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November 13, 2020

Senator Robert Cowles
Co-Chair, Joint Legislative Audit Committee
Room 118 South, State Capitol
Madison, WI 53707

Representative Samantha Kerkman
Co-Chair, Joint Legislative Audit Committee
Room 315 North, State Capitol
Madison, WI 53708

RE: Follow-Up to LAB Report 20-7

Dear Senator Cowles and Representative Kerkman:

Thank you for the opportunity to update the Joint Legislative Audit Committee on progress made by the University of Wisconsin System Administration (UWSA) to address the recommendations in the Legislative Audit Bureau's (LAB) Report 20-7. Please see UW System's response attached.

We appreciate LAB's recommendations as we continue to improve the management, transparency, and effectiveness of our policies. We completed several of the recommendations, and the remaining recommendations are in the process of being completed.

The UW System remains committed to partnering with LAB, the legislature, and all our stakeholders to continue to ensure transparency and accountability of taxpayer resources. If you have any questions regarding this update, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "Tommy".

Tommy G. Thompson
President, UW System

CC: State Auditor Joe Chrisman
Chief Audit Executive Lori Stortz
Board of Regents
Chancellors
UW System President's Cabinet

Auxiliary Operations Recommendations

Recommendation: Revise and implement its administrative policy on the financial management of auxiliaries. Ensure the administrative policy is consistent with Board of Regents policies.

In Progress: Regent Policy Documents (RPDs) 21-1, 21-2, and 21-3 currently govern auxiliary management within the UW System, and they serve as the framework within which UW System administrative policies are established. These three Regent policies are in the process of being revised to reflect current expectations and terminology. The revised Regent policies will be discussed with the Board of Regents at the December 2020 meeting. If approved, UWSA will begin revising the affected UW System administrative policies.

Recommendation: Ensure the administrative policy includes guidance for University of Wisconsin institutions regarding appropriate auxiliary program revenue balances, including balances categorized as reserves.

In Progress: UWSA continues to evaluate measures of financial viability for all UW institutions, including auxiliary enterprises. Variations of operational scale, anticipated capital commitments, and demographic projections are just a few of the factors that will need to be considered to establish appropriate reserve levels for the respective UW institutions. The COVID-19 pandemic, however, reinforces the need for sufficient program revenue balances to address unforeseen expenses and lost revenues. Guidance that establishes general parameters and considerations for program revenue balances will be developed after the full financial impact of the pandemic is assessed.

Recommendation: Modify reporting of auxiliary operations program revenue balances in the program revenue balances report to require UW institutions to categorize only those program revenue balances resulting from positive department-level balances and report, but not categorize, negative department-level balances.

In Progress: UWSA will implement this recommendation for the fiscal year 2020-21 program revenue balance report, since compilation of the 2019-20 report already began when the LAB recommendation was received. Revisions to RPD 21-6, which defines the methodology for calculating program revenue balances, have been drafted to reflect the recommended change, and it will be presented at the December 2020 Board of Regents meeting.

Recommendation: Include principal repayment fund balances related to auxiliary operations with auxiliary operations funds for program revenue balances reporting.

In Progress: Since the first program revenue balance report was developed in 2013, UWSA has followed the report format initially identified by the LAB. UWSA will make this revision for the fiscal year 2020-21 program revenue balance report, since compilation of the 2019-20 report already began when the LAB recommendation was received.

Affiliated Organizations Recommendations

Recommendation: Work with the Board of Regents to create a Board policy to govern the relationships between University of Wisconsin institutions and other affiliated organizations that are not primary fundraising foundations or real estate foundations.

Complete: To address the original recommendation in Report 18-4, UWSA created UW System Administrative Policy 362 to govern primary fundraising foundations, real estate foundations, and other affiliated organizations. To address this recommendation, UWSA worked with the Board of Regents to adopt RPD 21-10 *Institutional Relationships with Associated Affiliated Organizations* and RPD 21-11 *Cost-Benefit Reporting for Foundations and Associated Affiliated Organizations* at the October 2020 Board of Regents meeting. With the adoption of these policies by the Board of Regents and the existence of RPD 21-9 *Institutional Relationships with Foundations*, UWSA will rescind UWSA Policy 362 *University Administrative Support of Primary Fundraising Foundations and Other Affiliated Organizations* to avoid duplication. Overall, there are now three RPDs (21-9, 21-10, and 21-11) that manage relationships with affiliated organizations.

Since there are several types of affiliated organizations (i.e. primary fundraising foundations, real estate foundations, and other affiliated organization), UWSA is now referring to “other affiliated organizations” as “associated affiliated organizations” to provide clearer distinctions between the three types and the general use of the umbrella term “affiliated organizations”.

Recommendation: Ensure this policy addresses University of Wisconsin employees serving on the boards of directors of other affiliated organizations that are not primary fundraising foundations or real estate foundations, University of Wisconsin employees working for these other affiliated organizations, and the terms under which University of Wisconsin institutions can provide support for these other affiliated organizations.

