

07/02/13

BOARD OF REGENTS OF THE UNIVERSITY OF WISCONSIN SYSTEM

I.2. Business, Finance, and Audit Committee

Thursday, July 11, 2013
UW-Madison
1920 Van Hise Hall
Madison, Wisconsin

2:30 p.m. Business, Finance, and Audit Committee – 1920 Van Hise Hall

a. Committee Business

1. Approval of the Minutes of the June 6, 2013 Meeting of the Business, Finance, and Audit Committee

2. Review and Approval of the UW-Madison Division of Intercollegiate Athletics Contractual Agreements for Pouring Rights with Dr. Pepper Snapple Group, Inc. and Badger Max, Inc.

[Resolution I.2.a.2.i.]

[Resolution I.2.a.2.ii.]

3. Review and Approval of the UW-Madison Contractual Agreement for Vending Services with Compass Group USA, d/b/a Canteen Vending
[Resolution I.2.a.3.]

4. Review and Approval of the UW-Madison Contractual Agreement with Parexel International, LLC
[Resolution I.2.a.4.]

5. Review and Approval of the UW System Contractual Agreement with Desire2Learn Ltd. for Learning Management Software
[Resolution I.2.a.5.]

b. Internal Audit

1. External Assessment of the Office of Internal Audit: Presentation of the Final Report and Recommendations by Michael Somich

2. Status Update

c. Endorsement of the Methodology for Determining Pricing and Term Lengths for the UW Flex Option

[Resolution I.2.c.]

- d. Review and Approval of Proposed Methodology to Calculate UW System Program Revenue Appropriation Balances
[Resolution I.2.d.]
- e. Review and Approval of Regent Policy Document on Pay Plan Distribution
[Resolution I.2.e.]
- f. UW System Trust Funds: Approval of an Exception to Board Policy on Large Unendowed Bequests/Gifts for the James V. Lathers Bequest
[Resolution I.2.f.]
- g. Semi-annual Status Report on Large/Vital Information Technology Projects per Wisconsin Statutes 13.58(5)(b)(3)
- h. Human Resource System Update
- i. Report of the Senior Vice President

UW-Madison Division of Intercollegiate Athletics
Contractual Agreement for Pouring Rights with
Dr. Pepper Snapple Group Inc.

BUSINESS, FINANCE, AND AUDIT COMMITTEE

Resolution I.2.a.2.i:

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 Dr. Pepper Snapple Group Inc.

UW-Madison Division of Intercollegiate Athletics
Contractual Agreements for Pouring Rights with
Badger Max Inc.

BUSINESS, FINANCE, AND AUDIT COMMITTEE

Resolution I.2.a.2.ii:

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 agreements between the University of Wisconsin-Madison and Badger Max Inc.

**UW-MADISON DIVISION OF INTERCOLLEGIATE ATHLETICS
CONTRACTUAL AGREEMENTS FOR POURING RIGHTS WITH
DR. PEPPER SNAPPLE GROUP INC. AND
BADGER MAX INC.**

EXECUTIVE SUMMARY

BACKGROUND

UW-Madison is seeking approval to enter into a contractual agreement with Dr. Pepper Snapple Group Inc. for the exclusive rights to (i) offer for sale at its Athletic Facilities and (ii) market and associate Carbonated Soft Drink Beverages with the UW-Madison Athletic Department and its Teams.

UW-Madison is also seeking approval to enter into two separate contractual agreements with Badger Max Inc. for the right to be the Exclusive Isotonic Drink and Exclusive Bottled Water of Wisconsin Athletics on behalf of UW-Madison and Wisconsin Athletics.

In the 1990's the UW Athletic Department signed a comprehensive agreement with Coca Cola to be the exclusive soft drink provider of Wisconsin Athletics. Coca Cola paid the University a pouring rights fee in exchange for exclusivity and other consideration, including advertising, golf passes, and autographed sports items. The current contractual terms require the University to purchase any beverage Coca Cola carries, and do not allow competing beverage companies to advertise products in any Athletic venue.

As the current contract with Coca Cola approached its termination date, market research led to a conclusion that the soft drink industry had shifted away from offering large, lucrative contracts in exchange for exclusive pouring rights, as had been previously in place with Coca Cola. With carbonated soft drink sales declining and other beverage category sales increasing, UW-Madison decided to issue separate opportunities for exclusive rights to various categories of beverages for the Wisconsin Athletics. This allowed the University to increase competition in each category, and provided smaller, locally-based businesses with an opportunity participate. As an additional benefit, it also allows sale of advertising rights to multiple beverage companies in facilities and venues operated by Wisconsin Athletics.

REQUESTED ACTION

Approval of Resolution I.2.a.2.i. and I.2.a.2.ii.

DISCUSSION AND RECOMMENDATIONS

UW-Madison Purchasing Services issued separate Invitations to Submit Plans (ISP), offering carbonated soft drink, isotonic beverage, and bottled water beverage companies the opportunity to submit plan(s). Plan submitters provided information about revenue sharing opportunities, advertising revenue opportunities, breadth of products available including ability to customize formulas, offer low calorie options, and variety and quality of flavors and ingredients. The University received multiple competitive plans for each beverage category, and an evaluation committee considered the plans, resulting in the recommendations herein. With separate plans for each beverage category, the committee reaffirmed the strategy for stratification, allowing opportunities in the future to sell additional rights for exclusivity of other beverage categories (e.g. energy drinks, juices, coffee, etc.)

Contract highlights for Carbonated Soft Drink Beverages include:

- A term of five years
- Pouring rights fee of \$1M for the contract terms
- A broad range of beverage products available for Athletic venues

Contract highlights for Bottled Water include:

- A term of three years plus two optional one-year extensions
- Pouring rights fees and guaranteed commissions of \$260,000
- Unique revenue sharing arrangement for sales outside of Athletic venues

Contract highlights for Isotonic Drinks include:

- A term of three years plus two optional one-year extensions
- Pouring rights fees and guaranteed commissions of \$900,000
- Product customization options
- Low calorie options
- Various flavors and quality ingredients

RELATED REGENT POLICIES

Regent Policy Document 13-1: General Contract Authority, Approval, and Reporting.

