

BOARD OF REGENTS  
BUSINESS, FINANCE, AND AUDIT COMMITTEE MEETING  
October 6, 2011  
University Union, UW-Green Bay

Joint Meeting of the Capital Planning and Budget Committee and the Business, Finance, and Audit Committee (Alumni AB, University Union)

See Capital Planning and Budget Committee minutes for a summary of this portion of the meeting.

Business, Finance and Audit Committee  
(Alumni AB, University Union)

The Business, Finance, and Audit Committee meeting was reconvened and called to order at 2:22 p.m. by Regent Falbo. Regents Michael Falbo, Mark Bradley, Charles Pruitt, and Troy Sherven were present.

**a. Operations Review and Audit**

1. Adoption of the Operations Review and Audit Charter (Resolution I.2.a.1)

Elizabeth Dionne, Director of the Office of Operations Review and Audit, presented the proposed charter for the Office of Operations Review and Audit to the Committee. The Committee unanimously approved a resolution adopting the Operations Review and Audit Charter for the Office of the Operations Review and Audit. The charter:

- defines the purpose, authority, and responsibility of the internal audit activity of the University of Wisconsin System Administration
- establishes the Office of Operations Review and Audit
- authorizes access to records, personnel, and physical properties relevant to the performance of engagements
- defines the scope of internal audit activities
- identifies the standards of audit practice expected for personnel

The charter is consistent with:

- the definition of internal auditing
- the Code of Ethics
- the International Standards for the Professional Practice of Internal Auditing and is consistent with public university systems across the country.

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

**[Resolution I.2.a.1.]**

That, upon the recommendation of the President of the University of Wisconsin System, the Board of Regents adopts the Operations Review and Audit Charter consistent with the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing*.

2. Program Review of the Higher Education Location Program (HELP)

Elizabeth Dionne, Director of the Office of Operations Review and Audit, highlighted a recently completed program review of the Higher Education Location Program (HELP). She gave a brief historical perspective on HELP and outlined the review objectives and the audit approach. She also stated HELP manages the electronic student application process for the UW System; 175,000 electronic applications or 95% of the total applications received. Director Dionne stressed the overwhelming external support of the program and stated HELP effectively meets the needs of prospective students, parents, and high school guidance counselors. The review identified five recommendations to enhance program operations which the UW-Extension has formally responded to and agreed to implement changes by Fiscal Year 2012.

Regent Falbo asked about HELP's budget and Director Dionne stated some years the program runs a surplus and other years a deficit. She said one of their five recommendations was to clarify within the memorandum of understanding between UWSA and UW-Extension how to handle future budget surpluses and deficits. Regent Bradley inquired on how HELP processes student applications and fees and learned interested students send their applications to HELP and every day at 5 p.m. the applications are electronically forwarded to the designated institutions. HELP receives a portion of the application fee for processing and individual institutions collect the majority of the fee for application review. Director Dionne stated there were no recommendations of a critical nature that needed to be followed up by the Committee.

3. Quarterly Status Update

Elizabeth Dionne, Director of the Office of Operations Review and Audit, presented a quarterly status update of the Office of Operations Review and Audit. In addition to her review of the Higher Education Location Program (HELP), Ms. Dionne highlighted a few of the current projects the Office is working on:

- 1) Review of Family Educational Rights and Privacy Act (FERPA)
- 2) NCAA Division III Athletics – La Crosse
- 3) NCAA Division III Athletics – Eau Claire
- 4) Policies Affecting Students with Disabilities
- 5) Undergraduate Academic and Career Advising
- 6) Privacy Controls Related to Personally Identifiable Information.

Director Dionne briefly commented on the current and pending activities of the Legislative Audit Bureau (LAB) which may impact the UW System. She stated the LAB is performing their annual audit of UW System's financial statements for FY 2010-11 and the annual compliance audit of federal grants and expenditures for FY 2010-11. Additionally the LAB is working on a

performance evaluation audit of economic development programs administered by state agencies. Regent Pruitt asked for an explanation on what information is considered in establishing the need for an audit or how an audit topic is determined. Director Dionne stated the Office obtains representative samplings from informed interviews with different institutions and systems on key priorities and risks. That feedback assists the Office on determining where their resources would be best focused. In addition, she stated some audits are done on a rotational basis, i.e., the La Crosse and Eau Claire NCAA audits are occurring now, but other NCAA campus programs will be audited. Regent Falbo commented about the Board of Regents' oversight obligations. He indicated the Committee must carry out and fulfill their responsibilities. Director Dionne acknowledged Regent Falbo's concern and stated a recent survey was directed to institutions, including Chancellors, Provosts, and Board members asking for their input on helping the Office identify areas of higher risk and exposure. That quantitative data supplemented with discussion should assist the Office to select appropriate audit areas and ultimately compile a list for the 2012 audit plan.

