

Minutes  
Business, Finance, and Audit Committee  
Board of Regents of the University of Wisconsin System  
February 8, 2007

The Business, Finance, and Audit Committee met at 1:00 p.m. in room 1920 Van Hise Hall, UW-Madison. Present were Regents Pruitt, Connolly-Keesler, Burmaster, Rosenzweig, and Smith. Regent Vice President Bradley was also present.

**a. Approval of Minutes of the December 7, 2006 Meeting of the Business, Finance, and Audit Committee**

Upon the motion of Regent Burmaster, and the second of Regent Rosenzweig, the minutes of the December 7, 2006 meeting of the Business, Finance, and Audit Committee were approved as presented.

**b. Consideration of Salary Adjustment for an Academic Leader to Address Recruitment and Retention Challenges for a Chancellor at UW-Stevens Point**

President Reilly stated at the February, 2006 meeting, the Board endorsed a new process to periodically conduct a review and assessment of individual chancellor's salaries to determine whether there is a need for an adjustment in the salary due to competitive market factors and equity reasons.

President Reilly recognized Chancellor Bunnell for her leadership efforts to launch a capital campaign, her diversity efforts, as well as leading the campus' revision of its facilities master plan. He spoke about the importance of continuity and stability on campus, reminding Committee members that leadership matters. He noted the numerous letters of support he has received from Stevens Point community and regional business leaders in support of the Chancellor.

Regent Vice President Bradley commended Chancellor Bunnell on how she has put regionalization into practice in north central Wisconsin. He said that this type of outreach is what the Board expects from Chancellors.

Regent Burmaster remarked that the primary and secondary (PK-12) educational community has appreciated Chancellor Bunnell's outreach. She thanked the Chancellor on their behalf.

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

**Resolution I.2.b.**

Whereas, pursuant to ss. 20.923(4g) and 36.09(1)(j), Wisconsin Statutes, the salaries of UW System senior academic leaders must be set within the salary ranges established by the Board of Regents, and based upon a formula derived from the salaries paid by peer institutions to their academic leaders, and

Whereas in addition, section 36.09(1)(j), Wisconsin Statutes, authorizes the Board of Regents to increase chancellors' and other university senior academic leaders' salaries to address salary inequities or to recognize competitive factors in the periods between pay plan adjustments, and

Whereas at the February 2006 Board of Regents meeting the Business, Finance and Audit Committee endorsed the recommendation that the President of the UW System periodically perform a review and assessment of individual chancellor's salaries to

determine whether there is a need for an adjustment to recognize competitive factors or correct salary inequities among senior academic leadership, as allowed by law, and

Whereas the Board of Regents affirms that leadership is critically important to the performance of our institutions and the students and citizens they serve and therefore places a high value on recruiting and retaining our outstanding senior academic leaders.

Now, therefore be it resolved;

That, upon recommendation of the President of the University of Wisconsin System, the annual salary for Chancellor Bunnell be adjusted due to competitive market factors and equity reasons per the attached recommendation, effective February 9, 2007.

### **c. Annual Financial Report**

Ginger Hintz, Director of Financial Reporting, stated that the UW System's Annual Financial Report for fiscal year 2006 includes an unqualified audit opinion from the Legislative Audit Bureau (LAB). She gave an analysis of financial performance, the statement of net assets, revenues, expenses, and auditor communication.

Ms. Hintz noted that the UW System had a fairly stable fiscal year compared to the prior year. Total revenues, before net investment income, increased by 2.4 percent, compared to an increase of 7.7 percent in fiscal year 2005. Total expenses increased by 2.7 percent, compared to an increase of 4.3 percent in fiscal year 2005. Total assets increased 4.9 percent, liabilities increased 4.0 percent, with net assets increasing 5.2 percent.

Director Hintz highlighted some performance indicators for the fiscal year. First, net assets increased. Second, net working capital was \$406.4 million, which represents 42 days of operating expenses; meaning that the UW System could support normal operations for 42 days without additional revenues or liquidating non-current assets. The third performance indicator is the current ratio, which declined to 1.8, but still indicates good short-term financial flexibility. A current ratio of 1.0 or greater is considered acceptable for most businesses. Finally, capital assets, net of accumulated depreciation, made up 72.3 percent of all of UW System assets, compared to 70.2 the previous year.

