

BOARD OF REGENTS
BUSINESS, FINANCE, AND AUDIT COMMITTEE MEETING
December 8, 2011
Union South, UW-Madison

Joint Meeting of the Education Committee and the Business, Finance, and Audit Committee (Varsity Hall II, Union South). See Education Committee minutes for a summary of this portion of the meeting.

Joint Meeting of the Capital Planning and Budget Committee and the Business, Finance, and Audit Committee (Varsity Hall I, Union South). See Capital Planning and Budget Committee minutes for a summary of this portion of the meeting.

Business, Finance and Audit Committee
(Varsity Hall 1, Union South)

The Business, Finance, and Audit Committee meeting was convened and called to order at 3:30 p.m. by Regent Falbo. The roll call was carried over from the previous joint session. Regents Michael Falbo, Mark Bradley, Charles Pruitt, and Troy Sherven were present.

d. OPERATIONS REVIEW AND AUDIT

1. Compliance Review of the Implementation of Family Educational Rights and Privacy Act (FERPA) Regulations.

Elizabeth Dionne, Director of the Office of Operations Review and Audit, discussed highlights of the recently completed program review for the Family Educational Rights and Privacy Act (FERPA). The review concluded that UW institutions are generally meeting FERPA requirements, but did offer eight recommendations which may further enhance the ability of institutions to effectively implement the provisions of the law. The suggested recommendations included:

- 1) Designate one lead office or position for coordinating and overseeing the implementation of FERPA requirements;
- 2) Maintain FERPA policies in one central location overseen by the lead office or coordinator, and periodically review to ensure consistency with current practice and FERPA regulations;
- 3) Implement campus-wide mandatory training for employees and student workers with access to student educational records;

- 4) Review their annual FERPA notice to students to ensure that it contains all required information and consolidate all required information into a single document that serves as the annual student notice;
- 5) Review their student directories to make sure information released is consistent with information that the institution has designated as directory information;
- 6) Develop or adopt a definition of school official with legitimate educational interest and include the definition in the document that serves as the annual notification of FERPA rights to students;
- 7) Require individuals granted access to electronic student educational records to sign a confidential agreement; and
- 8) Establish a process for timely removal of access when employees and student workers terminate or change their employment.

Director Dionne indicated the Office of Operations Review and Audit will issue letters to institutions to state their FERPA concerns related to that specific campus. Committee members had no follow up questions to the report.

2. QUARTERLY STATUS REPORT

Director Dionne provided an update of ongoing and recently completed activity of the Office along with information regarding current and/or pending activities of the Legislative Audit Bureau which may impact the UW System. There was discussion on what type (system-wide or institution specific) of audits are brought before the Committee. Ms. Dionne stated the Committee routinely reviews system-wide audits. Standard operating procedure has the Office transmitting institution specific audits to the respective institution.

3. DISCUSSION OF THE DRAFT OPERATIONS REVIEW AND AUDIT PLAN FOR 2012

Director Dionne highlighted potential topics being considered for inclusion in the 2012 audit plan. She asked for feedback from Committee members concerning proposed audit topic priorities, additional audit topics, and Committee insights into the direction the Office should be taking. The final audit plan will be presented to the Committee at its February meeting.

Ms. Dionne outlined how the proposed annual plan was developed and the overall responses from key stakeholders. She shared with the committee members the types of suggested topics.

Regent Falbo asked if the suggested audit topics are in order of importance or response. Ms. Dionne said no, audit items were intentionally not listed in priority order to avoid biasing the Committee's perspective.

Regent Falbo asked if the Employee Payroll Information audit would include the HRS system. Ms. Dionne said it would not be an audit of the entire system. Sr. Vice President Michael Morgan had several comments. He suggested the audit not occur until calendar year 2013 because the HRS system will not be stable until sometime next year. Also, given all of the current HRS activity and upcoming activity due to the two new personnel systems being created, it would increase the strain on resources of personnel and the Service Center. In addition, Mr. Morgan was not sure how useful the data

gathered would be, and added Huron Consulting almost serves in an audit capacity. Mr. Morgan then asked that the audit be deferred until the next calendar year. Director Dionne stated the Office had considered a HRS audit. However, they are looking to fill an IT auditor position next year and believes when that position is filled, it could take a proactive role in future systems and business analysis for HRS.

Regent Brent Smith joined the Committee discussion and asked the Committee to move forward quickly with the audit on Policies Related to Reporting of Crimes Against Minors. Regent Falbo said it was important to get people to report and asked if UW System has something similar to a whistleblower or ombudsman program where individuals could report and know there would not be repercussions.

