

Minutes
Business, Finance, and Audit Committee
Board of Regents of the University of Wisconsin System
August 17, 2006

The Business, Finance, and Audit Committee met at 1:05 p.m. in room 1920 Van Hise Hall, UW-Madison. Present were Regents Pruitt, Connolly-Keesler, Burmaster, and Smith. Regent Shields (nominated) was also present.

a. Approval of Minutes of the June 8, 2006 Meeting of the Business, Finance, and Audit Committee

Upon the motion of Regent Connolly-Keesler, and the second of Regent Smith, the minutes of the June 8, 2006 meeting of the Business, Finance, and Audit Committee were approved as presented.

b. Resolutions in Support of the Veterans' Tuition Grant and the Hold Harmless Tuition Grants

Sharon Wilhelm, Interim Associate Vice President, Office of Policy Analysis and Research, offered Regents a comparison between the funding that would be provided to students under the proposed Wisconsin Covenant and the proposed Hold Harmless Tuition Grant. The grant would assist current UW students who would not be eligible for the Wisconsin Covenant, a program that would begin in 2011.

Ms. Wilhelm reported that the Hold Harmless Tuition Grant would offer students state funds to cover tuition and fees not covered by other financial aid, but would leave additional costs of attendance to be paid by the student, likely through loans and the expected family contributions. The Wisconsin Covenant, by comparison, would provide more state funds to cover tuition and fees, allowing the student to use federal financial aid to offset additional costs of attendance.

Ms. Wilhelm said the Hold Harmless Tuition and Veterans' Tuition Grant programs will be administered by the Higher Educational Aids Board (HEAB).

Connie Hutchison, Executive Secretary, HEAB, stated that the agency has been working cooperatively with officials at the UW System and other colleges and universities to develop these grant programs.

David Markee, Chancellor, UW-Platteville, said he expects an online criminal justice program to serve a large number of student veterans. Funding for veteran tuition remissions would assist the campus in recovering costs for these kinds of programs.

Regent Burmaster noted her approval of the Veterans' Tuition Grant. By approving these two grant programs, it would send out the message that these grants are Board priorities.

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

Resolution I.2.b.(1)

WHEREAS, the University of Wisconsin was a leader in maximizing the benefits to World War II veterans under the federal G.I. Bill, and has for decades continued the state's commitment to providing opportunities for a higher education to veterans, their families, and students from all walks of life; and

WHEREAS, the unified efforts and leadership of the state Legislature and the Governor made it possible to create, as part of the 2005-07 state biennial budget (2005 Wisconsin Act 25), a 50 percent tuition remission for certain veterans and a 100 percent tuition remission for certain dependents of veterans enrolled at University of Wisconsin System and Wisconsin Technical College System institutions; and

WHEREAS, in the spring of 2006, the Wisconsin GI Bill (2006 Wisconsin Act 468) furthered the state's educational investment and opportunity for economic development by expanding the tuition remission for veterans to 100 percent; and

WHEREAS, recognizing that this expansion will dramatically increase the cost of the program, the Legislature delayed implementation of Act 468 provisions until the 2007-08 academic year to allow time to consider GPR funding for this program in the 2007-09 biennial budget;

THEREFORE, BE IT RESOLVED that the Board of Regents and the institutions of the UW System strongly support the development of a Veterans' Remission Grant Program as an essential strategy for increasing access to higher education for Wisconsin's veterans and their families; and

BE IT FURTHER RESOLVED that while individual campuses will administer much of the program, the Board applauds the willingness of the Higher Education Aids Board (HEAB) to facilitate the program and urges the state to provide funding to HEAB to support the grants and needed staffing to monitor the program's participation and costs, facilitate data collection and dissemination, and provide participating veterans with a single point of contact for information about the tuition grant program.

Upon the motion of Regent Connolly-Keesler, and the second of Regent Burmaster, the Committee unanimously approved Resolution I.2.b.(2).

Resolution I.2.b.(2)

WHEREAS, the Board of Regents is greatly concerned that children from lower-income backgrounds are facing a future with fewer opportunities and, therefore, has made it a priority to increase the possibility for low-income students to participate in public higher education in Wisconsin; and

WHEREAS, the Governor and the Board of Regents have endorsed a new "college is possible program" called the Wisconsin Covenant; which would ask eligible eighth-grade students to sign a pledge to academically and socially prepare for college, and

WHEREAS, in return for students fulfilling the pledge, the state of Wisconsin would provide students with state grant aid to cover tuition and fees at higher education institutions in Wisconsin; and

WHEREAS, since the earliest a student eligible for the Wisconsin Covenant will enroll in an institution of higher education is 2011, the Board of Regents believes additional grant aid is needed now to assist those lower-income students who are currently attending a UW institution, or who plan to attend prior to 2011;

