

I. 2. Business and Finance Committee - May 7, 1992  
Room E-240  
UW-Milwaukee Union  
8:30 a.m.

- a. Closed session to consider trust fund matters, as permitted by s. 19.85(1)(e), Wis. Stats.

1:30 p.m.:

- b. Approval of minutes of April 9, 1992 meeting of the Business and Finance Committee
- c. Approval of gifts, grants and contracts  
[Resolution I.2.c.]
- d. Bequest of John C. Dunn  
[Resolution I.2.d.]
- e. Trust Fund Asset Allocation Ratio
- f. Segregated Fee for Intercollegiate Athletics at UW-Madison  
[Resolution I.2.f.]
- g. S & E Implementation Report
- h. Follow-up Report on Licensing Policy
- i. Report of the Vice President
  - (1) Campus Internal Audit - UW-Milwaukee
  - (2) Status of Federal Indirect Cost Rate Negotiations
- j. Additional items that may be presented to the Business and Finance Committee with its approval

3:00 p.m.

- k. Audit Subcommittee Meeting
  - (1) Audit Schedule for 1992-93
  - (2) Role and responsibilities of the Audit Subcommittee

Approval of gifts,  
grants and contracts

BUSINESS AND FINANCE COMMITTEE

Resolution:

That, upon recommendation of the President of the University of Wisconsin System, the gifts, grants and contracts presented at this meeting be accepted, approved, ratified and confirmed; and that, where signature authority has not been previously delegated, appropriate officers be authorized to sign agreements.

## GIFT, GRANT AND CONTRACT REPORT

### EXECUTIVE SUMMARY

#### BACKGROUND

All gifts, grants and contracts are to be reported at the Board of Regent meeting immediately following their acceptance in accordance with Regent Resolution 5945.

#### REQUESTED ACTION

That, upon the recommendation of the President of the UW System, the gifts, grants and contracts presented at this meeting be accepted, approved, ratified and confirmed, and that where signature authority has not been previously delegated, appropriate officers be authorized to sign agreements.

#### DISCUSSION AND RECOMMENDATIONS

##### Resolution 1.2.c.

The Gift, Grant and Contract Report for the period March 21, 1992, through April 17, 1992, is enclosed. The award total for the period was \$37,554,835 compared to \$42,793,929 received for that period in the prior year. The year-to-date total is \$414,710,704, up \$46,621,781 from the \$368,088,923 received last year. Research awards have increased by \$38.1 million, and other activities increased by \$8.5 million.

It is recommended that the Regents accept and approve the gifts, grants and contracts as presented.

Three of the awards are described below, two from UW-Madison, one from UW-Stout.

- UW-Madison: National Institutes of Health - Clinical Cancer Center support - Page 23, Item 41 - \$2,451,100

The Cancer Center is a comprehensive, clinical center that serves Wisconsin, Iowa and Illinois. The continuation award will provide support to the Center through March 1993. Among the expectations of the Center is clinical and laboratory research in the biology of cancer, with a focus on human problems in etiology, prevention, tumor localization and treatment. Clinical care and treatment, and the improvement of both, are other important purposes of the Center.

The Center is among the world's leaders in research in breast, prostate and bladder cancers, medical oncology, immunobiology, radiation oncology, biostatistics, and medical physics.

- UW-Madison: National Institutes of Health - McArdle Laboratory Support - Page 23, Item 42 - \$1,298,415

The principle objectives of the McArdle Laboratory are to pursue an integrated, cooperative approach to the study of cancer at the level of basic science and to train investigators. The award provides support through February 1993. The interaction of the Laboratory and the Clinical Center (discussed above) are quite extensive and include a number of joint projects (including, "a study of methods for the screening of humans for the susceptibility to tumor-promoting and anti-promoting agents utilizing the degree of induction of ornithine decarboxylase (ODC) by human peripheral lymphocytes").

Dr. Harold P. Rusch was the founder of both the McArdle Laboratory (1940) and the Clinical Cancer Center (1973), as well as the first Chairman of the Department of Oncology (1947). The research of the Laboratory is divided into 3 broad categories: biochemical studies in chemical carcinogenesis, molecular biology/genetics of tumor viruses, and the cell cycle and differentiation in tumor biology.

- UW-Stout: Department of Education - Rehabilitation Research and Training Center - Page 82, Item 1 - \$752,072

The Center is a National Research and Training Center in vocational rehabilitation. The mission of the Center is to provide leadership, through a synergistic program of research and data based training in vocational facilities to community based employment. The Center's projects focus on improving the service delivery capabilities of over 7,000 rehabilitation facilities nationwide. Primary target population for research are persons with traumatic brain injury, and chronic and severe mental illness. The ultimate goal is to enable individuals with a disability to attain their optimal level of personal fulfillment and economic self-sufficiency.

The Center was one of the first non-medical Research and Training Centers, and the only Center ever funded in a non-doctoral degree granting institution. Funding for the Center began in 1979.

The primary reasons for the increases are shown below. The attachment provides explanation, examples and the agencies with largest increases.

- Changes in the timing of the receipt of awards
- Increased success in the number and amount of awards
- Temporary reductions in one year with offsetting recovery the next

## RELATED REGENT POLICIES

None.



## ATTACHMENT TO EXECUTIVE SUMMARY

### Student Financial Aids:

Financial aid support increased by \$4.6 million over the same period last year. The increase in federal funds was \$4.2 million. As exemplified by the \$6.5 million federal financial aid increase shown last month, a portion of the previously reported increase was due to timing of the awards. Based on most recent federal authorizations, the institutions estimate new capital contribution increases as follows:

●Supplemental Educational Opportunity Grants (SEOG)	\$ .4 million
●Perkins Loans	.3 million
●Pell Grants	<u>4.9 million</u>
Total	\$5.6 million

The most significant change was in the funding for Pell Grants. A number of institutions reported both an increase in number of awards and in the average amount of the award. UW-Milwaukee accounted for about \$1.4 million of the Pell increase. They cited a 17% increase in both applicants and recipients along with an average award increase of almost \$100. The downturn in the economy has resulted in more students with special circumstances qualifying for awards. The linear reduction in 1990-91 has not been repeated in this fiscal year. The absence of this reduction in the current year also contributed significantly by allowing more students to receive Pell awards and to increase the size of awards.

### Research:

Research support shows an increase of \$38.1 million. The following explanation applies to UW-Madison where year to date awards have increased by \$38.4 million -- \$8.5 million in non-federal awards and \$29.9 million in federal awards.

The \$8.5 million increase in non-federal funds was caused in part by a recovery from the decrease experienced in 1990-91. The award total for 1991-92 over 1989-90 is only \$5.0 million, or an annual increase for two years of \$2.5 million. This represents a natural rate of growth in research support and is not due to any specific project or trend in donor support. New awards include:

- The Industrial Relations Research Association, \$421,000
- Isuzu Ceramics Research Institute, \$267,000
- Pitas Industries, "Build, assemble and calibrate grating chambers", \$547,086
- Kellogg Foundation, \$753,370

The \$29.9 million increase in federal funds is primarily accounted for by seven agencies:

●Health and Human Services	\$9.9 million
●Agriculture	2.4 million
●Agency for International Development	3.9 million
●Department of Defense	3.0 million
●Department of Energy	2.4 million
●National Aeronautics and Space Admin.	4.3 million
●National Science Foundation	<u>3.9 million</u>
Total	\$29.8 million

### The increase is explained by three principal factors

- The timing of awards (i.e., awards received this year but not last year by this time, or predecessor and successor awards occurring in the same year).
- The increases in award totals for several agencies are based on decreases in the prior year (e.g., NASA awards have increased by \$4.3 million over 1990-91 totals but are approximately the same as 1989-90 totals; DOD awards have increased by \$3.0 million over 1990-91 totals but have decreased by \$.4 million relative to 1989-90 totals).
- Award totals for several agencies have simply increased, indicating continued solid performance by faculty in obtaining support from these agencies (e.g., DOE awards increased \$2.4 million over 1990-91 and \$7.7 million over 1989-90; NSF awards increased \$3.9 million over 1990-91 totals and \$10.4 million over 1989-90 totals; USDA awards increased \$2.4 million over 1990-91 totals and \$2.8 million over 1989-90 totals).

### Examples of new or substantially increased awards

#### ● Agency for International Development:

One new award is the \$1.2 million grant, "Management training for Eastern Europe"; also there was a \$1.9 million increase in the "Gambia Agricultural Research and Diversification Project".

#### ● Department of Health and Human Services:

The Institute for Research on Poverty has received two new awards: \$2.5 million for "Education, Families and Welfare" and \$.6 million for "External Activities - Conferences, Workshops, Small Grants"; the Center for Health Sciences received \$.7 million for "Research in Lung Biology and Diseases in Infants and Children".

#### ● Department of Defense:

The College of Engineering has received \$2.9 million for "United States-Japan Industry and Technology Management Training"; the College also received \$.8 million for the Applied Superconductivity Center.

MAY 8, 1992  
GILTS, GRANTS AND CONTRACTS SUMMARY  
ITEMS PROCESSED 03 21 92 THROUGH 04 17 92

	EXTENSION	INSTRUCTION	LIBRARIES	MISC.	PHY.	PLANT	RESEARCH	STUDENT AID	UNRES.	TOTAL
SYSTEM ADMINISTRATION	0-	0-	0	0	0	0	0	0	0-	0-
CENTERS	0-	0-	0	1,625	0	0	0	424,617	0-	426,242
EAU CLAIRE	0-	0-	0	0	0	0	0	0	0-	0-
EXTENSION	1,588,896	0-	0-	150	0	0	0	0	0-	1,589,046
GREEN BAY	0-	0-	0-	9,530	29,685	29,150	7,268	0	0-	75,633
LA CROSSE	0-	0-	0-	0	0	0	0	0	0-	0
MADISON	(2,043,699)	218,583	5,830	2,984,863	13,859	30,136,648	743,916	0	0-	32,059,999
MILWAUKEE	0-	151,175	0	74,971	78,369	659,806	114,945	0	0-	1,079,266
OSHKOSH	105,157	258,852	0	0	0	4,000	0	0	0-	368,009
PARKSIDE	20,955	0	0	28,748	8,361	65,495	477,994	0	0-	601,553
PLATTEVILLE	30,748	507	0	2,584	0	0	0	0	0-	33,839
RIVER FALLS	0	0	0	0	0	0	0	0	0-	0
STEVENS POINT	21,340	3,163	11,494	11,684	0	100,302	177,130	0	0-	325,112
STOUT	201,605	6,324	0	5,000	0	761,212	0	0	0-	974,141
SUPERIOR	0	0	0	0	0	0	0	0	0-	0
WHITEWATER	15,994	2,000	0	0	0	0	4,000	0	0-	21,994
TOTAL MAY 1992	(59,004)	640,604	17,324	3,119,156	130,274	31,756,612	1,949,869	0	0-	37,554,835
PREVIOUSLY REPORTED	15,939,865	15,967,186	1,027,573	23,292,656	2,079,829	243,886,416	74,828,891	133,452	0-	377,155,868
GRAND TOTAL	15,880,861	16,607,790	1,044,897	26,411,812	2,210,103	275,643,028	76,778,760	133,452	0-	414,710,704
TOTAL MAY 1991	322,309	707,746	4,288	875,402	597,409	36,366,688	3,919,087	1,000	0-	42,793,929
PREVIOUSLY REPORTED	14,542,732	16,992,852	1,373,328	18,982,520	3,926,607	201,163,362	68,242,925	70,667	0-	325,294,994
GRAND TOTAL	14,865,041	17,700,598	1,377,616	19,857,922	4,524,016	237,530,050	72,162,012	71,667	0-	368,088,923
FEDERAL TOTAL MAY 1992	1,774,481	465,501	0	287,871	130,274	27,431,478	1,407,040	0	0-	31,496,645
PREVIOUSLY REPORTED	4,043,160	13,273,703	87,028	4,334,294	213,767	174,521,427	70,912,767	24,000	0-	267,410,146
FEDERAL GRAND TOTAL	5,817,641	13,739,204	87,028	4,622,165	344,041	201,952,905	72,319,807	24,000	0-	298,906,791
FEDERAL TOTAL MAY 1991	15,000	599,767	0	28,607	548,618	28,204,649	3,713,683	0	0-	33,110,323
PREVIOUSLY REPORTED	4,337,407	14,559,888	116,609	3,159,917	984,802	143,194,909	64,410,664	0	0-	230,764,196
FEDERAL GRAND TOTAL	4,352,407	15,159,655	116,609	3,188,524	1,533,420	171,399,558	68,124,347	0	0-	263,874,519

John C. Dunn Bequest

BUSINESS AND FINANCE COMMITTEE

Resolution:

That, upon the recommendation of the President of the University of Wisconsin System and the Chancellor of the University of Wisconsin-Madison, the bequest of the late John C. Dunn, of Washington, D. C. be accepted; and that the Trust Officer or Assistant Trust Officer be authorized to sign receipts and do all things necessary to effect the transfer for the benefit of the University of Wisconsin-Madison.

(In disposing of the residue of the estate, the Will provides:

Item II: I give all of my corporate securities, with the exception of my stock in Honeywell, Inc., to the University of Wisconsin in appreciation for the education I received there.

