

## **FEBRUARY MEETING, 2005**

*The University of Michigan  
Ann Arbor  
Thursday, February 17, 2005*

### **Panel Discussion**

Prior to the start of the Regents' Meeting, the Regents attended a panel discussion on the University of Michigan's "ADVANCE" project, funded by the National Science Foundation, whose purpose is to reduce the gender gap among faculty in science and engineering disciplines. Participants included Professors Abigail Stewart, Pamela Raymond, Melvin Hochster, and Anthony England, and Dean Terrence McDonald.

### **Regents' Meeting**

The Regents convened at 3:00 p.m. in the Horace H. Rackham School of Graduate Studies Building, Assembly Hall. Present were President Coleman and Regents Deitch, Maynard, McGowan, Newman, Richner, Taylor, and White. Also present were Provost Courant, Vice President Harper, Executive Vice President Kelch, Vice President Krislov, Chancellor Little, Vice President May, Chancellor Mestas, Vice President Rudgers, Executive Vice President Slottow, Vice President Ulaby, and Vice President Wilbanks. Regent Brandon was absent.

### **Call to Order**

President Coleman called the meeting to order. She commented on the recent death of playwright and alumnus Arthur Miller, noting that he had returned to campus many times and had been honored on Broadway in 2004. She distributed a special edition of the *Michigan Daily* devoted to Arthur Miller. She commented that the forthcoming Arthur Miller Theatre will serve as a lasting memorial and tribute to Arthur Miller, and said, "We will remember him as a great

icon, a monumental talent, and a man of conscience. And we will remember him as a student who came to the University of Michigan not with privilege, but with promise, and with an unshakable belief that he could make a difference. And he did.”

**State Budget Situation.** President Coleman reported that the governor had recently proposed a mid-year cut of nearly 2% for public universities that would continue for fiscal year 2006. This would be in addition to the 12% cut in base funding that has been made over the past two years. If enacted, the proposed additional cuts could mean that the University’s General Fund will have been reduced by more than \$50 million for the three campuses combined.

President Coleman stated that the University does not believe it would be fair to students and their families to institute a mid-year tuition increase should the governor’s proposed mid-year cut be enacted, and thus a mid-year tuition increase will not be recommended no matter what happens. President Coleman reiterated her statement of last year, that the University would not be able to sustain a continual decline in state support in combination with artificially restrained tuition increases if quality is to be maintained, and “if the University of Michigan is to remain the University of Michigan.” She stated that the University would not compromise academic excellence, and that the guiding principle in developing the FY 2006 budget would be maintaining the University’s quality. She continued that charting the course of the University goes beyond reacting to a year-to-year state funding cycle. The governor’s proposal for the FY 2006 budget is a starting point for continued debate, she noted, and policy-makers will be strongly encouraged to reconsider the state’s investment in higher education.

### **Committee Reports**

**Finance, Audit and Investment Committee.** President Coleman announced that due to extenuating circumstances, the Finance, Audit and Investment Committee had not met.

**Compensation and Personnel Committee.** Regent Maynard noted that this committee had held informal discussions with President Coleman regarding her goals for the 2004-05 academic year, and with Provost Courant regarding the status of ongoing dean searches.

### **Annual Report on Research**

Vice President Ulaby presented the Annual Report on Research and Scholarship for 2004, and reported that research expenditures that year were \$752 million, which is a 0.42% increase from the previous year. Reviewing research expenditures over the last five years, he noted that the flattening of the rate of increase corresponds to a decrease in the level of available federal funding, which grew only grew by 1.6% in 2004, and funding from industry, which dropped 16.6%. University funding grew only by 1.6%. Vice President Ulaby explained anomalies in research expenditures by the five units with the largest research expenditures over the past three years.

Vice President Ulaby noted that in 2004, research expenditures in the Medical School, the College of Literature, Science, and the Arts, and School of Public Health had experienced increases, whereas expenditures in the College of Engineering had decreased. For 2005, he expects total research expenditures to reach about \$800 million, an increase of 6.9%. Indirect costs are projected to increase by about 7.3%.

