Minutes
Business and Finance Committee
Board of Regents of the University of Wisconsin System
October 6, 2005

The Business and Finance Committee met in Joint Session with the Physical Planning and Funding Committee at 1:45 p.m. in room 1920 Van Hise Hall, UW-Madison, to hear a presentation on the UW-La Crosse campus master plan. The minutes of this discussion are detailed in the minutes of the Physical Planning and Funding Committee.

The Joint Session with the Physical Planning and Funding Committee adjourned at 2:16 p.m.

The Business and Finance Committee reconvened at 2:18 p.m. in room 1920 Van Hise Hall, UW-Madison. Present were Regents Pruitt, Connolly-Keesler, Loftus, Randall, Rosenzweig, and Smith.

a. Approval of Minutes of the September 8, 2005 meeting of the Business and Finance Committee

Upon the motion of Regent Connolly-Keesler, and the second of Regent Smith, the minutes of the September 8, 2005 meeting of the Business and Finance Committee were approved as presented.

b. Continued Review of Personnel Policies and Practices:

(1) Insight from University of Wisconsin Institutions and Statutorily-Authorized Governance Groups

Vice President Debbie Durcan stated that the resolution regarding personnel policies and practices passed at the September meeting provided that, “With input from appropriate governance groups, position titles designated as limited appointments shall be reviewed, and the practice of negotiating fixed-term contracts for administrators in lieu of limited term appointments shall be considered.” As a part of that input process, a review of the entire resolution took place with the Provosts, the Academic Staff Representatives, and the Faculty Representatives during the month of September. In addition, President Reilly asked each of the Chancellors to initiate consultation with their faculty and academic staff governance groups and provide comments back on all aspects of the resolution.

Chancellor Keating, UW-Parkside, reviewed the process undertaken to gather the concerns and comments from the faculty and academic staff governance groups. UW-Parkside eliminated concurrent appointments about four years ago, without negative effect or complaints from shared governance groups. Faculty members who take on administrative duties are concerned that they would be unable to continue to progress in their areas of research and fall behind their peer group. On the sick leave issue, UW-Parkside received a draft from UW System and received feedback that the policy of 10 days would not be out of line. UW-Parkside has a very collegial and collaborative relationship between the administration and shared governance groups.

Rick Haskey, Academic Staff Representative, UW-Parkside, weighed in on the proposed changes to university employment policies and practices. He noted that the net result of the September meetings with the Academic Staff Committee, members of UW System Administration, and Chancellor Keating, was that it is imperative to include feedback from academic staff. At the present time, shared governance has no formal opposition to the Board of Regents resolution from last month’s meeting regarding the use of concurrent appointments or sick leave.

Jane Wypiszynski, President, Academic Staff Senate, UW Oshkosh, commented that colleagues were consulted on campus to solicit opinions on concurrent appointments and sick leave usage. Academic staff were willing to change from “at will” to “for cause” appointments. No significant
objections were raised to a potential policy change that would require medical certification for employees using sick leave for absences of more than 10 work days.

James Simmons, President, Faculty Senate, UW-Oshkosh, stated that faculty members are concerned about the broader discussion of the social contract between the university and its employees. Faculty and classified staff essentially have a tradeoff between lower salaries and improved benefits, including sick leave. Most faculty members would not move into an administrative post without tenure. Faculty members agree that there should be a reasonable period of adjustment upon returning to a faculty post. Most faculty members revert back to the classroom due to their own choice, as opposed to situations of malfeasance. Finally, the current sick leave policy offers a disincentive to use sick leave due to the ability to accumulate it, resulting in faculty members teaching while they are sick.

Regent Loftus agreed that there exists a disincentive for employees to use sick leave. He asked whether the onus of the sick leave policy would fall on the supervisor. James Simmons responded that most sick leave days are for illnesses of one day to one week in duration. Many employees also use sick leave for doctor appointments. The onus would be on the supervisor; however, no policy would remedy a misuse of that policy. Chancellor Wells stated that the policy would fall under the discretion and authority of the supervisor to determine whether there is a pattern of sick leave misuse.

