

August 30, 2017

TO: The Board of Trustees of the University of Oregon

FR: Angela Wilhelms, Secretary

RE: Notice of Executive and Audit Committee Meeting

The Executive and Audit Committee of the Board of Trustees of the University of Oregon will hold a public meeting on the date and at the location set forth below. Subjects of the meeting will include: the quarterly audit report, FY17 expenditure re-authorization, and a report on President Schill's annual evaluation.

The meeting will occur as follows:

**Thursday, September 7, 2017 at 1:30 pm**  
Ford Alumni Center, Giustina Ballroom

The meeting will be webcast, with a link available at [www.trustees.uoregon.edu/meetings](http://www.trustees.uoregon.edu/meetings).

The Ford Alumni Center is located at 1720 East 13th Avenue, Eugene, Oregon. If special accommodations are required, please contact Amanda Hatch at (541) 346-3013 at least 72 hours in advance.

BOARD OF TRUSTEES

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**Board of Trustees of the University of Oregon  
Executive and Audit Committee  
Public Meeting  
1:30 pm – Thursday, September 7, 2017  
Ford Alumni Center, Giustina Ballroom**

**Convene**

- Call to order, roll call
- Approval of June 2017 EAC minutes (Action)

- 1. Quarterly Audit Report:** Trisha Burnett, Chief Auditor
- 2. FY17 Expenditure Re-Authorization (Action):** Jamie Moffitt, Vice President for Finance and Administration and CFO
- 3. President's Annual Evaluation – Report:** Chuck Lillis, Chair; Ginevra Ralph, Vice Chair

**Meeting Adjourns**



## Agenda Item #1

### Quarterly Audit Report

*The quarterly audit report will be provided at the meeting.*



## Agenda Item #2

### FY17 Expenditure Re-Authorization

At its meeting in June 2016, the Board of Trustees adopted a FY17 expenditure authorization of \$966,104,000 for operations and \$83,700,000 for capital projects. The resolution included authorization for the university to expend an additional three (3) percent on top of these projected estimates without additional approval by the Board.

In preparing the final FY17 financial reports, several extraordinary expenditures, unanticipated in June 2016, culminated to cause the university to exceed its authorized annual expenditure limitation.

**Operating Budget Summary:**

	BOT Approved Expenditure Authority	Total Expenditures	Actual as % of Authority
E&G Fund	\$505,954,000	\$507,704,818	100.3%
Other Funds	\$460,150,000	\$495,907,107	107.8%
<b>Total</b>	<b>\$966,104,000</b>	<b>\$1,003,611,925</b>	<b>103.9%</b>

*Note: All figures exclude Plant Funds, Internal Bank Funds, and Depreciation*

The unanticipated items referenced above include:

- **Replacement of the football coaching staff.** The primary expenses associated with the replacement of the football coaching staff were contractually-obligated payments to the prior staff for liquidated damages. In total, \$13.0 million of expenses were incurred in Other Funds.
- **Process/accounting change related to Incidental Fee accounting.** In FY17, the Erb Memorial Union (EMU) changed its process for distributing Incidental Fee revenues. Rather than transferring revenue to the various groups funded by the incidental fee, the transfers were booked as “purchases” of services from other groups. While this new accounting process provides the EMU with more visibility regarding what the incidental fee “purchased,” it results in an increase in both recorded revenue (internal sales) and expenses. There is a net zero impact on the bottom line, but overall Other Fund expenses increased by \$6.8 million.
- **Settlement of the Global Scholars Hall lawsuit.** The university received \$6.9 million in settlement payments related to the Global Scholars Hall litigation. \$5.9 million of the funds received were immediately transferred to a Plant Fund for use in future construction & repair projects. While none of these funds had been spent as of June 30, a transfer was recorded and increased total E&G expenses by \$5.9 million.
- **Establishment of a Lundquist College of Business (LCB) Shared Services Unit.** In FY17, LCB established a shared administrative unit for the two academic programs in Portland (Sports Products Management, Oregon Executive MBA). The academic programs “purchase” services from the administrative unit via Internal Sales. Considering LCB as a whole, this change has no

impact on the college's bottom line. However, the accounting mechanism increases both revenue (internal sales) and expenses by the same dollar amount, approximately \$1.2 million. This affected the E&G Fund.

