

Minutes
Business, Finance, and Audit Committee
Board of Regents of the University of Wisconsin System
October 2, 2008

The Business, Finance, and Audit Committee met at 1:31 p.m. in Room 374 Dreyfus University Center, UW-Stevens Point. Present were Regents Smith, Connolly-Keesler, Burmaster, Womack, and Falbo.

a. UW- Stevens Point Presentation: Leading from the Center to Create a Safe Campus Community

Greg Diemer, Vice Chancellor for Business Affairs – UW-Stevens Point, discussed actions the institution has taken to help improve campus safety. Mr. Diemer introduced Bill Rowe, Director of Protective Services and Parking, Jeff Karcher, Director of Safety and Loss Control, and Bob Tomlinson, Vice Chancellor for Student Affairs as being instrumental in creating a safe campus environment at UW-Stevens Point.

Vice Chancellor Diemer noted specific efforts taken by the campus to improve safety in response to the President’s Commission on University Security report recommendations, including the hiring of three additional police officers and two counselors, arming of police officers, communication system upgrades, and educational and training sessions for faculty regarding student counseling referrals.

Vice Chancellor Diemer noted that the financial impact of the additional police hires was offset somewhat by converting existing security positions, but additional equipment needs will cost the campus upwards of \$22,000. The counselor positions were filled by PhD’s and will cost approximately \$120,000 annually. Mr. Diemer stated that the combined costs for these positions were met through the reallocation of resources from other operational areas of the institution.

Vice Chancellor Diemer stated that several measures have been taken to educate the campus community on the appropriate actions in response to a shooter on campus. Mr. Diemer noted that a web site has been created that provides information and the institution has implemented a computer screen pop-up that can be used to alert faculty, staff, and students using the campus computer network when an emergency is taking place. Regent Smith asked if UW-Stevens Point is using e-mail notifications and Regent Connolly-Keesler inquired about the use of text-messaging. Mr. Diemer responded that the pop-up message is intended to work in a similar manner as e-mail notifications and that currently the technology capability in the Stevens Point area is not adequate to support the numbers or level of use that would be needed to rely on a text-messaging alert system.

Vice Chancellor Diemer presented a training video that is being used on the campus to help people react to an active shooter on campus. The video covered the topics of preparing and developing a survival mindset, information on “Get Out, Hide Out, Take Out”, and prevention.

Regent Falbo asked if there was any standardization in the UW System institutions’ responses to the President’s Commission on University Security. Mr. Diemer responded that the efforts he presented were UW-Stevens Point’s response to the report recommendations and that most other campuses are moving along similar lines but is unaware of the status of other institution efforts. Assistant Vice President Larry Rubin responded that many campuses have followed the same path as UW-Stevens Point in response to the report but noted that when an institution does go further and creates a resource such as the video on an active shooter, that there is value in sharing it with the other UW System institutions.

Regent Connolly-Keesler asked if the new police positions were replacements for the personnel in the security positions. Mr. Diemer responded that yes, the individuals in the newly created police positions are new hires. Regent Falbo asked if there has been any partnering with the local community and police department. Vice Chancellor Diemer responded that the campus and city police departments work closely together and that discussions with the immediate neighbors of the campus have begun regarding providing notifications on campus security alerts. Neighbors, such as the local hospital and elementary school, may find value in being notified when a security issue occurs on campus.

Regent Falbo reiterated his concern about what other UW System institutions are doing in response to the report. Vice President Durcan responded that the President's Commission report contained several recommendations and that the campuses are currently working to respond accordingly and are currently scheduled to provide an update on their progress in June 2009.

UW-Superior Chancellor Erlenbach responded to the Committee's concerns over campus responses to the President's Commission on University Security by stating that the campuses have made progress and are thinking about many of the same things presented by UW-Stevens Point. For example, Chancellor Erlenbach stated that UW-Superior has worked with the local police department on active shooter exercises and is working to convert its security officer positions into police officer positions. Other efforts include looking at text-messaging systems and ways to make campus-wide announcements.

b. Trust Funds

(1) 2008 Proxy Season Voting Results

Tom Reinders, UW System Trust Funds Investment Analyst discussed UW System Trust Funds participation in issues involving discrimination, the environment, and social injury through proxy voting of shareholder proposals as addressed in Regent Policy. Mr. Reinders noted that as a result of recent efforts to change the UW System's asset allocation the number of proxies available to vote on has decreased. Specifically, Mr. Reinders stated that about 35 percent of the equity portfolio is separately managed which entitles the UW System to vote on proxies.

