

**PRESIDENT'S BUDGET ADVISORY COMMITTEE**  
**MINUTES**  
**April 17, 2007**

**MEMBERS PRESENT:**

Larry Furukawa-Schlereth	CFO, Vice-President for Administration and Finance, Co-Chair
Eduardo Ochoa	Provost, CAO, Vice-President for Academic Affairs, Co-Chair
Elaine McDonald	Chair of the Faculty, Math Department
Tim Wandling	Chair Elect of the Faculty, Chair, English Department
Elizabeth Stanny	Past Chair of the Faculty, Business Administration
Elaine Leeder	Dean, Social Sciences, AABAC Representative
Katharyn Crabbe	Vice-President for Student Affairs and Enrollment Management
Janice Peterson	Senior Director for University Budget, A&F, CRC Representative
Letitia Coate	Associate Vice-President, Administration and Finance
Sam Scalise	Chief Information Officer, Administration and Finance
Bucky Peterson	Vice-President for Development
John Kramer	Professor, Political Science Department
Henry Amaral	Staff Representative, Facilities
Catherine Nelson	Proxy for Andy Merrifield

**STAFF PRESENT:**

Ian Hannah	Administrative Project Manager, Administration and Finance
Bill Ingels	University Treasurer
Katie Pierce	Associate Vice-President for Academic Resources

**MEMBERS ABSENT:**

Dan Condron	Vice-President, University Affairs
Andy Merrifield	CFA Representative
Nadir Vissanjy	President, Associated Students
Steven Campbell	Vice-President for Finance, Associated Students

**GUESTS PRESENT:**

Kathy Mahler	Budget Manager, Administration and Finance
David Abbott	Chief Editor, SSU STAR
Laura Lupei	Administrative Project Manager, Administration and Finance
Susan Kashack	Associate Vice President for Communications and Marketing
Scott Miller	Director, Writing Center
Christine Renaudin	Professor, Modern Languages and Literature
Jim Robertson	Dean, School of Business and Economics
Carol Blackshire-Belay	Vice Provost for Academic Affairs
Mary Gendernalik Cooper	Dean, School of Education
Ruth Burke	Dean, School of Science and Technology
Neil Markley	Senior Director, Entrepreneurial Activities
Michelle Covington	Administrative Assistant to the Vice President of Development

**AGENDA**

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|------|---|
| I:   | CALL TO ORDER AND APPROVAL OF THE AGENDA    |
| II:  | APPROVAL OF THE MINUTES (February 22, 2007) |
| III: | CALIFORNIA INSTITUTE ON HUMAN SERVICES      |

**I: APPROVAL OF THE AGENDA**

(Please see the April 17, 2007 Agenda Packet for this document)

Eduardo Ochoa brought the meeting to order at 8:10 am. The agenda passed unanimously.

**II: APPROVAL OF THE MINUTES: *February 22, 2007***

(Please see the April 17, 2007 Agenda Packet for this document)

The minutes were unanimously approved.

**III: CALIFORNIA INSTITUTE ON HUMAN SERVICES**

(Please see the April 17, 2007 Agenda Packet for this document)

Larry Schlereth provided a PowerPoint presentation on the budgetary status of the California Institute on Human Services. The presentation provided an overview on the background of CIHS, the items questioned as a result of audit activities by Administration and Finance, initial observations made, and recommendations for action.

Founded in 1979 in the School of Social Sciences, for years CIHS has been the largest unit in Academic Affairs, with a budget of \$20M in 2006/07, with oversight by an Executive Director, Senior Director, and Director of Business Operations. Historically, CIHS had delegated authority for post award procurement, human resources and financial management activity. The audit function has continued to be performed by Administration and Finance. The audit activities of A&F questioned the following:

- The allowability of payroll costs charged to grants and contracts in accordance with OMB Circular A-21 Cost Principles, OMB Circular A-110 Administrative Requirements, and the terms of the grants and contracts program.
- The allowability of other types of non-payroll costs (i.e. contract for services, travel, supplies, etc.), in accordance with OMB Circular A-21 Cost Principles, OMB Circular A-110 Administrative Requirements, and the terms of the grants and contracts program.
- The treatment of administrative support as indirect costs versus direct costs under grants and contracts.

On February 12, 2007, CIHS was reassigned to Administration and Finance to undertake additional analysis. Initially, the CSU Trustees audit staff was brought to the campus for assistance. As it was determined that the scope of the work went beyond the expertise of the Trustee audit staff, KPMG LLP was retained for external advice and council to assist in the review. The KPMG staff are knowledgeable experts in grants and contracts.

