

Minutes  
Business and Finance Committee  
Board of Regents of the University of Wisconsin System  
June 9, 2005

The Business and Finance Committee met at 1:47 p.m. in the Wisconsin Room of the Union, UW-Milwaukee. Present were Regents Bradley, Connolly-Keesler, Pruitt, and Randall.

**a. Approval of Minutes of the May 6, 2005 meeting of the Business and Finance Committee**

Upon the motion of Regent Randall, and the second of Regent Connolly-Keesler, the minutes of the May 6, 2005, meeting of the Business and Finance Committee were approved as presented.

**b. UW-Milwaukee Presentation: UWM's Fraud Hotline - A Proposed Pilot Program to Implement Sarbanes Oxley Directives on Campus**

Paul Rediske, Director of Internal Audit, UW-Milwaukee, stated that UW-Milwaukee will implement a web-based campus fraud hotline to identify waste, fraud, and abuse of public resources. This implementation will serve as a pilot for the entire UW System. The two-year pilot will evaluate volume of complaints, develop institutional policies and procedures, and prepare and train personnel to respond to complaints. A fraud hotline program would address problems internally, augment Wisconsin's Whistleblower Law, and implement federal Sarbanes-Oxley guidelines, as recommended by a national higher education association.

Mr. Rediske informed the Committee that to preserve confidentiality and anonymity, the hotline will be maintained by a third-party provider. The provider will be "Safe Harbor Certified" by the U.S. Department of Commerce to ensure the data collected is afforded adequate privacy protection. Features of the independent hotline provider include compliance with Wisconsin's open records laws, actionable reporting mechanisms that reduce frivolous allegations, and key mitigation tools for follow-up clarification.

Director Rediske noted that many universities have recently implemented web-based hotlines hosted by third-parties including Syracuse University, Baylor University, Northwestern University, Georgia Tech University, and the University of Minnesota. Also, the Milwaukee County Department of Audit has used an in-house phone fraud hotline for eleven years.

Mr. Rediske explained why a fraud hotline would be beneficial to the UW System. According to the Association of Certified Fraud Examiners, tips account for 46 percent of all fraud detected nationwide. Also, 75 percent of the workforce may have something to share but do not because of fear of retaliation. Typical risks mitigated by a fraud hotline include falsification of hours worked, use of UW System procurement card for personal purchase, kickbacks and conflicts of interest, theft of state property, and bribery.

Director Rediske commented that the UW System anticipates that the web-based fraud hotline pilot at UW-Milwaukee will:

- Send a message of zero tolerance for waste, fraud, and abuse;
- Promote loss prevention, or early detection, in a more cost effective, less disruptive manner than investigating and prosecuting a well-established scheme; and,
- Leverage small internal audit staffs by utilizing known information in hands of stakeholders.

Director Rediske indicated that the incremental cost to implement the Campus Fraud Hotline at UW-Milwaukee is relatively inexpensive. It is estimated to be approximately \$14,000 over the two-year pilot. The breakdown of costs will be \$12,000 for the third-party provider, \$1,000 for web development and \$1,000 in promotional costs.

Mr. Rediske added that other universities have used hotlines for additional purposes, such as to report gender discrimination or sexual harassment. These uses might be considered by the UW System in the future.

Regent Connolly-Keesler asked whether the people calling the hotline must give their names. Director Rediske stated that giving your name is optional. For web-based hotline tips a password is given in case there is a need to contact the person for follow up questions.

Regent Bradley asked when the hotline would begin and when the Committee could expect to hear the results of the pilot. Mr. Rediske stated that the pilot would begin in this calendar year and results could be given at any point in time, certainly within six months.

### **c. Revised 2005-06 Pay Plan Guidelines**

Vice President Debbie Durcan stated that resolution I.2.c. would allow UW institutions greater flexibility in distributing 2005-06 salary adjustments. Initial 2005-06 pay plan distribution guidelines approved by the Board in November 2004 required distribution of pay plan amounts of 2 percent or less to be distributed across the board to all individuals with solid performance. If approved, the resolution would allow institutions to distribute either across the board or using previously approved guidelines which allow for recognition of merit and market factors, exceptional performance and other internal or external pay problems if the pay plan is greater than or equal to 2%. Ms. Durcan introduced UW-Madison Provost Peter Spear and UW-Milwaukee Dean of Letters and Science G. Richard Meadows, who discussed the need for a competitive pay plan and the increasing number of counter offers being received by faculty and staff.

Regent Rosenzweig joined the meeting at this time.

Provost Spear stated that in the past three years, the UW-Madison faculty salary deficit compared to the peer group has gone from 2.5 percent to 3.9 percent to now 7.3 percent below the peer group. There is variation in average faculty salaries among professional rank, school, and college. There are even differences down to the departmental level. For the year 2004-05, UW-Madison assistant and associate professors were near the median; however, full professors ranked last, 12 out of 12, in average salaries. Therefore, UW-Madison needs flexibility and the ability to differentially allocate pay plans.