Mr. Reinders explained that there are three possible outcomes when a proxy is proposed: it can be voted, withdrawn, or omitted. Mr. Reinders stated that the 2008 proxy season saw the filing of 373 proposals related to social issues, only about half of which came to votes, a third were withdrawn, and the remainder were omitted. Mr. Reinders stated that through the end of June, 184 social issue proposals resulted in shareholder votes and, as in 2007, the categories of proposals that won support included the following: expand or report on fair employment policies; disclose and monitor political contributions; report on sustainability; and, track and reduce greenhouse gas emissions. Mr. Reinders noted that all climate change proposals received the support of 20 percent or more of votes cast which is a first.

Of the proxies that were withdrawn, Mr. Reinders commented that the major categories represented were sustainability and global warming. Mr. Reinders stated that the proxies that were allowed to be omitted by the Securities Exchange Commission were because of ordinary business exclusions.

Mr. Reinders reported that the UW System Trust Funds submitted votes on 47 proposals compared to 60 and 37 in the past two years, respectively. Mr. Reinders stated that 28 of the 47 proposals came to a vote, 12 were withdrawn, and 6 were omitted.

Regent Falbo asked if we have standards that determine in which companies the UW System will not invest. UW System Trust Funds Director Doug Hoerr stated that the UW System does not have any such standards currently other than for the Sudan. Mr. Reinders stated that divestment screens are relatively rare among higher education endowments.

(2) Update on Real Estate Investments

Doug Hoerr, UW System Trust Funds Director, stated that the UW System Trust Funds has no current exposure to real estate investments but indicated that the UW System is still researching this as an investment option. Mr. Hoerr stated that a real estate investment strategy has been drafted on this topic.

(3) Acceptance of Bequests over \$50,000

Doug Hoerr, UW System Trust Funds Director, presented eight bequests with a total value of \$2.8 million primarily benefitting UW-Madison. Mr. Hoerr provided a brief summary of each bequest listed below.

- Lester E. Baribo Estate	\$ 400,000	UW-Madison
- Bonnie Ann DeMeio Estate	\$ 370,000	UW-Madison
- Gilbert H. Meisel Trust	\$ 135,000	UW-Milwaukee
- Abner and Agnes Brodie Family Trusts	\$ 165,000	UW-Madison
- Ann Clark Tracy Estate	\$ 54,000	UW-Madison
- Wilna Tygum Charitable Remainder Unitrust	\$ 175,000	UW-Madison
- Emma M. Allen Trust	\$ 250,000	UW-Madison
- Paul J. Bender and Margaret M. Bender Trust	\$1,250,000	UW-Madison

Regent Connolly-Keesler asked if the bequests were specifically directed to the UW System or to the Board of Regents. Director Hoerr stated that bequest requests can be directed in numerous ways with some specifically designating the Board of Regents and other specifying a foundation of an institution. Mr. Hoerr clarified that if a foundation is not specified in a bequest, the donation comes to the Board.

Regent Connolly-Keesler asked whether bequests under \$250,000 would go directly to the named institution because it doesn't meet the minimum limit of an endowment. Director Hoerr stated that the funds are not given directly to the named institution but are invested for them. However, Mr. Hoerr stated that these bequests may be unrestricted and the named institution could spend all of the funds directly from the UW System account as they see fit.

In accordance with Regent Resolution 8559 and upon the motion of Regent Falbo, and the second of Regent Connolly-Keesler, the Committee unanimously approved Resolution I.2.b.3.

Resolution I.2.b.3.

That, upon the recommendation of the Chancellors of the benefitting University of Wisconsin institutions and the President of the University of Wisconsin System, the bequests detailed on the attached list be accepted for the purposes designated by the donors, or where unrestricted by the donors, by the benefitting institution, and that the Trust Officer or Assistant Trust Officers be authorized to sign receipts and do all things necessary to effect the transfers for the benefit of the University of Wisconsin.

