

BOARD OF REGENTS
BUSINESS, FINANCE, AND AUDIT COMMITTEE MEETING
FEBRUARY 9, 2012
1920 VAN HISE HALL

Joint Meeting of the Capital Planning and Budget Committee and the Business, Finance, and Audit Committee
(Room 1920, Van Hise Hall)

The Joint Meeting of the Capital Planning and Budget Committee and the Business, Finance, and Audit Committee was called to order at 12:30 pm by Regent Michael Falbo. Regents Jeffrey Bartell, Edmund Manydeeds, John Drew, Gary Roberts, David Walsh, Mark Bradley, Charles Pruitt, Troy Sherven, and Gerald Whitburn were present. Regent Katherine Pointer was absent.

- **UW Colleges: Report on City and County Financial Support**

Chancellor Ray Cross, UW-Colleges and Extension, introduced the Dean of UW-Marathon Keith Montgomery, Marathon County Administrator Grant Carter, and Steve Wildeck, Vice Chancellor for Administrative and Financial Services at UW-Colleges and Extension.

Vice Chancellor Wildeck offered a brief historical perspective of the framework and development of the financial relationship between UW Colleges, the Board of Regents, and counties and cities throughout the state of Wisconsin. Mr. Wildeck also highlighted the fact that Marathon County was the first county in the state to engage in this joint effort process.

UW-Marathon Dean Montgomery commented on the strategic planning process the college and county work within. He said the college and county work together to recommend and approve a six (6) year capital and facility plan for the campus, and then need to gain approval from the Board of Regents. Dean Montgomery stated that since 1996, the county alone has made an \$18 million investment in UW-Marathon and currently the campus has an insured value of \$61.1 million, the largest insured value of all UW Colleges. He continued with an overview of what transpired on the campus grounds between 1968 and 2007. These projects included updating and redevelopment of the campus core building, residence halls, art buildings, field house, and the science building (South Hall) being completely redesigned and rebuilt. In the 2007 six (6) year planning process, UW-Marathon found itself faced with a number of big issues. These issues included increasing enrollments, limited theatre-auditorium space, growing demand for civic involvement, residence hall development, and the campus being landlocked by city homes and a nearby park.

Marathon County Administrator Brad Grant then outlined the circumstances, options, and ultimately the direction taken to successfully move UW-Marathon, the county, and city to create and support the strategic plan for the area. Mr. Grant stated the one thing that made this process a success was the partnerships with all the individuals involved. It was vital for the residents and the community as a whole to understand why the university is important to them and the difference it can make in their lives. Mr. Grant commented that the community could not be happier with the outcome. The relocated residents were satisfied with their new homes, the community has a fantastic theater which is being used as prescribed by supporting civic and community involvement, and a new entrance and parking space was created for the park thus lending itself to an improved environment for the green space.

Dean Montgomery concluded by stating UW-Marathon still has room to grow due to the long-term vision of the city and county, and he values the strong relationships built during this strategic planning process. Regent Falbo thanked the city and county partners, and noted how their work and success is valued and appreciated.

President Reilly emphasized the unique partnership involving UW Colleges and UW-Extension and their communities, and said this is the real positive legacy of the Wisconsin Idea and how it still plays out in venues like Marathon County.

a. Regent Policy Document Review

1. RPD 13-1: General Contract Signature Authority, Approval, and Reporting (Resolution I.2.a.1.)

Debbie Durcan, Vice President of Finance, said as part of the Regent policy document review process, this resolution is to clean up, consolidate, and clarify several Regent policies relating to signature authority. Ms. Durcan outlined the process currently followed. This resolution streamlines the process by providing individual personnel with delegated authority to sign documents by allowing the UW System President to delegate approval of authorized signors to institution Chancellors rather than having Chancellors recommend changes for the UW System President's approval.