If we exclude these unanticipated and extraordinary items, FY17 total expenses (all funds) falls within the approved three (3) percent margin:

	BOT Approved Expenditure Authority	Revised Total Expenditures	Actual as % of Authority
E&G Fund	\$505,954,000	\$500,618,387	98.9%
Other Funds	\$460,150,000	\$476,032,010	103.5%
<b>Total</b>	<b>\$966,104,000</b>	<b>\$976,650,397</b>	<b>101.1%</b>

#### Capital Budget Summary:

BOT Approved Expenditure Authority	Total Capital Expenditures	Actual as % of Authority
<b>\$83,700,000</b>	<b>\$121,418,772</b>	<b>145.1%</b>

We have identified several major capital expenditures that occurred in FY17 and which were unanticipated when the expenditure limitation was requested:

- **Marcus Mariota Sports Performance Center** – The Marcus Mariota Sports Performance Center (MMSPC) is a cutting-edge facility designed and built to combine sports performance, sports science, sports medicine, and technology in one efficiently-designed space. Even though the MMSPC was gifted to the university as a completed project, accounting entries are still necessary to properly capitalize the asset. Capital expenditures of \$26,670,309 are reflected on the BOT quarterly report and are offset with gift revenue.
- **Knight Campus** – The primary capital expenditures in FY17 were related to the acquisition of land and buildings within the anticipated footprint of the Knight Campus, which was not contemplated in the approved FY17 authorization. FY17 Capital Expenditures for this project total \$7,526,191 and were funded by gift revenue.
- **EC Cares** - Early Childhood CARES is affiliated with the College of Education and provides early intervention and early childhood special education to infants, toddlers and preschool age children in Lane County. Due to robust program activity, they have outgrown their existing space. In February, 2017, the university finalized the purchase of the former Eugene Hearing and Speech Center building on West 12<sup>th</sup> Avenue to use as a new facility for EC Cares. Sources of funds for the purchase were self-generated monies within the EC Cares organization and a loan from the Internal Bank. The university plans to sell EC Cares' existing building on East 18<sup>th</sup> Avenue and

utilize the proceeds to partly offset these expenditures. FY17 Capital Expenditures for this project total \$2,051,075<sup>1</sup>.

- **Klamath Hall Research Core Facilities** – The Vice President for Research and Innovation initiated this project to remodel space on the second floor of Klamath Hall in order to centrally locate four (4) Research Core Facilities. These Core Facilities are service centers that house specialized equipment and services that are shared by multiple faculty labs. FY17 Capital Expenditures for this project total \$2,001,112<sup>2</sup> and were funded by gift revenues and startup funds.

If we exclude these unanticipated projects, FY17 total capital expenditures fall below the approved capital expenditure authority:

BOT Approved Expenditure Authority	Revised Total Capital Expenditures	Actual as % of Authority
<b>\$83,700,000</b>	<b>\$83,170,085</b>	<b>99.4%</b>

**Summary and Requested Action:**

We have implemented better processes to monitor projected expenditures vs. approved limitation on a quarterly basis. We believe that all of the extraordinary expenditures articulated above were based on sound and financially reasonable decisions and that the three (3) percent margin granted with the expenditure limitation remains an appropriate threshold.

The university respectfully requests that the Executive and Audit Committee ratify the FY17 expenditures that caused the university to exceed the previously-approved limitations.

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<sup>1</sup> Capital projects under \$5 million do not require board approval.

