

**Report 15-1**  
**February 2015**

# **University of Wisconsin System**

## **Fiscal Year 2013-14**

STATE OF WISCONSIN



Legislative Audit Bureau ■



**Report 15-1  
February 2015**

# **University of Wisconsin System Fiscal Year 2013-14**

## **Joint Legislative Audit Committee Members**

### Senate Members:

Robert Cowles, Co-chairperson  
Mary Lazich  
Alberta Darling  
Kathleen Vinehout  
Janet Bewley

### Assembly Members:

Samantha Kerkman, Co-chairperson  
John Macco  
John Nygren  
Melissa Sargent  
Terese Berceau

## LEGISLATIVE AUDIT BUREAU

---

**State Auditor**  
Joe Chrisman

**Special Assistant**  
Anne Sappenfield

**Director**  
Carolyn Stittleburg

**Supervisor**  
Erin Scharlau

**Information  
Technology  
Audit Coordinator**  
Sharon Conway

**Legislative Analysts**  
Ken Karnovsky  
James Malone  
Andrew McGuire  
Georges Tippens  
Chris Wodicka

**Legislative Auditors**  
Jeremy Brandenburg  
Miranda Brownlow  
Carrie Ferguson  
Jake Hathaway  
Nathan Heimler  
Rachael Inman  
Rachel Jacobson  
Heather Murray  
Katie Natzke  
Joshua Petersen  
Stephanie Yost

**Investigative Data  
Specialist**  
Joseph Johnson

**Publications and  
Design Coordinator**  
Susan Skowronski

The Bureau is a nonpartisan legislative service agency responsible for conducting financial and program evaluation audits of state agencies. The Bureau's purpose is to provide assurance to the Legislature that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law and that state agencies carry out the policies of the Legislature and the Governor. Audit Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau.

---

The Bureau accepts confidential tips about fraud, waste, and mismanagement in any Wisconsin state agency or program through its hotline at 1-877-FRAUD-17.

For more information, visit [www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab).



Contact the Bureau at 22 East Mifflin Street, Suite 500, Madison, Wisconsin 53703;  
[AskLAB@legis.wisconsin.gov](mailto:AskLAB@legis.wisconsin.gov); or (608) 266-2818.

# CONTENTS

---

<b>Letter of Transmittal</b>	<b>1</b>
<b>Report Highlights</b>	<b>3</b>
<b>Introduction</b>	<b>9</b>
UW System Board and Staff	9
Financial Condition	10
Revenue and Expenses	11
Debt Service Costs	13
Net Position	14
Affiliated Organizations	16
<b>UW System's General Program Operations Budget</b>	<b>19</b>
General Program Operations Budget Funding	19
Analysis of UW System's General Program Operations Budget	20
UW Institution General Program Operations Budgets	21
Accounting for Tuition and GPR	23
<b>Program Revenue Balance Reporting</b>	<b>25</b>
Program Revenue Balances	25
Program Revenue Balances Policy	27
Program Revenue Balances Report	29
Improving the Program Revenue Balances Report	31
Obligated and Planned Commitments	32
Federal Indirect Cost Reimbursement	32
Reserves	33
<b>Tuition Remission</b>	<b>37</b>
Types of Tuition Remission	37
Limits on Tuition Remission	39
Administration of Tuition Remission by UW Institutions	40
Additional Oversight over Tuition Remission	42

## **Appendices**

---

- Appendix 1—Board of Regents of the University of Wisconsin System
- Appendix 2—Independent Auditor’s Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters
- Appendix 3—UW System Affiliated Organizations
- Appendix 4—Tuition Remissions, by UW Institution and Statutory Category

## **Response**

---

From the University of Wisconsin System President



STATE OF WISCONSIN

Legislative Audit Bureau

22 East Mifflin Street, Suite 500 ■ Madison, WI 53703 ■ (608) 266-2818 ■ Hotline: 1-877-FRAUD-17 ■ www.legis.wisconsin.gov/lab

Celebrating  
50 Years of  
Service

1966-2016

Joe Chrisman  
State Auditor

February 20, 2015

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 required by s. 13.94(1)(t), Wis. Stats., we have completed a financial audit of the University of Wisconsin (UW) System. We have provided an unmodified opinion on UW System's fiscal year (FY) 2013-14 and FY 2012-13 financial statements. These financial statements and our audit opinion are included in UW System's *2014 Annual Financial Report*.

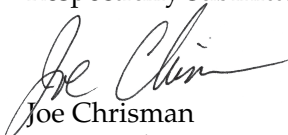
On the basis of generally accepted accounting principles (GAAP), UW System's largest revenue was Student Tuition and Fees, which totaled \$1.1 billion in FY 2013-14 and was 23.4 percent of its total revenue. UW System's largest expense was Salary and Fringe Benefits, which totaled nearly \$3.0 billion in FY 2013-14 and was 61.4 percent of its total expenses. UW System's net position increased by \$23.3 million from the fiscal year ended June 30, 2013, and was \$6.3 billion as of June 30, 2014. On a budgetary basis, UW system's total program revenue balance was \$1.2 billion as of June 30, 2014. Of that amount, \$973.3 million was from funding sources that do not have a restriction on their use, such as tuition and federal indirect cost reimbursement.

We performed a limited review of UW System's new program revenue balances report, which was submitted to the Board of Regents and the Legislature in October 2014, and we reviewed certain tuition remissions awarded by UW institutions in FY 2013-14. We include recommendations for UW System Administration to work to improve the accuracy and usefulness of the next program revenue balances report, and to work to ensure tuition remissions are awarded by UW institutions in a consistent manner.

We again report a material weakness in internal control over the Human Resource System (HRS), which is used by UW System to process and record payroll for its employees. Although UW System has taken corrective actions to address HRS security concerns reported in prior years, corrective actions were not finalized until near or after the end of FY 2013-14. Because incompatible access continued to exist during FY 2013-14, UW System continued to be at risk that inadvertent, erroneous, or unauthorized payments or program code changes could be made during FY 2013-14. We will test the effectiveness of UW System's corrective actions during the FY 2014-15 audit.

We appreciate the courtesy and cooperation extended to us by staff of UW System during the audit. A response from the UW System President follows the appendices.

Respectfully submitted,

  
Joe Chrisman  
State Auditor

JC/CS/ss





---

## Report Highlights ■

---

***On the basis of generally accepted accounting principles (GAAP), UW System's Net Position was \$6.3 billion as of June 30, 2014.***

***We again report a material weakness in internal control over HRS.***

***UW institutions do not retain all of the tuition revenue they collect.***

***Additional guidance and review is needed to ensure UW institutions categorize program revenue balances in accordance with the Board of Regents' policy.***

***Statutes provide UW System considerable discretion to determine the criteria for awarding tuition remissions.***

The University of Wisconsin (UW) System provides postsecondary academic education for approximately 180,000 students. UW System consists of 13 four-year universities, 13 two-year colleges, UW-Extension, and UW System Administration. Under ch. 36, Wis. Stats., UW System is governed by the 18-member Board of Regents, which is responsible for appointing the UW System President, the chancellors of each of the 13 four-year universities and UW-Extension and UW Colleges, and the deans who head each of the two-year colleges.

We are required by statutes to perform an annual financial audit of UW System. Our unmodified opinion on UW System's financial statements for fiscal year (FY) 2013-14 and FY 2012-13 is included in its *2014 Annual Financial Report*. In completing our audit, we:

- analyzed how UW System accounts for the use of general purpose revenue (GPR) and tuition to fund its general program operations budget, which includes the salaries, fringe benefits, utilities, and supplies and services used to provide an education to students enrolled at UW institutions;
- performed a limited review of UW System's new program revenue balances report, which was submitted to the Board of Regents and the Legislature in October 2014;

- reviewed tuition remissions awarded by UW institutions in FY 2013-14; and
- followed up on prior audit recommendations related to security over the Human Resource System (HRS), which is UW System's payroll and personnel system.

## **Financial Condition**

In FY 2013-14, and on the basis of generally accepted accounting principles (GAAP), UW System revenue totaled \$4.9 billion and the largest revenue was Student Tuition and Fees, which totaled \$1.1 billion and was 23.4 percent of total revenue. UW System expenses totaled \$4.8 billion and the largest expense was Salary and Fringe Benefits, which totaled nearly \$3.0 billion and was 61.4 percent of total expenses.

As of June 30, 2014, UW System's net position, which provides a measure of its overall financial condition, was \$6.3 billion on a GAAP basis.

Since the FY 2010-11 audit, we have reported security concerns related to HRS. During the FY 2013-14 audit, we found that UW System implemented corrective actions to address our concerns over excessive user access and the program change process. However, these corrective actions were not implemented until near or after the end of FY 2013-14, and inappropriate access continued to exist throughout FY 2013-14. Therefore, UW System continued to be at risk that inadvertent, erroneous, or unauthorized payments or program code changes could be made, and we again report a material weakness in internal control over HRS for FY 2013-14.

## **General Program Operations Budget**

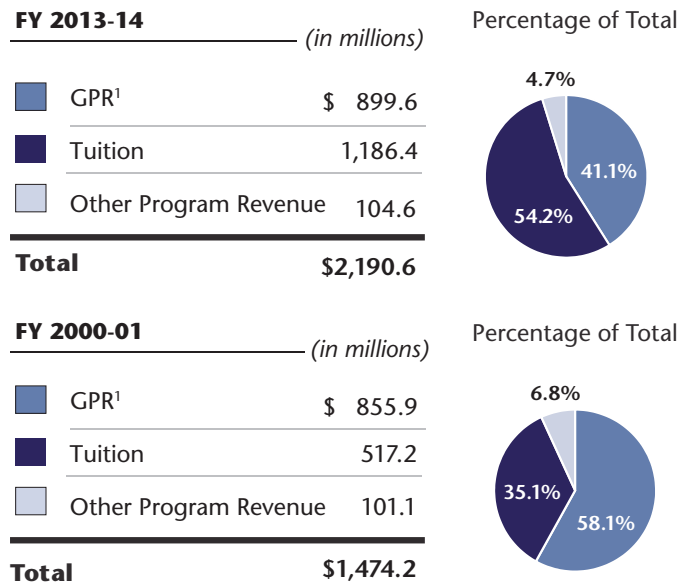
In FY 2013-14, UW System's total budget was \$6.0 billion from all revenue sources. Of that amount, \$2.2 billion was budgeted for general program operations, which includes the salaries, fringe benefits, utilities, and supplies and services used to provide an education to students enrolled at UW institutions. UW System uses a combination of GPR and tuition to fund its general program operations budget.

From FY 2000-01 through FY 2013-14, UW System's total general program operations budget increased \$716.4 million, or by 48.6 percent. As shown in Figure 1, in FY 2000-01, tuition funded \$517.2 million (35.1 percent) of UW System's general program

operations budget, and GPR funded \$855.9 million (58.1 percent). In FY 2013-14, tuition funded \$1.2 billion (54.2 percent) of the general program operations budget, and GPR funded \$899.6 million (41.1 percent).