Upon the motion of Regent Bartell and the second of Regent Bradley, 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 approves the attached revised Regent Policy Document 13-1 General Contract Signature Authority, Approval, and Reporting. This action repeals existing Regent Policy Document 13-3, Authorization to Sign Documents and Regent Policy Document 13-4, Delegation of Responsibilities to the Vice President for Finance, the subject matter of which will now be covered under this consolidated and renumbered policy regarding general contract signature authority.

2. RPD 13-2: Real Property and Construction Contract Signature Authority and Contract Approval (Resolution I.2.a.2.)

Ms. Durcan continued by explaining the second item: Real Property and Construction Contract Signature Authority. This action will consolidate parts of four different policies and bring them in-line with existing laws and regulations. This policy aligns Board policy with current rules and clarifies responsibilities. Authority for these actions is maintained with the Board and, in most cases, also requires the approval of the State Building Commission or, in the case of leases, the State Department of Administration.

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

[Resolution I.2.a.2.]

That, upon the recommendation of the President of the University of Wisconsin System, the Board of Regents approves the attached revised Regent Policy Document 13-2 Real Property and Construction Contract Signature Authority and Approval. This action repeals existing Regent Policy Document 13-1, Authorization to Sign Construction Contracts and Change Orders, Regent Policy Document 13-4, Delegation of Responsibilities to the Vice President for Finance, and Regent Policy Document 19-13, Acquisition of Property within Approved Campus Development Plan Boundaries the subject matter of which will now be covered under this consolidated and renumbered policy.

The joint meeting was adjourned at 1:10 pm.

Business, Finance, and Audit Committee (1920 Van Hise, Madison)

The Business, Finance, and Audit Committee meeting was reconvened and called to order at 1:15 pm by Regent Falbo. Regents Michael Falbo, Mark Bradley, Charles Pruitt, Gerald Whitburn, and Troy Sherven were present.

b. 2011 Annual Financial Report and Auditor's Opinion

Associate Vice President of Financial Administration, Julie Gordon presented information from the UW System's 2011 Annual Financial Report for a high level overview of the UW System financial picture. Ms. Gordon stated more detailed financial information is accessible on the UWSA website. She highlighted two areas of interest: the statement of revenue and changes in net assets.

Total revenues for the UW System increased by \$214.3 million, or a 4.6% increase over 2010. The overall increase is attributed mainly to an increase in tuition (\$67 million), a \$91.1 million increase in grants and contracts which include ARRA funds and PELL grants, and a \$54 million increase in state appropriations. Ms. Gordon also noted that gifts decreased by \$24 million.

Total expenses incurred increased by \$131.4 million over 2009-10, or a 3% increase. Ms. Gordon stated the 3% increase was consistent with prior year's financial data. Driving factors attributing to this increase are salary and fringe benefits (\$103.5 million) which includes health care costs, staff retirements, rehires, and payouts on sabbaticals. In addition, Ms. Gordon said depreciation expenses increased by almost \$24 million. She indicated this increase is due to a number of large facilities coming on-line for the first time this year (such as the Wisconsin Institutes for Discovery), and a relatively new Governmental Accounting Standards Board (GASB) accounting standard being used to capture and report intangible assets. Regent Whitburn asked whether our FTE equivalent was up overall, and Ms. Gordon indicated it was. Ms. Gordon also reviewed the Statement of Net Assets. She indicated overall there was an 8.2%, or \$412 million, increase in our net assets. The current assets are relatively stable, non-current assets increased by about 9%, or approximately \$500 million, current liabilities decreased by \$108 million, or nearly 17%, and non-current liabilities increased by approximately 21%, or \$213 million.

