

**Report 13-17
November 2013**

Level of Commitment for University of Wisconsin System Program Revenue Balances

STATE OF WISCONSIN



Legislative Audit Bureau ■

Level of Commitment for University of Wisconsin System Program Revenue Balances

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Joe Chrisman
State Auditor

November 15, 2013

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

As requested by the Joint Legislative Audit Committee, we have completed a review of University of Wisconsin (UW) System program revenue balances as of June 30, 2012. This review was completed as the first phase of an annual financial audit of UW System, which is required by s. 13.94(1)(t), Wis. Stats. The second phase will include our audit of UW System's fiscal year (FY) 2012-13 financial statements.

UW System's program revenue balances totaled more than \$1.0 billion as of June 30, 2012. Our review focused on \$755.4 million in balances from four program revenue sources that did not have a restricted use, including revenue generated from tuition and federal indirect cost reimbursement. We created five level-of-commitment categories for these balances based on available documentation, the flexibility of institutions to change an intended use, and whether any funding source requirements limited the use of a balance.

We found that \$458.9 million, or 60.8 percent of the June 30, 2012 program revenue balances we reviewed, had documentation to indicate that a plan or obligation was made for the expenditure of the funds. Although no institution had formal written reserve policies in FY 2011-12, 4.7 percent of the balances we reviewed had documentation to indicate the amounts were held by institutions as reserves. We considered reserves to be amounts purposefully held for contingencies, such as an unexpected decline in enrollment. For 18.8 percent of the balances we reviewed, documentation of a plan for use was not provided, either because it was not available or because there was no plan.

UW System did not have a policy to monitor program revenue balances, and the extent to which institutions monitored their program revenue balances varied. 2013 Wisconsin Act 20, the 2013-15 Biennial Budget Act, required the Board of Regents to propose a methodology for the calculation of program revenue balances and reserves and to submit it to the Joint Legislative Audit Committee for its approval, modification, or disapproval. We will issue a separate analysis to aid the Committee in its consideration of the proposed methodology.

We appreciate the courtesy and cooperation extended to us by UW System staff during our review. UW System's response follows the appendices.

Respectfully submitted,


Joe Chrisman
State Auditor

JC/CS/ss

Introduction ■

The Board of Regents establishes policies to govern UW institutions, including UW-Extension and UW System Administration.

The University of Wisconsin (UW) System provides postsecondary academic education for approximately 181,000 students. The 18-member Board of Regents establishes policies to govern UW institutions, including 13 four-year universities, 13 two-year colleges, UW-Extension, and UW System Administration. Each of the 13 universities awards bachelor's and master's degrees. UW-Madison, UW-Milwaukee, and UW-Stout also confer doctoral degrees. UW Colleges are 13 two-year campuses that offer general education associate degrees and course credits that transfer to other degree-granting universities. UW-Extension, in cooperation with other UW institutions, provides continuing education courses in classrooms and via distance education, as well as public service programs to Wisconsin residents. UW System Administration consists of the UW President's staff who assist the Board of Regents in establishing, reviewing, and monitoring systemwide policies; financial planning for the system; and maintaining fiscal control. Each UW institution's chancellor is responsible for the institution's operations, including financial administration.

UW System Budget

Program revenue was approximately 80.0 percent of UW System's total budget in FY 2011-12 and FY 2012-13.

The Board of Regents is responsible for approving UW System's annual operating budget, which was \$5.6 billion for fiscal year (FY) 2011-12 and \$5.9 billion for FY 2012-13. UW System's largest funding source is program revenue, which was \$4.6 billion in FY 2011-12, or 82.1 percent of its total budget, and \$4.7 billion in FY 2012-13, or 79.7 percent of its total budget. UW System also

receives general purpose revenue (GPR) and segregated revenue, such as revenue from trust fund operations. GPR received by UW System includes amounts received for general program operations, state-funded debt service, the State Laboratory of Hygiene, and the Veterinary Diagnostic Laboratory.

Program Revenue Sources and Balance

UW System receives program revenue from sources such as academic student fees, which includes tuition; auxiliary enterprises, such as fees charged for campus housing and food service; federal revenue; and gifts. Program revenue received by UW System increased from \$3.5 billion in FY 2008-09 to nearly \$5.0 billion in FY 2012-13, or by 42.9 percent. During this period, program revenue from academic student fees increased \$306.4 million.

Revenue from academic student fees is largely affected by changes in resident and non-resident tuition rates, as well as by changes in enrollment. For example, from academic years 2007-08 through 2012-13, resident undergraduate tuition at UW System’s 13 four-year universities increased 5.5 percent annually. Resident undergraduate tuition at the 13 two-year colleges, which was set at 2006-07 levels through 2010-11, increased 5.5 percent annually in academic years 2011-12 and 2012-13. As shown in Table 1, the enrollment headcount during this period reached a high of 182,100 in the 2010-11 academic year.

Table 1

Enrollment Headcount

Academic Year	Enrollment Headcount	Percentage Change
2008-09	175,100	–
2009-10	178,900	2.2%
2010-11	182,100	1.8
2011-12	181,300	(0.4)
2012-13	181,000	(0.2)

UW System's total program revenue balance increased to more than \$1.0 billion as of June 30, 2012.

The Legislative Fiscal Bureau and the Legislative Audit Bureau prepared information for an April 2013 memorandum regarding UW System's program revenue balance, which is the accumulated difference between revenues and expenses at the end of each fiscal year. As reported in the memorandum, UW System had a total program revenue balance of more than \$1.0 billion as of June 30, 2012. Appendix 1 shows UW System's total program revenue balance since June 30, 2002, when the total balance was \$228.3 million. The memorandum included a summary of the specific purposes UW System had identified for the use of these funds, such as capital projects, technology purchases, and strategic initiatives.

Concerns about UW System's total program revenue balance prompted the Joint Legislative Audit Committee to direct the Legislative Audit Bureau to review:

- the level of commitment for the purposes identified by UW System in the April 2013 memorandum;
- when commitments were made and the timeline for expenditures related to those commitments;
- the methodology used by UW System to determine its reserve level, such as the calculation of a reserve ratio; and
- additional information about UW System's program revenue balance, including the applicable internal controls and the portion attributable to each institution from tuition and student fees.

We reviewed the level of commitment for program revenue balances as of June 30, 2012.

To complete our review, we further analyzed the June 30, 2012 program revenue balance. We contacted each UW institution to obtain documentation that would indicate the level of commitment for that institution's program revenue balance. We also interviewed institution officials about their process for committing and monitoring their program revenue balance.

2013 Wisconsin Act 20, the 2013-15 Biennial Budget Act, required the Board of Regents to propose a methodology for the calculation of program revenue balances and reserves and to submit it to the Joint Legislative Audit Committee for its approval, modification, or disapproval. We will issue a separate analysis to aid the Committee in its consideration of the proposed methodology.

■ ■ ■ ■

Program Revenue Balances ■

As requested by the Joint Legislative Audit Committee, we assessed the level of commitment for the program revenue balance for UW System as of June 30, 2012. The information available for this purpose varied by UW institution. Our review also identified practices that may help improve transparency and accountability in monitoring the program revenue balance.

Balances as of June 30, 2012

Our review included \$755.4 million in program revenue balances as of June 30, 2012, from four sources.

As noted, UW System's total program revenue balance was more than \$1.0 billion as of June 30, 2012. However, some program revenue sources are considered restricted, which means that the revenue can be used only for certain purposes. For example, gifts typically can be used only for the purposes specified by the donor or grantor. We limited our review to program revenue sources that do not have a restricted use. We did not include auxiliary enterprises balances of \$184.0 million as of June 30, 2012, because UW System currently reports annually on each UW institution's student fee-funded auxiliary enterprises balance to the Joint Committee on Finance. Our review included \$755.4 million in program revenue balances as of June 30, 2012, from four sources:

- Academic Student Fees is revenue that includes tuition. These amounts are held in institution accounts, as well as in "systemwide" accounts, which are maintained by UW System Administration

for the benefit of all UW institutions. A portion of the amount held in systemwide accounts is used for “carry forward” that is allocated by UW System Administration to each institution for use in the next fiscal year. The remaining amounts in systemwide accounts are available to be used as needs arise to fund various activities, such as institutions’ strategic initiatives, curriculum, and faculty and staff salaries. The balance of Academic Student Fees totaled \$414.1 million as of June 30, 2012.