Figure 1

**General Program Operations Budget**



<sup>1</sup> Excludes GPR for state-funded debt service, the State Laboratory of Hygiene, and the State Veterinary Diagnostic Laboratory.

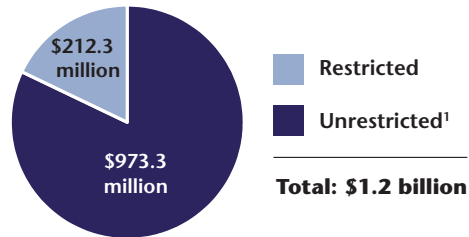
UW institutions do not retain all of the tuition revenue they collect. As of June 30, 2014, \$76.9 million in tuition revenue collected by UW institutions remained in the systemwide tuition account, which is maintained by UW System Administration for the benefit of all UW institutions.

**Program Revenue Balances**

As of June 30, 2014, UW System’s total program revenue balance was \$1.2 billion, as shown in Figure 2. Of that amount, \$973.3 million was from funding sources that do not have a restriction on their use, such as tuition and federal indirect cost reimbursement.

Figure 2

**Total Program Revenue Balance**  
As of June 30, 2014



<sup>1</sup> Categorized as “obligated,” “planned,” “designated,” “reserves,” and “undocumented” in UW System’s 2014 program revenue balances report.

UW System developed a policy regarding its program revenue balances. The policy was required by 2013 Wisconsin Act 20 and was approved by the Joint Legislative Audit Committee and Joint Committee on Finance. In October 2014, the Board of Regents approved UW System’s first report on program revenue balances.

We performed a limited review of the report and requested documentation to support 115 commitments categorized in the report as “obligated” or “planned” based on the level-of-commitment categories we created in report 13-17. We identified instances in which the documentation provided did not support the categorization of the balance in the report.

We found the categorization of federal indirect cost reimbursement balances was inappropriate in some cases. Although six institutions categorized portions of their federal indirect cost reimbursement balances as “designated,” there are no funding source requirements restricting the use of federal indirect cost reimbursement balances.

As of June 30, 2014, \$90.7 million in balances were categorized as “reserves” by UW institutions and \$20.0 million in balances were held as reserves in a systemwide tuition account. We found that 7 of 14 institutions that categorized balances as reserves did not have sufficient documentation to support the categorization. In addition, it was not clear whether reserves held in systemwide accounts are taken into consideration when institutions categorize balances as reserves.

We include recommendations for UW System Administration to work to improve the accuracy and usefulness of the next program revenue balances report.

## Tuition Remission

Tuition remission is an amount of resident or nonresident tuition that is not charged to a student. We focused our review on certain statutory remissions and excluded veterans remissions. In FY 2013-14, UW institutions granted \$136.2 million in the tuition remission categories we reviewed.

Under ch. 36, Wis. Stats., tuition remission may be granted to certain students. UW System has considerable discretion in determining the criteria for awarding tuition remissions, and institutions have differing interpretations of how this discretion is applied when awarding tuition remission to “needy and worthy” students.

We include recommendations for UW System Administration to work to ensure tuition remissions are awarded by UW institutions in a consistent manner.

## Recommendations

We recommend UW System Administration work with the Board of Regents to improve the overall accuracy and usefulness of the program revenue balances report by (p. 36):

- ☑ providing additional guidance to institutions related to the categorization of federal indirect cost reimbursement balances;
- ☑ providing additional guidance to institutions related to documentation required to support balances categorized as reserves, the definition of reserves, and the relationship between reserves maintained by UW System Administration and those maintained by the institutions;
- ☑ including additional information when an institution’s reserves and undocumented balances exceed 12.0 percent of the expenditures from the program revenue source during the fiscal year; and
- ☑ considering additional review of the categorization of program revenue balances, including review by UW System’s Office of Internal Audit.

We further recommend UW System Administration report to the Joint Legislative Audit Committee by June 30, 2015, on the status of its efforts to implement these recommendations.

We also recommend UW System Administration (*p. 43*):

- ☑ review the use of tuition remissions under s. 36.27(3), Wis. Stats., and the related policies and guidance provided to UW institutions;
- ☑ report to the Board of Regents on the use of tuition remissions by the institutions and on the clarification of tuition remission policies and guidance provided to the institutions to ensure these remissions are being awarded in a consistent manner; and
- ☑ report to the Joint Legislative Audit Committee by October 30, 2015, on the status of its efforts to implement these recommendations for all existing categories of these statutory tuition remissions.

■ ■ ■ ■

## Introduction ■

---

UW System provides postsecondary academic education for approximately 180,000 students. The System includes 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, and several 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 System President's staff who assist the Board of Regents in establishing and monitoring systemwide policies, financial planning for the system, and maintaining fiscal control.

### **UW System Board and Staff**

Under s. 15.91, Wis. Stats., the Board of Regents members include:

- 14 citizen members;
- 2 student members, one of whom is a nontraditional student;
- the State Superintendent of Public Instruction; and
- the President of the Wisconsin Technical College System Board, or his or her designee.

Citizen and student members are appointed by the Governor and confirmed by the Senate. Citizen members are appointed for staggered seven-year terms, and student members are appointed for two-year terms. At least one citizen member must reside in each of the State's congressional districts. UW System's Board of Regents members, as of February 1, 2015, are shown in Appendix 1.

***The Board of Regents establishes policies to govern UW institutions.***

The 18-member Board of Regents establishes policies to govern UW institutions. The Board is responsible for appointing the President of UW System, the chancellors of each of the 13 four-year universities and UW-Extension and UW Colleges, and the deans who head each of the two-year colleges. The UW System President and the chancellors of each UW institution are responsible for implementing policies established by the Board of Regents. Each chancellor is responsible for the institution's operations, including financial administration.

## **Financial Condition**

***We provided an unmodified audit opinion on UW System's financial statements for FY 2013-14 and FY 2012-13.***

As required by s. 13.94(1)(t), Wis. Stats., we have completed a financial audit of UW System. We have audited UW System's financial statements for the years ended June 30, 2014, and June 30, 2013, and have provided our unmodified audit opinion to UW System for inclusion in its *2014 Annual Financial Report*, which is available on its website at [www.wisconsin.edu/financial-administration/forms-and-publications/annual-financial-reports/](http://www.wisconsin.edu/financial-administration/forms-and-publications/annual-financial-reports/). UW System's financial statements were prepared using generally accepted accounting principles (GAAP) prescribed by the Governmental Accounting Standards Board (GASB), and include the financial activity of all UW institutions. As a state agency, UW System's financial information is also included in the State's Comprehensive Annual Financial Report (CAFR).

We have also issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is Appendix 2. In that report, we describe two findings related to security over HRS, which is used by UW System to process and record the biweekly and monthly payroll for all staff and students employed by UW institutions, including the 13 four-year universities, 13 two-year colleges, UW-Extension, and UW System Administration. The first finding relates to concerns with access and the second finding relates to concerns with program change controls.

***We again considered the concerns related to security over HRS, when combined, to be a material weakness in internal control over HRS for FY 2013-14.***

We first identified and reported concerns with security over HRS during the FY 2010-11 financial audit. During both the FY 2011-12 and FY 2012-13 audits, we reported concerns related to excessive user access and the program change process that, when combined, represented a material weakness in internal control over HRS. Although UW System implemented corrective actions to address these concerns, these corrective actions were not finalized until near or after



the end of FY 2013-14. Because incompatible access continued to exist during FY 2013-14, UW System continued to be at risk that inadvertent, erroneous, or unauthorized payments or program code changes could be made during FY 2013-14. Therefore, we again considered the concerns related to security over HRS, when combined, to be a material weakness in internal control over HRS for FY 2013-14.

## Revenue and Expenses

***Student Tuition and Fees accounted for 23.4 percent of UW System's total revenue in FY 2013-14.***

UW System revenue decreased from \$5.1 billion in FY 2012-13 to \$4.9 billion in FY 2013-14, or by 4.3 percent, as shown in Table 1. During FY 2013-14, UW System's largest revenue was Student Tuition and Fees, which includes tuition and other academic student fees. From FY 2012-13 through FY 2013-14, revenue from Student Tuition and Fees decreased by 3.1 percent. The \$1.1 billion in Student Tuition and Fees UW System collected in FY 2013-14 was 23.4 percent of its total revenue.

Table 1

**UW System Revenue<sup>1</sup>**  
(in millions)

Financial Statement Account	FY 2013-14	FY 2012-13 <sup>2</sup>	Percentage Change
Student Tuition and Fees <sup>3</sup>	\$1,138.3	\$1,174.7	(3.1)%
State Appropriations <sup>4</sup>	918.7	893.6	2.8
Federal Grants and Contracts	804.2	871.8	(7.8)
Sales and Services of Auxiliary Enterprises <sup>3</sup>	405.7	389.0	4.3
State, Local, and Private Grants and Contracts	358.3	410.9	(12.8)
Other Operating Revenue	318.8	326.9	(2.5)
Sales and Services of Educational Activities	312.0	294.0	6.1
Gifts	292.3	295.8	(1.2)
Other Nonoperating Revenue	96.9	81.9	18.3
Capital Appropriations	94.5	200.1	(52.8)
Sales and Services to UW Hospital Authority	65.2	66.8	(2.4)
Capital Contributions	46.5	65.1	(28.5)
Student Loan Interest Income and Fees	5.1	4.5	12.8
<b>Total</b>	<b>\$4,856.5</b>	<b>\$5,075.1</b>	<b>(4.3)</b>

<sup>1</sup> On the basis of generally accepted accounting principles (GAAP).

<sup>2</sup> Certain FY 2012-13 account balances were restated.

<sup>3</sup> Does not include scholarships and fellowships applied to student accounts.

<sup>4</sup> Excludes GPR appropriated to UW System for debt service payments.

State Appropriations was UW System's second-largest revenue during FY 2013-14. Except for GPR appropriated to UW System for its debt service payments, the GPR UW System receives was reported on UW System's financial statements as State Appropriations. In FY 2013-14, State Appropriations totaled \$918.7 million and accounted for 18.9 percent of total revenue. From FY 2012-13 through FY 2013-14, State Appropriations increased by \$25.1 million, or by 2.8 percent.

Federal Grants and Contracts totaled \$804.2 million in FY 2013-14 and accounted for 16.6 percent of UW System's total revenue. Other significant revenue for UW System in FY 2013-14 included:

- Sales and Services of Auxiliary Enterprises, which totaled \$405.7 million and included revenue received for services such as student housing and food service;
- State, Local, and Private Grants and Contracts, which totaled \$358.3 million and included grants and contracts received from other state agencies, Wisconsin municipalities, and other nonfederal entities;
- Other Operating Revenue, which totaled \$318.8 million and included revenue from intercollegiate athletics, student health services, child care centers, and certain administrative services;
- Sales and Services of Educational Activities, which totaled \$312.0 million and included revenue received from the sales of goods or services that were incidental to the primary function of UW System, such as textbook rentals, laboratory fees, scientific and literary publications, and public service programs; and
- Gifts, which totaled \$292.3 million and included amounts received from donors.

