

Minutes
Business and Finance Committee
Board of Regents of the University of Wisconsin System
November 6, 1997

I.2.a. Public Forum on Trust Fund Investments

The Business and Finance Committee met at 9:00 a.m. in Room 212, Animal Science Building, UW-Madison. All Regents were invited. Present were: Regents Hempel, Lubar, Marcovich, Mohs, Smith and Staszak.

Vice President Bromberg introduced Treasury Manager Lori Mills, and informed the audience that the University System is in the process of changing investment managers. As a result, there will be a number of changes in the portfolio in the next quarter. She noted that in November 1996 the Board had heard from a number of members of the community who expressed concerns about Trust Fund investments. As a result of that meeting, the Board approved socially responsible investment guidelines at the March 1997 meeting, which included holding an annual public forum to allow the public to bring investment concerns to the attention of the Board. The guidelines also required the Board to contract with a proxy service that can alert them to shareholder issues. The Investment Responsibility Research Center (IRRC) services for governance, social responsibility, environment and upcoming shareholder resolutions are being used for this purpose.

Vice President Bromberg introduced Professor Robert Bock of the School of Business who has been volunteering time to work with staff on issues relating to socially responsible investing. Professor Bock stated he had screened a number of services, all of which were expensive, and ultimately recommended contracting with IRRC to keep the Board informed of potential conflicts involving social issues. In an attempt to define social injury, he identified 12-15 issues which fall under the main categories of environmental, discrimination and international sweatshop issues for which IRRC should alert the Board. Although the service has brought a number of world corporations to the Board's attention, thus far none of the companies in the Trust Funds portfolio have been directly involved.

Regent Hempel asked that those who had requested speaking time limit their comments to two minutes to allow for the large number of speakers. Presenting comments to the Board were:

- John Peck, a graduate student in Agriculture, expressed appreciation for divestiture from Texaco, but was concerned over investments with Disney which he says has sweatshops in several foreign countries. Although he felt Resolution 7406 was a step in the right direction, he recommended establishment of a review board.
- Micah Zenko, a senior, called for immediate divestment of corporations doing business in Burma, for a socially responsible investment policy and for a fully-accountable, democratic, socially responsible review board with proxy voting rights for shareholder resolutions.
- Samantha West, a junior, asked for responsible, simple, direct action on the part of the Board.
- Dan Rodman, a graduate student in Civil Engineering, representing the Alliance for Democracy, expressed concern over investments in corporations in Nigeria and Burma, and for investments in Disney.
- Kristin Sundell, representing the National East Timor Action Network, described her knowledge of the effects of Indonesia's military occupancy of East Timor and called for divestment from holdings with Merrill Lynch.
- Nina Maria, from East Timor, spoke of the citizens of East Timor who she says have been killed or forced into exile since the military occupation by Indonesia. Of special concern is the Timor Gap between East Timor and Australia where East Timor's rich oil resources are being taken from them by Indonesia. She asked that Regents not allow investments in the oil companies drilling in the Timor Gap.
- Tim Kehl, Pastor of the United Church of Christ in Madison, thanked the Board for holding the forum and recognized the difficult task they have. He stressed the need to educate the heart as well

as the head, and encouraged the Board to build a morally just investment portfolio and set a standard for other universities.