He reported that the federal research funding outlook for 2006 is not very positive, since the total federal research and development request in the president's budget proposal is up overall only by 0.6%, and for the agencies most important to the University of Michigan (NIH, NSF, DoD) is only modestly increased (NIH, NSF) or substantially decreased (Department of Defense). Consequently, there will be greater competition among academic institutions for

federal funding, and there will be a greater tendency to encourage members of Congress to fund projects through earmarks rather than through a competitive, peer review process.

Vice President Ulaby observed that one way to maximize the University's share of federal research expenditures is to obtain more grants for large centers from such agencies as NIH and NSF. He noted that discussions are underway with state officials about how to enhance the University's competitiveness in obtaining these large grants. Internally, strategic plans need to be put into place to help determine the areas in which the University should emphasize its research investments.

Vice President Ulaby reviewed the research accomplishments of members in a variety of disciplines. He also described the "eResearch" project, which provides an electronic means of managing and tracking research activities. The first component of this project is a system for ensuring compliance with all of the rules and regulations for research involving the use of human subjects. The eResearch Project, funded jointly by the Office of the Provost and the Office of Vice President for Research, will be fully operational by May 2005.

He also described Ann Arbor Tech Central, a public-private partnership organized as a non-profit organization aimed at accelerating technology-based economic development in Ann Arbor and the surrounding areas. The goals are to have the Ann Arbor area become known as a national hub for technology development, to double the number of technology companies in the area, to triple the number of technology jobs in the area, to become a "hot spot" for technology events, and to become one of the nation's best regions for business creation and acceleration.

Vice President Ulaby concluded by explaining the challenges posed by the greatly expanded use of export control regulations in federally funded projects since the events of 9/11. These carry restrictions on the publication of research findings and on the participation of

foreign nationals in research projects that involve information, physical items, or computer programs pertaining to a wide array of items that are on the U.S. Munitions List or the Commerce Control List. These export controls have impacted every major campus across the country, as they prohibit exposure of foreign students to a number of common research-related items, such as GPS devices or computers with advanced processors. Another requirement of the export control restrictions is pre-approval of publications, which generally contradicts University policy, and segregating students into categories based on national origin. Those from certain countries require either a lengthy process to become licensed, or are unlikely to be granted a license to participate in federal research projects. Academic institutions have joined together to work with U.S. government officials on this issue that is of very serious concern to all universities.

In conclusion, Vice President Ulaby predicted that although research spending for FY2005 looks bright, the University must develop a plan to ensure that it remains competitive in the years ahead. He also noted that research restrictions imposed by federal regulations will likely challenge the core values of academic institutions and test the resolve of their administrations.

Following some discussion, the Regents then turned to consideration of the regular agenda.

### **Consent Agenda**

**Minutes.** Vice President Krislov, acting as vice president and secretary of the University, submitted for approval the minutes of the meeting of January 26, 2005.

**Reports.** Executive Vice President Slottow submitted the Investment Report, the Plant Extension Report, and the Human Resources and Affirmative Action Report.

**Litigation Report.** Vice President Krislov submitted the Litigation Report.

**Research Report.** Vice President Ulaby submitted the report of projects established, January 31, 2005.

**University of Michigan Health System.** No additional report was submitted.

**Division of Student Affairs.** Vice President Harper called attention to the action request for infrastructure upgrades for the William Monroe Trotter House. She noted that this project will restore a facility that is loved and well-used by students, and thanked everyone involved in bringing the project to fruition.

**University of Michigan-Dearborn.** Chancellor Little had no additional report.

**University of Michigan-Flint.** Chancellor Mestas noted that the *Flint Journal* had reported on a project involving the campus's School of Education and Human Services and the city's Westwood Heights School District whose goal is to improve conditions at the school district while providing a laboratory for students in both the education and social work components of the School of Education and Human Services.

**Michigan Student Assembly Report.** Jason Mironov, president of MSA, introduced Anita Leung, vice president of MSA. Ms. Leung informed the Regents that MSA would be seeking a fee increase of \$1.00 per student per semester to provide increased funding for student organizations. She gave a video presentation in which members of student organizations explained why they were in favor of the proposed fee increase.

The Regents requested a comparison of comparable student organization funding models at other Big Ten institutions.

**Voluntary Support.** Vice President May submitted the Report of Voluntary Support for January 2005.

**Personnel Actions/Personnel Reports.** Provost Courant submitted a number of personnel actions and personnel reports. He called attention to several faculty appointments, the Thurnau Professorship appointments, and to the appointment of James S. Jackson as director of the Institute for Social Research (ISR).

