

**UW System Board of Regents  
Business and Finance Committee  
and Audit Committee  
UW-Madison, Union South  
Varsity Hall, 2<sup>nd</sup> Floor  
February 6, 2014**

**MEETING OF THE BUSINESS AND FINANCE COMMITTEE**

The Business and Finance Committee was called to order at 8:15 a.m. by Regent Whitburn. Roll call was taken and Regents Whitburn, Behling, Higgins, Mueller, Pruitt, Roberts, and Walsh were in attendance.

**I.2.a. Approval of the minutes of the December 4, 2013, meeting of the Business and Finance Committee**

Upon the motion of Regent Mueller, and the second of Regent Higgins, the Committee unanimously approved the minutes of the December 4, 2013, meeting of the Business and Finance Committee.

**I.2.b. Report on Additional Faculty and Staff Salary Compensation FY2012 and FY2013**

David Miller, Sr. Vice President for Administration & Fiscal Affairs, and Associate Vice President Al Crist, Office of Human Resources & Workforce Diversity, reported on additional compensation received by UW System faculty and staff outside the general state employees pay plan of FY12 and FY13. This item was a carryover agenda item from the December 2013 Business and Finance Committee meeting. Sr. V.P. Miller said the Chancellors have certain delegated authority to reallocate institutional dollars for base adjustments to address compensation needs. The Committee was told that a total of about 30% of staff received base adjustments during this two-year period. UW Chancellors reallocated approximately \$19 million in FY2012 to fund these base adjustments and in FY2013, reallocations of approximately \$34 million were made for this purpose. The Chancellors also reallocated one-time resources of approximately \$18.6 million in FY2012 to fund one-time, lump sum payments and approximately \$23.7 million in FY2013 to fund one-time, lump sum payments. Sr. V.P. Miller said this report was prepared at the Regents request and is the first system-wide report with this data. Regent Whitburn said although the dollars are reallocated within the institution's budgets, the total dollars can accumulate to significant amounts. He emphasized the need for transparency and expressed concern that potential compensation disparity could occur across the UW institutions. Regent Mueller urged caution on the integrity of the data referring to the December Audit Committee discussion on data and coding. Regent Pruitt said he would like to understand compensation

trend lines and to consider whether Chancellors are facing different compensation challenges today. Assoc. V.P. Crist said this report is the first time the data had been compiled in this manner. Previously, the data had not been reported to UW System Administration. Regent Whitburn asked Regents Mueller and Pruitt to work with UW System senior staff on additional ways to monitor and report on salary compensation. Following Committee discussion, the Committee requested that the compensation data continue to be reported on an annual basis.

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

The Committee received updates on several issues. First, Sr. V.P. Miller reported on the status of the program revenue balances and methodology policies before the Legislative Audit Committee and Joint Committee on Finance. He said the Board of Regents (BOR) leadership and UW System staff determined that merging the methodology and balances policy would create a complete picture of the Board's policy goals and improve transparency. He also said UW staff will continue to meet with legislators to discuss these proposals and a timeline for approval. Sr. V.P. Miller continued his report with a status update on the search for the Vice President for Finance (CFO). He told the Committee nationwide advertising for the CFO position would begin on Friday, February 14<sup>th</sup>. In an effort to provide balanced expertise, the search will be conducted by a 12-person committee including four non-university executives from the private sector and state government. The goal is to review applications in March and conduct interviews in April. The Sr. V.P. concluded his update by providing a management report on revenues and expenditures through the second quarter of FY14. He emphasized that this report is an early draft showing the four major revenue and expenditures categories, and explained that these figures reflect expenditure decisions across all UW institutions. As requested by Regent Whitburn, the UW staff will work on a new report breaking down expenditures by category and tracking monthly cash balances. Regent Whitburn also emphasized the need for the reports to be transparent, accurate and timely. The Chair noted that the Committee members expressed interest in receiving quarterly updates.

The Business and Finance Committee recessed at 8:57 a.m.

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

The Business and Finance Committee was reconvened and the Audit Committee was called to order at 10:45 am by Regent Whitburn for the Joint Session. Roll call was taken for the Business and Finance Committee. Regents Whitburn, Behling, Higgins, Mueller, Pruitt, Roberts, and Walsh were in attendance. Roll call was taken for the Audit Committee and Regents Whitburn, Mueller, Higgins, and Pruitt were in attendance.