Lastly, Ms. Gordon commented on the net assets ratio which is a measure of financial performance. The National Association of College and University Business Officers (NACUBO) uses a 4% net asset ratio standard as an indicator of a good, stable rate (the higher the number the better the ratio). UWS has a 6.7% net asset ratio for 2011. Another financial measure, the primary reserve ratio, measures how long an organization can operate under their current financial circumstances. The industry standard is 40% which translates into approximately 4½ months of operating dollars. The University of Wisconsin System's ratio is 17.1%. Ms. Gordon acknowledged the UWS ratio as substantially below the industry standard and said that in the prior year the ratio was 15%. Regent Falbo asked if there were goals or activity that could be done to increase the ratio. Sr. Vice President Michael Morgan said we don't have a strategy because we don't have any dollars to invest or be more aggressive with to put into reserves. Ms. Gordon completed her presentation by stating that on December 21, 2011, the UWS received a clean audit opinion from the Wisconsin Legislative Audit Bureau.

Joe Chrisman, State Auditor for the Legislative Audit Bureau (LAB), outlined the various ways the LAB interacts with the UW System. Financial Audit Director Carolyn Stittleburg commented on the three concerns LAB has with UWSA's internal controls and compliance: security concerns over payroll and personnel HRS system, mainframe computer concerns with the Legacy Payroll System (which no longer exists but did at the time of the review), and the UWS's development of their critical business recovery plan. She also indicated all of these areas will be reviewed again during the next audit period. Regent Falbo asked if there were reoccurring concerns and Ms. Stittleburg said yes; HRS and disaster recovery. Regent Whitburn inquired about off-site backup operations in case of a disaster such as a tornado. Debbie Durcan, Vice President of Finance, said DoIT performed a tabletop operation in December and there were a number of areas that were being followed up on. Michael Morgan commented on the backup site on campus, but also said DoIT said they had some challenges

they needed to work through, but were basically completed with their plan. Mr. Morgan and Ms. Durcan will be meeting with John Krogman to satisfy all concerns mentioned. Mr. Morgan also mentioned that the three campuses highlighted in the LAB report concerning critical business recovery have made significant improvements in their plans.

c. 2011 Annual Trust Funds Report

Doug Hoerr, UW System Trust Funds Director, gave a high level review of the Annual Report of the UW System Trust Funds. These funds are comprised of gifts and bequests made directly to a UW institution rather than their respective foundation. He stated total gifts received were significantly up from the prior year (\$6.6 million to \$12 million). Disbursements (primarily dominated by student aid, research, instruction and public service) were at \$17 million, up slightly from the prior year, and the year-end June 30, 2011 net asset total was \$464 million. There was a strong investment return, unlike earlier years, due to the improved market. Long term funds gained 21.2%, intermediate term funds were up 8.3%, and the short-term money market-like income funds were up 0.2%, consistent with most money market type investments. Mr. Hoerr also made note of expenses due to investment management and administration, and external fees paid to investment managers and custodians. He said the long term fund expenses were .8% of assets, intermediate term fund expenses were at .2% of assets, and our internal expenses for administration were at 2.11% of all assets. Regent Falbo noted the efficiency of the operation.

d. OPERATIONS AND REVIEW AND AUDIT

1. Review and Approval of the 2012 Operations Review and Audit Plan (Resolution 1.2.d.1.)

Elizabeth Dionne, Director of the Office of Operations Review and Audit, presented the 2012 Calendar Year Audit Plan. The proposed plan was adjusted based on risk analysis, institutional impact, staffing realities and the priorities expressed by the Committee. She mentioned that based on direction offered from previous Committee meetings and the UWS institutions, they were initially looking at thirteen (13) potential topics for review but had since narrowed down the list to major projects. Ms. Dionne highlighted the projects and noted the Policies Related to Reporting Crimes Against Minors was given the highest priority and work was started on this audit in December. She went on to note the other areas for audit review in 2012, as well as reviewing other responsibilities of the Office of Operations Review and Audit.

Regent Pruitt inquired as to what type of reviews would be postponed. Ms. Dionne indicated items such as research grant review, computer assisted vendor listings, and IT security type audits would be temporarily postponed.