Regent Bradley noted that the data refers to legislatively approved peer groups. Provost Spear affirmed that the peer group does not include institutions such as Harvard University, Yale University or Duke University; however, UW-Madison recently lost a faculty member to Duke University. The official peer group does not include many top tier or private universities that recruit UW-Madison's best faculty members.

Regent Pruitt asked Provost Spear to elaborate on the number of faculty members that are recruited away from UW-Madison and the universities that are recruiting them. Provost Spear remarked that total outside offers over the past five years were 51, 46, 58, 52, and 98 this past year; faculty members had roughly twice as many outside offers this past year. Faculty members are hired and groomed by UW-Madison, only to have other universities recruit them away. UW-Madison loses faculty members about equally to both public and private universities.

Dean Meadows gave examples of outside offers received by faculty members at UW-Milwaukee. Faculty members have also increasingly begun to seek outside offers. The College of Letters and Science was forced to respond to outside offers which have caused intolerable salary compression. For example, a faculty member recently noted that after a promotion increment and one percent increase the salary was still almost \$7,000 behind an outside offer made to a new colleague.

Dean Meadows pointed out that the problem of lagging salaries is pervasive and cuts across faculty rank, gender, and discipline in the College of Letters and Science. UW-Milwaukee could help ease the problem if it had the ability to be more proactive. Reacting to outside offers is up to three times as expensive as taking care of the problem before an outside offer is received.

The Committee acknowledged that the Board would usually approve new executive salary ranges at this time of year. However, the committee took no action on executive ranges. When the 2005-07 pay plan is approved, it will apply to faculty, staff, and executives.

The Committee asked UW System staff to prepare a report about competitive compensation information, including salary, car allowances, housing allowances, deferred compensation, and other related items.

Upon the motion of Regent Randall, and the second of Regent Connolly-Keesler, the Committee approved Resolution I.2.c.

### **Resolution I.2.c**

Upon the recommendation of the President of the University of Wisconsin System, the Board of Regents, in order to permit greater flexibility in addressing specific institutional salary needs, revise Regent Resolution 8933 adopted on November 5, 2004 such that institutions be permitted to use the 2003-05 pay plan distribution guidelines for 2005-07 if the unclassified pay plan is two percent or greater in any year.

However, the Board suspends those pay plan distribution guidelines if the authorized amount of unclassified pay plan is less than two percent in any year, and directs that in such instances the pay plan percentage be distributed across-the board to all those who have at least solid performance rating, with any unused funds distributed by the chancellor, in consultation with governance bodies, to address salary needs specific to their institution.

Further, if the pay plan is two percent in any year, the Board permits institutions to distribute the two percent across-the board to all those who have at least solid performance rating, with any unused funds distributed by the chancellor, in consultation with governance bodies, to address salary needs specific to their institution.

## **d. Trust Funds**

### **(1) Strategic Asset Allocation and Spending Plan Review: Final Recommendations**

Assistant Trust Officer Doug Hoerr reported that at its meeting of May 5, 2005, the Business and Finance Committee considered a preliminary review of the strategic asset allocation and spending plan for the UW System Trust Funds' Long Term Fund. The strategic asset allocation should be viewed as the long-term asset class positions for the portfolio. The spending plan involves the setting of an annual distribution rate, currently at 4.5 percent. The Committee also heard a presentation by investment manager Grantham, Mayo, Van Otterloo & Co. LLC suggesting that the investment strategy referred to as global tactical asset allocation has merit. This strategy involves making limited tactical shifts away from a strategic asset allocation, based on views that certain asset classes represent unusual, disequilibrium return potential in the shorter term.

Assistant Trust Officer Hoerr listed the following recommendations:

- Additional asset classes, including Treasury Inflation Protection Securities (TIPS), timber, real estate and commodities;
- A newly-considered investment strategy termed global tactical asset allocation;
- A revised strategic asset allocation, with acceptable ranges as well as exact percentage targets by asset class; and,
- A revised spending rate of 4.0 percent.

Mr. Hoerr stated that the recommendations should improve the risk return profile of the Long Term Fund. The reasonable target rates of achievable returns are estimated to be in the range of 7.5 to 7.75 percent. If realized returns are greater than expected, the principal base will grow or the spending rate could be increased in the future, if even temporarily.

Regent Bradley commented that the reduction of the spending rate to 4.0 percent makes sense. The current payout rate may not be sustainable and the reduction will better allow the principal to grow.

Upon the motion of Regent Pruitt, and the second of Regent Randall, the Committee approved Resolution I.2.d.(1).