**Institute for Social Research.** It was decided that a separate vote would be taken on the ISR director appointment. On a motion by Regent White, seconded by Regent McGowan, the Regents unanimously approved the appointment of James S. Jackson as director of the Institute for Social Research.

**Retirement Memoirs.** Vice President Krislov, acting as vice president and secretary of the University, submitted nine faculty retirement memoirs.

**Memorials.** Vice President Krislov, acting as vice president and secretary of the University, submitted a memorial statement for Professor Gerard M. Faeth, whose death was reported at the last meeting.

**Degrees.** Provost Courant submitted final degree lists for the August and December 2004 commencements and changes to previously approved degree lists. Copies of the degree lists are on file in the Office of the Vice President and Secretary of the University.

**Approval of Consent Agenda.** On a motion by Regent White, seconded by Regent Maynard, the Regents unanimously approved the Consent Agenda.

The Regents then turned to consideration of the regular agenda.

#### ***Alternative Asset Commitment (Odyssey Investment Partners Fund III, L.P.)***

On a motion by Regent Maynard, seconded by Regent White, the Regents unanimously approved commitment of up to \$20 million from the Long Term Portfolio to Odyssey Investment Partners Fund III, L.P.

### **Alternative Asset Commitment (*Sovereign Capital Limited Partnership II*)**

On a motion by Regent White, seconded by Regent Taylor, the Regents unanimously approved commitment of up to £12 million from the Long Term Portfolio to Sovereign Capital Limited Partnership II.

### **U.S. Equity Investment**

On a motion by Regent White, seconded by Regent Taylor, the Regents unanimously approved Forest Hill Capital, with initial funding of \$40 million.

### **Central Campus South Steam Line**

On a motion by Regent Taylor, seconded by Regent Maynard, the Regents unanimously approved the Central Campus South Steam Line project as described in the Regents Communication, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

### **Central Power Plant - Replacement of Two Steam Turbines**

Executive Vice President Slottow noted that the Central Power Plant is an award-winning co-generation plant, known for its efficiency. This project will replace the existing turbines with steam turbines that are 10% more efficient than the current ones, saving additional money and reducing carbon dioxide emissions. On a motion by Regent Taylor, seconded by Regent Maynard, the Regents unanimously approved replacement of two steam turbines in the Central Power Plant as described, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.



### **Electrical Engineering and Computer Science Building Solid State Electronics Lab Addition and Renovation Project**

On a motion by Regent White, seconded by Regent McGowan, the Regents unanimously approved issuing the Electrical Engineering and Computer Science Building Solid State Electronics Lab Addition and Renovation Project for bids and awarding construction contracts providing that bids are within the approved budget.

### **Engineering Research Buildings I & II, Gerstacker Building, and School of Information North Building Boiler Replacement**

On a motion by Regent McGowan, seconded by Regent White, the Regents unanimously approved the Engineering Research Buildings I & II, Gerstacker Building, and School of Information North Building Boiler Replacement project as described in the Regents Communication, and authorized issuing the project for bids and awarding construction contracts, providing that bids are within the approved budget.

### **Harlan Hatcher Graduate Library Central Chiller Plant and Substation Replacement**

Executive Vice President Slottow commented that this project will consolidate several existing chillers into a regional chiller plant that will serve multiple buildings. Such a regional system reduces capital costs and increases operational efficiency. On a motion by Regent Taylor, seconded by Regent McGowan, the Regents unanimously approved the Harlan Hatcher Graduate Library Central Chiller Plan and Substation Replacement Project and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

### **University of Michigan Hospitals and Health Centers (UMHHC) University Hospital Steam Sterilizer Project**

On a motion by Regent Taylor, seconded by Regent Maynard, the Regents unanimously approved the University of Michigan Hospitals and Health Centers (UMHHC) University

Hospital Steam Sterilizer Project as described in the Regents Communication and authorized commissioning Engineering Specialties Group for its design.