UW-Madison
Contractual Agreement for Vending Services with
Compass Group USA d/b/a Canteen Vending

BUSINESS, FINANCE, AND AUDIT COMMITTEE

Resolution:

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 Compass Group USA d/b/a Canteen Vending.

**UW-MADISON
CONTRACTUAL AGREEMENT FOR VENDING SERVICES WITH
COMPASS GROUP USA D/B/A CANTEEN VENDING**

EXECUTIVE SUMMARY

BACKGROUND

UW-Madison is seeking approval to enter into a contractual agreement with Compass Group USA d/b/a Canteen Vending for vending services on the UW-Madison Campus, on behalf of UW-Madison and its Division of University Housing and the Wisconsin Union.

The Wisconsin Union is responsible for administration of the University's campus vending services and those in UW-Extension facilities and at the Wisconsin State Historical Society. Housing is responsible for administration of vending sites in University residence facilities. The intent of this contract is to assure consistent high quality vending services for students, faculty, staff, and guests.

REQUESTED ACTION

Approval of Resolution I.2.a.3.

DISCUSSION AND RECOMMENDATIONS

UW-Madison Purchasing Services issued an Invitation to Submit Plans (ISP), offering vending companies the opportunity to submit a plan for vending services. Plan submitters were asked for information including healthy food options, availability of debit and credit card readers, energy efficiency of equipment, and recommendations to reduce the number of machines without affecting the range of products available. Competitive plans were received from the major market suppliers. A committee evaluated the plans and considered revenue offered, as well as diversity of beverage selection, snack and commissary products, equipment, service plans, and operational details.

Contract highlights include:

- A commission rate of 38.1% of annual sales, with no less than a fixed minimum guaranteed revenue of \$380,000 per year
- A term of three years with four optional one-year extensions resulting in a minimum projected revenue of \$2.66M
- Approximately 400 vending machines including cold beverage, coffee, and snack product

- Installation of debit card readers for some high volume machines and installation of specialized readers to accept the University's Wiscard (ID card) as payment
- Increased selection of healthier choices of products and in some cases, equipment dedicated to such products
- New equipment or refurbished equipment certified to achieve additional energy efficiencies
- Improved reporting of quantity and dollars related to individual items sold

RELATED REGENT POLICIES

Regent Policy Document 13-1: General Contract Authority, Approval, and Reporting.

UW-Madison Contractual Agreement
with Parexel International, LLC

BUSINESS, FINANCE, AND AUDIT COMMITTEE

Resolution:

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 Parexel International, LLC.

UW-MADISON CONTRACTUAL AGREEMENT WITH PAREXEL INTERNATIONAL, LLC

EXECUTIVE SUMMARY

BACKGROUND

UW Board of Regents policy requires any grant or contract with private profit-making organizations in excess of \$500,000 be presented to the Board for formal acceptance prior to execution.

REQUESTED ACTION

Approval of Resolution I.2.a.4.

DISCUSSION AND RECOMMENDATIONS

The Office of Industry Relations at the School of Medicine and Public Health, with assistance from the Office of Industrial Partnerships at the University of Wisconsin-Madison, negotiated a General Services Agreement effective as of July 19, 2012 (attached) with Parexel International, LLC. The General Services Agreement (GSA) serves as a master agreement intended to cover all services Parexel requests the University to provide in the future. There is no funding associated with the GSA; funding is associated with Statements of Work (SoW) that are individually negotiated. The term of the GSA is one (1) year, and automatically renews for an additional year on the anniversary of the effective date for an additional one (1) year term. The agreement can be terminated upon sixty (60) days written notice prior to the renewal date. At the time the GSA went into effect, the dollar value associated with future SoW's was not known.

Negotiations have been completed with respect to the first SoW subject to the terms of that GSA, and the SoW has been submitted for institutional signature. The SoW provides that Parexel will pay UW-Madison an estimated total amount of \$1,864,141 for provision of the services described in the SoW. Services provided under this agreement will be complete on March 11, 2016. These services will be conducted by the Dr. Ronald Danis of the Fundus Photograph Reading Center in the Department of Ophthalmology and Visual Sciences.

The services under the SoW relate to reading center services in support of Merck's clinical trial of MK8931, a very large clinical trial studying BACE inhibitor in mild to moderate Alzheimer's disease at over 200 sites worldwide. In particular, Parexel International has requested that Fundus provide written instructions for field color fundus photography, fundus autofluorescence and spectral domain Optical Coherence Tomography (OCT), and provide certification for ophthalmic photographers at clinical investigative sites and for OCT technicians, as well as

certification for digital color, autofluorescence, and OCT camera systems. The certified technicians will provide images to Fundus for review and analysis according to predetermined standards. The Fundus Reading Center will maintain an inventory of the images received, review a portion of the images for quality, and provide Parexel with data on images collected from up to 5,466 subject visits.

The negotiations of the SoW were difficult and protracted and, unfortunately, the Merck clinical trial began before negotiations were completed. To meet the needs of the clinical trial, it was necessary for the Fundus Reading Center to perform some preparatory work (primarily training the ophthalmic photographers at the clinical sites) before the negotiations were complete. However, no invoices have been submitted to Parexel pending signature of the SoW and the services performed to date involve much less than \$500,000 in effort.

RELATED REGENT POLICIES

Regent Policy Document 13-1: General Contract Authority, Approval, and Reporting.

UW System
Contractual Agreement with
Desire2Learn Ltd. for
Learning Management Software

BUSINESS, FINANCE, AND AUDIT COMMITTEE

Resolution:

That, upon recommendation of the President of the University of Wisconsin System, the Board of Regents approves the contract with Desire2Learn Ltd., for the products, licenses, and services related to its Learning Management System.