<sup>2</sup> See note 1

**Executive and Audit Committee  
Board of Trustees of the University of Oregon**

**Resolution: FY2017 Expenditure Ratification**

WHEREAS, Oregon law provides that the Board of Trustees (the Board) may manage financial resources of the University of Oregon (the University) and perform such acts that are required, necessary or appropriate to accomplish the rights and responsibilities granted to the Board and the University by law;

WHEREAS, the Board authorized limitations for the University's fiscal year 2017 capital and operating expenditures, requiring Executive and Audit Committee approval of any request by the treasurer to exceed these approved limitations;

WHEREAS, fiscal year 2017 operating and capital expenditures slightly exceeded authorized levels due to a culmination of extraordinary and unanticipated expenses as articulated in the attached summary document; and,

WHEREAS, the treasurer now seeks ratification from the Executive and Audit Committee, per the authorization resolution passed in June 2016;

NOW, THEREFORE, the Executive and Audit Committee of the Board of Trustees of the University of Oregon hereby ratifies and approves fiscal year 2017 operating expenditures up to \$1,004,000,000 and capital expenditures up to \$121,500,000 made by the University as described in the attached summary, doing so in recognition that expenditures beyond the previously approve thresholds resulted from unanticipated and extraordinary items that were of sound management and fiscal responsibility.

Moved: \_\_\_\_\_ Seconded: \_\_\_\_\_

Trustee	Yes	No
Bragdon		
Ford		
Kari		
Lillis		
Ralph		
Wilcox		

Dated: \_\_\_\_\_ Initials: \_\_\_\_\_





### Agenda Item #3

#### President's Annual Evaluation

*There are no materials for this section.*



## Agenda Item #1 - Supplemental

### Quarterly Audit Report



UNIVERSITY OF OREGON

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# Office of Internal Audit

## Quarterly Report

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**September 2017**

*Report to the Board of Trustees of the University of Oregon  
Executive and Audit Committee*

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## SUMMARY

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The Office of Internal Audit (“Internal Audit”) provides a quarterly report to assist the President and the Executive and Audit Committee with their oversight responsibilities for Internal Audit.

Internal Audit will ensure the administrative goals for the year are met, while completing projects from the approved audit plan. The previous quarter has been very productive. Internal Audit is working on five assurance projects, as well as seven consulting projects, at various stages of completion.

If there are any questions regarding the content of this report, I am available for discussion. Thank you for your work and your continued support of Internal Audit.

## PROJECTS

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### ASSURANCE

#### ***Accounts Payable Practices and Controls***

Internal Audit began this project in late January. The objective is to evaluate the internal control structure of the central function. Initial planning phase has been completed and appropriate procedures have been identified. This project is currently in the reporting stage. *Estimated completion: September 8, 2017*

#### ***Cash Handling***

Internal Audit began this project in late February, but the project was put on hold to engage in consulting projects requested by management. However, Internal Audit expects to move forward with this project by September 8, 2017. The objective is to evaluate the internal control structure of the processes used by the campus, as established by the Business Affairs Office (BAO). This project is currently on hold in the preliminary planning phase *Estimated completion: September 30, 2017*

#### ***Nonretaliation Policies***

Internal Audit began this project in August. The objective is to evaluate the compliance and effectiveness of current University policies regarding retaliatory behavior. This project is currently in the preliminary planning phase, as relevant information is being identified. *Estimated completion: September 30, 2017*

#### ***Electronic Proposal Clearance System (E-PCS)***

Internal Audit, in collaboration with Baker Tilly, began this project in August. The objective is to perform an audit of general controls over the system used to manage and track grant data. This project is currently in the preliminary planning phase, as Internal Audit and Baker Tilly have identified the scope, objectives, and information needs. *Estimated completion: October 31, 2017*

#### ***Research Cybersecurity Compliance***

Internal Audit, in collaboration with Baker Tilly, began this project in August. This project was identified after the audit plan for fiscal year 2018 (“FY18”) was approved in June. The objective is to perform a review of grants with specific cybersecurity requirements to ensure compliance. This project is currently in the preliminary planning phase, as Internal Audit and Baker Tilly have identified the scope, objectives, and information needs. *Estimated completion: October 31, 2017*

## CONSULTING

Internal Audit is working on projects for seven different units on campus that are at various stages of completion. While these projects take time away from planned assurance projects, they serve two very important purposes, 1) to improve efficiencies and effectiveness in a proactive manner, and 2) to reinforce Internal Audit’s purpose to be a valuable partner. Areas that are being addressed include physical security, internal controls, process improvement and efficiencies. Once finalized, reports will be issued summarizing the results.