### **North Campus Auditorium**

Executive Vice President Slottow commented that the need for a large classroom auditorium on North Campus has been identified by the deans on that campus as their highest common priority. It has been determined that the most suitable location for this auditorium would be to connect it to the Walgreen Drama Center. The recommended architect for this project, KPMB, is the same architect approved for the Walgreen Drama Center. On a motion by Regent White, seconded by Regent McGowan, the Regents unanimously approved the North Campus Auditorium Project as described, and authorized commissioning Kuwabara Payne McKenna Blumberg (KPMB) for its design.

### **Stephen M. Ross School of Business Facilities Enhancement Project**

Executive Vice President Slottow noted that this project evolved from the strategic facilities plan developed for the School of Business over the last year. Provost Courant commented that this project will provide the kind of facility that is essential for a top notch business school, and introduced Dean Robert Dolan.

Dean Dolan reported that the school's facilities have for some time been insufficient for properly supporting and enhancing its students' educational experiences. A team of faculty, staff, and students had formed to study the issue and concluded that there were three major dimensions that needed to be addressed: the design of the classrooms needs to be changed to enhance the opportunity for discussion and interaction, group study rooms are needed to facilitate action-based learning and team projects, and community space is needed to allow the

building to be used for extended hours. He noted that Stephen M. Ross's gift has enabled the school to move forward with enacting these plans, which would encompass both new construction and demolition of existing structures.

On a motion by Regent Newman, seconded by Regent McGowan, the Regents unanimously approved the Stephen M. Ross School of Business Facilities Enhancement project as described and authorized commissioning Kohn Pederson Fox Associates for its design.

### **East Huron Street at Glen Avenue Parcels for Roadway Improvements**

On a motion by Regent White, seconded by Regent Maynard, the Regents unanimously approved the transfer of ownership of two parcels of land on the north side of East Huron Street between Zina Pitcher Place and Glen Avenue, as shown in the Regents Communication, to the Michigan Department of Transportation to allow the construction of a right turn lane on East Huron Street at Glen Avenue.

### **William Monroe Trotter House Infrastructure Upgrades**

On a motion by Regent Taylor, seconded by Regent Maynard, the Regents unanimously approved the William Monroe Trotter House Infrastructure Upgrades Project as described in the Regents Communication, and authorized issuing the project for bids and awarding construction contracts providing that bids are within the approved budget.

### **Conflict of Interest Items**

President Coleman announced that the agenda includes 5 conflict of interest items, each of which requires 6 votes for approval. On a motion by Regent Deitch, seconded by Regent Taylor, the Regents unanimously approved each of the following items:

### **Purchasing Contract with Lovango Records, LLC**

The Regents approved a payment to Lovango Records, LLC, to provide musical performances for the Department of Plastic Surgery's annual holiday party for three years. Because John Latini, a band member with Lovango Records, LLC, is also a University of Michigan employee, this purchase falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. The parties to the contract are the Regents of the University of Michigan and its Department of Plastic Surgery and Lovango Records, LLC.
2. The product to be provided is annual musical performances for three years in the amount of \$4,500.
3. The pecuniary interest arises from the fact that John Latini, a University of Michigan employee, is a band member with Lovango Records, LLC.

### **Research Agreement between the University of Michigan and Coherix, Inc.**

The Regents approved research agreements with Coherix, Inc., to provide support for student research. Because Dr. Mohammed N. Islam, chief technology officer of optics at Coherix, Inc., is also a University of Michigan employee, this agreement falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. The parties to the contract are the Regents of the University of Michigan and Coherix, Inc.
2. The initial student research project is to be conducted over a twelve-month period at an estimated cost of \$56,240. Since research agreements are often amended, the subcontract includes provisions for changes in time, amount, and scope. University of Michigan procedures for approval of these changes will be followed and additional review by the Conflict of Interest Committee will be done as appropriate.
3. The pecuniary interest arises from the fact that Dr. Islam, a University of Michigan employee, is chief technology officer of optics at Coherix, Inc.

## **Subcontract Agreement between the University of Michigan and Internet 2**

The Regents approved a subcontract agreement with Internet 2 to support collaborative activities related to contract NBCHC040146 from the Department of Interior. Because Dr. Douglas Van Houweling, president and chief executive officer of Internet 2, is also a University of Michigan employee, this agreement falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. The parties to the contract are the Regents of the University of Michigan and Internet 2.
2. The subcontract to the University is estimated at \$80,402 for the period of January 1, 2005 through September 30, 2005. Since research agreements are often amended, the agreement includes provisions for changes in time, amount, and scope. University procedures for approval of these changes will be followed and additional review by the Conflict of Interest Committee will be done as appropriate. The subcontract terms are consistent with University policies and Regental bylaws.
3. The pecuniary interest arises from the fact that Dr. Van Houweling, a University of Michigan employee, is president and chief executive officer of Internet 2.

