

Board of Regents  
Business, Finance, and Audit Committee  
Thursday, June 6, 2013  
UW-Milwaukee  
Room 339 Cartwright Center

MEETING OF THE BUSINESS, FINANCE, AND AUDIT COMMITTEE

The meeting of the Business, Finance, and Audit Committee was called to order at 2:24 pm by Regent Gerald Whitburn. Regents John Behling, Mark Bradley, Tracy Hribar, Katherine Pointer, Charles Pruitt, Gary Roberts, and David Walsh were in attendance.

a. Committee Business

1. Approval of the Minutes of the February 7, 2013, Meeting of the Business, Finance, and Audit Committee

Upon the motion of Regent Pruitt, and the second of Regent Behling, the Committee unanimously approved the minutes of the April 4, 2013, meeting of the Business, Finance, and Audit Committee.

2. Quarterly Report of Gifts, Grants, and Contracts (3<sup>rd</sup> Quarter)

The Committee reviewed the summary of gift, grant, and contract awards for the 3<sup>rd</sup> Quarter (period July 1, 2012 through March 31, 2013). Debbie Durcan, UW System Vice President for Finance, stated the total awards for the period were approximately \$1.1B, a \$49 million decrease from the previous year. Vice President Durcan also said the 3<sup>rd</sup> Quarter Report had significantly improved over the 2<sup>nd</sup> Quarter Report, and she remained cautiously optimistic about continued improvements. In addition she reminded Committee members of the impact the different timing of reports can have on balances. VP Durcan brought to the attention of the Committee UW-Parkside's substantial change in balances, noting there was a reporting error in the prior year and the total reflected the correction.

b. Discussion and Approval of the 2013-15 Pay Plan Recommendation for UW System Employees [Resolution I.2.b.]

President Kevin Reilly and Associate Vice President of Human Resources and Workforce Diversity Al Crist presented information regarding proposed 2013-15 pay plan recommendations for UW System employees. President Reilly offered a revised resolution. President Reilly said the resolution was needed to signal to the Legislature the intent for UW System to return to the Joint Committee on Employment Relations (JCOER) for the supplemental pay plan consideration. He said the current pay structure has influenced recruitment processes through weaker candidate pools in which searches have been challenged and the inability to successfully compete for the top candidates in the designated pool due to salary restraints. In addition, he said new situations have occurred on campuses in which assistant professors are leaving the University for more favorable positions and visiting accreditation teams have raised concerns about faculty pay and morale with UW System

faculty. President Reilly again emphasized the importance of retaining and attracting quality personnel. Although he said he does not expect to turn around an 18% salary gap in one biennium, he does hope to signal to the faculty the positive direction the UW System is headed. Regent Whitburn asked Associate Vice President Crist to review Chapter 36 and the criticality of the July 1<sup>st</sup> date thus explaining the need for the resolution. Associate VP Crist gave background on what historically had happened concerning pay plans. However, due to the block grant budget passed by the Board of Regents, the historical process was delayed in hope of having a new University Personnel System in place. Mr. Crist then explained some of the language detail within the resolution including the impact of current legislative action, possible scheduling of the JCOER Committee, and the absence of an actual percentage increase in the resolution. Regent Pruitt asked for an explanation of the resolution language including “tuition not to be used”. Associate Vice President Crist explained that in the past tuition had been used to fund about 31-32% of the pay plan, and the language in the revised proposal indicates due to the tuition freeze, tuition will not be used for pay plan purposes. The Committee discussed past funding of University pay plans and approved the revised resolution.

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

**[Resolution I.2.b.]:**

That upon the recommendation of the UW System President, and pursuant to s. 230.12(3)(e), *Wis. Stats.*, the Board of Regents directs the UW System President to transmit to the Director of the Office of State Employment Relations, currently available information on unclassified salaries for UW System peer institutions and related economic indices affecting all employees of the UW System, and request that the Director recommend to the Joint Committee on Employment Relations, effective July 1, 2013 and July 1, 2014 respectively, a salary increase for all UW System employees no less than that provided all other state employees for each year of the 2013-15 biennium funded through the state compensation reserve.