Regent Pruitt asked for input on how concurrent appointments would be replaced if the suspension was made permanent. Chancellor Wells remarked that a permanent suspension of concurrent appointments would not be a big issue. Some academic administrative staff should be “at will” appointments; however, due process is very important. Criteria should be developed to determine which positions would be classified as “at will.” Chancellor Keating noted that fixed term appointments might result in the need to buy out contracts of employees that do not perform well.

(2) Revised Sick Leave Policy for University of Wisconsin Employees

Associate Vice President Alan Crist led the Committee in reviewing three options for changing the University’s sick leave policy. The first option authorizes institutions to require written certification from a health care provider to verify the medical necessity for the employee’s absence at any time they are in doubt that sick leave is being used for an authorized purpose. The second option would require written certification from a health care provider of the medical necessity for use of sick leave for absences of more than 10 consecutive full working days. The third option for consideration is similar to the second option except the certification would be required after 5 days.

Associate Vice President Crist stated that current policy describes appropriate uses for sick leave, such as personal illness, injury, or disability, but does not address circumstances under which faculty, limited appointees, and academic staff must provide a medical certification for using sick leave. Mr. Crist described the policies of other state agencies and some local private employers, noting that requiring certification is often left to managers’ discretion, but private companies often specify a number of days, five days being the most common, as a trigger for when medical certification is required.

Mr. Crist remarked that a 5 or 10 day trigger would be very prescriptive and an unnecessary administrative burden on UW System institutions and health care professionals. It would not foster an expectation of an environment of responsibility, and unnecessarily treat UW employees differently from other state employees.

Regent Connolly-Keesler and Regent Smith agreed that a 5 day trigger is a prudent length of time to require a doctor’s note. This would bring the UW System more in line with the policies of the private sector.

Regent Loftus emphasized the value of the sick-leave benefit, noting that changes would be made amid concern in the Legislature about recent UW employment situations. He noted that it is prudent for the Board adopt a policy that is more akin to the private sector.

Upon the motion of Regent Loftus, and the second of Regent Rosenzweig, the Business and Finance Committee unanimously voted to require UW employees to provide a doctor’s certification when using sick leave for a period of 5 days or longer.
(3) Review of the Internal Audit Function

President Kevin Reilly stated that at the September Board meeting, several questions were raised regarding the audit function of the UW System. These included whether the audit function is sufficient at the UW System office and on the individual campuses, whether the President has the tools needed to manage the UW System into the future, and whether the internal auditor should report directly to the President and the Board of Regents.

Vice President Debbie Durcan reported that the Office of Operations Review and Audit is designed to serve as an internal management consultant for the Board of Regents, the Office of the President and other UW System offices, and the UW institutions. The office assesses the performance of administrative and other operations, reviews the implementation of Board of Regents and UW System policies, assists UW institutions with special investigations, and conducts research and analysis.

Ms. Durcan stated that prior to 1996, the Office was responsible for conducting most audits within UW System, with the exception of those performed at UW-Madison and UW-Milwaukee. These UW System audits were primarily operational or financial in nature. A 1996 reorganization of UW System Administration reduced the number of central office audit staff and changed the focus of the audit function to a program review and policy analysis function, with most projects addressing systemwide issues.

Vice President Durcan noted that the office mission statement read, “The Office of Operations Review and Audit is responsible for providing objective review and analysis to assure that University of Wisconsin programs, policies and practices are conducted in accordance with state law and Board of Regents policy.” A review of university systems in other states indicates that their system-level audit offices have similar roles and missions.

Ms. Durcan pointed out that the role of campus auditors in the UW System is to provide objective analyses of financial and operational activities. These auditors typically report to the chief business officer at each UW institution and prepare reports for use at the institution.

Vice President Durcan commented that the System Office of Operations Review and Audit also plays a role in the audit function at the UW campuses. The Office convenes periodic meetings of the campus auditors, organizes training opportunities, and serves as a System-level point of contact when UW institutions discover possible fraud. The System Office also periodically collects information from UW institutions to ensure that audit activity is occurring in six core areas: (1) cash handling; (2) payroll/personnel; (3) property control; (4) auxiliary operations; (5) tuition and segregated fee revenues; and, (6) major information technology systems.