## **Subcontract Agreement between the University of Michigan and Therapeutic Systems Research Laboratories, Inc. (“TSRL”) (*Identification and utilization of prodrug targets*)**

The Regents approved a subcontract agreement with Therapeutic Systems Research Laboratories, Inc., to identify and utilize prodrug targets for oral absorption and targeting to virally infected cells. Because Dr. Gordon Amidon, owner, chief scientific officer, and chair of TSRL, is also a University of Michigan employee, this agreement falls under the State of Michigan Conflict of Interest Statute. The following information is provided in compliance with statutory requirements:

1. The parties to the contract are the Regents of the University of Michigan and TSRL.
2. The period of performance for the project is five years, and the amount of funding support is \$1,152,648. Since research agreements are often amended, the agreement includes provisions for changes in time, amount, and scope. University procedures for approval of these changes will be followed and additional review by the Conflict of Interest Committee will be done as appropriate. The subcontract terms are consistent with University policies and Regental bylaws.

3. The pecuniary interest arises from the fact that Dr. Gordon Amidon, a University of Michigan employee, is owner, chief scientific officer, and chair of TSRL.

**Subcontract Agreement between the University of Michigan and Therapeutic Systems Research Laboratories, Inc. (“TSRL”) (*Antiviral studies on improved prodrugs for biodefense*)**

The Regents approved a subcontract agreement with Therapeutic Systems Research Laboratories, Inc., to investigate antiviral studies on improved prodrugs for biodefense. Because Dr. Gordon Amidon, owner, chief scientific officer, and chair of TSRL, is also a University of Michigan employee, this agreement falls under the State of Michigan Conflict of Interest Statute.

The following information is provided in compliance with statutory requirements:

1. The parties to the contract are the Regents of the University of Michigan and TSRL.
2. The period of performance for the project is five years, and the amount of funding support is \$719,126. Since research agreements are often amended, the agreement includes provisions for changes in time, amount, and scope. University procedures for approval of these changes will be followed and additional review by the Conflict of Interest Committee will be done as appropriate. The subcontract terms are consistent with University policies and Regental bylaws.
3. The pecuniary interest arises from the fact that Dr. Gordon Amidon, a University of Michigan employee, is owner, chief scientific officer, and chair of TSRL.

**Revisions to Committee Charters and Regents’ Bylaw 1.07**

Regent Maynard reported that the Compensation and Personnel Committee would be broadening its area of interest to include the issue of board governance. The proposed revisions to the Regents’ Bylaws and committee charters would change the title and responsibilities accordingly. Regent Maynard noted that it is important that the Board continue to be open to the possibility that from time to time, other bylaw changes might become necessary as the Board continues to consider how it can best govern within the framework of its committee structure.

With respect to the proposed revisions to the Finance, Audit and Investment Committee charter, Regent Taylor noted that the committee had reviewed best practices and had consulted

with its external auditor, PricewaterhouseCoopers. The proposed revised charter has been fully vetted by the committee and is recommended to the full Board for approval.

On a motion by Regent McGowan, seconded by Regent Deitch, the Regents unanimously approved the following revisions to Regents' Bylaw 1.07 and revised committee charters:

### **Bylaws Revisions** (*additions underlined; deletions crossed-out*)

#### **Sec. 1.07. Committees (revised February 2005)**

##### A. Committee of the Whole

When the Board resolves itself into a committee of the whole, the chair of the Board will serve as chair of the committee.

##### B. Ad Hoc Committees

The chair may establish ad hoc committees of the Board and the Board will prescribe their duties and functions. The president of the University or the president's designee will serve as an ex officio member without vote of all such committees. Board membership on any such committee will consist of less than a quorum of the membership of the Board.

##### C. Standing Committees

There will be two standing committees of the Board of Regents, each composed of less than a quorum of the members of the Board, appointed by the chair. These committees will advise the Board of Regents on matters pertaining to their subject areas and will present periodic reports and recommendations, but will not have the power to bind the Board of Regents on any matter. These committees will determine the frequency, time and place of their meetings, in consultation with other members of the Board.