- Zarni, an exiled Burmese citizen, thanked the Board for divesting from Texaco, and noted that Texaco has left Burma since that divestiture. Acknowledging Board members' other responsibilities, he asked them to consider establishing an advisory committee which could assist them in maintaining an awareness of social injuries so they can divest of investments in corporations doing business in those countries.
- Alicia Leinberger, a graduate student, representing Consumers for Fair Trade, expressed appreciation for Professor Bock's assistance to the Board. She asked that the Board consider establishing a democratic advisory committee composed of a broad range of citizens who are aware of various social and environmental issues.
- Max White spoke on behalf of Nico Warouw, an Indonesian national who had his passport stolen in Amsterdam on his way to speak to the Board. The Indonesia government will not reissue the passport and Mr. Warouw had requested that Mr. White, a member of Amnesty International, speak on his behalf. He congratulated the Board on the divestiture from Texaco, but expressed concern over investments with Disney, Nike and Reebok which he indicated maintain sweatshops and use child labor.
- Erin Clare, representing the Alliance for Democracy, asked for a fully elected, socially responsible investment review board.
- Eric Brakken, a senior, indicated the need for a full-time position to research social issues and stressed the need for a review Board.
- Abigail Zenner asked the Board to learn from history and to listen to the concerns being voiced. The University of Wisconsin can be a leader in this area.
- Amy Mondloch, a graduate student at UW-Stevens Point, told the Board this is not just a UW-Madison issue, but that students and faculty at other UW institutions are concerned, as well, but are unable to attend a forum held in Madison on a school day. She also stressed the need for a democratically-elected, socially responsible review board, comprised of representatives from other UW System institutions as well as from UW-Madison.
- Todd Price encouraged the Board to establish an advisory board comprised of people who would be more familiar with the corporations in violation of human rights and challenged Prof. Bock's ability to track all investments without such assistance.
- Bruce Broker stressed that some studies show that socially-screened investments perform as well, or even out-perform other funds and, it is possible for the Board to have socially-screened investments without compromising their primary fiduciary responsibility.
- Stephen Jascourt spoke as a private citizen, indicating this is a public issue as well. He expressed concern about the process involved, and questioned who determines what decisions are implemented. He stressed the need for a democratically chosen, fully empowered review board which is properly funded.
- Dana Peters, a graduate student, thanked the Board for divesting from Texaco and also asked for a socially-conscious investment board. She asked the Board to divest from holding in Bankers Trust New York which has investments in Nigeria, and also from Shell Corporation.
- Elliot Stokes, representing East Timor Action Network, suggested that prison labor needs to be addressed along with investments in foreign countries and drew applause when he questioned, "Why do we have to tell Bucky that sweatshops are yukky?"
- Scott Pollock, an undergraduate student, also expressed concern over prison labor and asked for divestment from Corrections Corporation America. He further stressed the need for a review board.
- Bill Lange, representing AFL-CIO, indicated that 20% of the world's population owns 80% of the wealth. He asked for divestiture from Briggs and Stratton and Disney, and also indicated the need for advice from the Philosophy Department as well as the Business Department and urged the Board to look at the common good.

- John Roosa, a graduate student, noted the Board had taken some positive steps and thanked the Board for these efforts. He also indicated the need for a review board. He suggested the Board look beyond short-term gains to the long-term costs.
- David Long, representing the UW-Madison Teaching Assistants' Association, also called for a democratic review board. He noted that "social responsibility" can be a hazy term and expressed special concern over issues relating to corporations doing business in Burma.
- Jim Carpenter, representing the Wisconsin Fair Trade Campaign, inquired if Disney had passed the outside screening process. Professor Bock indicated the IRRC contract is for information, not screening, but that the information received on Disney has been neutral. Mr. Carpenter stated that when Haitian employees asked for 58 cents per hour, Disney threatened to pull out of Haiti. He suggested that American companies doing business in foreign countries should maintain the same set of human rights and environmental standards they follow in this country and that the University's investment portfolio should be screened for compliance.
- David Rose, a graduate student in the Business School, found it ironic that no one was calling for divestment in U.S. bonds. He also stated that poor working conditions are not a product of Disney, but a product of much larger problems, and it is important to positively effect change. He noted that owning part of a business through investing in it may be a better way to make change.
- Heather Robertson, a student, expressed the need for direct involvement, noting that many corporations subcontract and that the actions of investors directly or indirectly have an impact on foreign countries. She also indicated a need for a review board.
- Michael Iltis, a UW graduate, asked the Board to consider investing in future researchers.

Regent Hempel thanked the speakers for expressing their concerns, acknowledging that they were obviously heartfelt and educational to the Board. She indicated the points will definitely be given serious consideration by the Board.

The Committee recessed at 11:15 a.m. and reconvened at 1:00 p.m. in Room 1511 Van Hise Hall. Present were: Regents Brandes, De Simone, Grebe, Hempel, Marcovich and Orr.