Ms. Durcan stated that after the 1996 systemwide reorganization, each UW institution was required to establish at least one auditor position with responsibility for conducting campus-based financial and management audits. More recently, due to severe budget cuts, some UW institutions have significantly reduced or eliminated the staff assigned to the audit function. Four campuses are currently without an internal auditor. To address this shortfall, the Chief Business Officer and Provost working group that is reviewing administrative functions is examining whether there are opportunities to share audit resources geographically among the institutions. Given the audit positions eliminated at the campuses, this arrangement would provide coverage at each campus, as well as reduce overall costs. However, this option has not been well-received by those campuses who have an internal auditor as they highly value the work of the internal auditor and see their audit capacity being reduced.

Ms. Durcan noted that the Legislative Audit Bureau (LAB) is the external auditor for the UW System. There is a formal contractual relationship in place which covers the performance of the annual federally-mandated A-133 audit covering all federal grants and contracts, as well as the annual financial audit covering the financial statements. In addition, LAB performs reviews and issues letter reports, such as the review of UW-Madison’s Surplus with a Purpose (SWAP) and Materials Distribution System (MDS)).
Vice President Durcan commented that, administratively, the Director of the Office of Operations Review and Audit reports to the UW System Vice President for Finance. In addition, it has been clearly understood that the Operations Review Director has an informal reporting relationship to the university President and to the Board of Regents, through the Business and Finance Committee. The Director can, at any time, consult with the President and the Board directly, if necessary.

Ms. Durcan remarked that, prior to 2001, the Director also reported on program review reports to the Audit Subcommittee of the Board of Regents Business and Finance Committee. In late 2001, as part of a Board Efficiency and Effectiveness initiative, the Board eliminated the Audit Subcommittee and established a new protocol, whereby the Vice President for Finance submitted completed program review reports to the Board’s Executive Committee. A decision was to be made on a case-by-case basis about to which committee the reports would be forwarded and discussed. In practice, most reports have been presented to the Business and Finance Committee. This process was formalized in 2005, when the Director began to report periodically, usually quarterly, to the Business and Finance Committee on completed projects and provide an update on projects the Office as well as LAB is conducting within the UW System.

Vice President Durcan noted that a comparison of administrative reporting structures based on the 18 university systems that the UW System uses for administrative-cost comparisons shows that among the 16 systems for which information is available, in 10 instances the audit function reports to the president or chief executive officer; in five cases, to a vice president; and in one case, to chief legal counsel. While they are not included as one of the 18 peer systems, the Minnesota State Colleges and Universities System’s (MnSCU) internal audit department reports directly to the Board of Trustees.

Ms. Durcan reported that auditors in individual Big Ten institutions more often report to a vice president, as they do in the individual UW institutions. A Big 10 Audit Conference survey of the reporting structure in the Big Ten institutions found that auditors at seven of the 11 institutions reported administratively to a vice president; three reported to the president; and one reported to the institution's corporate controller.

Vice President Durcan stated that the Chronicle of Higher Education, in a June 10, 2005 article, noted that the Sarbanes-Oxley Act has caused some academic institutions to expand internal auditors’ authority and strengthen their link to the institutions’ governing boards. The article presented various views on the ideal reporting structure for internal audit departments. One view is that internal auditors should report directly to the governing board’s audit committee, because this structure provides checks and balances on the university president and chief financial officer. Another view is that an auditor only needs to have the option of requesting a private meeting with the president or governing board.

Vice President Durcan commented that the Sarbanes-Oxley Act of 2002 was designed to protect investors in publicly-traded corporations. While the Act does not apply to higher education institutions per se, the National Association of College and University Business Officers (NACUBO) stated that aspects of the Act may have application to higher education as good business practices. With respect to the audit function, Sarbanes-Oxley recommends that an audit committee or its equivalent have at least one financial expert and that the committee exercise control over external auditors.

Vice President Durcan noted that NACUBO recommends that institutions that do not have an audit committee should assign the audit function to another committee of the board of trustees and add “audit” to that committee’s title. In the UW System, the Board of Regents’ Business and Finance Committee acts as the audit committee, and the Committee’s Vice Chair has been functioning as the audit liaison.