As shown in Table 2, UW System expenses totaled \$4.8 billion in FY 2013-14 and increased by 5.0 percent since FY 2012-13.

Table 2  
**UW System Expenses<sup>1</sup>**  
(in millions)

Financial Statement Account	FY 2013-14	FY 2012-13 <sup>2</sup>	Percentage Change
Salary and Fringe Benefits	\$2,969.4	\$2,870.4	3.5%
Supplies and Services	1,227.6	1,150.2	6.7
Depreciation	273.5	290.5	(5.9)
Scholarships and Fellowships	149.6	132.2	13.2
Transfer to State Agencies	94.9	65.9	44.1
Interest on Indebtedness	62.6	56.6	10.6
Other Operating Expenses	30.2	21.1	43.1
Loss on Disposal of Capital Assets	25.6	17.9	43.0
<b>Total</b>	<b>\$4,833.4</b>	<b>\$4,604.8</b>	<b>5.0</b>

<sup>1</sup> On the basis of generally accepted accounting principles (GAAP).

<sup>2</sup> Certain FY 2012-13 account balances were restated.

***Salary and Fringe Benefits was UW System's largest expense and totaled nearly \$3.0 billion in FY 2013-14.***

Salary and Fringe Benefits was the largest expense of UW System and totaled nearly \$3.0 billion, or 61.4 percent of total expenses in FY 2013-14. Other significant expenses included those related to the purchase of supplies and services, depreciation on capital assets, and scholarships and fellowships.

### **Debt Service Costs**

The State of Wisconsin issues debt on behalf of UW System, as it does for other state agencies. The proceeds of this debt are used to acquire or build facilities and other capital assets. Debt on academic facilities is repaid using GPR appropriated to UW System for that purpose. Debt on other facilities, such as residence halls, is repaid using program revenue that is generated by payments from users of these facilities.

***Outstanding GPR-funded debt, which is paid by the State for academic facilities, was \$1.7 billion as of June 30, 2014.***

In FY 2013-14, GPR-funded debt service payments totaled \$232.2 million, while program revenue-funded debt service payments totaled \$148.3 million. As of June 30, 2014, outstanding GPR-funded debt totaled \$1.7 billion, and outstanding program revenue-funded debt totaled \$1.6 billion.

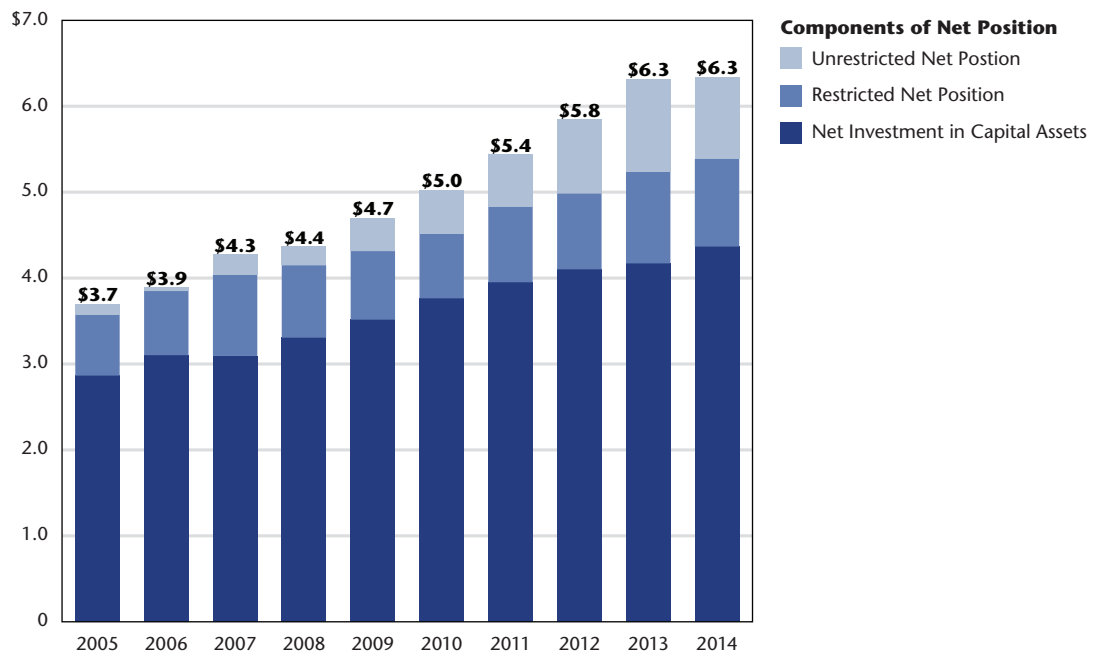
### Net Position

***UW System’s net position was \$6.3 billion as of June 30, 2014.***

Net position provides a measure of the overall financial condition of UW System. On a GAAP basis, UW System’s net position was \$6.3 billion as of June 30, 2014, as shown in Figure 3, and increased by \$23.3 million since June 30, 2013. Net position was presented in three components on UW System’s financial statements: Net Investment in Capital Assets, Restricted Net Position, and Unrestricted Net Position.

Figure 3

**Net Position of UW System<sup>1</sup>**  
As of June 30  
(in billions)



<sup>1</sup> On the basis of generally accepted accounting principles (GAAP).

Net Investment in Capital Assets represents capital assets, such as buildings and equipment, less accumulated depreciation and less any related outstanding debt needed to purchase or construct these capital assets. Net Investment in Capital Assets was the largest component of UW System’s net position and totaled \$4.4 billion as of June 30, 2014.

Restricted Net Position represents balances that have an external restriction on their use. The majority of UW System’s Restricted Net

Position relates to balances that were restricted for endowment funds, gifts, nonfederal grants and contracts, and federal student loans. Restricted Net Position totaled \$1.0 billion as of June 30, 2014.

***UW System's Unrestricted Net Position was \$947.5 million as of June 30, 2014.***

Unrestricted Net Position represents any remaining balances not otherwise included in Net Investment in Capital Assets or Restricted Net Position. These balances were available to UW System for future spending. UW System indicated that most of its Unrestricted Net Position will be used for academic and research programs and initiatives, and capital programs. Unrestricted Net Position decreased from \$1.1 billion as of June 30, 2013, to \$947.5 million as of June 30, 2014, or by \$132.2 million.

***Student Tuition and Fees represented 46.3 percent of Unrestricted Net Position as of June 30, 2014.***

Prior to FY 2013-14, UW System's Unrestricted Net Position increased steadily because UW System collected more revenue than it used in its operations. This increase in Unrestricted Net Position was largely attributable to unspent balances from Student Tuition and Fees. Unrestricted Net Position related to Student Tuition and Fees decreased by \$155.5 million to \$439.0 million as of June 30, 2014, and represented 46.3 percent of Unrestricted Net Position as of June 30, 2014. The decrease is largely the result of a provision in 2013 Wisconsin Act 20, the 2013-15 Biennial Budget Act, requiring UW System to transfer \$58.3 million in program revenue balances to the Higher Educational Aids Board to replace GPR that supports Wisconsin Higher Education Grants for UW System students. Other components of Unrestricted Net Position include general operations receipts, auxiliary operations not funded with student fees, and federal indirect cost reimbursement.

As noted, UW System's financial information is presented in the State's CAFR, which is prepared by the State Controller's Office in the Department of Administration. Certain reclassifications and adjustments, which are required by the State Controller's Office, result in differences between the net position reported in UW System's *2014 Annual Financial Report* and the net position reported in the CAFR. For example, UW System reported an "Other Postemployment Benefit" liability of \$233.0 million as of June 30, 2014, in the CAFR. However, in UW System's *2014 Annual Financial Report*, these amounts were disclosed in the notes to the financial statements and not in the statements themselves. As a result, UW System's net position as reported in UW System's *2014 Annual Financial Report* was \$6.3 billion compared to \$6.1 billion as reported in the CAFR. These differences are discussed in Note 13 of UW System's *2014 Annual Financial Report*.

## Affiliated Organizations

***UW System Administration identified 73 independent affiliated organizations, such as booster clubs, alumni organizations, and foundations.***

In assessing affiliated organizations, under the provisions of GASB Statements 14, 39, and 61, UW System Administration is required to consider various factors, such as the legal status of the organization and the financial significance of the organization to UW System. For FY 2013-14 financial reporting purposes, UW System identified 73 independent affiliated organizations, which include booster clubs, alumni organizations, and foundations. Generally, because these organizations are separate legal entities, UW System does not control or have direct access to the funds held by these organizations. Appendix 3 lists all UW System affiliated organizations identified by UW System Administration.

UW System Administration has determined that any affiliated organization is financially significant if its total net assets, or net position, is greater than or equal to 5.0 percent of UW System's net position in the previous fiscal year. For FY 2013-14, an affiliated organization with net assets greater than or equal to \$317.4 million was considered by UW System Administration to be financially significant to UW System. UW System's three largest affiliated organizations are UW Foundation, Wisconsin Alumni Research Foundation (WARF), and UW Medical Foundation.

UW System Administration has determined that UW Foundation is financially significant. UW Foundation raises funds, receives gifts, and manages its investments primarily for the benefit of UW-Madison. Disbursements to and on behalf of UW-Madison are for scientific, literary, educational, and athletic purposes. UW System Administration includes UW Foundation's condensed financial information in Note 11 of its *2014 Annual Financial Report*. UW Foundation's net position was \$2.7 billion as of December 31, 2013, and it contributed \$236.9 million to UW-Madison during the fiscal year ended December 31, 2013.

WARF patents and licenses discoveries by UW-Madison researchers and uses income generated from the invested licensing revenues to fund additional UW-Madison research. In addition, WARF and UW-Madison jointly own the Wisconsin Institutes for Discovery. According to WARF's most recent publicly available Internal Revenue Service (IRS) Form 990, WARF had net assets of \$2.2 billion as of June 30, 2013, and contributed \$70.6 million to UW-Madison during the fiscal year ended June 30, 2013. Because WARF activities benefit more than UW-Madison, UW System Administration has determined that, under GASB standards, WARF's financial statements are not presented as part of UW System's financial statements. However, Note 11 of UW System's *2014 Annual Financial Report* provides further information on the Wisconsin Institutes for Discovery.

UW Medical Foundation is the clinical practice organization for the faculty physicians of the UW-Madison School of Medicine and Public Health. The UW Medical Foundation provides clinical sites, technical and professional staff, and administrative services. According to its most recent publicly available IRS Form 990, the UW Medical Foundation had net assets of \$259.4 million as of June 30, 2013, and contributed \$31.7 million to UW-Madison during the fiscal year ended June 30, 2013. Because UW Medical Foundation is not financially significant to UW System, its financial statements are not presented as part of UW System's financial statements. However, Note 11 of UW System's *2014 Annual Financial Report* discloses certain payments made to UW-Madison by UW Medical Foundation.

