

Minutes
Business, Finance, and Audit Committee
Board of Regents of the University of Wisconsin System
March 9, 2006

The Business, Finance, and Audit Committee met at 12:48 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 February 9, 2006 Meeting of the Business, Finance, and Audit Committee

Upon the motion of Regent Rosenzweig, and the second of Regent Randall, the minutes of the February 9, 2006 meeting of the Business, Finance, and Audit Committee were approved as presented.

b. Extramural Funding

(1) Washington Update and the Impact of the President Bush's Budget

Kris Andrews, Assistant Vice President, Federal Government Relations, discussed recent developments in Washington as well as potential budget impacts of the President's budget proposal on higher education and the UW System. Areas of concern include substantial cuts to Department of Education programs. In addition, cuts to entitlement programs are being proposed which will likely create additional stress on state budgets as those costs are shifted to the states. The annual federal budget has increased in dollar terms, but discretionary spending has been significantly cut to accommodate rapid growth in other expenses.

Assistant Vice President Andrews said President Bush's proposed fiscal year 2007 budget includes a \$3.5 billion cut for the U.S. Department of Education, which is currently the primary source of funds for the UW System comprehensive campuses and students. This follows a \$12 billion cut in student loan programs passed in February, 2006. Under the proposal, Pell Grants would remain at the same level for the fifth consecutive year. This forces students to take out more student loans. The proposal would eliminate the low-interest Perkins Loan program, and end Upward Bound and Talent Search, programs aimed at disadvantaged students.

Ms. Andrews noted some good news from the President's budget, including grants for eligible students in science, technology, engineering, mathematics, and critical foreign languages. It also includes investment in research at three federal agencies: the National Science Foundation (NSF), the Office of Science at the Department of Energy (DOE), and the core programs at the National Institute of Standards and Technology.

Assistant Vice President Andrews stated that all UW institutions are engaged in some form of federally funded research, and an investment in increased research collaborations across the UW System would enhance learning and career opportunities for students while attracting more federal dollars. Stronger research centers in the UW System would create greater economic opportunities for the state.

Ms. Andrews outlined three main recommendations to the Committee. She stated that the Board should work to protect student financial aid, support initiatives that will bolster U.S. competitiveness in science and technology, and seek state funding in support of research and public service activity at all UW System institutions.

Regent Connolly-Keesler asked why there was a dip in federal student aid funds from years 2003-04 to 2004-05 at UW-Oshkosh and UW-Stevens Point. Vice President Debbie Durcan commented that the decline could have been due to the timing of student aid reporting, and more analysis will be provided to the Committee.

Regent Loftus asked where the bulk of federal funding comes from for UW-Milwaukee. Ms. Andrews responded that most federal funding for UW-Milwaukee comes from the DOE, NSF, and the Department of Health and Human Services (HHS).

Regent Rosenzweig commented that the state does not appear to be doing its share to fund student aid. If federal student aid funds were cut back it, would be very difficult to restore the shortfall. Ms. Andrews agreed, noting that the backbone of UW System financial aid comes from the federal government.

Regent Pruitt asked for further details about the recommendation to seek state funding in support of research and public service activity at all UW System institutions. Assistant Vice President Andrews stated that only a small percentage of research funds go to campuses other than UW-Madison and UW-Milwaukee. State support for the other campuses would help to build infrastructure and lead to a significant return on investment. Associate Vice President Freda Harris stated that the Board made a priority of asking for additional funding for faculty during the previous budget cycle. If this request had been successful, it would have in turn led to increased research capacity. UW-Oshkosh Chancellor Richard Wells commented that making research dollars available for the comprehensive campuses would make better use of the skills and talents of the faculty at those campuses and could increase federal funds.

(2) Trends in Gifts, Grants, and Contracts

Vice President Debbie Durcan presented the Committee with extramural award data showing that gift, grant, and contract awards to UW System institutions have more than doubled in the nine year period from 1996-97 through 2004-05. While these increases are most prominent at UW-Madison, UW-Milwaukee, and UW-Oshkosh, all comprehensive institutions enjoyed considerable growth over the period.

(3) UW-Madison Research Update

Martin Cadwallader, Dean and Vice Chancellor for Research, Graduate School, UW-Madison, discussed developments and highlighted successes in the research programs of UW-Madison. The institution is consistently ranked among the top universities in the nation in terms of federal research dollars awarded. Total research awards total roughly \$760 million annually, \$580 million federally funded, \$180 million from non-federal sources. UW-Madison's two biggest federal funding agencies are the National Institutes of Health (NIH), accounting for 55 percent, and the NSF, accounting for 20 percent of funding.