Let it be herewith further resolved, that the Chancellors of the benefitting University of Wisconsin institutions, the Deans and Chairs of the benefitting Colleges and Departments, the President, and the Board of Regents of the University of Wisconsin System, express their sincere thanks and appreciation to the donors and their families for their generosity and their devotion to the values and ideals represented by the University of Wisconsin System. These gifts will be used to sustain and further the quality and scholarship of the University and its students.

c. Committee Business

(1) Consideration of Salary Adjustments for Senior Academic Leaders to Address Recruitment and Retention Challenges for the Chancellors at UW-Colleges and UW-Extension, UW-Eau Claire, UW-Stevens Point, and UW-Milwaukee

The Committee postponed any discussion related to this item to a later date.

(2) Approval of 2009-11 Biennial Budget Performance Measures

Associate Vice President Freda Harris requested Committee approval of the performance measures and goals that have been prepared for submission to the Department of Administration as part of the University of Wisconsin System 2009-11 Biennial Budget. Ms. Harris stated that the four performance measures for this biennium are enrollment, retention rate, graduation rate, and contribution

to the Wisconsin Economy. Ms. Harris reminded the Committee that the Board approved the measures at the August meeting, but did not have the specific goals for the four measures at that time.

Associate Vice President Harris stated that the performance measures have been required since 2000. Ms. Harris provided additional history to the development and submission of budget performance measures. Ms. Harris stated that a concern was expressed at the August Board meeting that the long-term goals had been exceeded for some of the measures. As a result, Ms. Harris reported that slight modifications were made to the graduation rate and economic contribution but that additional thought will need to be given to what would be appropriate long-term goals for those two measures.

Associate Vice President Harris noted that the enrollment goal has been met and that the plan going forward is to increase enrollment by more than 4,000 FTE over the Fall 2007 enrollment level. Ms. Harris stated that the current retention rate is slightly below the established goal of 82 percent. Ms. Harris stated that the current goal for graduation rate has been achieved and a revised goal of 65 percent will be submitted and can be considered a stretch-goal when combined with the goal of increasing enrollment.

Regent Connolly-Keesler asked how the current graduation rate compares to other higher education systems. Interim Associate Vice President Sharon Wilhelm responded that the national average for six-year graduation rates is 55 percent compared to more than 64 percent for the UW System. Regent Connolly-Keesler further commented on retention rates and the need to make sure we keep students that are admitted to the system and to understand why they fail to graduate. Ms. Wilhelm stated that one of the components to the improved accountability measures and report discussed by the full Board of Regents will include metrics that will allow an analysis of how many students have graduated from another institution. Ms. Wilhelm is confident that this information can be added to the UW System annual accountability report. Ms. Wilhelm also stated that a student that has not graduated within six years may still be enrolled at a UW institution but for whatever reason is taking longer to graduate. Regent Connolly-Keesler asked if we knew the number of students taking longer than six years. Ms. Wilhelm responded that approximately 10 percent of students are still enrolled after six years.

Regent Womack asked if there was the ability to track students no matter where they may be enrolled. Ms. Wilhelm stated that within the UW System students can be tracked by their student ID number but at a national level it is much more difficult because of the reliance on social security numbers, which not all students have. Regent Connolly-Keesler asked if statistics were also maintained for four and five-year graduation rates. Senior Institutional Planner Sue Michalek explained the origin of the six-year rate and responded that the four-year rate is somewhere in the 40 percent range. Ms. Michalek also stated that the data shows the UW System is doing a better job in graduating students in four years than in the past.

Regent Burmaster asked how the data for the contribution to Wisconsin's economy is collected. Associate Vice President Harris responded that the measure is calculated by multiplying the number of graduates by the salary differential between a college and high school degree. Interim Associate Vice President Wilhelm further stated that the measure could be considered conservative in that it does not look at salary differentials for advanced degrees.

Regent Falbo asked if the UW System was at or better than providing access to 32 percent of Wisconsin high school graduates. Ms. Harris responded that the UW System has been consistently exceeding that figure and currently plans enrollment based upon institutional plans.