**UNIVERSITY OF WISCONSIN SYSTEM
CONTRACTUAL AGREEMENT WITH
DESIRE2LEARN LTD. FOR LEARNING MANAGEMENT SOFTWARE**

EXECUTIVE SUMMARY

BACKGROUND

Desire2Learn (D2L) is the enterprise Learning Management System (LMS) standardized at all University of Wisconsin System (UWS) institutions. The LMS is the software platform through which UWS delivers online course material and interactions for traditional, blended, and totally online courses. It is licensed for use by all students and faculty at all institutions and is a core component of the academic information technology infrastructure. The D2L system was originally selected through a competitive RFP process in 2003. The UWS signed a five-year extension in 2008. The system supported nearly 20,000 courses delivered to over 150,000 students in 2013. It continues to see an increase in usage every year. Our self-hosted environment provides stability and engenders over 80% faculty and student satisfaction.

The Learn@UW Executive Committee is a systemwide committee of individuals with teaching and learning, as well as technical, expertise. The Committee provides vision, strategic direction and oversight for instructional applications and tools that support teaching and learning across the UW System. Over the previous two fiscal years, the Learn@UW Executive Committee studied the LMS market. While new products are available, these products are not yet mature and the marketplace is in flux. The committee determined that it would be advisable to renew and assess the marketplace again in a few years, particularly since a conversion of an infrastructure software system such as D2L would be costly and resource intensive. The UWS is seeking to renew the contract with D2L for three years with two possible one-year extensions.

REQUESTED ACTION

Approval of Resolution I.2.a.5.

DISCUSSION

Under the direction of the LEARN@UW Executive Committee, the UW System has negotiated a new contract with Desire2Learn with the following provisions:

- The cost of the contract is \$3,572,240 over the first three years. The annual contract cost escalation factor is capped at 5% per year for all five years.

- D2L will provide the use of online e-Portfolio functionality to all UWS students during their tenure on campuses and for free after graduation.
- UWS is currently piloting the new D2L “Insights” tool to extract reports and learning analytics from student course data. The use of learning analytics has the potential to identify at-risk students, allowing for early intervention and increased student retention. Licensing for this functionality is included in the contract renewal.
- D2L must now provide UWS with annual confirmation that the software has passed security vulnerability testing conducted by a third party.
- UWS has negotiated new penalties for failure to meet critical performance goals.
- UWS has negotiated a shorter contract (three years with two possible one-year extensions) to remain agile in the rapidly evolving environment of learning management systems.

RELATED REGENT POLICIES

Regent Policy Document 13-1: General Contract Authority, Approval, and Reporting.

OFFICE OF OPERATIONS REVIEW AND AUDIT EXTERNAL ASSESSMENT OF THE OFFICE OF INTERNAL AUDIT

BACKGROUND

A review of the UWS Internal Audit function was requested by System leadership to assess ways to fully optimize the Internal Audit function across the System. The request coincided with the departure of the UWS Internal Audit Director, and specifically asked questions regarding how to ensure the effectiveness of that position in leading Internal Audit.

REQUESTED ACTION

This item is for information only.

DISCUSSION

This assessment is intended to highlight recommended changes to ensure that a new Internal Audit Director can be successful in positioning the System to address audit, enterprise risk management, and compliance issues. The evaluation goes beyond the qualifications and role of the position itself and addresses other key factors which must exist relative to governance structure and focus, definition of Internal Audit's purview, and reporting relationships across the Internal Audit function.

An independent review team, comprised of experts in higher education internal audit from Duke University and accounting and advisory firm Baker Tilly, interviewed over 25 individuals, including representatives from the Board of Regents, the UW System Office, campus executive management, and institution Internal Audit staff. The team also reviewed significant Internal Audit documentation such as charters, organizational charts, audit plans, and past reports. The basis for the recommendations was validated with a variety of stakeholders as part of the interview process.

The external assessment team will be presenting findings and recommendations to the committee. The committee may choose to act on the recommendations at the July meeting or defer recommendations for further consideration.

RELATED REGENT POLICIES

None.

OFFICE OF INTERNAL AUDIT STATUS UPDATE

EXECUTIVE SUMMARY

BACKGROUND

The Office of Internal Audit provides objective review and analysis services in order to add value to, protect, and strengthen the University of Wisconsin System.

REQUESTED ACTION

None.

DISCUSSION

The enclosed report provides an overview of activities of the Office of Internal Audit since June 6, 2013. Specifically, this report provides information on the following:

- (1) 2013 Major Project Activity
- (2) Overview of Active Engagements
- (3) Other Significant Projects
- (4) Legislative Audit Bureau Update

RELATED REGENT POLICIES

None.

STATUS UPDATE OF THE OFFICE OF INTERNAL AUDIT

July 11, 2013

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2013 Major Project Activity

Title	#	Status
Compliance with §16.417 Wis. Stats. Related to Dual Employment		
• Platteville	2013-01	Report Date – June 20, 2013
• Superior	2013-02	Report Date – May 23, 2013
• La Crosse	2013-03	Report Date – June 28, 2013
• Green Bay	2013-10	Report Date – June 28, 2013
• Madison	2013-11	Expected Date - July 2013
• Eau Claire	2013-12	Expected Date - July 2013
• Extension	2013-13	Report Date – April 11, 2013
• System Administration	2013-14	Expected Date - July 2013
• Stevens Point	2013-15	Report Date – June 20, 2013
• Colleges	2013-16	Report Date – June 20, 2013
Employee Payroll Information		
• Eau Claire	2013-04	Expected – July 2013
• Oshkosh	2013-05	Report Date – June 20, 2013
• Stevens Point	2013-06	Active
• River Falls	2013-17	Expected – June 2013
• Parkside	2013-18	Active

2013 Major Project Activity, Continued

Title	#	Status
Employee Payroll Information (continued)		
• Colleges	2013-19	Active
• Extension	2013-20	Active
• Whitewater	2013-21	Active
• La Crosse	2013-22	Active
• Stout	2013-23	Active
Placement Rates		
• Green Bay	2013-07	Report Date – April 9, 2013
• Milwaukee	2013-08	Report Date – May 23, 2013
• Madison	2013-09	Report Date – April 9, 2013
Compliance with UW System Travel Regulations		
• System Administration	2013-24	Expected – June 2013
Human Resource System		
• UW Service Center Management Letter	2013-25	Expected – June 2013