**I.2.e. 2013 Annual Financial Report and Auditor's Opinion**

The Joint Committee was briefed on the 2013 Annual Financial Report. Steve Wildeck, Interim Vice President of Finance, Julie Gordon, Associate Vice President of Financial Administration, and Laurie Grams, Director of Financial Reporting, presented summary information from the UW System's 2013 Annual Financial Report. This published report included an unmodified opinion from the Legislative Audit Bureau that the financial statements present fairly the financial position of the UW System and the respective changes in this position and cash flows. Overall, UW System revenues increased by \$189.9 million (or 3.9%) for FY13 and expenditures increased by \$94.5 million (or 2.1%). Gift revenue was almost at record levels with \$296 million, and the UW's net position increased by slightly more than \$500 million, or 8.6%, to \$6.3 billion. The net position included an increase of \$219.5 million in unrestricted net assets. Assoc. V.P. Gordon said the report figures are generated on an accrual basis, and pointed out that the figures will be slightly different from the program revenue cash balances that will be reported in April. Regent Pruitt asked if there were available trend lines to assist in forecasting the level of unrestricted balances for FY14. Sr. V.P. Miller said there were not large gaps between revenues and expenses within the first and second quarters which may indicate that existing balances are not being reduced. Assoc. V.P. Gordon continued by stating that two UW institutions have a Composite Financial Index (CFI) that could lead to review by the UW accrediting agency, the Higher Learning Commission. The CFI is a combination of four financial ratios calculated annually and used to evaluate the sufficiency of institutional resources. Assoc. V.P. Gordon said every UW institution is aware of, and monitors, its financial health on an ongoing basis. Regent Whitburn asked that the Committee be kept apprised of the CFI standings for UW institutions.

**I.2.f1. Review of the (HRS) Human Resource Services Audit Findings**

Sr. V.P. Miller briefed the Joint Committee on the Human Resources System (HRS) audit findings that were released by the Legislative Audit Bureau (LAB) earlier during that week. Sr. V.P. Miller said the three areas of concern highlighted by the audit were security issues, overpayments, and implementation costs. Sr. V.P. Miller said that although material security issues still exist, the severity had decreased. He indicated that much progress had been made on overpayments, and overpayments for both state group health insurance and the Wisconsin Retirement System have declined by 90%. He also said any payment variances are reconciled within the recoverable period. Sr. V.P. Miller also said implementation costs would need to be better defined, and questioned whether upgrades or process improvements costs should be included with implementation costs. Larry Henderson, Director of the Service Center, was asked to join the discussion on material security issues. Director Henderson said security was being addressed in a systematic fashion by first prioritizing external risks. Internal risks, specifically those related to user access and the program change process, are being addressed through additional separation of duties. The UW is making progress on the identified security measures and staff is committed to eliminating

incompatible access by mid-2014. Sr. V.P. Miller said the UW System needs to report back to the Legislative Audit Committee by July 1, 2014.

**I.2.g. Approval of UW Colleges Bookstore Contractual Agreement**

The Business and Finance Committee approved a three-year contract for bookstore services with Neebo Complete College Outfitter. Jason Beier, UW Colleges & Extension, Interim Vice Chancellor for Administrative & Financial Services, and Bill Mann, Director of UW Extension Conference Centers, said the contract included provisions allowing up to four, one-year extensions. In addition, the contract is expected to provide UW Colleges students with better service and greater choice in how they obtain and use textbooks; including the use of e-books. Annual net revenue to the contractor is valued at approximately \$3.2 million and UW Colleges will receive approximately \$360,000 in annual commissions.

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

**Resolution I.2.g.**

That, upon the recommendation of the Chancellor of the University of Wisconsin Colleges and the Interim President of the University of Wisconsin System, the Board of Regents approves the contractual agreement between the University of Wisconsin Colleges and Neebo Complete College Outfitter to provide Bookstore Services.

**I.2.h. Quarterly Report of Gifts, Grants, and Contracts (2<sup>nd</sup> Qtr.)**

Steve Wildeck, Interim Vice President of Finance, offered a summary of gift, grant, and contract awards for the period July 1, 2013, through December 31, 2013. Total awards for the period were approximately \$781.1 million, an increase of \$7.0 million compared to the prior year. Federal awards increased \$38.9 million, while non-federal awards decreased by \$31.9 million.

**I.2.i. UW System Information Technology Report as Required by Wis. Stats. 13.58(5)(b)(3)**

The Committee received information from Lorie Docken, Interim Associate Vice President, Office of Learning & Technology, regarding the UW System strategic plans for large IT projects. Interim Assoc. V.P. Docken said the UW System Information Technology Report is required by WI Statutes and includes the UW System strategic plans for large IT projects, as well as all individual institutional strategic plans. Institutions are paying significant attention to improving instructional space, supporting mobile applications, and enhancing data driven decision making. The institutions reported no large or vital IT projects.

