not be present, but she indicated they are $22,000 ahead of where they were last year at this time. They ended the year at $2.9 million and we are currently ahead of that target.

Wei asked why our revenue is exceeding our projections by so much. Woodmansee replied that our net indirects have increased. Hoffman questioned why only $2.4 was projected for this year since we came in at $2.6 last year. Finley reminded the Board that at the budget meeting last June, Sager was very reluctant to be anything other than very conservative. There were still state budget issues and many unknowns for the coming year. At the time she said she wouldn’t be surprised if we got to $2.7. Even as we looked
at a proposed deficit of $500,000 there was some confidence that it would not be that number.

Hunt asked if we were collecting a higher indirect fee or are there additional programs. Park responded that grant & contract activity has increased, but also the F&A has increased. Wei clarified this means the overall indirect rate has increased.

It was noted that it was just last year that HHS increased the F&A rate from 38% to 44%.

Wei stated we need to be paying attention to the revenue as discussed earlier to make our financial situation more robust and come up with extended programs to increase our revenue.

Ellison stated we approved a budget that was a deficit. He referred to the Administration and RESP budget to actual projections indicating they both show a positive balance. Woodmansee stated that these are just the office operational budgets and do not include the shared and allocated costs. Finley added the net assets also come into play. When you look strictly at the operational budgets that were approved there was a surplus of over $600,000 to be moved over to the general assets. It was only in the allocation of the general assets which includes the costs of 25/35 Main St., the $400,000 that is moved to the incentive program, and the newly instituted $122,000 for facility reimbursements that created the deficit. The operational budgets were solvent with a surplus going to the net assets. It was the program of activity that was approved after that where the deficit appears.

Ellison asked how we were doing with regard to the deficit. Woodmansee responded that we were doing quite well. The move from $2.4 to $2.9 million will wipe out the deficit. The board is only seeing the operational budget pieces and not the total picture with the net assets at this time. Hoffman asked that RF staff bring that back to the June meeting. She continued that in 2007 no indirects were returned, but in 2008 and every year since, $400,000 has been given back as incentives. We have very slowly grown the indirect rate and EK has indicated it is at 13%. She suggested that at the June meeting there needs to be a discussion that as indirects grow, we should be increasing incentive dollars back to PIs. It would be good to see a couple of options on what that might look like and how that impacts the overall budget. Finley noted that as part of that conversation Park will be presenting a report on the sustainability task force which is to be presented to the Provost soon and is part of the mix.

Park added that it is a really good idea to return more to the PIs to incentivize increased grant and contract activity. It is a win/win situation. Hoffman noted that Park, as a state employee, can provide the Provost with different allocation methods for the incentive dollars, but the Board would have to approve the allocation of additional funds.

The Provost reiterated that the Board approved the dollar amount, but it is up to the Provost’s office to decide how to best utilize the funds to support the program.
Hunt asked if the gain in revenue was going to put any additional burden on the expense line. Woodmansee responded he did not believe so. The salaries are static unless additional staff would need to be hired to service the increased load. At this time that is not anticipated.

7.a Audit RFP Report and Approval of Recommendation for External Auditor Beginning Fiscal Year Ending 2014.
Finley explained as background that a joint RFP had been sent out for external auditor services for the Research Foundation, University Foundation and Associated Students. A committee with representatives from all three audit committees had met and reviewed the responses. The minutes from that meeting were attached to the agenda for review by the board. The recommendation was to engage Matson & Isom for the next five-year audit cycle for all three auxiliaries. The other auxiliaries have already approved moving forward with M&I. Hoffman disclosed that one of the other firms was one she had hired when she was in a previous position and therefore recused herself. Thoma questioned why it was for such a long period (5 years). It was noted that it was to assist with pricing, but that there are “escape” clauses should it be necessary. It was also noted there are efficiencies. Shapiro commented that there are other entities where there are requirements to change auditors more frequently and there are good reasons for doing that. He wanted to be on record that he supports changing auditors more frequently. He feels it’s a good practice. Hoffman noted there was probably nothing that would preclude RF staff from going out sooner than five years for an audit if they chose to do so. Thoma also questioned if all three auxiliaries were required to use the same auditors. While there is nothing that requires it, because the AS does all the record keeping for the three auxiliaries it would be very difficult if they didn’t. Members mentioned the efficiencies by having the same audit firm as well as costs doubling if separate auditors were used. Thoma agreed that she likes different sets of eyes reviewing things. Woodmansee noted that part of that is addressed by our request that a different partner be the engagement partner every year or so.

