



DRAFT MINUTES
AUDIT AND FINANCE COMMITTEE
Wednesday, October 21, 2009

AF: A-M: Roll Call and Approval of Minutes of the June 10, 2009 and June 17, 2009 Board of Trustees Audit and Finance Committee and the July 22, 2009 Joint Audit and Finance/Strategic Planning meetings.

Mr. Bob Stilley, Chair of the Audit and Finance Committee, convened this meeting at 2:55 p.m. Roll call commenced with the following Committee members participating: Mr. Thomas Workman, Jr., Mrs. Nancy Blosser, Dr. William Bryant (via teleconference), Mr. David Feder, Mr. Armand Grossman, Mrs. Lalita Janke, Dr. Tim Lenz and Ms. Tiffany Weimar.

Other Trustees attending the meeting included: Mr. Anthony Barbar.

The following University officials participated: Dr. John Pritchett, Interim President; Dr. Diane Alperin, Interim Provost; Mr. Dennis Crudele, Interim Senior Vice President for Financial Affairs; Dr. Charles Brown, Senior Vice President for Student Affairs; Dr. Norman Kaufman, Associate Provost; Mr. Morley Barnett, Inspector General; and Mr. David Kian, Senior Vice President for Strategic Relations and General Counsel.

Upon call for approval of the June 10, 2009, June 17, 2009 and June 24, 2009 minutes, a motion was made and seconded to approve the minutes without change or correction. No discussion or further comment followed. **The motion passed unanimously.**

AF: A-1. Request for Approval of Amendment to Florida Atlantic University's 2009-10 Regulation 8.001: Tuition, Fee Schedule and Percentage of Cost.

Mr. Crudele reminded members that this Regulation increasing tuition and fees had been approved by the Board in August 2009. Afterward, it was discovered that the financial aid fee for out-of-state undergraduate students had been miscalculated creating discrepancy amounting to an overage of \$0.27 per credit hour. The error was corrected prior to affecting any student.

This amendment is required to maintain compliance with Legislative and Board of Trustees established increases in student tuition and fees for academic year 2009-10 and has been appropriately noticed publicly. Presentation for approval to the Board of Governors will follow upon BOT approval.

A motion was made and seconded to recommend approval to the Board of Trustees of the amendment to Florida Atlantic University's 2009-10 Regulation 8.001: Tuition, Fee Schedule and Percentage of Cost. No discussion or further comment followed. **The motion passed unanimously.**

AF: A-2. Request for Approval of Amendment to Florida Atlantic University Regulation 6.008: Purchasing.

Mr. Crudele advised that pursuant to its constitutional authority the BOG has modified procedures governing purchasing in BOG Regulations, Chapter 18. To remain in compliance, FAU is required to amend its Purchasing Regulation 6.008 in accordingly. The substantive changes within include raising the competitive solicitation threshold from \$50,000 to \$75,000 and adding bid protest procedures in accordance with BOG Regulation 18.002. Members were informed that currently used bid protest procedures fall under the Administrative Procedures Act, Chapter 120.

A motion was made and seconded to recommend approval to the Board of Trustees of the amendment to Florida Atlantic University's Regulation 6.008: Purchasing.

Discussion followed on implications of these changes and Mr. Crudele advised that competitive bid procedures remain in place for the \$25,000 to \$50,000 and now extend to \$75,000. The number of purchase orders issued last year with amounts between \$50-75,000 was 102 with only six requiring competitive bidding.

With no further discussion or comment, voting commenced. **The motion passed unanimously.**

AF: I-1c. Review of Audits: Report No. FAU 08/09-5, Audit of Student Fees, Fall 2008 Semester.

AF: I-1d. Review of Audits: Summary of Follow-up on Audit Recommendations Scheduled to be Implemented During the Period April 1, 2009 – June 30, 2009.

AF: I-1e. Review of Audits: Report No. 2009-206, Florida Bright Futures Scholarship Program Operational Audit for the Fiscal year Ended June 30, 2008.

In recognition of time limitations, the informational only nature of these audits and the acknowledgment that each audit listed above generated little or no substantive recommendations, it was agreed to move forward to the Student Government Audit.

AF: I-1b. Review of Audits: Report No. FAU 08/09-4, Audit of Student Government Association for Fall 2008 Semester.

Mr. Barnett noted the fiscal operations of the SGA are generally in compliance with applicable laws and regulations, but seven recommendations were made to improve budget preparation processes, expenditure documentation and accountability and procedures for collecting money.

