



Joint Meeting of the Executive & Audit and
Finance & Administration Committees

January 18, 2018
9:30 – 10:15 am
Corvallis, Oregon

MINUTES

Executive & Audit Committee Members Present: Patty Bedient, Rani Borkar (*chair*), Darry Callahan (*vice chair*), Paul Kelly, Kirk Schueler, and Ed Ray (*ex officio*)

Finance & Administration Committee Members Present: Mark Baldwin, Rani Borkar (*ex officio*), Julia-Brim-Edwards (*phone*), Darry Callahan, Mike Green (*ex officio*), Kirk Schueler (*chair*), and Mike Thorne (*vice chair*)

Other Trustees Present: Mike Bailey, Michele Longo Eder, and Preston Pulliams

University Staff Present: Ron Adams, Jennifer Almquist, Susan Capalbo, Steve Clark, Debbie Colbert, Ed Feser, Becca Gose, Cindy Sagers, Patti Snopkowski, and Marcia Stuart

Guests: Jean Bushong (*principal, CliftonLarsonAllen LLP*) and Tim Rawal (*senior associate, CLA*)

1. Call to Order/Roll/Declaration of a Quorum

Executive & Audit Committee Chair Rani Borkar called the meeting to order at 9:32 a.m., asked the assistant board secretary to call the roll, noted a quorum, and welcomed members of the Finance & Administration Committee to the joint meeting.

2. Action Item

a. FY2017 External Auditor Annual Report

Borkar asked Chief Audit Executive Patti Snopkowski to introduce Jean Bushong and Tim Rawal, representatives from CliftonLarsonAllen LLP (CLA), the firm that conducted the external audit of the FY2017 Annual Financial Report. Snopkowski reminded trustees that a financial statement audit and federal compliance audit are conducted annually in accordance with federal regulations. She said the purpose of the presentation by CLA was to summarize the findings from those engagements.

Bushong began by describing the scope of their engagement, which included the financial statement audit, the “single audit,” which is an audit of compliance with certain federal regulations relating to federal grants and contracts, and a review of the NCAA Agreed Upon Procedures. She shared the financial statement audit results, noting that CLA’s responsibilities under U.S. generally accepted auditing standards included expressing an opinion on whether financial statements are in conformity with U.S. generally accepted accounting principles in all material respects; expressing an opinion only over information identified in the CLA report; performing the external audit in accordance with required auditing standards; and communicating any significant matters

related to audit, information required by law/regulation, or other information agreed upon with the university. Bushong said CLA issued an unmodified opinion of the university's FY2017 financial statements, adding that the auditors' opinion as to the fair presentation of the financial statements was issued without modifications. Trustee Darry Callahan recognized Vice President for Finance and Administration Mike Green and his team for their efforts to achieve this result. Trustee Kirk Schueler asked whether CLA performed any procedures over Management's Discussion and Analysis, and Bushong noted that the overview of the university's financial position and activities is not considered audited. She then described the Management Letter issued by CLA alerting the university to the need to remain vigilant in its efforts to recognize and mitigate cyber crime.

Bushong concluded her discussion of the financial statement audit results by describing an update to Governmental Accounting Standards Board (GASB) Statement No. 68, which establishes accounting and financial reporting requirements related to pensions. Bushong noted that due to changes in discount rates and changes in assumptions, the university's net pension liability increased from \$115M to \$323M. President Ed Ray asked Bushong's perspective on how the university should view this net pension liability, and she said that pension liability includes not only estimates of investment returns but also estimates of future benefit payments and benefit contributions. She said that all three components have to work in order for an employer's retirement plan to be healthy and that employers need to remain attentive to the balance. Rawal added that while gains in investments will reduce the net pension liability for the entire plan in the next reporting period, reduction of the liability over the long term requires stabilization in the other two components. In response to questions by Trustee Patty Bedient, Bushong and Rawal noted that the university's actual cash contribution to the pension plan was approximately \$20M, that a large portion of the increase in the net pension liability was due to the change in the discount rate, and that the discount rate is weighted based on both estimated investment returns and an inflation assumption. Trustee Mike Thorne asked about the total Oregon Public Employees Retirement System (PERS) net pension liability, and Green said that valuations in 2015 and 2016 estimated the number at \$6B and \$15B, respectively, with the change attributable to both the Moro court decision and changes in assumptions. Rawal added that Oregon State University's proportionate share of the PERS net pension liability remained steady at approximately 2%. In response to a question by Ray, Bushong said that the change outlined in GASB 68 was a factor contributing to the downgrade by Moody's Investors Services to the financial outlook for U.S. higher education. Green added that bonding agencies consider a number of factors, including how an employer manages long-term planning for the payment of liabilities, and he noted that the university's ten-year business forecast incorporates the payment of liabilities over time.

Next, Rawal described the results of the Single Audit Compliance Report issued by CLA following their federal compliance audit of Oregon State's sponsored programs in accordance with Federal Uniform Guidance. Following a risk assessment process, CLA focused on two major programs: SNAP-Ed and research and development. Rawal said that CLA did not identify any deficiencies in internal control that were considered to be material weaknesses. He also reported that the university was found to have complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on each of its major federal programs. Lastly, he reported on the status of prior year findings, noting that the two findings from the previous year related to student financial aid and enrollment reporting were implemented properly.

Rawal reviewed CLA's required communications with the Board, noting they encountered no difficulties in performing the audit, had no disagreements with university management, and found no material weaknesses or significant deficiencies.

Rawal also reviewed upcoming GASB standards for FY2018, FY2019, and beyond. In response to a question by Ray about GASB 75, which will impact financial reporting for post-retirement benefits, Bushong noted that retired employees are permitted to continue in the university's health insurance plan until age 65, and the premium rate for these retirees results in an implicit rate subsidy, which creates a liability for the university. Rawal also spoke about GASB 81, which will impact financial reporting for irrevocable split-interest agreements, noting that the university holds two. In response to a question by Callahan, Bushong explained that, for many universities, these agreements are held at foundations, and the change in standards addresses how assets and future liabilities are recorded.

Bushong concluded by discussing higher education industry trends, including the fiscal outlook on a national level, administrative trends and the impact on higher education, and what internal controls the university should be focusing on. Green noted that although Moody's Investor Service had recently downgraded its overall outlook for higher education from stable to negative, the university's Aa3 credit rating was recently reaffirmed due to a number of factors, including the diversification of revenue streams and the presence of a long-term planning structure. Ray added that strategic investments in growth at OSU-Cascades contribute to the university's positive financial picture from a credit market perspective; however, he noted that funds for OSU-Cascades are segregated. Schueler asked about Moody's perspective on tuition rates, and Bushong stated that their analysis reviewed the various pressures on tuition. In response to a question by Trustee Mark Baldwin about the potential impact of the outlook, Bushong stated that while Moody's provided their assessment of higher education overall, much would be determined by OSU's response to the pressures noted. Bushong also spoke about uncertainty at the federal level, particularly with regard to federal tax reform and changes to the Higher Education Act. Lastly, she spoke about the importance of ensuring appropriate controls and processes are in place to prevent and respond to cyber crime.

Following the presentation and discussion, a motion was made and seconded by the Executive & Audit Committee to approve the external audit conducted by CliftonLarsonAllen LLP of the Oregon State University FY2017 Annual Financial Statements. The motion carried.

3. Adjournment

With no further business proposed, Borkar adjourned the meeting at 10:25 a.m.

Respectfully submitted,

Jennifer M. Almquist
Assistant Board Secretary