Director Hintz reported on the 10-year comparison of current funds revenues. State appropriations increased only 15 percent, tuition increased 127 percent, and other sources increased 87 percent. These figures, adjusted for inflation, show that state appropriations decreased 11 percent, tuition increased 76 percent, while other sources increased 45 percent.

Ms. Hintz explained that operating expenses can be expressed by natural or functional classification. Salaries and fringe benefits made up 67.4 percent of operating expenses, while in fiscal year 2005, salary and fringe benefits made up 67.6 percent. Institutional support decreased by 2.2 percent, which is in addition to the previous year's decrease of 4.5 percent, and financial aid decreased by 21.2 percent, down from the prior year's increase of 39.5 percent. Fiscal year 2005 was an anomaly due to the use of auxiliary revenues for state financial aid.

Director Hintz commented briefly on the issue of auditor communication with the LAB. The UW System evaluates audit adjustments, and, if in agreement, will make a correction. Government Auditing Standards also requires auditors to report on internal control over financial reporting. There were two reportable conditions that LAB reported. The first reportable condition was regarding program change controls. The UW System has implemented a number of improvements in this area, including forming a committee that is working to incorporate best practices and define high risk areas. The second reportable condition concerned the UW System's enterprise-wide resumption plan. The UW System is currently coordinating the development of a plan at each institution.

Regent Randall joined the meeting at this time. He noted his approval of Resolution I.2.b., Consideration of Salary Adjustment for a Senior Academic Leader to Address Recruitment and Retention Challenges for a Chancellor at UW-Stevens Point.

Regent Connolly-Keesler asked about a \$100 million adjustment to unrestricted funds and a \$13.8 million reduction held by UW institutions and local banks. Director Hintz responded that an adjustment to unrestricted funds that is typically made near the end of the fiscal year was not made until July after the fiscal year had closed. Therefore, in coordination with LAB, it was determined that an adjustment was necessary to reclassify the funds. The reduction held by UW institutions and local banks was due to a clerical error; however, this only affected a note to the financial statements.

Vice President Debbie Durcan commented on the UW System's reduction to administrative costs. The percentage spent on administration was 5.5 percent for fiscal year 2006, while UW System peers spend almost 10 percent of their educational and general expenditures on institutional support.

Ms. Durcan commented on internal control issues related to questions LAB raised regarding the UW System's enterprise-wide resumption plan. The UW System launched a system-wide continuity of operations plan last summer. UW-Madison had already developed a model, so their assistance is being applied to bring this model to each of the campuses across the system. It is a major undertaking that the UW System is working on in earnest.

#### **d. Trust Funds**

##### **(1) Annual Trust Funds Report**

Assistant Trust Officer Doug Hoerr presented the Annual Trust Funds Report. He provided a brief summary of the report including asset market values, annual returns, gifts and disbursements made from the funds, and investment fees.

Mr. Hoerr stated that, as of June 30, 2006, total assets were nearly \$400 million, and grew to \$425 million by the end of the calendar year. This is a 10-year and most likely an all-time high.

Assistant Trust Officer Hoerr commented that annual returns for the Long-Term, Intermediate-Term, and Income Funds all exceeded their benchmarks. The Long-Term Fund return was very good at 14.5 percent. This was in large part due to diversification into international markets, emerging market equities, small capital equities, and private equities.

Mr. Hoerr noted that fees continue to be low. Investment fees were .69 percent for the Long-Term Fund and .18 percent for the Intermediate-Term Fund. Internal administrative fees were .12 percent.

#### **e. Committee Business**

##### **(1) Quarterly Gifts, Grants, and Contracts**

Vice President Durcan stated that total gifts, grants, and contracts for the six-month period ending December 31, 2006 were \$625 million. This represents an increase of \$27.9 million over the prior year. Federal awards increased by \$3.3 million while non-federal awards increased by \$24.6 million.

##### **(2) Review of Committee Actions and Follow-up Items**

The Committee reviewed a schedule for tracking follow-up items and discussed the items that will be presented in 2007. This was in response to concerns regarding how the Committee can be sure that Board actions are achieving their desired results.

Vice President Durcan noted that over the next year the Committee will receive follow-up information regarding the Tri-State Initiative, Return to Wisconsin Program, and Midwest Student Exchange Program. Other items to be evaluated include data security, the gift certificate program, segregated fees, criminal background checks, information technology oversight, and the cost of textbooks.