I.2.b. Approval of Minutes of the October 9, 1997, Meeting of the Business and Finance Committee

Upon the motion of Regent De Simone and the second of Regent Grebe, the minutes of the October 9, 1997, meeting of the Business and Finance Committee stood approved.

I.2.c. Extension Budget Reduction Plan

Vice President Bromberg explained that Wisconsin Act 27 requires the development and submission of a plan for allocating the 1997-98 and 1998-99 reductions to the base budget of the University of Wisconsin-Extension funded from general purpose revenue. The Act stipulates that this plan should minimize the effect on local and federal funds received. This plan is to be submitted to the cochairpersons of the Joint Committee on Finance.

UW-Extension Chancellor Beaver noted that the biennial budget reduced general program revenue funding for UW-Extension by \$2,000,000 in 1997-98 and restores \$1,000,000 in 1998-99, for an ongoing permanent base reduction of \$1,000,000. In addition, a base reduction of \$74,100 and two positions was required of the UW-Extension General Administration and Services Division.

The requirements outlined in the budget, discussions with Regents and Chancellors and meetings with legislators during the budget process provided an understanding of intent which guided planning for allocating the reduction.

The overall goals of the plan are to minimize the effect on local and federal funds received and to reduce the effect on state and county programs and avoid program disruption wherever possible.

In an attempt to minimize the impact on programming, minimize the effect on the local and federal funds received by UW-Extension and avoid program disruption, the plan includes the following provisions:

- UW-Extension carryforward balances will be used to cover the \$1 million one-time portion of the reduction, so units will need to manage only the ongoing reduction of \$1 million.
- To preserve the match to federal Small Business Administration funds, Business Program's reduction will be taken from the GPR base of the Management Institutes, which are not part of the match requirement.
- To avoid impacts on county programs, Cooperative Extension's limited reduction will be taken centrally.

The restoration of \$1.5 million in base funds to UW-Extension came as the result of the hard work of many friends and supporters throughout the State. Chancellor Beaver especially recognized strong support received from their county partners, the viewers and listeners of public radio and television, partner organizations that work with UW-Extension, the other UW campuses, several of the Regents and the participants in campus-based Extension programs.

Upon the motion of Regent Brandes and the second of Regent De Simone, the Committee approved Resolution I.2.c.

Resolution I.2.c.

Upon the recommendation of the President of the UW System and the Chancellor of UW-Extension, that the plan for taking the UW-Extension 1997-98 and 1998-99 base budget reductions be received and approved for transmittal to the Joint Committee on Finance, in accordance with Wisconsin Act 27, Section 9153 (2t)(a and b).

I.2.d. Update on Best Business Practices

Associate Vice President Durcan reviewed that the Best Business Practices Teams began as a response to significant administrative budget cuts in 1995-97, necessitating that the UW System change the way it does business and that staff work smarter, not harder, and concentrate only on those services that add value.

The Team subsequently divided into groups to address specific business practices. Travel was chosen because it seemed relatively easy. Several changes were recommended, two of which could be implemented by the System without outside approval: providing more accountability and improving communication. Unfortunately, only one of the recommendations necessitating approval by the Department of Employment Relations was approved. Also unfortunate is that the UW System is the only known university system to have its travel regulations as part of a State compensation package.

Low Dollar Procurement was chosen, also because it seemed relatively easy to implement. The Team worked with the Department of Administration and use of procurement cards was identified as a best practice to implement. Currently, there are 1,200 cards in use. Reduced reporting requirements for procurement card purchases was critical for the success of the program.

The Financial Systems Improvement Team will have a long-term project compared with the first two because it involves a significant departure from current practices. The team is now identifying the

logistics associated with the initial recommendations to determine if they can be done and what the cost implications are. A report was just released internally for preliminary review.

The Best Business Practices Oversight Committee consists of ten people—eight from institutions and two from System Administration. It is crucial to the progress of the program to hold regular meetings and to strategize on how to obtain support from the regulatory agencies. Consideration for new projects will first be given to those which have the biggest impact, the largest number of transactions affected and the most broken processes.