Item III: I give and devise the residue of my estate to my parents WILLIAM A. AND INEZ N. DUNN or all to the survivor. In the event that they shall both predecease me then I give my stock in Honeywell, Inc., to the University of Wisconsin.)

John Dunn received a B. A. in Comparative Literature in 1956 from UW-Madison. Approximately \$100,000.00 will be received from his estate.

May 8, 1992

Agenda Item 1.2.e.

**ASSET ALLOCATION RATIO**  
**UNIVERSITY OF WISCONSIN SYSTEM TRUST FUNDS - PRINCIPAL**  
**EXECUTIVE SUMMARY**

**BACKGROUND**

Each year the Business and Finance Committee examines the asset allocation ratio, i.e. the percentage of assets in stocks/bonds. The ratio is balanced between the need for endowment growth vs. the need to generate income.

**REQUESTED ACTION**

Consideration of a change to the asset allocation ratio or to the level of cash held by the investment managers.

**DISCUSSION AND RECOMMENDATIONS**

Historically, over the past ten years our asset allocation has tended to be conservative, overweighted in bonds. This overweighting jeopardizes the long-term growth of the endowment, for which growth is more likely with a stronger commitment to equities. The ratio became less conservative in the latter part of the ten year period as evidenced by the improved performance reported at the April 10, 1992 endowment update. The task for the committee is to weigh the concern for future growth vs. the need for spendable income.

cc: David M. Konshak

## ASSET ALLOCATION RATIO

Asset allocation is by definition the most important task in investment management. A historical perspective should be factored with current inflationary concerns and the need to provide real growth of assets. Diversification between the various asset classes and multiple managers each using a variety of styles, is a known means of reducing risk in a portfolio.

### BACKGROUND INFORMATION

#### Historical Ratios, ten year history:

7-1-82 Ratio at the discretion of the Balanced Fund Manager

7-12-84 40% Equities/60% Fixed

4-4-85 50% Equities/50% Fixed

4-10-86 55% Equities/45% Fixed

9-6-90 60% Equities/40% Fixed

\* Equities by statute, are limited to 75% of the total market value of the fund.

#### Historical Indices:

<u>Asset Group</u>	<u>1926-1991 Rate of Return</u>	<u>1982-1991 Rate of Return</u>
Equities	10.4%	17.6%
Intermediate Governments	5.4%	13.1%
Corporates	5.4%	16.3%
Long Term Governments	3.8%	15.6%
Inflation (Consumers Price Index for all urban consumers;CPI prior to January 1978)	3.1%	4.0%

#### UW System Endowment History:

	<u>1982-1991 Rate of Return</u>
Total Fund	12.3%
Equities	12.7%
Fixed Income	11.3%

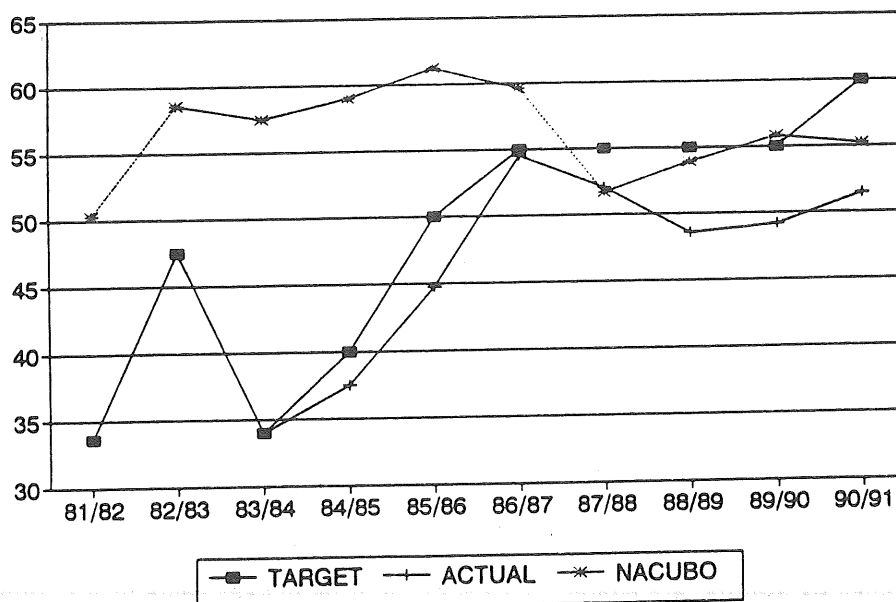
#### Equity Ratios - June 30, 1991:

- \* UW Target is 60% Equities, actual is 51.4% (Actual on 3-31-92 is 57.5%)
- \* NACUBO mean, \$100-399 grouping, equities is 55.2%
- \* Big 10 Median equities is 60%

Equity Asset Ratio, ten year history:

## EQUITY ASSET RATIO

JULY 1, 1981 THROUGH JUNE 30, 1991



\*First three years, ratio set by the balanced manager

### DISCUSSION

#### Need for Income:

With the adoption of the endowment spending plan, bonds are no longer needed in the portfolio to generate income, but rather are used as a means of diversification by asset class. Endowment earnings are now calculated by applying a prespecified rate, i.e. 5%, of a three year moving average of endowment market values. Thus, any income generated from the endowment in the form of dividends or interest, or realized gains can be used to meet the spending rate.

In our spending plan deliberations two years ago, we learned that the total return of the endowment is not generally affected by the spending plan but rather there is a movement between the components. Thus, capital appreciation will increase and income will decline, in a normal environment with the total return staying the same.

#### Investment Risk:

Investing for greater return does not always result in a greater realized investment return. Common stocks are more risky than bonds. The 1991 Ibbotson Associates analysis indicated that from 1926-1991 the stock market recorded losses in 20 of 66 or 30.3% of the annual periods. During the same period, bonds (corporate/intermediate term governments) produced negative returns in 12 years, or 18.1% of the annual periods. The losses in common stocks tended to be much greater. The largest one year loss in corporate bonds was -6.8% in 1956; intermediate governments -2.3% in 1931; and common stocks -43.4% in 1931. The greater variance and thus greater uncertainty with stock returns means that the future of the endowment is somewhat less predictable if it is invested in stocks rather than bonds.

### Common Stock Diversification:

Future uncertainty can be reduced through diversification of investments. A stock portfolio with investment concentrations tends to fluctuate more extensively than a broadly diversified stock portfolio, thus greater diversification among stock issues leads to more stable spending. So it follows that the broader the diversification, the more stable the funds market value over time. And, because spending is based on the market value of the endowment fund, it too reflects the greater stability. Likewise, diversification across a variety of managers will further add to the stability and reduce uncertainty.

### Effect on Income of Various Ratios:

Three year moving average - \$100,012,267

Income needed to meet the  
5% fraction amount \$ 5,000,000

March 31, 1992 Market Value \$122,143,851

<u>Equities/Fixed</u>	<u>Asset</u>	<u>Market Value</u>	<u>Yield</u>	<u>Est. Income</u>
55/45	Equities	\$ 67,179,118	2.2%	\$1,477,940
	Fixed	<u>\$ 54,964,733</u>	8.3%	<u>\$4,562,073</u>
		<u>\$122,143,851</u>		<u>\$6,040,013</u>
60/40	Equities	\$ 73,286,310	2.2%	\$1,612,298
	Fixed	<u>\$ 48,857,541</u>	8.3%	<u>\$4,055,175</u>
		<u>\$122,143,851</u>		<u>\$5,677,473</u>
65/35	Equities	\$ 79,393,503	2.2%	\$1,746,657
	Fixed	<u>\$ 42,750,348</u>	8.3%	<u>\$3,548,278</u>
		<u>\$122,143,851</u>		<u>\$5,294,935</u>

### The Decision:

Selecting an appropriate asset allocation ratio is a difficult decision. Increasing the proportion of stocks in the endowment portfolio increases the expected rate of endowment growth; on the other hand, as the expected rate of endowment growth increases so does the uncertainty in the future value of the endowment and the average year to year fluctuation on spending.

### Recommendations:

The current ratio which has 60% equities seems fairly consistent with the NACUBO mean for the \$100-399 group and the Big 10. Accordingly, the committee could:

- (a) Move the ratio to 65%\* equities/35% fixed to achieve a target of 60% equities, given the tendency of managers to maintain a cash position of 3-9%.
- (b) Direct the managers to be fully invested and thus attain the current equity target level of 60%\*.
- (c) Maintain current ratio of 60% equities/40% fixed with no constraints on managers' cash positions.

\* Plus or minus two percent operating latitude.



Segregated Fee for  
Intercollegiate Athletics at  
UW-Madison

BUSINESS AND FINANCE COMMITTEE

Resolution:

That, upon the recommendation of the President of the University of Wisconsin System and the Chancellor of the University of Wisconsin-Madison, the \$10 segregated fee per semester for intercollegiate athletics at UW-Madison be continued for the 1992-93 fiscal year and be utilized to provide support for non-income sports. Further that the fee be rescinded after the 1992-93 fiscal year unless specifically extended by the Board of Regents.

May 8, 1992

I.2.f.

## **SEGREGATED FEE FOR INTERCOLLEGIATE ATHLETICS AT UW-MADISON**

### **EXECUTIVE SUMMARY**

#### **BACKGROUND**

A February 1989 Legislative Audit Bureau audit report identified a deficit of approximately \$1,950,000 in the Department of Intercollegiate Athletics at the UW-Madison. At the April 1989 Board of Regents meeting UW-Madison presented a five-year plan for eliminating the deficit. An important component of that plan was the implementation of a \$10 segregated fee per semester for athletics. The Board of Regents approved the segregated fee request with the provision that the segregated fee would be rescinded in three years unless specifically extended at that time by the Board of Regents. The fee has been budgeted and expended only for salaries and scholarships for non-income sports.

It is estimated that the deficit at the end of the 1991-92 fiscal year will be \$1,640,000. As a result the UW-Madison chancellor is asking that the \$10 segregated fee per semester be continued for the 1992-93 fiscal year.

#### **REQUESTED ACTION**

That the \$10 segregated fee per semester for intercollegiate athletics at UW-Madison be continued for the 1992-93 fiscal year and be utilized to provide support for non-income sports. Further that the fee be rescinded after the 1992-93 fiscal year unless specifically extended by the Board of Regents.

#### **DISCUSSION**

The deficit reduction plan set forth in April of 1989 called for the deficit to be reduced to \$552,000 by the end of the 1991-92 fiscal year and eliminated in 1993-94. However, the deficit at the close of the 1991-92 fiscal year is projected to be \$1,640,000. The two main reasons that the deficit has not been further reduced are that an accounting error was identified during 1989-90 that resulted in a \$700,000 addition to the deficit and football attendance did not meet projections.

The Segregated University Fees Allocation Committee (SUFAC) has recommended to the Chancellor that the \$10 segregated fee not be continued. The Chancellor has notified SUFAC of her intent to recommend continuance of the fee for 1992-93.

In addition to the continuance of the segregated fee, the elimination of the deficit is dependent upon three revenue sources and two expenditure policies. The revenue sources are football attendance revenues, contributions, and media related contract revenues. The two expenditure policies are being dealt with by the Big Ten Council of Presidents. The first

deals with implementation of male/female sports expenditure equity. The second deals with the Council of Presidents directive to the Athletic Directors to develop four-year expenditure plans that represent, after inflation, fixed costs commitments (e.g., debt service) and equity costs, a reduction in budgets of 5 percent per year.

The 1992-93 budget approved by the Chancellor projects a reduction of the deficit by \$322,500. The Chancellor has committed to all revenues in excess of budgeted amounts and all expenditure savings will be used to further reduce the deficit.

The Appendices included in the attached material are:

- Appendix 1 Chancellor Shalala's letter to SUFAC stating that she will propose a continuation of the segregated fee of \$10 per semester for 1992-93.
- Appendix 2 A summary of the 1991-92 Athletic Department finances and the 1992-93 budget approved by the Athletic Board.
- Appendix 3 1989 Plan and Deficit Reduction Forecast
  - Review of the 1989 plan for eliminating the Athletic Department deficit;
  - Current projections and factors regarding the elimination of the Athletic Department deficit;
  - The role of the Office of Budget, Planning & Analysis in the Athletic Department budget.
  - Accounting for expenditure of the student segregated fee.
- Appendix 4 Minutes of the April 1989 Board of Regent discussion on the \$10 segregated fee per semester for intercollegiate athletics
- Appendix 5 Minutes of the April 1989 Business and Finance Committee discussion on the \$10 segregated fee per semester for intercollegiate athletics

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April 14, 1992

Joel Zwiefelhofer  
Segregated University Fees  
Allocation Committee  
420 North Lake Street  
Campus

Dear Mr. Zwiefelhofer:

Thank you for meeting with me on March 27, 1992 to discuss the recommendations of the Segregated University Fees Allocation Committee (SUFAC) for the 1992-93 fiscal year, which were further explained in your letter dated April 2, 1992.

First I want to extend my appreciation for the thorough and thoughtful work your committee has done. The increases in 1992-93 funding recommended are for programs and activities which I am pleased to support. Day care support, improved health education and mental health programs, the Rape Crisis Center, the Campus Assistance Center, improved bus service - these and the other activities and programs receiving increased funding are priorities which I share.