- Federal Indirect Cost Reimbursement is received from the federal government for various costs incurred in administering federal grant programs. Because there are no federal restrictions on the use of federal indirect cost reimbursement, institutions have considerable flexibility in expending these funds. In general, these funds are used for faculty and student research, facility and maintenance costs for research buildings, and capital investments. The balance of Federal Indirect Cost Reimbursement totaled \$147.9 million as of June 30, 2012.
- General Operations Receipts is revenue that is not recorded elsewhere. Typically, these amounts are used for cost recovery programs serving the general public, such as music and sports camps. Accounts may also exist within General Operations Receipts to set aside funding for equipment and other capital purchases, as well as for certain scholarships. The balance of General Operations Receipts totaled \$138.6 million as of June 30, 2012.
- Extension Program Receipts and Student Fees is revenue that includes tuition received for UW-Extension courses. This includes amounts held at individual institutions, as well as amounts held in systemwide accounts for certain institutions. The amounts held in systemwide accounts are allocated by UW System Administration to certain institutions for use in the next fiscal year. The balance of Extension Program Receipts and Student Fees totaled \$54.8 million as of June 30, 2012.

At \$276.0 million, UW-Madison had the largest program revenue balance we reviewed.

The program revenue balance attributable to individual institutions from these four sources varied. As shown in Table 2, UW-Madison's program revenue balance of \$276.0 million was the largest and represented 36.5 percent of the program revenue balance included in our review. UW-Superior had the smallest program revenue balance at \$2.4 million, which was 0.3 percent of the program revenue balance we reviewed.

Table 2

Program Revenue Balances, by Institution¹
As of June 30, 2012²
(in millions)

Institution	Total	Percentage of Total
Madison	\$276.0	36.5%
Systemwide ³	130.6	17.3
Milwaukee	88.6	11.7
La Crosse	49.9	6.6
Whitewater	32.5	4.3
Oshkosh	27.2	3.6
Eau Claire	23.1	3.1
Colleges	18.7	2.5
Extension	17.4	2.3
Stevens Point	17.2	2.3
Platteville	14.4	1.9
Stout	13.5	1.8
Green Bay	13.1	1.7
System Administration	13.0	1.7
River Falls	11.1	1.5
Parkside	6.7	0.9
Superior	2.4	0.3
Total	\$755.4	100.0%

¹ Includes balances from Academic Student Fees, Federal Indirect Cost Reimbursement, General Operations Receipts, and Extension Program Receipts and Student Fees.

² As adjusted by allocations to UW institutions from systemwide accounts.

³ Accounts maintained by UW System Administration for the benefit of all UW institutions.

Level of Commitment

We categorized June 30, 2012 program revenue balances into five categories: obligated, planned, designated, reserves, and undocumented.

The Joint Legislative Audit Committee requested that we determine the extent to which program revenue balances were committed to a certain use or purpose. We interviewed officials at UW institutions and examined supporting documentation, including contracts, purchase orders, budget documents, expense reports, and correspondence, to assess the level of commitment for the June 30, 2012 program revenue balances. We considered documentation prepared by UW institutions before early April 2013 in making our assessments. Other factors we considered included the degree of flexibility an institution had to change an intended use of a balance, and whether any funding source requirements limited an institution's ability to use the balance. Based on the available information, we established five level-of-commitment categories:

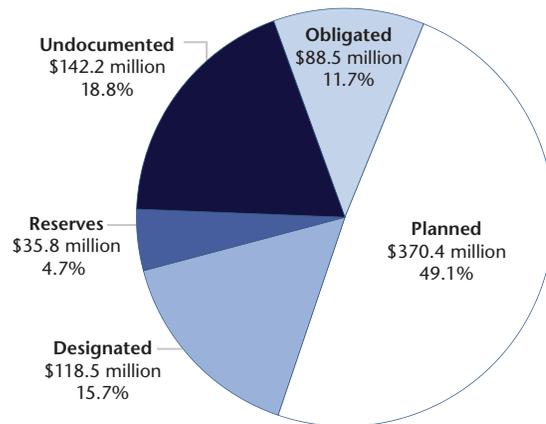
- “Obligated” balances are those that we found to be most committed. Obligated balances are held for a purpose as indicated by documentation such as a contract or an encumbrance that would make it difficult for institutions to easily use the balance for other purposes.
- “Planned” balances were found to be less committed than obligated balances. Planned balances are held for a purpose as indicated by documentation such as a budget document or a memorandum signed by a chancellor. Institutions may use planned balances for other purposes if the use complies with any funding source requirements.
- “Designated” balances are held for purposes related to the original funding source, but for which documentation of an obligation or specific plan was not provided. Institutions may use designated balances for other purposes only if the use complies with funding source requirements.
- “Reserves” are balances for which documentation indicates amounts are being held for contingencies, such as an unexpected decline in enrollment.

- “Undocumented” balances are those for which no documentation of an obligation or plan was provided. Documentation may not have been provided because it was not available or because there was no plan for use of these funds. Institutions may use undocumented balances for any purpose because there are no funding source requirements.

As shown in Figure 1, we categorized nearly half of the program revenue balances we reviewed as planned. However, we categorized \$142.2 million, or 18.8 percent, of the \$755.4 million in program revenue balances we reviewed as undocumented. Appendix 2 shows each UW institution’s program revenue balance by level of commitment.

Figure 1

Program Revenue Balances, by Level of Commitment¹
As of June 30, 2012

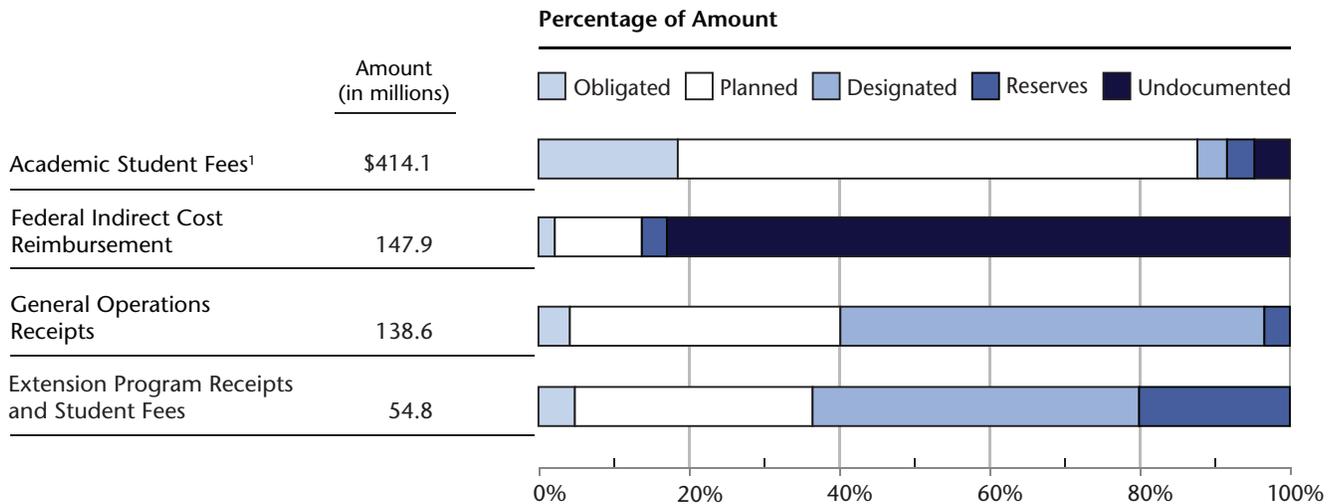


¹ Includes balances from Academic Student Fees, Federal Indirect Cost Reimbursement, General Operations Receipts, and Extension Program Receipts and Student Fees.