Sr. Vice President Morgan recommended moving the Policies Related to Reporting of Crimes Against Minors audit to the top of the list of audits that must be done by spring of this year. He said the audit would include an evaluation of the adequacy of policies related to reporting of crimes against minors at the University of Wisconsin System Colleges, Universities and Extension. The audit review would be part of a two part strategy to insure that the thousands of children who visit UW institutions are protected. Mr. Morgan stated while recent headlines involve scandals centered in university athletic departments, the work of the Board of Regents and the Business, Finance and Audit Committee is to insure that children are protected in all UW Board of Regents' properties, buildings, venues, and programs. He went on to say the second part of this strategy would involve a risk assessment aimed at prevention. This would ensure that our practices and policies in conducting sports camps and educational programs, which invite minors to our campuses, are designed with safe guards in place to protect those children. This work would be done by the UWSA risk management group.

Regent Smith asked for clarification on whether UWSA legal staff is working on or giving guidance on this matter. He said UWSA needs to give guidance in conjunction with an audit. Mr. Morgan stated, while work on the audit will commence immediately, President Reilly has already asked Legal Counsel to provide an assessment on pertinent state and federal laws and university policy which was sent out to institutions and campuses earlier in the week.

General discussion on suggested topics followed. Director Dionne commented on the value of reviewing UWSA software licensing procedures and international education enrollment. Regent Falbo agreed to the importance of the audits. Regent Falbo led a discussion on the value of international students and whether they displace or replace Wisconsin students, and does UWS have the capacity to take on additional international students. Regent Bradley stated the additional revenue brought in by international students would allow System to give more financial aid to and accept additional in-state students.

Elizabeth Dionne asked the Committee members to contact her on any additional topics or thoughts on potential audits. She reiterated the final plan would be presented to the Committee in February, and the Office will start the Policies Related to Reporting of Crimes Against Minors audit quickly.

e. TRUST FUNDS

1. INVESTMENT POLICY STATEMENT REVIEW AND AFFIRMATION [Resolution I.2.e.1.]

Doug Hoerr, UW System Trust Funds Director, reviewed the Investment Policy Statement revisions with the Committee. He reminded the members that preliminary trust fund data was brought before the committee in October. The Committee approved changes to the way certain asset categories are defined, minor changes to the asset allocation targets for both Long Term and Intermediate Term Funds, minor revisions to the Investment Policy Statement, and reaffirmed its adoption of the Investment

Policy Statement for the University of Wisconsin System Trust Funds. No change to the 4% spending policy was recommended.

Regent Falbo asked why US equities and non-US equities are combined. Doug Hoerr said overall, the Office does divide US equities and non-US equities when evaluating for investment considerations. He said Trust Funds looks at relative valuations in similar situations, and, in a normal environment, there has definitely been a convergence in correlation and expected returns of large company stocks. However, when investment analysts look at individual stocks, it's currently much more important for them to analyze the sector verses where they are domiciled. It's become a much more integrated system. Regent Falbo asked if we have a zero target strategic allocation why is there a minimum and maximum? Mr. Hoerr stated, for example, under "Opportunistic" a 0% target strategic allocation is an area where we would be talking about investment in things that present an unusual and extraordinary opportunity in a non-normal environment. Mr. Hoerr said Trust Funds would not have a target allocation but on occasion, if there is an extremely attractive return, they would like to have it available to them.

Upon the motion of Regent Bradley and the second of Regent Sherven, the Committee unanimously approved Resolution I.2.e.1.

[Resolution I.2.e.1.]

That, upon recommendation of the President of the University of Wisconsin System, the Board of Regents approves the recommended revisions to, and otherwise reaffirms its adoption of, the *Investment Policy Statement* for the University of Wisconsin System Trust Funds.

f. COMMITTEE BUSINESS

1. Approval of the Minutes of the October 6, 2011, Meeting of the Business, Finance, and Audit Committee

Upon the motion of Regent Bradley and the second of Regent Sherven, the Committee approved the minutes of the October 6, 2011, meeting of the Business, Finance, and Audit Committee.

2. UW-Madison Contractual Agreement with Sunovion Pharmaceuticals, Inc. [Resolution I.2.f.2.]

The Committee approved the extension of a Data Research Analysis Agreement between UW-Madison and Sunovion Pharmaceuticals, Inc. Darrell Bazzell, Vice Chancellor for Administration at UW-Madison, said UW-Madison would like to extend the contract by about \$220,000, therefore, taking the total contract over the threshold requiring Board of Regents' authorization. Approval of the agreement would extend the contract, which has been in place since May 2009, through December 2014 with an estimated total value of about \$682,000, including earlier activity.

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

[Resolution I.2.f.2.]

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 contractual agreement between the University of Wisconsin-Madison and Sunovion Pharmaceuticals, Inc.

