

**UW System Board of Regents
Business & Finance Committee
UW-Milwaukee, Union, Ballroom West – 1st Floor
June 5, 2014**

MEETING OF THE BUSINESS AND FINANCE COMMITTEE:

The Business and Finance Committee was called to order at 10:18 a.m. by Regent Whitburn. Roll call was taken and Regents Whitburn, Farrow, Higgins, Mueller, Pruitt, and Walsh were in attendance.

I.2.a. Approval of the Minutes of the April 10, 2014, Joint Meeting of the Audit and Business and Finance Committees and the meeting of the Business and Finance Committee

Upon the motion of Regent Walsh, and the second of Regent Farrow, the Committee unanimously approved the minutes of the April 10, 2014, joint session of the Audit and Business and Finance Committees and the minutes of the meeting of the Business and Finance Committee.

I.2.b. Approval of UW-La Crosse Exclusive Pouring Rights Contract

Bob Hetzel, Vice Chancellor for Administration and Finance at UW-La Crosse, highlighted several key components of a seven year contract between UW-La Crosse and Gillette Pepsi-Cola for exclusive soft drink pouring and vending rights. He said the decision was reached as a result of a nine month process involving student representatives and UW-La Crosse staff members with the goal of improving beverage service and increasing net revenues. Vice Chancellor Hetzel said Gillette Pepsi-Cola is a local business/distributor and is the current provider of this service on campus. The total value of this contract is just over \$1.3 million and includes a six, one-year renewal clause which allows either party to withdraw before completion of the stated contract. The Committee approved the contract.

Upon the motion of Regent Walsh, and the second of Regent Farrow, 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 and the Chancellor of the University of Wisconsin-La Crosse, the Board of Regents approves a contract with Gillette Pepsi-Cola Companies to provide Exclusive Soft Drink fountain and vending services to the University over a seven (7) year period.

I.2.c. Approval of UW-Madison Collaborative Training Agreement

Richelle Martin, UW-Madison Office of Industrial Partnerships, offered additional information regarding a collaborative training agreement between the Babcock Institute at UW-Madison and Nestle-Shuangcheng, Ltd. She said the project goal is to develop a curriculum and assist with in-person, education and training at a dairy farming institute in Shuangcheng, Heilongjiang Province, China. The University is expected to receive approximately \$1,675,252 over the three year term of the contract. Nestle is responsible for all travel costs, including visa expenses. Regent Whitburn noted that Nestle brands itself as the world's leading nutrition and healthy product company. Regent Mueller asked if there were any opportunities for UW-Madison students to

participate in an internship program. Ms. Martin said this agreement does not contain any internship provisions, however efforts are being made with Nestle to create internship opportunities for UW-Madison students. The Committee approved the contract.

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

Resolution I.2.c.

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 Nestle Shaungchen, Ltd.

I.2.d. Quarterly Report of Gifts, Grants, and Contracts – 3rd Quarter

Interim Vice President Steve Wildeck, Office of Finance, provided the Committee a summary of gift, grant, and contract awards for the nine month period of July 1, 2013, through March 31, 2014. Interim Vice President Wildeck said the report had been revised due to a \$6.9 million federal awards omission by UW-Whitewater involving federal student aid in the quarter. He said the total awards for the three month period of January 1-March 31, 2014, was approximately \$1.1B, a decrease of \$3.5M or 1/3 of 1% from the same period in the previous year. Federal awards increased \$13.5M or an increase of 1.9%. This increase was driven primarily by research dollars at UW-Madison and student aid dollars at UW-Madison and UW-River Falls. Non-federal awards decreased by \$17.0M or 4% due, in large part, to an UW-Madison \$11.4M gift relating to the nursing sciences center in the previous year.