However, two of SUFAC's recommendations require specific comments.

Women's Transit Authority (WTA)

I am going to defer any decision on the SUFAC allocation to WTA until I have received the final suggestions of the committee on late night transportation along with the recommendations of Dean of Students Mary Rouse and University legal staff.

Division of Intercollegiate Athletics

My 1992-93 budget recommendation will include continuation of the \$10 per semester student fee for the Division of Intercollegiate Athletics.

This decision and the concern that I know you will have about it, warrant further comment and explanation.

The long-term financial health of the Division of Intercollegiate Athletics is dependent on four factors:

1. Revenue from the income sports - primarily football,
2. Contributions and gift funds,
3. Revenue from conference and NCAA media contracts,
4. Control of annual expenditures.

The future and status of the student fee is directly linked to these four considerations.

Office of the Chancellor

The estimated deficit at the end of fiscal year 1991-92 is \$1,640,000. That is far larger than I anticipated it would be when the student fee was initiated 3 years ago. Nearly half of it is due to the discovery of accounting errors after the fee was initiated. The declines in direct football revenues in 1989-90 and 1990-91 of some \$350,000 have compounded the problem. Only in 1991-92 did we return to the 1988-89 level of direct football revenues.

The 1992-93 budget which I will recommend to the Regents will reduce that deficit by at least \$320,000. Failure to continue the fees would increase the deficit by more than \$400,000. That is neither acceptable nor fiscally responsible.

My decision on the 1992-93 fee includes the following related actions and commitments.

1. I am approving a one-year extension of the fee and requesting the Regents approve only a one-year extension. While I do not anticipate that I will be able to approve a reduction in 1993-94, I want both WSA/SUFAC and the Regents to review and take action on the fee each year until it can be adjusted or eliminated.
2. The 1992-93 budget of the Athletic Department will not be exceeded. Every dollar of revenues in excess of those estimated which can be used to reduce the deficit will be used to reduce the deficit.
3. The Council of Presidents of the Big Ten have directed Directors of Athletics and Chief Financial Officers of each institution to establish concrete plans to hold budgets for intercollegiate athletics effectively constant over the next four years. I have asked Athletic Director Pat Richter and Associate Vice Chancellor John Torphy to establish such plans.
4. Athletic Director Pat Richter and I have asked Associate Vice Chancellor Torphy and University budget staff to take a more direct role in the development of the 1993-94 budget and in monitoring and reviewing expenditures in 1992-93.
5. When the deficit has been eliminated, I am willing to discuss a variety of options regarding the student fee, including but not limited to, the following:
  - a. Linking the continuation and amount of the fee to revenues from income sports,
  - b. Earmarking any student fee for specific purposes and projects which have the support of SUFAC and WSA,
  - c. Reduction of the fee to a specified base level,
  - d. Elimination of the fee.

Athletic Director Richter and I have two goals - eliminating the accumulated deficit and improving the quality of the program. The student fee

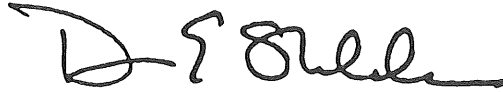
Joel Zwiefelhofer

April 14, 1992

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has been used to meet those goals. The 1992-93 budget including the student fee will address those goals. Deficit elimination and program excellence must be both balanced and met. Neither can or will be achieved at the expense of the other.

Sincerely,

A handwritten signature in dark ink, appearing to read "D. Shalala", with a long horizontal flourish extending to the right.

Donna E. Shalala

xc: Associate Vice Chancellor Torphy  
Athletic Director Richter  
Dean of Students Rouse  
Associate Dean of Students Howard  
Assistant Vice Chancellor Richner

University of Wisconsin-Madison  
 Division of Intercollegiate Athletics  
 1992-93 Annual Budget Request

4/24/92

	1991-92 Revised Budget	1991-92 Estimated Actual	1992-93 Budget Request
<b>REVENUE:</b>			
<b>DIRECT:</b>			
Football	4,333,159	4,110,151	4,465,500
Basketball-Men	1,003,266	1,053,266	1,072,300
Hockey	1,369,634	1,369,634	1,295,600
Varsity Sports-Men	71,305	71,305	50,000
Varsity Sports-Women	61,200	82,648	85,000
Clinics	573,463	614,647	675,000
Special Events	454,500	506,522	425,000
Golf Course	450,000	450,000	500,000
Subtotal	8,316,527	8,258,173	8,568,400
<b>INDIRECT:</b>			
Football	1,700,929	1,993,234	1,950,900
Basketball-Men	1,797,881	2,097,881	1,947,900
Hockey	53,500	55,000	63,500
Varsity Sports-Men	1,100	1,100	1,100
Varsity Sports-Women	6,000	15,000	6,000
Special Events-Concess	70,000	70,000	70,000
Miscellaneous	294,800	152,405	182,000
Marketing/Promotion	0		300,000
Subtotal	3,924,210	4,384,620	4,521,400
<b>TOTAL OPERATING REVENUE</b>	<b>12,240,737</b>	<b>12,642,793</b>	<b>13,089,800</b>
<b>OTHER REVENUE:</b>			
501 Appropriation	379,440	491,440	506,100
529 Student Fees	750,000	750,000	750,000
530 Parking Fees	481,900	481,900	481,900
533 Donations	3,000,000	2,250,000	2,395,900
597 McClain Ctr	0	0	
Subtotal	4,611,340	3,973,340	4,133,900
Investment Revenue	100,000	75,000	75,000
<b>TOTAL REVENUE</b>	<b>16,952,077</b>	<b>16,691,133</b>	<b>17,298,700</b>

University of Wisconsin-Madison  
Division of Intercollegiate Athletics  
1992-93 Annual Budget Request

Page 2

	1991-92 Revised Budget	1991-92 Estimated Actual	1992-93 Budget Request
EXPENDITURES:			
Salaries & Fringe Benefits	7,429,942	7,395,028	7,480,900
Travel--Team and Other	1,178,815	1,210,053	1,475,100
Recruiting	555,357	525,357	550,500
Grants in Aid	1,739,769	1,739,769	1,709,300
Supplies/Services	4,491,524	4,358,935	4,651,400
Interest Expense	319,900	319,900	384,900
Capital Expenditures	355,650	589,928	238,300
Maj R/M, Util, Taxes, Ins, Misc	417,365	251,390	485,800
Total Expenditures	16,488,322	16,390,360	16,976,200
Net Cash Infow (Deficit)	463,755	300,773	322,500



### 1989 Plan and Deficit Reduction Forecast

The 1989 plan and deficit reduction forecast presented to the Board of Regents anticipated that the deficit would be eliminated in 1993-94. It estimated that the 1991-92 deficit would be \$552,000. It assumed annual increases in football attendance, continuation of the student segregated fee for five years, and increased state funding of maintenance to 100%.

Since that time, a variety of factors and events have taken place which have delayed progress toward the elimination of the deficit. The two most significant have been:

1. An accounting error was identified during 1989-90 that resulted in a \$700,000 addition to the accumulated deficit.
2. Football attendance fell further in the fall of 1989 and did not increase between 1990 and 1991. The result has been that revenues from football attendance have been over \$400,000 behind those original estimates.

In addition to these two factors, other events have taken place.

- A new football coach and staff were hired.
- A new athletic director was hired.
- Increased spending for academic services and Title IX equity requirements have been approved, which was both appropriate and necessary.
- Five sports have been eliminated to support quality reinvestment designed to improve the remaining twenty sports and support services.
- State funding of maintenance projects was only increased to 80%.
- A parking fee increase for faculty and staff was established by the legislature.
- Media contract revenues have exceeded those original estimates.

The plan, as discussed by then-President Shaw, recognized the dynamic and changing nature of college athletic finances. His communications to the Regents indicated the uncertainty of any five year plan and projection.

In fact, the 1991-92 deficit of the Athletic Department is estimated to be \$1.6 million, or \$1.1 million higher than the 1989 forecast. As noted above, the decline in football revenues and the accounting error total \$1.1 million. It would be misleading to say that these two factors accounted for the change in the forecast. It would, however, be accurate to say that all the other factors, events and changes over the past three years - both positive and negative - have, in effect, cancelled each other out in terms of their fiscal effect.

### Deficit Elimination

The elimination of the Athletic Department deficit is dependent upon three revenue sources and two expenditure "policies." It is not possible to guarantee an elimination of the deficit by a particular year or date independent of assumptions about those items.

The revenue sources are football attendance revenues, contributions, and media related contract revenues. These three sources constitute approximately 50 percent of the budget of the Athletic Department. The former two have, for 1992-93, been projected realistically, we believe. The latter is projected based on existing contracts negotiated by the Big Ten Conference and NCAA. These contracts will continue for the next two years. However, the various contracts begin to come up for renewal in 1994-95 and thereafter. It is assumed, based on current information, that the revenues from media contracts will decline, at least in current dollars, when they are renegotiated.

The two expenditure policies are being dealt with by the Big Ten Council of Presidents in their upcoming meetings. The first deals with implementation of male/female sports expenditure equity, achieving no less than a 60-40 balance of expenditures during the next five years and a balance based upon enrollment within no more than 10 years. It is clear that the policy applies to participation, scholarships and expenditures relating to such items as recruiting. It has not yet been determined in detail as to all of the expenditure categories which will be included.

The second expenditure policy deals with the Council of Presidents' directive to the Athletic Directors to develop four-year expenditure plans which represent, after inflation, "fixed" cost commitments (e.g., debt service) and equity costs, a reduction in the budgets of Athletic Departments of 5 percent per year. These plans and their consequences and implications will be examined by Council members in their upcoming meetings.

With the above as preface, the following can be said about projections for eliminating the deficit.

1. The Athletic Board was provided two estimates of when the deficit would be eliminated, assuming no changes other than inflationary cost increases and changes in football attendance revenues. Assuming average game attendance of 54,500 in 1992 and increases of an average of 2,000 in each year through 1995-96 (60,500 in that year), the accumulated deficit could be eliminated in 1996-97.
2. If football attendance averaged 58,500 in 1992 and reached 60,500 per year thereafter, the accumulated deficit could be retired in 1994-95.

The 1992-93 budget which the Chancellor has approved projects a reduction of the deficit by \$322,500. As her letter indicates, any and all revenues which exceed the budgeted amount - and each and every expenditure savings - will be used to reduce the deficit. An average increase of 2000 attendees for football would add over \$100,000 in revenue, for example.

We believe that the projection of gradually increasing football revenues during the next several years combined with stable levels of expenditures and other revenues is realistic. We hope that we can and will do better.

#### Involvement of Office of Budget, Planning & Analysis (OBPA)

As the Chancellor's letter to SUFAC states, she has asked the Associate Vice Chancellor and the budget office to take a more direct role in the

development and management of the Athletic Department budget. This includes the following:

1. Working with the Athletic Director and the Department in implementation of the four-year plans requested by the Council of Presidents.
2. Establishing both a realistic and conservative revenue target and an annual expenditure target for the Department within which the Athletic Board and the Department will develop and establish their budget for each fiscal year.
3. Coordinating, with the Chancellor and the Athletic Director, activities of the Council of Presidents which address expenditure policy.
4. Ensuring, as noted previously, that all excess revenues and any expenditure savings are applied to a reduction of the deficit.

#### Accounting for Expenditures of Segregated Fees

A separate appropriation - Fund 529 - is established for the \$10 per semester student segregated fee for the Athletic Department. The revenue in this fund is budgeted and expended only for salaries and scholarships for the non-income sports.

When the fee was initiated, several other actions were taken to provide benefits to students from the Athletic Department. Students were provided free admission to 106 events involving 17 sports. Prices for football and men's basketball have been kept low. For example, football season tickets at \$35 are 63% below the general public cost and single games at \$8 are 60% below the general public cost. Basketball season tickets are 65% below the general public cost. Student representatives were added to the Athletic Board. No rental fees are charged to student organizations which use the McClain facility, Camp Randall or the Fieldhouse.

## FULL BOARD MINUTES 4/7/89

## REPORT OF THE BUSINESS AND FINANCE COMMITTEE

Regent Nicholas, Chair, presented the committee's report, stating that the first agenda item was reviewed at a portion of the meeting to which all regents were invited.

1. The following resolution was moved by Regent Nicholas and, for the purpose of discussion, seconded by Regent Fish:

That, upon recommendation of the President of the University of Wisconsin System, and the Chancellor of the University of Wisconsin-Madison, the Board endorses the general principles for resolving the financial problems and overall five-year plan of the Athletic Department. The plan shall reduce the base operating budget by \$800,000, implement a \$10 segregated fee per semester for athletics, seek a change in the Building Commission's policy to permit 100% state support of maintenance expenditures, and seek authority to convert debt on the McClain Center to bonded debt or loan through the state. Further, the Chancellor and President are directed to adhere to these concepts when presenting the 1989-90 budget. UW-Madison will report to the Board annually and to the President more frequently on its progress toward these objectives.

