

Minutes
Business, Finance, and Audit Committee
Board of Regents of the University of Wisconsin System
August 21, 2008

The Business, Finance, and Audit Committee met in joint session with the Education Committee at 12:30 p.m. in Room 1820 Van Hise Hall, UW-Madison. Present were Regents Smith, Connolly-Keesler, Burmaster, Womack, Falbo, Davis, Loftus, Crain, Thomas, Cuene, and Spector. Regent Emeritus Roger Axtell was also present.

a. The University of Wisconsin School of Medicine and Public Health: The Wisconsin Partnership Fund for a Healthy Future – Approval of the Fourth Annual Report

Dean Robert Golden presented a summary of the Wisconsin Partnership Program (WPP) 2007 Annual Report. Dean Golden stated that the vision of the WPP is for Wisconsin to become the nation's healthiest state. In support of that vision, Dean Golden explained that funding through the WPP focuses on three grant areas: community-university collaboration, innovations in education and research, and transformation to an integrated School of Medicine and Public Health.

Dean Golden stated that the WPP has awarded a total of 167 grants totaling more than \$61 million. Dean Golden explained that this funding is directed through two Committees, the Oversight and Advisory Committee (OAC) and the Medical Education and Research Committee (MERC). In 2007, the WPP awarded 38 new grants totaling more than \$11 million. Twenty-one grant awards totaling more than \$5 million were made through the OAC and 17 grants totaling more than \$6 million were made through the MERC. Awards made by OAC were directed to community-academic partnerships and development grants. Dean Golden stated that no new grants awards were made for public health education, but that there are several on-going projects. Dean Golden further noted that since 2004, OAC grant awards have supported state health plan priorities such as access to primary and preventative health services, reducing intentional and unintentional injuries and violence, and addressing overweight, obesity, and lack of physical activity concerns.

Dean Golden also provided additional background on MERC grant awards, stating that the two funding areas are targeted programs and competitive programs. An example of a target program is a \$10 million effort to reduce the disparity in infant deaths among minority populations. Regent Smith asked if any progress was being made in this area. Dean Golden responded that yes, progress on infant mortality is being made within targeted populations and that lessons continue to be learned.

Dean Golden explained the origin and purpose of the Health of Wisconsin Report Card. The goal of the report card is to help in protecting and promoting health and in decreasing health disparities among different populations. Currently, the report card shows Wisconsin receiving a D in health disparities.

Dean Golden finished his presentation by commenting on the process for the next five-year plan and current efforts to evaluate the WPP. In order to provide exemplary stewardship and to meet strategic goals with WPP grant allocations, Dean Golden stated that three levels of evaluation have been instituted. The first is a strategic evaluation of the entire WPP effort to assess broad program-wide objectives to help inform and guide the next five-year plan. Secondly, an evaluation of the WPP grant process is also occurring. Dean Golden stated that this evaluation will help determine if the program is doing the best that it can in soliciting, reviewing, and funding grants. Finally, the WPP is evaluating individual grant programs to assess their progress, results, impact, outcomes, and future regarding future funding. The WPP will report to the Board of Regents in December, seeking approval of the five-year plan.

Regent Davis asked whether we understand why certain health report card grades exist and whether an initiative exists that supports the recruitment and placement of health professionals in inner-city settings. Dean Golden stated that he does believe there is a general understanding of why Wisconsin is at certain grade levels and that a program known as Academy Central City Medical Education (ACCME) is designed to help place health professionals in the inner city. In elaborating in his response,

Dean Golden highlighted another program designed to attract students into the health field where students completing their first year at a UW institution can qualify for future placement in the Medical School if they engage in a collaborative relationship with WPP. The relationship entails enrichment programs and shadowing physicians in the inner city and rural areas of the state. This program will serve as a pipeline for both ACCME and the Wisconsin Academy for Rural Medicine.

Regent Connolly-Keesler inquired about the funding horizon of the grant awards made through WPP. Dean Golden responded that there are several different types of funding time frames with some representing an on-going commitment and some intended to be seed money to be used to leverage additional funding.