###### 1. The Finance, Audit and Investment Committee

This committee will provide assistance to the Board in fulfilling its responsibilities relating to the adequacy and effectiveness of the University's internal controls and financial reporting and investment policies and practices. This committee will review, at its discretion, matters that may include the annual audit, financial statements and reporting, investments, and compliance with applicable laws and regulations.

###### 2. The Personnel, Compensation and ~~Personnel~~ Governance Committee

This committee will ~~provide assistance to~~ assist the Board in evaluating the performance of and determining the ~~appropriate level of~~ compensation for the president. It ~~also~~ will advise the president on the performance of and compensation for the executive officers, and will, from time to time, review the University's competitive status in higher education. The Committee will review the University leadership's progress on diversity. It will be responsible for matters related to governance and Board performance, and will advise the Board on University-wide conflict of interest policies, performance goals and evaluations, market data, salary studies, and other relevant information.

### **Committee Charter Revisions** (*additions underlined; deletions crossed-out*)

#### **Personnel, Compensation and ~~Personnel~~ Governance Committee Charter**

The Personnel, Compensation and ~~Personnel~~ Governance Committee will review all policy matters regarding the evaluation and compensation of the president of the University and will make recommendations to the Board of Regents regarding all such matters. Periodically, the committee will review with the president the procedures and methods used in the evaluation of the executive officers, and will advise the president

on the performance of and compensation for the executive officers. The committee will, from time to time, review salary studies, market data and other relevant compensation-related information for executive officers, faculty, and staff in order to maintain and enhance the University's competitive status in higher education. It will, from time to time, review the University's progress on faculty and staff diversity. The Committee will be responsible for matters related to Board governance, and will direct an annual self-assessment of the Board's functions and performance. The Committee will recommend University-wide conflict of interest policies to the Board and, from time to time, will review compliance.

### **Finance, Audit and Investment Committee Charter**

*Replace current charter approved December 12, 2002 with revised charter:*

#### ~~Finance, Audit and Investment Committee~~

~~The Finance, Audit and Investment Committee will review and make recommendations to the Board on the following matters:~~

~~Finance: Including but not limited to the University's financing plans, financial condition, borrowing and investment policies, annual operating budgets, insurance and risk management programs, capital investment criteria and financial reporting practices.~~

~~Audit: Including but not limited to the University's annual external audit, internal audit plan and reports, internal controls and the selection of an external auditor. Any matters material financial and/or compliance risk to the University.~~

~~Investment: The University's investment performance and investment reporting practices.~~

~~("University" includes the Ann Arbor, Dearborn, and Flint campuses, the University of Michigan Health System, and the Department of Interecollegiate Athletics.)~~

### **Revised Finance, Audit and Investment Committee Charter**

#### I. Finance, Audit & Investment (FAI) Committee Responsibilities

The FAI Committee provides oversight for the Board of the financial, audit and investment performance, policies and practices of the University. ("University" includes the Ann Arbor, Dearborn, and Flint campuses, the University of Michigan Health System, and the Department of Interecollegiate Athletics.) The FAI Committee responsibilities include:

- (1) oversight of the University's financing plans, financial condition, borrowing and investment policies, annual operating budgets, insurance and risk management programs, capital investment criteria and financial reporting practices.
- (2) oversight of the quality and integrity of the University's accounting, auditing, external financial reporting, and compliance practices.
- (3) oversight of the University's investment function and investment reporting practices, and
- (4) any other responsibilities as assigned by the Board.

#### II. Composition and Meetings

The FAI Committee is composed of less than a quorum of the membership of the Board and is appointed by the chair of the Board. The chair of the Board will appoint the chair of the FAI Committee. The FAI Committee will advise the Board on matters pertaining to its oversight areas and will present periodic reports and recommendations but will not have the power to bind the Board on any matter. The FAI Committee is deemed independent because the Board is publicly elected and the Regents are bound by law regarding conflict of interest (State Law, MCL 15.301 and Bylaw 1.14).

The FAI Committee may meet as often as necessary but not less than four times in a calendar year.