2013 Major Project Activity, Continued

Title	#	Status
IT Backup and Data Recovery Procedures		
• Milwaukee	2013-26	Active
• Oshkosh	2013-27	Active
• Parkside	2013-28	Active
• Platteville	2013-29	Active
• River Falls	2013-30	Active
• Stout	2013-31	Active
• Superior	2013-32	Active
• System Administration	2013-33	Active
Clery Act Compliance		
• Milwaukee	2013-35	Planning Stage
• Madison	2013-36	Planning Stage

OVERVIEW OF ACTIVE ENGAGEMENTS

IT Backup and Data Recovery Procedures

- Audits will be conducted at UW-Milwaukee, Oshkosh, Parkside, Platteville, River Falls, Stout, Superior, and System Administration.
- Scope:
 - Consideration of the existence and adequacy of the backup and data recovery procedures.
 - Evaluation of procedures to address failed backups.
 - Verification of ability to successfully restore data.
 - Evaluation of location and adequacy of off-site storage facility.
- Review of current policies and procedures in place at the institutions.
- Engagement memorandum issued in February 2013, and entrance conferences were held with selected institutions.

Clery Act Compliance

- ❑ Audits will be conducted at UW-Madison and Milwaukee
- ❑ Scope:
 - ❑ Consideration of the existence, adequacy, and communication of Clery Act policies.
 - ❑ Proper identification of campus security authorities.
 - ❑ Sufficiency of training provided to campus security authorities.
 - ❑ Internal controls related to the collection of crime statistics, issuance of timely warnings, and preparation of the annual safety report.
- ❑ Annual Safety Report issued within the last year
- ❑ Engagement memorandum will be issued in July 2012, and entrance conferences held with selected institutions.

Compliance with UW System Travel Regulations

- ❑ Continue audits at all remaining UW institutions.
- ❑ Scope includes travel expense reports of key administrators and financial personnel.
- ❑ Period of coverage is July 1, 2011 through June 30, 2013.
- ❑ Fieldwork is actively underway for eight institutions (UW-Madison, Green Bay, Superior, La Crosse, Eau Claire, Colleges, Extension, and Stevens Point).
- ❑ Results for these institutions are expected to be finalized during the next three months.

OTHER SIGNIFICANT PROJECTS

Other Significant Projects

Begin Audit Plan Development Process:

- Multi-phased collaborative approach.
- Emphasis on financial, compliance, and IT risks.

Pricewaterhouse Coopers LLP HRS Risk Assessment:

- Have interviewed members of both System Administration and UW Service Center
- PwC was on Campus June 20th and June 28th following up on information provided and conducting additional interviews

Legislative Audit Bureau Projects Underway

- Annual compliance audit of federal funding (as part of the Statewide Single Audit) fieldwork is underway related to federal compliance, for fiscal year 2012-13.
- Program evaluation entitled University of Wisconsin System Oversight and Management of Payroll and Benefit Processing and the Human Resource System, as approved on January 22, 2013 by the Joint Legislative Audit Committee.
- Financial audit of University of Wisconsin System, as required under Section 13.94 (1)(t), Wis. Stats. Including work related to HRS, UW-Madison's Division of Information Technology data center, and UW System's program revenue balances.

Endorsement of Methodology for
Determining Pricing and Term Lengths
For the University of Wisconsin Flexible Option

REVISED – 7/9/13

BUSINESS, FINANCE, AND AUDIT COMMITTEE

That, upon recommendation of the Chancellor of the University of Wisconsin-Extension and the President of the University of Wisconsin System, the Board of Regents endorses the methodology for determining the UW Flexible Option's proposed pricing structure and term lengths.

PRICING AND TERM LENGTHS FOR THE UNIVERSITY OF WISCONSIN FLEXIBLE OPTION

EXECUTIVE SUMMARY

BACKGROUND

Since its announcement in June 2012, several UW institutions have been working to develop the University of Wisconsin Flexible Option, a portfolio of self-paced, competency-based degree and certificate programs that will allow students to progress toward degrees and obtain certificates by demonstrating knowledge they have acquired through prior coursework, military training, on-the-job training, and other learning experiences. Through the UW Flexible Option (UW Flex), the UW System seeks to provide another delivery option by which the citizens of Wisconsin—particularly working and/or place-bound adults—can complete a college degree or meet other higher educational goals.

Through a shared leadership model, faculty and staff at UW-Milwaukee and the UW Colleges, in partnership with the UW Flex Core Team at UW-Extension and UW System, have been working to design Flex curricula and operational and administrative systems, policies, and procedures that will allow students to enroll in the first set of UW Flexible Options by late Fall 2013. In addition, three advisory groups have played critical roles in defining some of the academic, administrative and business, and operational parameters of the Flex Option: the Faculty and Instructional Academic Staff Advisory Group; the Administrative Advisory Group; and the Operational Advisory Group for Academic and Student Support.

While the Flex Options under development entail conversion of existing academic programs at UW institutions into competency-based delivery modes, the UW System's regional accreditor, the Higher Learning Commission (HLC), is requiring a separate approval process before any Flex Options can be offered to students. UW-Milwaukee and UW Colleges (the degree-granting institutions for Cohort I) are working with HLC as part of a pilot project to determine how HLC will accredit direct-assessment (i.e., non-credit-based models), competency-based programs (degree, diploma, or certificate). On May 15, UW-Milwaukee and the UW Colleges submitted formal "substantive change applications," and expect to hear back from HLC sometime in July as to the results of their applications. Once HLC addresses accreditation, the participating UW institutions may apply to the Secretary of Education for authorization to award federal financial aid to students enrolled in the Flex Option. The Department of Education announced its approval process for competency-based programs in March 2013.