Move to accept the committee’s recommendation and contract with Matson & Isom for the 5-year audit cycle ensuring that there is language that allows for earlier termination with notice as appropriate and as mutually agreeable with the AS, UF and RF audit committees. (Ellison/Shapiro) 5-0-1 with Hunt recusing himself.

7.b Report on Special Investigative Report – Research Foundation & College of Business
Wei explained that a special investigation of the SAP Hosting Center had been conducted as a result of a whistleblower complaint. There are four phases: the first is the complaint by the whistleblower, the second is the investigation by the Chancellor’s Office, the third is the finding, and the fourth is the response. The report was issued over the holidays and there was not much time given, but the fourth state is essentially compliance. She noted this is a complex issue. Hoffman in her capacity as the campus CFO, and not her role as RF Board member, presented the major findings and RF actions to be taken. She explained that in August, 2010 there was a whistleblower complaint. It was not brought to the Board at that time because until it is investigated it is simply an allegation. We have now completed all the steps and a report has been issued. The anonymity of the
A whistleblower must also be protected. The complaint came to the President’s Office and the Chief of Staff for the President conducted an investigation and issued certain findings and also recommended there be a complete audit. In 2011, resulting from conversations with the University Auditor and the Chief of Staff, the Provost did several things. She issued two directives to RF staff to ensure that project administrative staff was not signing faculty timesheets and that there be a one-up signature. She also included travel approvals in the requirement for one-up signature. She also instituted a requirement for full reimbursement of time and benefits for faculty and staff paid from the State general fund, but using their time base to work on sponsored projects. She also issued an email that under the current policy conflict of interest forms should be completed for all the principal investigators. This is in the campus and system policy, but was interpreted differently by RESP staff. A directive was issued that all PIs must complete the form. The Provost also asked that some sole source issues be resolved for large equipment purchases and she froze six discretionary accounts. Hoffman explained that when a grant or contract comes in the PI sets up and uses accounts to fund all the direct charges. At the end, if there is any residual, per RF policy it is moved to a surplus or discretionary account. Some of the things that Wolff was discussing earlier were about finding ways to hold on to certain funding that can be used for long-term or large purchases. At the time the accounts were frozen there was almost $428,000, pending the end of the investigation. In May of 2011 the investigation began. In January 2012, the former Provost unfroze the six discretionary accounts and allowed for the purchase of $750,000 of equipment. Hoffman stated it was important for the Board to understand it was never the intent to stop the grants – their processes or outcomes. If they needed equipment it needed to be purchased. It was clarified that the surplus funds in the discretionary accounts stay with the program. Hoffman noted that she would be discussing that policy, which the Chancellor’s Office has asked for there to be a modification. She stated she is only presenting things at this meeting for information and no action is being asked to be taken. The policy should follow standard protocol which is to inform the Board, provide a draft of the changes and then wait until the next meeting for action. That makes the issues that Wolff is bringing appropriate for the next meeting. Hoffman noted that the SAP Hosting Center is not a recognized campus center or institute.

Hoffman distributed information to the board which was the Report of the Special Investigation issued by the Chancellor’s Office. The second document is a condensed or summarized version of responses.

President Zingg arrived at 1:55 pm.