THEREFORE, BE IT RESOLVED that the Board of Regents of the University of Wisconsin System supports the creation of a Hold Harmless Tuition Grant to cover tuition and fees not covered by other grant aid in order to increase the probability that financially needy current, and prospective, students will attend and graduate from a UW institution; and

BE IT FURTHER RESOLVED that the Board appreciates the willingness of the Higher Educational Aids Board (HEAB) to administer a Hold Harmless Tuition Grant program, and supports including funding for the program and its administrative costs in HEAB's budget in order to keep college affordable for all financially needy students; and

BE IT FURTHER RESOLVED that the Board requests the statutory language and appropriation for the UW-Wisconsin Higher Education Grant (WHEG) program be modified to increase the UW-WHEG grant for each recipient by an amount equal to the amount that tuition increases, thereby making it a “dollar for dollar” increase to the grant for all qualified UW students.

c. Update on Criminal Background Checks

Al Crist, Associate Vice President, Office of Human Resources, noted that current practices have been reviewed and guidelines drafted for implementing criminal background check policies for the UW System. The UW System is assured that each institution is conducting criminal conviction checks that are required by state and federal laws.

Regent Smith asked what the current policy is concerning criminal conviction checks. Associate Vice President Crist stated that currently each campus has its own policy and the UW System is in the process of developing guidance on establishing and implementing policies on a systemwide basis. Any policy would follow due process for all applicants. A final draft policy will be presented for Committee approval at the December, 2006 Board meeting with implementation expected in January, 2007.

d. Trust Funds

(1) Policy Discussion Regarding Divestment in Tobacco Interests

Regent Rosenzweig joined the Committee meeting at this time.

Assistant Trust Officer Doug Hoerr commented that, in April, Regent Loftus suggested consideration of an anti-tobacco policy. If the Board wishes to pursue an anti-tobacco stance, the policy should apply across the board to all UW System activities, such as not accepting research money related to tobacco. UW System Trust Funds currently have a small amount invested in tobacco related holdings. Most is invested through large, broad based, commingled mutual funds whose portfolios contain only a very small fraction of tobacco related investments.

Regent Connolly-Keesler asked where the Committee would draw the line on other products that are marketed toward students, such as alcohol and credit cards, if the Committee adopts an anti-tobacco stance.

Although there was not a consensus within the Committee to divest in tobacco interests, Regent Burmaster and Regent Rosenzweig expressed interest in reviewing alternatives to address the issue. Regent Burmaster commented that taking an anti-tobacco stance might be difficult considering the Committee’s fiduciary responsibility regarding the UW System endowment.

(2) Sudan Divestment Informational Report

Assistant Trust Officer Hoerr presented an informational report on what other universities and public pension funds have been doing in regard to divestment of companies with ties to Sudan. A national student-activist group, the Sudan Divestment Task Force, is spearheading an on-going campaign encouraging universities, foundations, and pension funds to divest due to state-supported genocide in the Darfur region of Sudan.

Mr. Hoerr stated that United States companies are already prevented from investing in Sudan, and in 2004, the United States officially declared that the violence in Sudan qualified as genocide. However, foreign companies are not subject to these sanctions and many operate in Sudan.

Assistant Trust Officer Hoerr noted that investments in foreign companies with ties to Sudan are held in commingled funds, and cannot be directly and individually divested. However, the Board could join other institutional investors in discouraging business activity that provides support to the current government of Sudan.

Regent Pruitt said that the Board should take action on this issue. He introduced a resolution which would prevent the UW System Trust Funds from investing in companies that do business with Sudan. Where invested assets are held in commingled accounts, letters would be submitted to investment managers requesting a Sudan-free investment policy.

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

Resolution I.2.d.(2)

Whereas the United States Congress has declared that the situation in the Darfur region of Sudan constitutes state-sponsored or abetted *genocide*, and

Whereas, Sudan is on the U.S. State Department's list of state sponsors of terrorism and is subject to sanctions administered by the Treasury Department, and

Whereas, the U.S. government has imposed sanctions including banning the importing or exporting of goods and technology to Sudan, with the exception of humanitarian goods and certain agricultural products, or financially supporting Sudanese government projects by U.S. entities, and

Whereas, non-U.S. entities are not subject to U.S. government sanctions and restrictions, and

Whereas the Board of Regents of the University of Wisconsin System wishes to join in concert with other institutional investors, states and other municipalities, and the U.S. government in restricting and discouraging business activity that provides support to the current government of Sudan, or otherwise abets acts of genocide or "ethnic cleansing" occurring in that country,

Be it resolved that:

- (a) The invested assets of the University of Wisconsin System held in *separately managed accounts*, over which the Board of Regents serves as trustees and fiduciaries, shall not be invested in companies ("targeted companies") which either directly or through an affiliated instrumentality meet the following criteria:
 - i. Provide revenues to the Sudanese government through business with the government, government-owned companies, or government-controlled consortiums.
 - ii. Offer little substantive benefit to those outside of the Sudanese government or its affiliated supporters in Khartoum, Northern Sudan and the Nile River Valley; this "outside" population specifically includes the country's disaffected Eastern, Southern, and Western regions.
 - iii. Have either demonstrated complicity in the Darfur genocide or have not taken any substantial action to halt the genocide. Substantial action shall include but is not limited to curtailment of operations or public pressure on the Sudanese government. Simple company statements shall not constitute evidence of substantial action.
 - iv. Provide military equipment, arms, or defense supplies to any domestic party in Sudan, including the Sudanese government and rebels.Non-investment in such companies will require divestment of current holdings and the screening out of such companies' securities so as to prevent future investment in them.
- (b) *Investment is permissible* in companies which, either directly or through an affiliated instrumentality, provide services clearly dedicated to social development for the whole country. Such entities include, but are not limited to those providing medicine and medical

- equipment, agricultural supplies and agricultural infrastructure, educational opportunities, journalism-related activities, and general consumer goods.
- (c) Where invested assets are held in *commingled* or *mutual fund accounts*, letters are to be submitted to the contracted investment management firms requesting that the manager consider either adopting a similar Sudan-free investment policy for the existing fund, or consider creating a comparable separate commingled fund devoid of companies targeted as a result of this resolution. In the event that the manager introduces a comparable separate Sudan-free fund, the Board shall direct that all assets in the existing fund be transferred into the newly available, Sudan-free fund.
 - (d) If it is determined that a company, which had previously been a targeted company, has ceased business operations with Sudan or its instrumentalities, then that company shall no longer be subjected to divestment and/or screening.
 - (e) In the event that the government of Sudan sufficiently halts the ongoing genocide in Darfur for at least 12 months, as determined jointly by the State Department and Congress of the United States, the provisions of this resolution shall expire.
 - (f) In the event that the United States revokes its current sanctions against Sudan, the provisions of this resolution shall expire.
 - (g) The policy established by this resolution will be communicated to the various foundations which support University of Wisconsin campuses, so that the foundations may consider adopting similar policies.
 - (h) Nothing in this resolution shall alter or diminish existing fiduciary or statutory obligations and other terms, conditions, and limitations on the investment of entrusted assets for the exclusive benefit and interest of beneficiaries, participants, and donors.

(3) Quarterly Investment Report

Assistant Trust Officer Hoerr briefly discussed performance and significant changes in Trust Funds investments for the period ending June 30, 2006. He mentioned that the commodities futures index fund will be divested. The decision was based on extensive research and discussions with strategic partners.

Regent Connolly-Keesler asked about quarterly performance. Mr. Hoerr replied that quarterly performance was negative one-half percent. However, year-to-date performance is strong at 5.3 percent compared to the benchmark return of 4.7 percent.

e. Audit Update

(1) Scope of Work Statement for Review on the Cost of Textbooks

Ron Yates, Director, Office of Operations Review and Audit, stated that, in response to Regent Pruitt's request, the Office of Operations Review and Audit has gathered background information and developed a proposal for topics that could be included in a review of textbook costs.

Mr. Yates gave a brief description of the work to be performed in this effort. The review is expected to: 1) identify trends in college textbook costs; 2) identify approaches used by UW institutions to contain these costs; and, 3) identify approaches used elsewhere to contain textbook costs. The work is expected to take 4-6 months.

Director Yates stated that there is increasing concern about the impact of rising textbook costs on students' access to college. A General Accounting Office (GAO) review found that textbook and supply costs had increased at a rate of 186% within the last two decades. According to the State Public Interest Research Groups' Higher Education Project, among the factors driving up textbook costs is the practice of "bundling" workbooks, CD-ROMs, and other consumable materials with textbooks. The review will examine possible solutions to alleviate increasing textbook costs.

Regent Pruitt directed that the review attempt to determine what the UW System can do to leverage its position to encourage textbook manufacturers to increase affordability.

Regent Shields (nominated) remarked that the cost of textbooks is one of the most frequent complaints that he receives from fellow students. He noted problems that students are encountering, such as low resale value of used books. He also stated that textbook rental programs require initial startup costs.

The Committee directed that the Office of Operations Review and Audit move forward with a formal review of the cost of textbooks.