Regent Spector requested to see at the December meeting information on ways to work with urban educators through pilot projects to help address health disparities. Dean Golden responded that a program started by medical students at UW-Madison, known as Healthy Classrooms, is the type of program that could be expanded through the WPP.

Regent Falbo questioned whether funding through the WPP was more geared toward assessments than outcomes and, if so, how to progress toward more outcomes. Dean Golden responded that funding through both the OAC and MERC should cross over in a way that both areas should be geared toward outcomes that are assessable.

Regent Loftus questioned how the annual WPP report is useful to state policy makers. Dean Golden responded that the WPP has been less aggressive on pushing recommendation's into policy changes in order to maintain the position of providing unbiased health data. However, Dean Golden stated that the WPP will get involved in policy debates when asked, but emphasized the need to maintain an image independent of politics. Regent Loftus suggested that WPP reconsider the strategy of waiting for the Legislature to come to them.

Regent Womack stated that she is impressed by what we know through the WPP, but not with what we do. Regent Womack specifically asked about what is being done for the inner city of Milwaukee. Dean Golden stated that the first need is to strategically know what needs to be done and establishing a thoughtful plan of attack. Dean Golden said that any plan of attack will include sheparding, nutrition, and prevention programs.

Dean Golden concluded his comments by stating that the Wisconsin Partnership Program is not seeking Board of Regent approval of expenditures, but is seeking approval and advice on the general direction of the program.

Upon the motion of Regent Falbo, and the second of Regent Crain, the Committee unanimously approved Resolution I.2.a.

Resolution I.2.a.

That, upon the recommendation of the Chancellor of the University of Wisconsin-Madison and the President of the University of Wisconsin System, the Board of Regents approves the 2007 Annual Report of the Wisconsin Partnership Program covering all activities and expenditures from January 1, 2007 through December 31, 2007.

The Joint Session with the Education Committee adjourned at 1:16 p.m.

The Business, Finance, and Audit Committee reconvened at 1:20 p.m. in room 1920 Van Hise Hall, UW-Madison. Present were Regents Smith, Connolly-Keesler, Womack, and Falbo. Regent Burmaster joined the meeting after the roll was called.

b. Growth Agenda Action Steps: Update on Operational Excellence and Efficiency

Michael Kraus, Special Assistant to the Vice President for Finance, presented an update on the activities of the Operational Excellence and Efficiency Working Group. Mr. Kraus reviewed the origin, membership, and purpose of the working group stating that one of the group's strategies was to leverage the impact of effective business practices. Mr. Kraus noted that the working group focused on practices that were cost-effective and timely. As a result, Mr. Kraus reported that three specific ideas were identified that can help manage expanding responsibilities without the addition of new resources while also recognizing excellence. The identified ideas include an innovation efficiency award, a presenter program, and a systemwide lean initiative to evaluate business practices.

Mr. Kraus stated that the innovation efficiency award and presenter programs are designed to take the expertise that exists within the UW System and to encourage the sharing of that expertise with others. For instance, the working group has suggested making greater use of faculty and staff who present at outside conferences by bringing that expertise to colleagues through a UW System funded presentation program and offering incentives for staff to prepare proposals for presentations before professional organizations by providing modest incentive funding, possibly up to \$1,000 Departmental awards. Mr. Kraus stated that the presenter program is similar in nature and used the UW-Milwaukee accounts payable imaging program as example of the type of effort that could be recognized through either the innovation or presenter programs. Mr. Kraus stated that additional thought will be given to award criteria.

Mr. Kraus summarized a third idea of the working group, based on the Administrative Process Redesign (APR) project currently underway at UW-Madison, which employs the principles of Lean Manufacturing. These principles concentrate on speed, efficiency, and eliminating waste which Lean defines as non-value added activities. Mr. Kraus informed the Committee that the first three processes to be considered under this initiative include the procurement card process, non-payroll payments for services made to individuals, and the travel expense reimbursement process. Mr. Kraus provided background on the Lean process. According to Mr. Kraus, the procurement card review process has just finished at UW-Platteville, Oshkosh, River Falls, and Superior. Mr. Kraus summarized how the process worked at those participating institutions. The results of this evaluation effort will be shared with all UW institutions as a way of sharing best practices and encouraging more streamlined, simplified, and standardized processes across all UW institutions. Mr. Kraus stated that the review of the non-payroll payments process will be completed in September/October and the travel expense reimbursement process will be completed in November/December. The ultimate goal is to have more streamlined and standardized processes, as well as providing additional evaluation tools that can be used to improve other processes.