Figure 2 shows program revenue balances by level of commitment and funding source. Appendix 3 shows the level of commitment for each UW institution’s program revenue balance by funding source.

Figure 2

Program Revenue Sources and Level of Commitment
As of June 30, 2012



¹ Includes tuition and certain student fees.

Obligated Balances

Obligated program revenue balances are held for a purpose as indicated by documentation such as a contract or an encumbrance. These balances may not be easily used for other purposes. Examples include scholarships already awarded to students, lease commitments, and purchase orders.

We categorized 11.7 percent of the program revenue balances we reviewed as obligated.

As shown in Table 3, obligated balances totaled \$88.5 million, which represented 11.7 percent of the program revenue balances we reviewed. UW-Stout’s obligated balance of \$4.8 million represented 35.6 percent of its total program revenue balance we reviewed. This was the largest percentage among all UW institutions. We categorized none of the program revenue balance we reviewed at UW System Administration as obligated.

Table 3

Obligated Program Revenue Balances, by Institution¹
As of June 30, 2012²
(in millions)

Institution	Obligated	Total	Percentage
Stout	\$ 4.8	\$ 13.5	35.6%
Stevens Point	4.5	17.2	26.2
Parkside	1.4	6.7	20.9
Extension	3.1	17.4	17.8
River Falls	1.9	11.1	17.1
Superior	0.4	2.4	16.7
Milwaukee	14.7	88.6	16.6
Eau Claire	2.8	23.1	12.1
Whitewater	3.8	32.5	11.7
Madison	31.5	276.0	11.4
Oshkosh	2.7	27.2	9.9
Systemwide ³	12.6	130.6	9.6
Green Bay	0.9	13.1	6.9
Platteville	0.9	14.4	6.3
Colleges	0.8	18.7	4.3
La Crosse	1.7	49.9	3.4
System Administration	0.0	13.0	0.0
Total	\$88.5	\$755.4	11.7

¹ Includes balances from Academic Student Fees, Federal Indirect Cost Reimbursement, General Operations Receipts, and Extension Program Receipts and Student Fees.

² As adjusted by allocations to UW institutions from systemwide accounts.

³ Accounts maintained by UW System Administration for the benefit of all UW institutions.

Obligated balances were composed largely of Academic Student Fees, which includes tuition. However, UW institutions also obligated program revenue balances from other funding sources. For example:

- UW-Stout obligated \$2.0 million from its General Operations Receipts balance for scholarships that it awarded for academic years 2012-13 through 2016-17;

- UW-Milwaukee obligated \$568,000 from its Federal Indirect Cost Reimbursement balance for use in FY 2013-14 to lease the Pittsburgh Building, which will house space related to its Water Council Partnership;
- UW-Stevens Point obligated \$100,000 from its Federal Indirect Cost Reimbursement balance for a building project at the Central Wisconsin Environmental Station for FY 2012-13; and
- UW-Oshkosh obligated \$78,000 from its General Operations Receipts balance for a radio system upgrade for university police for FY 2012-13.

Planned Balances

Planned program revenue balances are held for a purpose as indicated by documentation such as a budget document or a memorandum signed by a chancellor. These planned balances may be used for other purposes if the use complies with any funding source requirements. For example, most UW institution officials we interviewed reported that they have the flexibility to use for other purposes the balances we categorized as planned.

We categorized 49.1 percent of the program revenue balances we reviewed as planned.

As shown in Table 4, planned balances totaled \$370.4 million, which represented 49.1 percent of the program revenue balances we reviewed. Systemwide accounts, which are accounts maintained by UW System Administration for the benefit of all UW institutions, had a planned balance of \$117.8 million, representing 90.2 percent of their total program revenue balance we reviewed. This was the largest percentage among all UW institutions. Systemwide account balances were planned to be used for veterans remissions; the Flexible Option program, which is UW System's new competency-based degree program; and other UW System priorities. Plans subsequently were modified in order to fund certain programs and initiatives required by 2013 Wisconsin Act 20. Of the \$117.8 million, \$89.5 million was to support initiatives included in Act 20. UW System Administration had the smallest percentage of its balance categorized as planned at \$565,000, representing 4.6 percent of its total program revenue balance we reviewed.

Table 4

Planned Program Revenue Balances, by Institution¹
As of June 30, 2012²
(in millions)

Institution	Planned	Total	Percentage
Systemwide ³	\$117.8	\$130.6	90.2%
Platteville	11.4	14.4	79.2
Parkside	4.8	6.7	71.6
Superior	1.7	2.4	70.8
Colleges	11.8	18.7	63.1
River Falls	6.8	11.1	61.3
Whitewater	19.7	32.5	60.6
Green Bay	7.6	13.1	58.0
Eau Claire	11.5	23.1	49.8
La Crosse	24.0	49.9	48.1
Extension	8.1	17.4	46.6
Stevens Point	7.7	17.2	44.8
Oshkosh	11.0	27.2	40.4
Milwaukee	32.3	88.6	36.5
Madison	90.9	276.0	32.9
Stout	2.7	13.5	20.0
System Administration	0.6	13.0	4.6
Total	\$370.4	\$755.4	49.1

¹ Includes balances from Academic Student Fees, Federal Indirect Cost Reimbursement, General Operations Receipts, and Extension Program Receipts and Student Fees.

² As adjusted by allocations to UW institutions from systemwide accounts.

³ Accounts maintained by UW System Administration for the benefit of all UW institutions.

We categorized \$286.3 million, or 69.1 percent of the Academic Student Fees balances we reviewed, as planned, primarily because institutions provided a document to UW System Administration that indicated the intended uses for FY 2011-12 amounts in systemwide accounts that were allocated to institutions in FY 2012-13.

New faculty and staff salaries were a common use of planned balances, such as UW-Milwaukee's plan to spend \$3.8 million for new faculty, UW-Whitewater's \$1.4 million plan to support new faculty and staff positions, and UW-Oshkosh's plan to use \$85,000 for the salary of a new sustainability director.

UW institutions also had planned uses for other program revenue balances. For example:

- UW-La Crosse planned to use \$2.5 million from its General Operations Receipts balance for renovations to Wittich Hall from FY 2015-16 through FY 2017-18;
- UW-Extension planned to use \$1.0 million of its Extension Program Receipts and Student Fees balance for the Flexible Option program in FY 2013-14; and
- UW-Oshkosh planned to use \$650,000 from its General Operations Receipts balance to continue its Student Titan Employment Program in FY 2012-13.

Although UW institutions were not always able to provide documentation of when June 30, 2012 obligated and planned balances were committed, we note that most of those balances were committed in FY 2011-12 and FY 2012-13. In part because Academic Student Fees balances as of June 30, 2012, were not finalized until September 2012, the commitment of these balances was not made until FY 2012-13.

More than half of obligated and planned balances were expected to begin to be expended in FY 2012-13.

We also analyzed when obligated and planned balances were expected to be expended. While some balances were expected to be expended over multiple years, commitments for salary or lease payments were generally expected to be expended within one fiscal year. We were able to determine the expenditure timelines for \$451.5 million, or 98.4 percent, of the \$458.9 million in obligated and planned balances we reviewed. Overall, 55.9 percent of these obligated and planned balances were expected to begin to be expended in FY 2012-13, and 29.6 percent were expected to begin to be expended in FY 2013-14. We also note that some program revenue balances were not expected to begin to be expended until FY 2015-16. For example, UW-Milwaukee obligated approximately \$400,000 from its Academic Student Fees balance as of June 30, 2012, for its Innovation Park lease in Wauwatosa to be spent in FY 2016-17 or later.

