

**UW System Board of Regents  
Joint Audit and Business & Finance Committees  
UW-River Falls, University Center  
St. Croix Room 321  
April 10, 2014**

**JOINT MEETING OF THE AUDIT AND BUSINESS & FINANCE COMMITTEES**

The joint session of the Audit and Business and Finance Committees was called to order at 8:35 am by Regent Mueller. Roll call was taken for the Audit Committee and Regents Mueller, Higgins, Falbo, and Millner were in attendance. Regent Behling requested roll call for the Business and Finance Committee. Regents Behling, Farrow, Higgins, Mueller, and Millner were in attendance.

**I.5.a. Presentation and discussion of Legislative Audit Bureau Reports 14-3 and 14-4: University of Wisconsin System, Fiscal Year 2012-13 and Oversight of the Human Resource System and Payroll and Benefits Processing.**

Legislative Audit Bureau (LAB) staff (*Joe Chrisman, State Auditor, Legislative Audit Bureau, Paul Stuiber, Deputy State Auditor for Program Evaluation, Carolyn Stittleburg, Director, Financial Audit Division, and Erin Scharlau, Legislative Auditor, Financial Audit Division*) gave a briefing on two reports: the UW System, Fiscal Year 2012-13 and the Oversight of the Human Resource System and Payroll and Benefits Processing. The Audit and Business and Finance Committees were briefed by UW System staff on LAB's reports at the February Board of Regents meeting.

The LAB staff highlighted some of the findings of the Human Resource System (HRS) audit. They said at the end of June FY2012, the date UW System designated as the end of the HRS planning and implementation phase, the cost to plan and implement the HRS was \$78.6 million with almost 2/3 of the cost for consultant services. Additional costs for stabilization projects were noted in FY12-13 and also expected for FY13-14. The LAB questioned the degree to which UW System was prepared to implement HRS, in part due to insufficient training, a lack of business process simplification and standardization, and the high number of required IT workarounds on critical objectives. The LAB did note that steps had been taken to improve processes citing a 90.5% decline in errors in state group health calculations from May 2011-May 2012 to May 2012-May 2013 and reducing the amount of overpayments to the Wisconsin Retirement System from \$17.5 million in 2011 to \$1.8 million in 2012. Sr. V.P. Miller said an upcoming report will address the disposition of the overpayments/recovery of payments on employee benefits in FY11-12. The report is expected by July 1, 2014.

The LAB also reviewed the financial audit of Fiscal Year 2012-13. The LAB addressed the overall summary of the UW System's financial condition, highlighted program revenue balances, and raised concerns about a material weakness stemming from ongoing security concerns for the HRS. The LAB provided an unmodified, or clean, opinion on the University's 2012-13 financial statements.

The Committee discussed the serious nature of the recurring material weakness with security. Sr. V.P. Miller reported the separation of duties process had been accelerated and was well underway. An external organization was hired to review UW System's plan to address security conflicts, review the results of the project, and have a final report to the Committee before the July deadline. Sr. V.P. Miller also said that UW must provide a comprehensive report to the Legislative Audit Committee by July 1, 2014.

Committee members asked the LAB how the next report (FY 2013-14) would address the measures and activity taken by UW System throughout the past year. Mr. Chrisman said it would be negligent to forecast what the findings would be and Ms. Stittleburg clarified that it would be necessary to consider all actions throughout the entire year.

The Committee also discussed the possible impact Service Center staffing turnover had on HRS and the need for continued and appropriate training. Regent Mueller asked if the UW System's past experiences with HRS could benefit the State of Wisconsin as it moves forward on implementation of their new IT system. Mr. Chrisman said implementation of IT systems is universal, information is being shared, and lessons learned by UW System are being considered.

The Joint Session adjourned at 9:15 am.

## **I.2. BUSINESS AND FINANCE COMMITTEE**

Regent Behling convened the Business and Finance Committee at 9:25 am. Roll call was taken and Regents Behling, Farrow, Higgins, Mueller, and Millner were in attendance.

### **I.2.a. Approval of the Minutes of the February 6, 2014, Business and Finance and Audit Committees and March 6, 2014, Business and Finance Committee**

Upon the motion of Regent Higgins, and the second of Regent Farrow, the Committee unanimously approved the minutes of the February 6, 2014, joint session of the Business and Finance and Audit Committees, and the minutes of the March 6, 2014, Business and Finance Committee.

### **I.2.b. Review and approval of revisions to UW System Policy on Program Revenue Balances and Reserves (RPD 21-6) [I.2.b.]**

Sr. V.P. Miller and Steve Wildeck, Interim V.P. of Finance, gave an overview of revisions to the UW System Policy on Program Revenue Balances and Reserves (RPD 21-6). Sr. V.P. Miller reviewed what had occurred with the policies since July 2013. He continued by highlighting the major changes to the policy which included the clarification of the 10% minimum fund balance, the need to report on the entire balance if it exceeds the identified 15% threshold, and applying the categories (Obligated, Planned, Designated, Reserves, and Undocumented) developed by the Legislative Audit Bureau (LAB) over the entire fund balance. He also credited the LAB's work in creating new ways to look at the levels of commitment, interpreting the policy, and clarifying the benefits of including categorizations within the policy. Committee discussion continued with more

detailed explanation of commitment level category definitions and the movement of monies across the categories.

