

**Board of Regents
Business, Finance, and Audit Committee
February 7, 2013
University of Wisconsin System
1920 Van Hise Hall**

MEETING OF THE BUSINESS, FINANCE AND AUDIT COMMITTEE

The meeting of the Business, Finance, and Audit Committee was called to order at 2:35 pm by Regent Gerald Whitburn. Regents John Behling, Mark Bradley, Tracy Hribar, Katherine Pointer, Charles Pruitt, and Gary Roberts were in attendance.

a. Committee Business

1. Approval of the Minutes of the December 6, 2012, meetings of the Business, Finance, and Audit

Upon the motion of Regent Bradley and the second of Regent Behling, the Committee approved the minutes of the December 6, 2012, meeting of the Business, Finance, and Audit Committee.

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

UW System Vice President for Finance Debbie Durcan presented a summary of gift, grant, and contract awards (approximately \$774 million) for the period July 1, 2012, through December 31, 2012. She noted an overall decline in total awards of \$96.5 million from the prior year. Vice President Durcan said there had been many swings in the financial aids awards from first quarter to second quarter, and much of the fluctuation is due to timing of awards. However she also noted concerns regarding the uncertainty surrounding the federal budget and the possibility of sequestration.

b. University of Wisconsin Medical Foundation: Notice of Intent to Purchase an Interest in Chartwell Wisconsin Enterprises, LLC

Peter Christman, Executive Vice President for the UW Medical Foundation, was available for questions when the Committee reviewed the Foundation's request to purchase a 50% interest in Chartwell Wisconsin Enterprises, a provider of home infusion therapies. UW Hospital and Clinics Authority owns the remaining 50% interest of Chartwell Enterprises. Regent Whitburn stated formal Committee action is not required, however, in accordance with an agreement between the Medical Foundation and the Board of Regents, the Foundation is required to give a 60 day notice of such activity. There were no questions from Committee members.

c. 2012 Annual Financial Report and Auditor's Opinion

1. Strategies to Address HRS Overpayments and Other Internal Control Findings

President Kevin Reilly began the discussion on the Human Resource System (HRS) overpayments and related issues. He addressed the stewardship and fiduciary role of the Committee, and said the UW System response is a three prong attack that involves 1) internal auditor Elizabeth Dionne and the Office of Operations Review and Audit; 2) hiring an external risk assessor to assess the situation; and 3) working with the Legislative Audit Bureau (LAB). President Reilly said new issues are being revealed as the discovery process moves forward, but noted HRS currently is working (dispensing paychecks and benefits). Senior Vice President of Administration and Fiscal Affairs Michael Morgan assured the Committee that everyone is taking the HRS challenges very seriously, and shared a few observations about HRS. Mr. Morgan said HRS went live in April 2011 and replaced a 40 year old legacy system. HRS handles a payroll of \$2.2 billion annually, \$700 million in fringe benefits, and 79,000 payroll checks. The UW Service Center issued over 1 million paychecks and distributed 102,000 W2s. On January 22, 2013, President Reilly addressed the Joint Committee on Audit in response to the LAB's report and findings. The UW System has taken immediate steps to investigate and resolve many of the issues using a risk-based approach. Sr. VP Morgan then