Individual institutional strategic plans may be found at:

<http://www.uwsa.edu/olit/cio/ITplans/>

**I.2.k. Approval of QEI Trademark Assignment to Quality Educator Interactive, Inc. (QEI)**

The Business and Finance Committee approved the assignment of legal rights to a trademark registered to the Board of Regents. Interim V.P. Wildeck said the trademark was filed by the Board when it was a collaborative partner with QEI. QEI is a collaborative effort which develops, maintains, and provides storage and sharing infrastructure for electronic access to K-12 educators' professional development plans and requirements. The organization is now a separate 501(c)(3) and is seeking full rights to its trademark. The request was reviewed by the UW System Office of General Counsel, and the trademark was deemed to hold no value to the Board of Regents or the University of Wisconsin System.

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

**Resolution I.2.k.**

That, upon the recommendation of the Interim President of the University of Wisconsin System, the Board of Regents authorizes Jane Radue, Corporate Secretary of the Board of Regents, to sign an agreement transferring rights to the Board-owned "QEI" trademark to QEI, Inc.

**I.2.l. Acceptance of Conflict of Interest Review Assessment regarding UW-Madison Agreement with Intraband, Inc. and U.S. Navy**

The Business and Finance Committee approved a resolution stating that the Board of Regents finds that potential conflicts of interest related to the proposed contract between UW-Madison, Intraband, Inc., and the U.S. Navy are managed appropriately. Tom Stafford, UWSA General Counsel, and Brian Fox, UW-Madison Chair of Conflict of Interest Committee, explained the review process used when considering potential conflicts of interest and appropriate management. State law prohibits an UW employee from having a private interest in a public contract, but provides an exception in instances where the potential conflicts of interest are evaluated and managed. Mr. Fox said he was very confident contract management was handled appropriately.

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

**Resolution I.2.l.**

That, upon the recommendation of the Interim President of the University of Wisconsin System, the Board of Regents finds that potential conflicts of interest within the proposed contract with Intraband, Inc., are managed appropriately such that the contractual relationship does not violate Wis. Stat. § 946.13.

**I.2.j. 2013 Annual Trust Funds Report**

Doug Hoerr, Director of the UW System Trust Fund Office, gave a brief overview of the 2013 Annual Trust Funds Report. He said these funds are comprised of gifts and bequests

made directly to a UW institution rather than to their respective foundations. Overall, Director Hoerr said investments were good and most markets have rebounded. As of June 30, 2013, the funds held net assets totaling \$484.3 million, an increase of \$28 million from the end of the prior fiscal year. Total investment earnings for the fiscal years were \$40.9 million. Gifts received during the period totaled \$9.2 million, up from the \$6.8 million received in the prior period. Disbursements to UW institutions totaled \$17 million for the year, versus \$14.5 million for the prior period. These disbursements, consistent with donor designations, have predominately gone toward research, student aid, extension and public service, and instruction. The 2013 returns for the Long Term Fund, which includes the largest percentage of holdings and is used primarily for endowed assets, gained 10.9%. The Intermediate Term Fund returned 5.4% for the fiscal year and the short-term, money market-like Income Fund returned 0.1%.

The Business and Finance Committee adjourned at 12:03 pm and the Audit Committee continued with their agenda items.

## **MEETING OF THE AUDIT COMMITTEE**

### **I.2.d. Approval of the minutes of the December 4, 2013, meeting of the Audit Committee**

Upon the motion of Regent Higgins, and the second of Regent Mueller, the Audit Committee unanimously approved the minutes of the December 4, 2013, meeting of the Audit Committee.

### **I.2.f. 2014 Audit Plan Presentation and Approval**

The Audit Committee approved the 2014 Audit Plan. Steve Mentel, Assistant Director, Office of Internal Audit, said the 2014 Audit Plan was developed based on institutional surveys, assessment of risks, state and federal regulations, and activities in other universities with a focus on four categories: strategic, compliance, financial, and operational.

Regent Whitburn also provided an update on the search for the Chief Audit Executive (CAE). He said three excellent finalists had been identified and will be interviewed on February 7<sup>th</sup>. Regent Higgins asked how long before the Office is fully operational and Regent Whitburn said significant changes will need to occur. One of the first responsibilities of the CAE will be to reorganize the UW audit functions.

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

### **Resolution I.2.f.**

That, upon the recommendation of the Interim President of the University of Wisconsin System, the Board of Regents approves the Calendar Year 2014 Audit Plan.

The Audit Committee adjourned at 12:12 pm.

Respectfully Submitted,

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

Ruth E. Wytenbach  
Recording Secretary