Regent Jarvis then moved and Regent Weinstein seconded a motion to add the following sentence to the above resolution: "Further, that the student fee section of this resolution shall be rescinded in three years unless specifically extended at that time by the Board." The motion was carried, with Regent Doughty Luckhardt voting "No" and Regent Hanson abstaining from the vote.

For clarification, it was suggested that "Board of Regents" be substituted for "Board" in the resolution, and on a roll call vote, the revised resolution was adopted as follows, with Regents Clusen, Davis, Delong, Fish, Gerrard, Gundersen, Jarvis, Lyon, Nicholas, Vattendahl and Weinstein voting "Aye" (11) and Regents Doughty Luckhardt, Flores, Hanson and Nikolay voting "No" (4):

Resolution 5182: That, upon recommendation of the President of the University of Wisconsin system and the Chancellor of the University of Wisconsin-Madison, the Board of Regents endorses the general principles for resolving the financial problems and overall five-year plan of the Athletic Department. The plan shall reduce the base operating budget by \$800,000, implement a \$10 segregated fee per semester for athletics, seek a change in the Building Commission's policy to permit 100% state support of maintenance expenditures, and seek authority to convert debt on the McClain Center to bonded debt or loan through the state. Further, the Chancellor and President are directed to adhere to these concepts when presenting the

1989-90 budget. UW-Madison will report to the Board of Regents annually and to the President more frequently on its progress toward these objectives. Further, that the student fee section of this resolution shall be rescinded in three years unless specifically extended at that time by the Board of Regents.

## BUSINESS AND FINANCE COMMITTEE MINUTES

4/6/89

### a. Review of LAB Audit on UW-Madison Athletics

President Shaw expressed three principles essential to the development of the UW-Madison Athletic budget: 1) the athletic program must be well run; 2) the program should be competitive; and 3) the program must be financially responsible. He made the following recommendations:

- the Board not request operating monies from the Governor and the Legislature,
- the Athletic Department budget be reviewed annually by the Board and more frequently by the President,
- the \$10 student fee be approved,
- the Board request the Building Commission change its policy to allow the state to provide 100% of most maintenance spending, and
- the debt on the McClain Center either be converted to state-bonded revenue debt or the state pay off the debt with the Athletic Department or contributors reimbursing the state.

Chancellor Shalala commented on the proposed five-year operating budget for the athletic department. She emphasized the management changes which have been imposed and UW-Madison's intent to implement the Legislative Audit Bureau's recommendations by the end of the fiscal year. The athletic department's budget problems will be a shared responsibility. Cuts of \$1.0 million have already been made and another \$1.0 million will be made over the next four years. Chancellor Shalala also indicated a long term fund raising plan will be introduced.

Athletic Director Sponberg and Interim Financial Officer Fish addressed the details of the budget plan. They discussed the causes of the deficit and outlined the cuts made to date. The committee was told the athletic department had taken the following actions: 1) cut the budget; 2) authorized \$200,000 in tuition remissions; 3) reduced student season football ticket prices; 4) froze top management salaries; 5) established a fund raising task force; and 6) begun a football promotion campaign. Regents expressed concern with the plan and asked what would happen if projected income did not materialize or if income exceeded the projections. There was considerable discussion.

Students representing the Wisconsin Student Association, the UW-Madison Segregated Fee Allocation Committee and United Council spoke against the \$10 student fee. Other students and the crew coach spoke in favor of the fee.

Regent jarvis moved and Regent Vattendahl seconded Resolution I.2.a. After discussion, an amended resolution was introduced by Regent Weinstein and seconded by Regent jarvis. The amendment was voted down. The original

resolution passed on an eight to six vote.

Resolution I.2.a.

That, upon recommendation of the President of the University of Wisconsin system and the Chancellor of the University of Wisconsin-Madison, the Board endorses the general principles for resolving the financial problems and overall five-year plan of the Athletic Department. The plan shall reduce the base operating budget by \$800,000, implement a \$10 segregated fee per semester for athletics, seek a change in the Building Commission's policy to permit 100% state support of maintenance expenditures, and seek authority to convert debt on the McClain Center to bonded debt or loan through the state. Further, the Chancellor and President are directed to adhere to these concepts when presenting the 1989-90 budget. UW-Madison will report to the Board annually and to the President more frequently on its progress toward these objectives.

After a ten minute recess, the Business and Finance Committee reconvened in Room 1511 Van Hise Hall at 3:45 p.m. Present were members Fish, Jarvis, Vattendahl and Chairman Nicholas.

ATHMI

## **Implementation of S&E Task Force Recommendations**

### **EXECUTIVE SUMMARY**

#### **BACKGROUND**

In July 1990, Regent President Lyon established a Task Force to examine the UW System's expenditures in the "Supplies and Expense" budget category, which includes all expenditures except those for personnel and permanent property. The Task Force was charged with examining the supplies and expense (S&E) needs of the System and with recommending potential efficiencies.

The final report of the Task Force, which included both management recommendations and recommendations with respect to specific S&E subcategories, was adopted by the Board of Regents at its February 1991 meeting. In accordance with the implementation schedule prepared by the Board of Regents' staff, initial implementation plans have been presented in two previous reports to the Board, one in May 1991 and a second in June 1991. This report describes the steps taken to implement each of the recommendations in the S&E Task Force report.

#### **REQUESTED ACTION**

For information only.

#### **DISCUSSION AND RECOMMENDATIONS**

The S&E Task Force report included four over-arching management recommendations. These recommendations included implementing a team approach to quality improvement, formulating long-range plans to redress the deficiency in S&E funding, reallocating base budgets and creating savings incentives. The four numbered recommendations actually contain 13 separate elements that are covered separately in the body of the report; the implementation status of each is shown in table format. Table 1 beginning on page 2 includes 13 numbered recommendation elements. The full text of the S&E Task Force's recommendations may be found in Appendix 1 beginning on page 11.

To begin implementing a team approach to quality improvement, System Administration has coordinated training designed to acquaint the Chancellors, Vice Chancellors and other key personnel with the precepts and methods of "Total Quality Management" (TQM). TQM is the most prevalent term used to designate the management approach recommended by the Task Force. In addition to its emphasis on a team approach to problem solving, TQM is characterized by its customer orientation and focus on continuous process improvement. System Administration has recently hired a TQM coordinator to assist the institutions and System Administration with implementing the management approach recommended by the Task Force. Each institution has established a person or group responsible for overseeing TQM implementation and has provided some training. Several institutions have selected focus areas and begun to apply the team approach.



The second and third management recommendations focus on determining the extent of the S&E deficiency, setting priorities and establishing long-range plans to fund the deficiency through a combination of new funding, base reallocations and cost efficiencies. The Quality Reinvestment Plan has been a key element in addressing this recommendation.

The fourth management recommendation includes, among its five lettered parts, two that deal with establishing incentives for cost-efficiencies. One of these is concerned with employee incentives and directs the establishment of an incentive award program; the other is concerned with institutional incentives and encourages the state to adopt a policy allowing the UW System to retain savings due to cost efficiencies. The 1991-93 biennial budget bill created a Quality Improvement Awards program to reward employees for cost-saving ideas; proposed program guidelines will be brought to the Board shortly after the TQM coordinator begins in June 1992. However, institutional incentives remain weak since state policies frequently do not permit the dollars saved in one area to be re-applied within the UW System to meet other priorities. This is most recently illustrated by the state's requirement that savings attributable to a state telephone rate reduction be lapsed to the state's general fund. In 1991-92 the UW System is required to lapse \$206,000 associated with this rate reduction; the amount for 1992-93 will be \$412,000.

In addition to the four management recommendations, the S&E Task Force made recommendations with respect to nine specific S&E subcategories. The nine subcategories included class and lab supplies, buildings and grounds maintenance, repair of data and word processing equipment, travel, postage and mailing, telephone/telecommunications, printing, software and professional services. Like the management recommendations, most of the subcategory recommendations include multiple parts. The implementation status of each is shown in Table 2 beginning on page 6, with recommendation elements numbered from 14 to 28.

In addition to the four management recommendations and the nine recommendations with respect to specific S&E subcategories, the S&E Task Force report included several additional mandates in the Implementation section of the report. These included appointing a TQM Advisory Council, identifying cost-savings and quality improvements on an ongoing basis and reporting to the Board of Regents on a regular basis on cost saving and quality improvement initiatives. The status and plans for each of these items is presented in Table 3 on page 10.

In its March 1992, discussion regarding recurring reports, the Board directed that a further update on implementation of the S&E recommendations be provided in May 1993, after which the report will sunset. However, the identification of cost-saving measures and quality improvements is clearly an ongoing management function which the UW System will continue to pursue vigorously.

## **RELATED REGENT POLICIES**

Regent resolution 5689 (February 8, 1991) adopted the S&E Task Force report, referencing the user team recommendation individually and all of the remaining recommendations as a group.

## **Implementation of S&E Task Force Recommendations**

### **EXECUTIVE SUMMARY**

#### **BACKGROUND**

In July 1990, Regent President Lyon established a Task Force to examine the UW System's expenditures in the "Supplies and Expense" budget category, which includes all expenditures except those for personnel and permanent property. The Task Force was charged with examining the supplies and expense (S&E) needs of the System and with recommending potential efficiencies.

The final report of the Task Force, which included both management recommendations and recommendations with respect to specific S&E subcategories, was adopted by the Board of Regents at its February 1991 meeting. In accordance with the implementation schedule prepared by the Board of Regents' staff, initial implementation plans have been presented in two previous reports to the Board, one in May 1991 and a second in June 1991. This report describes the steps taken to implement each of the recommendations in the S&E Task Force report.

#### **REQUESTED ACTION**

For information only.

#### **DISCUSSION AND RECOMMENDATIONS**

The S&E Task Force report included four over-arching management recommendations. These recommendations included implementing a team approach to quality improvement, formulating long-range plans to redress the deficiency in S&E funding, reallocating base budgets and creating savings incentives. The four numbered recommendations actually contain 13 separate elements that are covered separately in the body of the report; the implementation status of each is shown in table format. Table 1 beginning on page 2 includes 13 numbered recommendation elements. The full text of the S&E Task Force's recommendations may be found in Appendix 1 beginning on page 11.

To begin implementing a team approach to quality improvement, System Administration has coordinated training designed to acquaint the Chancellors, Vice Chancellors and other key personnel with the precepts and methods of "Total Quality Management" (TQM). TQM is the most prevalent term used to designate the management approach recommended by the Task Force. In addition to its emphasis on a team approach to problem solving, TQM is characterized by its customer orientation and focus on continuous process improvement. System Administration has recently hired a TQM coordinator to assist the institutions and System Administration with implementing the management approach recommended by the Task Force. Each institution has established a person or group responsible for overseeing TQM implementation and has provided some training. Several institutions have selected focus areas and begun to apply the team approach.

The second and third management recommendations focus on determining the extent of the S&E deficiency, setting priorities and establishing long-range plans to fund the deficiency through a combination of new funding, base reallocations and cost efficiencies. The Quality Reinvestment Plan has been a key element in addressing this recommendation.

The fourth management recommendation includes, among its five lettered parts, two that deal with establishing incentives for cost-efficiencies. One of these is concerned with employee incentives and directs the establishment of an incentive award program; the other is concerned with institutional incentives and encourages the state to adopt a policy allowing the UW System to retain savings due to cost efficiencies. The 1991-93 biennial budget bill created a Quality Improvement Awards program to reward employees for cost-saving ideas; proposed program guidelines will be brought to the Board shortly after the TQM coordinator begins in June 1992. However, institutional incentives remain weak since state policies frequently do not permit the dollars saved in one area to be re-applied within the UW System to meet other priorities. This is most recently illustrated by the state's requirement that savings attributable to a state telephone rate reduction be lapsed to the state's general fund. In 1991-92 the UW System is required to lapse \$206,000 associated with this rate reduction; the amount for 1992-93 will be \$412,000.

In addition to the four management recommendations, the S&E Task Force made recommendations with respect to nine specific S&E subcategories. The nine subcategories included class and lab supplies, buildings and grounds maintenance, repair of data and word processing equipment, travel, postage and mailing, telephone/telecommunications, printing, software and professional services. Like the management recommendations, most of the subcategory recommendations include multiple parts. The implementation status of each is shown in Table 2 beginning on page 6, with recommendation elements numbered from 14 to 28.

In addition to the four management recommendations and the nine recommendations with respect to specific S&E subcategories, the S&E Task Force report included several additional mandates in the Implementation section of the report. These included appointing a TQM Advisory Council, identifying cost-savings and quality improvements on an ongoing basis and reporting to the Board of Regents on a regular basis on cost saving and quality improvement initiatives. The status and plans for each of these items is presented in Table 3 on page 10.

In its March 1992, discussion regarding recurring reports, the Board directed that a further update on implementation of the S&E recommendations be provided in May 1993, after which the report will sunset. However, the identification of cost-saving measures and quality improvements is clearly an ongoing management function which the UW System will continue to pursue vigorously.

## **RELATED REGENT POLICIES**

Regent resolution 5689 (February 8, 1991) adopted the S&E Task Force report, referencing the user team recommendation individually and all of the remaining recommendations as a group.