I.2.e. Modifications to the Program Revenue Balances Policy

Regent Whitburn reviewed past discussions and actions involving the Program Revenue Balances Policy. At the April Board of Regents meeting the Business and Finance Committee modified and adopted language to the policy previously encouraged by the Legislature, and the Joint Legislative Audit Committee unanimously approved the methodology language at its April 24th meeting. However, at the May 6th meeting of the legislative Joint Committee on Finance (JFC), significant modifications were made to the program revenue balances policy. Following robust discussion, the JFC passed the modified policy language. The Board of Regents is required to adopt the modified language. In addition, Regent Whitburn stressed the urgency around compliance to the policy and the very short time period to fulfill the policy requirements. The policy includes a reporting deadline of October 15th for justifying balances over the new threshold as well as savings plans for institutions with negative balances.

Sr. Vice President David Miller highlighted the changes made by the JFC which included eliminating the 10% minimum target for carryover and requiring institutions with negative balances to submit a plan for eliminating the negative balance, reducing the upper reporting threshold requirement from 15% to 12% with each fund categorized according to the Legislative Audit Bureau's definitions, and further specifying what is to be reported in the required October 15th report to the legislative JFC and the Joint Audit Committee. Sr. Vice President Miller also said the proposed language had been reviewed by the Legislative Fiscal Bureau and staff to the Joint Committee on Finance to confirm the adopted legislative motions had been interpreted correctly and the policy revised appropriately.

The Committee discussion that followed included concerns regarding the context of the directive from the Legislature, the feasibility or practicality of the depth of the information desired, and the importance of compiling the information in an accurate and timely fashion. Sr. Vice President Miller reminded the Committee that the revised policy does not affect the relationship between the institutions and the Higher Learning Commission (HLC). The financial health of the institutions will continue to be monitored by the HLC. Regent Whitburn said the report will be immediately reviewed and scrutinized within UW System Administration as well as the Legislature. He added that even though the campus programs are diverse, the values for rigor must be applied consistently across all the institutions. The Regents will be required to formally approve and submit the report to the Legislature. Sr. Vice President Miller outlined the proposed plan for the development of the October 15th report and noted the plan has a specific timeline with hard deliverables. He said there would be a project manager reporting to a project team. The project manager would need to confirm the appropriate calculation of balances and the categorization of balances, strengthen the wording and clarity of the definitions, and confirm the appropriate documentation of the plans. There are 86 funds to review categorize, and document, and there is no room for error. Sr. Vice President Miller also said the institutions have been doing this exercise for the past two years, and this third year could be considered a year of process refinement. He added that the report must be submitted to the Legislature, but legislative approval is not required.

President Cross agreed with many of the members comments and said the credibility of UW System is at stake. Regent Farrow asked that UWSA consider keeping track of the hours expended for this report and, at some point, invite the appropriate legislative leaders to sit with UWSA staff to see what is being done to fulfill this legislative request.

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

Resolution I.2.e.

That, as directed by the Wisconsin Legislature's Joint Committee on Finance and upon the recommendation of the President of the University of Wisconsin System, the Board of Regents approves the attached revisions to the Program Revenue Balances and Reserves Policy.

I.2.f. Human Resources System Update

Regent Whitburn said much progress had been made with improving the Human Resources System (HRS), however, for the past three years the Committee has had significant sensitivities relating to the Legislative Audit Bureau's (LAB) finding of a material weakness stemming from security and access issues.

Steve Wildeck, Office of Finance Interim Vice President, updated the Committee on activities relating to the Human Resource System (HRS) and payroll and benefits processing. He outlined the activities of the LAB's annual review and their recommendations, detailed the progress made with HRS, and specifically addressed the material weakness noted in the UW System financial audit due to security issues identified by the LAB. He described the steps that have been taken to address the material weakness on both the functional (separation of duties) and technical (programming changes) sides. He continued by stating that leadership and staff understand that resolving the security issue is the highest priority, resources have been allocated to support the security project, and PwC has been engaged to provide an external review of the security project,

tools, and protocol. Interim Vice President Wildeck said the security project and the PwC review are on schedule and a report from PwC is expected by mid-June.