Hoffman stated that in the interest of time and interest she has hi-lighted three findings under the general heading of “Failure to Consistently Bill and Reimburse Campus.” She said they require modifications to existing policy based on the University’s audit directive. The third document in the package is the RF policy on F&A cost rates. The proposed changes are hi-lighted and would be brought back to the June meeting. In light of Wolff’s presentation earlier in the meeting, Hoffman stated she would be happy to work with Wolff so that efforts are in the same direction. The Chancellor’s Office directed that the hosting
center and other centers, institutes and other similar entities be included in this policy and that is the change that is being proposed.

The next document is EM 09-007 which places the responsibility for the recognition of Centers and Institutes with the Provost. We will be going back to this policy and determining that the EM is being consistently applied and will include reviewing the hosting center to see if it should be a recognized center.

Also required is the enforcement of the current policy regarding surplus funds and the directive to modify it to include the addition of a campus administrator’s approval for any exceptions to the application of the policy. The current RF Policy on the Disposition of Surplus Funds, also in the packet, incorporates that change and also language that recognizes the share of surplus funds attributable to the Project Director will be put in a Board Designated account for use by the appropriate administrator or board. The intent is to recognize that the centers or institutes have control over the surplus funds and if they have any separate type of authority, it has not been superseded.

She added that she is happy to work with Cindy and the others who volunteered because these policies do affect Centers.

Hoffman referred to 3.e on the summary sheet stating they would be working on it (the recovery of F&A costs from prior years to the extent funds are available). It is important that Centers and Institutes have some funding and we know that SAP spins off surplus every year. All of those things will have to be considered in light of the policy that states if less than full indirect is charged, any surplus will first be used to recover the full indirect costs. She added she did not know if it will be done by June 30. What is important is what the F&A should have been for SAP.

She added that those items in yellow on the summary sheets were ones that needed to be completed by March 1, 2013. Regarding 3.f, the modified forms have been submitted to see if they will clear the audit finding. Item 4.a relates to the earlier discussion regarding the reimbursement of full salary and full benefits. This is reimbursing the University for the balance of the reimbursed time and benefits for the period of July 2009 through December 2011. After that time, full reimbursement was being made. Finley noted that while this issue was brought up as a result of the whistleblower complaint it should be acknowledged that the practice of less than full reimbursement was the case with many grants and contracts and not just SAP. It was campus/foundation interaction and the accepted practice for a long period of time prior to this issue across the entire CSU system. Since December 2011, the practice of full reimbursement has been in place. It was also clarified that this is not about SAP not making payment, but the methods on campus on how reimbursed time was being treated. Hoffman explained the history of SAP and the campus becoming a hosting center. Hoffman noted that 4.d and 7 require campus announcements. The announcements were developed and were issued campus-wide.

Hoffman stated she would bring back the policy revisions in June after they’ve had time to think about them and discuss them.
Zingg stated he had several comments to make. This was precipitated by a whistleblower complaint which they are legally required to respond to and which they did with several months of investigation. At the end they decided they needed more help and so they turned to the Chancellor’s Office for that assistance. The political dimensions of such an audit, particularly with the heightened accountability that we face from the legislature and the public, required our full cooperation as well as a positive response to their findings. Our job is not to question the findings, but to comply with them. We may have some disagreement with some of the language in the overall document but the issue is compliance with the recommendations. We have responded affirmatively and have implemented many of them and are in stages of implementing the rest of them. He continued that he feels it was a fair set of findings and are appropriate. It is time to move on. In moving forward we need to make sure we do as expected. He added that RESP began under Katie Milo to raise the confidence level in what we can charge for indirect cost recovery. He stated the world out there understands what cost recovery is all about and we need to be confident that we can charge what we need to recover our costs.

Wei summarized that we are happy this is over. She pointed out that CSU, Chico is one of two hosting centers in North America. The faculty have worked hard to be at this level. She stated she will work closely with the center director and the college dean for the success of the center. Currently the indirect rate for SAP is at 30%. Park noted that as the discussion occurs on the policies this will need to be looked at.