## IMPLEMENTATION OF S & E RECOMMENDATIONS

### Introduction

In July 1990, Regent President Lyon established a Task Force to examine the UW System's expenditures in the "Supplies and Expense" budget category, which includes all expenditures except those for personnel and permanent property. The Task Force was charged with examining the supplies and expense (S&E) needs of the System and with recommending potential efficiencies.

The final report of the Task Force, dated January 23, 1991, included both management recommendations and recommendations with respect to specific S&E subcategories. The Board of Regents adopted the Task Force report at its February 1991 meeting and charged the Vice President of Business and Finance with implementing the recommendations of the Task Force. In accordance with the implementation schedule prepared by the Board of Regents' staff, initial implementation plans have been presented in two previous reports to the Board, one in May 1991 and a second in June 1991.

This report describes, in table format, the steps taken to implement each of the recommendations in the S&E Task Force report. The management recommendations are presented in Table 1 (beginning on page 2) and the recommendations with respect to specific S&E subcategories are presented in Table 2 (beginning on page 6). The Task Force's recommendations are abbreviated in Tables 1 and 2; the full text of the Task Force's recommendations may be found in Appendix 1 (beginning on page 11). In addition to its formal recommendations, the Implementation section of the Task Force's final report included several other implementation mandates. The status of these items is presented in Table 3 on page 10.

In its March 1992, discussion regarding recurring reports, the Board directed that a further update on implementation of the S&E recommendations be provided in May 1993, after which the report will sunset. However, the identification of cost-saving measures and quality improvements is clearly an ongoing management function which the UW System will continue to pursue vigorously.

### Management Recommendations

The management recommendations included in the Task Force report deal with implementing a team approach to quality improvement, formulating long-range plans to redress the deficiency in S&E funding, reallocating base budgets, and creating savings incentives. The four numbered recommendations actually contain 13 separate elements that, for clarity of presentation, are shown in separate sections in Table 1, with the horizontal sections numbered from 1 to 13.

S&E REPORT

TABLE 1 - MANAGEMENT RECOMMENDATIONS

Recommendation	Status
1. Recommendation 1: Establishment of Quality Teams	System Administration has coordinated Total Quality Management (TQM) training for the chancellors and other key personnel and has recently hired a TQM coordinator. Each institution has established a person or group responsible for overseeing TQM implementation and has provided some training. Several institutions have selected focus areas and begun to apply the team approach.
2. Recommendation 2: Allocate at least 40% of any new S&E funding in 91-93 to instruction-related S&E	55% of the new \$1.4 million for 91-92 was allocated to instruction-related activities. SA issued guidelines noting that 91-92 expenditures will be compared to 90-91 to measure compliance. A parallel procedure will be followed with respect to the new incremental funding for 1992-93.
3. Recommendation 2: Technical work to estimate S&E deficiency	As described in Appendix 2, four different methodologies were employed to estimate the extent of the S&E deficiency. The 1991-92 UW System GPR/Fee budget for S&E is \$7.4 million below that of the 1978-79 budget when adjusted for inflation and workload. This does not include one time S&E budget cuts of \$3.2 million in 1991-92; the 1992-93 budget includes \$7.3 million in one-time cuts affecting S&E.
4. Recommendation 2: Establishment at each UW institution of a long-range plan for S&E replacement and procurement	In accordance with guidelines issued by System Administration, each institution has prepared long-range S&E plans listing priorities and how they will be met. Lab and classroom supplies are a top priority along with computer supplies, supplies for maintenance of buildings and support for postage and printing. Institutions are addressing these needs through new S&E funds, Quality Reinvestment and internal department reallocations. Preliminary Quality Reinvestment plans indicate that \$1.5 million or 15% of the reallocations for 1992-93 will be for S&E.

## S&E REPORT

<p>5. Recommendation 2: Fund the S&amp;E deficiency through a combination of state resources, base reallocations &amp; further cost efficiencies</p>	<p>While budget requests will continue to press the case for additional funding to meet the S&amp;E deficiency, the Quality Reinvestment Plan is a clear recognition of the UW System's commitment to address its major priorities through base reallocations and cost efficiencies. However, as noted with respect to item 8 (recommendation 3c) below, state government does not always allow dollars saved through cost efficiencies to be retained by the UW System.</p>
<p>6. Recommendation 3a: Base budget analyses</p>	<p>The Quality Reinvestment Plan (QRP) addresses this recommendation. In addition, Academic Affairs has integrated this base budget analysis recommendation into the program review process including New Program Review, Five Year Review, General Education Review and Institutional Program Review. The 1991-92 annual budget presented to the Board of Regents included displays of major internal base reallocations within each institution and across institutions. The 1992-93 annual budget to be presented in July will report on shifts between activities and classes, both for QRP and other base reallocations and will include a narrative explanation of these reallocations and their relationship to the strategic planning for institutional and systemwide priorities.</p>
<p>7. Recommendation 3b: Budget requests should include alternatives, including but not limited to, base budget reallocations if state funds are not appropriated</p>	<p>The 1991-93 biennial budget included a commitment to base reallocate for all the top priority requests should new funding not be provided; this resulted in the Quality Reinvestment Plan to reallocate \$26.5 million from 1992-95. In previous biennia, base reallocations have typically ranged from \$6.5 to \$11.1 million. In addition, reallocations are made in each annual budget to meet emerging priorities; these reallocations totalled \$2.6 million in 1991-92. As noted above, future annual and biennial budget documents will clearly display base reallocations. It is important to recognize that required lapses of approved budget amounts overstate the UW System's budget and force additional reallocations. Such lapses totalled \$10.8 million in 1991-92. In addition, institutions will have to reallocate approximately \$1.2 million beginning with 1992-93 to cover the unfunded .25% pay plan.</p>

## S&E REPORT

<p>8. Recommendation 3c: S&amp;E savings that result from "external reasons" should be reallocated to fund highest priority needs</p>	<p>The recommendation refers to savings resulting from reasons such as rate reductions for telephones or airfare. In 1991-92 the state is requiring a lapse of \$206,000 back to the state's general fund due to a state telephone rate reduction; the lapse amount for 1992-93 will be \$412,000. This illustrates that dollars saved in one area cannot always be re-applied within the UW System to meet other priorities. Where allowed, institutions do reallocate savings to higher priority areas as part of their internal budget process.</p>
<p>9. Recommendation 4a: Establish incentive award program</p>	<p>The Quality Improvement Awards program was created by the 1991-93 biennial budget act. As part of the legislation, the Board is to appoint a council to nominate recipients for the awards. A draft resolution has been prepared along with proposed guidelines, policies and procedures. These will be brought to the Board after the TQM coordinator begins in June, 1992, along with a process and timetable for 1992-93 awards.</p>
<p>10. Recommendation 4b: DOA should continue to examine and revise procurement practices, particularly with respect to delegation thresholds</p>	<p>This recommendation was addressed to DOA. The UW System is continually attempting to improve state purchasing practices. Within the past year a TQM team has been formed to identify ways to improve purchasing procedures and make recommendations to DOA.</p>
<p>11. Recommendation 4c: Increase efforts to obtain gift funding for S&amp;E needs</p>	<p>The UW System President has stressed to the chancellors the need to increase extramural support and a workshop on this topic is being planned for fall of 1992. In general, S&amp;E funding can be most successfully obtained indirectly in connection with campaigns to raise funding for specific program and activity priorities. At UW-Madison, gift, grant and endowment funded S&amp;E expenditures have increased by \$7 million (35%) over the past three years; this was 40% more rapidly than the all-funds increase and over 200% more rapidly than the GPO funded increase in S&amp;E expenditures. While the increase is largely attributable to increased non-federal research, the "classroom, lab, medical and recreational supplies" cost category - the category most directly linked to instruction - increased by nearly \$700,000 (17.5%).</p>

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12. Recommendation 4d: Improve dissemination of information on procurement practices	As noted, recommendation 4b (element 10) a TQM project is underway to identify process improvements. At present, UW System purchasing directors receive a monthly newsletter along with the minutes of the monthly meeting of the State Procurement Council, a group that meets monthly to discuss problems, solutions and proposed changes to the state procurement manual. UW System purchasing directors meet twice yearly for the same purpose and DOA participates in these meetings. The institutions use a variety of methods to disseminate purchasing information to ends users including procedure manuals, catalogs, in-service conferences for new employees and individualized in-service for new departmental secretaries. In addition, institutional personnel attend training courses developed by DOA and the State Procurement Council. It is expected that greater usage will be made of electronic communication once network interfaces are improved.
13. Recommendation 4e: State government policy should allow UW to retain savings due to cost efficiencies	As noted with respect to recommendation 3c (element 8) above, the required lapses associated with telephone rate reductions illustrate that dollars saved in one area cannot always be re-applied to other priorities.

### Recommendations with respect to specific Supplies and Expense subcategories

The Task Force report made recommendations with respect to nine specific S&E subcategories; most of these recommendations contained multiple parts. The nine subcategories included class and lab supplies, buildings and grounds maintenance, repair of data and word processing equipment, travel, postage and mailing, telephone/telecommunications, printing, software and professional. The implementation status of each of these recommendations is summarized in Table 2 beginning on the following page. As with the management recommendations, a separate row is devoted to each element of the recommendations. The element numbering resumes with 14 and continues through 28.



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**TABLE 2 - RECOMMENDATIONS ON S&E SUBCATEGORIES**

<u>Recommendation</u>	<u>Status</u>
14. Recommendation 1: Submit a 1991-93 budget DIN that details priorities and that states that 40% of any new S&E funds will be spent on instruction-related S&E	The 1991-93 biennial budget request for S&E incorporated this recommendation. See element number 2 in Table 1.
15. Recommendation 2: Pilot projects using external contractors for buildings and grounds	The Board received a report in June 1991 on the plan to implement this recommendation. A separate report on the implementation of this recommendation is scheduled for the July, 1992, Regent meeting.
16. Recommendation 3: Study in-house versus purchased computer maintenance	This study will be undertaken and completed in 1992-93. Most maintenance of mini and mainframe computers is already done under contract with outside vendors. One maintenance contract awarded through competitive bid in the spring of 1991 saved the UW System \$250,000 in the first year. Microcomputers are maintained primarily by campus personnel with some network support obtained from local contractors. It should be noted that, over the last two biennia, the state has consistently denied funds requested for in-house maintenance of computing equipment obtained through the Laboratory Modernization and General Computer Access programs.
17. Recommendation 4a: Study on travel trends and needs	A study was done to compare the average trip expenditures for UW employees (for airfare, nightly lodging and per-day car rental) to published averages for private sector employees; the UW averages were lower in all categories. The preliminary implementation plan presented to the Board in June 1991 stated that the institutions would be surveyed to determine how travel costs are budgeted at the departmental level and how they are prioritized in comparison with competing S&E needs. This survey will be done in 1992-93.

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<p>18. Recommendation 4b: Candidate travel</p>	<p>Several airlines have announced that various special discount programs may be discontinued as a result of the recent reductions in airfares. At present, negotiated rate discounts include:</p> <ol style="list-style-type: none"> <li>1) A "candidate/consultant" fare with USAir that is 20% off full coach fare and 5% off the lowest discount fare.</li> <li>2) Discounts with a number of airlines on fares for UW-sponsored meetings where ten people are traveling to the same destination. Discounts average 45% off full coach fare and 5% off the lowest discount fare.</li> <li>3) Lodging discounts at four Madison hotels averaging 32% off the corporate rate.</li> <li>4) Other lodging and car rental discounts negotiated in conjunction with Big Ten institutions.</li> </ol> <p>The System Administration Travel Office disseminates information through a quarterly newsletter published by the UW System Controller's Office and works directly with designated travel coordinators at each institution to reduce travel costs.</p>
<p>19. Recommendation 4c: Strengthen policies to obtain the lowest possible airfares</p>	<p>The UW System travel regulations were changed in July 1991 to require more than one quote on airfares over \$500. In addition, based upon discussion with travel agents, the Travel Office has recently published detailed procedures to follow in making airfare reservations to obtain the lowest possible fare.</p>
<p>20. Recommendation 4d: Make systematic and flexible use of frequent flyer discounts and attempt to negotiate with airlines a cash discount in place of the frequent flyer coupons</p>	<p>The UW System's travel regulations state that "benefits from any airline promotion program such as free tickets for frequent fliers, merchandise or credit vouchers from bumping belong to the State of Wisconsin and must be turned over to the institution business officer." Because of the number of airlines, travellers and travel agencies involved, and the fact that travellers frequently book their own travel, it is difficult to establish a monitoring system that would not cost more than the benefits to be obtained. However, System Administration will continue to investigate airlines options for establishing a cost effective means of monitoring compliance with this policy.</p>