## ONGOING PROJECTS

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*Consulting:* The FY18 audit plan included time for consulting activities. This is an area that Internal Audit has emphasized and pursued heavily in recent months. As opportunities arise Internal Audit offers this service and it has been well received by the University community. Internal Audit continues to offer training on internal controls, risk, and fraud awareness. Additionally, Internal Audit offers facilitated internal control self-assessments as a service for the campus. Internal Audit continues campus outreach and presentations to reach new audiences and introduce new concepts.

*External Audit Coordination:* Internal Audit is charged with coordinating and providing oversight for other control and monitoring functions, including external audit. Moss Adams, LLP is the external firm responsible for the university’s financial statement audit, single audit, and NCAA agreed upon procedures. During the past quarter, Internal Audit met with Moss Adams to continue information sharing as the audits for FY17 (financial statement and federal compliance) and agreed-upon procedures begin.

## FOLLOW-UP PROJECTS

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Internal Audit will be performing follow-up work on completed projects to ensure any audit findings and action plans are implemented. No follow-up projects were initiated in this quarter. Internal Audit has developed a methodology for tracking and reporting on follow-up projects.

## HOTLINE SUMMARY

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Internal Audit has received the following requests for investigative services during the current fiscal year. Of these, two (2) have been completed and two (2) have been started.

Reporting Sources for FY18 Investigative Services	
Campus Direct to Internal Audit	1
3rd Party Hotline	3
Grand Total	4

It is common for a university our size to have an active hotline. Peer institution benchmarking indicates the activity is comparable. However, in order to ensure the campus community remains aware of this reporting mechanism, Internal Audit continues marketing and outreach efforts.

## **ADMINISTRATIVE**

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To provide a foundation for the direction of the office, Internal Audit created a strategic plan. Through this process, the mission was updated, and a vision and specific goals were incorporated. An implementation schedule was developed to ensure the strategic plan was achieved. At this time, all action items are on schedule.



UNIVERSITY OF OREGON

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# Office of Internal Audit

# Annual Report

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**Fiscal Year 2017**

*Report to the Board of Trustees of the University of Oregon  
Executive and Audit Committee*

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## SUMMARY OF ACTIVITIES

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During fiscal year 17 (“FY17”), the Office of Internal Audit (“Internal Audit”) achieved many goals. These included the hiring of two internal auditors; the selection of a partner for the co-source support model; the procurement and implementation of audit management software, including coordination and collaboration with peer institutions using the same software; and evaluation of audit office policies and procedures to ensure compliance with industry standards. We continue to review the audit policies and procedures as the Institute of Internal Auditors (“IIA”) updated its International Professional Practices Framework with new, updated standards effective January 1, 2017. Most significant for the office, a strategic plan was adopted to formally outline steps that will ensure goals are obtained. During this process, the mission statement was updated, and a vision was adopted.

Information contained in this report summarizes the activity for FY17. If there are any questions regarding the content of this report, or if there is any information that would be useful for the Committee to receive in future reports, the Chief Auditor is available for discussion. Thank you for your work and your support of Internal Audit.

## FISCAL YEAR 17 IN REVIEW

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### Assurance Services

Internal Audit assurance activities included the following projects from the audit plan:

- NCAA Football Bowl Subdivision Attendance Certification
- Sensitive Data Audit\*
- Accounts Payable Practices (currently in the reporting phase)
- Cash Handling Practices (estimated completion September 2017)

\*This work was performed directly by Baker Tilly, with Internal Audit assistance.