Mr. Kraus explained that the next step for the working group will be an update report from the consultants assisting on the procurement card project and the working group will take that information and use it to determine where the process may need to be adjusted. After the completion of all three projects, the working group will come back together and consider whether another round of review is warranted and what changes may need to be made.

The Committee also heard from UW-Madison Vice Chancellor Darrell Bazzell and UW-Oshkosh Vice Chancellor Tom Sonnleitner about the activities on their campuses. Vice Chancellor Sonnleitner summarized UW-Oshkosh's involvement in the procurement card Lean project. Vice Chancellor Bazzell summarized UW-Madison's Administrative Process Redesign (APR) effort which began 18 months ago and focuses on four business areas: business services, human resources, grants administration, IT tools used in desktop academic settings. Vice Chancellor Bazzell stated that to date, six projects have been completed and the campus is in the process of implementing recommendations. Mr. Bazzell stated that the current goal with the APR effort is to practice the techniques so larger processes, such as the hiring process, can be tackled in the future. Both Vice Chancellors commented that there appears to be a lot of momentum across the UW System on changing and improving practices to make them more efficient.

Vice President Durcan commented that in many ways, these ongoing efforts are designed to change a culture and create processes that can be duplicated and applied across multiple departments and campuses.

c. Trust Funds

Doug Hoerr, UW System Trust Funds Director, provided an overview of UW System Trust Funds spending policy in relationship to proposals on mandatory spending rates by Congress to address concerns over lost tax revenue on gifts and endowment investment returns. Mr. Hoerr explained some of the problems with Congress's assertions concerning endowment spending rates, such as endowment funds are charged with ensuring inter-generational equity, investment returns are predictably mean-reverting, forcing endowments to meet minimum distribution rates may not have the desired impact because it would reduce flexibility and short-term increases in dollars distributed will not all go to financial aid, and endowments are typically restricted in how they can distribute funds.

Director Hoerr reviewed the investment return assumptions and actual performance and how they relate to the spending plans. Mr. Hoerr explained that UW System Trust Funds' distributes four percent for institutional spending, but including investment and administrative expenses, nearly five percent is expended annually.

Regent Falbo asked whether the five percent policy proposed by Congress is a range or an absolute percent. Director Hoerr responded that he believes the five percent figure is an absolute percentage and stated further that UW System would probably be fine with such a policy, but wanted to present some background on the issue given that the current UW System spending rate policy is at four percent.

Director Hoerr provided an update on Trust Fund's Private Equity Investment Program which began in 2002. Mr. Hoerr outlined some of the challenges of a private equity program due to its illiquidity, long-term commitments of capital, and valuation and performance reporting standards are less certain. Mr. Hoerr stated that in light of these challenges, a private equity program should focus on capable top-quartile value-added managers and should provide high absolute and risk adjusted returns, exposure to high growth and high profit potential new ventures not available in public markets, and potentially investment returns that have a relatively low correlation to those from public markets. Mr. Hoerr referred to data suggesting, to date, that the UW Trust Fund's private equity program has been quite successful.

Representatives from Adam Street Partners, a private equity investment manager, provided background on their firm and addressed the importance of diversification. The representatives, Jana Monier and Molly Veneziano, also explained their investment philosophy and partnership fund program investment objectives. Ms. Monier stated that since the inception of the private equity program the internal rate of return, gross of fees, has been 19.3 percent. The Adam Street Partners representatives concluded by summarizing the current state of the global private equity industry and venture capital fundraising.