7.c Software Update and Direction from the Board

Finley stated we were at a point where we were seeking direction from the Board. She reviewed the history of the focus groups that led to the RFP that was being managed by the Associated Students. The purpose was to move the three auxiliary organizations off the current IFAS platform that quickly moving to be a un-supported platform. From the outset it was known there were certain things that were very important such as the report writing tools. There was an extensive process of whittling down a number of vendors and the result was the front runners: Serenic for the financial software and 2Interact for the HR/Payroll components. About a year ago when we thought we would be fine tuning the quotes and coming forward to the Board with a recommendation, the project manager, in this case the IT Director for the Associated Students who was coordinating these efforts, moved to Enloe Hospital and some momentum was lost while a replacement for that position was hired. The opportunity was taken, at Lori Hoffman’s request, to again look at PeopleSoft option and there was also recognition of the costs associated with the two front runners. There has been a long process in which David Buckley, the new AS IT Director, Mike Schilling and Beth Kissinger looked at what our needs are in relation to PeopleSoft. They were given the criteria that the other vendors were judged against. At the end of the day, where we could manage with the financial (CFS) portion of PeopleSoft, the grant and contract module is not utilized on this campus and sister campuses we have talked with have noted some significant problems. We would also still have to purchase a new HR and Payroll system. In going through this process we also heard that Sungard-Bi-Tech had a new report writer. This created new interest in wondering if Bi-Tech wouldn’t be a more economical solution and certainly would provide an easier conversion. The cost of
Serenic and 2Interact appeared to be about $1.2 million in round numbers. The initial costs associated with the Bi-Tech Sungard upgrade to their windows solution would be around $200,000. Adding every bell and whistle one can think of and doubling the costs still reflects a large difference between Serenic and 2Interact. We asked for a demo of the new report writer to assure ourselves that it would meet our needs. A number of AS, RESP staff and RF Admin staff including, Katy Thoma, were able to participate in the demo and were pleased with how robust it is. It all looks like a very viable option. It would mean fully integrated payroll/HR with the financial system and with grants and contracts—a very seamless ability to move data with one point of entry. There are still things that need to be looked into including the timekeeping component.

Finley continued that all of this has just evolved during the past couple of weeks and it was not possible to come to the Board with a proposal for action, but what was being sought, and had been requested of the UF at their Board meeting the previous day, was a sense that management has the backing of the Board to pursue this line and that there is a commitment, at least at the present time, to go forward with a model that has the auxiliaries working together in this effort.

Hoffman stated she was delighted that something had been found that was less expensive than the $1.2 million and asked a couple of things. She asked the Provost to work with her staff who will be working with a full uses and sources model. This would require state staff to know both PeopleSoft and IFAS. The other thing is that if we are investing in a more robust system it would mean that people are not so bogged down getting information out of the system and she would hope that would translate into reduced costs from the AS. Hoffman continued that what she was hearing is that if the system proves out to be what is wanted, and the RF/UF share would be $150,000 there would be support. Thoma commented that even at double - $400,000 (and this would be divided by two) there would be efficiencies savings in other hard costs. There would be paper savings---reports would not be printed. Customer service would also improve.

Hunt thought it very fortuitous that this was just happening now and questioned whether there were others using this software. Finley responded that other auxiliaries in the system use the Bi-Tech One Solution. It had been the report writer that held us up previously.

Calandrella suggested that as part of due diligence and coming up with a final proposal that Advancement staff should be looking at this. You would want to know that the type of data you want to pull down can be obtained on the fly if someone knows sequel or have that be built in as part of the implementation. The other piece that would be helpful would be to look at those points where reductions in cost can be remembering that the AS is not in the service-provider business.

5. **University President’s Report**
   a. Appointment of Treasurer – Zingg announced he was appointing Lori Hoffman to come back as Treasurer, the position she previously occupied.
   b. Appointment of Board Member – deferred at this time
Zingg noted the Chancellor had been on campus the previous day. It was the first time he had been to Chico. Chancellor White seemed to be impressed. The Chico campus is very distinct from the other ones he has visited thus far. They don’t have the central campus feel or natural environment that we have including the seamless relationship between the campus and the city and neighborhoods. It was important for him to see that and also to see firsthand the interaction between faculty, staff and students.