Designated Balances

Designated program revenue balances are held for purposes related to the original funding source but for which documentation of an obligation or specific plan was not provided. According to UW institution officials, these balances may be used for other purposes only if the use complies with funding source requirements. For example, we categorized Academic Student Fees balances related to student technology fees as designated unless sufficient documentation was provided to categorize these as obligated or planned. Similarly, we

categorized as designated the Academic Student Fees balances related to differential tuition, which is tuition added to a base tuition level to supplement services and programs for students.

We categorized 15.7 percent of the program revenue balances we reviewed as designated.

As shown in Table 5, designated balances totaled \$118.5 million, which represented 15.7 percent of the program revenue balances we reviewed. UW-Stout's designated balance of \$5.2 million represented 38.5 percent of its total program revenue balance we reviewed. This was the largest percentage among all UW institutions. We categorized none of the program revenue balances we reviewed in systemwide accounts as designated.

Table 5

Designated Program Revenue Balances, by Institution¹
As of June 30, 2012²
(in millions)

Institution	Designated	Total	Percentage
Stout	\$ 5.2	\$ 13.5	38.5%
Oshkosh	10.4	27.2	38.2
Milwaukee	32.8	88.6	37.0
La Crosse	17.8	49.9	35.7
Eau Claire	5.8	23.1	25.1
River Falls	2.3	11.1	20.7
Stevens Point	3.3	17.2	19.2
Green Bay	1.8	13.1	13.7
Platteville	1.8	14.4	12.5
Madison	31.4	276.0	11.4
Whitewater	2.7	32.5	8.3
Colleges	1.2	18.7	6.4
Extension	1.1	17.4	6.3
Parkside	0.3	6.7	4.5
Superior	0.1	2.4	4.2
System Administration	0.5	13.0	3.8
Systemwide ³	0.0	130.6	0.0
Total	\$118.5	\$755.4	15.7

¹ Includes balances from Academic Student Fees, Federal Indirect Cost Reimbursement, General Operations Receipts, and Extension Program Receipts and Student Fees.

² As adjusted by allocations to UW institutions from systemwide accounts.

³ Accounts maintained by UW System Administration for the benefit of all UW institutions.

We also generally categorized General Operations Receipts and Extension Program Receipts and Student Fees as designated unless the institution provided sufficient documentation to categorize them as obligated or planned. As noted, General Operations Receipts balances are largely related to cost recovery programs that charge fees for services to the public. Examples include study abroad accounts at UW-Oshkosh, athletic clubs and the Suzuki Music Program at UW-Stevens Point, and remedial education at UW-Superior and other institutions. According to institution officials, balances from current year fees from these programs often accumulate in advance of known expenses for the following year. These balances are then used to pay for operating costs that sustain the programs until revenue from new fees are collected. Because in most circumstances Extension Program Receipts and Student Fees balances must be used to support extension-related activities, we generally categorized them as designated.

Reserves

Reserves are balances for which documentation indicates amounts are purposefully held for contingencies. Contingencies may result from unexpected funding shortfalls that must be addressed in order to ensure the continuation of operations and from an unanticipated need. For example, reserves may be needed for an unexpected decline in enrollment. We did not categorize as reserves those balances that were set aside for a specific purpose such as academic initiatives or faculty salaries, or that were not held for routine uses such as annual debt service payments.

Eleven UW institutions provided documentation to support our categorization of 4.7 percent of the program revenue balances we reviewed as reserves.

From interviews with chief business officers at UW institutions, we found that no UW institution had formal, written reserve policies. However, many institutions reported that they had specific reserve goals or held a portion of their balance as reserves. As shown in Table 6, 11 UW institutions had reserve balances that totaled \$35.8 million and represented 4.7 percent of the program revenue balances we reviewed. These institutions had reserve balances between 2.8 percent and 28.7 percent of their total program revenue balances we reviewed. UW-Extension and UW Colleges had the largest percentage of their balances we reviewed categorized as reserves at 28.7 percent and 25.1 percent, respectively. This may be attributed, in part, to informal reserve practices established by these institutions. UW-Oshkosh had \$3.0 million held in General Operations Receipts specifically for emergencies, and UW-Stevens Point maintained \$500,000 of its Academic Student Fees balance as reserves, which it indicated it holds steady from year to year until needed for a contingency.

Table 6

Reserve Program Revenue Balances, by Institution¹
As of June 30, 2012²
(in millions)

Institution	Reserve	Total	Percentage
Extension	\$ 5.0	\$ 17.4	28.7%
Colleges	4.7	18.7	25.1
Oshkosh	3.0	27.2	11.0
Eau Claire	2.4	23.1	10.4
Whitewater	3.0	32.5	9.2
Superior	0.2	2.4	8.3
La Crosse	4.1	49.9	8.2
Green Bay	0.7	13.1	5.3
Madison	9.7	276.0	3.5
Stevens Point	0.5	17.2	2.9
Milwaukee	2.5	88.6	2.8
Systemwide ³	0.0	130.6	0.0
Parkside	0.0	6.7	0.0
Platteville	0.0	14.4	0.0
River Falls	0.0	11.1	0.0
Stout	0.0	13.5	0.0
System Administration	0.0	13.0	0.0
Total	\$35.8	\$755.4	4.7

¹ Includes balances from Academic Student Fees, Federal Indirect Cost Reimbursement, General Operations Receipts, and Extension Program Receipts and Student Fees.

² As adjusted by allocations to UW institutions from systemwide accounts.

³ Accounts maintained by UW System Administration for the benefit of all UW institutions.

Undocumented Balances

Program revenue balances that we categorized as undocumented are balances for which no documentation of an obligation or plan was provided. Documentation may not have been provided because it was not available or because there was no plan for use. Undocumented balances are distinct from designated balances because undocumented balances may be used for any purpose due to the absence of funding source requirements.

We categorized 18.8 percent of the program revenue balances we reviewed as undocumented.

As shown in Table 7, undocumented balances totaled \$142.2 million, which represented 18.8 percent of the program revenue balances we reviewed. UW System Administration's undocumented balance of \$11.9 million represented 91.5 percent of its total program revenue balance we reviewed. This was the largest percentage among all UW institutions. Systemwide accounts had the smallest amount of undocumented balances at \$189,000, representing 0.2 percent of their total program revenue balance we reviewed.

Table 7

Undocumented Program Revenue Balances, by Institution¹
As of June 30, 2012²
(in millions)

Institution	Undocumented	Total	Percentage
System Administration	\$ 11.9	\$ 13.0	91.5%
Madison	112.4	276.0	40.7
Green Bay	2.0	13.1	15.3
Whitewater	3.3	32.5	10.2
Stevens Point	1.2	17.2	7.0
Milwaukee	6.3	88.6	7.1
Stout	0.8	13.5	5.9
La Crosse	2.4	49.9	4.8
Eau Claire	0.6	23.1	2.6
Platteville	0.3	14.4	2.1
Parkside	0.1	6.7	1.5
River Falls	0.2	11.1	1.8
Extension	0.2	17.4	1.1
Colleges	0.1	18.7	0.5
Superior	<0.1	2.4	0.5
Oshkosh	0.1	27.2	0.4
Systemwide ³	0.2	130.6	0.2
Total	\$142.2	\$755.4	18.8

¹ Includes balances from Academic Student Fees, Federal Indirect Cost Reimbursement, General Operations Receipts, and Extension Program Receipts and Student Fees.

² As adjusted by allocations to UW institutions from systemwide accounts.

³ Accounts maintained by UW System Administration for the benefit of all UW institutions.

Undocumented balances consist only of amounts from Academic Student Fees, which includes tuition, and Federal Indirect Cost Reimbursement balances. Of the \$142.2 million in balances we categorized as undocumented, 13.8 percent is from Academic Student Fees balances and 86.2 percent is from Federal Indirect Cost Reimbursement balances.

We categorized \$19.6 million of the Academic Student Fees balance as undocumented.