Discussion followed recognizing that, in part, the transient nature of personnel in the Student Government Association and the annual on-the-job training required of these individuals can result in a lack of understanding and implementation of the procedures. Concern was expressed that continued lack of understanding and oversight could foster fraud and abuse. It was noted that the Dean of Students Office and the Senior Vice President for Student Affairs are initiating stronger oversight measures to strengthen Student Government fiscal accounting. Dr. Brown concurred with

the concerns mentioned and advised that university staff/advisers, SGA personnel and associated student organization staff have been advised that failure to comply with appropriate procedures will result in one-year suspensions to funding allocations.

AF: I-1a. Review of Audits: Report No. FAU 08/09-3, Audit of Faculty Activity Reporting 2007/08 Academic Year.

Upon query for an opinion on the compliance results, Mr. Barnett advised members of the difficulty in offering an unqualified opinion since the 12-Hour Law governing faculty activity reporting fails to provide guidelines specifying documentation appropriate to non-instructional compliance. One of the objectives of this audit was to determine what documentation was being utilized within the colleges to satisfy the 12-Hour Law. The results were markedly inconsistent. A meeting with the Counsel of Deans concluded that current standards for documenting non-instruction activity are covered adequately by current assignment and evaluation criteria.

Dr. Pritchett stressed that the difficulties herein apply only to the non-instructional activities of faculty; the instructional side is well documented. He advised members that new Banner Time and Effort Reporting module, to be operational in approximately six months, will better address reporting needs.

In response to Trustees' pursuit of substantive data to enable comparative analysis on faculty activity/productivity within the various colleges, discussions began on the realities of obtaining consistent and accurate documentation. Drs. Pritchett, Alperin and Lenz explained the limitations and constraints inherent in the 12-Hour Law and the Faculty Academic and Information Reporting (FAIR) system. These deliberations concluded with a directive for continuing efforts in the Provost's Office to structure a system capable of providing consistent faculty activity documentation for future submission to a BOT Committee.

AF: I-2. Review of the Office of Inspector General Report of Annual Activities for Fiscal Year Ended June 30, 2009.

Mr. Barnett noted this report as an annual summary provided to ensure member knowledge of the accomplishments of the Office of Inspector General's office during the 2008-09 fiscal year.

AF: I-3. Update on Florida Atlantic University's Compliance with Textbook Adoption.

Mr. Crudele reminded members that Textbook Adoption was implemented pursuant to the July 2009 approval by the BOT. Pursuant to a request a follow-up report on compliance, a review of the issues and components necessary to the success of this initiative began including data on the number of adoptions received 30 days prior to the start of the semester; the number of adoptions received after the 30 day deadline; the number of courses where orders were submitted to University Bookstore; and, the number of courses where orders were not submitted to the University Bookstore. The overall result was an 84 percent compliance rate.

Mr. Crudele emphasized that the adoption of textbooks is only a first step to lowering textbook costs. Achieving affordability is a challenge since publishers set pricing. Institutional steps to counteract publisher pricing include ensuring that appropriate textbooks are identified for adoption

in a timely manner and instituting a long-term utilization plan for the adopted textbooks which will build inventory to ensure availability and lower costs. To that end, several steps have been and will be implemented to increase compliance and actually enhance lowering costs to students. Email notifications and flyers are being disseminated to faculty on the adoption deadline requirements, buyback information, publisher information and book pricing, and options in reusing of remaining stock. Effective Summer 2010, a mandatory on-line adoption form will be instituted and within that form any orders for custom/bundled materials will require additional review and approval by the Provost's office. Additionally, data on courses without textbooks and orders being placed with alternate sources are being gathered to set straight currently skewed adoption rate data.

Discussion followed limiting procurement of new addition texts; authorities involved in textbook selection; and, the future of digital textbooks.

AF: I-4. Issuance of Debt to Finance the Construction of Certain Student Housing Facilities on the Boca Raton Campus.

Mr. Kian began this presentation noting the draft nature of the resolution being presented today that requests approval to issue debt to finance the construction of the Innovation Village Housing and Development. This documentation will be finalized for presentation and approval of the Board of Trustees in the near future.

Attention was directed to Appendix A of the Resolution that lists the required documentation being developed which contains the specific background detail of this project. Mr. Kian explained that this documentation is being developed in coordination with staffs of the Board of Governors and the Division of Bond Finance. Substantively completed to date are the project program, feasibility study, or consultant report; description of the security supporting repayment and the lien position the debt will have on that security; and, the five year history and a five year projection, of the pledged revenues and the debt service coverage have been completed. Development continues on the draw schedule for the project; the sources and uses of funds for the project; and an estimated debt service schedule.

