



STATE OF WISCONSIN
Legislative Audit Bureau

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Joe Chrisman
State Auditor

January 31, 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:

We have completed our financial audit of the University of Wisconsin (UW) System for the years ended June 30, 2012, and June 30, 2011. UW System's financial statements and our unqualified audit opinion on them, dated December 13, 2012, have been included in UW System's 2012 Annual Financial Report, which can be found on UW System's website.

General Purpose Revenue (GPR), which is shown as State Appropriations on UW System's financial statements, decreased 16.8 percent, from \$1,028.3 million in fiscal year (FY) 2010-11 to \$855.1 million in FY 2011-12. This funding does not include GPR funding that is used to repay debt on academic facilities, which is technically debt of the State of Wisconsin and not UW System. Such debt service payments totaled \$57.5 million for FY 2011-12 and \$73.1 million for FY 2010-11.

Operating revenues increased by \$53.8 million, or 1.6 percent, from FY 2010-11. Tuition and Fees, which accounted for 32.7 percent of total operating revenues in FY 2011-12, increased by \$30.2 million to \$1,105.1 million. Federal Grants and Contracts revenue decreased from \$871.3 million in FY 2010-11 to \$859.3 million in FY 2011-12. Other significant operating revenues of UW System include state, local, and private gifts and grants; sales and services of educational activities; and sales and services of auxiliary operations.

Operating expenses were \$4.3 billion in FY 2011-12, an increase of \$15.4 million from FY 2010-11. Salaries and fringe benefit expenses, which comprise 64.9 percent of total operating expenses, decreased by \$58.0 million. Supplies and services expenses, which comprise 26.4 percent of total operating expenses, increased by \$80.9 million.

UW System's unrestricted net assets, which represent the amount available to be used to meet ongoing obligations, were \$860.2 million as of June 30, 2012. Since June 30, 2007, UW System unrestricted net assets have increased \$624.9 million. According to UW System officials, substantially all of these funds have been designated by the Board of Regents for purposes to fulfill UW System's responsibilities, including academic and research programs and capital projects.

During our audit, we identified internal control concerns that are required to be reported under *Government Auditing Standards*. The enclosed management letter includes the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters. This letter

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was provided to UW System and includes our concerns regarding Human Resource System (HRS) security, lack of oversight and monitoring of fringe benefit processes after the implementation of HRS, and financial reporting errors. Because UW System's financial activity is reported in the State of Wisconsin's Comprehensive Annual Financial Report, these internal control findings were also included in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters related to our audit of the State of Wisconsin's financial statements, which was released on January 10, 2013.

Sincerely,



Joe Chrisman
State Auditor

JC/CS/sm

Enclosure

cc: Senator Mary Lazich
Senator Alberta Darling
Senator Kathleen Vinehout
Senator John Lehman

Representative Howard Marklein
Representative John Nygren
Representative Jon Richards
Representative Melissa Sargent

Kevin P. Reilly, President
University of Wisconsin System