JOINT MEETING OF THE BUSINESS AND FINANCE COMMITTEE AND THE AUDIT COMMITTEE:

The joint meeting of the Business and Finance Committee and the Audit Committee was called to order at 8:30 am by Regent Gerald Whitburn. Roll calls were taken for both Committees, and Regents Margaret Farrow, Tim Higgins, Janice Mueller, Charles Pruitt, Gary Roberts, and David Walsh were in attendance. All Regents were invited to the meeting and several attended and participated in the discussion.

a. Committee Business

1. Approval of the Minutes of the July 11, 2013, meeting of the Business, Finance, and Audit Committee

   Upon the motion of Regent Walsh, and the second of Regent Roberts, the Committee unanimously approved the minutes of the July 11, 2013, meeting of the Business, Finance, and Audit Committee.

2. Quarterly Report of Gifts, Grants, and Contracts (4th Quarter). UW System Vice President of Finance Debbie Durcan gave a summary of gift, grant, and contract awards for the period July 1, 2012 through June 30, 2013. Total awards were approximately $1.5B, a decrease of $52.0M compared to the prior year.

3. Review and Approval of the UW-Madison Division of Intercollegiate Athletics Contractual Agreement and Addendum with Cowboys Stadium, LP, Stadium Events Organizing Committee, ESPN Productions, Inc., and the Board of Trustees of the University of Alabama

   Darrell Bazzell, UW-Madison Vice Chancellor for Administration, gave an overview of a contract between the above listed parties. The University is expected to receive $4M for a September 5, 2015 game against the University of Alabama to be hosted at Cowboys Stadium in Arlington, Texas.

   Upon the motion of Regent Walsh, and the second of Regent Roberts, 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 and addendum between the University of Wisconsin-Madison Division of Intercollegiate Athletics and Cowboys Stadium LP, Stadium Events Organizing Committee, ESPN Productions, Inc., and the Trustees of the University of Alabama.

4. Review and Approval of the UW-Madison Contractual Agreement with Alcon Research, LTD.

   Vice Chancellor Bazzell outlined the fee for service agreement between UW-Madison and Alcon Research, LTD. Under this agreement, the University is expected to receive approximately $574K to test Alcon intra ocular lenses using standard imaging techniques.

   Upon the motion of Regent Walsh, and the second of Regent Pruitt, 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 Alcon Research, Ltd.
5. Review and Approval of the UW-Madison Contractual Agreement (Master Service Agreement) with EyeKor, LLC. [Resolution I.2.a.5.] The Committee approved a five-year Master Service Agreement covering future efforts between the Department of Ophthalmology and Visual Sciences and EyeKor, Inc. Funding is not associated with this resolution, but will be individually negotiated with Statements of Work. The aggregated total value of such Statements of Work is expected to exceed $500K.

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

Resolution I.2.a.5.: 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 EyeKor, LLC.

b. Review and Approval of One-Time Funding from Program Revenue Balances as Required by 2013 Wisconsin Act 20 [Resolution I.2.b.] Sr. Vice President David Miller and Associate Vice President Freda Harris presented a one-time funding plan which applied existing system-held tuition revenue cash balances to uses specified by the Legislature in the 2013-15 biennial budget. Associate Vice President Harris said there would be $36 million left with System balances to be used for institutional needs.

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

Resolution I.2.b.: That, upon the recommendation of the President of the University of Wisconsin System, the Board of Regents approves the attached plan identifying the sources of program revenue resources that will be used during the 2013-15 biennium to fund Incentive Grants, the Flexible Options program, Wisconsin Academy for Rural Medicine and Training in Urban Medicine and Public Health (WARM/Triumph), Translational Imaging (Carbone Cancer Center), and funding for the Wisconsin Higher Education Grant program for UW Students.

c. Review and Approval of Regent Policy Document on Classified Staff Governance [Resolution I.2.c.] The Committee approved a policy authorizing classified staff at each UW System institution to structure themselves in such a manner as they determine, and to select representatives to participate in institutional governance. Associate Vice President Al Crist said this resolution would affirm what is currently taking place on campuses and should be viewed as a transitional policy until the new University Personnel System is in effect.