A number of observations were described by Schlereth:

- \$1,100,000 of CIHS costs have been identified that are either not able to be billed, or are questionable and can possibly be disallowed for reimbursement.
- \$520,000 of administrative payroll expenses exist without an identified funding source. These expenses are of an indirect nature.
- \$200,000 of contractual operating expenses exist without an identified funding source. These expenses are of an indirect nature.

Elizabeth Stanny asked when the activity in question had begun. Schlereth stated that he could not be certain precisely when it began. However, the review of the majority of the expenses relating to the \$520,000 and \$200,000 occurred over the last 12-18 months. Elaine McDonald asked, what is the cause for the \$720,000 in costs? Schlereth speculated that these costs resulted from a failure to adapt to a changed business environment related to rising working capital costs, new employee benefit costs and pro-rata state charges. Schlereth further indicated that CIHS had been made aware of this changed environment early in the fiscal year. *(Revised via comments from 5-3-07 PBAC meeting)*

- As of April 6, 2007, CIHS had a cash deficit of \$8,000,000. This deficit results from expenses that either have not been billed or are awaiting reimbursement. This reality will make it necessary to increase the working capital line of credit by about \$3,000,000 which in turn increases interest costs by approximately \$150,000. The need for an increased working capital line of credit is due to a slowdown in the billing of receivables due to a more careful review now being undertaken of these receivables being billed.
- The University anticipates the cost of the internal review/audit of CIHS activity will reach \$150,000 by June 30, 2007.
- The above items total \$2,120,000, which will need to be identified prior to June 30, 2007. This equates to approximately 10% of the overall 2006/07 CIHS budget.

Schlereth mentioned that the \$2.1M figure may change upward or downward as additional grants are reviewed and receivables continue to be collected.

Catherine Nelson inquired about the administrative and facilities costs that are charged to grants and contracts. Schlereth responded that the grants and contracts program is charged for utilities, facilities, network and telecommunications, CMS, and institutional support, consistent with Executive Order 753.

Eduardo Ochoa stated that grants and contracts as a whole do not bring back all needed costs but many are providing additional support to the academic mission and

thus they are often subsidized by the University. Ochoa added that working capital needs and pro rata charges applied additional costs.

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*Additions via comments from 5-3-07 PBAC meeting:*

Tim Wandling stated that at least three members during the 4/17/07 PBAC meeting asked questions about the relationship between IDC distribution and the CIHS budgetary crisis. He suggested that the minutes express questions that were asked and responses provided by Schlereth. These questions and answers may be found below:

Stanny asked whether A&F was concerned that CIHS would not be able to meet its increased working capital and post retirement medical costs given A&F's knowledge of CIHS's financial condition obtained from internal audits and financial statement preparation.

Schlereth indicated that past internal audits indicated no problems with CIHS operations. Moreover, he indicated that the Center has consistently operated in a balanced financial position.

Elaine McDonald requested clarification on the understanding that IDC was not allocated back to CIHS over the last 18 months.

Schlereth responded that IDC associated with CIHS's delegated authority had been allocated not only over the past 18 months but in every year that CIHS had delegated authority from Administration and Finance for post award administration of procurement, human resource and financial activity. Financial commitments to CIHS beyond dollars associated with delegated authority were made by the Division of Academic Affairs and not the Division of Administration and Finance.

Ochoa added that there was a supplementary understanding that Tony operated under. He expected to be able to retain half of the IDC that was generated within his operation. Within that half was included the part that A&F formally agreed to turn over as part of delegated authority. There was an additional increment of IDC where he had built an understanding with the Provost's office that preceded Ochoa that he would get. This understanding was re-affirmed by Ochoa, with the assumption that there was IDC to distribute. The problem was that the cost structure changed and there was no longer IDC to distribute. This was communicated.

Stanny asked about the internal audits performed on the financial statements of CIHS.

Schlereth stated that as part of the University, the financial activity of CIHS was reviewed by both the University external auditors and the internal audit staff of the CSU Board of Trustees. The financial statements simply showed that they were in balance at year end.

Stanny responded that one can ascertain how well a company is doing, such as the ability to take on additional debt, and interest coverage calculations. Stanny then asked Schlereth, what exactly did you do for CIHS?

Schlereth indicated that Administration and Finance provided the following services to CIHS:

- Guidance on policy and procedure required for effective post award practice
- Maintenance of the General Ledger and Sub-Systems in Financial Services
- Treasury Services
- Working Capital Financing
- Coordination of Internal and External Audits
- Classification and Recruitment Human Resource activities
- Payroll Services
- Benefits Management
- Risk Management
- Network Management
- Information Security
- Workstation Support
- Computer Operations
- Public Safety
- Facilities Maintenance

Schlereth further indicated that the following activities were performed by CIHS staff via delegated authority. IDC was provided to CIHS in recognition of these services:

- Review and approval of payroll
- Procurement Activities
- Contract activities
- Accounts Payable Processing
- Accounts Receivable Processing
- Adequacy of supporting documentation
- Compliance with applicable sponsored project administration requirements

Stanny asked, don't you also do internal audits?