Dean Cadwallader responded to concerns regarding the decrease in total awards through December, 2005, compared to the prior year. Most of this is due to timing as some awards are expected later this year. He predicted level funding for fiscal year 2006 and hoped the university would successfully compete for some of the growth in NSF funding. He also noted the economic impact of federal grants as they have a multiplier effect of three to four.

Dean Cadwallader remarked that the key to new research is retaining talented faculty. He cautioned that the university could lose its competitive edge if UW-Madison cannot retain key faculty. UW-Madison faculty members are being targeted by other universities, and this is a wake-up call that the UW System should not take research funds for granted.

Regent Loftus asked how homeland security has affected published versus non-published research. Dean Cadwallader responded that before 9/11, unclassified research was published and classified research was not published. Now there is a grey area of research that is not classified but sensitive. UW-Madison does not currently undertake any classified research and believes in publishing research.

Regent Loftus asked whether any research funding comes from tobacco monies. Dean Cadwallader was not aware of any, and noted that he would check to verify.

Regent Randall called for the Regents to support faculty. He commented that the UW System must find ways to increase faculty retention and be aggressive in pursuing research dollars. Dean Cadwallader added that if UW-Madison were to lose the research position it now enjoys, it would be very difficult to recover.

Regent Connolly-Keesler asked for the number of lost faculty members. Dean Cadwallader stated that UW-Madison has a decreasing ability to retain faculty, and thereby loses the research grants that faculty members have obtained. This also affects instruction due to the fact that the best researchers tend to be the best educators. He agreed to provide more detailed information regarding the number of faculty and research dollars lost.

Regent Loftus commented that UW-Madison has some of the best researchers in the world. In order to maintain that position, UW-Madison needs the ability to attract and retain the best people.

c. University of Wisconsin-Milwaukee School of Architecture and Urban Planning Differential Tuition

Bob Greenstreet, Dean of the Department of Architecture, UW-Milwaukee, reported that UW-Milwaukee is proposing to replace a laptop computer fee currently assessed to students in the School of Architecture and Urban Planning with a differential tuition fee that would support more powerful desktop computers, software, and support services.

Dean Greenstreet stated that laptops lack the power to keep up with the increasing demands of software programs used in professional practice. The implementation of differential tuition-funded desktop workstations, along with their associated software and support, is needed to maintain the quality of education that students and Wisconsin-based architecture firms expect.

Dean Greenstreet stated that the differential tuition will be assessed at \$11 per credit hour for all Department of Architecture courses, and an additional \$30 per credit hour for higher level courses. After the fall semester of 2006, the differential tuition will increase by five percent annually, unless an annually appointed advisory committee concludes that a smaller increase will be sufficient to meet current and projected costs.

The Committee heard from the UW-Milwaukee student prospective. Three student leaders assured the Committee that students support the proposed differential tuition.

Regent Rosenzweig, noting the approval of this plan by the Student Association, asked why five students from the association voted in opposition to the program. The student representatives noted that the opposition was due more to their discomfort with differential tuition programs in general rather than opposition to the specific initiative.

Regent Randall remarked that these types of instructional costs should not have to be covered through tuition; rather they should be supported through state funds. Students are being forced to bear more of the costs associated with providing a quality education.

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

Resolution I.2.c.

That, upon the recommendation of the President of the University of Wisconsin System and the Chancellor of the University of Wisconsin–Milwaukee, the Board of Regents approves the use of differential tuition for undergraduate and graduate students enrolled in the architecture program within UW-Milwaukee’s School of Architecture and Urban Planning. Differential tuition will be assessed at:

- \$11 per credit hour for all Department of Architecture courses, and

- An additional \$30 (\$41 total) per credit hour for all Department of Architecture courses at the 200-800 levels.

d. University of Wisconsin-La Crosse: A Growth and Access Agenda

Regent Smith introduced the UW-La Crosse growth and access agenda as a creative idea that would lead to a growth strategy. He stated that the strategy has broad support from the community, including business leaders, local Legislators, and the Mayor.

Executive Senior Vice President Don Mash commented that the UW System's financial capacity has been dramatically reduced over the past several years due to state funding cuts. UW-La Crosse is in a position to grow enrollment due to a new academic building scheduled for completion in 2009. The idea pursues a growth agenda without requesting an increase in state dollars.

