

**UW System Board of Regents
Business, Finance, and Audit Committee Agenda
July 11, 2013
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 Margaret Farrow, Tim Higgins, Janice Mueller, Charles Pruitt, Gary Roberts, and David Walsh were in attendance.

a. Committee Business

1. Approval of the Minutes of the June 6, 2013, meeting of the Business, Finance, and Audit Committee [I.2.a.1.] Upon the motion of Regent Walsh, and the second of Regent Mueller, the Committee unanimously approved 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 Seven Up (Snapple Group), Inc. and Badger Max, Inc. [Resolution I.2.a.2.i. and Resolution I.2.a.2.ii.] Darrell Bazzell, UW-Madison Vice Chancellor for Administration, explained the decision to separate what had been a single, exclusive pouring rights contract for intercollegiate athletics into separate agreements. The first contract is for carbonated soft drink beverages, runs over a 5-year span, and has an approximate value of \$1 million dollars.

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

[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 Seven Up Inc.

Vice Chancellor Bazzell continued with a brief description of two separate three-year contracts (each with two optional one-year extensions) with Badger Max, Inc. One contract is for bottled water and the other contract is for isotonic drinks. The contracts have approximate values of \$260,000 and \$900,000, respectively. As in the previous contract, UW-Madison decided to separate what had been a single, exclusive pouring rights contract into separate agreements to optimize the revenue from the activity.

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

[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.

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

The Committee approved a new three-year contract for campus-wide vending services with Compass Group USA. Darrell Bazzell, UW-Madison Vice Chancellor for Administration, said the contract includes four optional one-year extensions and a guaranteed minimum payment to the University of \$380,000 per year. If all extensions are exercised, the contract would provide UW-Madison with a minimum of \$2.7M. Canteen was chosen in part because of its healthy food options, the ability to use debit/credit card readers, a greater efficiency of equipment, and the ability to reduce the total number of machines on campus.

Upon the motion of Regent Roberts, and the second of Regent Higgins, the Committee unanimously approved Resolution I.2.a.3.

[Resolution I.2.a.3.]:

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.

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

Vice Chancellor Bazzell continued with an overview of the fee for service contract between the UW-Madison School of Medicine and Public Health and Parexel International, LLC, relating to supporting larger clinical trials involving Alzheimer's disease. He said the master contract had no dollar value, however, the initial work outlined in the contract before the Committee is expected to generate payments to the University of approximately \$1.8 million.

Upon the motion of Regent Walsh, and the second of Regent Roberts, the Committee unanimously approved Resolution I.2.a.4.

[Resolution I.2.a.4.]:

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.

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

The Committee approved a new contract with Desire2Learn Ltd (D2L), the current provider of Learning Management Software. Total cost of the contract is \$3,572,240 over the three-year life of the contract. Two optional one-year extensions are also possible with an annual cost escalation factor capped at 5% for all five years. D2L is a software platform that delivers online course materials and supporting services to UW's traditional on-line and blended courses. Associate Vice President Docken said the contract before the Committee was approximately \$1 million more than the past contract but includes a reporting and learning analytical tool set that represents about \$.5 million in cost.

Upon the motion of Regent Higgins, and the second of Regent Roberts, the Committee unanimously approved Resolution I.2.a.5.

[Resolution I.2.a.5.]:

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.

b. Internal Audit

1. External Assessment of the Office of Internal Audit: Presentation of the Final Report and Recommendations by Michael Somich [Resolution I.2.b.1]

Regent Whitburn introduced the three member team of Baker Tilly Virchow Krause, LLP, (Michael Somich, Executive Director of Internal Audit at Duke University, Raina Rose Tagle, partner of the public accounting and consulting firm Baker, Tilly, Vichow, Krause, LLP, and Christine Smith of the Madison office of Baker, Tilly, Vichow, Krause, LLP) and gave background on the process leading up to the internal audit assessment. Baker Tilly Virchow Krause highlighted their assessment and offered their recommendations.

Regent Whitburn said the UW System needed to develop a formal charter for the audit committee with appropriate goals for Board of Regents approval at the September meeting. He asked if the Committee was comfortable with approving a resolution that would go to the full Board for consideration modifying the bylaws to facilitate a free standing audit committee, a departmental name change to the Office of Internal Audit, a title change for the director to Chief Audit Executive (CAE), and a reporting relationship directly to Audit Committee with a dotted line to the President. Regent Pruitt said the first three suggestions were sensible and strong, but indicated they should probe the issue of reporting. Extensive Committee discussion occurred on the issue of reporting responsibilities for the Chief Audit Executive (CAE). Regent Falbo and President Reilly joined the discussion. Regent Whitburn asked for unanimous agreement of the Committee to modify the resolution and have the Board of Regents decide in September on the reporting relationship.

Upon the motion of Regent Higgins, and the second of Regent Roberts, the Committee unanimously approved Resolution I.2.b.1.

[Resolution I.2.b.1]:

That, the Business, Finance, and Audit Committee recommends:

- 1) the Board of Regents modify its bylaws to facilitate the creation of a freestanding Board of Regents Audit Committee;
- 2) the name of the UW System Office of Operations Review and Audit be changed to the Office of Internal Audit;
- 3) the title of the lead auditor for the UW System be changed to Chief Audit Executive; and
- 4) the Chief Audit Executive report to the Audit Committee, with the Board deciding in September 2013 regarding the Chief Audit Executive's reporting relationship to the System President.