Interim Vice President Wildeck continued by saying that since the material weakness was determined by an auditor, only an auditor can determine it no longer exists. However, he said IT programming access has been addressed, the separation of duties is being implemented, and mitigating controls to record and report conflicting tasks are being put into practice and will be completed by mid-June. Interim Vice President Wildeck said, in his opinion, since the two material weakness conditions outlined by the LAB have been addressed, the material weakness, in his opinion, no longer exists. He also cautioned that it is reasonable to project that auditors will again determine a material weakness did exist in the 2014 fiscal year, which ends on June 30th. In conclusion, Interim Vice President Wildeck said a response to the LAB report must be submitted to the Joint Legislative Audit Committee by July 1, 2014. Regent Whitburn asked that an executive summary be prepared for the PwC report and shared with him and other members of the Committee. He also commended Interim Vice President Wildeck and staff on their work and efforts, and said it looks like the security challenge has been resolved.

Interim Vice President Wildeck also informed the Committee of the status of overpayments to the WI Retirement System and State Group Health. The processes have been corrected and reconciliations are current. On an ongoing basis, there are no inappropriate payments being made for retirement or health insurance benefits, however, there may be a minimal amount of variance due to normal human or business processes. The LAB has projected total overpayments ranging between \$10.5M and \$12.5M. Interim Vice President Wildeck said these overpayments could be divided into two categories. The first category includes individuals who terminated their employment in the first 15 months of the HRS roll out. HRS mechanisms were not properly functioning or not in place and terminations were not being reported to the Department of Employee Trust Funds, and in turn, not being reported to the insurance companies. This issue has been resolved. The second category (approximately \$7M) includes individuals with a variety of issues which the Service Center will focus on in the coming year to determine the root causes for the overpayments and how the overpayments should be addressed. However, overpayments are not continuing.

I.2.g. Update and Discussion of Business and Finance Committee Goals

Chairman Whitburn provided an update on progress in establishing the Business and Finance Committee's goals. He said President Falbo put in place a process in which each Committee would establish goals and report to the full Board the progress to date on the goals. Regent Whitburn addressed the five major goals and priorities noted in the Board Planning and Assessment Process: Progress Reports (Agenda Item II.17) and said he would go into more detail during the full Board meeting. He said the Regent policy on carry-forward balances and the statutory changes to provide personnel flexibilities had been accomplished. He said there was work remaining on policies relating to tuition and GPR distribution to institutions and the continuation of the integration of financial transparency initiatives, and further discussion was needed on additional statutory authority relating to personnel flexibilities. Sr. Vice President Miller said he would be asking for statutory authority to add merit as a justification for compensation adjustments. The last item noted on the matrix referenced was operational efficiencies and Sr. Vice President Miller addressed this issue in his Report of the Sr. Vice President.

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

Sr. Vice President Miller said UW System Administration and five UW institutions have already partnered in efficiency studies over the past several years. He said the outcomes in efficiencies achieved can occur in two ways: 1) actual dollar savings generated thru cost reductions and the dollars repurposed for higher priorities; and, 2) efficiency in labor and/or processes which may or may not generate actual dollars savings. The purpose of past studies was to identify operational savings and better processes at individual institutions. However, the goal now is to look at system-wide operations. He said there are many processes that operate across all UW System institutions and could benefit from operational review. Sr. Vice President Miller stated these types of studies are expensive and it is important to learn what we can from prior institutional studies. He said it is necessary to determine whether the recommendations from the consultants resulted in implementable changes in a highly distributive shared governance model. He continued by saying before additional dollars are spent on another study, we need to determine if the consultants identified better business practices, whether those practices were implemented, and resulted in positive change. Currently, various institutional studies are being reviewed to determine what could be replicated across the system. In addition, System Administration processes should be reviewed and evaluated to determine if processes are operating optimally and at the lowest cost possible. Sr. Vice President Miller again stressed the importance of having a clear understanding of expectations, deliverables, and costs before engaging consultants. Sr. Vice President Miller also said several years ago System Administration participated in LEAN initiatives. These LEAN initiatives are being reviewed for effectiveness and to identify possible efficiencies that could be implemented.

The Committee adjourned at 11:25 a.m.

Respectfully submitted,



Ruth E. Wyttenbach
Recording Secretary