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

Resolution I.2.c.2.

That, upon the recommendation of the President of the University of Wisconsin System, the Board of Regents approves the specified goals and respective targets for the 2009-11 Biennial Budget Performance Measures.

(3) Roles and Responsibilities of the Business, Finance, and Audit Committee

Senior Vice President Thomas Anderes discussed the primary responsibilities typically assumed by a Business, Finance, and Audit Committee in higher education. Mr. Anderes stated that the current work of the Business, Finance, and Audit Committee is very similar to other business-related committees and that these types of committees typically have five common responsibilities: establishing financial controls and managing risk; managing an open budget process; developing tuition policies and rates; connecting capital project planning and debt financing decisions; and, ensuring an active and transparent audit process is in place.

Senior Vice President Anderes summarized the types of discussions that the Committee may expect to have based upon the five common responsibilities. Specifically, Mr. Anderes commented that three core principles to establishing financial controls exist which the Committee should be concerned with and include effective and efficient operations and use of funds, establishing reliable financial reporting, and being able to look at the accountability to established policy, procedures, and law.

Mr. Anderes stated that an open budget process addresses the opportunity for the Committee to look at all program priorities and to connect them with funding requests, as well communicating expectations so that institutions understand what to expect in the event of any additional funds or budget reductions.

Mr. Anderes stated that one of the greatest responsibilities of the board is having a basis from which they can make decisions as to what a student should pay, including both tuition and fees.

Concerning the connection of capital project planning with debt financing decisions, Senior Vice President Anderes noted that the Board of Regents has a separate committee that handles capital planning decisions but that there are important considerations when a new building project is approved, such as debt service costs and additional operational costs. According to Mr. Anderes, those considerations play into an understanding of each institution's budget.

The last common responsibility of business-related committees is maintaining an active and transparent audit process. Mr. Anderes stated that the number one issue of financial control is having a function that can monitor and indicate whether the organization is adequately performing its responsibilities related to financial controls and risk management. Mr. Anderes noted that a part of what needs to be looked at very closely is assessing risk and developing an annual agenda based on a clear risk assessment process. Mr. Anderes stated that having a risk-based agenda allows for a dialogue that allows the Committee to develop an understanding of where specific issues fall within a comprehensive assessment of risk.

Senior Vice President Anderes concluded by stating that these five areas of responsibilities help determine the types of reports and information that the Business, Finance, and Audit Committee might want to consider receiving. Regent Smith asked whether any recent changes in federal or state law increase reporting needs or the responsibilities of business-related committees. Mr. Anderes responded that there have been significant changes as a result of changes in the law and specifically mentioned the Sarbanes-Oxley Act. Further, Mr. Anderes believes that expectations are much higher on Chancellors, Chief Business Officers, and Chief Financial Officers to be able to be much more aware of what is happening and more involved in the decision making. As a result, Mr. Anderes stated that internally we may need more information and analysis to support decisions.

Senior Vice President Anderes stated that one type of report that might be useful is an exception report. The report would provide information that highlights problems or issues that an institution may be experiencing and the nature of the issues, such as when it is long-term or chronic. If the problem is of a significant nature, Mr. Anderes stated that the report would allow for communication with the Board on how the UW System and the respective institutions are working on the issue. Mr. Anderes commented that the report would be one way to be as accountable as possible without specifying a large number of additional reports which may or may not generate information that identifies crisis issues. Further, an exception report would allow for more timely communication with key decision makers without relying upon existing annual reports which may not collect information on or effectively communicate where emerging issues are present.

Regent Connolly-Keesler commented that it would be useful to expand the current report showing budget actual expenditures from showing just GPR expenditures to include all expenditures. Mr. Anderes commented that that information does exist but we would need to define further what is actually needed since there are a number of ways to present that information.

Regent Falbo commented that he likes the ability to monitor the financial progress for the goals of each institution. Regent Falbo stated he believes having such information is important for more than reasons of just finance. For example, Regent Falbo stated such information could be used in the Chancellor performance evaluation process. Regent Falbo stated that currently, he is unable to connect a measurement of goals to dollars. Mr. Anderes stated that it is something that can be looked at.