Regent Connolly-Keesler requested that a similar tracking mechanism be used for audit recommendations. This would help to ensure that recommendations are implemented at the campus level. Regent Rosenzweig agreed, stating the need for the Committee to be informed when audit recommendations are implemented.

### **(3) Discussion of Committee Goals and Priorities**

Vice President Durcan reviewed a document by the Association of Governing Boards of Universities and Colleges (AGB), which pointed out key responsibilities of finance committees, including the responsibility to keep the Board fully informed of the institutions' financial condition. The Committee discussed goals and expectations for the remainder of the year as well as priorities for next year. The advantages of looking at financial information more frequently and in different ways were discussed.

Regent Connolly-Keesler asked for financial information on a more regular basis related to cash flows and the budget. She stated that it is the responsibility of Board members to know the financial aspects of the UW System.

Regent Randall commented on his priorities for the coming year, including a final resolution to the review of athletic coaches' contracts. He also stressed the need for more systemwide long range planning. Regent Pruitt added that the Committee should identify ways build a bridge between the budget and charting the future course of the UW System. For example, the Committee could analyze the positive and negative aspects of the low tuition, low financial aid model.

Regent Smith asked for information indicating the results of the Board's action to reduce non-resident tuition. Vice President Durcan noted that it is still early to gauge the results, but more information would become available in the fall of 2007. Regent Smith also asked for information on scholarships and financial aid, faculty retention, endowment funds, and a general follow-up on the impact of Board actions related to personnel policies and procedures.

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

Vice President Durcan introduced Julie Gordon as the new Director of Operations Review and Audit. She thanked Jane Radue for ensuring that the Office did not miss a beat since its previous director, Ron Yates, left in November. She noted that Ms. Gordon comes from the Legislative Audit Bureau, where her primary responsibilities included managing financial, compliance, and management audits related to higher education.

Ms. Gordon commented that she is looking forward to working with the staff of the Office of Operations Review and Audit. The focus of the Office will be to provide meaningful information so that the Board and UW leadership can make good management decisions. A benchmark of success will be the quality of reports produced by the Office to help make a positive impact on UW System campuses.

Vice President Durcan noted that in his state of the state address, Governor Doyle announced that he plans to invest an additional \$225 million in state funding for the UW, financial aid, and the Wisconsin Covenant. \$44 million of the funding is for financial aid.

Ms. Durcan stated that the Department of Administration (DOA) Secretary Morgan issued a memo which noted that the State of Wisconsin needed to take two steps to reduce spending in the current fiscal year to fund cost overruns in four programs. The first step would ensure that savings from efficiency measures included in Wisconsin Act 25 are generated. This will require \$21.6 million from major state agencies. This will not apply to the UW System since efficiency savings were already taken out of the UW System's base budget in the \$5 million of procurement savings. The second is to introduce a bill which will require a 2

percent lapse for larger state agencies. The UW System is included and will need to lapse \$2.9 million as part of the 2 percent lapse. Later this month, the Chief Business Officers of the institutions will plan how to lapse these funds to the state.

Lynn Paulson, Assistant Vice President, Office of Budget and Planning, provided an update on the state's Minnesota Reciprocity agreement. The agreement is negotiated by the Higher Education Aids Board (HEAB). An important aspect of the program is that students from either state are considered resident students in the admissions process. Currently, tuition at Minnesota universities is higher than comparable Wisconsin universities; therefore Wisconsin students pay less tuition than Minnesota students. However, at the end of each year, the net difference is paid by one state to the other.

Mr. Paulson commented that the State of Minnesota has asked that the agreement be amended to allow the institutions to charge the higher of the two states comparable institutions' tuition. He gave examples that compared and contrasted the current and proposed agreement, showing the amounts that students and the States of Wisconsin and Minnesota would pay. Committee members asked to be updated and briefed about any changes or relevant information as necessary.

Vice President Durcan reported that, as of December 31st, there is an estimated utility surplus of more than \$9 million for the current fiscal year. Given the state's current fiscal situation, The UW System has no hope of keeping any savings that are realized.

**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 Rosenzweig, and the second of Regent Randall, the Business, Finance, and Audit Committee adjourned to closed session at 2:30 p.m. Present were Regents Pruitt, Connolly-Keesler, Burmaster, Randall, Rosenzweig, and Smith.

The Business, Finance, and Audit Committee adjourned at 2:48 p.m.



Eric Engbloom, Recording Secretary