Regent Falbo asked how the Board of Regent investment policy as it relates to which entities UW System can invest with is handled by the private equity program. Director Hoerr responded that the private equity managers do not consider the Regent policy when making investment decisions. Mr. Hoerr further elaborated that other than investments in the Sudan, all Board policies are not specific enough to require any divestment from a specific company or fund but would support divestment if a parallel investment opportunity was available.

Regent Connolly-Keesler asked if UW System wanted to pull out, can access be gained. Ms. Monier responded that UW System is basically locked in since it is very difficult to sell one's position.

Director Hoerr also presented the quarterly investment report showing performance versus the benchmarks of the Long-Term Fund at -5.6% to -7.8 for the benchmark, the Intermediate Term Fund at 1.6% versus 1.4%, and the Income Fund at 1.5% versus 0.9% for the benchmark for the year to date.

d. Audit Update

Director Julie Gordon presented information on a recently completed review examining UW mental health counseling services and noted that the review was proposed prior to recent campus tragedies at Virginia Tech and Northern Illinois. Ms. Gordon noted that Regent policy Document 23-1 recognizes the importance of good physical and mental health to a student's academic and personal success and noted that all 4-year institutions offer a variety of mental health services and that all 2-year colleges will within the next year.

Director Gordon stated that the review found counseling services are generally accessible to UW students, with more than 9,500 students served at the 11 UW institutions that had available data. The review also found that services are provided by qualified and experienced staff, and funded with primarily general purpose revenue and segregated fees. All institutions that provide counseling services may refer students to outside providers. To facilitate care for those students, Ms. Gordon recommended that UW institutions develop a process of following through the transfer of care of students identified as high risk.

Director Gordon stated that the number of UW students receiving counseling services has increased and additional increases are expected as enrollments increase, students present more mental health issues, and more veterans attend UW institutions. Ms. Gordon stated that a challenge will be sustaining counseling services going forward and noted that the report lays out several potential options for UW institutions to consider.

Ms. Gordon noted that one issue UW institutions will face is the level of services they should provide and guidelines delineating service parameters would assist students and counselors in knowing the duration and intensity of available counseling services. Other issues identified in the report were maximizing existing resources and financially supporting counseling services. Director Gordon stated that since each UW institution may differ in terms of available community resources, student body desires, and student demographics, a combination of options may most effectively address the challenges and may be best decided at the institution-level.

Regent Smith asked how the report addresses the issue of identifying and helping high risk students. Director Gordon referred to the report's recommendation that addresses the identification of students in need of mental health services and if the campus is unable to meet those needs, to continue monitor the student as they receive services. However, Ms. Gordon noted that UW institutions can not mandate that students receive counseling and that there is a workload and resource issue at the campuses involved with the oversight of high risk students receiving counseling services. Director Gordon also responded that all the UW institutions are currently addressing the issue of high risk students through their multi-disciplinary review teams.

Regent Connolly-Keesler inquired about how situations involving high risk students without insurance, who cannot be served through campus resources and are referred to outside counseling services, are handled. Director Gordon responded that counselors at the UW institutions do not stop providing services to high risk students unless the student is asked to leave campus. Ms. Gordon noted further that often times the issue isn't solely about campus resources but whether the community has sufficient resources to help address the issue of high risk students.

Regent Smith asked whether institutions currently ask whether students or their parents have insurance. Director Gordon responded that some institutions do, but not on systematic systemwide basis. Regent Connolly-Keesler stated further that the most common student mental health issues are depression and anxiety which can often be treated through medication, if insurance is available. Director Gordon responded that she is unsure of how students typically pay for medications but most likely it involves a combination of insurance and out-of-pocket expenses. Ms. Gordon did note that UW-Milwaukee does have a program to work with pharmaceutical companies to provide medications at low or no cost to students.

Regent Connolly-Keesler stated her interest in knowing more about what other higher education systems are doing with the issue of mental health services and would like to know more about where the responsibility of the institution starts and stops – how far do we go, how long do we provide services.

Director Gordon stated that current Regent policy does refer to services being brief, but does not sufficiently define what brief means in terms of providing services.

