

**Board of Regents
Business, Finance, and Audit Committee
October 4, 2012
University of Wisconsin Administration
Memorial Student Center, UW-Stout**

MEETING OF THE BUSINESS, FINANCE AND AUDIT COMMITTEE

The meeting of the Business, Finance, and Audit Committee was called to order at 3:07 pm by Regent Gerald Whitburn. Regents John Behling, Mark Bradley, Tracy Hribar, Katherine Pointer, and Charles Pruitt were in attendance.

a. Committee Business

1. Approval of the Minutes of the August 23, 2012 Meeting of the Business, Finance, and Audit

Upon the motion of Regent Behling and the second of Regent Pointer, the Committee approved the minutes of the August 23, 2012 meeting of the Business, Finance, and Audit Committee.

2. Review and Approval of UW-Madison Contractual Agreement with Novartis Pharmaceuticals Corporation [Resolution I.2.a.2.]

The Committee approved a two-year clinical trials agreement with UW-Madison and Novartis Pharmaceuticals Corporation. Services will be provided through the Department of Medicine under the direction of Dr. William Busse. Darrell Bazzell, Vice Chancellor for Administration, said that the contract will run through June 2014 and may be extended. UW-Madison is expected to receive approximately \$2,740,010 over the life of the agreement.

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

[Resolution I.2.a.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 Novartis Pharmaceuticals Corporation.

b. UW-Stout Presentation: “Document Management: Efficiencies of Imaging and Electronic Workflow”

UW-Stout Director of Business and Finance Services Kim Schulte-Shoberg presented information on process improvements and efficiencies the institution has gained through the implementation of ImageNow product to enhance the use of imaging and electronic workflow technology. The “workflow” module was implemented in 2009, which enables forms to be electronically routed from start-to-finish, as well as allowing status tracking and digital approval. The institution has also begun using some e-textbooks during the Fall 2012 semester.

Director Shulte-Shoberg explained that ImageNow allows the electronic capture of documents, which eliminates the need for paper storage and enhances better space utilization. Electronic documents are easier and faster to retrieve and distribute, and fewer documents tend to get lost than with paper

copies. Departments can also establish access levels to their electronic documents. Twenty-two departments are currently using ImageNow and all business process forms must be imaged electronically. Director Shulte-Shoberg pointed out that the time savings have been realized in many processes; for example, the time required to process a budget transfer has been reduced from 31 days to 5 days.

Regent Whitburn inquired about the investment that was required to implement ImageNow. Director Shulte-Shoberg responded that there was an initial investment of \$375,000, with ongoing annually maintenance costs of \$80,000. She also pointed out that UW-Stout has rolled out this system more than other institutions, and that UW-Stout is collaborating with UW-Eau Claire on additional process improvements.

Regent Pruitt asked whether the savings from these efficiencies, such as lower paper purchases, are known. Director Shulte-Shoberg responded that they have not calculated those types of savings, but that the ultimate goal is for all administrative processes to be electronic.

Regent Whitburn pointed out that there will be additional savings through the reduced need for file space, and that this approach may be an important model for other institutions to emulate. He then inquired about the lessons from this presentation that could be applied across the UW System. Senior Vice President Michael Morgan indicated that the next steps could include determining the cost savings that UW-Stout has realized from imaging and electronic workflow, determining the status of similar initiatives and approaches at other UW institutions, and evaluating ways to incentivize other comprehensive institutions to use this or similar processes.

c. University Personnel Systems (UPS): Discussion of UPS Draft Policy Recommendations

Associate Vice President for Human Resources and Workforce Diversity Al Crist provided an overview of the University's workforce and the potential changes and impacts for employees under the new University Personnel Systems (UPS). Two personnel systems – one for UW-Madison and one for the other UW System institutions and employees – are being developed. The UW System has over 45,000 employees (headcount), excluding student employees. Non-faculty who are not-exempt from the Fair Labor Standards Act (FLSA non-exempt), which include some research and administrative staff, will be most impacted by the changes under the UPS. These employees will now be termed "University Staff." Faculty and Academic Staff will not be impacted, though the number of individuals in the Academic staff category will increase since FLSA exempt employees currently in the Classified Staff will have the option of moving into the Academic Staff category or to the University Staff category. In addition, the Board of Regents will hear any appeals regarding terminations for cause. He also pointed out that the employee provisions included in chapter 230 of the Wisconsin Statutes will also become Board of Regents policies or University Personnel System Operational Policies, and that the Board of Regents will be the bargaining agent for collective bargaining with employee organizations.

Associate Vice President Crist emphasized that there will be no change in pay or benefits for current employees, and that employees across all categories will be treated consistently under the UPS. Some of the changes for employees in the University Staff category include that seniority will no longer be the sole factor for layoffs or returns from layoffs, mandatory and permissive transfers will be eliminated, and employees who choose to accept another position in the UW System will no longer be guaranteed the right to return to their previous position.

UW-Madison Vice Chancellor for Administration Darrell Bazzell then addressed UW-Madison's unique personnel system by pointing out that the development of the UPS is seen as tied to the elimination of collective bargaining for employees. However, UW-Madison is not hearing strong resistance to the UPS from rank and file classified employees.