Regent Loftus raised questions about the wisdom of promoting a plan that would further lower nonresident tuition based on the reaction to the Board's action in the prior month which lowered nonresident tuition. Executive Senior Vice President Mash responded that it is a bold proposal which UW-La Crosse Chancellor Doug Hastad proceeded to describe.

Chancellor Hastad stated that the growth and access idea calls for increasing revenue at UW-La Crosse by reducing nonresident tuition in order to stimulate greater nonresident enrollment and total revenue. Resident tuition would be gradually increased to the peer median. The additional revenues would support additional students, including increased enrollments of lower income students through tuition funded financial aid. This approach would increase the number of degrees awarded, and increase the number of diverse students within the campus community.

Chancellor Hastad stated that public higher education in Wisconsin remains in steep competition with other public sectors for scarce state financial resources. Rising costs in health care and corrections and sustained efforts to maintain support for K-12 education leave higher education as the largest discretionary item. Recent biennial budget actions have set a different course for student funding in higher education. The current direction will cause an even greater erosion of educational attainment opportunities and the economic consequences will be severe and long-lasting. Unfortunately, the downward spiral for public higher education funding and the resultant impact on educational attainment already have begun. At UW-L, the budget cuts have affected instruction, student services, and other operations for 2001-03 and 2003-05.

Chancellor Hastad explained that this initiative is right for UW-La Crosse due to future increased capacity of the new academic building scheduled for construction in 2009, the continued increase in applications, and precipitous decrease in non-resident enrollments. There is also a need to attract students from lower income families, and this approach is consistent with leading edge institutions in other states. The idea is broadly accepted by the La Crosse and Onalaska communities.

The UW-La Crosse growth and access idea was met with initial reservation from some Committee members. Regent Randall noted that the idea is similar to the high tuition, high aid model and the program does not include specific plans to target lower income families and students of color. Regent Loftus added that UW-La Crosse has chosen to become an elite campus by attracting elite students. Chancellor Hastad stated that UW-La Crosse's record of attracting lower income and minority students is improving. By funding financial aid through tuition, UW-La Crosse would have the ability to compete with private institutions for lower income and minority students.

Regent Rosenzweig expressed reservation towards the idea due to its similarity to the model of private universities. Chancellor Hastad responded that UW-La Crosse is not attempting to become a private school; rather, this model has been forced upon UW-La Crosse. The idea is in response to the state's past practice of reducing funding for public higher education.

Regent Pruitt asked whether this idea would lead to UW-La Crosse attracting students away from other comprehensive institutions and lead to a zero sum gain for the UW System. Chancellor Hastad responded that it is not the goal to attract students away from other UW System campuses. He encouraged Regents to look at UW campuses as individual institutions, with different goals and abilities.

Chancellor Rick Wells, UW-Oshkosh added that it is imperative for campuses to have greater flexibility in pricing. Sherwood Wilson, Vice Chancellor for Administrative Affairs, UW-Milwaukee, commented that this plan would not have a negative impact on the UW System. The plan would not work well for UW-Milwaukee because UW-Milwaukee serves a different student population. However, the plan would give UW-La Crosse the opportunity to take advantage of its strengths.

Ryan Kockler, UW-La Crosse Student Association President, remarked that he has had a number of conversations with students and the administration about the growth and access proposal. Something needs to be done because Federal Pell Grants and state funding are decreasing, while costs are rising. Bringing in more out-of-state students by lowering non-resident tuition makes economic sense. Finally, the idea would broaden access for students from the lower income quintiles and should be looked at as an investment for future students.

The Committee learned that UW-Green Bay will present a growth plan at the April meeting, and other institutions will advance plans over the coming months. The Board will decide which initiatives to endorse when the 2007-09 biennial budget is adopted.

e. Audit Issues

(1) Quarterly Status Update: Operations Review and Audit

Ron Yates, Director, Office of Operations Review and Audit, reported on the status of major reviews and audit projects. The review of police and security operations has been completed, and an update on the implementation of the recommendations will be provided. A report has been completed for the early return to work effort, which is focused on initiatives that seek to return ill or injured employees to work as soon as medically feasible. A report is being drafted on the oversight of student organizations, which will identify efforts to manage risk and reduce liability associated with student organization activities.