Regent Smith asked whether the institutions were collaborating on the issue of providing mental health services. Director Gordon stated that through regular meetings of the Mental Health Center and Student Health Center Directors, as well as the counselors, the institutions do have the opportunity to discuss ongoing efforts.

Vice President Durcan summarized management's response to the review recommendations by stating that President Reilly is committed to establishing the President's Advisory Committee on Health, Safety, and Campus Security and will ask the committee to help facilitate a review of the recommendations and develop guidelines to assist the institutions in addressing the recommendations. President Reilly addressed the Committee by stating that the review had three specific recommendations that will need to be looked at further.

Director Gordon provided an update on two previous reviews: Student Credit Card Debt and Credit Card Solicitation on UW Property and Occupational Health and Safety Training for UW Employees. Ms. Gordon provided information that most campuses have restricted credit card solicitation on campus and that during the 2007-08 academic year, three UW institutions reported having on-campus solicitation – all with limitations on time and/or location.

In addition, Ms. Gordon stated that UW institutions reported that free gifts are either not allowed or are allowed only if they are not tied to the student completing an application and that UW Affinity card agreements do not require UW foundation or alumni associations to share student directory information with credit card vendors. Director Gordon also reported that all UW institutions offer some type of education about finance and responsible credit card usage through seminars, websites, and brochures or pamphlets provided during student orientation and other functions.

Regent Falbo asked why credit cards are not a process we address systemwide. Regent Falbo stated his belief that UW System would be a significant customer that we could get the best economies of scale for the students from credit card companies, as well as provide counseling. Vice President Durcan stated that a systemwide approach would be something that could be brought up with the institutions. Ms. Durcan stated further that the affinity cards are typically run by alumni associations as part of their fundraising.

Regent Connolly-Keesler stated that both the mental health and credit card topics should go back on the future review matrix for follow-ups over the next three to five years. Regent Falbo stated his interest to see the credit card issue stay on the table for additional discussion.

Director Gordon provided an update on the previous Occupational Health and Safety Training review. Ms. Gordon reported that the follow-up review noted limited progress by the institutions in implementing previous audit recommendations. Ms. Gordon stated that while many UW institutions are providing training to more employees and on more topics than they were in 2004, the follow-up review noted that steps in other areas have been limited, such as not developing plans to prioritize training. While lack of resources was expressed as the reason for this, Ms. Gordon noted that minimal resources are exactly why a plan is necessary, as dollars should be targeted toward areas of high risk or high rate of injury. Director Gordon concluded that as a result of these actions, the prior recommendations are reiterated.

Regent Womack asked whether there was a central accounting of injuries systemwide. Sheri Ackley, Director of the Office of Safety and Loss Prevention responded that injuries are tracked and current claims are up about 7 percent due primarily to weather related slips and falls and an aging workforce. Regent Womack asked whether training is targeted to address areas where injury costs are increasing. Director Ackley stated that yes, to a certain extent training is targeted based on actual experiences but that often time training is required no matter what due to regulations, such as chemical exposures. Ms. Ackley remarked that UW institutions do use on-line training resources as well participate in a training consortium of other state agencies. Ms. Ackley also noted that the new Human Resource Information System (HRIS) should help with the tracking and targeting of employee training.

Regent Burmaster commented on her concerns about the organizational culture, such as uncooperative supervisors, faculty reluctance to participate in training, and the lack of accountability.

Regent Smith commented that the report was pretty pointed in its findings and demands a response. Vice President Durcan stated that management endorses and supports the original report recommendations while acknowledging that employee training is a large task that will continue to require some time. Ms. Durcan also stated that the upcoming risk assessment pilots may help address some of the issues involving employee safety training.

Regent Falbo commented that a step appears to be missing, specifically having the ability to ensure report recommendations are implemented. Director Gordon stated that a goal is to ensure management does provide a response on report recommendations as a way of providing a benchmark for the institutions to use in implementation, as well as to follow up against. Regents Burmaster and Falbo both commented that the Committee could help in providing the necessary emphasis in the report to the full Board of Regents. Regent Smith stated that Director Gordon should conduct a further follow up in the near future. Regent Falbo expressed his interest in having a specific timetable for addressing report recommendations as well as how the recommendations will be addressed.