Upon the motion of Regent Pruitt and the second of Regent Bradley, the Committee unanimously approved Resolution 1.2.d.1.

[Resolution 1.2.d.1.]

That, upon the recommendation of the President of the University of Wisconsin System, the Board of Regents approves the Calendar Year 2012 Operations Review and Audit Plan.

2. Quarterly Status Update

Elizabeth Dionne continued updating the Committee on the status of the four major activities the Office is currently involved in; NCAA Division III Athletics – Eau Claire, Undergraduate Academic and Career Advising, Privacy Controls related to Personally Identifiable Information, as well as the Policies Related to Reporting of Crimes Against Minors. She went on to note other initiatives and internal projects the Office is currently working on.

e. UW System Information Technology Report as Required by Wis. Stats. 13.58(5)(b)(3)

1. UW Strategic Plans for Major Information Technology Projects

Ed Meachen, Associate Vice President of the Office of Learning and Information Technology, presented a brief overview of the UW System IT Strategic Plan, entitled the Common Systems Roadmap. He noted the plans are substantial in size and accessible online. He also said each institution's plan for its local systems and projects are online.

The Roadmap is reviewed every year and changes are made as needed. This year there were no changes made to the Roadmap. Mr. Meachen also reminded the Committee, as required by 2007 Wisconsin Act 20, the Board of Regents is required to report to the Joint Committee on Information Policy and Technology (JCIPT) detailed "progress" reports on all large and high-risk projects.

2. Project Status Report for Major Information Technology Projects

Ed Meachen continued reporting on the UW System's two major information technology projects. The projects include the Oracle/PeopleSoft Human Resources System and Phase 2 of the HRS implementation which is primarily the self-service eBenefits functionality and the Talent Acquisition Manager (TAM). The second project is the UW-Platteville Pioneer Administration Software System (PASS) reimplementation which allows UW-Platteville to move from its early-adopter phase of the PeopleSoft Student Information System to an updated approach that allows full advantage of new functionality and updated business practices.

Regent Whitburn asked about the HRS project and Huron's involvement. Mr. Morgan stated there were no false starts and the project is at a stable state. Regent Falbo asked when Huron would be completed with their work and Mr. Morgan indicated there were two more releases to go, but Huron's work is winding down. Huron will remain with the UWS to help in the Service Center and DoIT for technical support. Regent Falbo asked if Huron was involved in the controls and security concerns previously mentioned by the LAB. Mr. Morgan said they were.

f. Review and Approval of Proposed Revisions to Regent Policy Document 30-4:

Mandatory Refundable Fee Policies and Procedures for Student Government Organizations (Resolution 1.2.f.)

Petra Roter, Interim Associate Vice President for Student Affairs and Chief Student Affairs Officer at UW-Oshkosh, was joined by three of the five student representatives charged with conducting a comprehensive review of RPD 30-4, the Regent policy requiring UW institutions to collect fees for any UW System inter-institutional governance support group for which the Board has approved a Mandatory Refundable Fee (MRF). This group was asked by President Reilly to review RPD 30-4 which had not been updated since 1995. The revised policy was evaluated by UW System Student Representatives in December 2011, and submitted for the UW System President's consideration. The revised policy was also evaluated by additional constituent groups.

Ms. Roter explained the process used to draft the proposal presented to the Committee and highlighted the changes, and noted the only organization for which an MRF is currently approved is the United Council of UW Students. Regent Pruitt asked for confirmation that this policy would not restrict the ability for individual campuses to have a vote for mandatory refundable fees. Ms. Roter concurred, and stated it is up to each campus to determine if they want to terminate or initiate a referendum. The group also recommended UW System Administration review Financial and Administration Policy 44 that relates to how student groups are defined. Regent Pruitt inquired on the conversation occurring within the group about expanding the policy for other organizations on campus. The student representatives stated it was their perspective they were not expanding the policy, but narrowing the policy. They stated it included inter-institutional, governance support issues, not any inter-institutional organization. Regent Sherven mentioned that he had talked with students on campuses in favor and opposed to this policy. He pointed out that no one is forced to be part of any of these

groups; however, if they do choose to participate the campus would need to follow these rules. Regent Falbo also stated an individual student has the option to opt out as well.