### Consulting Services

Internal Audit continues to reach out to the campus community in an effort to raise awareness of the function. Presentations were given across campus in FY17 to educate employees about the function, services provided, the audit process, and guidance for reporting fraud or other potential concerns. The office also sponsored an open house, inviting the campus to gain an understanding of the office, meet staff, and answer questions. Training on internal controls, the three lines of defense, risk, and fraud awareness were also provided.

As opportunities have been presented, Internal Audit has encouraged management to request consulting services that could identify efficiencies, internal control issues, etc. This resulted in the performance and completion of four process improvement consulting projects in FY17 with positive feedback from management.



The audit plan for FY17 also included participation on campus committees as well as consulting activities for specific areas undergoing policy and/or procedural changes. Internal Audit provided counsel and advice during periodic check-in meetings in these areas to add value and insight as management decisions were and continue to be made.

### **Investigative Services**

In FY17, Internal Audit received 11 allegations through reports submitted through the anonymous reporting hotline or directly from campus. Based on benchmarking with peer institutions, this level of hotline activity is considered healthy for an institution of our size. Internal Audit has completed six of these investigations and one more is being finalized. Internal Audit referred three of these reports to other units on campus. Additionally, as new staff were hired in October 2016, Internal Audit was able to finalize all outstanding investigative projects from FY16.

### **Risk Assessment and Fiscal Year 18 Audit Plan Development**

Internal Audit prepared a risk based audit plan for fiscal year 18 (“FY18”). The process involved a partnership with the University’s Enterprise Risk Management (ERM) function, the Strategic Enterprise Risk Management and Compliance Committee (SERMC). Workshops were held with campus stakeholders to identify risk areas. Internal Audit also held interviews with senior leadership and management in key areas, reviewed trends in higher education, and performed a campus-wide anonymous survey to ensure completeness of information. The results were presented at the June meeting.

### **External Audit Coordination**

Internal Audit is charged with coordinating and providing oversight for other control and monitoring functions, including external audit. Internal Audit meets with the external financial auditors periodically to discuss results of testing, progress, risks, and other issues as they relate to coordinating efforts to increase efficiency.

### **Administrative**

#### *Professional Development*

Professional standards require internal auditors to enhance knowledge, skills, and other competencies by obtaining continuing professional education. During FY18, Internal Audit staff participated in training opportunities provided by the Association of College and University Auditors (“ACUA”), the Pacific Northwest Higher Education Internal Auditors, and the IIA.

#### *Software Implementation*

Internal Audit successfully implemented an audit management software, TeamMate. We have also partnered with peer institutions to maximize the functionality that will lead to efficiency in the audit process.

#### *Strategic Plan*

Internal Audit internally identified strategies to advance the office and add the most value to the University. Based on this plan, action items were created for FY18.

## **FISCAL YEAR 18 GOALS**

### **Strategic Plan Implementation**

During the last quarter of FY17, Internal Audit created a strategic plan and specific action items to ensure the office adds the most value to the University. Internal Audit is committed to ensuring the action items are completed timely and effectively as the office continues to formalize.

**Collaboration Efforts**

The university is an active member of ACUA which provides auditors valuable resources, training opportunities, best practices and professional collaboration with higher education auditors through annual conferences. Internal Audit also participates in quarterly meetings with chief audit executives from Oregon state agencies as a member of the Chief Audit Executive Council (“CAEC”). The CAEC exists to coordinate internal audit activities within state government to promote effectiveness. It serves as a collaborative group with the intent of sharing information to help promote coordination of internal audit activities primarily between state entities and the Department of Administrative Services. Although not specifically focused on higher education, membership on the committee provides valuable collaboration and brainstorming opportunities.

