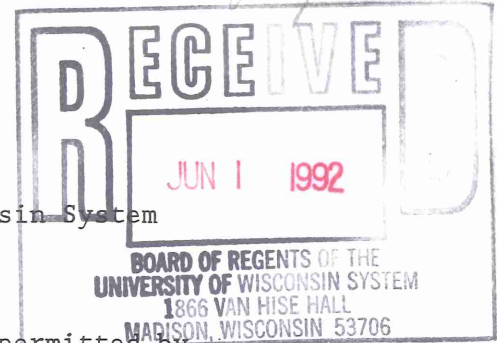


Minutes
Business and Finance Committee
Board of Regents of the University of Wisconsin System
May 7, 1992



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

The Business and Finance Committee met at 8:30 a.m. in Room E-240 of the UW-Milwaukee Union in closed session to consider trust fund matters, as permitted by s. 19.85(1)(e), Wisconsin Statutes. Present were Regents Gelatt, Nicholas and Steil. The committee recessed at 9:50 a.m.

The Business and Finance Committee reconvened at 2:45 p.m. in Room E-240 UW-Milwaukee Union. Present were Regents Gelatt, Hirsch, Lubar, Lyon, Nicholas and Steil.

- b. Approval of minutes of the April 9, 1992, meeting of the Business and Finance Committee

Hearing no objections, the minutes of the April 9, 1992, meeting of the Business and Finance Committee stood approved.

- c. Approval of gifts, grants and contracts

Deputy Vice President Marnocha reported gifts, grants and contracts for the ten-month period ending April 17, 1992, were \$414.7 million, up \$46.6 million from the same period last year. Mr. Marnocha called attention to the \$2.0 million reduction to a previous award on page 1.

In response to Regent Hirsch's request for additional information on the increase in student aid support, two primary reasons were cited: a part of the previous \$6.5 million increase was due to timing of awards and Pell Grant funding is up both in numbers of awards and average award amount. A contributing factor is the absence of the linear reduction in the Pell Grant Program, which was in place in 1990-91. Deputy Vice President Marnocha reported on the increase in research support and outlined three agencies where funding has significantly increased.

Upon the motion of Regent Lubar and the second of Regent Steil, the committee unanimously approved Resolution I.2.c.

Resolution I. 2. c.

That, upon the 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.

d. Bequest of John C. Dunn

General Counsel Stathas reported that the bequest of John C. Dunn will provide approximately \$100,000 to UW-Madison. Upon the motion of Regent Lubar and the second of Regent Hirsch, the committee unanimously approved Resolution I.2.d.

Resolution I. 2. d.

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 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.

e. Trust Fund Asset Allocation Ratio

Assistant Trust Officer Konshak explained that each year the Business and Finance Committee examines the percentage of assets in stocks/bonds. The asset allocation ratio for the UW System has been on the lower-stock fraction side over the past ten years. The ratio affects the balance between and the generation of income. Our current spending plan could be financed with a stock/bond ratio significantly higher than the current ratio.

Currently, the UW System has a ratio of 60% equities, 40% fixed. This ratio is fairly consistent with the NACUBO mean of our group (\$100-399 million) and the Big 10. The committee considered a number of alternatives and concluded to remain with the 60:40 ratio for this next year. Regents Nicholas and Lubar expressed interest in pursuing a 65% equity ratio in the future. Regent Lubar asked that the ratio be looked at in six months.

A resolution was introduced that directs the equity managers to be fully invested as of October 1, 1992. The October date was selected to tie to the new investment managers' contracts. Upon the motion of Regent Nicholas and the second of Regent Steil, the committee unanimously approved Resolution I.2.e.

Resolution I. 2. e.

That upon the recommendation of the President of the University of Wisconsin System, effective October 1, 1992, the investment managers for Trust Funds Principal be directed to be fully invested, that is a cash position would not normally be found in their portfolios.

f. Segregated Fee for Intercollegiate Athletics at UW-Madison

Regents Schilling, Dreyfus and Flores joined the meeting in progress. Regent Lyon moved and Regent Hirsch seconded a revised resolution which contained the following additions:

1. Improved accounting procedures to allow students information on segregated fee revenue and expenditures.
2. Outstanding deficit at the end of 1991-92 be retired within five years on a consistent basis.
3. Unanticipated revenue and expenditure savings be applied to the outstanding deficit.
4. Beginning in 1993-94, the segregated fee for athletics be addressed within the segregated fee policy.
5. The board be assured each unit within the Athletic Department receives regular budget versus expenditure comparisons, and is being counseled regarding variations.
6. The Athletic Department maintains accounting practices consistent with Generally Accepted Accounting Principles (GAAP).
7. A proper funding relationship with the foundation be maintained.