UW-Whitewater Chancellor Telfer said he represents a campus that is not in favor of this policy. He asked what rules apply if there is a conflict between the campus rules and the Regent policy. Ms. Roter stated this policy deals only with initiating or terminating an inter-institutional governance support group, so this policy takes precedence only in those areas. Chancellor Telfer also stated concerns involving the 10 % and 50% plus one voting standards, and the challenges on this issue between UW-Whitewater students and United Council.

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

[Resolution I.2.f.]

That, upon the recommendation of the President of the University of Wisconsin System, the Board of Regents approves the changes to Regent Policy Document 30-4, "Mandatory Refundable Fee Policies and Procedures for Student Government Organizations."

g. Committee Business

1. Approval of the Minutes of the December 8, 2011, Meeting of the Business, Finance, and Audit Committee and the Joint Meeting of the Business, Finance, and Audit Committee and the Education Committee

Upon the motion of Regent Whitburn and the second of Regent Sherven, the Committee approved the minutes of the December 8, 2011, meeting of the Business, Finance, and Audit Committee and the minutes of the December 8, 2011, joint meeting of the Business, Finance and Audit Committee and the Education Committee.

2. Consideration of an Adjustment to the Salary Range Related to the Recruitment for the Provost Position at the University of Wisconsin-Milwaukee (Resolution I.2.g.2.)

Chancellor Michael Lovell, UW-Milwaukee, outlined some of the recruitment challenges surrounding the current salary range for the UW-Milwaukee Provost position. Regent Falbo asked if the salary range was posted with the job description. Chancellor Lovell said it was not. Al Crist, Associate Vice President of the Office of Human Resources/Workforce Diversity, stated the practice is to update salary ranges when a recruitment is underway. The range adjustment request is to be effective, July 1, 2012, and was last adjusted effective July 1, 2006. This action will not result in any changes in compensation for the current Interim Provost at UW-Milwaukee, and is only a request to adjust the salary range. Regent Falbo acknowledged how the timing of this Board meeting obliged this request, but suggested that the Office of Human Resources/Workforce Diversity review salary ranges prior to an active recruitment.

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

[Resolution I.2.g.2.]

That, upon the recommendation of the Chancellor of the University of Wisconsin-Milwaukee and the President of the University of Wisconsin System, in accordance with Wisconsin statutes and Regent Policy Document 6-5, the Board of Regents adopts a new salary range for the UW-Milwaukee Vice Chancellor/Provost as set forth in the attached, effective July 1, 2012.

3. Report on Quarterly Gifts, Grants, and Contracts (2nd Quarter)

UW System Vice President for Finance Debbie Durcan presented information regarding gifts, grants, and contract awards for the period July 1, 2011, through December 31, 2011. Total gifts, grants, and contracts for

the period were approximately \$878.2 million; this is a net increase of \$22.6 million over the same period in the prior year. Federal awards decreased \$52.9 million and non-federal awards increased by \$75.5 million.

h. Report of the Senior Vice President

1. Operationalizing the ITMAC Philosophy of Management in Administration and Fiscal Affairs (Interpret, Train, Monitor, Advocate, Consult)

Michael Morgan, Senior Vice President for Administration and Fiscal Affairs, discussed recent efforts to operationalize the ITMAC policy. He indicated that the ITMAC operating philosophy came as a recommendation from the President's Advisory Committee convened by President Reilly to advise UW System Administration on how best to provide services to UW Colleges, Universities, and Extension in view of a 25% cut to UW System Administration's budget in the 2011-13 Biennial Budget. One of the Committee's recommendations was that UW System Administration move from a management approach that was seen as centralized to one that more clearly distributes and delegates leadership to campus leaders.