Schlereth stated that as part of the University, the financial and operational activity of CIHS was reviewed by both the University's external auditors and the internal audit staff of the CSU Board of Trustees.

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Recommendations for going forward were described by Schlereth:

- 1) Hold today's special meeting of the President's Budget Advisory Committee to review and consult on the financial implications of the CIHS challenge.
- 2) Identify appropriate resources to assist with the financing of an additional \$3,000,000 of working capital for grants and contracts.

Schlereth described his current plan is to enter into an inter-fund loan with three of our campus based programs to add \$3M to the current \$5M line of credit. \$1M will be lent from the campus housing program, \$1M will be lent from the campus parking program, and \$1M will be lent from miscellaneous trust accounts, at an approximate interest rate of 5.5%. Schlereth stated that the activity in the trust account will not be curtailed during this activity. Letitia Coate added that interest is earned and received on a quarterly basis to each trust account that maintains an average quarterly balance of at least \$5000. Schlereth, hearing no objections of the use of the three stated funds, said he go forward with this financing plan.

- Suggested responsible party: Chief Financial Officer.
  - Suggested deadline: Not later than April 18, 2007.
- 3) Develop a financial plan and funding strategy to address the current \$2,120,000 deficit in the grants and contract program.
    - Suggested responsible party: Chief Financial Officer.
    - Suggested deadline: Not later than June 30, 2007.
  - 4) Retain KPMG LLP to work in concert with the campus financial staff to review additional CIHS grants.
    - Suggested responsible parties: AVP for Administration and Finance.
    - Suggested deadline to sign the contract: Not later than April 18, 2007.
  - 5) Review financial and managerial systems of internal control and business practices in grants and contracts area.
    - Suggested responsible parties: Chief Financial Officer and AVP for Administration and Finance. It was determined that the Provost will be added to this list.
    - Suggested timeline: Not later than May 15, 2007.
  - 6) Review oversight processes for grants and contracts in the Divisions of Academic Affairs and Student Affairs.

- Suggested responsible parties: Chief Financial Officer and AVP for Administration and Finance. It was determined that the Provost and the Vice President for Student Affairs and Enrollment Management will be added to this list.
  - Suggested timeline: Not later than May 15, 2007.
- 7) Develop a plan to create an appropriate level of working capital in the grants and contracts program.
  - Suggested responsible party: Chief Financial Officer.
  - Suggested deadline: Not later than July 1, 2007.
- 8) Develop a plan to create an appropriate operating reserve in the grants and contracts program.
  - Suggested responsible party: Chief Financial Officer
  - Suggested deadline: Not later than July 1, 2007.
- 9) Develop a plan to create an appropriate deferred maintenance reserve for facilities constructed by the grants and contracts program.
  - Suggested responsible party: Chief Financial Officer.
  - Suggested deadline: Not later than July 1, 2007.
- 10) Identify between \$500,000 and \$1,000,000 for potential additional CIHS non billable costs.
  - Suggested responsible party: Chief Financial Officer.
  - Suggested deadline: Not later than July 1, 2007.

Elaine Leeder asked, what is the future of those programs left in CIHS?

Ochoa responded that we are phasing out most of the grants given the fact that they are receiving some level of subsidy and it is difficult for our campus to finance this activity. We will need to focus on tying our grants and contracts activity into our core academic mission. The first priority will be to support and enrich the educational programs for our students and the professional development of our faculty. The second priority will be related to service to the community. We will need to develop structures of support for faculty who contract the grant.

Leeder asked what would happen to some grants which will continue to 2011? Coate responded that, at this time, there are seven grants that will reside after September 30, 2007. They currently have not been positioned to transition to another entity and plan to continue under Coate's oversight. Schlereth added that a substantial portion of

CIHS, the AmeriCorps cluster of grants, is not under Coate's jurisdiction, as it has been moved under the Provost's office.

Jim Robertson asked if KPMG was using materiality as the criterion for selection for the 3 particular grants of 60 to be audited? Schlereth responded that the University asked for those specific three grants to be audited. Coate added that the 3 grants reviewed were all with the Department of Health and Human Services (DHHS).

Ochoa adjourned the meeting at 10:10 a.m.

*Minutes prepared by Ian Hannah.*