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<p>21. Recommendation 4e: Expand the use of the travel charge card to minimize the need for travel advances</p>	<p>Distribution of the American Express Corporate Card has expanded annually (with 11,573 currently outstanding) and the majority of UW System institutions have reduced or eliminated travel advances. System Administration, for example, does not allow advances to employees who have been issued the corporate card. Revised wording in the UW System travel regulations emphasizes use of the card and places responsibility for determining eligibility for travel advances with the institution business office. The State of Wisconsin recently signed a corporate card agreement and is considering a policy that would prohibit issuance of a travel advance to an employee who has the corporate card. However, certain collective bargaining contracts provide that advances "shall" be granted to represented employees. Based on policies adopted by the state, the UW System will revise its internal policies to further emphasize the use a travel card.</p>
<p>22. Recommendation 5a: Reduce postage by: 1) consolidating mailings; 2) consolidating meters; 3) computer-generating mail in sorted order; 4) improving electronic mail interfaces.</p>	<p>1) Each institution will be encouraged to focus on the consolidation of mailings as an early TQM project. 2) DOA has assumed statewide responsibility for assessing the feasibility of consolidating postage meters. All annual lease renewals for meter "heads" must be approved by DOA. As a result of this process, UW-Extension and the UW-Madison registrars' office are now using the DOA mailing service. 3) UW-Extension has acquired computer software and hardware to generate mass mailings in sorted order; this service is also being used by UW-Madison and System Administration. 4) Improving electronic interfaces among the UW System institutions will be addressed in System Administration's strategic Information Technology plan that is scheduled for completion in June, 1992.</p>
<p>23. Recommendation 5b: DOA to examine the feasibility of using a courier to pick up mail from agencies and UW institutions outside Madison and bringing it back for sorting at DOA</p>	<p>DOA has not examined the feasibility of using a courier to pick up mail from state agencies outside Madison for sorting and mailing from DOA; they do not intend to do so for the foreseeable future, at least until they begin to service more of the Madison market.</p>

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<p>24. Recommendation 6a: Institutions should continue to enforce DER regulations that employees not make personal long-distance calls at state expense.</p>	<p>In addition to informing new employees on the policy regarding the use of telephones and publishing periodic reminders, departments are typically provided with phone bills, detailing all long distance calls, which they are responsible for auditing.</p>
<p>25. Recommendation 6b: Use telecommunications to reduce costs</p>	<p>All institutions are making increasing use of electronic mail, teleconferencing and electronic access, transmission and storage of documents. System Administration is participating as a pilot agency in the state's strategic planning project for information technology; the strategic planning process will be extended to all remaining state agencies and UW System institutions over the next several years. This process will help ensure that the use of information technology is implemented in a carefully planned manner to support the business plan of the organization in a cost-effective manner.</p>
<p>26. Recommendation 7a and 7b: Printing: avoid unnecessary printing costs and establish user teams to study ways to reduce printing costs</p>	<p>Institutions have reported a number of recent initiatives to reduce printing costs including reducing the number of publications, publishing some items less frequently, doing more in-house publication, updating mailing lists so that fewer copies are printed, providing mainframe printing services on a high-volume/low-cost basis to PC users, using newsletters to replace single-subject memoranda, doing more double-sided printing, etc. Each institution will be encouraged to focus on printing as an early TQM project and to share results on a systemwide basis.</p>
<p>27. Recommendation 8: Reduce software costs by negotiation of site licenses, use of networking, consolidating computer utilities, etc.</p>	<p>A committee was appointed in mid-December to begin implementing this recommendation. Based upon a recently completed survey of computer center directors, each element of the recommendation is already used to a significant extent to contain software costs. The committee will continue to work with the computer center directors to explore ways to contain software costs.</p>
<p>28. Recommendation 9: Examine the use of purchased professional services</p>	<p>To date no action has been taken on this recommendation. Implementation will occur in 1992-93.</p>

## S&E REPORT

### Other Implementation Mandates

In addition to the four management recommendations and the nine recommendations with respect to specific S&E subcategories, the S&E Task Force report included several additional mandates in the Implementation section of the report. The status of these items is described in table format below.

TABLE 3 - OTHER IMPLEMENTATION MANDATES	
29. Establish an Advisory Council of businesses that have successfully established employee empowerment programs	An Advisory Council will be appointed within the next several months after the UW System TQM coordinator has begun work.
30. Identify S&E cost-savings & quality improvements on an ongoing basis	The Board recently voted to sunset the S&E implementation report after July 1993. The 1993 report will discuss the methods established to ensure that cost-savings are identified on an ongoing basis. These include TQM, the Quality Improvement Awards program and QRP.
31. Report on a regular basis to the UW System President and the Board of Regents regarding the progress of implementation and further cost-saving and quality improvement initiatives	Although the S&E report itself will sunset after July 1993, SA and the institutions will make periodic presentations to the Board on specific cost-savings and quality improvement measures. As noted above, it is expected that TQM, the Quality Improvement Awards program and QRP will be among the primary methods for ensuring that cost-savings and quality improvements are identified on an ongoing basis.

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## Appendix 1

### Full Text of S&E Task Force Recommendations

The S&E Task Force report included four management recommendations and nine recommendations with respect to specific S&E subcategories. The text of each of these recommendations is reproduced below with references to the page on which the recommendation appears in the Task Force's final report.

#### Management Recommendations

##### Recommendation 1, page 3

The formation of a management philosophy that supports the establishment of user teams at each UW institution to identify and institute improvements in specified areas. Teams would be comprised of managers and working level UW employees, and to the extent possible, employees from other state agencies. Appropriate training in analytic techniques and data-based decision-making will be provided to user team members. To reduce disincentives, appropriate units should be allowed to retain part or all of the savings generated through their initiatives.

##### Recommendation 2, page 3

To begin addressing immediately the deficiency in S&E expenditures on class and lab supplies, that at least 40 percent of any new S&E funding in the 1991-93 biennium be spent on instruction-related supplies and services.

That the university develop a long-range plan for redressing the current S&E deficiency in all categories and not creating a further deficiency by, among other measures: (1) undertaking further technical work to estimate the deficiency; (2) establishing at each UW institution long-range plans, that would be updated regularly, for S&E replacement and procurement needs consistent with long-range program goals; and (3) once an acceptable methodology to measure the deficiency is derived, developing a plan to fund the deficit through a combination of state resources, UW base budget reallocations, and further cost efficiencies.

##### Recommendation 3, page 4

(a) that UW institutions undertake base budget analyses in all areas, including S&E, on a regular cycle developed by System Administration and approved by the Board of Regents and integrated into program reviews to the extent possible. The results of base budget analysis reports will be transmitted to the Board of Regents. Base budget analysis will assist in providing more comprehensive information for budget

## S&E Report

requests and priority-setting;

(b) that the University include in any budget request alternatives, including but not limited to, base budget reallocations if state funds are not appropriated for that request; and,

(c) when significant savings in an S&E area occur for external reasons (e.g., rate reductions for telephones or airfare), that UW institutions and System Administration examine and seek to reallocate those savings to institutions and units in a way to fund highest priority needs.

### Recommendation 4, pages 4 and 5

(a) that the UW Board of Regents and senior management at UW and DOA accord importance and visibility to efforts to improve quality and efficiency. In this regard the Task Force recommend the establishment of a recognition and reward system, including monetary Incentive Awards to be awarded by the Board of Regents to UW employees that identify initiatives with significant measurable results to improve quality and efficiency;

(b) that the Department of Administration continue to examine and seek ways to revise state-wide procurement practices, particularly with respect to threshold levels for delegated purchasing and the Gubernatorial approval process. Such revisions would increase productivity by reducing administrative processing time, while maintaining proper integrity and good business practice in state procurement;

(c) because it will be difficult for the state to fund fully all the needs of the university, all UW institutions should increase efforts to seek donations from the private sector that could be used directly or indirectly for S&E needs. Private gifts donated for other purposes may free up budgeted funds that can be applied to S&E needs;

(d) to ensure that individuals responsible for any type of purchasing at UW institutions are aware of all procurement practices, improve dissemination of information among and within UW institutions regarding practices and procurement options; and,

(e) to allow UW institutions to make the most cost-effective choice in performing university activities, that state government policy should allow UW to retain the savings due to cost efficiencies.

### Recommendations with respect to specific Supplies and Expense subcategories

#### 1. Class and Lab Supplies (page 5)

the submission of a single budget DIN for the 91-93 biennium for Supplies and

## S&E Report

Expense other than postage that: (a) details the university priorities for S&E expenditures, with class and lab supplies as the first priority; and (b) specifies that at least 40 percent of the appropriation in this DIN will be spent on instruction-related supplies and services, including classroom and instructional laboratory supplies, the top university S&E priority. S&E funds in this DIN for class and lab supplies are intended to supplement and not displace current UW institution expenditures on class and lab supplies.

### 2. Building and Grounds Maintenance (pages 5-6)

[that] all UW institutions seek to maximize productivity of UW employees in building and grounds maintenance and that pilot projects using external maintenance contractors be considered in situations where it is more cost-effective to do so. In making the determination of cost-effectiveness, all cost factors, including social costs and quality, should be considered.

### 3. Repair of Data and Word Processing Equipment (page 6)

that UW undertake a detailed study examining the feasibility, quality, and cost-effectiveness of in-house computer repair capability versus external contracting for mini, micro, and mainframe computers. The study would not be transmitted to the Board of Regents, but could be the basis for determining whether additional personnel slots should be allocated to in-house computer repair.

### 4. Travel (pages 6-7)

(a) given the growth of travel expenditures in the past four years at the UW System, that the UW System undertake a study to examine the travel trends and needs of the university in the context of competing S&E needs, including the possibility of reallocating travel funds to higher priority S&E needs;

(b) that UW institutions seek ways to save money on candidate travel, such as negotiating discounts with local hotels, helping to arrange candidate airfare to take advantage of the lowest possible rate, etc.; and that as a mechanism to facilitate actions in the area, UW institutions share information on the practices they have instituted in this area;

(c) that UW institutions strengthen current policies to obtain the lowest possible airfares by: requiring employees to engage in "competitive shopping" for airfares over \$500 by contacting more than one travel agent, and further encouraging the use of discount opportunities and fares;

(d) that the UW System make systematic and flexible use of "frequent flyer" discounts and attempt to negotiate with airlines a cash discount in place of the frequent flyer coupons; and



## S&E Report

(e) that the UW System expand the use of the Travel charge card, thereby minimizing the need for travel advances.

### 5. Postage and mailing (page 7)

(a) that UW: (1) examine ways to consolidate and thereby reduce mailings, wherever possible; (2) seek to consolidate existing postage meters, particularly at large institutions; (3) examine the feasibility and cost-effectiveness of software programs that computer-generate mail in sorted order and thereby reduce sorting costs; and (4) improve electronic mail interfaces among UW institutions and between UW and other universities and encourage employees to utilize them more to substitute for mail; and,

(b) that, in light of its expected expansion of mail-sorting services, DOA examine the feasibility, including the timeliness, of developing a state-wide courier service to pick up mail from state agencies, including UW institutions, outside of Madison and bring it back to Madison for sorting at DOA.

### 6. Telephone/Telecommunications (page 7)

(a) UW institutions continue to enforce DER regulations that employees not make personal long-distance phone calls at state expense; and,

(b) UW institutions seek to substitute telecommunications for other modes of operation when it is cost-effective to do so, and in particular seek to substitute teleconferences for travel, electronic mail for mail, and electronic storage and on-line access(e.g., electronic "bulletin boards") for printing and distribution of lengthy documents.

### 7. Printing (page 8)

(a) all UW institutions seek to avoid printing unnecessary extra copies of material, by for example, maintaining updated mailing lists and seeking help in this area, if necessary from the private sector; and,

(b) printing, including ways to minimize emergency printing requests, be a subject for examination by user teams at the institutional level.

### 8. Software (page 8)

the negotiation of site licenses, use of networking, consolidating computer utilities, standardizing and pooling software purchases, matching software purchases to the needs of the user and avoiding purchases of overly sophisticated software packages, and considering the use of generic software packages for administrative uses.

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### 9. Professional Services (page 8)

the university examine more closely its use of professional services, particularly with respect to whether competitive bidding procedures are being utilized to the maximum extent and whether it is more cost-effective in certain areas to utilize in-house personnel rather than contracting for professional services.

### Technical Work to Estimate the Supplies & Expense Deficiency

In order to estimate the Supplies and Expense (S&E) deficiency at UW System, a number of methodologies have been examined:

1. Comparison of present budget with 1978-79 Budget adjusted for inflation
2. Comparison with peer institutions
3. Comparison with other state agencies including VTAE
4. Analysis of S&E funding required v. actual for various UW activities

#### 1. Comparison of Present Budget with 1978-79 Budget adjusted for inflation

As shown by the computations below, the 1991-92 UW System GPR/Fee budget for S&E is \$7.4 million behind the 1978-79 budget level when adjusted for inflation and increased enrollments.

#### Supplies and Expense Need to Meet Increased Enrollment

A.	1990-91 Supplies and Expense (S&E) Budget Requirements Needed to Reach 1978-79 Support Level:	
	1978-79 S&E Budget CPI-Inflation Rate, 87.4% (July 1979 to July 1991)	\$31,317,400 <u>x 1.874</u> \$58,688,800
	Workload Increase Factor, 5.3% (Enrollment change from 125,040 in Fall 1978 to Fall 1992 target of 128,412)	<u>x 1.027</u> \$60,273,400
	S&E Chargebacks to Auxiliaries	<u>-1,700,000</u>
	1990-91 S&E Budget Requirements Need to Reach 1978-79 Support Level:	58,573,400
B.	1991-92 Estimated Inflation Rate (3.54%)	+ 2,073,500
C.	1992-93 Estimated Inflation Rate (3.54%)	<u>+ 2,146,900</u>
D.	1992-93 S&E Budget Requirements Need to Reach 1978-79 Support Level:	62,793,800
E.	Total S&E Funding Available, 1991-92 (Including Internal Reallocations to S&E)	<u>-55,417,000</u>
F.	Total Annual Base Adjustment Needed to Restore S&E Line	\$ 7,376,800

## S&E Report

The \$7.4 million shortfall does not include one-time S&E budget cuts of \$3.2 million in 1991-92. For 1992-93, the budget bill sent to the Governor includes \$1.0 million in new base funds (\$1.4 million less a \$412,000 mandatory lapse) and \$7.3 million in one-time cuts affecting S&E.