Further, the Board of Regents directs the UW System President to recommend to the Director of the Office of State Employment Relations that:

Tuition not be used to fund the state pay plan portion of this request, but rather sufficient funds be allocated from the compensation reserve for this purpose;

The UW System be authorized to adjust the academic staff salary ranges and faculty and academic staff minima by the full amount of the pay plan each year;

The salary ranges for university senior executive groups one (Vice Chancellors at non-doctoral institutions) and two (Vice Presidents) be adjusted by the full amount of the pay plan each year; and

Retirement, health insurance, and supplemental sick leave conversion benefits of no less than those provided to all other state employees through the state's compensation reserve be provided to all eligible UW System employees.

Now therefore be it further resolved:

That the Board intends to return to JCOER to request the use of institutional funds for supplemental pay plans for any or all employee categories during the 2013-15 biennium for any or all UW System institutions in order to address the significant existing compensation gap of over 18% for faculty and 12% for staff with their peers.

c. Discussion on UW System Program Revenue Balances

Regent Whitburn noted the important and critical need for Committee members to have a full and straight forward understanding of the work that needs to be done to answer specific requests from the Legislature on program revenue balances. Incoming Senior Vice President for Administration and Fiscal Affairs David Miller reiterated a number of points he had made earlier in the morning session of the Board of Regents' meeting on the goals and considerations for Board policy on program revenue balances in the UW System, and components of the action taken by the Joint Committee on Finance regarding the UW's program revenue balances. Mr. Miller said the approach being taken to develop the BOR policy includes policy development of appropriate revenue limits of PR accounts by each institution and understanding the impact of the student fee funded auxiliaries' threshold of 15%. Additionally Mr. Miller mentioned factors to be considered while developing the policy such as the difference between reserves and carry forward funds, how liabilities may be spread over more than one year, dollars earmarked for known expenditures, and the importance of developing policy that discourages end of year spending. He also noted the need to develop a policy that fits Wisconsin and the UW System's level of risk. Mr. Miller brought to the Committee's attention that the state pays for GPR debt, but UW System is fully liable for the program revenue debt, although UW System may not issue its own bonds. Mr. Miller expressed his appreciation for the additional time the Legislature is allowing UW System to develop the reserve balance policy. He concluded by saying the next steps in developing the policy is to work with Committee leadership, develop models, and test the models to make sure they work. His goal is to request program revenue balance policy approval from the Business, Finance, and Audit Committee in the Fall. Regent Whitburn said he and Regent Pruitt had been working with staff to develop an appropriate carry forward policy, and noted one of the thresholds for accreditation is institutional financial health. He said there are many institutions, nationwide, without a reserve level policy in place. Regent Whitburn said there is a UW System group working with national experts to better understand the revenue balance issue, and then updated the Committee on the work done to date. David Miller gave a brief historical perspective of the distribution of GPR fees. He continued by saying about 5 years ago, System began to incentivize behavior and encourage entrepreneurial activity by allowing institutions to keep 100% of their tuition earned above their target. He noted that GPR cannot be carried forward, and the carry forward from the GPR pool is tuition dollars which will now need to be reported to the Legislature under a 14-day passive review. Regent Pruitt

complimented Regent Whitburn on behalf of the Committee on his work on this issue. He also highlighted the important component of UW System in that it is unified and acts as one. He cautioned that bringing forward the distribution criteria for individual campuses may be an inappropriate level of oversight by the Legislature and concluded by saying we must view this policy with a system-wide perspective.