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

Resolution I.2.c.: That, upon the recommendation of the President of the University of Wisconsin System, the Board of Regents approves, effective September 6, 2013, the attached Regent Policy Document on Classified Staff Governance, which authorizes the classified staff of each UW System institution to structure themselves in such manner as they determine and to select representatives to participate in institutional governance.

d. Review and Approval of a Revised Methodology to Calculate UW System Program Revenue Appropriation Balances and Reserves [Resolution I.2.d.] Regent Whitburn gave a brief overview of prior Committee action on the methodology to calculate UW System Program Revenue Appropriation Balances and Reserves and the legislative response to the submission. Sr. Vice President David Miller explained the revised methodology for the calculation of balances and reserves in UW System program revenue appropriations. Federal indirect cost reimbursements will be reported but not treated in the same manner as funds generated from University operations. It was noted the resolution will help put Committee item (I.2.e.) in context, and both items (I.2.d. and I.2.e.) will be submitted to the legislature together.
Upon the motion of Regent Pruitt, and the second of Regent Higgins, 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 amended methodology to calculate UW System Program Revenue Appropriation Balances and Reserves and directs the President to re-submit the methodology to the Joint Audit Committee for its subsequent review and approval.

e. Review and Discussion of UW System Policy on Program Revenue Appropriation Balances and Reserves
The Committee discussed a proposed policy regarding program revenue balances and reserves which would set prior year expenditures for 10% as a reserve and 15% as a reporting threshold for balances. Written documentation would be required for amounts above or below these targets. Sr. Vice President Miller emphasized the need to view the percentages as guide posts only and not goal posts. The Committee discussed terminology and appropriate percentages for reserves and agreed to hold the policy for further discussion.

f. Internal Audit Issues
1. Internal Audit Status Update. Due to time limitations, Regent Whitburn indicated that anyone with questions concerning the submitted information should contact Steven Mentel, Assistant Director of the Office of Operations Review and Audit.

2. Recommendation from the External Assessment of the Office of Internal Audit Regarding the Chief Audit Executive’s Reporting Line [Resolution I.5.f.2.]
The Committee revisited the appropriate reporting lines for the newly restructured position of Chief Audit Executive. The Committee discussion focused on the use of terminology, best practices, and the consultant’s recommendations. The Committee agreed to remove the phrases (solid line) and (dotted line) from Resolution I.5.f.2.

Upon the motion of Regent Walsh, and the second of Regent Roberts, the Committee unanimously approved revised Resolution I.5.f.2.

Resolution I.5.f.2. revised:
That upon the recommendation of the President of the Board of Regents, the Chief Audit Executive shall report to the Board of Regents through the Audit Committee directly and to the President of the System. The UW System President and the Chair of the Audit Committee have joint responsibility for the hiring, performance evaluation, and compensation of the Chief Audit Executive.

3. Review and Approval of the Audit Committee Charter [Resolution I.5.f.3.]
As in the previous resolution (I.5.f.2.), an amendment was offered to remove the reference pertaining to solid line and dotted reporting lines from the Audit Committee Charter (Agenda Item I.5.f.3., Attachment, Audit Committee Charter, #2.). The Committee approved the resolution and revised charter.

Upon the motion of Regent Roberts, and the second of Regent Pruitt, the Committee unanimously approved Resolution I.5.f.3.

Resolution I.5.f.3.:
That, upon the recommendation of the President of the Board of Regents of the University of Wisconsin System, the Board of Regents adopts the attached Audit Committee Charter to define the roles of the Board of Regents Audit Committee created at the Board’s July 12, 2013 meeting.
4. Presentation by PricewaterhouseCoopers on the Human Resource System Risk Assessment

President Reilly offered background information on the Human Resource System (HRS) and why an external risk assessment was undertaken. He said this process was initiated for the purpose of identifying substantial risk exposures related to the recent implementation of this new system. He stressed that external risk assessment is an important management tool and the recommendations will provide confidence in the benefits and payroll platform. President Reilly also said he was working with UW-Madison to clarify the HRS reporting structure and will report back to the Committee in October.

Christopher Lydon and Peggy Hardek, representatives from PriceWaterhouseCoopers (PwC), provided information regarding the risk assessment process and recommendations. Mr. Lydon explained that PwC performed an assessment of risks which exist as the result of the HRS implementation, examining: (1) the HRS implementation process to determine the risks currently facing the UW System; (2) the areas impacted by the implementation, including people using the system, stakeholders, business processes, underlying technology and security; (3) the risk management activities performed by the UW System during and after the implementation. Lydon also described the approach used to conduct the assessment.