Of the \$414.1 million Academic Student Fees balance, we categorized \$19.6 million as undocumented. UW-Madison accounted for \$14.5 million, or 74.0 percent, of the undocumented Academic Student Fees balance. UW-Whitewater accounted for \$2.5 million, or 12.8 percent, of the undocumented Academic Student Fees balance. Additional information on the level of commitment for balances by institution and program revenue source is shown in Appendix 3.

We categorized \$122.6 million of the Federal Indirect Cost Reimbursement balance as undocumented.

Of the \$147.9 million Federal Indirect Cost Reimbursement balance, we categorized \$122.6 million as undocumented. UW-Madison accounted for \$97.9 million, or 79.9 percent, of the undocumented Federal Indirect Cost Reimbursement balance. UW System Administration accounted for \$11.9 million, or 9.7 percent, of the undocumented Federal Indirect Cost Reimbursement balance. UW-Madison officials indicated to us that its Federal Indirect Cost Reimbursement program revenue balance has been allowed to accumulate in preparation for potential declines in federal grant revenue as a result of federal budget constraints. However, because UW-Madison officials were unable to provide documentation to support that this balance was set aside as reserves, we categorized it as undocumented.

In many cases, UW institution staff indicated that because Federal Indirect Cost Reimbursement balances are managed at individual departments within the institution, documentation of an obligation or plan could not be provided. Institution staff indicated that there may be commitments for some of these balances at the department level. Further, institution staff indicated that they may intentionally plan not to utilize all of their balances. Six institutions indicated that they prepare for potential cuts in federal or state aid by not budgeting all of their revenue for the fiscal year. This approach is an attempt to minimize the impact of fluctuating revenue during periods in which institutions perceive the fiscal environment as uncertain.

Balances as of June 30, 2013

Program revenue balances increased by \$122.8 million from June 30, 2012, to June 30, 2013.

As shown in Table 8, balances from the four program revenue sources included in our review increased from \$755.4 million as of June 30, 2012, to \$878.2 million as of June 30, 2013. During this time, Academic Student Fees balances increased by \$89.9 million, or 21.7 percent. Because FY 2012-13 was ongoing at the time of our fieldwork, we could not categorize the level of commitment for program revenue balances as of June 30, 2013. Appendix 4 compares program revenue balances for each UW institution as of June 30, 2013, to balances as of June 30, 2012.

Table 8

Program Revenue Balances, by Source (in millions)

	Balances as of June 30, 2012	Balances as of June 30, 2013	Difference	Percentage Change
Academic Student Fees ¹	\$414.1	\$504.0	\$ 89.9	21.7%
Federal Indirect Cost Reimbursement	147.9	148.2	0.3	0.2
General Operations Receipts	138.6	171.9	33.3	24.0
Extension Program Receipts and Student Fees	54.8	54.1	(0.7)	(1.3)
Total	\$755.4	\$878.2	\$122.8	16.3

¹ Includes tuition and certain student fees.

As requested by the Joint Legislative Audit Committee, we also reviewed the rate of spending from program revenue balances during the period from April 2013 through June 2013. We compared expenditures made during this period to the same period in the previous fiscal year. During the fourth quarter of FY 2012-13, UW System expended \$418.6 million from the program revenue sources shown in Table 8. This was a decrease of approximately \$49.0 million from the fourth quarter of FY 2011-12, when UW System expended \$467.6 million from these sources.

Monitoring Program Revenue Balances

UW System did not have an overall policy to monitor program revenue balances, and the extent to which UW institutions monitored these balances varied.

UW System did not have an overall policy to monitor program revenue balances during FY 2011-12. Some UW officials noted that they may contact UW System Administration for approval and guidance on spending large balances, and UW System Administration may inquire informally about an institution's intended use of a large balance. We also found that the extent to which institutions monitored their program revenue balances varied. For example, the central offices of seven institutions monitored Academic Student Fees program revenue balances on a monthly basis. It was less common for institutions' central offices to monitor other program revenue balances. For example, General Operations Receipts balances and Federal Indirect Cost Reimbursement balances, which are generally managed at individual departments within an institution, were often not reviewed until the end of the fiscal year. Because Academic Student Fees and Federal Indirect Cost Reimbursement balances comprise the entire amount we categorized as undocumented, institutions may need to monitor these balances more closely. As noted, we categorized \$19.6 million of the \$414.1 million in Academic Student Fees as undocumented and \$122.6 million of the \$147.9 million in Federal Indirect Cost Reimbursement balances as undocumented.

Although UW System institutions did not consistently monitor balances from all program revenue sources, statutes require UW System to seek approval from the Department of Administration and the Joint Committee on Finance each year in order to accumulate balances that exceed 15 percent of total revenue in the prior year from student fee-funded auxiliary enterprises for each UW institution. Auxiliary enterprises, such as housing and food service, provide goods and services to students and charge a fee that is directly related to the costs of those goods or services. The Board of Regents is required to file a request by September 15 each year specifying the amount of student fee-funded auxiliary enterprises balances the Board would like to accumulate and the intended purpose for those funds. As noted, we excluded auxiliary enterprises program revenue balances from our review.

Calculation of a primary reserve ratio is distinct from establishing reserves for continuation of operations.

Although no UW institution had a formal written reserve policy, UW System is required to calculate annually a primary reserve ratio for each of its institutions as part of its accreditation process with the Higher Learning Commission, which accredits degree-granting post-secondary educational institutions in the north central region of the United States. The primary reserve ratio includes not only reserves set aside for contingencies but also funds that have accumulated to pay for expenditures planned in the future, such as large capital projects or equipment purchases. Therefore, it is distinct from establishing reserves for continuation of operations, and it may overstate an institution's true reserves.

Improving Transparency and Accountability

Some UW institutions have established practices that may improve transparency and accountability in monitoring program revenue balances.

Several practices employed by individual institutions may improve transparency and accountability in monitoring program revenue balances. For example, some UW institutions develop detailed five-year plans that include projections of a gradual decline in the related program revenue balance. Such plans help communicate the purpose and use for balances, and may be a useful tool for long-term budgeting. Within each institution, officials indicated that the process of receiving and approving department spending requests is often done on a case-by-case basis. Some institutions require departments to submit a form before they can receive funds. For example, UW-River Falls has a standardized application process for addressing funding needs that arise during the fiscal year and that cannot wait until the next budget cycle. This requires all departments to submit a form to the UW-River Falls budget office that documents one-time and ongoing cost estimates, as well as who authorized the request. Within each institution, the use of an application may help to ensure that each request can be justified and that all requests are assessed by the same criteria.

Many UW institutions do not review the status of commitments until the end of the fiscal year. However, six institutions stated that they monitor the status of commitments in either spreadsheet format or with report updates throughout the year. Regularly and systematically monitoring program revenue balances and commitments can provide institution officials with more accurate information when making budgetary decisions. Some institutions indicated that as program revenue balance policies are established by UW System, more sophisticated worksheets and strategies will be developed to monitor the balances and commitments. Standardizing practices already in use at UW institutions could enhance management of program revenue balances and improve transparency and accountability.

2013 Wisconsin Act 20 required the Board of Regents to propose a methodology for the calculation of program revenue balances and reserves.

As noted, we found that UW System did not have an overall policy to monitor program revenue balances, and the extent to which institutions monitored their balances varied. 2013 Wisconsin Act 20 required the Board of Regents to propose a methodology for the calculation of program revenue balances and reserves, expressed in both dollars and percentages of total annual expenses, and submit it to the Joint Legislative Audit Committee by September 1, 2013, for approval, modification, or disapproval. The Board of Regents discussed and approved a methodology at its July 2013 meeting, and submitted its proposed methodology to the co-chairpersons of the Joint Legislative Audit Committee. At its September 2013 meeting, the Board of Regents revised its proposed methodology and subsequently resubmitted it to the co-chairpersons of the Joint Legislative Audit Committee. To aid the Joint Legislative Audit Committee in its

consideration of the methodology for the calculation of program revenue balances and reserves, we will issue a separate analysis of the methodology proposed by the Board of Regents.