In appointing members to the FAI Committee, the chair of the Board will, if practical, select one or more Board members with accounting or financial management expertise. The FAI Committee may, at its discretion, hire financial expertise from outside the University.



### III. The Responsibilities of the FAI Committee

#### A. Finance Responsibilities

The following are the financial responsibilities of the FAI Committee:

- Review the overall financial health of the University and financial policies.
- Review the General Fund budget, including projections of the outlook, strategy, tuition and appropriation assumptions.
- Review, as needed, the strategy, operating and capital plans of major auxiliary units, business units or affiliates (e.g., the Hospitals and Health Centers, the Life Sciences Institute, the University of Michigan Press, the Department of Intercollegiate Athletics, M-CARE, etc.).
- Review capital needs and the related debt program, including its capacity, structure, policies and strategy.
- Review tax compliance and exposure management.

#### B. Audit Responsibilities

The following are the audit responsibilities of the FAI Committee, which may be modified or supplemented as appropriate:

- Be directly responsible for the appointment, compensation and retention of the University's independent auditor, and evaluate annually the qualifications and performance of the independent auditors; ensure the independent auditor assigns the appropriate industry experts to the audit engagement; and give the independent auditor direct access to the FAI Committee.
- Review with the administration and the independent auditor judgments about: the quality, not just the acceptability, of the University's accounting principles; the consistency in the application of accounting policies; the reasonableness of significant judgments; the degree of aggressiveness or conservatism in applying the accounting principles; and the clarity and completeness of the financial statements and related disclosures.
- Confirm with the administration and the independent auditor that the annual financial statements disclose all material off-balance sheet transactions, arrangements, obligations, and other relationships of the University with unconsolidated entities or other persons, that may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues or expenses.
- Review and approve the annual financial statements of the University and the audit report on federal awards received by the University as required by federal law or regulation, including OMB Circular A-133.
- On an annual basis, assess the independence of the independent auditor by reviewing a letter issued by the independent auditor under Independence Standards Board Standard No.1, or the current industry standard, and discuss any relationships disclosed that may impact auditor objectivity and independence.
- On an annual basis, obtain a report from the independent auditor regarding required communications under Statement of Auditing Standards No. 61, as amended, or the then current industry standard. Review with the independent auditor:
  - 1) Any significant difficulties encountered during the course of the audit, any restrictions on the scope of work or access to required information, and any significant disagreements among management and the independent auditor in connection with the preparation of the financial statements.
  - 2) Any formal communications between the audit team and the auditor's national office regarding auditing or accounting issues.

- 3) Any letters issued addressing internal controls, business process improvements or other recommendations and the schedule of unadjusted differences (if any) prepared by the auditor.
  - 4) Important accounting policies and practices used by the University, all alternative treatments of financial information within generally accepted accounting principles, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor.
  - 5) Developments and emerging issues in higher education including ways to improve operations or business practices.
- The committee or its chair will pre-approve all audit and non-audit services provided by the independent auditors. The independent auditor is prohibited from performing the following non-audit services:
    - 1) Bookkeeping
    - 2) Financial information systems design, implementation or operation
    - 3) Appraisal or valuation services, fairness opinions or contribution-in-kind reports
    - 4) Actuarial services
    - 5) Internal audit outsourcing services
    - 6) Management functions or human resources
    - 7) Broker or dealer, investment advisor, or investment banking services
    - 8) Legal services and expert services unrelated to the audit
    - 9) Preparing the indirect cost proposal or cost allocation plan
    - 10) Other services that would violate the U.S. General Accounting Office Independence Standard, or the then current standard.

Services approved by the chair of the FAI Committee should be reported to the committee at its next scheduled meeting.

- Ensure proper rotation of the lead and concurring audit partners of the University's engagement.
- Review new and significant accounting pronouncements, and understand their impact on the University's financial statements.
- Review compliance with governmental laws and regulations as it relates to the audit.
- Obtain and review an annual internal control certification letter signed by appropriate University personnel.
- Review and appraise the organizational structure, adequacy of resources, qualifications, independence and activities of the University's internal audit department.
- Review and approve the internal audit plan.
- Review and concur with the appointment, compensation, reassignment or termination of the executive director of University audits.
- Review periodically the University's Internal Audit charter for necessary changes.
- Receive a summary of findings from completed internal audits and the status of implementing related recommendations.
- Receive a progress report on the internal audit plan, with explanations for any deviations from the original plan.
- Review the University's procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential, anonymous submission by employees of

concerns regarding questionable accounting or auditing matters. Review the president's travel and hosting expenses and those of any family members. Review and approve policies governing loans to employees of the University and receive reports on at least a quarterly basis of all such loans granted.