(2) Quarterly Status Update: Operations Review and Audit

Director Yates updated the Committee regarding the on-going internal reviews being performed by his office. Among the projects is the Academic Performance Standards in NCAA Division I and II UW Athletic Coaches' Contracts review, which examines institutions' efforts to support the academic success of student athletes, as well as NCAA academic performance guidelines. A report is being drafted and is due to be presented at the October, 2006 Committee meeting. The Computer Security Policies, Procedures, and Practices review examines how computer security functions are structured and managed at UW institutions and the extent to which the institutions have adequate safeguards to minimize the risk of unauthorized access to private information. Fieldwork is beginning on this project.

Mr. Yates also provided information on recent Legislative Audit Bureau (LAB) audits. The LAB is working on several projects related to the UW System. The projects' status are as follows: (1) an overall review of the UW System's personnel policies and practices is continuing and is expected to be issued this fall; (2) a review of the state's economic development programs, including programs in the UW System, was expected to be released in August; (3) a statewide audit of implementation issues related to large information technology systems projects, including a project inventory and best practices review, is beginning; and, (4) the annual compliance audit of federal grants and expenditures for fiscal year 2006 is underway.

Regent Rosenzweig suggested that the Committee conduct a review of a project that attempted to implement a systemwide appointment, payroll, and benefits system. She noted the public interest in the six-year project, which required an investment of \$26 million, and was discontinued this year.

(3) Program Review of Early Return to Work Efforts at UW Institutions

Mr. Yates summarized the recently completed program review of early return to work efforts at UW institutions. The review analyzed the early return to work process, and found that workers' compensation claims cost the UW System \$4.5 million a year.

Director Yates commented that early return to work initiatives consist of monitoring the medical status of ill or injured employees and accommodating employees' medical restrictions in the workplace. Studies have shown that such efforts provide benefits to both the employee and employer.

Director Yates reported on some potential financial disincentives for early return to work programs. A department's budget is typically not affected by workers' compensation payments because these benefits are paid from a separate fund. However, once an employee returns to work, the department once again pays his or her wages. UW staff noted that some departments may not be able to afford to pay the wages of both an employee who is unable to complete 100 percent of their job duties and a temporary employee.

Mr. Yates stated that the report offered a number of recommendations to improve effectiveness and reduce costs, including the establishment of formal early return to work programs at all UW institutions. Also, the UW System Office of Human Resources should work with Employee Trust Funds (ETF) to explore approaches that may reduce or eliminate return to work disincentives in the income continuation program.

The Committee agreed that some of these internal reviews in search of best practices may be presented in summary form in the future.

f. Committee Business**(1) Quarterly Gifts, Grants and Contracts Report**

Vice President Debbie Durcan stated that total gifts, grants and contracts for the twelve-month period ending June 30, 2006 were \$1.1 billion. This was a decrease of nearly \$55 million from the previous fiscal year. Much of the decline was due to large federal, multiple year awards that were received last year. The largest of these multiple year awards was the UW-Madison Ice Cube project.

(2) Committee Goals and Priorities for 2006-07

The Committee discussed future goals and priorities for the coming year and asked Vice President Durcan to develop a summary agenda for the Committee's consideration. Ms. Durcan remarked that some upcoming topics for the Committee include the 2007-09 budget, the administrative reduction report, the peer salary data, the LAB audit on personnel practices, and various internal audits that will be completed.

The Committee expressed interest in reviewing recently approved Board policies to ensure that they are accomplishing their intended goals.

g. Report of the Vice President

Vice President Durcan stated that the UW systemwide committee to review segregated fees is in the process of being formed.

Ms. Durcan remarked on the Wisconsin Act 89, which requires a cost-benefit analysis for purchases of more than \$25,000. The UW System proposed some clarifications and requested a threshold of \$200,000, rather than \$25,000, due to factors including increased administrative costs to implement the provision. The UW System will send a letter to the Department of Administration (DOA) Secretary expressing concerns.

Vice President Durcan commented that the state contract for on-line booking of travel was awarded to Fox World Travel.

Ms. Durcan noted that the most recent meeting of UW Chief Business Officers included a presentation from an expert regarding increasing administrative efficiencies through the application of lean principles. Some of these ideas will be piloted at UW System campuses, and then, if successful, rolled out on a systemwide basis.

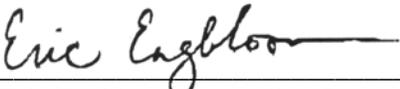
h. Additional items, which may be presented to the Committee with its approval

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 Smith, and the second of Regent Connolly-Keesler, the Business, Finance, and Audit Committee adjourned to Closed Session at 2:30 p.m. Present were Regents Pruitt, Connolly-Keesler, Burmaster, and Smith. Regent Shields (nominated) was also present.

The Business, Finance, and Audit Committee adjourned at 2:40 p.m.


Eric Engbloom, Recording Secretary