A possible practice to work on would be a replacement for subactivity reporting. The team would need to find a measurement of effectiveness because there seems to be no reasonable basis for comparison. It is difficult to compare internally, much less to find external comparisons. The NACUBO study several years ago revealed that data was not comparable and institutions were not organized the same. There is consensus from several other universities that benchmarking is valuable, but the changes need to be made, and no one knows how to approach it.

NACUBO is currently looking at accountability measures and the UW System is participating in that forum. There is a need to do something to ensure accountability and efficiency.

The Committee expressed concern over the inability of the System to make positive changes to the travel regulations. Regent Hempel requested further updates on the progress of the Best Business Practices Team, and specifically on the Financial Systems Improvement Team. Vice President Bromberg indicated an update would be given in approximately six months.

I.2.e. Report of the Vice President

Vice President Bromberg reported that total gifts, grants and contracts for the first quarter of 1997-98 were \$221.2 million, an increase of \$32.8 million from the comparable period of the previous fiscal year. Federal awards increased \$11.6 million, while non-Federal awards increased \$21.2 million.

I.2.f. Additional Items Which May Be Presented to the Business and Finance Committee with Its Approval

No additional items were presented to the Committee.

I.2.g. Closed Session to Consider Trust Fund Matters, as Presented by s. 19.85(1)(e), *Wis. Stats.*

Upon the motion of Regent Brandes and the second of Regent De Simone, the Business and Finance Committee adjourned to Closed Session at 1:36 p.m., to consider Trust Fund matters as permitted by s. 19.85(1)(e), *Wis. Stats.*

The Business and Finance Committee adjourned at 1:59 p.m. and the Audit Subcommittee convened at 2:01 p.m. Present were Regents Brandes, Hempel and Marcovitz.

I.2.h. Audit Subcommittee**(a) Audit Report**

Audit Director Yates presented the Audit Report on Post-Tenure Review. He indicated the Subcommittee had been provided with a complete audit report to show the format being used. In the future, summaries of the results of the audits will be presented to the Board on a quarterly basis.

Internal Audit reviewed Post-Tenure Review plans at seven institutions (UW-Madison, UW-Milwaukee, UW-Eau Claire, UW-Green Bay, UW-Parkside, UW-River Falls and UW-Superior). The primary objections were to ensure the Post-Tenure Review plans developed at each institution complied with the Board policy and were properly implemented. Because of the subjective nature of assessing faculty performance, the review focused on assuring that criteria were established, written and generally followed at the institutions.

The audit determined that several forms of faculty review already take place and that all institutions have a Post-Tenure Review plan in place, although some institutions and some departments within a college have more effective processes in place than others. There is a common set of factors present in some of the more effective review plans: First is the strong involvement by Vice Chancellors/Provosts, Deans and Department Chairs in the process; second is written criteria; third is the faculty themselves have to take the process seriously; fourth, the committee approach improves the review process; and fifth, where improvement is needed, positive assistance can be helpful.

In order to benefit from the successes experienced by the most effective plans, the audit recommends System Administration and the institutions consider: reevaluating the role of Administration in the review process; reviewing plans to ensure the use of effective, written criteria consistent with each department's mission and goals; conveying to faculty the importance and the benefits of the review process; modifying the review process to provide committee evaluation; requiring improvement plans to address inadequate performance; identifying a source of funding that will not compromise existing campus budgets; and lifting the ban on the use of Faculty Development funds.

There was some discussion regarding the need to provide professors with specific recommendations on how they can do a better job. Regent Marcovitch requested the Subcommittee be provided with an example of a sample evaluation from a medium-sized department, with the professor's name omitted.

Vice President Bromberg indicated that this first report is an attempt to measure how to provide the audit findings to the institutions in a way that is helpful to them and also to let the Subcommittee know what is happening in this area. Internal Audit Director Yates added that future reports will also make recommendations to System Administration and not just to the institutions.

The Audit Subcommittee adjourned at 2:12 p.m.

Donita R. Zintz, Recording Secretary