Next week the Trustees will be considering Plan B on the budget to go back to the Governor in response to the Governor’s proposal for the CSU in his January budget. The Trustees had asked for $400 million and Governor has proposed $125 million. The Chancellor is of the opinion that we need to deal with the $125 million at this point because we do not want to jeopardize the proposed increase that the Governor has indicated will be there for the CSU for the next three years. The focus on a small budget will be three priorities – mandatory costs, modest increased enrollments, and support for student success. The CSU will be proposing some sort of compensation increase.

Zingg noted that the US. Department of Education had posted its first scorecard of American colleges and universities. There were five categories: cost, graduation rates, loan default rates, indebtedness, and success of graduates from these institutions in finding employment. There were three rating areas in each category. Chico was the only CSU campus to be rated in the best area of each category.

Zingg continued noting a number of positive events occurring on campus including the summit meetings regarding concerns of the campus and community, and upcoming events including Choose Chico Day and the Summer Orientation weeks in the summer and the Week of Welcome in August.

7. e. 25 & Main St. Bond - Required Arbitrage Rebate Calculation
Woodmansee reported that when the bonds were issued in 2003 part of the bond indenture requires an arbitrage rebate calculation be done. He distributed a handout discussing arbitrage rebates and what they are. It is basically the difference between what was actually earned on the bonds and what the state bond yield is. If it’s a positive amount, meaning you earned more than what the yield was, then you owe that back to the IRS as a tax rebate. Woodmansee said he has been assured that will probably not be the case. We’re still required to have the calculation done. It was clarified that the calculation is being done for 2008 & 2013.

7.d Update on RESP/RF Financial Sustainability Task Force
Park stated the task force had met two or three times since the last Board meeting and is in the process of drafting the final report. Zingg asked if progress was being made. He explained he was asking because in looking at the RF’s budget to actual it appears that revenue is down and expenses are up. It was clarified that is not the case.

Hoffman stated she was not at the last meeting and asked Park to clarify who was on the task force and asked if the recommendations were going to the Board or to the Provost.
Park said the report would go to the Provost. On the committee were Gayle Hutchinson, Fraka Harmsen, Debra Barger, Debra Summers, Jonathan Day, Rebecca Lytle, Carol Sager and Karen Finley. Hoffman questioned why Finley would be on the committee since the task force was to be about RESP efficiencies. Park responded that she provides a cross over and the task force is looking at RESP and RF issues. Hoffman questioned why those people would look at RF issues? Finley responded that a matrix had been brought to the Board in September of all the types of things that are affecting the RF. She said at that meeting they had been charged with collectively determining how to make the RF sustainable. They have been looking at the many layers of things that impact the success of the RF and RESP. Hoffman stated she doesn’t have any problem with what is being done relative to RESP and it makes sense. It’s the RF part of it. Finley stated there is no action coming out of it. Hoffman questioned why there would be recommendations regarding the RF that would come from that group. She stated she would wait and see and defer until she had a better understanding.

Wei stated they have been working on this for some time and it is good to present information to the Board. Earlier in the year we were looking at a $1/2 million dollar deficit so the thinking is how can we incentivize our faculty for more success in grants and contracts and have continued revenue increases. This is one of the many pieces that will contribute to the financial robustness of the RF. Hoffman stated she understood with all due respect, but she was not sure that group should be deciding what the incentive dollars are. Park reiterated no decisions were being made – only recommendations. If the Provost determines that any of the recommendations should be presented to the Board, that would be her idea.

7.f College Park Houses Update
Hoffman reported that last year 4 homes that the Foundation had purchased on behalf of the University had been purchased by the University and three are moving over this year.

7.g Special Set-Ups Report
Park reported there were no special set ups to report.

8. ADJOURNMENT
The meeting was adjourned at 3:13 pm.

Respectfully submitted,

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Katy Thoma, Secretary