Mr. Morgan noted that the Office of Administration and Fiscal Affairs is already operating in a manner consistent with the ITMAC model. He specifically mentioned, as examples, the Office of Legal Counsel increasing training activities and general campus counseling; the Office of Human Resources & Workforce Diversity delegating to campuses and then providing training in benefits administration, employment relations, and staffing; and the Office of Finance implementing a shift in audit policy away from programmatic reviews and towards financial and compliance audits. Mr. Morgan said ITMAC will be a continuing assessment process for all parties involved and should be fully operationalized at UW System Administration by spring 2012.

2. Human Resources System Status Update

Sr. Vice President Morgan provided background information and an update on the Human Resource System (HRS) Project. He said progress is being made with HRS functionality and stability, and that payroll and end of processing goals were being met. He indicated that for the last payroll cycle, HRS reached just about 98% of payroll accuracy. In a continuing effort to improve HRS performance, the HRS/Service Center project team will begin another round of campus visits in the first quarter of 2012. These visits are designed to assist campus HR professionals with technical challenges related to HRS functionality. Mr. Morgan stated that campus outreach has gone well. He also indicated the Service Center will be allowing certain designated individuals on campus to access the system to resolve individual concerns. Mr. Morgan said getting HRS to a stable state will require continued focus and effort from the UW Service Center and campus HR professionals.

Mr. Morgan also said that the HRS Project is winding down. The final stage of the HRS project began in April, 2011, with the payroll and benefits release. The final two (2) releases, TAM (Talent Acquisition Manager) and eBenefits should be completed by March 2012. He stated that the HRS Project should be completed by the end of Fiscal Year 12, on time and within budget. He also stated there is a "knowledge transfer" initiative between the Service Center and Huron which will help reduce potential conflicts when Huron completes their contract.

Mr. Morgan said he has reviewed early drafts of the Service Center fiscal year budget and they are unacceptable. He stated there was no need for the Committee to act on the operations budget, but he thought the Committee should be aware of the costs. He will keep the Committee apprised of the outcome.

3. Overview of the 2013-15 Biennial Budget Process and Timeline

Freda Harris, Associate Vice President for Budget and Planning, presented basic information about the biennial budget process and timelines. She stated the biennial budget must be ready for submission by September 2012. Responding to questions from Regents Falbo and Whitburn, Ms. Harris stated the budget office is working on a base reduction planning process, and will work with the Board of Regents to see what the Budget Office should be looking at over the next several months. Regent Whitburn asked if the Budget Office is briefed by the

Legislative Fiscal Bureau on quarterly revenue estimates. Ms. Harris said they get copies of the revenue statements, but they are not briefed by the Fiscal Bureau. Mr. Morgan said we don't have any understanding of what the revenues will look like, and the DOA and the Department of Revenue will not have good data until later in the budget process. Ms. Harris reiterated that she will work with the Committee to come up with a budget proposal that reflects the Board's priorities and interest.

1. Update from University Personnel Systems Task Force

University Personnel Systems Task Force co-chair, UW-Platteville Chancellor Dennis Shields, briefed the Committee on the recent activities of the University Personnel Systems Task Force. The Task Force held their third meeting on Wednesday, February 8th. He stated that staff has been very good at supporting this effort, and to the extent of its success is attributable to Darrell Bazzell and staff. He indicated the working groups are developing proposals and reporting back to the Task Force. Chancellor Shields stressed the importance of having all the stakeholders participate in this process. The Chancellor also said the Task Force has an aggressive timeline which will evolve as information and input is gathered. Michael Morgan added the completion target date for this project is July 1, 2013.

The meeting was adjourned at 3:20 pm.

Respectfully submitted,


Ruth E. Wytjenbach
Recording Secretary