Mr. Yates mentioned that fieldwork is continuing on a review to determine the process for determining segregated fees, trends in segregated fee amounts, the purposes for which fees are used, and oversight of fee expenditures. Although there may be some challenges in collecting all relevant data, reporting on this item will possibly be moved up to the May, 2006 meeting of the Committee.

Director Yates mentioned that the Office is continuing fieldwork to review policies and practices related to statutory and other tuition and fee remissions, waivers, and discounts. Regarding academic fees, audits are being conducted at each UW institution to determine the adequacy of policies, procedures, and internal controls related to their assessment and collection.

Mr. Yates remarked that the Legislative Audit Bureau (LAB) has been conducting an overall review of the UW System's personnel policies and practices, which will be completed this summer at the earliest. The annual statewide single audit of major federal programs for fiscal year 2004-05 is in progress and will be released in March.

(2) UW Audit Projects and Plans

Director Yates provided the Committee with information about audit activities, plans, and resources in the UW System. The Office collects and summarizes information from UW institutions about their audit projects in order to allow the institutions' auditors to share information with each other and to provide assurance to the Board that audits are being conducted in certain core areas.

Mr. Yates briefly discussed some of the core areas, which are considered areas of high priority or risk. These include cash handling, payroll and personnel, auxiliary operations, and tuition and segregated fee revenues.

Director Yates stated that institutions and the UW System are analyzing ways to allocate available resources by prioritizing higher-risk areas, with the goal of having each institution adopt a risk-based audit plan for fiscal year 2007-08. UW-Milwaukee and UW-Extension have already begun using

risk-based audit planning. However, staffing limitations have affected planning efforts. For example, three UW institutions have no auditor or audit function. Last fall's CBO/Provost efficiency study was one effort to address audit resources. Based on that study, President Reilly recommended that each UW institution be given the option of maintaining or reinstating an auditor position.

Mr. Yates stated that the UW System needs to improve its information technology audit expertise. The UW System currently has only one campus expert at UW-Milwaukee.

Regent Pruitt asked if the proposed textbook rental audit could also address issues of price gouging and price inflation. Mr. Yates said that it could.

Regent Loftus asked if the Office's proposed differential tuition analysis could help to analyze the results of the action the Board took to reduce nonresident tuition. The analysis should ensure that monies generated from the reduction in non-resident tuition are used to increase access for Wisconsin resident students. Associate Vice President Freda Harris explained that the UW System would be using another process to analyze the results and ensure that the expected results occur.

Regent Randall asked that the Committee consider an audit of UW Division I and Division II coaches' contacts to ensure that coaches are being held accountable for student academic success, including retention and graduation. General Counsel Pat Brady said a process was already underway to examine coaches' contracts. Director Yates assured Regent Randall that he would see how such an audit could be conducted.

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

Upon completion of the discussion on audit activities, with no objection from the Committee, Regent Pruitt changed the order of the agenda items.

Regent Pruitt discussed a letter that the Board recently received from Nick Cluppert, the Student Senate President from UW-River Falls. The letter urged all campuses and students to do what they can to save energy. Regent Pruitt introduced UW-River Falls Chancellor Don Betz and Mr. Cluppert to describe the energy conservation efforts at their campus.

Chancellor Don Betz briefly discussed energy conservation efforts at UW-River Falls. He stated that it is a part of the campus culture to "turn out the lights."

Mr. Cluppert talked about the UW-River Falls students' initiative, including dedicating \$1 million of a new building project to ensure that the building is eco-friendly. The building uses multiple strategies to be more energy efficient, including enhanced use of sunlight, natural materials, and white roofing material.

Mr. Cluppert commented on actions taken during winter break to save energy, including reducing building hours and lowering temperatures. He challenged all campuses to take steps to reduce energy consumption. The Committee commended Mr. Cluppert and UW-River Falls for their energy conservation efforts.

f. Trust Funds Issues

(1) Voting of 2006 Non-Routine Proxy Proposals

Tom Reinders, Investment Portfolio Analyst, noted that the dominant social issues for the 2006 season include the environment, equal employment opportunity, and global labor practices. For most of the proxies related to these dominant issues, the Trust Funds' investment managers will be directed to vote in the affirmative, as they fall under the social issues or themes that the Committee has already approved for active voting. There were no new social issues or themes identified for the 2006 season.

Regent Loftus asked for clarification on the Regent Policies regarding non-routine shareholder proposals. Mr. Reinders responded that the three pillars of social responsibility addressed under Regent

Policies for non-routine shareholder proposals are those dealing with discrimination, the environment, or substantial social injury.