Review of each section of the Resolution began with Mr. Kian noting the financing request currently at an amount not exceeding \$140 million. Actual project costs to date including construction, lease payment, financing, insurance, etc. stand at between \$120-125 million with an additional \$12 million in subordinate debt service.

Mr. Kian provided an historic overview of this project noting that it originally began as a 600-bed facility expected to cost between \$62-65 million. That project had been approved by the FAU Board of Trustees and submitted to the Board of Governors when it project was pulled from consideration to enable exploration of other financing options and opportunities for better serve the entire vision of the Innovation Village project. That 600-bed project, doubled as per the current project of just over 1,200-beds, would have cost approximately \$125 million or roughly the same as the current project. The major difference between projects is that this one includes a \$12 million upfront lease payment to the university benefiting the whole of the Innovation Village project. Further efficiencies are likely but at present the funding request stands at no more than \$140 million with actual funding needs anticipated to be around \$125-130 million.

Continued Resolution review began on the debt which will be secured by a restricted lien, or collateral, which commits *only* the net revenues of this project and the net revenues of existing student housing located on campus to meet debt obligations. Mr. Kian stressed that no other university assets or funding allocations will be utilized in meeting this debt. The language here commits the University and Board to ensuring sufficient revenue is generated to fulfill this debt obligation.

The financing will consist of Student Housing Revenue Bonds to be issued and sold through a negotiated sale and will include two series of subordinate bonds to be sold through private placements. Authorization is included in this Resolution to issue Build America Bonds should this option provide cost savings. Build America Bonds is a fairly new program approved by Congress and although these bonds bear taxable interest, Mr. Kian advised that this will have no effect on the tax exempt status of the DSO and federal subsidies will offset any interest costs.

Another relevant issue in the Resolution is the commitment of the Board of Trustees, University and DSO management, and all other involved entities to comply with all federal and state laws relating to the debt.

Discussion revolved around concerns on generating the revenues to meet the debt obligation in light of market rates and a perceived lack of ability to control the operating expenses of the management company. Mr. Kian noted that rates are rolled into budget calculations and the Board is required annually to approve budgets. If the developer presents an unreasonable budget, the Board has the authority to reject the budget until acceptable levels are achieved. Mr. Kian advised members that it behooves both entities to work in concert to assure housing rates remain competitive and the facilities are filled to ensure the success of this venture. Additionally, operating expenses in the private sector are generally less expensive and that has proven to be the case here. Due diligence has been performed in vetting the performance of the management company with facility visits and frank discussion with knowledgeable university officials. The results were positive with the company exhibiting strong and extensive experience in this area.

AF: I-5. Review of the First Quarter Status of Florida Atlantic University's 2009-10 Operating Budget, July 1–September 30, 2009, Including Fourth Quarter 2008-2009.

Mr. Crudele began this review advising that FAU remained in compliance to budget targets for the 2008-09 Operating Budget. Noting that the first quarter revenues and expenditures are on track as projected, a summary review of the first quarter status began.

Educational and General. The first quarter of FAU's 2009-10 Operating Budget is in-line with projected targets with expenditures to date totaling approximately 24 percent of the projected expenses. He reminded members that for the first time federal stimulus funds at approximately \$12.2 million are included in this budget.

In August, the State's Revenue Estimating Conference was held and revenue collections were reduced from expectations, but at this time state revenues are sufficient to cover 2009-10 allocations. The Committee was advised that while collections are optimistic for 2009-10 and 2010-11, management intends to act with caution by holding in reserve any excess tuition revenues to cover

reductions should state revenues decline. The next Estimating Conference is scheduled for November and another update will be provided at that time.

Student Financial Aid. This budget includes the amendment approved earlier in this meeting which reduced the undergraduate out-of-state per-credit hour financial aid fee from \$25.87 by \$0.27 to \$25.60. This budget also includes some stimulus funding. Expenditures are higher than prior year at 49.6 percent compared to 39 percent. Generally expenditures run approximately 40 percent for Fall and Spring and 20 percent in Summer, so an increase in budget authority may be needed in the future.

Grants and Contracts. Expenditures are slightly higher than revenues but are comparable to prior year. Members were reminded that this is generally a timing issue as not all revenues and expenditures are earned and distributed evenly during the year. Cash balances are available to cover financial variations until the offset funding is available.

Auxiliary Enterprises. This budget is on target to projections with approximately 38 percent of budget revenues being received and 20 percent being expended to date.