Complete: RPD 21-10 addresses employees serving on the board of directors of associated affiliated organizations that are not primary fundraising foundations or real estate foundations. The policy specifies that university employees may serve as voting members, but they may not comprise the majority of a board.

Regarding UW employees working for these associated affiliated organizations, RPD 21-10 specifies “resources provided from an associated affiliated organization may fund, in whole or in part, a University positions (e.g. administrative positions that support development and development related activities such as accounting). In these cases, the University is the employer and therefore has sole hiring, supervision, and evaluation responsibilities.”

Both RPD 21-10 and RPD 21-11 address the terms under which UW institutions can provide administrative support to associated affiliated organizations. RPD 21-11 specifies that institutions may provide administrative support, which includes personnel, dedicated space within UW facilities, and other monetary or material resources, to a primary fundraising foundation or associated affiliated organization in exchange for specific related services or other forms of consideration that the foundation or organization might provide. There are various reporting requirements institutions must fulfill if they do provide administrative support. RPD 21-10 specifies that written agreements must exist for an associated affiliated organization to receive administrative support.

Recommendation: Amend the administrative policy to include guidance to University of Wisconsin institutions on the items required to be included in any written agreement with an affiliated organization that is not a primary fundraising foundation or real estate foundation.

Complete: RPD 21-10 requires any associated affiliated organization that receives administrative support to have a written agreement with the institution. This goes further than UWSA Policy 362, which only required a written agreement if the administrative support was valued at more than \$100,000 in a year. According to RPD 21-10, the written agreement must include, but is not limited to, the following components:

- establishment of the working relationship between the University and the associated affiliated organization;
- the organization's policies, resolutions, and/or controls that define the circumstances, if any, in which University employees can approve transactions and enter into obligations on its behalf;
- the services and support to be provided by the associated affiliated organization and the services and support to be provided by the University;
- guidelines and conditions under which the written agreement may be revised or terminated; and
- terms for the associated affiliated organization's use of the University's name, branding, and other University intellectual property.

Recommendation: Amend the administrative policy to explain how the cost-benefit report will be evaluated by University of Wisconsin System Administration and to specify the reporting that will be made to the Board of Regents.

Complete: Currently, after the cost-benefit reports are reviewed and approved by the Chancellors at the campus-level, they are sent to the UW System Vice President for Finance for review and to prepare a report to the Board each year. It is important for the review to occur at the campus-level since many of these relationships are between an organization and a specific institution, but it is also necessary for UWSA to review these reports to ensure accountability.

RPD 21-11 requires a holistic review of each cost-benefit report by the UW institution and UWSA to determine whether or not it is appropriate to continue the relationship with that entity. This includes evaluating the tangible and intangible benefits and costs associated with these relationships. RPD 21-11 states, "this evaluation should consider but is not limited to the length of time a foundation or associated affiliated organization has been in existence, the potential growth of an entity, the funds historically provided to the UW institution, and the intangible benefits provided," in addition to the cost-benefit report. UWSA annually provides a summary of the reports to the Board of Regents.

Recommendation: Revise its administrative policy to require University of Wisconsin institutions to provide an accounting of the costs and benefits of the relationships with each affiliated organization to the University of Wisconsin institution.

Complete: UWSA needs to consider the cost and benefit of any policy prior to adoption. UWSA evaluated the risk of our relationships with primary fundraising foundations, real estate foundations, and associated affiliated organizations, and drafted policies to mitigate them. The Board of Regents, in consultation with UWSA, determined that \$100,000 was a reasonable threshold for annual evaluation. The cost of preparation and review of this report for every affiliated organization annually outweighs the benefit.

RPD 21-11 ensures smaller affiliated organizations are regularly assessed by requiring a cost-benefit analysis for each affiliated organization at least once every five years if the total administrative support provided to the affiliated organization does not exceed \$100,000. If total administrative support is valued at \$100,000 or greater, then the cost-benefit report is required annually. This allows UWSA and the institution to ensure relationships with affiliated organizations are appropriate, in a cost-effective manner.

The UW System Office of Internal Audit conducted an audit of compliance with UWSA Policy 362, and the results of the audit will be reported to the Board of Regents at the December 2020 meeting.

Recommendation: Continue to work with the University of Wisconsin–Madison to establish a timeline to begin using the centralized vendor file for all financial transactions.

In Progress: The UW System is currently implementing a new procurement application, known as the Procure-to-Pay (P2P) Project. This project will significantly change purchasing and accounts payable business processes across the UW System. Given the comprehensive nature and far-reaching effects of this project, UWSA chose to minimize risk to this project and not change UW-Madison’s vendor file at this time. Instead, UW-Madison’s transition to the UW shared vendor file is expected to go-live when the P2P Project is implemented.