Ms. Durcan reported that the Act requires that audit committees establish procedures for receiving and handling complaints companies receive about accounting, internal controls, and auditing matters. Procedures should also be in place for confidential, anonymous complaints from employees. NACUBO recommends that, as a good practice, universities establish confidential complaint mechanisms for employees, with the audit committee reviewing the nature and disposition of any reported matters. A plan for an employee-complaint procedure of this type was endorsed by the
Regents’ Business and Finance Committee in June 2005 and will be piloted at UW-Milwaukee beginning in early 2006.

Regent Connolly-Keesler noted that when she and Regent Bradley met with LAB regarding the administrative audit, it was decided that she would serve as the Business and Finance Committee liaison to the internal audit function. Since that time, the director of internal audit has provided her with full audit reports, and concerns and recommendations were brought before the Committee.

Regent Randall asked what the LAB charges for audits and whether LAB has ever refused to perform an audit that the UW System requested. Vice President Durcan responded that the contractual amount paid to LAB is $250,000, and it may be cost prohibitive to use an outside auditor. LAB has the right of first refusal, but has never refused to perform an audit requested by the UW System.

President Reilly stated that the audit function can be strengthened. He presented seven recommendations for strengthening audit-related reporting relationships in the UW System:

1. The Business and Finance Committee will be officially designated as the audit committee of the Board of Regents and the Director will meet at least quarterly with the Committee;
2. The Vice Chair of the Business and Finance Committee will be officially designated as the audit liaison to the Board of Regents;
3. Any Regent may submit a request for an audit, or review, for consideration by the Business and Finance Committee through the Audit Liaison;
4. The Director will present an audit plan for periodic approval by the Business and Finance Committee, report to the Committee on audits completed and underway, and solicit from the Committee input for proposed audits and reviews;
5. At the sole discretion of the Director, he or she will have unfettered access to the UW System President and the Board at any time;
6. The Director will meet at least quarterly in a private conference with the UW System President; and,
7. The organizational chart will be formalized to show the special reporting and access relationships described above between the Director and the Board, and the Director and the UW System President.

Regent Loftus asked for President Reilly to comment on how the UW System compares to institutions around the country regarding the structure of the audit function. He also asked for a reaction to the results of the 1996 change which reduced System auditors and increased campus auditors, with the result that some campuses now do not have an internal auditor. President Reilly noted that the recommended changes would bring the UW System more in line with audit functions nationally. He expressed concern that some campuses no longer have a campus auditor. This reflects the fact that in making budget cuts, the UW System’s goal has been to protect instruction at all costs and to take cuts on the administrative side, as far removed from student services as possible.

The Committee discussed the role of internal auditors and the extent to which the Office of Operations Review and Audit has the ability to identify projects independently. Regent Loftus stated that it should be clear that the current Internal Auditor can go directly to the audit liaison of the Business and Finance Committee with an audit initiative.

Upon the motion of Regent Loftus, and the second of Regent Rosenzweig, the Business and Finance Committee unanimously voted to amend the first recommendation that instead of the Business and Finance Committee being designated as the Audit Committee, the Committee will be renamed the Business, Finance, and Audit Committee. The change was to make clear that this is the committee with which the audit function resides. The name change will require a change to the Board’s bylaws, which can be addressed at the next Board meeting.

Upon the motion of Regent Connolly-Keesler, and the second of Regent Smith, the Committee adopted the amended recommendations as a formal resolution to be presented to the full Board.

Due to the extended discussion on personnel policies and audit function, the Committee moved this agenda item to the next meeting.

d. Operations Review and Audit

(1) Safeguarding Student Social Security Numbers in the UW System

Ron Yates, Director, Office of Operations Review and Audit, stated that the program review indicated that UW System institutions have stopped the use of student Social Security numbers (SSN) as required by Chapter 36, Wis. Stats; however, there is much work yet to be done. Only two campuses have student identification numbers that use the SSN and this is only because students have been allowed to keep old identification cards which incorporated the SSN. Newly issued cards do not include the SSN. There are other instances where SSNs continue to be solicited and used. Some instances are required by law and others are not, but are necessary for UW operations. The review recommended that UW System institutions review all institutional forms soliciting the SSN from students to determine whether SSNs are necessary and, if they are, ensure that the forms include the proper notice, consistent with the Privacy Act of 1974. Some institutions have also limited the display of the SSN on student data systems or official documents such as transcripts.