Upon the motion of Regent Smith, and the second of Regent Randall, the Committee unanimously approved Resolution I.2.f.(1).

Resolution I.2.f.(1)

That, upon recommendation of the President of the University of Wisconsin System, the non-routine shareholder proxy proposals for UW System Trust Funds, as presented in the attachment, be voted in the affirmative.

(2) Annual Endowment Peer Benchmarking Report

Mr. Reinders reported that each year, the National Association of College and University Business Officers (NACUBO) conducts a detailed survey of college and university endowments. This data is supplemented by results from a limited Big Ten survey and other peer information such as the Commonfund Study.

Mr. Reinders stated that UW System Trust Funds true endowment, Long Term Fund only, was valued at \$278 million as of June 30, 2005. Although these funds represent only a portion of UW institutions' endowment assets, and do not include institutions' foundation assets, Trust Funds alone still ranked 171st in size among the 746 reporting institutions.

Mr. Reinders commented that Trust Funds investment return has exceeded the average peer performance and expenses are in line with peer averages. While UW Trust Funds' spending rate policy is typical, the percentage spending rate of 4.0 percent remains below the NACUBO average of 4.7 percent and Big 10 average of 4.9 percent.

Regent Connolly-Keesler asked whether the Trust Funds office has received any complaints about the lower payout percentage. Mr. Reinders responded that the Office has not received any complaints. Some peers are in the process of analyzing their spending policies and may lower their rates.

Mr. Reinders stated that the Trust Funds Office does not currently use external consultants. He compared this to NACUBO peers, noting that most peers do use external consultants.

Mr. Reinders remarked that the NACUBO study shows that only 19 percent of reporting institutions consider social responsibility criteria as part of their investment management policies when not required by donors. He noted that only 12 percent of public institutions and 21 percent of private institutions consider social responsibility criteria. The Trust Funds Office considers social responsibility criteria in voting shareholder proxy proposals and seeks student and public comment on issues of significant social concern.

g. Follow-up Discussion of Taxpayer Protection Amendment

The Committee did not discuss this agenda item at this time. The Committee briefly discussed this agenda item upon completion of the Vice President's report.

h. Report of the Vice President

Vice President Durcan reported that the LAB issued its letter report on felons on the UW System payroll on February 28th. Of the more than 41,000 persons on the payroll in September, 2005, including faculty, academic staff, classified, limited term, and student employees, only 40 were identified as felons and this is less than one-tenth of 1 percent. Twelve of these persons are no longer employed by the University and two people have already been reassigned to other duties.

Ms. Durcan stated that the report contained three recommendations which the UW System is implementing. First, each of the individual situations is being reviewed to determine the relationship of the felony to the job they are performing for the University and what, if any, action is appropriate. Second, the UW System is working with the institutions to develop uniform and consistent policies on conducting background checks. Lastly, the UW System will review and clarify the termination process for academic staff and discuss the process for classified staff. Processes for classified staff are largely governed by collective bargaining and policies issued by the State Office of Employment Relations.

Vice President Durcan commented that the legislation to expand veteran remissions from 50 percent to 100 percent was amended so that the expanded benefits would be effective for students who enroll for classes in the 2007-08 academic year. This will give the Legislature the opportunity to identify and provide funding for this expanded program in the 07-09 biennial budget. Current estimates of the impact of the existing remissions for both fall and spring semester total over \$4 million. The expansion to 100 percent is estimated to add another \$2.5 million to the cost.

Ms. Durcan reported that both Associate Vice Presidents Crist and Harris testified at a hearing of the Committee on Colleges and Universities. That Committee addressed Assembly Bill 1068 which precludes the Board or Regents from raising salaries of certain executive and administrative positions beyond 5 percent unless the increase is funded with gifts, grants, or federal revenue and from reducing undergraduate non-resident tuition below the 2005-06 level. The bill failed in Committee with 3 in favor, 9 in opposition.

Upon completion of Vice President Durcan's report, the Committee briefly discussed the Taxpayer Protection Amendment that was discussed earlier in the full Board meeting. Regent Loftus asked whether the amendment included tuition or fees. Vice President Durcan pointed out language within the amendment that specifically excludes tuition and fees.

Upon the motion of Regent Smith, and the second of Regent Randall, the Business, Finance, and Audit Committee adjourned at 4:00 p.m.


Eric Engblom, Recording Secretary