

BOARD OF TRUSTEES  
THE CITY UNIVERSITY OF NEW YORK

COMMITTEE ON  
FISCAL AFFAIRS

MINUTES OF THE MEETING  
APRIL 7, 2010

The meeting was called to order at 5:07 p.m.

There were present:

**Committee Members:**

Hon. Joseph J. Lhota, Chair  
Hon. Peter S. Pantaleo, Vice Chair  
Hon. Valerie L. Beal  
Hon. Carol Robles-Roman  
Prof. Terrence Martell, faculty member  
Christopher Brown, alternate student member  
President Tomas Morales, alternate COP liaison

**University Staff:**

Chancellor Matthew Goldstein  
Executive Vice Chancellor and Chief Operating  
Officer Alan Dobrin  
Interim Senior Vice Chancellor Marc V. Shaw  
Associate Vice Chancellor Matthew Sapienza  
Chief Investment Officer Janet Krone  
University Controller Barry Kaufman

**Trustee Observer:**

Hon. Manfred Philipp  
Hon. Cory Provost

**Trustee Staff:**

Senior Vice Chancellor and Secretary of the  
Board Jay Hershenson  
Senior Vice Chancellor and General Counsel  
Frederick Schaffer  
Deputy to the Secretary Hourig Messerlian  
Mr. Steven Quinn

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<b>Cal. No.</b>	<b>DISPOSITION</b>
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The agenda items were considered in the following order:

**I. ACTION ITEMS:**

**A. APPROVAL OF THE MINUTES OF THE MEETING OF FEBRUARY 1, 2010.** The minutes were approved as submitted.

**B. POLICY CALENDAR**

1. A resolution to authorize Hunter College to implement an increase in dormitory fees beginning Fall 2010. Dormitory fees will increase 33% by way of a 2-step increase and thereafter based on a regular indexed annual increase. Fees will rise 16.5% in Fall 2010 and an additional 16.5% to be effective Spring 2011. The current dormitory fees range from \$348 to \$627 per month for the nine month school year and will be increased to \$462 to \$826 per month by Spring 2011 for the nine month school year, depending on the type of resident room. The base increase will also proportionately affect the dormitory fees for the summer months beginning Summer 2011. In Fall 2011, Hunter College will begin raising dormitory fees incrementally by an amount equal to the average of the trailing five years' HEPI inflation rates. The fee increase is needed to maintain the condition of the dormitory complex and the implementation of the annual rate increase will ensure that dormitory funding will be maintained at adequate levels.

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Hunter College President Jennifer Raab stated that the dorms have been running at a deficit for the last few years and this increase is important in order to maintain them in a satisfactory condition. The college administration met with a number of student groups and they understand the need for the increase and have been supportive.

In response to a question, President Raab stated that it may take a year to catch up with the actual costs, as the increase is being implemented in two stages. By the time the full increase is implemented next Fall the dorms should be running at parity.

Following discussion, the item was approved for submission to the Board.

2. A resolution to authorize the General Counsel of The City University of New York to execute a license agreement for on-line access to electronic journals from Wiley Subscription Services, Inc. on behalf of The City University of New York. The contract shall be awarded as a sole source pursuant to University regulations and applicable law. The total amount of the five year license agreement is approximately \$4.8 million payable in five installments. The license agreement shall be subject to approval as to form by the University Office of the General Counsel. On-line access to the full text journals in various college collections being purchased from Wiley will be available to all CUNY faculty and students.

Following discussion, the item was approved for submission to the Board.

3. A resolution to authorize the General Counsel of The City University of New York to execute a license agreement for on-line access to the ScienceDirect electronic collection of full text science, technology, medicine and social sciences journals from Elsevier B.V. on behalf of The City University of New York. The contract shall be awarded as a sole source pursuant to University regulations and applicable law. The total amount of the five year license agreement is approximately \$8.3 million payable in five annual installments. The license agreement shall be subject to approval as to form by the University Office of the General Counsel. On-line access to the full text journals being purchased by CUNY from ScienceDirect will be available to all CUNY faculty and students and is targeted towards the science, technology, medicine and social sciences disciplines.

Following discussion, the item was approved for submission to the Board.

4. A resolution to authorize the General Counsel of The City University of New York to execute an amendment to Agreement No. N001005 with ACT, Inc. on behalf of The City University of New York to provide funding for the agreement ending June 30, 2010. The funding shall not exceed a total estimated cost of \$725,000. ACT provides testing services to CUNY to support high-volume assessments (in excess of 100,000 test administrations per year) of student college readiness in the areas of reading, writing, and math. Tests are used both for initial placement (for college-credit or remedial courses), and for exit from remedial programs. The amendment adds funds for fiscal year 2009-2010 services.