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

Resolution 1.2.d.(1)

That, pursuant to the report, “Safeguarding Student Social Security Numbers in the UW System,” by the UW System Office of Operations Review and Audit, the Board of Regents directs that University of Wisconsin System institutions shall: collect and use student Social Security Numbers only as permitted or required by federal or state law, and only as reasonably necessary for the proper administration or accomplishment of the institutions’ business, governmental, and educational purposes; provide the notice required by Section 7(b) of the Federal Privacy Act of 1974 whenever they request that students disclose their Social Security Numbers; and limit access to and the display of records containing student Social Security Numbers.

(2) Quarterly Project Update

Director Yates gave a brief status report on the major on-going projects of the Office. Included in the discussion were the reviews of Police and Security Operations, Tuition Waivers, and Student Academic Fee Audits.

Mr. Yates noted that in a letter-report issued in August 2005, LAB responded to legislative inquiries about the profitability and salaries associated with UW-Madison's Materials Distribution Service (MDS) and Surplus with a Purpose (SWAP) programs. The report noted that MDS revenues had increased, primarily because of an increase in the number of product vendors; and SWAP revenues had increased due to increased activity.

Director Yates gave a brief overview on the impact of the Sarbanes-Oxley Act of 2002 on institutions of higher education and their governing boards. Sarbanes-Oxley was enacted by Congress in response to unprecedented corporate and accounting scandals. While the Act does not apply to public or
not-for-profit entities, it does highlight best business practices that address the universal concern for accountability.

Director Yates remarked that the National Association of College and University Business Officers (NACUBO) issued an advisory report identifying provisions in the Act that can serve as best business practices for universities. The NACUBO report focuses on having strong oversight by the audit committee and enhancing controls over financial operations. Some of the recommendations include: establishing an audit committee, giving the audit committee direct control over the external auditors, rotating the external auditor every five years, prohibiting the external auditor from performing any non-audit work, and periodically reviewing the institution’s confidential complaint mechanism. Other areas of Sarbanes Oxley pertain to financial operations, including requiring a code of ethics for senior financial managers.

Vice President Durcan remarked that she and the State Auditor discussed the possible scope of the LAB audit that President Reilly requested on university personnel policies and practices. It is expected that the audit will be very broad-based, and can reasonably be expected to include a review of concurrent appointments, consultants, including the types of positions held, terms of the appointment, what kind of work product is produced, cash settlements paid to those who leave the UW System, felons on the UW payroll, personnel policies of other states, sick leave usage, vacation usage and sabbaticals. It is not possible to predict how long the review will take. Similar to the LAB review of administrative staffing, the Committee will be apprised of this review monthly.

e. Trust Funds

(1) 2005 Proxy Season Voting Results

Investment Analyst Tom Reinders noted that the UW System Trust Funds actively participates in issues involving discrimination, the environment and social injury via proxy voting of shareholder proposals as addressed in Regent Policies. The 2005 proxy season ended with 330 social proposals filed, with one-half of them coming to votes, another third withdrawn and about 15 percent omitted. Withdrawals are often looked upon favorably, and generally indicates that an agreement was reached between the proponent and the company, usually in the form of a concession made by the company. If the proposal comes to a vote, the following guidelines apply: first-year proxy proposals must win at least three percent support to qualify for resubmission an additional year, second-year proposals must get at least six percent, and proposals in their third-year or more must receive at least ten percent. Any proposal which fails these support levels may not be resubmitted at the company for another three years.