The Board of Regents has received regular updates on the development of the UW Flexible Option since its announcement, including a comprehensive status report at its April meeting. In June, the Business, Finance, and Audit Committee discussed the proposed pricing structure for

UW Flex, along with an update on the Business Plan. At its July meeting, the Board of Regents will be asked to endorse the UW Flexible Option pricing structure for Fall 2013, in accordance with the UW System's existing policy on distance education pricing.

REQUESTED ACTION

Approval of Resolution I.2.c.

DISCUSSION

Proposed Pricing and Term Length

The UW Flex Core Team has worked extensively to determine the appropriate pricing and term length for UW Flexible Option programs. The proposed approach for 2013-14 is to utilize two pricing options:

- an “all-you-can-learn” option based on a three-month term at \$2,250/term; and
- an “assessment-only” option offered at a “cost-plus” fixed price.

Under the “all-you-can-learn” options, students will have access to advising, tutoring, and other student services, as well as financial aid. Students will also be able to take multiple assessments during the term. These services will not be available under the “assessment-only” option, under which a student will enroll, take the assessment, and be graded based on the assessment, with no other access to services.

This pricing was derived through discussions with the UW Flex Administrative Advisory Group, analysis of tuitions for traditional UW programs across the System, and a review of tuition pricing of other competency-based programs (e.g., Western Governor's University, Southern New Hampshire University). In addition, the Hiebing Group, a Wisconsin integrated marketing Company with clients that include Fortune 500 companies such as American Family Insurance and Coca-Cola, conducted market testing on potential students for the term length and the proposed tuition pricing.

The market survey conducted by the Hiebing Group indicates that there is high interest in the Flexible Option among potential students, and that two pricing options—the “assessment-only” and the “all-you-can-learn” options—were preferred. Based on this research, an earlier “per course” pricing option has been eliminated. In addition, the survey revealed that a price between \$2,000 and \$3,000 per term was viewed as a good value by potential students, with interest and projected enrollments starting to decline at price levels exceeding \$3,000.

The “all-you-can-learn” pricing model will be available to students upon formal launch of Flex programs in late 2013. The Fall 2013 price for the “all-you-can-learn” option is based on the survey conducted by the Hiebing Group and, assuming three terms (nine months of study) per year, will approximate resident undergraduate tuition rates (three terms at \$2,250/term = \$6,750).

The 2012-13 weighted average tuition (only) for resident undergraduates is \$7,222 (for tuition & fees it is \$8,320).

It is difficult to project the time-to-program or time-to-degree completion for students who will enroll in UW Flexible Option programs. Program/degree completion averages 2.6 years at Western Governors University, which uses a delivery model similar to the Flex Option; students at this institution typically enter with some college credits. Given the unique nature of the Flex Option, the time-to-degree will vary greatly based on each student's prior experience, assessment of prior learning, and motivation (the number of competencies completed within a term). It is anticipated that many Flex students will enter their programs with some college credit, and some will have the ability to move through program assessments to demonstrate mastery of competencies fairly quickly. Others will need more time and support. Therefore, similar to students at Western Governors, some students enrolled in the Flex Option will graduate in three years. On the other hand, based on average number of competencies required for individual Flex programs, many students should be able to complete their programs in seven to eight terms, i.e., in 21 to 24 months.

The pricing recommendation for the "assessment-only" option is still being evaluated. The recommended price will be based on estimates of staffing, services and other expenses, which are still under development, so that the suggested price will cover these anticipated costs.

Existing Policy on Pricing for Distance Education Programs

While the UW Flexible Option is unique in the UW System because of its competency-based structure, its proposed tuition pricing is in compliance with existing Regent and System policy on distance education pricing.

RPD 15-1, Distance Education Pricing, describes the Principles for Pricing Distance Education Credit Courses, Degree and Certificate Programs that are detailed in the UW System policy *Academic Information Series #5.4 (ACIS 5.4 Revised)*. ACIS 5.4 Revised, *Programming for the Non-Traditional Market in the University of Wisconsin System*, provides the broad parameters for credit courses that are offered through the University of Wisconsin System and intended to serve working adults and the non-traditional market.

In particular, the tuition model for UW Flex is covered by Principle #5 in Appendix C to ACIS 5.4 Revised, *Principles for Pricing Distance Education Credit Courses, Degree and Certificate Program*. Principle #5 states:

Institutions may choose to increase the price charged for distance education courses and programs to take advantage of market opportunity. Conversely, institutions may choose to decrease the price charged for distance education courses and programs according to the following factors: derivative benefits to faculty or institution, access/mission relationship, multiple sources of subsidy (e.g., grants, contracts, unused or marginal capacity), or competition.

Given the distinctiveness and innovation of its academic, delivery, and business models, UW Flex will need to follow closely market and other cost factors in adjusting its pricing.

RELATED REGENT AND UW SYSTEM POLICIES

Regent Policy Document 15-1: Distance Education Pricing Principles

Academic Information Series # 5.4 (ACIS 5.4 Revised): Programming for the Non-Traditional Market in the University of Wisconsin System

Appendix C, Academic Informational Series # 5.4 (ACIS 5.4 Revised): Principles for Pricing Distance Education Credit Courses, Degree and Certificate Programs

Methodology to Calculate
UW System Program Revenue
Appropriation Balances and Reserves

BUSINESS, FINANCE, AND AUDIT COMMITTEE

That, upon the recommendation of the President of the University of Wisconsin System, the Board of Regents approves the attached methodology to calculate UW System Program Revenue Appropriation Balances and Reserves and directs the President to submit the methodology to the Joint Audit Committee by September 1, 2013, for its subsequent review and approval.

METHODOLOGY TO CALCULATE UW SYSTEM PROGRAM REVENUE APPROPRIATION BALANCES AND RESERVES

EXECUTIVE SUMMARY

BACKGROUND

On April 19, 2013, the Legislative Fiscal Bureau released a memorandum to the Joint Finance Committee related to UW System end of fiscal year 2012 cash balances. That memorandum and subsequent papers prepared for the Joint Finance Committee for consideration of the 2013-15 biennial budget raised questions about the appropriate level of cash BALANCES AND reserves.