In response to a question, Associate Vice Chancellor Matthew Sapienza stated that the initial agreement was a five year contract for \$2.1 million, which the University has drawn down over the past four years that the contract has been in effect. Those funds have been exhausted and the \$725,000 is needed to cover the costs for the last year of the

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contract, which was this year. The contract then will expire and the University will be putting out an RFP for next year.

Following discussion, the item was approved for submission to the Board.

**II. INFORMATION ITEMS:**

**A. Report by Associate Vice Chancellor Sapienza**

Update on State and City Budgets

Associate Vice Chancellor Sapienza stated that, while April 1st has come and gone without an agreement on the state budget, there was somewhat encouraging news since the last time the Committee met: the Senate and Assembly have both put forth their proposals for the fiscal 2011 budget. The Governor had proposed reductions to our senior colleges of \$84.4 million and to our community colleges a base aid reduction of \$285 per FTE, which would have resulted in a loss to our community colleges of \$22 million. Both the Senate and the Assembly proposals restored the entire community college base aid reduction, which was terrific news. However, the Senate's proposal called for an additional cut to the senior colleges of about \$22 million, which would put the senior college total reduction at \$106 million instead of \$84 million, as the governor had proposed. The University has had several discussions with the Senate leadership over the last few weeks and the Senate is coming around to putting forth a proposal that will more closely mirror the Assembly's.

He noted that the University is still looking at an \$84 million reduction for the senior colleges, which comes on top of \$121 million in reductions over the last two years. There are certainly concerns about the level of that cut, but the administration is hopeful that there will not be any additional cuts to the senior colleges and that the community college cuts will be fully restored.

Associate Vice Chancellor Sapienza added that the Governor had also put forth a higher education empowerment initiative, calling for SUNY and CUNY to have greater flexibility. The Assembly has publicly stated that this should be taken up outside of the budget process. The Senate came out with revisions to the Governor's proposal. While the Governor had called for the SUNY and CUNY Boards of Trustees to have the ability to increase tuition by 2.5 times the higher education price index, the Senate's resolution lowered that to 1.5 times the index. The Governor's proposal also called for CUNY and SUNY to have a post audit process on procurement, similar to the process the University has with the City of New York. The Senate called for that process to apply only to the procurement of goods and not to the procurement of services. The Governor had also proposed that tuition revenue be placed off budget and not be part of the state appropriations for SUNY and CUNY and the Senate rejected that idea in their resolution.

He stated that on the City side the mayor has proposed additional cuts to city agencies since the last meeting of the committee. The cut was 7.2% for all agencies, except for uniformed agencies and the Department of Education which had lower reductions. For the University this meant \$13.9 million. The University is now looking at about \$29 million in 2011 reductions to community colleges support from the City. There is some protection on the City side from the maintenance of effort law, but the University is still looking at some steep cuts to the community colleges on the City side.

Committee Member Terrence Martell asked whether, in light of the fact that 2012 is likely going to be worse than 2011, should the committee be looking at any budgetary issues that might be

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impacted by that situation? Should the University be slowing down investments even in laudable projects? Should it be defining what is core and what is not core to try to maintain what it has so that when this fiscal crisis dissipates the University will still be strong?

Executive Vice Chancellor Allan Dobrin stated that a year ago, per the Chancellor's recommendation, the University set up a Budget Working group to do what Professor Martell suggested.

Committee Chair Joseph Lhota stated that as we proceed through this difficult stretch of time, if we can get that information out in a more general way and head off issues that fall in the general category of transparency, it would help everyone understand that we are acting, not reacting.

Committee Member Martell added that while Chancellor Goldstein has made these points at meetings, as some of these cuts start to really bite, the more information we get out about the things the University is doing to ameliorate the impact, the better morale would be at CUNY. Committee Chair Lhota agreed. Executive Vice Chancellor Dobrin pointed out that, on the other hand, one does not want to scare people.

Returning to the State Budget, Associate Vice Chancellor Sapienza stated that while the Governor had proposed a \$75 reduction to all TAP awards, the Senate and the Assembly both rejected that proposal. That was an important item that the University was lobbying to have restored. One alarming thing that is not an issue for this year, and probably not next year, is that the State put in a piece that said CUNY would be responsible for covering all financial aid differences between tuition and the maximum TAP award, should tuition increase over the current maximum of \$5,000. The University has some time on that issue and will lobby hard regarding the matter.