d. Discussion on Pricing and Term lengths for the UW Flexible Option

UW Colleges and Extension Chancellor Ray Cross highlighted key components of the Business Plan of the Flex Option programs, and the assumptions for pricing, term lengths, costs, and revenues. The proposed approach for 2013-14 is to use 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. Chancellor Cross said the pricing of the “assessment-only” option has been challenging, and is not yet worked out. He went on to stress that UW Flexible Option degrees will be of the same educational quality of a traditional degree, only offered in a different format. Faculty teaching the programs will have oversight on assessment, competency, and mastery of the subject matter. Chancellor Cross said the business plan for Flexible Option is based on ten programs, and five of those programs will be available in Fall 2013. One hundred and fifty students are expected to participate in the program in 2013. Chancellor Cross also said the Flexible Option program would eventually be self-sufficient, however, he cautioned Board members there will be significant startup costs. There was discussion on transcripts, credits, and the potential impact of both on financial aid. Regent Behling thanked the Chancellor and his staff for their hard work and efforts, but because the costs are projections and based on assumptions, he asked the Chancellor to report back to the Committee in six months to review and determine how the program is progressing. UW Extension Interim Provost Aaron Brower offered additional insights into how competency may be assessed and credits will be determined. He said they are working with the U.S. Department of Education, and the Department’s directive has been to try to establish a credit equivalency. Regent Walsh asked Chancellor Cross and Interim Provost Brower what their major concerns were with the Flexible Option program. They mentioned program quality and the need for due diligence to keep competencies comparable, retention and the need for wrap around advising, and lastly operations. UW Colleges’ current systems and programs function within a process of terms/courses/credits. The Flexible Option program does not.

e. Operations Review and Audit Status Update

Assistant Director Steven Mentel provided an update of recently completed and on-going audit projects, and said the Office should be completing all 2012 audit projects by the end of June. He indicated the office is continuing to implement electronic audit software, develop auditing tests, filling vacant, staff-level positions, and working toward an increased number of audit reports. Assistant Director Mentel said the Price Waterhouse Cooper risk assessment is ongoing and there have been teleconferences, discussions, and materials provided to them. He said Price Waterhouse Cooper would be visiting campus later in June, and a report is expected by the end of August. Incoming Senior Vice President for Administration and Fiscal Affairs David Miller offered a status update on the Baker Tilly assessment of the UW System internal audit function. Mr. Miller said when the former director left the Office of Operations Review

and Audit, it was determined it would be an appropriate time to have an audit assessment. The assessment would include factors such as the office's relationship with the institutions, the responsibilities of the audit office, the relationship between the office and management team, and the relationship between the office and the Board of Regents. Baker Tilly plans to report back to the Committee at the July meeting.

f. Human Resource System Update

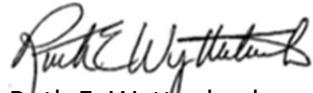
UW-Madison Vice Chancellor for Administration Darrell Bazzell updated the Committee on HRS reconciliation. He said the Service Center is in the middle of the 2012 reconciliation process and there is an imbalance (overpayment) of \$1.7 million as of May 1. He also stressed that it is a once a year reconciliation and the overpayments are turned into credit against expenses for the subsequent year – no dollars are lost. The Service Center is looking into each employee transaction to understand why the imbalance occurred. Vice Chancellor Bazzell said some of the overage is the result of payments that were attempted in the prior year, and were not accepted by the system. In addition, the Service Center is working with the Department of Employee Trust Funds (ETF) to move toward a monthly reconciliation process. Vice Chancellor Bazzell said the Service Center is on schedule to be caught up and reconciled by the end of June. Associate Vice President of Financial Administration Julie Gordon updated the Committee on progress being made on HRS security issues. She said the Service Center is making efforts on the issue of access. Some of the factors being considered are who has access, how much access is needed to perform designated responsibilities, and how to separate HRS responsibilities. Once HRS responsibilities are separated appropriately, realignment will need to occur. Associate Vice President Gordon indicated there is continued discussion on how the system is accessed and the potential need for a higher level, dual-factor authentication model. Assistant Audit Director Steven Mentel said discussions with the Legislative Audit Bureau are ongoing, and no reporting deadlines have been stated.

g. Report of the Senior Vice President

Senior Vice President of Administration and Fiscal Affairs Michael Morgan indicated his colleagues had covered the necessary and appropriate items, and he had no additional comments.

Regent Whitburn adjourned the meeting at 3:45 pm.

Respectfully submitted,



Ruth E. Wyttenbach  
Recording Secretary