Regent Womack questioned what the Committee's responsibilities are regarding audit findings and recommendations. Regent Falbo commented further that a process should exist for developing a response and disposition to audit findings by a time certain with the Committee being responsible for accepting or rejecting a response plan and then monitoring progress in implementing the plan. Regent Smith stated that typically an audit includes the manner in which a particular problem should be addressed, but that sometimes that component is not as strong as it could be. Regent Smith commented further that the question is more what happens to the recommendations. Regent Connolly-Keesler stated that the use of follow-up audits and an annual audit plan are steps currently taken to help keep a better handle on audit responses and the need for any future audit work.

Senior Vice President Anderes noted that from his perspective, past audits did not have a strong management position and stated his belief that there needs to be more of a management perspective. Regent Falbo stated that another element to the discussion is what is being audited, why, and when and how often and asked if the UW System is doing any of that. Mr. Anderes responded that a discussion is occurring at great lengths concerning a risk assessment process that will assist in building audit plans based upon risk. Further, Mr. Anderes stated that the UW System can continue to work on developing a plan that clarifies what the agenda is, why it is, and highlight follow ups.

Regent Falbo commented that he often responds to audit findings by asking what is going on systemwide. Regent Smith responded that most audits are systemwide in nature and that many audits are conducted at the request of the Committee. Regent Falbo noted that a risk assessment would help the Committee in making audit requests and in adjusting any audit plans based on changes to the organization's risk profile. Mr. Anderes added that since his arrival to the UW System, he has not seen anything that suggests that the audit planning should be any different than the current process.

Vice President Debbie Durcan stated that it may also be useful in understanding the current audit planning process by looking at the audit plans of the institutions. UW System resources are dedicated to looking at top priorities of the Board or taking a comprehensive look at management issues, but at the individual institutions, audits are often conducted in areas that are unique to that campus. Ms. Durcan stated that seeing the results of the campus audits might help in developing a better picture of all the audit activities that are taking place in a course of a year. Ms. Durcan noted that the Board was instrumental in ensuring that each campus has audit resources. Regent Burmaster stated that it is the public's view that the Board has an understanding of what is happening on each individual campus and agreed that having campus audit information would make a positive difference in the Committee's understanding of what is being done from an audit perspective. Regent Connolly-Keesler stated that a quarterly report could be provided on campus audit activity, including completed reviews.

(4) Quarterly Gifts, Grants, and Contracts (4th Quarter)

Vice President for Finance Durcan updated the Committee that the total gift, grant, and contract awards for the fiscal year ended June 30, 2008 were \$1.2 billion, or a decrease of \$83.2 million from the prior year. Ms. Durcan noted that federal awards decreased \$47.5 million while non-federal awards decreased \$35.7 million. Ms. Durcan commented that the decreases in federal research awards were predominately due to timing issues and gift funding for the Microbial Sciences Building at UW-Madison accounted for the decline in non-federal awards.

d. Report of the Vice President

Vice President for Finance Debbie Durcan updated the Committee on recently submitted statutorily required reports, including the Auxiliary Reserves Report filed in September that showed eight institutions with planned reserve levels greater than the statutory threshold. Ms. Durcan also noted that UW System reported on the number of GPR positions created which totaled zero, and that the Using Continuing Appropriation Authority to Serve Adult Students and the Base Salary Adjustments to Recognize Competitive Factors reports were also submitted recently.

Vice President Durcan also reported that a couple of changes recently went into effect for the EdVest program, including having a CD option for participants, a conservative portfolio that has 30 percent exposure to stocks, and an increase to \$330,000 for the total contribution limit.

e. Consent Agenda

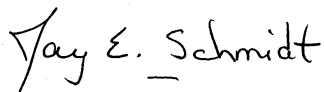
(1) Approval of Minutes of the August 21, 2008 Meeting of the Business, Finance, and Audit Committee

Upon the motion of Regent Falbo and the second of Regent Connolly-Keesler, the minutes of the August 21, 2008 meeting of the Business, Finance, and Audit Committee were approved as presented.

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

No additional items were presented to the Committee.

The Business, Finance, and Audit Committee adjourned at 3:41 p.m.



Jay E. Schmidt, Recording Secretary