UW-Madison Associate Chancellor Torphy and Athletic Director Richter spoke to the components of the revised resolution. They indicated there are two primary reasons the deficit has not been reduced as planned: 1) an accounting error discovered in 1989-90 resulted in a \$700,000 addition to the deficit; and 2) football attendance did not match projections. The \$10 segregated fee is needed to assist in the elimination of the deficit. In addition, eliminating the deficit depends upon three revenue sources (football attendance revenues, contributions and media-related contract revenues).

There was considerable regent discussion. Regent Gelatt reminded the committee that additional spending was approved this fiscal year so the continued deficit is not solely due to revenue shortfalls. Regent President Lyon stated that he wanted athletics to be off the regent agenda and put into the mainstream segregated fee portion of the annual budget process. He expressed his support for the fee because of the student benefits.

Athletic Director Richter indicated that market factors drive the revenues. He pointed out that students are allowed to use the facilities paid for by the Athletic Department. Regent Hirsch indicated that the times the McClain facility is available to students is not conducive to their use. Regent Hirsch asked about the differences in the budget figures versus cash figures.

Regent Schilling questioned the proposed use of the fee compared to the purpose for which the fee was actually being used. Associate Vice Chancellor Torphy stated that the funds have been spent for non-income sports.

The Segregated University Fees Allocation Committee (SUFAC) and the Wisconsin Student Association (WSA) opposed continuation of the fee. The following individuals addressed the committee as a group: Victor de Jesus, Co-President, Wisconsin Student Association; Kathy Evans, Co-President, Wisconsin Student Association; Joel Zwiefelhofer, Chair, Segregated University Allocation Committee (SUFAC); and Steve Grant, Chair of SUFAC in 1989. Their presentation focused on the fact that the fee was imposed outside the segregated fee process as provided by Section 36.095 of the Wisconsin Statutes and Financial Policy and Procedures Paper #37. The students have allocated \$10,000 for legal services to defend their position. Ms. Evans stated the fee was inserted by the Chancellor and the Board of Regents over the objection of SUFAC. Mr. Grant argued that the fee was instituted as a temporary fee and that the administration has not lived up to the original promises. Students were told it would be used to protect and fund non-income sports and that it was to be a temporary solution. The students felt the fee was sold on the statement that non-income sports would have to be cut without the fee.

Legal Counsel Stathas stated that the board was being asked to create a nonallocable fee which is within their power. Regent Lyon indicated the resolution would approve the fee for one year and after that, it needs to be approved in the normal segregated fee process.

Upon the motion of Regent Schilling and second of Regent Hirsch, the committee tabled resolution I.2.f. (revised) until the June 1992 meeting on a four to three vote. Regents Dreyfus and Flores abstained from voting. Regent Hirsch asked for a clarification on whether this fee is a new fee or an extension of the prior fee. Regent Gelatt asked legal counsel to determine the authority of the board to assess the fee.

Resolution I. 2. f. (revised)

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.
Further:

That, accounting procedures be maintained which makes information on this source of income and its subsequent expenditure readily accessible to student government representatives responsible for recommending segregated fees;

That, the outstanding deficit at the end of the 1991-92 fiscal year be retired within five years. Deficit retirement shall be included in the annual operating budget of the Athletic Department for each of the five years. The amount of budgeted deficit retirement shall be no less than the balance of deficit outstanding at the close of the prior fiscal year divided by the number of years remaining. Deficit retirement monies may not be taken from the segregated fee income;

That, unanticipated revenue and expenditure savings be applied to the outstanding deficit;

That, beginning in 1993-94, the segregated fee for athletics be addressed within the segregated fee policy by student government, the athletic board and the chancellor, with presentation to the Board of Regents included in the annual operating budget;

That, the Board of Regents be assured each unit within the Athletic Department receives regular budget versus expenditure comparisons, and is being properly counseled regarding variations;

That, the Athletic Department maintains accounting practices consistent with Generally Accepted Accounting Practices (GAAP); and

That, a proper funding relationship with the UW Foundation is maintained.

g. S & E Implementation Report

The committee deferred the presentation until next month.

h. Follow-up Report on Licensing Policy

Deputy Vice President Marnocha reported that the board, at its May 1991 meeting, had asked for a follow-up report on the guidelines on collegiate licensing which were approved at the meeting. The UW-Madison trademark case involves the consolidated opposition to the UW System attempts to register as trademark certain logos and names. UW-Madison expects completion of the litigation this summer. The contract for special counsel is being amended for an additional \$75,000, bringing the total authorization to \$145,000. Representative Wineke has asked the Legislative Audit Bureau to do a review to determine the total cost of litigating the trademark case. The LAB auditors are currently doing the requested analysis.

Mr. Glesner, attorney for the University Book Store, stated that he doesn't expect resolution until next spring or summer. He indicated that he has been told that additional dollars have been spent that are not reflected in the figures mentioned.

Revenues from the licensing program at UW-Madison are expected to total \$237,500 for fiscal year 1991-92. The cost of the litigation is being paid from the income generated. Regent Schilling asked that the Licensing Committee address the prediction of the outcome of the litigation and the total estimated cost involved in the defense.