Act 20 also required the Board of Regents to propose limits on program revenue account balances for UW System as a whole and for each individual institution, as well as policies regarding the expenditure and annual distribution of tuition and fee revenue and GPR by each institution, and submit this information to the Joint Committee on Finance by January 1, 2014. At its October 2013 meeting, the Board of Regents approved these limits and the policy related to expenditure of tuition and fee revenue and GPR, which were then submitted to the co-chairpersons of the Joint Committee on Finance. The co-chairpersons subsequently informed UW System that the Joint Committee on Finance will consider the submissions after all required components are submitted and the Joint Legislative Audit Committee has taken action on the proposed methodology. Because this submission contains additional information related to the calculation of program revenue balances and reserves, we will consider it in our analysis of the methodology.

■ ■ ■ ■

Appendix 1

UW System Program Revenue Balances

As of June 30

Year	Total	Percentage Change
2002	\$ 228,337,000	-
2003	287,120,000	25.7%
2004	232,267,000	(19.1)
2005	268,229,000	15.5
2006	315,240,000	17.5
2007	405,937,000	28.8
2008	443,557,000	9.3
2009	563,698,000	27.1
2010	649,615,000	15.2
2011	836,797,000	28.8
2012	1,045,023,000	24.9
2013	1,273,486,000	21.9

Appendix 2

Level of Commitment, by Institution¹
 For Program Revenue Balances as of June 30, 2012^{2, 3}

Institution	Obligated	Planned	Designated	Reserves	Undocumented	Total
Colleges	\$ 807,000	\$ 11,803,000	\$ 1,216,000	\$ 4,721,000	\$ 139,000	\$ 18,685,000
Eau Claire	2,785,000	11,506,000	5,793,000	2,379,000	644,000	23,108,000
Extension	3,153,000	8,112,000	1,061,000	4,960,000	150,000	17,435,000
Green Bay	864,000	7,649,000	1,828,000	748,000	2,026,000	13,116,000
La Crosse	1,719,000	23,968,000	17,770,000	4,063,000	2,374,000	49,894,000
Madison	31,545,000	90,872,000	31,435,000	9,709,000	112,414,000	275,974,000
Milwaukee	14,707,000	32,338,000	32,792,000	2,500,000	6,293,000	88,631,000
Oshkosh	2,655,000	10,991,000	10,377,000	3,000,000	136,000	27,159,000
Parkside	1,404,000	4,782,000	337,000	–	142,000	6,666,000
Platteville	900,000	11,375,000	1,805,000	–	272,000	14,351,000
River Falls	1,852,000	6,844,000	2,248,000	–	172,000	11,116,000
Stevens Point	4,500,000	7,662,000	3,301,000	500,000	1,220,000	17,184,000
Stout	4,788,000	2,750,000	5,156,000	–	822,000	13,517,000
Superior	389,000	1,657,000	143,000	197,000	12,000	2,398,000
System Administration	–	565,000	535,000	–	11,909,000	13,009,000
Systemwide ⁴	12,617,000	117,782,000	–	–	189,000	130,588,000
Whitewater	3,829,000	19,740,000	2,726,000	3,000,000	3,245,000	32,541,000
Total	\$88,514,000	\$370,396,000	\$118,524,000	\$35,777,000	\$142,158,000	\$755,369,000

¹ Includes balances from Academic Student Fees, Federal Indirect Cost Reimbursement, General Operations Receipts, and Extension Program Receipts and Student Fees.

² As adjusted by allocations to UW institutions from systemwide accounts.

³ Some totals do not sum due to rounding.

⁴ Accounts maintained by UW System Administration for the benefit of all UW institutions.

Appendix 3

Level of Commitment, by Institution and Program Revenue Source

As of June 30, 2012^{1, 2}

Institution	Obligated	Planned	Designated	Reserves	Undocumented	Total
Colleges						
Academic Student Fees ³	\$ 695,000	\$ 9,348,000	\$ –	\$2,508,000	\$ 92,000	\$ 12,643,000
Extension Program Receipts and Student Fees	37,000	363,000	–	–	–	400,000
General Operations Receipts	46,000	2,040,000	1,216,000	1,613,000	–	4,914,000
Federal Indirect Cost Reimbursement	28,000	53,000	–	601,000	46,000	728,000
Subtotal	807,000	11,803,000	1,216,000	4,721,000	139,000	18,685,000
Eau Claire						
Academic Student Fees ³	2,785,000	9,542,000	–	1,750,000	–	14,078,000
Extension Program Receipts and Student Fees	–	1,411,000	–	–	–	1,411,000
General Operations Receipts	–	–	5,793,000	–	–	5,793,000
Federal Indirect Cost Reimbursement	–	553,000	–	629,000	644,000	1,826,000
Subtotal	2,785,000	11,506,000	5,793,000	2,379,000	644,000	23,108,000
Extension						
Academic Student Fees ³	–	22,000	–	–	<1,000	23,000
Extension Program Receipts and Student Fees	2,620,000	4,797,000	–	1,148,000	–	8,565,000
General Operations Receipts	–	377,000	1,061,000	111,000	–	1,549,000
Federal Indirect Cost Reimbursement	533,000	2,916,000	–	3,700,000	149,000	7,298,000
Subtotal	3,153,000	8,112,000	1,061,000	4,960,000	150,000	17,435,000

Institution	Obligated	Planned	Designated	Reserves	Undocumented	Total
Green Bay						
Academic Student Fees ³	\$ 864,000	\$ 1,770,000	\$ 284,000	\$ 748,000	\$ 656,000	\$ 4,322,000
Extension Program Receipts and Student Fees	–	3,215,000	17,000	–	–	3,231,000
General Operations Receipts	–	2,665,000	1,528,000	–	–	4,193,000
Federal Indirect Cost Reimbursement	–	–	–	–	1,370,000	1,370,000
Subtotal	864,000	7,649,000	1,828,000	748,000	2,026,000	13,116,000
La Crosse						
Academic Student Fees ³	1,552,000	5,291,000	15,177,000	4,063,000	1,656,000	27,740,000
Extension Program Receipts and Student Fees	–	133,000	–	–	–	133,000
General Operations Receipts	167,000	18,481,000	2,593,000	–	–	21,241,000
Federal Indirect Cost Reimbursement	–	63,000	–	–	717,000	780,000
Subtotal	1,719,000	23,968,000	17,770,000	4,063,000	2,374,000	49,894,000
Madison						
Academic Student Fees ³	31,495,000	55,974,000	–	–	14,530,000	101,998,000
Extension Program Receipts and Student Fees	–	5,577,000	–	9,709,000	–	15,286,000
General Operations Receipts	50,000	19,402,000	31,435,000	–	–	50,887,000
Federal Indirect Cost Reimbursement	–	9,919,000	–	–	97,884,000	107,802,000
Subtotal	31,545,000	90,872,000	31,435,000	9,709,000	112,414,000	275,974,000
Milwaukee						
Academic Student Fees ³	11,999,000	31,099,000	–	2,500,000	–	45,597,000
Extension Program Receipts and Student Fees	–	–	20,155,000	–	–	20,155,000
General Operations Receipts	188,000	78,000	12,637,000	–	–	12,904,000
Federal Indirect Cost Reimbursement	2,520,000	1,161,000	–	–	6,293,000	9,974,000
Subtotal	14,707,000	32,338,000	32,792,000	2,500,000	6,293,000	88,631,000