introduced individuals immediately involved with the HRS system challenge. Elizabeth Dionne, Director of the Office of Operations Review and Audit, is compiling an aggregate list of known HRS risks and will be the point person for the internal team. Larry Henderson has been the Director of the UW Service Center since April 2012. The Service Center is considered the nerve center of the HRS. Julie Gordon, Associate Vice President of Financial Administration, and Laurie Grams, Director of Financial Reporting, will monitor financial statements, and Lorie Docken, Interim Director of the Office of Learning and Information Technology, and Tom Stafford, UW System General Counsel, will be assisting in the mitigation and capture of overpayments. Sr. VP Morgan assured the Committee that resolving the HRS challenge is the number one priority for the Office of Administration and Fiscal Affairs. He said much needs to be done, but believes the right team is in place with a good work plan, and ultimately good solutions. Director Dionne shared with the Committee the known issue of overpayment of health and ETF benefits. She also noted an additional \$1.1 million fiscal impact estimate involving FICA withholding and Accounts Receivable. She cautioned the Committee that other issues may be revealed as the review process continues. Larry Henderson thanked the Wisconsin Department of Employee Trust Funds for their assistance and involvement in minimizing the financial risks involved with HRS. He also reviewed with the Committee the sequence of events occurring within the Service Center over the past year. Director Henderson specifically noted the complexity of the HRS system and the need for training and re-training of employees on the use of the system. He also recognized the seriousness of the issue, but is also cautiously optimistic that it will be resolved. Regent Whitburn thanked Director Henderson and told the Committee that President Reilly and Sr. VP Morgan had been keeping him and others posted on developing issues in recent weeks. He continued by saying that although the HRS issue is a very serious matter, cutovers of large IT systems are often bumpy. He said public expectation is very high, it is imperative to straighten out the system, and he and Regent Behling will be receiving bi-weekly reports until the HRS system is corrected. Regent President Brent Smith said he is confident UWSA is putting every resource available to remedy the problem. He too is optimistic about resolution, but not comfortable with current circumstances and wondered if all issues have been identified. Regent Bradley asked for clarification on leadership changes and Director Henderson indicated some employees have been reassigned, demoted, and/or released from their job duties. Regent Pruitt inquired about Huron Consulting group's involvement. Sr. VP Morgan said Huron is still consulting and working with the Service Center. Regent Bradley asked, in retrospect, if it was too soon to go-live with the system. Sr. VP Morgan reminded the Committee when the decision was made to move forward the old system was using technology 40 years old, and many of the folks managing and servicing the old system had left the workforce. In addition, the new system was tested for 50,000 hours and was determined to be a good system based on available data. Regent Roberts voiced concerns about when the Regents were notified of the problems, accuracy of paychecks, and how often reconciliation was done. Director Henderson indicated one of the problems with the system is the reconciliation process and stated the goal is to reconcile monthly. Regent Whitburn said we will not know if paychecks were completely accurate until the review process is completed.

2. Financial Highlights

Associate Vice President Gordon and Director Grams continued with a high-level overview of the fiscal year 2012 Annual Financial Report. Director Grams explained how overall revenues increased by 0.5% and overall expenses increased by 0.6%. Assoc. VP Gordon reviewed the Statement of Net Assets with the Committee, and highlighted two ratios (Return on Net Assets and Primary Reserve) which reflect favorably on the financial status of the UW System. Assoc. VP Gordon continued with the review of the Auditor's Report on Internal Control and addressed the three adjustments noted by the LAB. Specifically she addressed the HRS security issue. Regent Roberts asked if and/or when an audit will be performed on HRS security. Ms. Gordon indicated there are almost 240 different security roles within HRS and 2100 employees have authority beyond the normal access role. She indicated a review process is organized, will start next month, and conclude before Labor Day. Regent Whitburn asked Ms. Gordon for a summer update on how the security audit is progressing. Ms. Gordon completed her presentation by stating additional authentications security measures are being considered, a security pilot project is anticipated this spring, and a comprehensive review of the security policy will be conducted to ensure "best industry" practices are in place.

3. State Auditor's Opinion

Joe Crisman, State Auditor for the Legislative Audit Bureau, and Carolyn Stittleburg, Legislative Audit Bureau Audit Director, made themselves available for questions from the Committee. Auditor Crisman said the LAB had been ordered to perform a comprehensive review of the UW payroll and benefit process and implementation of HRS. Regent Whitburn asked for the LAB's projected time line and whether an audit process had been determined. Mr. Crisman said LAB was in the beginning work stages, there may be interment reports to the Legislature, if appropriate, and noted President Reilly's pledge of full cooperation during the audit process. Regent Whitburn asked if there was anything within the parameters of the audit that had not previously been addressed in front of the Committee. Auditor Carolyn Stittleburg noted that the LAB and UWS were identifying health insurance premium payment concerns simultaneously. Regent Whitburn thanked the Auditors, said he understood and fully respected the statutory charge of the LAB, and looked forward to a timely, forthcoming, and transparent audit process.

d. Operations Review and Audit

1. Review and Approval of the 2013 Audit Plan [Resolution I.2.d.1.]

Regent Whitburn asked Director of Office of Operations Review and Audit Elizabeth Dionne to note any items the Committee should be aware of before taking action on the 2013 Audit Plan. Director Dionne noted the only changes not addressed in the December Committee meeting was the addition of a payroll benefit eligibility and COBRA item. In addition she pointed out the deferral of the NCAA Division 1 Athletics audit until completion of the HRS system review.