At the other institutions, the volume does not warrant going to a licensing agent. The UW System has obtained state trademark registration on several logos used on gift items.

i. Report of the Vice President

(1) Campus Internal Audit

The committee deferred the item until a future meeting.

(2) Status of Federal Indirect Cost Rate Negotiations

Deputy Vice President Marnocha provided a status report on UW-Madison's indirect cost rate proposal. UW-Madison submitted a proposal of 46% for three years on a "predetermined" basis. UW-Madison incorporated all of the LAB recommendations that could reasonably be implemented within the time frame available to prepare the current proposal.

Federal auditors/negotiators will be visiting UW-Madison next week to review the rate proposal and to negotiate the indirect cost rate for research. A negotiated rate should be available in June.

During the national debate on federal indirect costs, it became apparent that more information was necessary. A survey has been distributed by the Council on Government Relations and the Association of American Universities. The survey instrument was developed with the cooperation of the Government Interagency Task Force on Indirect Costs. It is anticipated that recommendations for further modifications to the indirect cost system will be made this fall.

j. Additional items that may be presented to the Business and Finance Committee with its approval

Deputy Vice President Marnocha reported that Agenda item I.3.1. (1) under the Physical Planning and Development Committee is the Annual Report on Facility-Related 1992 Budgets of Cities and Counties on Behalf of the UW Centers. The report shows budgeted expenditures of cities and counties for the centers to be \$4,991,940, of which \$3,463,221 is for debt service and \$1,228,719 is for repairs, improvements and maintenance of the facilities. The insured value of all facilities is \$125,766,451 with remaining debt service of \$21,277,072.

Mr. Marnocha pointed out that included in item II.4.a. of the full board agenda is a request by UW-Madison for approval to enter into an affiliation agreement with Parkway Hospital in Madison. Under the terms of this agreement, psychiatric faculty, fellows, and residents will provide certain clinical and administrative services at Parkway Hospital. In return, the

medical school and its department of psychiatry will receive additional office and laboratory space, laboratory facilities, equipment and supplies, additional patient population, and financial support of medical education and research.

Upon the motion of Regent Nicholas and the second of Regent Steil, the Business and Finance Committee adjourned at 4:30 p.m.

The Audit Subcommittee of the Business and Finance Committee met at 4:35 p.m. in Room E-240 UW-Milwaukee Union. Present were Regents Gelatt, Hirsch, Lubar, Nicholas and Steil. Regent Lyon joined the meeting in progress.

k. Audit Subcommittee Meeting

(1) Audit Schedule for 1992-93

Internal Audit Director Brunkow outlined the audit schedule for 1992-93. Audits have been prioritized and represent the order in which they will be addressed. Audits in the Priority One category include Athletics, Federal Grants and Contracts, Corporation for Public Broadcasting, Academic Fee Systems, and other audits mandated by the Board of Regents, existing UW System policy papers and donor requests. Given the audit days available and the number of days required to perform the Priority One audits, the four auditors which were withdrawn by the Department of Administration would need to be replaced. The committee stressed the importance of the audit function and stated that, at a minimum, all Priority One audits should be performed. In addition, most Priority Two audits looked like high priority items. The chair directed System Administration to assess the audit staffing needs and to report back to the committee next month with an assessment of the various avenues available for providing the additional audit needs.

(2) Role and Responsibilities of the Audit Subcommittee

Regent Gelatt reminded the subcommittee that the Audit Subcommittee was established at the September 1989 meeting of the Board of Regents. A revised set of guidelines was distributed. It includes a new section on reporting to the full Board of Regents. These guidelines establish the role and responsibilities of the Audit Subcommittee. Regent Gelatt asked the Audit Subcommittee to review the proposed guidelines. The final guidelines will be brought forth as a resolution at the June 1992 meeting.

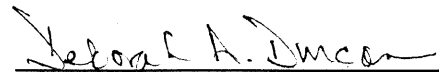
(3) Review of NCAA Audit of Intercollegiate Athletics at UW-Madison

Deputy Vice President Marnocha reviewed the findings of the NCAA Audit of UW-Madison Intercollegiate Athletics. The management letter recommended that the department:

1. perform a review of the management information needs and determine the appropriate computer hardware and software needed to fulfill such needs.

2. adopt the enterprise basis of accounting (i.e., full accrual basis) and develop accounting policies which will implement it as well as accounting issues connected with an automated system.
3. require conflict of interest statements from its management personnel coaches and board members.
- (4) Recess into closed session for preliminary investigation of specific personnel problems, as permitted by s. 19.85(1)(f), Wis. Stats.

Upon the motion of Regent Nicholas and the second of Regent Steil, the Audit Subcommittee adjourned into closed session at 4:55 p.m. to consider preliminary investigation of specific personnel problems, as permitted by s. 19.85(1)(f), Wisconsin Statutes.



Deborah A. Durcan
Recording Secretary