Institution	Obligated	Planned	Designated	Reserves	Undocumented	Total
Oshkosh						
Academic Student Fees ³	\$ 2,577,000	\$ 8,639,000	\$ 654,000	\$ –	\$ 136,000	\$ 12,006,000
Extension Program Receipts and Student Fees	–	156,000	–	–	–	156,000
General Operations Receipts	78,000	1,535,000	9,723,000	3,000,000	–	14,336,000
Federal Indirect Cost Reimbursement	–	661,000	–	–	–	661,000
Subtotal	2,655,000	10,991,000	10,377,000	3,000,000	136,000	27,159,000
Parkside						
Academic Student Fees ³	1,404,000	3,952,000	97,000	–	–	5,453,000
Extension Program Receipts and Student Fees	–	–	240,000	–	–	240,000
General Operations Receipts	–	831,000	–	–	–	831,000
Federal Indirect Cost Reimbursement	–	–	–	–	142,000	142,000
Subtotal	1,404,000	4,782,000	337,000	–	142,000	6,666,000
Platteville						
Academic Student Fees ³	900,000	11,162,000	–	–	–	12,061,000
Extension Program Receipts and Student Fees	–	213,000	165,000	–	–	378,000
General Operations Receipts	–	–	1,640,000	–	–	1,640,000
Federal Indirect Cost Reimbursement	–	–	–	–	272,000	272,000
Subtotal	900,000	11,375,000	1,805,000	–	272,000	14,351,000
River Falls						
Academic Student Fees ³	1,852,000	6,645,000	62,000	–	–	8,559,000
Extension Program Receipts and Student Fees	–	199,000	981,000	–	–	1,180,000
General Operations Receipts	–	–	1,205,000	–	–	1,205,000
Federal Indirect Cost Reimbursement	–	–	–	–	172,000	172,000
Subtotal	1,852,000	6,844,000	2,248,000	–	172,000	11,116,000

Institution	Obligated	Planned	Designated	Reserves	Undocumented	Total
Stevens Point						
Academic Student Fees ³	\$ 4,027,000	\$ 6,201,000	\$ –	\$ 500,000	\$ –	\$ 10,728,000
Extension Program Receipts and Student Fees	–	363,000	1,034,000	–	–	1,397,000
General Operations Receipts	373,000	554,000	2,267,000	–	–	3,194,000
Federal Indirect Cost Reimbursement	100,000	544,000	–	–	1,220,000	1,865,000
Subtotal	4,500,000	7,662,000	3,301,000	500,000	1,220,000	17,184,000
Stout						
Academic Student Fees ³	2,787,000	–	103,000	–	–	2,890,000
Extension Program Receipts and Student Fees	–	–	866,000	–	–	866,000
General Operations Receipts	2,001,000	2,750,000	4,188,000	–	–	8,939,000
Federal Indirect Cost Reimbursement	–	–	–	–	822,000	822,000
Subtotal	4,788,000	2,750,000	5,156,000	–	822,000	13,517,000
Superior						
Academic Student Fees ³	358,000	750,000	–	–	–	1,108,000
Extension Program Receipts and Student Fees	–	–	–	197,000	–	197,000
General Operations Receipts	–	210,000	143,000	–	–	353,000
Federal Indirect Cost Reimbursement	31,000	697,000	–	–	12,000	740,000
Subtotal	389,000	1,657,000	143,000	197,000	12,000	2,398,000
System Administration						
Academic Student Fees ³	–	–	–	–	–	–
Extension Program Receipts and Student Fees	–	–	–	–	–	–
General Operations Receipts	–	–	535,000	–	–	535,000
Federal Indirect Cost Reimbursement	–	565,000	–	–	11,909,000	12,474,000
Subtotal	–	565,000	535,000	–	11,909,000	13,009,000

Institution	Obligated	Planned	Designated	Reserves	Undocumented	Total
Systemwide⁴						
Academic Student Fees ³	\$ 9,706,000	\$117,782,000	\$ –	\$ –	\$ –	\$127,488,000
Extension Program Receipts and Student Fees	–	–	–	–	–	–
General Operations Receipts	2,911,000	–	–	–	–	2,911,000
Federal Indirect Cost Reimbursement	–	–	–	–	189,000	189,000
Subtotal	12,617,000	117,782,000	–	–	189,000	130,588,000
Whitewater						
Academic Student Fees ³	3,829,000	18,097,000	–	3,000,000	2,521,000	27,447,000
Extension Program Receipts and Student Fees	–	910,000	303,000	–	–	1,213,000
General Operations Receipts	–	733,000	2,423,000	–	–	3,157,000
Federal Indirect Cost Reimbursement	–	–	–	–	724,000	724,000
Subtotal	3,829,000	19,740,000	2,726,000	3,000,000	3,245,000	32,541,000
Total	\$88,514,000	\$370,396,000	\$118,524,000	\$35,777,000	\$142,158,000	\$755,369,000

All Institutions						
Academic Student Fees ³	\$76,832,000	\$286,273,000	\$ 16,376,000	\$ 15,068,000	\$ 19,591,000	\$414,141,000
Extension Program Receipts and Student Fees	2,657,000	17,337,000	23,760,000	11,054,000	–	54,809,000
General Operations Receipts	5,814,000	49,656,000	78,386,000	4,724,000	–	138,580,000
Federal Indirect Cost Reimbursement	3,211,000	17,131,000	–	4,931,000	122,566,000	147,839,000
Total	\$88,514,000	\$370,396,000	\$118,524,000	\$35,777,000	\$142,158,000	\$755,369,000

¹ As adjusted by allocations to UW institutions from systemwide accounts.

² Some totals do not sum due to rounding.

³ Includes tuition and certain student fees.

⁴ Accounts maintained by UW System Administration for the benefit of all UW institutions.

Appendix 4

Change in Program Revenue Balances

As of June 30, 2012, and June 30, 2013^{1,2}

Institution	Balance as of June 30, 2012	Balance as of June 30, 2013	Difference	Percentage Change
Colleges				
Academic Student Fees ³	\$ 12,643,000	\$ 16,566,000	\$ 3,923,000	31.0%
Extension Program Receipts and Student Fees	400,000	157,000	(243,000)	(60.8)
General Operations Receipts	4,914,000	4,113,000	(801,000)	(16.3)
Federal Indirect Cost Reimbursement	728,000	716,000	(12,000)	(1.6)
Subtotal	18,685,000	21,553,000	2,868,000	15.3
Eau Claire				
Academic Student Fees ³	14,078,000	17,540,000	3,462,000	24.6
Extension Program Receipts and Student Fees	1,411,000	1,790,000	379,000	26.9
General Operations Receipts	5,793,000	7,514,000	1,721,000	29.7
Federal Indirect Cost Reimbursement	1,826,000	1,884,000	58,000	3.2
Subtotal	23,108,000	28,728,000	5,620,000	24.3
Extension				
Academic Student Fees ³	23,000	457,000	434,000	1,887.0
Extension Program Receipts and Student Fees	8,565,000	7,130,000	(1,435,000)	(16.8)
General Operations Receipts	1,549,000	1,604,000	55,000	3.6
Federal Indirect Cost Reimbursement	7,298,000	7,886,000	588,000	8.1
Subtotal	17,435,000	17,077,000	(358,000)	(2.1)
Green Bay				
Academic Student Fees ³	4,322,000	5,453,000	1,131,000	26.2
Extension Program Receipts and Student Fees	3,231,000	3,556,000	325,000	10.1
General Operations Receipts	4,193,000	5,003,000	810,000	19.3
Federal Indirect Cost Reimbursement	1,370,000	1,481,000	111,000	8.1
Subtotal	13,116,000	15,494,000	2,378,000	18.1