Regent Millner stressed the need for communication and clarity to reach a general, uniform agreement among all the institutions. Sr. V.P. Miller said that with time and refinement, uniformity will be reached. He said it is imperative that all institutions uniformly apply this process and believes the report will eventually become a very useful management tool for all the institutions. Questions arose concerning language within the policy regarding the categorization of balances above the 15% threshold. Sr. V.P. Miller requested additional time to determine whether the suggested change to the policy language would impact other provisions in the policy. Upon further discussion, Regent Behling asked for a motion to approve the resolution with the policy language revision addressing the categorization of balances above the 15% threshold; contingent upon staff review. He said the full Board would ultimately take final action on the resolution with any necessary language revisions. The Committee approved the resolution.

Upon the motion of Regent Millner, and the second of Regent Farrow, the Committee unanimously approved Resolution I.2.b. with the understanding UW System staff would review the document for language consistency prior to action by the full Board of Regents.

#### **Resolution I.2.b.**

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

#### **I.2.c. Program Revenue Cash Balance Projections – FY 2013-14**

Sr. V.P. Miller, Interim V.P. Wildeck, and Julie Gordon, Associate V.P. of Financial Administration, offered information on projected year-end program revenue cash balances. The report included year-to-date figures along with year-end projections for each UW institution, UW System Administration, and systemwide accounts. Sr. V.P. Miller said this report did not previously exist at the System level although the data has been collected at the institutional level. He encouraged the Committee to view the balances as a snapshot. He said the projected numbers are straight line projections based on March 31<sup>st</sup> balances and prior-year “burn rates” and that the numbers are very soft because they do not consider actual institutional plans. The Committee shared perspectives on how to best interpret the balances including noting the magnification of dollars as an anomaly, and viewing campuses as seasonal organizations where currently the campus would be approaching a timeframe of expenditures but not revenue collection.

#### **I.2.d. Management Financial Report –Performance Report**

Sr. V.P. Miller gave highlights of a financial report on budgeted to actual revenues and expenditures through the end of the 3<sup>rd</sup> quarter (March 31, 2014). This was the second Performance Report the Committee had received and was meant to provide a point-in-time review of the current year’s finances. Sr. V.P. Miller said he would be offering much more detail on the report at the full Board meeting in the afternoon. He was hopeful the report would be useful in tracking and forecasting financial information.

### **I.2.e. Review and Approval of Change in the bylaws of the University Book Store [I.2.e.]**

The Committee approved a change in the bylaws of the University Book Store. Patrick McGowan, President, University Book Store, and Steve Ritt, Michael Best & Friedrich, Counsel for University Book Store, gave a brief overview of the relationship between the Book Store and the Board of Regents. The revision is part of a two-step process needed to move the Bookstore's organizational structure from a 1914 Trust Indenture to a more common, non-stock 181 corporation structure. They continued by stating the University Book Store is a separate legal entity and is not part of or managed by the University of Wisconsin-Madison. The resolution was before the Committee due to historical precedence and desired transparency.

Upon the motion of Regent Millner, and the second of Regent Farrow, 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 Second Amended and Restated Bylaws of the University Book Store Company.

### **I.2.f. Trust Funds – Annual Endowment Peer Benchmarking Report**

UW System Trust Funds Office Director Doug Hoerr and Tom Reinders, Senior Investment Analyst of the Trust Fund Office, offered highlights from the annual Trust Funds benchmarking studies. Mr. Reinders said there were two studies used for fund comparisons; NACUBO and Penn State. He said annualized returns for UW Trust Funds were roughly on par with peers in the three and five-year periods ending June 30, 2013, while top quartile performance was achieved in the ten-year period comparison. Mr. Reinders said performance numbers looked very good and was pleased with the fund performance. The Committee further discussed the makeup of asset allocation, investing in real estate and infrastructure, and the cost of managing the programs.

### **I.2.g. Trust Funds – Voting of Non-Routine Proxy Proposals [I.2.g.]**

Due to time restraints and concerns raised by Committee members, the Committee tabled action on the 2014 non-routine shareholder proxy proposal for UW System Trust Funds.

Upon the motion of Regent Higgins, and the second of Regent Millner, the Committee unanimously voted to table Resolution I.2.g.

#### **Resolution I.2.g**

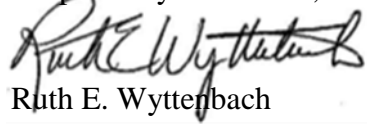
That, upon recommendation of the President of the University of Wisconsin System, the Board of Regents approves the voting of the non-routine shareholder proxy proposals for UW System Trust Funds, as presented in the attachment, and the adoption of a new pre-approved issue, "Report/Act on Sandy Hook Principles."

**I.2.h. Report of the Senior Vice President**

The Senior Vice President had no additional comments.

The Business and Finance Committee adjourned at 10:42 am.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Ruth E. Wyttenbach". The signature is written in a cursive style with a large initial "R".

Ruth E. Wyttenbach  
Recording Secretary