**B. Report on Investments**

Market and Performance Update

Chief Investment Officer Krone stated that the portfolio did quite well in March, it is up 3.2% bringing the market value to about \$150 million and that is net of about \$4 million in withdrawals during this period. On March 24th the Subcommittee on Investment met and approved a revised target allocation to hedge funds in the amount of 10%. The ranges will be 5 to 15% in hedge funds and the benchmark that the administration intends to use is the Hedge Fund Research, Inc. fund-of-funds universe benchmark which is comprised of about 2,000 funds-of-funds. There was a corresponding reduction in the target allocation for the Non-Marketable-Alternatives asset class. On the real assets side there were no changes in the target, but the administration would like to switch from using both the Wellington customized benchmark and the CPI Plus 5% benchmark, to using the Wellington customized benchmark solely. The reason being that, while the CPI Plus 5% is a reasonable goal over the long term, the Wellington customized benchmark is designed to better track the portfolio

She added that on the fixed income side there was discussion about indexing the better part of that portfolio and that process was hastened by the departure of the total bond team at Oppenheimer last week. As a result Cambridge Associates recommended that the University disinvest. The University has since hired a portfolio transition manager and will be transitioning the portfolio to the State Street Global Advisors. It is a government credit index fund at about six basis points. The index is about a five year duration and it excludes any mortgage backed securities exposure.

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**C. 2009 A-133 & Internal Control Reports**

University Controller Barry Kaufman introduced Ms. Shelly Masi and Ms. Erin Schembari, Partner and Senior Manager, respectively, of KPMG to report on the 2009 Management Letter and A-133 Audit results.

The Management Letter and the accompanying Communication of Internal Control and Other Operational Matters address a number of areas in the University including procurement, tuition management, cash management, financial reporting, compensated absences and information technology. The A-133 Audit focuses on the Federal student financial assistance programs and involves visits to all CUNY colleges.

In response to a question regarding the proper removal of employees from the payroll system upon termination and the timely removal of those employees, Ms. Masi stated it was an administrative issue and did not result in improper payments.

Committee Chair Joseph Lhota noted that the implementation of the PeopleSoft system would address these and similar issues.

Committee Member Martell asked several questions related to materiality levels and stated that the Subcommittee on Audit should be well and truly comfortable with, and aware of, these issues and the underlying methodology. Committee Chair Lhota concurred.

In response to a question regarding a significant deficiency determination in the area of student status confirmation reports, Ms. Schembari stated that when there is an error of one or two findings in an area, those are generally isolated reasons. When the number of findings hits three, the internal control is generally deemed to have failed significantly.

University Controller Barry Kaufman further commented that the problem with the student status confirmation reports is limited and that the college presidents have been made aware of this and other A-133 matters. The Office of University Registrar is working with the individual registrars at the campuses to insure that going forward the student status confirmation reports are submitted in a timelier manner.

University Controller Kaufman also stated that the University has improved its performance in the A-133 Audit considerably from where it had been several years ago, most notably in the area of financial aid refunds. However, findings such as this could lead to a file review in which the University would be required to review the entire financial aid file for the college in question. Such a review could require reimbursement of funds to the Department of Education, but not to a fine of significant magnitude.

In response to a question regarding benchmarking against the performance of other colleges and universities on A-133 Audits, Executive Vice Chancellor Dobrin stated that the University asked the federal government several years ago for good examples to learn from, and none were available.

Committee Chair Lhota noted that prior to the beginning of the meeting Committee Member Martell brought up an issue of the audits themselves and the need, from a good governance point of view, to have an opportunity for the Trustees to meet with the auditors separately. He asked General Counsel and Senior Vice Chancellor Frederick Schaffer to look into the possibility of an expansion of the

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responsibilities of either the Fiscal Committee or the Subcommittee on Audit, to ensure that reporting lines meet current standards of responsible corporate governance.

Chancellor Matthew Goldstein noted that in corporate governance it is usually common practice for the Committee/Subcommittee to meet with the auditors alone, without management.

Committee Vice Chair Pantaleo stated that an enhanced role of the audit committee could include better participation in the life cycle of the audit, starting with the engagement, defining the of terms of the engagement, and reviewing preliminary findings and problems during the audit. He stated a preference, if it is acceptable to the Fiscal Committee, that the Subcommittee on Audit be more actively engaged during those important points in the life cycle of the audit.

Committee Member Martell agreed with Committee Vice Chair Pantaleo and noted that it is good governance and it is appropriate review and due diligence on the part of the Trustees.

Chancellor Goldstein noted management's concurrence with the appropriateness of such a role for the Subcommittee on Audit.

Committee Vice Chair Pantaleo stated a preference for beginning this involvement with the audit engagement currently being worked on.

The meeting was adjourned at 5:58 p.m.