Regent Burmaster commented that the formal consortium to develop training resources has yet to be formed four years after the initial recommendation. Regent Smith asked what would be a reasonable timeframe for a follow up report on the training report. Director Ackley stated that this issue can be placed on the September meeting agenda for the campus risk managers and believes a framework could be developed by next spring.

Regent Connolly-Keesler asked whether Chancellors receive regular reports on the number injuries by type for their campus. Director Ackley stated that the institutions receive a quarterly report on injuries and claims. Regent Connolly-Keesler expressed her belief that the Chancellors are ultimately responsible for making sure the proper policies are in place and that they are doing the required training. The Committee stated its interest in seeing more progress and requested a further update at the December meeting on the anticipated next steps and an estimated time frame.

The Committee received information from Director Gordon on the status of on-going UW System audit projects and an update on Legislative Audit Bureau reviews which may affect the UW System.

e. Committee Business

(1) Committee Goals and Priorities for 2008-09

The members of the Committee discussed with UW System Senior Vice President for Administration and Fiscal Affairs Tom Anderes and Vice President for Finance Deborah Durcan the Committee's goals and priorities for the coming year.

Among the topics discussed were the Committee's financial oversight role, determining what financial information currently exists that may help support the Committee's role, whether the Committee should make budget recommendations, and how the Committee can best support audit recommendations. Regent Falbo expressed his belief that the landscape for finance committees has changed significantly with the advent of Sarbanes-Oxley. Regent Smith stated that he would like to see more information on what other finance committees are doing and what their responsibilities are. Regent Falbo stated that regardless of what other finance committees do, he would like to see more financial information, beyond the budget, presented to the committee.

Senior Vice President Anderes stated that there are a whole host of things and information that could be brought forward to the Committee. Mr. Anderes also stated that he believes that a set of recommendations could be developed that would specify what could be done and on what basis, such as financial ratios. Also presented was an outline for the Committee's upcoming work over the next year.

f. Report of the Vice President

(1) Budget Lapse

Vice President Durcan informed the Committee that the University's share of the state budget shortfall will be a lapse of \$25 million. Part of the lapse will be covered campus efforts, such as holding vacancies open longer, reducing energy consumption, and filling vacancies with teaching academic staff instead of faculty where possible.

(2) Higher Education Act

Vice President Durcan provided the Committee with a comparison between the code of conduct requirements in the Higher Education Act (HEA) and Regent Policy Document 13-5 regarding alternative loans. The differences worth noting were minor with the Regent policy typically being more restrictive in nature.

Regent Smith asked if there were other impacts of the HEA. Vice President Durcan and Director Gordon both responded that there will be, but an evaluation will need to be completed and an update will be provided to the Committee at that point.

(3) Other

Vice President Durcan updated the Committee on the recent flooding and boiler losses. Flooding at four institutions and the boiler loss at UW-Whitewater are estimated at \$10-12 million, the largest loss in UW history.

Vice President Durcan noted that eight UW institutions took place in this year's RecycleMania, a competition among college and university recycling programs. The main goal of the event is to increase student awareness of campus recycling and waste minimization.

Vice President Durcan also noted that both UW-Madison and UW-Milwaukee were featured recently in articles regarding their campus security enhancement efforts.

g. Consent Agenda

Upon the motion of Regent Connolly-Keesler and the second of Regent Falbo, the minutes of the June 5, 2008 meeting of the Business, Finance, and Audit Committee were approved as presented.

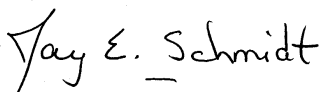
h. Additional items, which may be presented to the Committee with its approval

Vice President Durcan introduced Glen Nelson as the new Associate Vice President for Financial Administration.

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

The Business, Finance, and Audit Committee adjourned to closed session at 3:50 p.m. Present were Regents Smith, Connolly-Keesler, Burmaster, Falbo, and Womack.

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



Jay E. Schmidt, Recording Secretary