2013 Wisconsin Act 20 includes the following directive to the UW System: “the Board of Regents of the University of Wisconsin System shall develop a methodology for the calculation of program revenue balances and reserves, expressed in both dollars and as percentages of total annual expenses, for the University of Wisconsin System as a whole and for individual University of Wisconsin institutions, as defined in section 36.05(9) of the statutes, and the extension. By September 1, 2013, the Board of Regents shall submit its proposed methodology to the joint legislative audit committee for approval, modification, or disapproval.”

REQUESTED ACTION

Approval of Resolution I.2.c.

DISCUSSION

Balances

UW System program revenue balances should be presented in a clear and understandable manner on an annual basis. In order to expedite the calculation of balances and provide data easily attainable from the UW System’s general ledger, program revenue balances shall be calculated on a cash basis subsequent to year-end reconciliation. Balances will be calculated starting with the prior year’s ending cash balance, adding revenues received and deducting expenditures made during the fiscal year. Balances represent the cash on hand at the end of a given fiscal year. Total program revenue balances shall be depicted for the UW System as a whole and for each UW institution expressed in dollars and as a percentage of all program revenue expenditures. A description of UW appropriations included in each category below will be provided to aid in understanding the information presented.

Program revenue balances shall be classified as restricted or unrestricted. Restricted year-end program revenue balances are those balances subject to externally-imposed stipulations and shall include Gifts, Federal and Nonfederal Grants and Contracts, and Endowment Funds. Since these funds must be spent for the purposes for which they were received and largely cannot be used for general operations, the related restricted balances will be expressed in dollars for the UW System as a whole and for each UW institution, but will not be measured as a percentage of the total expenditures for the fiscal year.

Unrestricted year-end balances shall be categorized as follows: Tuition (Academic Student Fees and Extension Student Fees), Auxiliary Operations, General Operations, Federal Indirect Cost Reimbursement, and All Other Program Revenue. For each unrestricted category, year-end balances shall be expressed in dollars for the UW System as a whole and for each UW institution and as a percentage of the total expenditures by that category for the fiscal year. Tuition balances shall be expressed as a percentage of the combined expenditures for GPR (less GPR-funded debt service) and Student Fees combined.

Reserves

The UW System primarily operates using revenues earned through providing services. Program revenues represented approximately \$4.8 billion of the UW System's \$5.9 billion operating budget in 2012-13, or more than 80%. As a result, program revenue balances are common and should be expected as funds collected at one point may be committed to a specific purpose but not expensed until a later date. For example, UW institutions often begin collecting tuition in spring for the fall semester. Program revenue balances, therefore, should not be equated with reserves, which are funds set aside to protect against unbudgeted future expenses or losses, such as enrollment fluctuations, unexpected costs, or loss of state or federal aid. Reserves are not funds set aside for specific expenditures or commitments, but purely serve as an operating contingency.

A UW System policy on program revenue appropriation balances and reserves will be presented to the Board later this fall, for submission to the Joint Finance Committee by January 1, 2014, as required in Wisconsin Act 20. In setting that policy, it will be important to take into consideration budgeted and committed purposes for those balances. This may include, but is not limited to, funds encumbered for goods or services provided to an institution but not yet expensed, capital projects, and deposits received in advance for future academic terms.

RELATED REGENT POLICIES

None.

Regent Pay Plan Distribution Policy

BUSINESS, FINANCE, AND AUDIT COMMITTEE

Resolution I.2.e.

WHEREAS it is the Board's policy to promote the attraction, development, and retention of a diverse and highly qualified workforce that will effectively and efficiently pursue the missions of the UW System and each UW institution; and

WHEREAS pursuant to Wis. Stat. § 36.09(1), the Board of Regents is vested with the primary responsibility for the governance of the University of Wisconsin System,

NOW, THEREFORE, BE IT RESOLVED:

That, upon the recommendation of the President of the University of Wisconsin System the Board of Regents approves the attached Regent Pay Plan Distribution Policy for pay plan distribution guidelines for all UW System institutions for the duration of the 2013-15 biennium or until such time as the UW System has authority to implement the two new personnel systems that have been developed.

**UNIVERSITY OF WISCONSIN SYSTEM
REGENT PAY PLAN DISTRIBUTION POLICY
EXECUTIVE SUMMARY**

BACKGROUND

The Board of Regents each biennium provides the Chancellors with pay plan distribution guidelines at the same time that the Board approves the pay plan request for all unclassified staff. Typically, this takes place in December of even-numbered years. The Board did review at its April 2013 meeting a pay plan distribution policy in anticipation of the UW System's having new authority for personnel systems. Because the recently enacted state budget removed this authority, it is necessary to approve new pay plan distribution policy guidance that will be applicable to all UW System institutions for the duration of the 2013-15 biennium or until such time as the UW System has authority to implement the two new personnel systems that have been developed.

REQUESTED ACTION

Approval of Resolution I.2.e.

DISCUSSION

The attached Regent Pay Plan Distribution Policy provides Chancellors with policy guidance on the distribution of Board of Regents approved biennial pay plans and for institutionally-funded supplemental pay plans. This operational policy has been review by the Chancellors and approved by the President of the UW System for all UW System institutions.

This policy on pay plan distribution is based on merit-based recruitment and assessment policies, practices, and performance goals that promote the development of a productive, accountable, and trusted workforce and compensation structures and tools that reflect the following factors: market, performance, internal equity, and cost of living. In addition, this policy guidance directs Chancellors to develop, oversee, and coordinate pay plan administration using the processes and practices of shared institutional governance that are operative at each respective institution. In addition, Chancellors shall ensure equity and balance within, between, and among all governance groups.

RELATED DOCUMENTS

Regent Policy Document 20-2, 1994 Gender and Race Equity Study, and UPG 4

The University of Wisconsin System



Regent Pay Plan Distribution Policy – Revised 7/9/13

Original Issuance Date: July 12, 2013
Last Revision Date:

1. POLICY PURPOSE:

To provide Chancellors with policy guidance on the distribution of Board of Regents approved biennial pay plans and on institutionally-funded supplemental pay plans.