3. Report on Quarterly Gifts, Grants and Contracts (1st Quarter)

UW System Vice President for Finance Debbie Durcan presented information regarding gift, grant, and contract awards for the period July 1, 2011 through September 30, 2011. She said the total gifts, grants, and contracts for the period were approximately \$578.1 million, a decrease of \$93.9 million over the same period in the prior year. Vice President Durcan referenced a reporting anomaly in the quarterly report. She said a significant portion of the decline in federal awards was due to a number of institutions reporting the federal direct loans in the 1st quarter last year. Those funds are really pass-thru funds and account for the decline of about \$50 million in federal student aid. She went on to say also in last year's 1st quarter reporting there was a one-time Extension Broadband grant of about \$30 million. Although the changes look dramatic, Ms. Durcan said the anomalies were explainable.

g. REPORT OF THE SENIOR VICE PRESIDENT

1. Status Update on Implementation of Act 32 Flexibilities

Michael Morgan, Senior Vice President for Administration and Fiscal Affairs, provided an update on the implementation of the flexibilities included in the 2011-13 biennial budget (Act 32) and the President's Advisory Committee Recommendations. Mr. Morgan indicated that good progress is being made implementing the flexibilities and recommendations. He credited individuals and leaders at UW System Administration along with campus leaders who are working hard to implement the practices as soon as practicable. Regent Bradley asked about the mechanics of Act 32 block grants. In particular, he asked if the block grant dollars would be dedicated to specific campuses or would dollars come through the System and System would reallocate. Regent Bradley also asked if state reporting shows the state's investment to the UW System or to individual institutions. Mr. Morgan stated budget dollars will come to System and then be distributed to individual institutions in the form of a UWSA-budget block grant. He indicated System and campus leaders have been working through how block grants will be moved to institutions and what uses of block grants are permissible.

Mr. Morgan introduced Darrell Bazzell, Chancellor Ward's representative to the Task Force, to provide a brief summary of the first meeting of the Personnel System Task Force. Mr. Morgan spoke of the benefits of having Mr. Bazzell on the Task Force in that it brings Madison to the table in a collaborative effort in designing a personnel system for all UW System institutions. Mr. Bazzell said the Task Force concept was a sound one and yesterday was the kick off meeting. The Task Force started drafting their timeline by working backwards; acknowledging the personnel systems need to be implemented by July 2013. Mr. Bazzell also spoke of some of the issues facing the Task Force; the need for high level design, statutory changes, legislative approval on the design, the importance of working through the necessary "nuts and bolts" of the system, and of course, some potential changes to HRS. Mr. Bazzell asked Al Crist to think about what changes may need to be done to the HRS system. He also said UW-Madison is currently ahead of the game with their work product. They have formed an advisory committee, identified issues, and created 11 work teams. The Task Force will meet monthly (or more if needed) until the project is completed.

Regent Falbo inquired if there could be a common system with a basic set of standards on which both personnel systems could build. Mr. Bazzell responded by saying from a practical matter, at every level of organization, there is an opportunity to share and integrate. Technology will require commonalities and provide an important control point. Sr. Vice President Morgan said technology may discipline us to be more similar than dissimilar, but the systems will need to recognize unique qualities of the institutions.

2. Human Resources System Status Update

Sr. Vice President Morgan provided an update on the Human Resource System (HRS) implementation and on-going efforts to work through any implementation challenges. He stated progress was being made with HRS functionality and stability, and payroll targets were being reached. The last payroll cycle saw some improvement. Mr. Morgan said between June and December there was almost a 50% decrease in problems, thus the trend is going in the right direction. The number of off cycle checks is decreasing, and many errors are being caught before checks are sent out. Staff is working hard to make the system work and work well. However, to build on this improvement process, he said the HRS/Service Center project team began their second round of campus visits in November and will wrap up in December. He concluded with saying we have a long ways to go before HRS operations are "stable", but we are headed in the right direction.

Sr. Vice President Morgan also spoke of the success of the eBenefit pilot program (a self-service program that enables employees to enroll in benefits programs online for open enrollment period and new hires) which occurred at UW- Green Bay, La Crosse, and Oshkosh. He said based on the success of the pilot, the team recommended UW implement eBenefits for fall 2012 open enrollment period at all UW institutions. Mr. Morgan also updated the members on the Talent Acquisition Manager (TAM), the PeopleSoft functionality which supports the recruitment process. Due to provisions in Act 32 (development of two new personnel systems), Mr. Morgan said TAM is scheduled to be implemented in the first quarter of 2012 for unclassified recruitment processes only. The classified piece will be paused until further developments in the new personnel systems.

Mr. Morgan went on to say that he has been working with Service Center representatives to try to understand if the project and operations budgets of the Service Center area are in line. Current estimates indicate a budget gap of about \$4 million. As it relates to the breakdown, approximately \$2.5 million is within the project category which falls well within the project contingency budget. Sr. Vice President Morgan said we are working to understand how we are going to offset the cost overruns for the operations piece of HRS. The budget is being closely monitored and all opportunities to reduce costs are being considered. The projected funding gap for Service Center Operations will not result in any increased cost to the UW institutions.

The meeting was adjourned at 4:45 pm.

Respectfully submitted,



Ruth E. Wyttenbach
Recording Secretary