■ ■ ■ ■





# UW System's General Program Operations Budget ■

---

***UW System's general program operations budget, which totaled \$2.2 billion in FY 2013-14, was funded by a combination of GPR and tuition.***

UW System's total budget from all revenue sources totaled \$6.0 billion for FY 2013-14. Of this amount, \$2.2 billion was budgeted for general program operations. UW System's general program operations budget is comprised of a combination of GPR and tuition revenue and is used to fund its general program operations, which include the salaries, fringe benefits, utilities, and supplies and services used to provide an education to students enrolled at UW institutions. We analyzed changes in the amount of GPR and tuition used to fund UW System's general program operations budget and how UW System accounts for the use of GPR and tuition that funds its general program operations budget.

## **General Program Operations Budget Funding**

UW System is allocated GPR through the State's biennial budget. The Board of Regents, as authorized under s. 36.27, Wis. Stats., establishes tuition rates. Although the Legislature does not directly set tuition rates, it can limit the amount by which the Board of Regents may increase tuition. For example, 2013 Wisconsin Act 20 included a provision requiring the Board of Regents to maintain resident undergraduate tuition rates for academic years 2013-14 and 2014-15 at the 2012-13 academic year levels.

In a given fiscal year, UW System Administration staff determine the general program operations budget by adjusting the prior fiscal year's general program operations budget for factors such as

increases in utility or fringe benefit costs; the anticipated cost of new initiatives; or known changes in available GPR or tuition revenue. To determine the portion of the general program operations budget that will be funded by tuition, UW System Administration staff work with staff at the individual institutions to project each institution's tuition revenue. The amount of tuition revenue that must be generated to fund the general program operations budget is referred to by UW System staff as the "tuition revenue target."

Although most tuition revenue is budgeted to fund UW System's general program operations, UW institutions also may budget tuition revenue to fund institution-specific activities. UW System Administration staff indicated that UW institutions are encouraged to generate "entrepreneurial tuition," which it defines as tuition revenues greater than the amount required by the UW institution's tuition revenue target. Entrepreneurial tuition revenue is generated through efforts such as new academic programs, enrollment growth, or increased nonresident enrollment, and includes differential tuition, which is tuition used to supplement services and programs for students. UW System Administration staff indicated that UW institutions retain entrepreneurial tuition in order to cover the costs related to those activities as well as to lessen the impact of enrollment declines or other unanticipated events. When an institution consistently generates tuition revenue amounts above its tuition revenue target, UW System Administration staff work with that institution to incorporate those revenues into a new tuition revenue target.

### **Analysis of UW System's General Program Operations Budget**

***In FY 2013-14,  
54.2 percent of  
UW System's general  
program operations  
budget was funded  
by tuition.***

From FY 2000-01 through FY 2013-14, UW System's total general program operations budget increased \$716.4 million, or by 48.6 percent. During that period, tuition budgeted to fund the general program operations budget increased by 129.4 percent and GPR budgeted to fund the general program operations budget increased by 5.1 percent. As shown in Table 3, UW System's general program operations budget totaled \$2.2 billion in FY 2013-14, of which \$1.2 billion (54.2 percent) was funded by tuition and \$899.6 million (41.1 percent) was funded by GPR.

Table 3

**UW System General Program Operations Budget**  
 FY 2000-01 to FY 2013-14  
 (in millions)

Fiscal Year	GPR <sup>1</sup>	Percentage of Total	Tuition <sup>2</sup>	Percentage of Total	Other Program Revenue <sup>3</sup>	Percentage of Total	Total
2000-01	\$855.9	58.1%	\$ 517.2	35.1%	\$101.1	6.8%	\$1,474.2
2001-02	860.0	56.2	565.1	37.0	104.2	6.8	1,529.3
2002-03	876.1	54.8	620.0	38.8	103.7	6.4	1,599.8
2003-04	783.8	49.3	704.6	44.3	101.0	6.4	1,589.4
2004-05	773.6	46.9	774.4	47.0	101.3	6.1	1,649.3
2005-06	702.0	43.1	824.5	50.6	102.4	6.3	1,628.9
2006-07	747.6	43.4	869.3	50.5	104.9	6.1	1,721.8
2007-08	801.4	44.4	899.2	49.8	105.0	5.8	1,805.6
2008-09	845.6	44.6	939.4	49.5	112.3	5.9	1,897.3
2009-10	786.3	41.7	990.2	52.5	110.8	5.8	1,887.3
2010-11	815.3	41.5	1,039.2	52.9	109.6	5.6	1,964.1
2011-12	706.0	37.0	1,097.1	57.5	104.5	5.5	1,907.6
2012-13	915.7	42.0	1,159.7	53.2	106.0	4.8	2,181.4
2013-14	899.6	41.1	1,186.4	54.2	104.6	4.7	2,190.6

<sup>1</sup> Excludes GPR for state-funded debt service, the State Laboratory of Hygiene, and the State Veterinary Diagnostic Laboratory.

<sup>2</sup> Includes academic student fees used for the support of general program operations and UW-Extension student fees and excludes academic student fees used for institution-specific needs, such as self-supporting activities.

<sup>3</sup> Includes amounts related to general operations receipts, federal indirect cost reimbursement, and UW-Extension non-credit program receipts.

**UW Institution General Program Operations Budgets**

***GPR funded 40.4 percent and 40.0 percent of the general program operations budgets for UW-Madison and UW-Milwaukee, respectively.***

Based on discussions with UW System Administration staff, the general program operations budget of an institution with fewer enrolled students will generally be funded by a higher percentage of GPR than an institution with more enrolled students. UW System Administration staff indicated this is because institutions with lower enrollments generally have less ability to generate additional tuition revenue and fewer economies of scale to develop tuition-generating activities. As shown in Table 4, the general program operations budgets of UW-Superior and UW-Parkside were funded 55.8 and 44.9 percent respectively by GPR, and 44.2 and 55.1 percent respectively by tuition. However, UW-Madison and UW-Milwaukee

are budgeted more GPR than many institutions because of their larger research missions and the costs associated with graduate and professional programs. The general program operations budgets for UW-Madison and UW-Milwaukee were funded 40.4 and 40.0 percent respectively by GPR, and 52.3 and 59.8 percent respectively by tuition.

Table 4

**UW System General Program Operations Budgets, by Institution**  
 FY 2013-14  
 (in millions)

Institution (by enrollment)	GPR <sup>1</sup>	Percentage of Total	Tuition <sup>2</sup>	Percentage of Total	Other Program Revenue <sup>3</sup>	Percentage of Total	Total
Madison	\$355.9	40.4%	\$ 460.8	52.3%	\$ 65.0	7.3%	\$ 881.7
Milwaukee	101.5	40.0	151.6	59.8	0.5	0.2	253.6
Colleges	29.8	41.8	41.5	58.2	0.0	0.0	71.3
Oshkosh	31.5	34.4	60.2	65.6	0.0	0.0	91.7
Whitewater	18.4	20.8	70.0	79.2	0.0	0.0	88.4
Eau Claire	30.6	32.8	62.8	67.2	0.0	0.0	93.4
La Crosse	23.5	30.5	53.6	69.5	0.0	0.0	77.1
Stevens Point	25.7	33.0	52.2	67.0	0.0	0.0	77.9
Stout	24.9	34.9	46.4	65.1	0.0	0.0	71.3
Platteville	19.6	36.4	34.3	63.6	0.0	0.0	53.9
Green Bay	16.8	36.4	29.4	63.6	0.0	0.0	46.2
River Falls	18.1	35.1	33.5	64.9	0.0	0.0	51.6
Parkside	19.5	44.9	23.9	55.1	0.0	0.0	43.4
Superior	16.3	55.8	12.9	44.2	0.0	0.0	29.2
Extension	82.8	47.3	53.3	30.4	39.1	22.3	175.2
System Administration	7.5	100.0	0.0	0.0	0.0	0.0	7.5
Systemwide <sup>4</sup>	77.2	100.0	0.0	0.0	0.0	0.0	77.2
<b>Total</b>	<b>\$899.6</b>		<b>\$1,186.4</b>		<b>\$104.6</b>		<b>\$2,190.6</b>

<sup>1</sup> Excludes GPR for state-funded debt service, the State Laboratory of Hygiene, and the State Veterinary Diagnostic Laboratory.

<sup>2</sup> Includes academic student fees used for the support of general program operations and UW-Extension student fees and excludes academic student fees used for institution-specific needs, such as self-supporting activities.

<sup>3</sup> Includes amounts related to general operations receipts, federal indirect cost reimbursement, and UW-Extension non-credit program receipts.

<sup>4</sup> Accounts maintained by UW System Administration for the benefit of all UW institutions.

***In FY 2013-14, tuition funded 79.2 percent of UW-Whitewater's general program operations budget.***

In FY 2013-14, UW-Whitewater's general program operations budget was funded with the highest percentage of tuition (79.2 percent) among all UW institutions. UW System Administration staff indicated that UW-Whitewater increased tuition revenues over time by, for example, attracting more nonresident students. As more tuition revenues were generated, UW-Whitewater was able to increase the portion of its general program operations budget funded by tuition.

In December 2013, the Board of Regents formally adopted as a policy the practice used by UW System Administration to establish each institution's general program operations budget. As required by 2013 Wisconsin Act 20, UW System submitted that policy to the Joint Committee on Finance, which approved the policy in May 2014. This policy is due to "sunset" on June 30, 2015, and a workgroup was established to review the current practice and make recommendations for updating the policy beginning with FY 2015-16. This workgroup presented a report for discussion purposes to the Board of Regents at the Board's October 2014 meeting, but the Board of Regents had taken no action on it as of February 2015.

***In preparing its FY 2014-15 budget, UW System began implementing changes to its budgeting and financial planning processes.***

In addition, beginning with its FY 2014-15 budget, UW System began implementing changes to its budgeting and financial planning processes. These changes include using a long-term financial planning model, considering both revenues and expenditures in budget development, and providing the Board of Regents with periodic budget-to-actual reports, which were provided to the Board of Regents in April 2014, October 2014, and February 2015. In addition, with its FY 2014-15 budget, UW System also began including program revenue balances in its budget plans.

## **Accounting for Tuition and GPR**

The Board of Regents formally adopted a policy on the expenditure of tuition and GPR in October 2013. As required by 2013 Wisconsin Act 20, UW System submitted that policy to the Joint Committee on Finance, which approved the policy in May 2014. Under this policy, GPR and tuition are accounted for in separate appropriations or "funds" within UW System's accounting system. When tuition revenue is received by an institution, the revenue is recorded in the tuition fund. However, when recording expenditures, it is the Board of Regents' policy that institutions record expenditures related to general program operations in the GPR fund.

On a monthly basis, UW System Administration staff make accounting entries to allocate expenditures recorded in the GPR

fund to the tuition fund based on the percentage of general program operations expenditures that are funded by GPR versus tuition, as specified in each institution's general program operations budget. At the end of the fiscal year, any expenditures exceeding the remaining amount of GPR are transferred to the tuition fund.