## **b. Trust Funds**

### **1. Asset Allocation Analysis**

UW System Trust Funds Director Doug Hoerr presented to the Committee information and analysis on current asset allocation within the long-term and intermediate funds. This level of analysis is conducted every few years, the last being in 2007 just prior to the financial shift, to help support and confirm current asset allocation strategy. Two types of quantitative analysis common for institutional investors were used this year that included standard mean-variance optimization and a planning model called Monte-Carlo simulation, a model based on probabilities. Mr. Hoerr indicated the biggest change in capital market assumption was a somewhat lower expected return on dollars and somewhat higher volatility. Although further analysis will be performed, primary conclusions support the investment policy decisions made by the Committee in meeting objective goals. Mr. Hoerr also noted the current spending plan appears to be reasonable, prudent, and desirable and he is not recommending any changes. Regent Bradley stated for clarification the allocation level is based on 2011 expected rate of return and although the rates are less, the rates are not reduced enough to change investment policy. Mr. Hoerr agreed. Director Hoerr also reminded the Committee the annual review of the Investment Policy Statement will occur at the December meeting and will include the Endowment Fund spending plan.

### **2. Acceptance of New Bequests over \$50,000 [Resolution I.2.b.3.]**

Regent policy provides that individual bequests of \$50,000 or more will be brought to the Business, Finance, and Audit Committee so that they can be formally accepted and recognized. UW System Trust Funds Director Doug Hoerr presented to the Committee six bequests with a total value of \$1,125,288.

Upon the motion of Regent Pruitt and the second of Regent Bradley, the Committee unanimously approved Resolution I.2.b.3.

### **[Resolution I.2.b.3.]**

That, upon the recommendation of the President of the University of Wisconsin System

and the Chancellors of the benefiting University of Wisconsin institutions, the bequests detailed on the attached list be accepted for the purposes designated by the donors, or where unrestricted by the donors, by the benefiting 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 benefits of the University of Wisconsin.

Let it be herewith further resolved, that the President and Board of Regents of the University of Wisconsin System, the Chancellors of the benefiting University of Wisconsin institutions, and the Deans and Chairs of the benefiting Colleges and Departments, 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.

### 3. 2011 Proxy Voting Season Results

Tom Reinders, Senior Portfolio Analyst, addressed the Committee and reported on the results of specific proxy voting of shareholder proposals. The UW System Trust Funds actively participates in issues involving discrimination, the environment and substantial social injury via proxy voting of shareholder proposals addressed in Regent Policies. The 2011 proxy season saw the filing of 348 proposals related to social issues, with nearly half of them coming to votes. Through the end of June, 164 social issue proposals resulted in shareholder votes, 120 were withdrawn, 53 were allowed to be omitted by the Securities Exchange Commission and 11 are still pending.

### **c. Committee Business**

#### 1. Approval of the Minutes of the July 14, 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 July 14, 2011 meeting of the Business, Finance, and Audit Committee.

#### 2. Report on Quarterly Gifts, Grants and Contracts (4<sup>th</sup> Quarter)

Vice President for Finance Debbie Durcan reported that gifts, grants, and contracts for the fiscal year July 1, 2010 through June 30, 2011 equaled \$1.5 billion; a decrease of about \$136 million compared to the prior year. The decrease was attributed to the significant amount of ARRA funding received in the prior fiscal year, as well as timing differences in the reporting of award data.

### **d. Report of the Senior Vice President**

#### 1. Changes to Administration and Fiscal Affairs as Outlined in the President's Response to the Report of the President's Advisory Committee on the Roles of UW System Administration

Senior Vice President for Administration and Fiscal Affairs Michael Morgan provided an update on the current status of changes underway as outlined in the President's Response to the Report of the Advisory Committee on the Role of UW System Administration. He stated the Office of Administration and Fiscal Affairs is currently looking to operationalize ITMAC (Interpreting,

Training, Monitoring, Advocating, and Consulting) as the UWSA's business model, and to better understand how ITMAC will effect responsibilities and duties of UW institutions. The goal is to bring back a plan to the Committee in February as to how this new ITMAC business model will be implemented.