Regent Whitburn asked when the Board of Regents will see the full UPS proposals. Associate Vice President Crist responded that the full plans will be submitted to the Board for consideration in December and, once approved, would be submitted to the state legislature's Joint Committee on Employment Relations (JCOER) in February 2013.

Associate Vice President Crist concluded his presentation by pointing out that under the recommendations, Board of Regents policy would replace state administrative rules governing personnel issues for the new category of employees of University Staff. Implementation of the UPS would be delegated to the President and the Chancellors, with each institution empowered to develop personnel plans within the guidelines established by the Board of Regents. In addition, University Staff (many who were formerly classified staff) would have some governance rights and therefore will have a voice in how the institutional personnel policies are developed.

d. UW System Trust Funds

1. 2012 Proxy Voting Season Results

Senior Portfolio Analyst Tom Reinders reviewed the results of the 2012 proxy voting season. Per Regent Policy, UW System Trust Funds actively participate in issues involving discrimination, the environment and substantial social injury via proxy voting of shareholder proposals. The 2012 proxy season saw the filing of 358 proposals related to social issues. About one-third of these proposals were withdrawn, about 15% were allowed to be omitted by the Securities Exchange Commission (SEC), with the shareholders voting on about half of the proposals. The most common proposals covered topics such as reporting on sustainability issues and efforts, non-discrimination, disclosure of political contributions and environmental issues, which generally related to hydraulic fracking.

Senior Analyst Reinders also pointed out the Trust Funds portfolio typically contain 60-65 companies for that can be actively voted. In 2012, voting instructions were submitted for 17 proposals, with eight being voted, six withdrawn and three omitted. UW Trust Funds submission included seven on environmental and global warming issues and seven others involving political contributions.

2. Acceptance of New Bequests [Resolution I.2.d.2.]

Senior Portfolio Analyst Tom Reinders discussed that the Board of Regents must vote to accept any bequests of \$50,000 or more that are not earmarked for a UW foundation. He presented seven new bequests for various purposes with a total value of \$2,266,000 for Committee acceptance:

- \$239,000 from the Ellen L. Lensing estate for the UW-Madison School of Education;
- \$80,000 from the Allan and Tennyse McKay Trust for the UW-Madison School of Engineering;
- \$176,000 from the Betty Jane Perego estate for the UW Arboretum;
- \$400,000 from the Ruth I. Walker trust to create a scholarship funds at UW-Milwaukee;
- \$169,000 from the George A. Hansen estate for the UW-Madison College of Agriculture and Life Sciences;

- \$202,000 from the Ursula Meyer estate to establish scholarships for the UW-Madison School of Library & Information Studies; and,
- \$1,000,000 from the Bernhard Osher Foundation to endow a scholarship at UW-Milwaukee.

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

[Resolution I.2.d.2.]

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 benefit 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. Review and Approval of Changes to Regent Policy Documents Related to Corporate Governance and Social Responsibility [Resolution I.2.d.3.i.], [Resolution I.2.d.3.ii.], and [Resolution I.2.d.3.iii.]

Senior Portfolio Analyst Tom Reinders explained that the proposed policy documents would serve to streamline Regent policies that will govern this topic. He presented three separate items for consideration:

- Collapsing four Regent Policy Documents (RPD's) into a newly revised and retitled RPD 31-13: Social Responsibility Investment Considerations.
- Revisions to RPD: 31-16 Sudan Investment.
- Revisions to RPD: 31-10 Procedures and Guidelines for Voting Proxies for Trust Funds.

Regent Pruitt complimented the staff for their work on these updates, and stated that the new versions are superior to the original ones that were developed and approved in 2006. Senior Analyst Reinders pointed out that one of the benefits of the changes is that the RPDs will no longer prescribe how divestiture should occur, but allow divestiture to occur in a prudent manner, which allows greater flexibility in these situations.

Regent Whitburn pointed out there was a late change to the RPDs, which clarifies that ultimate fiduciary responsibility lies with the entire Board of Regents, which can then delegate this responsibility and authority to the Business, Finance, and Audit Committee. Senior Analyst Reinders and Senior Vice President Morgan indicated that staff are comfortable with these changes.

Upon the motion of Regent Bradley and the second of Regent Pruitt, the Committee unanimously approved Resolution I.2.d.3.i., Resolution I.2.d.3.ii., and Resolution I.2.d.3.iii.

[Resolution I.2.d.3.i.]

That, upon the recommendation of the President of the University of Wisconsin System, the Board of Regents approves the attached revisions to Regent Policy Document 31-13, “Social Responsibility Investment Considerations” and rescinds Regent Policy Documents 31-5, 31-6, and 31-7. This action: (1) retains much of the existing version of Regent Policy Document 31-13, “Investment and Social Responsibility”, but retitles the RPD; (2) rescinds Regent Policy Document 31-5, “Investment and the Environment”; 31-6, “Investment of Trust Funds”; and 31-7, “Interpretation of Policy 31-6 Relating to Divestiture”; and (3) incorporates most of the subject matter from the three rescinded policies into the retitled RPD 31-13.