### 2. Comparison with Peer Institutions

Analysis by the Working Group of the S&E Task Force found problems in comparing supplies and expenses funding levels with peer institutions because of differences in definitions of expenditure categories such as supplies and capital, and differences in funding source definitions.

However, data compiled by UW-Madison in cooperation with its peer institutions suggests that UW-Madison is substantially underfunded for supplies and expenses.

### 3. Comparison with Other State agencies including VTAE

Analysis by the Working Group of the Supplies and Expense Task force found other state agencies, and to a lesser extent VTAE are difficult to compare to the University of Wisconsin because of vastly different missions.

### 4. Analysis of S&E funding required v. actual for various UW activities

The area of instructional supplies is crucial to UW System institutions in meeting their instructional mission. Costs of instructional supplies have increased dramatically over the past decade with the spread of computers, more sophisticated laboratory equipment, and electronic databases. UW System institutions have seen dramatic cost increases due to the need to purchase computer software for computers and supplies needed to support a variety of modern laboratory and classroom equipment. In addition, major S&E costs are also incurred to repair this very expensive equipment.

Two of the major funding sources of instructional equipment for UW System institutions are the Laboratory Modernization and General Computer Access programs. The Laboratory Modernization program has allowed institutions to place modern equipment in 618 labs from 1985-86 to 1990-91. However, the unmet need for supplies and expenses to support this new equipment is \$1.5 million annually (based on an estimated annual need of 5% of one-time equipment costs).

Similarly, with the computer workstations added through the General Computer Access program, UW System institutions have approximately 3500 general access workstations. A committee of UW System computer directors estimated annual needs of \$1,100 in supplies and expenses per workstation, resulting in increased needs of \$3.9 million annually for supplies and expenses that did not exist a decade ago.

## S&E Report

Another major area of increased supplies and expense needs is due to increased building space in UW System institutions. The total gross square footage in UW System buildings has increased by 2.5 million over the last decade. An additional 1.2 million square footage will be added by the end of the 1991-93 biennium. Based on 1989-90 supplies and expenses support of building space, UW System institutions have increased needs of approximately \$2.0 million for supplies and expenses that did not exist a decade ago.

May 8, 1992

I.2.h.

## **Follow-up Report on Licensing Policy**

### **Background**

In May 1991 the Board of Regents adopted a UW System Policy on Collegiate Licensing (resolution attached). This policy was recommended by the Regent Committee on Licensing, based on its study of the issue. The policy supports the establishment of a collegiate licensing program at any UW institution, subject to the guidelines articulated in the policy. The guidelines define acceptable policies and practices in the areas of exemptions, use of revenue, administration of the program, registration of marks, design standards and use guidelines, and technical assistance. Upon adoption of the policy the Board of Regents requested a follow-up report one year later to indicate changes, if any, in the status of collegiate licensing programs at all UW institutions.

### **Requested Action**

None

### **Discussion**

The UW-Madison trademark case before the federal Trademark Trial and Appeal Board is still in the midst of depositions and discovery being conducted by Special Counsel and the Attorney General's Office. A successful completion of the litigation is expected sometime late in the summer of 1992. This case involves the consolidated oppositions filed against UW System attempts to register as trademark certain logos and names. UW-Madison is currently seeking an amendment to the Special Counsel Contract for Dow, Lohnes & Albertson for an additional \$75,000. This would bring the total authorization to \$145,000.

Other than at UW-Madison, the volume does not warrant going to a licensing agent. Non-exclusive license agreements are granted by the institutions to vendors at the following institutions:

1. UW-River Falls
2. UW-Green Bay
3. UW-Stout
4. UW-La Crosse
5. UW-Milwaukee
6. UW-Oshkosh
7. UW-Platteville

The UW-System has obtained state trademark registration on several logos which are used on gift items but are not sold through stores.

The only continuing problems involve the oppositions to the trademarks being sought by UW-Madison.

**BUSINESS AND FINANCE COMMITTEE**

**Resolution:**

**That the Board of Regents adopts the following policy with respect to collegiate licensing at UW institutions:**

**UW POLICY ON COLLEGIATE LICENSING**

**General**

The Board of Regents recognizes the merits of collegiate licensing programs. In particular, licensing programs serve to: (1) generate funds to support student services, athletics, or other programs; (2) promote the positive image and identification of an institution; and (3) protect an institution's reputation, good name and image by permitting only appropriate uses and assuring that only quality products bear the institution's name and symbols. For these reasons, the Board of Regents supports the establishment of a collegiate licensing program at any UW institution, subject to the following guidelines. It is at the discretion of each UW institution to determine whether the establishment of a collegiate licensing program serves its interests.

**Guidelines**

To ensure that licensing programs are consistent with other UW policies and objectives, collegiate licensing programs at any UW institution should adhere to the following guidelines:

**1. Exemptions**

a. Retailer exemptions: As a general policy, UW institutions shall not exempt sales of licensed goods to some retailers from licensing fees and/or royalties, while charging fees and/or royalties on sales of goods to all other retailers. Exemptions for only certain retailers provide differential treatment and a competitive advantage to one set of retailers. Such policies are inconsistent with the UW Policy on Competition with the Private Sector. A UW institution shall charge licensing fees on sales to a bookstore it owns, operates or leases if the institution is charging licensing fees on sales to any outside vendors for the same items.

An example of a prohibited retailer exemption is a "geographic" exemption which exempts from fees and/or royalties sales to private sector vendors within a specified geographic area, such as the area bordering the institution's campus.

b. Consumer exemptions: Except as stated in d. below, UW institutions shall not exempt sales to some types of consumers from licensing fees and/or royalties, while charging fees and/or royalties on sales to all other consumers.

c. Product exemptions: UW institutions may exempt selected products from licensing fees and/or royalties. Examples of products that may be appropriate for exemptions include selected school supplies, which are bought primarily by students, and craft items produced by local individuals or shops.

d. Internal consumption exemption: UW institutions may exempt from licensing fees and/or royalties purchases for internal university consumption. All such purchases shall be from licensed manufacturers.

## 2. Use of Licensing Revenue

A UW institution shall use the revenue generated from collegiate licensing for programs or activities with direct benefits to students. Examples of programs with direct student benefits include student athletics and student scholarships.

## 3. Internal versus External Administration of Licensing Programs

Each UW institution that establishes a licensing program should determine whether it is more cost-effective to administer the program internally with university employees, or externally by contracting with an outside agent. Institutions shall seek the most favorable contractual terms possible with outside agent(s) and use these terms as the basis for a cost-effectiveness comparison with an internal program. Except for programs with minor activities, licensing programs shall be financed solely from licensing revenue.

Prior to entering into a licensing contract, a UW institution shall have the potential contract reviewed by UW legal counsel at the System Administration level. Any licensing contracts concluded by a UW institution must be reported to the Board of Regents.

## 4. Registration of Marks

Federal and state registration of any mark by a UW institution shall be in the name of the Board of Regents of the University of Wisconsin System.

5. Design Standards and Use Guidelines: UW institutions with collegiate licensing programs shall develop design standards and use guidelines and make them available to potential licensees.

7. Technical Assistance: The UW System Office of the General Counsel shall serve as the technical assistance contact point for the UW System for collegiate licensing. UW institutions shall report licensing disputes within thirty days to the System Administration General Counsel.



## **UW-MADISON INDIRECT COST RATE STATUS REPORT**

### **EXECUTIVE SUMMARY**

#### **BACKGROUND**

The Business and Finance Committee of the Board of Regents requested that a status report on UW-Madison's current indirect cost rate proposal and related activities be presented to the Committee at the May 1992 meeting of the Board of Regents.

#### **REQUESTED ACTION**

This item is for information only.

#### **DISCUSSION**

##### **UW-Madison's Indirect Cost Rate Proposal**

On February 19, 1992 UW-Madison submitted to the Department of Health and Human Services (DHHS) a proposal for the indirect cost rate for research. The proposed rate, which would take effect on July 1, 1992, was for 46%. The proposed rate was for a period of three years on a "predetermined" basis. In developing the proposed rate, UW-Madison incorporated all of the Legislative Audit Bureau (LAB) recommendations that could be implemented within the time frame available to prepare the current proposal. Those changes include:

- elimination of unallowable costs, per revised A-21 (the federal circular which sets forth rules for determination and recovery of indirect costs), such as housekeeping costs, Regent travel, lobbying, maintenance and depreciation for the President's and Chancellor's residences and other selected campus structures, portions of UW-Madison's Office of Public Information and International Studies, etc;

- adjustments to UW-Madison's capital inventory base;

- inclusion of costs heretofore omitted, such as the State paid share of payments for municipal services made on behalf of the UW-Madison;

- adjustments to certain cost components (transfers of costs between components) and cost bases.

UW-Madison incorporated other changes to the rate calculation in order to conform to and be consistent with the revised rules of A-21 and formulae agreed to by DHHS in the past. On April 21, 1992 the DHHS Division of Cost Allocation (DCA) notified UW-Madison that DCA auditors/negotiators would visit UW-Madison sometime in May. (The exact date has yet to be determined.) The DCA indicated that the auditors/negotiators would spend one week at UW-Madison to review the LAB report and negotiate UW-Madison's next indirect cost rate for research. The DCA indicated that UW-Madison should have a negotiated rate by the first week of June.

## Survey of Indirect Costs

Throughout the national debate on indirect costs there has been a recognition of the need for more information on the true costs of research conducted in universities. In March the Council on Government Relations and the Association of American Universities undertook a survey of these costs using a survey instrument developed with the cooperation of the Government Interagency Task Force on Indirect Costs. The survey was sent to 20 universities, including the UW-Madison, and responses were due April 16, 1992 (UW-Madison's has been submitted). The next step is a cleansing of the data, followed by an analysis to be performed jointly by the universities, the federal group, and four major accounting firms. In addition to seeking data on indirect cost proposals and the funding of research, as well as space requirements, the survey enumerates indirect costs of research by functional grouping for almost forty functions, such as campus security, legal costs, hazardous waste disposal, disaster preparedness, etc. It asks respondents to report costs in a systematic way that will both identify costs that comprise the indirect cost rate and facilitate comparison of costs among universities. A second phase will attempt to identify the extent of institutional cost sharing, as well as develop a profile of research personnel.

The Interagency Task Force, led by OMB and OSTP, has promised to make recommendations by this fall for further modifications to the indirect cost system. Last year, Congress and OMB separately moved to reform indirect cost practices at universities. None of the related bills introduced in Congress were enacted. However, OMB revised A-21 when it published new rules on October 3, 1991. Similar efforts are expected this year, and whether revisions this year take place in Congress or through administrative rule-making, it is important to inform the debate. Analysis of the survey data will help meet that objective.

May 7, 1992

Agenda Item 1.2.k.(1)

## **Prioritized 1992-1993 Internal Audit Schedule EXECUTIVE SUMMARY**

### **BACKGROUND**

This report is presented to the Board of Regents Audit Subcommittee annually to provide them with a schedule of the internal audit activities taking place within the UW System during the upcoming fiscal year.

### **REQUESTED ACTION**

This item is for information only.

### **DISCUSSION**

The audits scheduled for the 1992-1993 fiscal have been prioritized into Priority One, Two and Three. Those audits scheduled in Priority One are audits which are to be performed because of outside requirements, agreements or UW System requirements. When the audits in Priority One have been completed, we will move into the Priority Two audits. Likewise, if the audits in Priority Two were completed, we would move into Priority Three audits. The total audit days for all priorities and audits in progress on June 30, 1992 is 6440.

Priority One audits have been categorized into five different groups as follows:

1. Athletics - Audits required by NCAA to include all the athletic departments within the UW System, excepting UW-Madison which has external auditors.
2. Federal Grants & Contracts - Includes all federal grants, contracts and financial aid as required by OMB Circular A-133.
3. Corporation for Public Broadcasting - Public broadcasting requires the audit of UW-Milwaukee and La Crosse radio stations.
4. Academic Fee Systems - An agreement with the Legislative Audit Bureau to perform audits of the academic fee assessment and collection systems and verify the accuracy of the Central Data Request every three years.
5. Other Audits - Audits which have been mandated by the Board of Regents, existing UW System policy papers, and donor requests.

The amount of audit time required to perform the carryover and Priority One audits is 2,410 days. The current audit staff of nine auditors has only 1,665 audit days available. In order to complete all of the audits in the carryover and Priority One we would require an additional four auditors, exactly the number which were withdrawn by the Department of Administration.