- Review with appropriate University personnel, the internal auditor, and the independent auditor the significant financial, operational, compliance and reputational risks facing the University. These risks are defined as follows:
  - 1) Financial – Loss of assets or resources. This includes the reliability of the University's internal and external reporting.
  - 2) Operational – Effectiveness and efficiency of the University's operations and use of resources.
  - 3) Compliance – Compliance with laws and regulations as well as compliance with University policies and procedures relating to auditing.
  - 4) Reputational – Risks that affect the University's reputation and public relations matters.

Assess the steps the University has taken to mitigate such risks or exposures.

- Obtain reports concerning any financial fraud resulting in losses in excess of \$10,000 or involving University officers, deans or vice presidents.
- Provide oversight regarding the University's conflict of interest and code of conduct policies and related procedures.
- Review and assess the adequacy of this Charter on a three-year basis or more frequently if deemed necessary.

The above-described audit responsibilities supplement the audit responsibilities of the executive vice president and chief financial officer, the executive director of University audits, and ultimately the president, who are responsible for, among other things, planning or conducting audits or determining that the University's financial statements are complete, accurate and in accordance with generally accepted accounting principles. These officers are also responsible for the preparation, presentation, and integrity of the University's financial statements and for the appropriateness of the accounting principles and reporting policies used by the University. Independent auditors retained by the University are responsible for auditing the University's financial statements.

#### C. Investment Responsibilities

The following are the investment responsibilities of the FAI Committee, which may be modified or supplemented as appropriate:

- Review investment policies including investment goals, model asset allocation, distribution policies and performance benchmarks.
- Review investment costs, including cost of internal management, fees to outside managers, custodial, reporting and brokerage fees.
- Review performance of investments compared to relevant benchmarks or indices.

#### IV. Resources and Authority

The FAI Committee may investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the University. The FAI Committee may engage independent counsel and other advisors as it determines necessary to carry out its duties at University expense.

#### V. Adoption of Charter

The Board of Regents has adopted this charter on February 17, 2005.

## Revision to Regents' Bylaw Section 11.65: Kinesiology

On a motion by Regent Deitch, seconded by Regent White, the Regents unanimously approved the following revisions to Regents' Bylaw Section 11.65 (additions underlined, deletions ~~crossed-out~~):

### Section 11.65. Division of Kinesiology

The Division of Kinesiology will be maintained for the purpose of conducting research and offering curricula in movement science, ~~and sports management, athletic training, and physical education, and communications~~. It will be in the charge of a dean appointed by the Board on recommendation by the president and responsible to the provost and executive vice president for academic affairs.

The executive committee will consist of the dean and four members of the governing faculty to be appointed by the Board on recommendation by the president. The appointed faculty members will hold office for a two-years term, ~~and the terms shall be so adjusted that two will expire each year. The appointed faculty m~~Members will not be eligible to serve for reappointment two consecutive two-year terms, but will not be eligible for reappointment to any additional two-year terms until after the lapse of one~~two~~ years. The membership terms will be adjusted so that two appointments will expire each year. The dean will chair the committee.

A five-minute break followed, at 4:20 p.m.

## Public Comments

The Regents heard comments from the following people on the topic of amending the Regents Bylaws to include a nondiscrimination statement regarding gender identity and expression: Stephen Rassi, student and member of Transforum, Rainbow Network, and Q-Vis Caucus; Andre Wilson, student and member of Transforum; Kris Caplan, alumnus; Andrea Knittel, student and co-chair of the Stonewall Democrats; Elaine Wilson, citizen; and Denise Brogan, student and board member of Outlaws. They also heard from Jim Mogensen, citizen, on the town-gown relationship, and Rese Fox, student, external relations chair of the Michigan Student Assembly, and campus outreach coordinator for Students for PIRGIM, on the topic of higher education funding.

There being no further business, the meeting was adjourned at 5:10 p.m. The next meeting is scheduled for March 17, 2005.