Mr. Lydon described PwC’s summary recommendations, noting that many of the recommendations had already been acknowledged by UW System Administration, and steps were underway to resolve the concerns. Recommendations included the following:

1. The governance structure over human resources processes and HRS should be enhanced to provide leadership, authority and accountability necessary to implement and sustain the needed changes to the HR process.
2. Management should incorporate internal control reviews as it continues to roll out changes to HRS and the related business processes.
3. Management should ensure its continued efforts to provide training to HRS end users and ensure training is sufficient and timely.
4. Management should take further actions to ensure sensitive user access to HRS is restricted.
5. The complexity of the benefit plan structures should be evaluated to assess the feasibility of simplifying the environment which HRS supports.
6. Further enhancements to internal controls within the human resources processes should be made.

Mr. Lydon explained that these recommendations were based on observations determined to be of high and medium risk, which he proceeded to describe. The first group of observations related to the human resources business process, and the governance, process, internal control and system challenges with this process. He reemphasized that the governance structure over HRS and the related processes needs to be improved. He also indicated that the number and complexity of benefit plans administered through HRS results in inherent risks which must be managed through strong internal controls. Mr. Lydon stated that additional work is needed to strengthen the processes for providing third party administrators key eligibility and enrollment information. In addition, the process for entering new hires into HRS in not consistently followed, which can lead to inaccuracies. Finally, he said that end-to-end reviews of benefit eligibilities should be enhanced.

Mr. Lydon explained that the second area of observations related to the HRS implementation process, in that the process did not adhere to some leading practices; this resulted in post-implementation challenges. For example, internal controls within the human resources processes should have received more focus during implementation to help ensure a more defined, reliable internal control structure was in place upon implementation. Also, user training programs need to continue to receive management’s focus to ensure the user base has received, and will continue to receive, sufficient training. Finally, he noted that the implementation would have benefitted from objective reviews of internal controls over the implementation itself as well as the new human resource processes which were established.

The third area of observations related to user access and information technology controls. Noting that user access to HRS and the related internal controls should be improved, Mr. Lydon shared that a formalized “segregation of duties” (SOD) framework has been established, but not fully implemented, and needs to be
improved, and that HRS provides end users access to sensitive system transactional functionality. He explained that both of these observations relate to ensuring that the access provided to users is not too great and does not provide an opportunity for a user to do something inappropriate. The third observation, which refers to individuals that administer the system, is that administrative and privileged IT access also includes access to functional business areas as a normal part of the system support duties, and there may be opportunities to reduce the amount of access. He added that the Service Center and others have already given some attention to these access issues, but there is more work to be done. Finally, the process to administer user access is not formally aligned to training or credentialing programs, and needs to be strengthened.

Regent Whitburn requested clarification on the governance recommendation. Mr. Lydon indicated that steps should be taken to enhance governance structure and to focus on defining structure clarity around leadership and accountability. Currently the Service Center is operated by UW-Madison and supports a systemwide activity while UW System Administration is responsible for setting strategy and direction around human resource system accounting. Although there is contact between the two units, PwC would typically expect to see a greater number of contacts in the reporting structure. Mr. Lydon went on to say this is an opportunity to more clearly define roles in HRS and establish controls to address areas of concern. The governance structure should provide clear authority and define who runs the Service Center.

Sr. Vice President Miller and Service Center Director Larry Henderson outlined efforts to address stated concerns and provided an update on reconciliations at the Service Center. Regent Whitburn acknowledged ongoing concerns with governance, financial resources, and potential material weaknesses. In addition, he indicated the Legislative Audit Bureau will complete its follow up audit later in the fall, and HRS will be discussed at the October meeting. President Reilly indicated he is confident that the issues raised in the discussion would be worked out, and he stressed the need to move beyond immediate concerns.

5. Update on the Search Process for the Chief Audit Executive
Regent Whitburn stated plans are moving forward to recruit for the Chief Audit Executive. The Search Committee for the Chief Audit Executive will be announced very soon. Regent Mueller and UWSA Legal Counsel Tom Stafford have agreed to be co-chairs of the committee.

g. Report of the Senior Vice President
Senior Vice President David Miller had no additional comments.

Regent Whitburn adjourned the meeting at 10:45 a.m.

Respectfully submitted,

Ruth E. Wyttenbach
Recording Secretary