***UW System's systemwide tuition account had a balance of \$76.9 million as of June 30, 2014.***

If expenditures allocated to the tuition fund are less than the amount of tuition that was determined to be needed to fund the general program operations budget, the remaining tuition revenue from the institution is recorded in a systemwide tuition account. UW System Administration staff reallocate a portion of the balance in this systemwide tuition account back to the institution. However, the institution is not reallocated all of the tuition revenue it collected. As of June 30, 2014, \$76.9 million in tuition revenue collected by UW institutions remained in the systemwide tuition account. UW System Administration indicates this remaining balance is maintained for the benefit of all UW institutions. For example, UW System reimburses institutions for veterans remissions from this account and may use this account to provide financial assistance to UW institutions that are experiencing financial difficulty.

■ ■ ■ ■

## Program Revenue Balance Reporting ■

---

As required by 2013 Wisconsin Act 20, and approved by the Joint Legislative Audit Committee and Joint Committee on Finance, UW System developed a policy regarding program revenue balances. Its first program revenue balances report was approved by the Board of Regents in October 2014. The report is intended to increase transparency and improve the monitoring and oversight of program revenue balances by the Board of Regents, UW System Administration, and UW institutions. The report includes a summary of program revenue balances for each institution, categorized as obligated, planned, designated, reserves, and undocumented. Although we performed a limited review of the report, we did not audit it. We include recommendations for UW System Administration to work with the Board of Regents to improve the overall accuracy and usefulness of the next report.

### Program Revenue Balances

***UW System's total program revenue balance was \$1.2 billion as of June 30, 2014.***

UW System receives program revenue from sources such as tuition; auxiliary operations, which includes fees charged for student housing and food service; federal revenue; and gifts. On a budgetary basis, and as shown in Table 5, UW System's total program revenue balance increased from June 30, 2005, through June 30, 2013, when it reached nearly \$1.3 billion. As of June 30, 2014, the balance decreased to approximately \$1.2 billion.

Table 5

**UW System Total Program Revenue Balance<sup>1</sup>**  
As of June 30  
(in millions)

Year	Total	Percentage Change
2005	\$ 268.2	–
2006	315.2	17.5%
2007	406.0	28.8
2008	443.6	9.3
2009	563.7	27.1
2010	649.6	15.2
2011	836.8	28.8
2012	1,045.0	24.9
2013	1,273.5	21.9
2014	1,185.6	(6.9)

<sup>1</sup> On a budgetary basis.

Concerns about UW System’s total program revenue balance prompted the Joint Legislative Audit Committee to direct the Legislative Audit Bureau in April 2013 to review the level of commitment for UW System’s program revenue balance. We issued report 13-17 in November 2013 on the level of commitment for UW System’s program revenue balance as of June 30, 2012.

In report 13-17, we focused our review on \$755.4 million in June 30, 2012 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:

- “Obligated” balances are held for a purpose as indicated by documentation such as a contract or encumbrance that would make it difficult for institutions to easily use the balance for other purposes.
- “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 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 have no funding source requirements and no documentation of an obligation or plan.

In addition to our review of the level of commitment of the program revenue balances, we noted that UW System did not have a policy to monitor program revenue balances and the extent of UW institutions’ monitoring 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 to submit it to the Joint Legislative Audit Committee. Act 20 also required the Board of Regents to propose limits, and reporting of the limits, on program revenue balances for UW System as a whole and by each individual institution and submit this information to the Joint Committee on Finance.

***There is no ongoing statutory requirement for UW System to report on program revenue balances.***

In April 2014, the Board of Regents approved a combined methodology and proposed policy including proposed limits on program revenue balances and submitted them to the Joint Legislative Audit Committee and Joint Committee on Finance. The Joint Legislative Audit Committee approved the methodology in April 2014. The Joint Committee on Finance approved, with modifications, the policy on the limits, and reporting of the limits, on program revenue balances in May 2014. The Board of Regents approved a revised policy in June 2014. Although 2013 Wisconsin Act 20 required the Board of Regents to develop this policy, there is no ongoing statutory requirement for UW System to report on program revenue balances.

## **Program Revenue Balances Policy**

The final, approved policy requires UW System Administration to report to the Board of Regents annually during the Board’s October meeting the fiscal year-end balances for each institution for

five program revenue sources that do not have a restriction on their use (unrestricted) and for four restricted program revenue sources, including gifts, nonfederal grants and contracts, and federal grants and contracts. For the five unrestricted program revenue sources, the policy also requires UW institutions to categorize their balances using the level-of-commitment categories defined in report 13-17, as well as the additional reporting requirements described in Table 6.

Table 6

**Selected Reporting Requirements for Unrestricted Program Revenue Balances<sup>1</sup>**

Program Revenue Source	Calculation	Additional Reporting
Tuition (academic student fees and UW-Extension student fees)	Calculate the ratio of the balance to the combined expenditures for GPR (less GPR-funded debt services) and tuition.	When the ratio exceeds 12.0 percent, provide a detailed plan on how funds will be expended. If the balance is negative, provide a savings plan.
Auxiliary Operations	Calculate the ratio of the balance to total auxiliary operations expenditures.	When the ratio exceeds 12.0 percent, provide a detailed plan on how funds will be expended. If the balance is negative, provide a savings plan.
General Operations	Calculate the ratio of the balance to total general operations expenditures.	When the ratio exceeds 12.0 percent, provide a detailed plan on how funds will be expended.
Other Unrestricted Program Revenue	Calculate the ratio of the balance to total other unrestricted program revenue expenditures.	When the ratio exceeds 12.0 percent, provide a detailed plan on how funds will be expended.
Federal Indirect Cost Reimbursement	Calculate the percentage change from the prior year balance.	None.

<sup>1</sup> As approved by the Joint Legislative Audit Committee and Joint Committee on Finance in accordance with provisions in 2013 Wisconsin Act 20.

***Institutions are required to prepare a detailed spending plan for certain unrestricted program revenue balances that exceed 12.0 percent of expenditures.***

When detailed spending plans are required, the policy specifies the plans should include details on how the funds will be spent, the specific projects for which the funds are held, the amount of funds currently held for each project, and the period in which the funds will be spent. In addition, if an institution has a negative balance at the end of the fiscal year in its tuition or auxiliary operations accounts, the policy requires the institution to create a savings plan detailing the steps the institution plans to take to eliminate the negative balance.

## Program Revenue Balances Report

Based on the approved policy, the UW System's *Report on Program Revenue Balances by Institution and Level of Commitment* (program revenue balances report) for FY 2013-14 was approved by the Board of Regents during the Board's October 2014 meeting. Staff at each UW institution were responsible for preparing the sections of the report for their institution using guidance provided by UW System Administration. UW System Administration staff indicated that they facilitated the development of the report by:

- coordinating teleconference calls with UW institutions to answer questions;
- developing a frequently asked questions document to aid institutions in categorizing their balances; and
- questioning certain commitment categorizations by UW institutions.

***To help prepare the report, UW System Administration paid \$28,500 to a short-term employee for consulting services.***

To help it prepare the report, UW System Administration hired a short-term employee who was paid \$28,500 to provide consulting services from mid-June 2014 through October 2014. Although in certain instances during preparation of the report UW System Administration staff questioned certain categorizations of commitments made by UW institutions, they did not request or review documentation used by the institutions to support the categorization of commitments.

***UW-Madison's unrestricted program revenue balance was \$386.5 million as of June 30, 2014, and represented 39.7 percent of the total.***

As shown in Table 7, the unrestricted program revenue balances attributable to individual institutions varied. UW-Madison's unrestricted program revenue balance of \$386.5 million was the largest and represented 39.7 percent of the unrestricted program revenue balances at UW institutions as of June 30, 2014. Systemwide accounts, which are accounts maintained by UW System Administration for the benefit of all UW institutions, had the second largest unrestricted program revenue balance at \$92.9 million. UW-Superior had the smallest unrestricted program revenue balance at -\$1.9 million. UW-Superior officials attributed the negative balance to debt related to a loan it received from UW System Administration for the construction of a residence hall and a student union.

Table 7

**Unrestricted Program Revenue Balances, by Institution<sup>1, 2</sup>**  
As of June 30, 2014<sup>3</sup>  
(in millions)

Institution	Total	Percentage of Total
Madison	\$386.5	39.7%
Systemwide <sup>4</sup>	92.9	9.6
Milwaukee	84.2	8.7
La Crosse	76.2	7.8
Eau Claire	50.3	5.2
Oshkosh	49.7	5.1
Whitewater	45.6	4.7
Stevens Point	39.9	4.1
Extension	27.1	2.8
Colleges	25.5	2.6
Platteville	22.7	2.3
Green Bay	22.2	2.3
River Falls	19.7	2.0
Stout	11.9	1.2
System Administration	11.7	1.2
Parkside	9.1	0.9
Superior	(1.9)	(0.2)
<b>Total</b>	<b>\$973.3</b>	<b>100.0%</b>

<sup>1</sup> On a budgetary basis.

<sup>2</sup> Includes balances from tuition, including academic student fees and UW-Extension student fees; auxiliary operations; general operations; federal indirect cost reimbursement; and other unrestricted program revenue.

<sup>3</sup> As adjusted by allocations to UW institutions from systemwide accounts.

<sup>4</sup> Accounts maintained by UW System Administration for the benefit of all UW institutions.

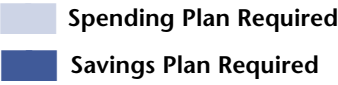
**Based on application of the policy, all UW institutions were required to submit a detailed plan on how balances will be spent for at least one unrestricted program revenue source.**

Based on the requirements of UW System's policy, each UW institution was required to submit a detailed plan on how funds will be spent for at least one of its four unrestricted program revenue sources, and seven UW institutions were required to provide plans for all four of their unrestricted program revenue sources. As shown in Table 8, the lowest ratio of fiscal year-end balances to expenditures was a -62.7 percent ratio in UW-Superior's auxiliary operations accounts. The highest ratio was a 709.8 percent ratio in UW-Extension's other unrestricted program revenue

accounts which, according to UW-Extension officials, was the result of a fund transfer from systemwide accounts for the Flexible Options program, UW System's competency-based degree program.

Table 8

**Ratio of Unrestricted Program Revenue Balances to Expenditures**  
As of June 30, 2014

Institution				
	Tuition <sup>1</sup>	Auxiliary Operations	General Operations	Other Unrestricted Program Revenue
Colleges	23.3%	36.2%	78.6%	10.7%
Eau Claire	15.2	52.3	92.4	87.1
Extension	14.9	41.4	28.4	709.8
Green Bay	16.2	32.8	136.5	32.6
La Crosse	20.9	80.7	269.8	4.0
Madison	8.1	30.2	9.2	14.3
Milwaukee	15.1	13.1	37.1	14.3
Oshkosh	15.3	47.2	103.9	3.0
Parkside	18.2	(9.3)	62.2	5.8
Platteville	15.5	7.4	11.4	99.3
River Falls	14.5	17.8	23.2	104.5
Stevens Point	19.4	32.4	38.9	34.8
Stout	2.1	4.5	30.0	6.7
Superior	5.8	(62.7)	24.9	0.5
System Administration	–	140.2	382.5	–
Systemwide <sup>2</sup>	298.9	65.5	48.3	0.0
Whitewater	26.6	15.4	42.2	43.8

<sup>1</sup> Includes tuition and GPR expenditures, less GPR-funded debt service.