Upon the motion of Regent Behling and the second of Regent Pointer, the Committee unanimously approved Resolution I.2.d.1.

[Resolution I.2.d.1.]

That, upon the recommendation of the President of the University of Wisconsin System, the Board of Regents approves the Calendar Year 2013 Operations Review and Audit Plan.

2. Quarterly Status Update

Director Dionne continued with the Operations Review and Audit quarterly status update. She highlighted recently completed and on-going audit projects, including review of travel regulations and international admissions. She also said Committee members should have received several audit packets in the mail. Regent Whitburn asked for an update at the next meeting on the implementation of Crimes Against Children. Ms. Dionne stated the Office had already received 11 policies for review on background checks and expects to meet the March 1st deadline.

e. 2012 Annual Trust Funds Report

Director Doug Hoerr, UW System Trust Fund Office, updated the Committee on the status of the Trust Funds Annual Reports and agreed with Regent Whitburn that it had been a challenging 12 months. As of June 30, 2012, the fund held net assets totaling \$456.3 million, down somewhat from \$464.2 million at the end of the prior fiscal year. The return of the Long Term Fund was virtually flat over the period, down 0.8%, while the Intermediate Fund and the Income Fund, returned 3.0% and 0.1%, respectively. Mr. Hoerr indicated that calendar year 2012 has improved.

f. UW Travel System Program: Review and Approval of Regent Policy Document on University Travel Policies

[Resolution I.2.f.]

Julie Gordon, Associate Vice President of Financial Administration, gave a brief overview of the Regent Policy Document on University Travel Policies. The policy document was discussed at the Committee's December meeting. This policy will cover all university employees while traveling on university business regardless of funding source. The Committee had no questions.

Upon the motion of Regent Roberts and the second of Regent Behling, 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 Regent Policy Document on University Travel Policies.

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

1. UW Strategic Plans for Major Information Technology Projects

2. Project Status Report for Major Information Technology Projects

As prescribed in 2007 Wisconsin Act 20, the Board of Regents is required to create a reporting format for the UW System and each institutions' "strategic information technology plans." The statute also requires the Board to create specific and detailed policies on all "large" IT projects (defined as costing over \$1 million) or projects defined as vital to the functions of the System or the institution. Senior Vice President Michael Morgan said there were no large IT implementation projects in progress for UW System as defined under the law. In addition he stated individual institutions' IT plans are all accessible on-line.

h. Report of the Senior Vice President

1. Status of Network Services Procurement

2. Update on 2013-15 Biennial Budget

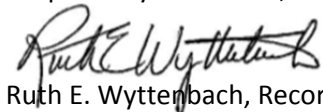
3. Status on Implementation of Audit Recommendations Related to the Reporting of Crimes Against Children

Freda Harris, Associate Vice President of the Office of Budget and Planning, gave a status update on the 2013-15 biennial budget. She said UW System has continued discussions with DOA and the Governor's Office on inclusion of funding related to utilities and fringe benefit request amounts. Assoc. VP Harris stated under the overall direction of the UW System submitted budget, budget proposals are focused on increasing economic and workforce development efforts to benefit the state. Ms. Harris cited examples such as increasing the number of graduates in the STEM areas, increasing internship opportunities, and developing new centers such as Centers on Energy and Water. Ms. Harris also told Committee members to expect a summary of the Governor's speech relating to the UW System and higher education the day following his speech.

Sr. Vice President for Administration and Fiscal Affairs Michael Morgan provided an update on the network services procurement issue. Sr. VP Morgan said first phase proposals were due on January 28th and, based on those submissions, it will be determined who is allowed to submit proposals for the second phase. Due to the statutory deadline of July 1, 2013, adequate time must be allowed for a vendor to be selected and active. Mr. Morgan also noted the need for technical changes in the telecommunications law. If technical language changes are not made by July 1, 2013, research areas of our institutions will face many challenges. Draft language has been shared with the telecommunications industry, and UWSA is working with the Governor's Office to include the technical changes in the Governor's budget.

Regent Whitburn adjourned the meeting at 4:50 pm.

Respectfully submitted,



Ruth E. Wytterbach, Recording Secretary