[Resolution I.2.d.3.ii.]

That, upon the recommendation of the President of the University of Wisconsin System, the Board of Regents approves the attached revisions to Regent Policy Document 31-16, “Sudan Investment.”

[Resolution I.2.d.3.iii.]

That, upon the recommendation of the President of the University of Wisconsin System, the Board of Regents approves the attached revisions to Regent Policy Document 31-10, “Procedures and Guidelines for Voting Proxies for Trust Funds”, and retitles the Regent Policy Document 31-10, “Proxy Voting.”

e. Operations Review and Audit: Update on Audit Report Structure

Director of the UW System Office of Operations Review and Audit Elizabeth Dionne discussed a new proposed audit rating structure. The new format will include an overall audit rating (excellent, satisfactory with room for improvement, or unsatisfactory) as well as priority ratings (high, moderate, or low) for each comment, which are intended to indicate the sense of urgency associated with each comment. The priority ratings will be determined based on multiple factors designed to measure the severity of any internal control weaknesses that are identified, and not solely based upon cost considerations. This new format is intended to make the audits more helpful to the end-users. Regent Bradley indicated that a standard format for audit reports would be extremely helpful for the Committee, as well as other users.

Regent Whitburn inquired whether, since these are internal audits, institutions should be required to address, rather than to simply consider, any priority items that are identified and assigned a high or moderate rating. This approach would ensure that management will address issues identified at those priority levels.

Director Dionne responded that staff uses professional judgment and discretion when developing the final audit recommendations, and that management can address and respond to the identified items prior to final sign-off on the audit. Vice President for Finance Debbie Durcan also indicated that there is give and take before the final report is drafted, which will allow input on the final priority ratings that are assigned.

The consensus of the Committee members was that the priority ratings be amended to remove the word “consider,” so that management is required to address the issues identified as priorities in the

audit. Director Dionne indicated that this change would be made and that staff will begin using the new audit report structure.

f. Report of the Senior Vice President

1. Report on 2013-15 Unavoidable Cost Requests

Associate Vice President for Budget and Planning Freda Harris presented revised figures for the 2013-15 Biennial Budget related to unavoidable costs. UW staff had indicated at the August 2012 meeting, when this Budget was approved by the Board of Regents, that the final Budget may include revised numbers, as UW staff received further instructions from the Department of Administration (DOA). Based on this additional information, the final Budget that was submitted was \$21.16 million lower than that approved in August. This reduction was primarily caused by lower salary and fringe benefit estimates than originally anticipated.

Regent Whitburn observed that UW was not required to request an extension or delay for the budget submission and that UW staff was able to work with the DOA to develop the update figures. He also pointed out that the estimates for debt service are still pending with the DOA; however, the important item is that the budget that was submitted was down \$21 million from that presented to the Board of Regents at the August 2012 meeting.

2. Update on UW System Network Services and Infrastructure

Senior Vice President Morgan informed the Committee about efforts to replace WiscNet, which is the current network services provider for UW institutions. Act 32 of 2011 prohibits the UW from continuing as a member of WiscNet after June 30, 2013, so staff is working to secure a new network services provider by this date. A procurement process is being initiated, with the first phase RFP to be issued later in the month, and UW is ending its membership in WiscNet. UW must also separate its assets from WiscNet. Senior Vice President Morgan explained that this discussion is the first of many updates that will be provided to the Committee as the procurement process moves forward.

Regent Bradley asked whether these changes will impose additional costs on UW. Senior Vice President Morgan responded that, since UW has not procured these types of services through a competitive process before, it is difficult to predict the costs with any new provider. The current costs can provide some guidance, but no certainty about the costs under this new approach. Given that these changes are statutorily-mandated, he pointed out that UW will be closely scrutinized throughout the procurement and implementation process.

Regent Whitburn noted that this contract will provide a significant piece of business to the winning bidder and encouraged the use of vendor conferences as part of the procurement process. Regent Hribar asked whether this change will be disruptive to students. Senior Vice President Morgan indicated that the goal is to have a smooth transition and that the change will be invisible to the end-users. He also expressed his hopes that the other public entities will be able to piggyback and procure services through this contract.

3. Status Update on Recommendations Contained in the Report on Reporting Crimes Against Children and Implementation of Executive Order #54

Senior Vice President Morgan explained that the criminal background check policy is being revised to use a higher standard, so that a national check is used for all new hires. Staff is attempting to assess the cost associated with change. He hopes to bring a final recommendation to the Committee by the end of the year.

Regent Whitburn expressed that timely implementation of the recommendations in the Report should be occurring, and that there should be a sense of urgency. This topic will remain a standing item on the Committee agenda until the recommendations are fully implemented. Senior Vice President Morgan also discussed that UW System staff are working with the institutions to roll out educational processes and efforts, and System legal staff is reviewing the policies regarding children in the workplace for all institutions. The institutions are also working to fully implement the associated policies on safety, which are being tailored to each institution's needs.

Regent Whitburn adjourned the meeting at 4:30 pm.

Respectfully submitted,



Kristofer A. Frederick
Recording Secretary