2. POLICY BACKGROUND:

The Board of Regents each biennium provides the Chancellors with pay plan distribution guidelines at the same time that the Board approves the pay plan request for all unclassified staff. Typically, this takes place in December of even-numbered years. The Board did review at its April 2013 meeting a pay plan distribution policy in anticipation of having new authority for personnel systems. Because the recently enacted state budget removed this authority, it is necessary to approve new pay plan distribution policy guidance that will be applicable to all UW System institutions for the duration of the 2013-15 biennium or until such time as the UW System has authority to implement the two new personnel systems.

3. POLICY DEFINITIONS:

“Faculty” means persons who hold the rank of professor, associate professor, assistant professor, or instructor in an academic department or its functional equivalent in an institution, persons described under Wis. Stat. § 36.13(4)(c) and such academic staff as may be designated by the chancellor and faculty of the institution.

“Academic Staff” means professional and administrative personnel with duties, and subject to types of appointments, that are primarily associated with higher education institutions or their administration but does not include faculty and staff provided under [Wis. Stat. § 16.57](#).

“Limited Appointment” means an appointment to a designated administrative position, the holder of which serves at the pleasure of the authorized official who made the appointment. Certain positions must be designated as limited appointments under [Wis. Stat. § 36.17\(2\)](#), while others may be designated by the appointing authority as limited appointments at the time of the appointment.

“Regent pay plan” means the amount of state funds and/or generated funds available for salary increases for all employees in the continuing staff base budget with at least solid performance.

“Supplemental pay plan” means the amount of generated or reallocated institutional base funds approved and available for salary increases for any or all employees in the continuing staff base budget with at least solid performance.

“Base salary adjustments or lump sum payments” means reallocated institutional base budget funds used to address strategic salary adjustments specific to institutional needs and priorities.

4. POLICY:

- (1) Chancellors shall develop, oversee and coordinate pay plan administration using the processes and practices of shared institutional governance that are operative at each respective institution. Prior to the approval of the Regent Pay Plan each Chancellor shall initiate faculty, academic staff, and limited appointee performance evaluations using a suitable evaluation system to assess meritorious performance and solid performance, the results of which can be converted to a salary, once the pay plan is known. The evaluation judgments shall be made before July 1, as provided in s. 36.09 (1)(j), Wis. Stats.
- (2) Chancellors shall ensure equity and balance within, between, and among all governance groups. While recognizing obvious differences between roles, responsibilities, compensation, and market-based forces, compensation adjustments for all employee categories are to be viewed, held, and considered as separate parts of the pay plan distribution for each institution.
- (3) Chancellors are authorized to earmark up to 15 percent of the total pay plan each year for the Chancellors’ discretionary use to meet special compensation needs, such as rewarding members of the University workforce for innovative and/or collaborative program delivery; rewarding exceptional performance in support of institution goals; and/or correcting gender pay inequities or other structural anomalies or inequities warranting adjustment.
- (4) Assessment of meritorious performance and solid performance for faculty shall be based on a systematic performance evaluation program which identifies positive contributions by the faculty member to teaching, research, public service and/or the support functions inherent in the institution’s mission. Assessment of teaching faculty shall include consideration of student evaluations (Regent Policy Document 20-2, formerly 74-13, October 4, 1974). Assessment of meritorious performance and solid performance for all other university employees shall be based on a systematic performance evaluation program which allows supervisory assessment of solid and meritorious performance in their areas of assigned responsibility.
- (5) Market determinations are not to be considered in the distribution of Regent Pay Plan funds, except that Chancellors may use market considerations when distributing earmarked funds provided for in number (3) above.
- (6) Any and all compensation adjustments must include a merit/performance component; across-the-board compensation adjustments that do not include a merit/performance component are prohibited. At a minimum, continuing staff who have performed at a satisfactory level shall be entitled to a compensation adjustment from funds set aside to recognize solid performance, except when an employment contract, collective bargaining agreement or administrative practice holds to the contrary.
- (7) Unless otherwise specified by executive/legislative/Regent action, the effective dates for the payment of the pay plan rates will be July 1 each year for annual-basis employees, the start of the academic year for those on academic year appointments, and other dates as set by the

Chancellors for persons with appointment periods commencing at times other than July 1 and the beginning of the academic year.

- (8) The President is authorized each year to increase the systemwide faculty salary minima by up to the full amount of the Regent Pay Plan rounded to the nearest hundred dollars. For Category B research and instructional academic staff, the Board authorizes the continuation of the current policy linking titles to the faculty salary minima based on percentage relationships approved in the 1994 Gender and Race Equity Study. UW System salary ranges and salary minima will be established in accordance with the approved Regent Pay Plan.
- (9) Base salaries shall not be less than the salary minima or pay range minimum. A salary increase shall not move the base salary above the UW System salary range maximum, if applicable. University employees who are currently paid above an applicable range maximum shall be eligible for a salary increase of up to half of the amount by which the salary ranges have been adjusted.
- (10) Approval of salary adjustment rates for promotion in faculty rank is delegated to Chancellors.
- (11) The Board intends to make a separate request of JCOER for a supplemental pay plan during the 2013-15 biennium to enable Chancellors to use generated or reallocated institutional resources to provide for a supplemental pay plan for individual salary adjustments (base or one-time) for employees in any or all of the following employee categories: faculty, academic staff, and limited employees.
- (12) In using discretionary funds provided for in number (3) above and/or supplemental pay plan provided for in number (11) above, Chancellors may consider factors of equitable compensation for faculty and staff with comparable training, experience, and responsibilities at peer institutions and among comparable UW System institutions, programs, and departments.
- (13) For represented graduate assistants, pay plan adjustments will be determined through union collective bargaining negotiations.
- (14) Each institution shall complete its actions on pay schedules for non-represented graduate assistants prior to July 1 and shall establish a factor for adjustments, which can be applied expeditiously to determine compensation increases. Pay schedules for each graduate assistant category shall be separately established.
- (15) The Regent Pay Plan funding allocation shall be distributed as soon as possible after final approval of the pay plan by the Board of Regents and after the Governor signs the biennial budget.
- (16) Compensation actions related to the Regent Pay Plan and delegated to the Chancellors shall be completed in accordance with statutory requirements, legislative intent, and Regent policy, and shall be reported to UW System Administration to make possible the preparation of payrolls and reporting to the Board of Regents.