<sup>2</sup> Accounts maintained by UW System Administration for the benefit of all UW Institutions.

## Improving the Program Revenue Balances Report

Our review of the program revenue balances report for FY 2013-14 found that UW System Administration accurately reported its June 30, 2014 year-end balances, fiscal year expenditures, and the

ratio of fiscal year-end balances to expenditures for each institution. For the UW institutions required to provide a detailed plan on how funds will be spent or a savings plan, we found the plans included the components required by the approved policy. However, we identified concerns with the documentation provided to support the categorization of a balance as obligated or planned, the categorization of federal indirect cost reimbursement balances as designated, and the use of the reserves category by some institutions.

### **Obligated and Planned Commitments**

***We identified instances in which the documentation provided did not support the categorization of the balance.***

We requested documentation from UW institutions to support spending plans for 115 obligated and planned commitments we selected for further review. In our review, we identified instances in which the documentation provided by the institutions did not support the categorization of the balance. For example, UW-Milwaukee stated it obligated \$200,000 of its tuition balance for the replacement of computers. However, the only documentation provided was an email in response to our request stating that the department typically purchases computers at the end of a fiscal year and plans to spend down its balance. This balance may have been more appropriately categorized as planned, if additional documentation was available, or as undocumented in the absence of additional documentation.

We also identified instances in which the documentation provided was dated after UW System Administration's reporting deadline of July 15, 2014. For example, UW-Eau Claire stated it obligated \$2.2 million of its tuition balance that it received through a UW System economic development incentive grant to support the field of nursing. However, the only documentation provided to support the categorization of the balance were signed offers for fellowships and loans dated after July 15, 2014.

### **Federal Indirect Cost Reimbursement**

***Federal indirect cost reimbursement balances were inappropriately categorized as designated by some institutions.***

Federal indirect cost reimbursement is received from the federal government for various costs incurred in administering federal grant programs. We found that six UW institutions categorized portions of their federal indirect cost reimbursement balances as designated, which are balances held for purposes related to the original funding source. However, because there are no funding source requirements restricting the use of federal indirect cost reimbursement balances, this categorization was inappropriate. According to UW institution staff, this was done because internal policies directed the balances to specific departments. We believe it may have been more appropriate to categorize the balances as planned, if the departments had

documented plans for the use of the balances, or as undocumented if they did not have documented plans.

## Reserves

Reserves are defined as balances for which documentation indicates amounts are purposefully held for contingencies. Examples of contingencies include unexpected declines or fluctuations in enrollment, abrupt termination of federal funding, emergencies, or other unforeseen circumstances. Guidance provided by UW System Administration states that balances categorized as reserves can be documented in a memo from the chancellor or other authorized individual and should indicate the amount of the reserves, or reserves target, and who is authorized to approve the use of the reserves balance. We identified four types of concerns with the use of the reserves category by some UW institutions.

First, we identified instances in which documentation provided to support categorizing balances as reserves was not sufficient. Of the 14 institutions that reported having balances set aside as reserves, seven did not provide sufficient documentation supporting the categorization, such as a memo from the chancellor or other authorized individual.

Second, we identified instances in which an institution's definition of reserves conflicted with the definition in the Board of Regents' policy or guidance provided by UW System Administration that reserves are held for contingencies. Specifically, some institutions categorized balances held for strategic opportunities as reserves instead of categorizing these balances as undocumented. In addition, some institutions did not include sufficient information to identify who was authorized to approve the use of the reserves balance. Of the 14 UW institutions that reported having balances set aside as reserves:

- two institutions provided documentation indicating that reserves could be used for strategic opportunities;
- two institutions provided documentation that did not identify who was authorized to approve the use of the reserves balance; and
- three institutions provided documentation indicating that reserves could be used for strategic opportunities, and the documentation did not identify who was authorized to approve the use of the reserves balance.

Third, we identified four UW institutions for which program revenue balances categorized as reserves and undocumented exceeded 12.0 percent of the expenditures from the program revenue source during the fiscal year. According to UW System Administration's guidance to the institutions, the amount of a program revenue balance held for reserves and undocumented purposes should not exceed 12.0 percent of the expenditures from the program revenue source during the fiscal year. We found that UW-Oshkosh, UW-Extension, UW System Administration, and UW Systemwide exceeded this limit for at least one unrestricted program revenue source. For example, UW-Extension reported it set aside \$367,000 of its other unrestricted program revenue balance as reserves. During FY 2013-14, UW-Extension had expenditures totaling \$988,000 from its other unrestricted program revenue accounts. This equates to a 37.1 percent ratio.

It may not be unexpected to have instances in which program revenue balances categorized as reserves and undocumented exceed 12.0 percent of the expenditures from the program revenue source during the fiscal year. However, these instances were not disclosed in the program revenue balances report for FY 2013-14, and disclosing and explaining them in the report may be helpful to the Board of Regents.

***According to the report, UW System Administration categorized \$20.0 million from a systemwide tuition account as reserves and institutions categorized \$90.7 million as reserves.***

Finally, we identified variation in how reserves are established by individual institutions, and it was not clear whether reserves held in systemwide accounts are taken into consideration when institution reserves are established. For example, UW System Administration established a systemwide reserves minimum of \$20.0 million from the systemwide tuition account to address any unforeseen circumstances at UW System Administration, individual UW institutions, or throughout UW System. However, there was no indication of the relationship between systemwide reserves and institution reserves, which totaled \$90.7 million in the program revenue balances report for FY 2013-14. We noted UW-Madison, UW-Colleges, and UW-Extension established the following reserves:

- For FY 2013-14, UW-Madison categorized \$54.7 million as reserves, including \$4.1 million of its tuition balance and \$50.6 million of its federal indirect cost reimbursement balance. UW-Madison established 10.0 percent of its prior fiscal year tuition and GPR expenditures as the reserve target for its tuition balance, and 10.0 percent of its research expenditures published in the National Science Foundation's Higher Education Research and Development Survey as the reserve target for its



federal indirect cost reimbursement balance.

Applying these targets, UW-Madison would seek to hold \$103.8 million of tuition as reserves, and would seek to hold \$117.0 million of federal indirect cost reimbursement as reserves. Therefore, in aggregate, UW-Madison would seek to hold \$220.8 million in reserves, or \$166.1 million more than it categorized as reserves in FY 2013-14.

- UW Colleges and UW-Extension each established a reserve target of 12.0 percent for each of their program revenue funds. UW Colleges categorized \$8.5 million of its program revenue balances as reserves for FY 2013-14. Applying its target, UW Colleges would seek to hold \$11.4 million in reserves, or \$2.9 million more than it categorized as reserves in FY 2013-14. UW-Extension categorized \$3.7 million of its program revenue balances as reserves for FY 2013-14. Applying its target, UW-Extension would seek to hold \$9.0 million, or \$5.3 million more than it categorized as reserves in FY 2013-14.

The program revenue balances report is a tool that UW System Administration, UW institutions, and the Board of Regents can use to monitor an institution's program revenue balances and its planned uses of the balances, including the amount set aside as reserves, or its undocumented balance. The report provides greater transparency of the financial management at each institution. UW System has indicated that program revenue balances will be evaluated and considered as part of the budget planning and financial reporting processes in the future. Accurate reporting may become increasingly important for monitoring of balances if a proposal in the 2015-17 Biennial Budget Bill to convert UW System to an authority is enacted. Therefore, it is important to improve the accuracy of the report through oversight and review both at the institution level and by UW System Administration staff and the Board of Regents.

***Additional guidance and review is needed to ensure UW institutions categorize program revenue balances in accordance with the Board of Regents' policy.***

As noted, the October 2014 report was the first such report prepared by UW System on its program revenue balances. The inconsistencies we identified among UW institutions in applying the definitions of obligated, planned, designated, and reserves indicate that further guidance and review is needed from UW System Administration to ensure institutions are categorizing balances in accordance with the Board of Regents' policy. Specifically, providing additional guidance in regards to federal indirect cost reimbursement balances and reserve balances, and on the relationship between systemwide and institution reserves, would improve the accuracy and usefulness of

the report. In addition, UW System Administration should include additional information in the report when an institution's reserves and undocumented balances exceed 12.0 percent of the expenditures from the program revenue source during the fiscal year. The Board of Regents may also wish to consider whether periodic audits of the report by UW System's Office of Internal Audit could help to improve the accuracy and usefulness of the report.

**☑ Recommendation**

---

*We recommend UW System Administration work with the Board of Regents to improve the overall accuracy and usefulness of the program revenue balances report by:*

- *providing additional guidance to institutions related to the categorization of federal indirect cost reimbursement balances;*
- *providing additional guidance to institutions related to documentation required to support balances categorized as reserves, the definition of reserves, and the relationship between reserves maintained by UW System Administration and those maintained by the institutions;*
- *including additional information when an institution's reserves and undocumented balances exceed 12.0 percent of the expenditures from the program revenue source during the fiscal year; and*
- *considering additional review of the categorization of program revenue balances, including review by UW System's Office of Internal Audit.*

*We further recommend UW System Administration report to the Joint Legislative Audit Committee by June 30, 2015, on the status of its efforts to implement these recommendations.*

■ ■ ■ ■

## Tuition Remission ■

---

Tuition remission is an amount of resident or nonresident tuition that is not charged to a student. Statutes give the Board of Regents authority to grant tuition remission for certain types of students. We reviewed UW System policies on the tuition remission process, and considered concerns related to the criteria for awarding tuition remission that were raised through our Fraud, Waste, and Mismanagement Hotline. We found that UW System has considerable discretion in awarding tuition remission. We include recommendations for UW System Administration to review the use of tuition remission and update policies to help ensure institutions award remissions in a consistent manner.

### Types of Tuition Remission

***Nonresident students are charged resident tuition plus an incremental amount called nonresident tuition.***

Tuition is the amount charged to students to attend a UW institution. As authorized under s. 36.27, Wis. Stats., the Board of Regents sets base tuition rates for different types of students and for residents and nonresidents. Students who are residents of the State of Wisconsin are charged a base tuition amount commonly referred to as resident tuition. Wisconsin Statutes define the circumstances under which a student may be deemed to be a resident of Wisconsin and thus be eligible to pay only resident tuition. Students who are not deemed to be residents of the state are charged resident tuition plus an incremental tuition amount called nonresident tuition.

***Statutes allow UW System to award a remission of nonresident tuition in certain circumstances.***

Statutes also allow the Board of Regents to offer certain students a remission of nonresident tuition, and in some cases, a remission of resident tuition. Tuition revenue may be reduced when an institution awards a remission of tuition to a student.

UW institutions use tuition remission as an enrollment tool that assists students meeting certain criteria to meet the cost of attendance. As shown in Table 9, many types of tuition remission are authorized under Wisconsin Statutes, including remissions for graduate students, athletic scholarships, and veterans.