### **Resolution I.2.d.(1)**

That, upon recommendation of the Regent Business and Finance Committee, the Board of Regents approves the following changes to the Strategic Asset Allocation and Spending Plan:

- 1) Treasury Inflation Protection Securities (TIPS), Timber, Real Estate, Commodity Futures (via indexes of futures), and Emerging Market Debt as additional approved asset classes;
- 2) Revision of the Statement of Investment Objectives and Guidelines to accommodate the addition of the following approved asset classes:

Under the section "Investment Guidelines & Restrictions" and "Approved Asset Classes," add:

- Treasury Inflation Protection Securities and Emerging Market Debt (under "Fixed Income-Oriented Vehicles"),
- Timber, Real Estate, and Commodity Futures (under the "Alternatives" category); and

- 3) Reduction of the small fraction spending plan rate from 4.5 percent to 4.0 percent effective June 30, 2005.

Regent Vice President Walsh joined the meeting at this time.

## **(2) Acceptance of Bequests over \$50,000**

Assistant Trust Officer Hoerr stated that Regent policy provides that individual bequests of \$50,000 or more be brought to the Business and Finance Committee so that, via resolution, the gift can be formally accepted and recognized by the President, Board, and appropriate Chancellor if to a specific campus. The resolution of acceptance, recognition, and appreciation will then be conveyed, where possible, to the donor, the donor's family, and other interested parties.

Mr. Hoerr noted that UW-Madison is expected to receive approximately \$3.3 million from the Paula Ann McCarty Estate. Unfortunately, the only information obtained so far about this generous benefactor's connection to the University of Wisconsin-Madison is that she received her Bachelor of Science degree in Sociology in 1954. Ms. McCarty was not married and had no children or siblings; she is survived only by cousins.

Assistant Trust Officer Hoerr stated UW-Madison has received approximately \$340,000 from the William T. Comstock Trust to be known as the William T. and Mary Leone Comstock Scholarship Fund. The income is to be used for scholarships, on either a loan or a grant basis, as the university may determine, with preference, if reasonably possible, given to graduates of Columbia County high schools. Since the death of William's wife Mary in 1984, the University of Wisconsin-Madison has been a 20-year beneficiary of 36

percent of the income from the William T. Comstock Trust. These monies provided support to the following funds: the Willard G. Bleyer Journalism Scholarship Fund, the Comstock Journalism Scholarship Fund, the Comstock Scholarship Fund in Conservation, and the Comstock Research Fund in Conservation. With the distribution of the residue of the trust, these funds will receive no further income distributions. Mr. Comstock received his Bachelor of Arts in Journalism from the University of Wisconsin-Madison in 1921. He was a journalist for a newspaper in Portage, Wisconsin for many years and had also owned a radio station there for a time.

Mr. Hoerr noted that UW-Madison has received a partial distribution of approximately \$200,000 from the George K. Nitz and Trel Tator Nitz Family Trust directed to the School of Medicine. Mr. Nitz, born and raised in Green Bay, Wisconsin, received his undergraduate degree in Zoology from the University of Wisconsin-Madison in 1950 and his doctoral degree from the Medical School in 1954. George went on to join the military where he served as a flight surgeon for many years, specializing in surgery of the eye.

Assistant Trust Officer Hoerr stated that UW-Madison will receive approximately \$20,000 per year, which approximately equates to a \$500,000 endowment, from the Helen W. Klingler Charitable Foundation for Medical School research. Neither Helen Klingler nor her father Sylvester B. Way, in whose memory the bequest was made, were University of Wisconsin alumni; rather, Helen, a graduate of Vassar College, was a long-time generous philanthropist to a variety of charitable institutions, many of them located in Milwaukee. Her obituary in the Milwaukee Journal Sentinel noted that she was one of the top three all-time individual donors to Marquette University. Her father, Sylvester B. Way, had been the long-time head of a former major Wisconsin utility company, the Milwaukee Electric Railway and Light Company.

Upon the motion of Regent Connolly-Keesler, and the second of Regent Randall, the Committee approved Resolution I.2.d.(2).

#### **Resolution I.2.d.(2)**

That, upon the recommendation of the President of the University of Wisconsin System and the Chancellors of the benefiting University of Wisconsin institutions, the bequests detailed on the attached list be accepted for the purposes designated by the donors, or where unrestricted by the donors, by the benefiting institution, and that the Trust Officer or Assistant Trust Officers be authorized to sign receipts and do all things necessary to effect the transfers for the benefit of the University of Wisconsin.

Let it be herewith further resolved, that the President and Board of Regents of the University of Wisconsin System, the Chancellors of the benefiting University of Wisconsin institutions, and the Deans and Chairs of the benefiting Colleges and Departments, express their sincere thanks and appreciation to the donors and their families for their generosity and their devotion to the values and ideals represented by the University of Wisconsin System. These gifts will be used to sustain and further the quality and scholarship of the University and its students.