5. RELATED DOCUMENTS:

Regent Policy Document 20-2, 1994 Gender and Race Equity Study, and UPG 4

UW System Trust Funds
Exception to Board Policy on
Large Unendowed Bequests/Gifts
For the James V. Lathers Bequest

BUSINESS, FINANCE, AND AUDIT COMMITTEE

Resolution:

That, upon recommendation of the Director of the School of Music, the Chancellor of UW-Madison, and the President of the University of Wisconsin System, an exception to RPD 31-15 be granted to allow the balance of the bequest from the James V. Lathers bequest over and above \$200,000 to be made available for current spending.

**UW SYSTEM TRUST FUNDS
EXCEPTION TO BOARD POLICY ON
LARGE UNENDOWED BEQUESTS/GIFTS
FOR THE JAMES V. LATHERS BEQUEST**

EXECUTIVE SUMMARY

BACKGROUND

In the event a donor gives no direction as to the use of a gift's principal, current Board of Regents policy requires that all such bequests greater than \$250,000 become Board-designated endowments. As a designated endowment, only the income from the gift is made available for expenditure. If an exception to this restriction is desired, whether at the time of initial gift acceptance or at a later date, a request with appropriate justification must be submitted to the Vice President for Finance for consideration at the next meeting of the Business, Finance, and Audit Committee.

REQUESTED ACTION

Approval of Resolution I.2.f., request for principal expenditure.

DISCUSSION

A partial residual bequest in the amount of \$357,250 was received from the estate of James V. Lathers, and a final distribution of up to \$40,000 is expected at a later date. Mr. Lathers' will states the following under section 2.2.3:

"15% to the University of Wisconsin, Madison, School of Music"

The School of Music at UW-Madison is requesting an exception to Board policy, which would otherwise make this entire bequest a Board-designated endowment fund. While the School wishes to use \$200,000 of the Lathers bequest to create a designated endowment in support of discretionary expenditures, as an exception to Board policy the School wishes to make the balance of the bequest (\$157,250+) available for current spending to fund a number of immediate needs. A letter from the Director of the School of Music, John Stevens, describing the School's request in more detail is attached

RELATED REGENT POLICIES

Regent Policy Document 31-15: *Policy on Large Unendowed Bequests/Gifts*



DATE: May 22, 2013
TO: Douglas Hoerr
UW Trust Funds
FROM: John Stevens, Director
School of Music
RE: James Lathers Bequest

The School of Music is very pleased to accept the bequest from the James V. Lathers estate. We are writing to request an exemption to the Board of Regents policy of placing all gifts in excess of \$250,000 into an endowment. Our understanding is that the distributions from the Lathers estate to date total \$357,250, and that a final distribution of up to \$40,000 is expected at a later date. Our plan would be to use \$200,000 of the bequest to create an endowment in support of discretionary expenses such as our growing and evolving Jazz Program (recently energized by a new Director of Jazz Studies position), faculty travel support to conferences and other special events, or student support. We are requesting permission to use the remaining \$157,250+ of the gift as spendable income to fund a number of immediate needs of the School of Music that have either gone unmet or are the result of timely opportunities.

During the renovation of the Memorial Union Theater, the School of Music has custody and use of one of the two performance grand pianos normally housed in the Union Theater. This provides us with an opportunity to have one of our own performance Steinway grand pianos rebuilt. Our esteemed piano technician assures us that rebuilding one of our "experienced" pianos is actually a much better value than purchasing a new one. The process takes a considerable amount of time and will cost approximately \$50,000. If we can begin the process right away we will have our own rebuilt piano back by the time we need to return the Union Theater instrument for their re-opening in the fall of 2014.

The School of Music also has a number of discretionary expenses, such as technology upgrading of some of our classrooms. The equipment in our high use rooms has been allowed to lag far behind where it should be due to a lack of funds, but also a lack of interest in supporting renovations to the Humanities Building. Only recently has there been a broader awareness that the Mosse Humanities Building will be with us and inhabited by the School of Music for many years, even once our proposed new performance facility is built. Other discretionary expenses include technology (specialized audio and video equipment), staffing and training for live streaming of concerts, which is becoming a standard and expected aspect of the artistic life of a major school of music, general technology upgrade needs in faculty studios, a satisfactory piano for Music Hall as well as piano upgrades for rehearsal rooms, practice rooms and performance spaces, and new specialized instruments (bass and Eb clarinets, percussion instruments, bassoons, etc.) for large ensemble and chamber music student performances.

Thank you for considering this request. Questions may be directed to myself or to our School of Music Business Manager Gary Barnes, at (608) 263-1901.

School of Music

3561 Mosse Humanities Building 455 N. Park St. Madison, Wisconsin 53706-1483
608-263-1900 Fax: 608-262-8876 www.music.wisc.edu

**UW SYSTEM INFORMATION TECHNOLOGY REPORT
PROJECT STATUS REPORT FOR MAJOR INFORMATION
TECHNOLOGY PROJECTS**

EXECUTIVE SUMMARY

BACKGROUND

2007 Wisconsin Act 20 requires the Board of Regents to provide in March and September of each year a specific and detailed progress report on all large (defined as costing over \$1 million) and high-risk IT projects to the Joint Committee on Information Policy and Technology. The Board policy on the format of these reports was approved in April 2008 [Resolution I.2.e.5.].

REQUESTED ACTION

This report is for information only.

DISCUSSION AND RECOMMENDATIONS

The UW System has no large IT projects in progress; there are no major projects to report.

RELATED REGENT POLICIES

Regent Policy Document 25-2: Guide to plan and implement management information systems.