Table 9

**UW System Tuition Remission Authority in Wisconsin Statutes**

Category	Awarded To	Resident Tuition	Nonresident Tuition	Statutory Citation
Needy and Worthy Based on Merit	Needy and worthy nonresident students based on merit, to be shown by suitable tests, examinations, or scholastic records.		✓ <sup>1</sup>	36.27(3)(a) <sup>3</sup>
Extraordinary Circumstances	Nonresident students for extraordinary circumstances.		✓ <sup>1</sup>	36.27(3)(b) <sup>3</sup>
Needy and Worthy Foreign Students	Needy and worthy foreign students and students who are United States citizens, but whose residence is not in the United States.	✓ <sup>2</sup>	✓ <sup>1</sup>	36.27(3)(c) <sup>3</sup>
Athletic Scholarships	Student athletes, up to the maximum number of athletic scholarships allowed by the appropriate athletic conference, as recommended by the chancellor of the institution.	✓	✓ <sup>1</sup>	36.27(3)(f) <sup>3</sup>
Graduate Students	Resident and nonresident graduate students who are fellows or are employed by UW System as faculty, instructional academic staff, or assistants with an appointment equal to at least 33 percent of a full-time equivalent position.	✓	✓ <sup>1</sup>	36.27(3)(g) <sup>3</sup>
Survivor’s Benefits	Resident undergraduate students enrolled in a bachelor’s degree program who are the surviving spouse or child of a correctional officer, law enforcement officer, emergency medical services technician, or firefighter killed in the line of duty.	✓		36.27(3m)
Surviving Spouses and Children of Veterans <sup>4</sup>	Surviving spouses and children of veterans killed in the line of duty.	✓		36.27(3n)
Veterans <sup>4</sup>	Veterans who were residents of the state at the time they entered military service or have been a resident of the state for at least 5 consecutive years immediately preceding the beginning of any semester or session for which the person registers at an institution.	✓	✓	36.27(3p)
Funeral Assistants	Enrolled undergraduate students who assist in a military funeral procession are awarded a \$25 remission of resident or nonresident tuition for each funeral.	✓	✓	36.27(3r)

<sup>1</sup> Remission of nonresident tuition is subject to the remission limits under s. 20.285(2)(d), Wis. Stats.

<sup>2</sup> Remission of resident tuition can be awarded in special circumstances approved by the chancellor of the institution.

<sup>3</sup> Remission proposed for repeal under the 2015-17 Biennial Budget Bill.

<sup>4</sup> UW Institutions are reimbursed for veterans remissions through a GPR appropriation under the Higher Educational Aids Board and a UW System systemwide tuition account. Veterans remissions totaled \$18.6 million in FY 2013-14.

In addition to statutorily defined remissions, and as permitted under s. 36.27(4), Wis. Stats., UW System may annually exempt nonresident tuition for up to 300 students enrolled at UW-Parkside as juniors or seniors in programs identified by that institution as having additional capacity, and up to 225 students enrolled at UW-Superior in programs identified by that institution as having additional capacity. Further, UW System has developed reciprocity and other interstate agreements under which nonresident tuition remissions may be awarded. These include agreements with the State of Minnesota and with Menominee County, Michigan. Finally, the Board of Regents established a program in 1937 that allows UW-Madison and UW-Milwaukee to award a remission of resident tuition for up to 10 new music students each year.

## Limits on Tuition Remission

***The amount of certain nonresident tuition remissions awarded each year is limited by statutes.***

Statutes limit the amount of nonresident tuition remission that can be awarded under s. 36.27(3), Wis. Stats. The limit on nonresident tuition remission was established in the early 1970s and is adjusted for proportional increases in tuition rates. The nonresident tuition remission limit was \$53.1 million in FY 2013-14. The limit does not restrict the awarding of remissions when required under a contract or gift, or when the amounts are reimbursed from other sources. Other remissions, such as those offered for veterans and their surviving dependents, are not subject to a statutory limit. Further, statutes do not limit the awarding of resident tuition remission.

UW System Administration allocates a share of the total nonresident remission limit to each institution. Institutions independently determine how to use the remission allocation, including what type of remissions to award. As shown in Table 10, UW-Madison, UW-Milwaukee, and UW-Whitewater awarded more nonresident tuition remissions than they were allocated for FY 2013-14.

When an institution exceeds the remission limit allocation, UW System policy requires the institution reimburse the tuition fund using a different unrestricted program revenue funding source. We reviewed the reimbursements processed during FY 2013-14, and found that UW-Madison, UW-Milwaukee, and UW-Whitewater reimbursed the tuition fund.

Table 10

**Nonresident Tuition Remission Limit Allocations and Awards, by Institution<sup>1, 2</sup>**  
FY 2013-14

Institution	Remission Limit Allocation Exceeded		
	Remission Limit Allocation	Amount of Remission Awarded	Difference
Madison	\$36,513,100	\$57,305,238	\$20,792,138
Milwaukee	5,361,500	9,660,070	4,298,570
Parkside	1,440,900	1,124,228	316,672
Platteville	1,315,300	424,776	890,524
Whitewater	1,118,500	1,428,907	310,407
Eau Claire	1,082,100	652,704	429,396
Stevens Point	1,031,000	768,679	262,321
Oshkosh	961,600	722,072	239,528
Stout	948,000	689,238	258,762
La Crosse	871,700	647,324	224,376
Green Bay	828,600	473,813	354,787
Colleges	562,500	128,878	433,622
Superior	532,200	340,153	192,047
River Falls	502,900	293,312	209,588
<b>Total</b>	<b>\$53,069,900</b>	<b>\$74,659,392</b>	

<sup>1</sup> Includes remissions awarded under s. 36.27(3), Wis. Stats., but does not include veterans remissions.

<sup>2</sup> Includes only nonresident tuition remissions subject to the statutory limit defined under s. 20.285(2)(d), Wis. Stats.

### **Administration of Tuition Remission by UW Institutions**

The Board of Regents has delegated responsibility for decisions regarding tuition remission to each institution's chancellor. Chancellors have further delegated remission decisions to student financial aid and admissions offices and, in some instances, to individual schools within the institution. UW System Administration has developed a policy entitled, "Tuition and Fee Policies for Credit Instruction," which provides an overall summary of the different types of tuition remission that institutions are allowed to award. According to UW System Administration staff, institutions are encouraged to create more specific institution policies for the awarding of tuition remission. UW System Administration staff

provide guidance to the institutions, when requested, but institutions are responsible for awarding remission to students and for monitoring the awards. Overall, the statutes provide UW System with considerable discretion in awarding tuition remissions.

***UW institutions awarded  
\$136.2 million in tuition  
remissions in FY 2013-14,  
excluding veterans  
remissions.***

Using information reported to UW System Administration by UW institutions, we analyzed how institutions used tuition remission in FY 2013-14. As shown in Table 11, UW institutions reported awarding \$136.2 million in tuition remissions in FY 2013-14, excluding veterans remissions. UW-Madison awarded the largest amount of tuition remissions, with \$106.3 million in remissions, or 78.0 percent of the total. In comparison, UW institutions awarded \$135.4 million in tuition remissions during FY 2012-13.

Table 11

**Total Tuition Remissions, by Institution<sup>1, 2</sup>**  
FY 2013-14

Institution	Remissions Awarded	Percentage of Total
Madison	\$106,305,999	78.0%
Milwaukee	19,563,798	14.4
Parkside	2,154,519	1.6
Green Bay	1,968,791	1.4
Whitewater	1,437,157	1.1
Oshkosh	791,951	0.6
Stevens Point	768,779	0.6
Stout	696,202	0.5
La Crosse	669,735	0.5
Eau Claire	661,303	0.5
Platteville	425,126	0.3
Superior	348,497	0.2
River Falls	293,312	0.2
Colleges	128,903	0.1
<b>Total</b>	<b>\$136,214,072</b>	<b>100.0%</b>

<sup>1</sup> Based on amounts reported by UW institutions to UW System Administration.

<sup>2</sup> Excludes veterans remissions.

**Of the \$136.2 million in tuition remissions awarded, 80.1 percent were awarded under the graduate students remission category.**

As shown in Table 12, of the \$136.2 million in these tuition remissions that UW institutions reported awarding in FY 2013-14, \$109.1 million, or 80.1 percent, were awarded as provided in s. 36.27(3)(g), Wis. Stats., to graduate students who are fellows or are employed by UW System as faculty, instructional academic staff, or assistants with an appointment equal to at least 33 percent of a full-time equivalent position. Appendix 4 shows FY 2013-14 tuition remissions reported to UW System Administration by institution and statutory category.

Table 12  
**Tuition Remissions, by Statutory Category<sup>1 2</sup>**  
 FY 2013-14

Statutory Category	Resident Tuition	Nonresident Tuition	Total	Percentage
Graduate Students	\$54,021,817	\$55,065,836	\$109,087,653	80.1%
Needy and Worthy Based on Merit	n/a	12,588,657	12,588,657	9.2
Athletic Scholarships	7,414,057	2,993,253	10,407,310	7.6
Needy and Worthy Foreign Students	55,429	2,756,962	2,812,391	2.1
Extraordinary Circumstances	n/a	1,254,684	1,254,684	0.9
Survivor's Benefits	61,352	n/a	61,352	<0.1
Funeral Assistants	2,025	–	2,025	<0.1
<b>Total</b>	<b>\$61,554,680</b>	<b>\$74,659,392</b>	<b>\$136,214,072</b>	<b>100.0%</b>

<sup>1</sup> Based on amounts reported by UW institutions to UW System Administration.

<sup>2</sup> Excludes veterans remissions.

### **Additional Oversight over Tuition Remission**

***The interpretation of the requirements for nonresident tuition remission to “needy and worthy” students varied among institutions.***

Concerns were raised through our Fraud, Waste, and Mismanagement Hotline regarding the criteria used to award nonresident tuition remissions to students at UW institutions. Under s. 36.27(3), Wis. Stats., UW System is provided considerable discretion to determine the criteria for awarding tuition remissions. Further, institutions have differing interpretations of how this discretion is applied. One example related to how institutions award remissions to “needy and worthy” students based on merit.

UW System Administration staff indicated that this statutory remission would require an assessment of both the student’s financial need and the



student’s worthiness or merit, which is typically based on grades and scholastic achievements. We contacted staff at five UW institutions—UW-Madison, UW-Milwaukee, UW-Oshkosh, UW-Stevens Point, and UW-Stout—to ascertain the specific criteria used to award tuition remission to “needy and worthy” students. We found the interpretation of the requirements for this type of remission varied. Some institution staff stated the determination of a student’s status as “needy and worthy” was based on the calculation of the student’s financial need in accordance with federal student financial aid requirements and the student’s ability to meet the admission requirements and maintain satisfactory academic progress once enrolled. Some institution staff determine the student’s status primarily based on the worthiness, or merit, of the student and need is a secondary factor that may be considered. Other institution staff interpreted statutes to require the institution to determine the student’s status as either “needy” or “worthy,” but not both. For example, one nonresident remission program has established specific academic criteria, but does not include any requirement for financial need.