Senior Vice President Morgan also shared with the Committee that interaction and communication opportunities continue to grow between UWSA and campus Chancellors, supporting President Reilly's offer of having Chancellors participate "up-stream" on policy issues. He noted in addition to the monthly ideas and policy meetings with Administrative Staff, three Chancellors currently serve on the President's Cabinet and two Chancellors participate in weekly calls with Board leadership. This process has been in place for several months and appears to be productive and useful. Additionally, he commented on pending changes to the Administration and Fiscal Affairs audits to be performed in 2012 and beyond, indicating a focus from programmatic audit review to risk-based financial audits. He intends to bring an Audit Plan to the Committee for approval no later than February 2012. Mr. Morgan also reported that efforts are underway to implement Act 32 flexibilities. The Office of Budget and Planning is working with the Chief Business Officers (CBOs) to better understand the campuses' needs, and delegate authority to institutions as appropriate. The recommendations will be reviewed with the Chancellors at the Administrative Staff meeting. In addition, President Reilly asked Chancellor Ward (who designated Darrell Bazzell) and Chancellor Shields to co-chair and convene a systemwide University Personnel Systems Task Force to begin the planning for the development of two new separate and distinct personnel systems as authorized and directed in the 2011-13 biennial budget. The first personnel system will be for all University of Wisconsin-Madison employees and the second personnel system will be for the balance of all University of Wisconsin System employees. These new systems need to be in place by June 30, 2013. Mr. Morgan has been assured by Al Crist, Associate Vice President of the Office of Human Resources and Workforce Diversity, the Committee will have the opportunity to review the proposed personnel systems by March 2013.

Regent Bradley asked whether Act 32 and the President's advisory recommendations were affecting the Chancellors ability to get things done. Regent Falbo commented on the changing environment and a Chancellor's evolving job description. Mr. Morgan said he could not answer for the Chancellors, however, when President Reilly initially brought up expanding the Chancellor's roles and asked for volunteers, the Chancellors responded positively and volunteered readily. Mr. Morgan shared the expected Building Commission approval of the process change for capital projects costing less than \$500,000 and funded entirely by gifts and grants. Building Commission approval is expected in October. Senior Vice President Morgan stated the Department of Administration (DOA) had received the Memorandum of Understanding from UWSA that will allow delegation of authority of procurement and DOA approval is expected by the end of October. UWSA will meet with UW institutions to review and implement.

## 2. Human Resources System Status

Senior Vice President Morgan provided the standard update on the current status of the UW System Human Resource System (HRS) project. He reported that checks are being processed with 98% accuracy. Mr. Morgan stated there are still challenges with stabilization; however, the goal is to have the system stable by end of the fiscal year. He also commented on the success of

campus outreach. The HRS Team has brought together 300 campus leaders, as well as visiting individual campuses to work through HRS issues. All campuses will be visited by the end of October. The project operates on budget; however, the monthly spend is high. Mr. Morgan also stated Talent Acquisition Management (TAM) has been put on hold until the new personnel systems are put in place, June 2013.

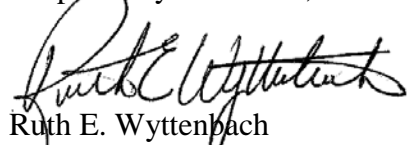
### 3. Business, Finance and Audit Committee Priorities for 2011-12

Senior Vice President Morgan led a discussion on possible priorities for the Committee in the upcoming year. Items identified by the Committee included:

- Changing the audit focus
- Implementing ITMAC and the Act 32 flexibilities
- Developing the 2013-15 biennial budget
- Identifying additional flexibilities
- UW Task Force on Restructuring and Operational Flexibilities
- NCAA Division 1 athletics oversight
- GPR/Fee allocation
- The role of for-profit universities within the higher education system in Wisconsin.

The meeting was adjourned at 3:55 p.m.

Respectfully submitted,



Ruth E. Wytenbach  
Recording Secretary