#### **e. Business of the Committee**

##### **(1) Biennial Budget Update**

The Committee followed up on the earlier discussion by the full Board regarding recent state budget developments for the UW System at the June 1, 2005 meeting of the Joint Committee on Finance (JFC).

Regent Bradley stated that the Committee should ask the JFC to not only restore funding for financial aid, but also for 120 faculty members, which is a key part of the Board's budget. The UW System needs funding for faculty members in order to maintain quality.

Regent Pruitt remarked that it is very difficult for the Board to raise tuition even if it allows for benefits to students such as an improved faculty and reduced classroom sizes. However, it is very difficult to raise tuition if the Board is not able to maintain the quality of services provided. The Committee must communicate these priorities to the Legislature.

Associate Vice President Freda Harris responded that the current budget would not allow the UW System to maintain services to students, but would provide a lower quality of services due to the \$90 million biennial budget reduction. There is less money available to go into services for students.

Regent Rosenzweig noted that a compelling case can be made for asking that the biennial budget restore cuts that were made to financial aid. The Committee should focus on the goal that is most achievable in the current budget environment.

Regent Randall commented that the Board should clearly articulate its goals to the Legislature and obtain clear direction from them regarding the direction of the UW System. The jobs that allow people to escape poverty and move into the middle class require at least a high school education, and preferably a two or four year degree. Yet the State of Wisconsin continues to slash access to higher paying jobs by reducing funding to prepare people for those jobs.

Regent Bradley noted that President Reilly's initiative for a bi-partisan commission would allow the Board to work with the Legislature toward these goals. President Reilly stated that the timeline of the bi-partisan commission is very important. Due to the campuses' enrollment cycle planning, the commission would need to provide direction to the UW System by early 2006 concerning the 2007 academic year.

Regent Vice President Walsh indicated that states with a high number of baccalaureate degree holders have better economies and higher per capita income. The Board should call attention to the fact that cutting financial aid and refusing to fund the requested 120 faculty members are contrary to the goals of the UW System -- access and quality.

The members of the committee approved a motion to develop a resolution for the full Board to consider in support of the formation of a bi-partisan state Commission on the Future of the UW System, restoring 120 proposed faculty positions, and restoring the \$13 million cut in financial aid.

#### **f. Report of the Vice President**

Vice President Durcan reported on additional JFC action concerning utility funding and information technology procurement. Senate Bill 216 went before the JFC, and they approved funding for the current year utility shortfall in the amount of \$22.5 million. However, in other action, the UW System almost lost its information technology purchasing authority.

Ms. Durcan stated that the May Big 10 Business Officers Meeting was held at Penn State University. Business officers gave updates on tuition increases and faculty and staff salary plans, as well as state budget and funding levels. Tuition increases were expected to be as much as 10 percent at Michigan and Michigan State, with most increases in the 6-7 percent range. Michigan is facing the most significant financial challenges.

Vice President Durcan noted that 6 of the Big 10 institutions have per credit tuition, and the University of California System offers investment services to institutional foundations through trust funds. Most peers are doing 3-5 year financial projections that go to their Boards. Most peers are also responding to the Sarbanes-Oxley Act, including the institution of a hotline, rotating auditors, developing a code of ethics, and performing background checks on new employees. She remarked that many Big 10 institutions have much more control over their own destiny, whether it is in setting tuition, insurance, bonding, or capital construction, for example.

Ms. Durcan reported that UW-Eau Claire was featured in the May issue of University Business for its outsourced text rental program. The program streamlined services to students and is unique in that it outsourced the program to Barnes and Noble, Inc.

Vice President Durcan noted that Regent Vice President Walsh testified at the Joint Audit Committee Hearing regarding the vehicle fleet audit. This week Executive Senior Vice President Mash responded to two questions asked at the hearing. The first question was regarding the significant differences in the sizes of the

fleets. Mr. Mash responded that the size of the fleet is not related to the size of the campus. The various missions and programs of the universities determine the size of their fleet. The second question focused on which phase of the fleet reduction dealt with the chancellors' cars.

**g. Additional items, which may be presented to the Committee with its approval**

No additional items were presented to the Committee.

**h. Closed session to consider trust fund matters as permitted by s.19.85(1)(e) Wis. Stats.**

Upon the motion of Regent Pruitt, and the second of Regent Randall, the Business and Finance Committee adjourned to Closed Session at 3:49 p.m. Present were Regents Bradley, Connolly-Keesler, Pruitt, Randall, and Rosenzweig.

The Business and Finance Committee adjourned at 4:00 p.m.



---

Eric Engblom, Recording Secretary