Institution	Balance as of June 30, 2012	Balance as of June 30, 2013	Difference	Percentage Change
La Crosse				
Academic Student Fees ³	\$ 27,740,000	\$ 25,900,000	\$ (1,840,000)	(6.6)%
Extension Program Receipts and Student Fees	133,000	213,000	80,000	60.2
General Operations Receipts	21,241,000	25,993,000	4,752,000	22.4
Federal Indirect Cost Reimbursement	780,000	472,000	(308,000)	(39.5)
Subtotal	49,894,000	52,579,000	2,685,000	5.4
Madison				
Academic Student Fees ³	101,998,000	137,444,000	35,446,000	34.8
Extension Program Receipts and Student Fees	15,286,000	15,066,000	(220,000)	(1.4)
General Operations Receipts	50,887,000	67,849,000	16,962,000	33.3
Federal Indirect Cost Reimbursement	107,802,000	107,846,000	44,000	<0.1
Subtotal	275,974,000	328,205,000	52,231,000	18.9
Milwaukee				
Academic Student Fees ³	45,597,000	43,641,000	(1,956,000)	(4.3)
Extension Program Receipts and Student Fees	20,155,000	21,512,000	1,357,000	6.7
General Operations Receipts	12,904,000	11,337,000	(1,567,000)	(12.1)
Federal Indirect Cost Reimbursement	9,974,000	9,929,000	(45,000)	(0.5)
Subtotal	88,631,000	86,419,000	(2,212,000)	(2.5)
Oshkosh				
Academic Student Fees ³	12,006,000	15,034,000	3,028,000	25.2
Extension Program Receipts and Student Fees	156,000	189,000	33,000	21.2
General Operations Receipts	14,336,000	16,188,000	1,852,000	12.9
Federal Indirect Cost Reimbursement	661,000	1,137,000	476,000	72.0
Subtotal	27,159,000	32,548,000	5,389,000	19.8
Parkside				
Academic Student Fees ³	5,453,000	6,737,000	1,284,000	23.5
Extension Program Receipts and Student Fees	240,000	195,000	(45,000)	(18.8)
General Operations Receipts	831,000	1,099,000	268,000	32.3
Federal Indirect Cost Reimbursement	142,000	149,000	7,000	4.9
Subtotal	6,666,000	8,179,000	1,513,000	22.7

Institution	Balance as of June 30, 2012	Balance as of June 30, 2013	Difference	Percentage Change
Platteville				
Academic Student Fees ³	\$ 12,061,000	\$ 17,110,000	\$ 5,049,000	41.9%
Extension Program Receipts and Student Fees	378,000	264,000	(114,000)	(30.2)
General Operations Receipts	1,640,000	2,000,000	360,000	22.0
Federal Indirect Cost Reimbursement	272,000	280,000	8,000	2.9
Subtotal	14,351,000	19,654,000	5,303,000	37.0
River Falls				
Academic Student Fees ³	8,559,000	10,207,000	1,648,000	19.3
Extension Program Receipts and Student Fees	1,180,000	1,287,000	107,000	9.1
General Operations Receipts	1,205,000	763,000	(442,000)	(36.7)
Federal Indirect Cost Reimbursement	172,000	219,000	47,000	27.3
Subtotal	11,116,000	12,475,000	1,359,000	12.2
Stevens Point				
Academic Student Fees ³	10,728,000	16,296,000	5,568,000	51.9
Extension Program Receipts and Student Fees	1,397,000	1,042,000	(355,000)	(25.4)
General Operations Receipts	3,194,000	3,916,000	722,000	22.6
Federal Indirect Cost Reimbursement	1,865,000	1,653,000	(212,000)	(11.4)
Subtotal	17,184,000	22,907,000	5,723,000	33.3
Stout				
Academic Student Fees ³	2,890,000	4,434,000	1,544,000	53.4
Extension Program Receipts and Student Fees	866,000	376,000	(490,000)	(56.6)
General Operations Receipts	8,939,000	8,495,000	(444,000)	(5.0)
Federal Indirect Cost Reimbursement	822,000	638,000	(184,000)	(22.4)
Subtotal	13,517,000	13,942,000	425,000	3.1
Superior				
Academic Student Fees ³	1,108,000	1,796,000	688,000	62.1
Extension Program Receipts and Student Fees	197,000	122,000	(75,000)	(38.1)
General Operations Receipts	353,000	236,000	(117,000)	(33.1)
Federal Indirect Cost Reimbursement	740,000	786,000	46,000	6.2
Subtotal	2,398,000	2,940,000	542,000	22.6

Institution	Balance as of June 30, 2012	Balance as of June 30, 2013	Difference	Percentage Change
System Administration				
Academic Student Fees ³	\$ -	\$ -	\$ -	0.0%
Extension Program Receipts and Student Fees	-	-	-	0.0
General Operations Receipts	535,000	546,000	11,000	2.1
Federal Indirect Cost Reimbursement	12,474,000	12,219,000	(255,000)	(2.0)
Subtotal	13,009,000	12,765,000	(244,000)	(1.9)
Systemwide⁴				
Academic Student Fees ³	127,488,000	151,777,000	24,289,000	19.1
Extension Program Receipts and Student Fees	-	-	-	0.0
General Operations Receipts	2,911,000	11,869,000	8,958,000	307.7
Federal Indirect Cost Reimbursement	189,000	120,000	(69,000)	(36.5)
Subtotal	130,588,000	163,766,000	33,178,000	25.4
Whitewater				
Academic Student Fees ³	27,447,000	33,588,000	6,141,000	22.4
Extension Program Receipts and Student Fees	1,213,000	1,169,000	(44,000)	(3.6)
General Operations Receipts	3,157,000	3,401,000	244,000	7.7
Federal Indirect Cost Reimbursement	724,000	768,000	44,000	6.1
Subtotal	32,541,000	38,925,000	6,384,000	19.6
Total	\$755,369,000	\$878,154,000	\$122,785,000	16.3

All Institutions				
Academic Student Fees ³	\$414,141,000	\$503,979,000	\$ 89,838,000	21.7%
Extension Program Receipts and Student Fees	54,809,000	54,067,000	(742,000)	(1.4)
General Operations Receipts	138,580,000	171,925,000	33,345,000	24.1
Federal Indirect Cost Reimbursement	147,839,000	148,183,000	344,000	0.2
Total	\$755,369,000	\$878,154,000	\$122,785,000	16.3

¹ As adjusted by allocations to UW institutions from systemwide accounts.

² Some totals do not sum due to rounding.

³ Includes tuition and certain student fees.

⁴ Accounts maintained by UW System Administration for the benefit of all UW institutions.



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November 11, 2013

Mr. Joe Chrisman, State Auditor
Legislative Audit Bureau
22 East Mifflin Street, Suite 500
Madison, WI 53703

Dear Mr. Chrisman:

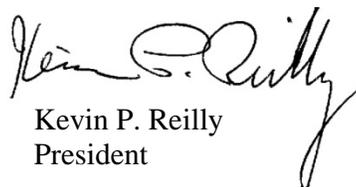
Thank you for the opportunity to respond to the Legislative Audit Bureau's (LAB) review of University of Wisconsin (UW) System program revenue balances. The UW System appreciates the significant amount of time and effort LAB staff invested in conducting and completing this review.

In LAB's analysis, more than 76.4 percent of the UW System's program revenue balances as of June 30, 2012, is categorized as obligated, planned, or designated. An additional 4.7 percent of the program revenue balances is classified as reserves. Of the remaining balances, the majority is from federal indirect cost reimbursement accounts. In general, UW-Madison's indirect cost revenue is highly leveraged, covering well over \$100 million of annual operating costs and infrastructure for the research enterprise.

UW-Madison has gradually grown the federal indirect cost reimbursement balance over the past ten years as a hedge against potential declines in federal research revenue. In fiscal year (FY) 2012, federal award projections began to show significant weakness. The more recent federal sequestration further exacerbated the situation. As a result, FY 2013 was the first year since UW System merger in 1973-74 that UW-Madison's indirect cost revenue declined compared to the prior year. Now almost six months into FY 2014, it appears federal indirect cost revenue will decline further. During this period of decline, UW-Madison's balance will be used as a bridge to continue to fund those functions essential to its research competitiveness and as a source of reinvestment so the institution can reposition itself in the new federal environment.

Going forward, the UW System will to continue to serve as a good steward of its resources. As both the Joint Finance and Audit Committees review different aspects of the newly-approved Board of Regents policy on program revenue balances and reserves, we welcome a conversation about the appropriate level of balances that should be maintained in a complex higher education enterprise and how those funds are used to benefit students and the state.

Sincerely,



Kevin P. Reilly
President