SYSTEM ADMINISTRATION INTERNAL AUDIT DEPARTMENT  
PRIORITIZED 1992-1993 AUDIT SCHEDULE

TYPE OF AUDIT	CAMPUS	AUDIT DAYS
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AUDITS IN PROGRESS JUNE 30, 1992

5. STUDENT CENTER, FOOD SERVICE & BOOKSTORE	GREEN BAY	20
5. HOUSING	WHITEWATER	50
5. STUDENT CENTER, FOOD SERVICE & BOOKSTORE	STOUT	20
1. ATHLETICS	RIVER FALLS	20
2. A-133 FEDERAL GRANTS AND CONTRACTS	SYSTEMWIDE	<u>30</u>
		140

PRIORITY ONE

5. COMPUTING DATA SECURITY	CENTERS	60
4. ACADEMIC FEE ASSESSMENT AND COLLECTION	CENTERS	120
5. COMPUTING DATA SECURITY	EAU CLAIRE	60
5. COMPUTING DATA SECURITY	EXTENSION	60
5. PHYSICAL PLANT, STORES & FLEET	GREEN BAY	80
5. HOUSING	GREEN BAY	50
1. ATHLETICS	LA CROSSE	40
5. COMPUTING DATA SECURITY	LA CROSSE	60
5. PHYSICAL PLANT	MADISON	145
5. COMPUTING DATA SECURITY	MADISON	100
1. ATHLETICS	MADISON	80
5. GIFTS & GRANTS - NON-FEDERAL	MADISON	50
3. CORPORATION FOR PUBLIC BROADCASTING	MILWAUKEE	5
5. COMPUTING DATA SECURITY	MILWAUKEE	75
5. COMPUTING DATA SECURITY	OSHKOSH	60
1. ATHLETICS	PARKSIDE	40
4. ACADEMIC FEE ASSESSMENT AND COLLECTION	PARKSIDE	80
5. COMPUTING DATA SECURITY	PARKSIDE	60
1. ATHLETICS	PLATTEVILLE	40
5. COMPUTING DATA SECURITY	RIVER FALLS	25
5. COMPUTING DATA SECURITY	STEVENS POINT	60
1. ATHLETICS	STEVENS POINT	40
5. COMPUTING DATA SECURITY	STOUT	60
1. ATHLETICS	STOUT	40
1. ATHLETICS	SUPERIOR	40
5. COMPUTING DATA SECURITY	SUPERIOR	60
5. TRUST FUNDS	SYSTEM ADMINISTRATION	30
5. COMPUTING DATA SECURITY	WHITEWATER	60
1. ATHLETICS	WHITEWATER	40
4. ACADEMIC FEE ASSESSMENT AND COLLECTION	EAU CLAIRE	60
4. ACADEMIC FEE ASSESSMENT AND COLLECTION	GREEN BAY	60
4. ACADEMIC FEE ASSESSMENT AND COLLECTION	MADISON	130
3. CORPORATION FOR PUBLIC BROADCASTING	LA CROSSE	5
4. ACADEMIC FEE ASSESSMENT AND COLLECTION	OSHKOSH	110
4. ACADEMIC FEE ASSESSMENT AND COLLECTION(Flup)	PLATTEVILLE	10
4. ACADEMIC FEE ASSESSMENT AND COLLECTION	RIVER FALLS	75
4. ACADEMIC FEE ASSESSMENT AND COLLECTION	SUPERIOR	<u>60</u>
		2270

# PRIORITY 1 GROUPING

1. ATHLETICS	NAIA, NCAA, WSUC, WWIAC AND TITLE IX
2. FED G & G	OMB CIRCULAR A-133
3. CPB-LAX, MIL	PUBLIC BROADCASTING STATUTES
4. ACA FEES	LAB AGREEMENT TO AUDIT EVERY 3 YEARS
5. OTHER AUDITS	REGENTS, POLICY PAPERS, DONOR REQUESTS, ETC.

## PRIORITY TWO

CAPITAL EQUIPMENT INVENTORY	CENTERS	40
CAPITAL EQUIPMENT INVENTORY	EAU CLAIRE	40
CAPITAL EQUIPMENT INVENTORY	GREEN BAY	40
CAPITAL EQUIPMENT INVENTORY	LA CROSSE	40
HOUSING	LA CROSSE	70
STUDENT CENTER & FOOD SERVICE	MADISON	175
CAPITAL EQUIPMENT INVENTORY	MADISON	60
STUDENT CENTER, FOOD SERVICE & BOOKSTORE	MILWAUKEE	110
CAPITAL EQUIPMENT INVENTORY	MILWAUKEE	80
CAPITAL EQUIPMENT INVENTORY	OSHKOSH	40
STUDENT CENTER, FOOD SERVICE & BOOKSTORE	OSHKOSH	80
CAPITAL EQUIPMENT INVENTORY	PARKSIDE	40
STUDENT CENTER, FOOD SERVICE & BOOKSTORE	PLATTEVILLE	80
CAPITAL EQUIPMENT INVENTORY	PLATTEVILLE	40
CAPITAL EQUIPMENT INVENTORY	RIVER FALLS	40
CAPITAL EQUIPMENT INVENTORY	STEVENS POINT	40
CAPITAL EQUIPMENT INVENTORY	STOUT	40
CAPITAL EQUIPMENT INVENTORY	SUPERIOR	40
PURCHASING	SYSTEM ADMIN	100
CAPITAL EQUIPMENT INVENTORY	SYSTEM ADMIN	20
DISTINGUISHED PROFESSORS	SYSTEMWIDE	25
INDUSTRIAL & ECONOMIC DEVELOPMENT RESEARCH	SYSTEMWIDE	30
LAB MODERNIZATION	SYSTEMWIDE	120
MINORITY/DISADVANTAGED STUDENTS	SYSTEMWIDE	40
CAPITAL EQUIPMENT INVENTORY	WHITEWATER	40
		1470

## PRIORITY THREE

GIFTS & GRANTS - NON-FEDERAL	CENTERS	60
GIFTS & GRANTS - NON-FEDERAL	EAU CLAIRE	60
CASH HANDLING & CONTINGENT FUND	EAU CLAIRE	30
CASH HANDLING & CONTINGENT FUND	EXTENSION	40
BUREAU OF AUDIO VISUAL INSTRUCTION	EXTENSION	60
GIFTS & GRANTS - NON-FEDERAL	EXTENSION	70
GIFTS & GRANTS - NON-FEDERAL	GREEN BAY	60
CASH HANDLING & CONTINGENT FUND	GREEN BAY	40
GIFTS & GRANTS - NON-FEDERAL	LA CROSSE	60
FLEET	MADISON	75
CASH HANDLING & CONTINGENT FUND	MADISON	80
HOSPITAL BUSINESS OFFICE	MADISON	50
PARKING	MADISON	60

VETERINARY HOSPITAL	MADISON	70
AGRICULTURAL SALES	MADISON	80
PARKING	MILWAUKEE	60
CASH HANDLING & CONTINGENT FUND	MILWAUKEE	40
GIFTS & GRANTS - NON-FEDERAL	MILWAUKEE	60
GIFTS & GRANTS - NON-FEDERAL	OSHKOSH	60
PARKING	OSHKOSH	60
CASH HANDLING & CONTINGENT FUND	OSHKOSH	45
GIFTS & GRANTS - NON-FEDERAL	PARKSIDE	60
HOUSING	PARKSIDE	40
CASH HANDLING & CONTINGENT FUND	PARKSIDE	40
PARKING	PARKSIDE	60
PARKING	PLATTEVILLE	20
GIFTS & GRANTS - NON-FEDERAL	PLATTEVILLE	60
CASH HANDLING & CONTINGENT FUND	PLATTEVILLE	30
GIFTS & GRANTS - NON-FEDERAL	RIVER FALLS	60
CASH HANDLING & CONTINGENT FUND	STEVENS POINT	40
STUDENT CENTER, FOOD SERVICE & BOOKSTORE	STEVENS POINT	100
FLEET	STEVENS POINT	60
GIFTS & GRANTS - NON-FEDERAL	STEVENS POINT	60
CASH HANDLING & CONTINGENT FUND	STOUT	40
GIFTS & GRANTS - NON-FEDERAL	STOUT	60
FLEET	SUPERIOR	10
GIFTS & GRANTS - NON-FEDERAL	SUPERIOR	60
ACCOUNTING SYSTEMS	SYSTEM ADMIN	100
FACULTY DEVELOPMENT FUNDS	SYSTEMWIDE	80
FARMS & RESEARCH STATIONS	SYSTEMWIDE	80
FRINGE BENEFITS	SYSTEMWIDE	80
CASH HANDLING & CONTINGENT FUND	WHITEWATER	40
GIFTS & GRANTS - NON-FEDERAL	WHITEWATER	60
PARKING	WHITEWATER	<u>60</u>
		2560

# CALCULATION OF AVAILABLE AUDITOR DAYS

WEEKS	52
VACATION	-4
SICK LEAVE	-1
HOLIDAYS	-2
TRAINING	-1
MISCELLANEOUS	-5
SPECIAL PROJECTS	<u>-2</u>
AVAILABLE WEEKS	37
AUDITOR DAYS	185
TIMES 9 AUDITORS	
EQUALS	1665

## **ROLE AND RESPONSIBILITIES OF AUDIT SUBCOMMITTEE**

### **EXECUTIVE SUMMARY**

#### **BACKGROUND**

At their September 1989 meeting, the Board Of Regents adopted a resolution which established the Audit Subcommittee. The resolution also amended the Board of Regents bylaws to add oversight and review to the specified responsibilities of the Business and Finance Committee.

#### **REQUESTED ACTION**

It is requested that the Audit Subcommittee review the proposed Audit Subcommittee Guidelines which establish the role and responsibilities of the subcommittee. The guidelines would be brought back to the Audit Subcommittee in June 1992 for final approval.

#### **DISCUSSION**

With the adoption of the resolution establishing the Audit Subcommittee, the Business and Finance Committee requested that a set of guidelines be established. The purpose of these guidelines is to provide a mechanism whereby the Board, through its Audit Subcommittee, can have direct access to the internal and external audit functions of the University of Wisconsin System. The draft guidelines included guidelines for three different categories of audits: (1) Internal Audit, (2) Independent Audit and (3) State and Federal Audit.



## AUDIT SUBCOMMITTEE GUIDELINES

### A. Introduction

A resolution unanimously adopted at the September 8, 1989 Board of Regents meeting reads as follows:

That, upon recommendation of the Business and Finance Committee, the Chair of the Business and Finance Committee of the Board of Regents of the University of Wisconsin System, appoint a Subcommittee of the Business and Finance Committee to deal initially with all internal and external audit matters; and that, the Board of Regents Bylaws be amended to add audit oversight and review to the specified responsibilities of the Business and Finance Committee. In addition to internal audit oversight, the duties of the Regent Audit Representatives will be assumed by this Subcommittee. The Subcommittee will report to the Business and Finance Committee and will, when appropriate, recommend referral of audit-related issues to other standing committees.

In order to assist the Board in meeting its statutory responsibilities, provide continuity in the coordination of systemwide audit planning, formulate System audit policy, and give support to the President and Chancellors, the Board herewith adopts the following guidelines for the Subcommittee.

### B. Objectives

The purpose of these guidelines is to provide a mechanism whereby the Board, through its Audit Subcommittee, can have direct access to both internal and external audit functions of the University of Wisconsin System, including all campuses. These guidelines are intended to describe the operations of the Subcommittee as they relate to the audit function.

### C. Plan of Work

To provide sufficient breadth of activity to meet the expressed needs of the Board, the following are the operational guidelines for the Subcommittee:

### Internal Audit

- (1) Review and approve the policies and standards by which the internal audit functions of the System will be governed.
- (2) Meet with the Director of Internal Audit to review the following:
  - (a) planned scope of annual work to be undertaken;
  - (b) staffing and budget requirements necessary to perform audit plan;
  - (c) significant variations from the previously approved audit plan;
  - (d) summary of audits conducted and significant findings; and
  - (e) problem areas encountered in the audit process.
- (3) Meet with Director, independently, at least annually to discuss problems or sensitive audits.
- (4) Meet with the Director quarterly to discuss audit summaries provided by the Director and at other times as necessary.

### Independent Auditor

- (1) Review the audit plans of the independent auditors.
- (2) Review audit findings of the independent auditors.
- (3) Review the independent auditor's comments regarding internal control and other matters.

### State and Federal Auditors

- (1) Review the reports and findings of the Legislative Audit Bureau.
- (2) Maintain an awareness of the significant concerns of the State Auditor about management's judgment, actions and procedures which may affect the financial statements being reported. This can be accomplished through review of required auditor communications.

- (3) Maintain an awareness of significant Federal audit findings through the Director of Internal Audit.

#### General

In instances where audits involve specifically identified individuals and where a public discussion may have a substantial adverse affect on the reputation of the employe, the Subcommittee should schedule discussion of such matters for closed session as permitted by §19.85 (1) (b), (c) or (f).

Minutes should be recorded for all meetings of the Audit Subcommittee. Reports and all supporting data submitted to the Subcommittee shall at all times be available for inspection and review by any member of the Board. Reports of the Subcommittee actions should be given to the Business and Finance Committee for presentation to the entire Board of Regents.