2. Status Update

Steven Mentel, Assistant Director of the Office of Operations Review and Audit, provided an update of recently completed and on-going audit projects. The Office of Operations Review and Audit will start work on the 2014 audit plan in late July with a focus on financial compliance and IT risks. Assistant Director Mentel also said the PriceWaterhouseCoopers' assessment on the Human Resource System is well underway and should be ready for presentation to the Committee at the September meeting of the Board of Regents.

c. Endorsement of the Methodology for Determining Pricing and Term Lengths for the UW Flexible Option Resolution [I.2.c.]

UW-Extension Chancellor Ray Cross and UW-Extension Interim Provost Aaron Brower presented information on proposed pricing and term lengths for the UW Flexible Option. The material was initially presented for the Board's information in June. The Committee formally endorsed the methodology for determining UW Flexible Option proposed pricing structure and term lengths for fall 2013. Chancellor Cross said the proposed pricing structure is market based and in accordance with UW System's existing policy on distance education pricing. He also said approval had been received from the Higher Learning Commission (HLC). The next step is to contact the federal Department of Education and apply for financial aid approval. The Committee discussed program quality and the ability to maintain that quality.

Upon the motion of Regent Farrow, and the second of Regent Walsh, the Committee unanimously approved Resolution I.2.c.

[Resolution I.2.c.]:

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.

d. Review and Approval of Proposed Methodology to Calculate UW System Program Revenue Appropriation Balances and Reserves [Resolution I.2.d.]

The Committee approved a proposed methodology for calculating program revenue appropriation balances and reserves for submission to the Legislature's Joint Audit Committee by September 1, 2013, in accordance with 2013 Wisconsin Act 20. Debbie Durcan, UW System Vice President of Finance, said the resolution before the Committee was the first step in the process and only defines methodology. The second step (due to the Joint Committee on Finance by January 1st) will determine the actual policy. It was determined that the methodology needed to be easily verifiable, auditable, and easily replicated by whoever may need to review the financial information. Vice President Durcan said broadly speaking, the unrestricted funds such as auxiliary, tuition, etc., are funds upon which the policy will concentrate and using a modified accrual basis to get to pure cash balances will be much more replicable at any point in time.

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

[Resolution I.2.d.]:

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.

e. Review and Approval of Regent Policy Document on Pay Plan Distribution [Resolution I.2.e.]

The Committee approved a proposed Regent Policy which provides Chancellors with guidance in the distribution of pay plan adjustments. This resolution is needed due to the changed adoption of the distribution methodology with regard to the legislative approved pay plan for employees in this new fiscal year. Previously Chancellors were authorized to earmark up to 10 % of the total pay plan for discretionary use. This resolution increases the percentage from 10% to 15%.

Upon the motion of Regent Higgins, and the second of Regent Roberts, the Committee unanimously approved Resolution I.2.e.

[Resolution I.2.e.]:

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.

f. UW System Trust Funds: Approval of an Exception to Board Policy on Large non-endowed Bequests/Gifts for the James V. Lathers Bequest [Resolution I.2.f.]

The Committee approved an exception to Board of Regents policy that requires non-endowed gifts in excess of \$250,000 to become Board designated endowments. This exception was requested by the School of Music at UW-Madison and seeks to expend receipts in excess of \$200,000. Total proceeds from the bequest received to date total \$357,250. John Stephens of the UW-Madison School of Music said the dollars would be used for repair of a Steinway piano, classroom technology updates, and the remaining balance used for the purchase of musical instruments for students.

Upon the motion of Regent Roberts, and the second of Regent Farrow, the Committee unanimously Approved Resolution I.2.f.

[Resolution I.2.f.]:

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.

g. Semi-Annual Report on Large/Vital Information Technology Projects per WI Statutes 13.58(b)(3)

Regent Whitburn said the semi-annual IT report is a requirement by the Legislature for the UW System to report on any new major IT projects. Lorie Docken, Interim Associate Vice President, Office of Learning and Information Technology, said a major IT project is any project in excess of \$1 million and there are no major information technology projects to report.

h. Human Resource System Update

Darrell Bazzell, UW-Madison Vice Chancellor for Administration and Julie Gordon, Associate Vice President of Financial Administration, offered a Human Resource System implementation update. Vice Chancellor Bazzell said all accounts including pension had been reconciled for 2012, and there was a net overpayment of \$99,000 across the accounts as of June 30, 2013. Vice Chancellor Bazzell also said the Department of Employee Trust Funds is gearing up to reconcile pension accounts more frequently. Associate Vice President Gordon addressed two concerns on security implementation. The first issue involved dual factor authentications and passwords. The second security implementation issue involved access. Sr. Vice President Miller said he is very satisfied with the team's working relationship, on-time reporting, and progress on reconciliations.

i. Report of the Senior Vice President

Senior Vice President David Miller had no additional comments.

Regent Whitburn adjourned the meeting at 4:25 pm.

Respectfully submitted,



Ruth E. Wytenbach
Recording Secretary