Mr. Reinders stated that the UW Trust Funds subscribes to a research firm for proxy research and voting data. The primary submissions for the UW Trust Funds on social issues involved the environment and global climate change, human rights and labor standards, and equal opportunity reporting.

f. Business of the Committee

(1) Statutorily Mandated Report: Serving Adult Students of the University of Wisconsin through Biennial Budget Appropriations

Interim Associate Vice President Sharon Wilhelm, Office of Policy Analysis and Research, reported that, in the 1997-99 Biennial Budget, the UW System was given continuing appropriation authority for continuing education program revenue funds. With the passage of the 1999-2001 Biennial Budget, this authority was extended, in part, to the regular tuition appropriation. The flexibility in the use of tuition revenue has contributed to the UW System’s ability to serve adult/non-traditional students. The current enrollment policy continues to place a strong priority on services and programming to adult
students. Wisconsin Act 16 requires the UW System Board of Regents to report annually on activity in 100 percent tuition funded courses.

Regent Smith noted the large number of these courses offered at UW-Stout. This is due to several reasons, including UW-Stout’s strong relationship with the technical college system.

Upon the motion of Regent Randall, and the second of Regent Connolly-Keesler, the Committee approved Resolution I.2.f.(1).

**Resolution I.2.f.(1)**

That, upon recommendation of the President of the University of Wisconsin System, the Board of Regents accepts the report on Cost Recovery Activity, Credit Enrollment and Unduplicated Student Headcount by Program and Age, 2004-05 Academic Year for submission to the Joint Committee on Finance.

(2) **Statutorily Mandated Report: FTE Positions Created by the University of Wisconsin System in 2004-2005**

Associate Vice President Freda Harris reported that the UW System did not create any General Purpose Revenue (GPR) positions last year.

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

**Resolution I.2.f.(2)**

That, upon the recommendation of the President of the University of Wisconsin System, the Report on 2004-05 Full-Time Equivalent Positions Created or Abolished Required by Section 16.505(2p)(a), Wisconsin Statutes, be accepted for transmittal to State Officials.

g. **Report of the Vice President**

Vice President Durcan reported that, due to expected rate increases beyond those built into the 2005-07 biennial budget, the UW System’s utility appropriation may be in excess of $9 million short for this fiscal year. The Department of Administration (DOA) Secretary just released a memo telling agencies and UW campuses to establish contingencies to self-fund any shortfalls. DOA has also established a statewide goal of reducing consumption by 5 percent this year on top of an average reduction of 7.5 percent last year. UW System will be surveying peers to see whether any institutions are instituting emergency energy surcharges to compensate for the anticipated rate increases. Several of the vendors with whom the UW System do business have instituted energy surcharges to cover increased delivery costs.

Regent Randall commented that the Board must take action to deal with the burden of rising energy costs. Energy costs are soaring, and the UW System has faced utility budget shortages over the prior five years. He asked whether it is possible to achieve the 5 percent reduction goal, and whether the UW System has looked into possible solutions regarding fuel tax rebate proposals, the number of fleet vehicles, and more efficient buildings. He also suggested the possibility of putting in place an energy surcharge.

Sherwood Wilson, Vice Chancellor, UW-Milwaukee, stated that there are energy usage guidelines; however, many energy related solutions require resources to put them into place. There are also disincentives for saving energy built into the way utilities are paid for including the fact that savings do not revert back to the institutions.
Regent Pruitt suggested that a more comprehensive review of energy be discussed at future Committee meetings. The Committee agreed that formalized recommendations should be brought before the Board upon this review.

Ms. Durcan noted that contracts have been finalized for the eight categories identified as the “first wave” for potential state-wide procurement savings. There are still significant concerns about the impact of these contracts on small, local businesses in the communities. The UW System Administration is documenting problems, additional costs, and other concerns that will be shared with DOA.

Regent Randall asked whether the UW System is tracking the impact of these contracts on small and local business contracts. Ms. Durcan noted that there is concern about small and local businesses, especially articulated by the Platteville Chamber of Commerce. The impact of these contracts are being tracked; however, it is challenging to quantify the data.

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

No additional items were presented to the Committee.

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

Upon the motion of Regent Randall, and the second of Regent Connolly-Keesler, the Business and Finance Committee adjourned to Closed Session at 4:47 p.m. Present were Regents Pruitt, Connolly-Keesler, Loftus, Randall, Rosenzweig, and Smith.

The Business and Finance Committee adjourned at 5:03 p.m.

Eric Engbloom, Recording Secretary