Athletics Local. Members were reminded that a 2008-09 shortfall of \$625,000 had been projected. The shortfall actually totaled \$275,000 and has been paid back. Cost savings were implemented including reducing expenses, deferring purchases and furloughs helped minimize that shortfall. Athletics has done well in monitoring expenses to achieve budget balancing.

Game guarantees and ticket sales are on target although corporate sponsorship and fundraising are below expectations. The budget should be enhanced by additional revenues generated from increased enrollments.

Student Government/Student Activities. Expenditures were budgeted higher than revenues this year and to date approximately 52 percent of revenues have been realized with only 12 percent expended. This variance is expected to balance as the year progresses. Additionally, with increased enrollment, revenues and expenses should be more equivalent by fiscal year end. This budget is on target.

Concessions. Revenues and expenditures are budget at \$575,000. Revenues received to date are only at approximately six percent of budget but contract revenues have not yet been received and will be reflected in the second quarter report. Cash balances are available to cover financial variations.

Fourth Quarter Status of FAU 2008-09 Operating Budget – July 1, 2008 - June 30, 2009. Mr. Crudele noted that the university fourth quarter operating budgets ended in line with projections. While some outstanding obligations remain in the Educational and General budget, these expenditures are certified forward through December 31, 2009, at which time unexpended funds, will be carried to the 2009-10 operating budget.

The Student Financial Aid budget ended with expenditures higher than revenues caused explained by timing issues. Noteworthy was the receipt of funding from the Federal Emergency Management Agency to the Auxiliary Enterprises budget for reimbursement of

some of the damage caused by Hurricane Wilma. The Athletics Local budget balanced with the loan advance as previously noted. Within Student Government-Student Activities and the Concessions budget, revenues were higher and expenditures were lower than projected.

Mr. Crudele concluded the presentation. No questions followed.

AF: I-6. Discussion on Project VISION: Budget Scenarios.

Mr. Crudele addressed this item to keep members informed that strategies are being discussed, in coordination with Academic Affairs, to address future shortfall issues being caused upon the cessation of federal stimulus funding currently in the amount of \$12,155,065 and the additional \$1.1 million dollars allocation from the Legislature which had used from non-recurring funding to cover recurring costs. In addition, comparable funding is expected for fiscal year 2010-11, but there is no guarantee of receipt of this funding.

At this time, too many limitations exist to develop a concrete plan of action. These issues consist of future reductions and revenues of future state allocations, Legislative and BOT tuition and differential tuition increases, enrollment levels, etc. Nevertheless, a few ideas have been discussed with the first priority being covering the \$1.1 million deficit which can be accomplished utilizing the revenues derived from increased enrollment numbers this fiscal year.

Plans to deal with the stimulus shortfall include scenarios of addressing stimulus reduction in even amounts over two years; paying down stimulus reduction heavily in year one leaving other FAU priorities to the second year; or, investing in pressing needs in year one pushing the larger share of stimulus deficit reduction to year two. The risk associated with each scenario was explained.

Dr. Kaufman reiterated to the Committee limitations involved in finding replacement funding. No further enrollment increases are expected and therefore the only source of additional revenue will be from tuition increases, a combination of what the Legislature imposes and differential tuition imposed by the Board.

Discussion followed on the magnitude of these financial deliberations and discontent that this meeting has been held so late in the day when members are overwhelmed by the plethora of information disseminated. Chair Stilley requested future Audit and Finance Committee meetings be scheduled early. Chair Blosser recommended that Committee meeting scheduling be staggered evenly.

Additional conversation resulted in a request for redistribution of Dr. Jessell's preliminary plan to achieving the stimulus shortfall revenues. It was noted that a main issue trying to be addressed in these budget scenarios is finding the money and balancing the direction of funding to meet the competing priorities including the Board's Strategic Plan.

AF: I-7. Follow-up Plans for Issues Raised at BOT Retreat.

Chair Stilley noted that issues raised at the Retreat include addressing:

Revenues to address Federal Stimulus funding. As just discussed this issue is in progress.

Across-the-board compensation. Salary constraints are causing a loss in the competitive edge in hiring and keeping personnel, sometimes including associated research funding. In light of current budget constraints, this will be difficult to address but needs further review.

Ensuring internal audits have substantive meaning. Frustration was expressed that audit recommendations seemingly have no true import or substance until another audit is schedule, which can be several years. Ensuring the recommendations have significance and consequence should be a goal of this Committee.

No additional issues were raised and no discussion followed.

A motion was made and seconded to adjourn this meeting. **The motion passed unanimously.**

The meeting was adjourned at 4:19 p.m.