**Quality Assurance Efforts**

Internal Audit can be a major contributor to the effectiveness of governance, risk management, and internal control processes. It is important for auditors to focus on areas of priority and risk, perform services effectively, and clearly communicate the results. Internal Audit activities should also be aligned with leadership’s institutional goals in order to assist managers in meeting objectives. During FY18, Internal Audit will be preparing for a quality assurance review in hopes to provide external validation for the function.



### Agenda Item #3 - Supplemental

President's Annual Evaluation - Report

To: Trustees  
Fr: Chuck Lillis, Chair  
Ginevra Ralph, Vice Chair  
Re: Reflections on President Schill's 2016-17 Year  
Date: September 7, 2017

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This memo is in no way a comprehensive report on President Schill's 2016-17 performance. It provides a high-level summary and a lead-in to his 2017-18 academic year goals. The opinions here culminated from numerous conversations with and feedback from trustees, vice presidents, other direct reports, and deans across the university, as well as President Schill's own self-evaluation. We held an in person meeting with President Schill to discuss feedback and possible goals in depth.

Generally speaking, President Schill's performance in his second year was truly outstanding. Praise was high across the board. Especially when compared to his prior year goals, we agree that Mike has done a terrific job and we are grateful.

In particular, colleagues noted an appreciation for the breadth of his leadership – managing a terrific number of issues and making decisions on a wide variety of topics. His thoughtfulness in developing plans of action, willingness to take on tough issues, personal integrity, and superior intellect all surfaced as common points of praise.

Many also noted his strength as a fundraiser – even exclusive of the extraordinary gift from Phil and Penny Knight. As it relates to fundraising, many in leadership positions noted a desire to have the President focus even more on supporting the fundraising efforts of various units, particularly now that a new Provost is in place.

In addition, several people with whom we spoke recognized the strength of President Schill's guidance in building a high-caliber team of administrative and academic leaders.

As with any executive and with any billion-dollar enterprise, there are areas requiring enhanced attention as the years unfold. This is not to say that these items have been handled deficiently by the President up until now; they merely represent an opportunity to take the UO to the next level as he continues his tenure with us. We believe the attached goals reflect these areas for President Schill's third year (and beyond). These include – but are not limited to – more rigor around academic excellence, university communications, and the undergraduate experience; continued focus on financial sustainability and philanthropic support; and next stages for the Knight Campus, UO Portland, and other areas of academic opportunity.

All in all, the past year was a great one for the University of Oregon. We look forward to continuing the institution's upward trajectory and supporting Mike in his efforts.

Continue building the academic quality of the University.

Continue a focus on financial development.

- Raise \$140-160 million during the year (exclusive of any “super pledges”).
- Develop a model to demonstrate the University’s 10-year financial plan and begin identifying solutions to fill any financing needs resulting therefrom.

Create a comprehensive strategy for university communications, including public relations, brand management, internal communications, and all other general communications.

Fully implement the new academic budget model, including the capability for interdisciplinary projects and associated budget structures.

Establish a target enrollment number for the University and develop a plan to reach that objective.

Address the general issue of how to create outstanding undergraduate educational experiences.

Continue the implementation of the Phil and Penny Knight Campus for Accelerating Scientific Impact, including hiring of a permanent director, finalizing construction plans for and breaking ground on Phase I, and finalizing its overall internal management model.

Finalize a strategic plan for UO Portland. Further engage with key internal and external stakeholders to better leverage our position in the Metro area.

Work with the Senior Vice President and Provost to help all academic units understand that they, as part of a diverse institution, are valued. In addition, work with the Provost to decide the University’s strategy and plan for the following:

- The University’s plan for data management, computational analytics, statistical methods, and other data science related fields.
- The University’s plan for high-performance computing, high-speed networking, and the like to provide exceptional centralized IT support.
- Accountability measures and structures for success of the University’s identified centers of excellence.
- Assessing the quality, effectiveness, and stature of the UO’s academic programs.
- The most appropriate administrative structure for physical sciences, social sciences, and humanities, particularly given the relative size of these programs and the new Knight Campus.

Develop a reporting tool regarding key UO initiatives and priorities for use with the board.