Additional review of each institution’s practices for awarding all categories of tuition remission would assist UW System Administration in determining what additional guidance from the Board of Regents could be provided to the institutions to help ensure all categories of tuition remissions are awarded in a consistent manner.

### Recommendation

---

*We recommend UW System Administration:*

- *review the use of tuition remissions under s. 36.27(3), Wis. Stats., and the related policies and guidance provided to UW institutions;*
- *report to the Board of Regents on the use of tuition remissions by the institutions and on the clarification of tuition remission policies and guidance provided to the institutions to ensure these remissions are being awarded in a consistent manner; and*
- *report to the Joint Legislative Audit Committee by October 30, 2015, on the status of its efforts to implement these recommendations for all existing categories of these statutory tuition remissions.*



---

## **Appendices ■**

---



Appendix 1

**Board of Regents of the University of Wisconsin System**  
As of February 1, 2015

Name	Term End <sup>1</sup>	Confirmed by Senate	Residence <sup>2</sup>
Michael J. Falbo	2015	✓	Franklin
Anicka Purath <sup>3</sup>	2015	✓	Mount Pleasant
David G. Walsh	2015	✓	Madison
Nicolas Harsy <sup>3</sup>	2016	✓	Madison
Charles Pruitt	2016	✓	Milwaukee
José F. Vásquez	2016	✓	Milwaukee
Mark J. Bradley	2017	✓	Wausau
Edmund Manydeeds	2017	✓	Eau Claire
Tim Higgins	2018	✓	Appleton
Gerald Whitburn	2018	✓	Wausau
John Robert Behling	2019	✓	Eau Claire
Regina Millner	2019	✓	Madison
Margaret Farrow	2020	✓	Pewaukee
Janice Mueller	2020	✓	Madison
José Delgado	2021	✓	Brookfield
Eve Hall	2021	✓	New Berlin
Tony Evers, Superintendent of Public Instruction	n/a	n/a	Madison
Drew Petersen, President of the Technical College System Board	n/a	n/a	Middleton

<sup>1</sup> Term ends on May 1.

<sup>2</sup> As reported in the Senate Journal on the date of confirmation.

<sup>3</sup> Student Regent.





**STATE OF WISCONSIN**  
**Legislative Audit Bureau**

22 East Mifflin Street, Suite 500  
Madison, Wisconsin 53703  
(608) 266-2818  
Fax (608) 267-0410

[www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab)

Toll-free hotline: 1-877-FRAUD-17

Joe Chrisman  
State Auditor

## **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters**

Senator Robert Cowles and  
Representative Kerkman, Co-chairpersons  
Joint Legislative Audit Committee

Members of the Board of Regents  
University of Wisconsin System

We audited the financial statements and the related notes of the University of Wisconsin (UW) System as of and for the years ended June 30, 2014, and June 30, 2013, and issued our report thereon dated December 12, 2014. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States. The financial statements and related auditor's opinion have been included in UW System's *2014 Annual Financial Report*.

### **Internal Control over Financial Reporting**

Management of UW System is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audits of the financial statements, we considered UW System's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of UW System's internal control. Accordingly, we do not express an opinion on the effectiveness of UW System's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that, when combined, we consider to be a material weakness.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to

prevent misstatements, or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of UW System's financial statements will not be prevented, or that a material misstatement will not be detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as Findings 1 and 2, when combined, to be a material weakness. These deficiencies, when combined, were also considered to be a material weakness in the fiscal year (FY) 2012-13 Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, dated December 11, 2013.

Because UW System's financial activity is also included in the State of Wisconsin's Comprehensive Annual Financial Report, these internal control findings are 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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether UW System's financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of This Report**

This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering UW System's internal control and compliance. The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of UW System's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman  
State Auditor

December 12, 2014



# SCHEDULE OF FINDINGS AND RESPONSES

## Human Resource System Security

The Human Resource System (HRS), which was largely implemented in April 2011, is used by the University of Wisconsin (UW) System to track and maintain employee information, such as address, position, and benefit choices, and to process and record the biweekly and monthly payroll for all staff and students employed by UW institutions, including the 13 four-year universities, 13 two-year colleges, UW-Extension, and UW System Administration.

The UW Service Center provides support to all UW institutions related to payroll, benefits, and other automated human resources processing. UW-Madison's Division of Information Technology (DoIT) provides HRS information technology support, such as programming and data security.

### **Finding 1: Access Concerns with the University of Wisconsin System's Human Resource System**

#### *Criteria:*

The ability to perform the various functions within HRS is controlled through the use of security roles. Each security role has specific permissions attached to it that allow the user to perform a specific task or tasks. In order to ensure that information is properly safeguarded and to limit the risk that inadvertent, erroneous, or unauthorized changes could be processed, UW System should ensure that access to HRS is limited to that necessary for individual users to complete their properly separated job duties.

#### *Condition:*

We reported concerns with access to HRS during the FY 2010-11, FY 2011-12, and FY 2012-13 audits. We followed up on UW System's progress in implementing our prior audit recommendations during the FY 2013-14 audit and found that UW System Administration and DoIT took steps to address our concerns, such as completing their review of HRS security roles and reducing access. For example, we found 16 of the 19 users we had identified as having incompatible access at three UW institutions during our FY 2012-13 audit had their access reduced or removed. The remaining three users continued to have incompatible access in FY 2013-14, and we identified five additional users with incompatible access at those three UW institutions. We also reviewed access granted to HRS users at three additional UW institutions and identified seven users with incompatible access in FY 2013-14.

Although we identified 15 users with incompatible access during the FY 2013-14 audit, we found that UW System began to implement a compensating control when separation of duties could not be strictly enforced. This compensating control was tested by UW Service Center staff from May 2014 through June 2014 and was finalized and fully implemented in July 2014. Because incompatible access continued to exist during FY 2013-14, and because the compensating control was not fully implemented until FY 2014-15, UW System continued to be at risk that inadvertent, erroneous, or unauthorized payments could be processed through HRS during FY 2013-14.

#### *Questioned Costs:*

None.

***Context:***

Payroll-related expense is the most significant expense of UW System, totaling nearly \$3.0 billion, or 61.4 percent of UW System's total expenses for FY 2013-14.

***Effect:***

During FY 2013-14, UW System was at increased risk that inadvertent, erroneous, or unauthorized payments could be processed through HRS.

***Cause:***

UW System did not fully implement compensating controls to reduce the risk that inadvertent, erroneous, or unauthorized payments could be processed through HRS until July 2014.

***Recommendation:***

University of Wisconsin System Administration indicated that the corrective actions it implemented in July 2014 will address the concerns related to access. Therefore, we do not make recommendations at this time. We will test the effectiveness of UW System's compensating control during the FY 2014-15 audit.

***Response from University of Wisconsin System Administration:***

None.

**Finding 2: Program Change Controls over the University of Wisconsin System's Human Resource System**

***Criteria:***

Procedures should be established to prevent users from making unauthorized changes to HRS program code or "configuration" information, such as various look-up tables used during payroll processing. The ability to perform program code or configuration changes is controlled through the use of security roles. Each security role has specific permissions attached to it that allow the user to perform a specific task or tasks. In order to ensure that information is properly safeguarded and to limit the risk that inadvertent, erroneous, or unauthorized changes could be made, UW System should ensure that access to security roles is limited to that necessary for employees to complete their properly separated job duties.

***Condition:***

We reported concerns related to program change controls during the FY 2011-12 and FY 2012-13 audits. We followed up on UW System's progress in implementing our recommendations and found that UW System Administration had continued to take steps to address our concerns, such as developing a role catalog for security roles in the Phire change management application and reviewing and adjusting the permissions attached to HRS security roles, including those related to configuration changes. In addition, in June 2014, UW System implemented a procedure to reconcile changes moved through Phire with supporting approval documentation on a biweekly basis. This procedure helps to ensure that all program code changes were approved.

Because the steps taken by UW System to address our concerns were not implemented until June 2014, UW System continued to be at risk that inadvertent, erroneous, or unauthorized program code changes could be made during most of FY 2013-14.

***Questioned Costs:***

None.

***Context:***

Payroll-related expense is the most significant expense of UW System, totaling nearly \$3.0 billion, or 61.4 percent of UW System's total expenses for FY 2013-14.

***Effect:***

During FY 2013-14, UW System was at increased risk that inadvertent, erroneous, or unauthorized program code changes could be made to HRS.

***Cause:***

The corrective actions taken by UW System to reduce the risk that inadvertent, erroneous, or unauthorized program code changes could be made were not implemented until June 2014.

***Recommendation:***

University of Wisconsin System Administration indicated that the corrective actions it implemented in June 2014 will address the concerns related to program change controls. Therefore, we do not make recommendations at this time. We will test the effectiveness of UW System's corrective actions during the FY 2014-15 audit.

***Response from University of Wisconsin System Administration:***

None.



## Appendix 3

# **UW System Affiliated Organizations<sup>1</sup>**

FY 2013-14

### **Alumni Associations**

---

Alumni Association of the University of Wisconsin-Green Bay

---

UW-Milwaukee Alumni Association, Inc.

---

UW-Medical Alumni Association, Inc.

---

Wisconsin Alumni Association, Inc.

---

UW-La Crosse Alumni Association

---

UW-Oshkosh Alumni Association, Inc.

---

UW-Superior Alumni Association

---

The University of Wisconsin-Parkside Alumni Association

---

### **Booster Clubs/Friends Organizations**

---

Badger Basketball Boosters, Inc.

---

Friends of the Geology Museum UW-Madison, Inc.

---

Friends of the UW-Parkside Library

---

Mendota Gridiron Club, Inc.

---

National W Club, Inc.

---

Friends of the Campus, Inc. (Baraboo)

---

Friends of WHA-TV, Inc.

---

Friends of Madison Student Radio, Inc.

---

Friends of University of Wisconsin Veterinary Medicine Teaching Program, Inc.

---

Parkside 200, LTD

---

Friends of the Golda Meir Library

---

### **Foundations**

---

UW-Fond du Lac Foundation, Inc.

---

UW-Waukesha Foundation, Inc.

---

Hillel Foundation University of Wisconsin, Inc.

---

Jennie Bowman FBO UW Memorial Fund

---

UW-Platteville Foundation, Inc.

---

Terry Family Foundation, Inc.

---

UW-La Crosse Foundation, Inc.

---

UW-Marathon County Foundation, Inc.

---

UW-Eau Claire Foundation, Inc.

---

University of Wisconsin Foundation, Inc.

---

UW-Marinette Foundation, Inc.

---

UW-Medical Foundation, Inc.

---

**Foundations** *(continued)*

---

UW-Oshkosh Foundation, Inc.

---

UW-Parkside Foundation, Inc.

---

UW-River Falls Foundation, Inc.

---

UW-Stevens Point Foundation, Inc.

---

UW-Stevens Point Paper Science Foundation

---

UW-Superior Foundation, Inc.

---

UW-Whitewater Foundation, Inc.

---

Wisconsin 4-H Foundation, Inc.

---

UWM Foundation, Inc.

---

Stout University Foundation, Inc.

---

Richland County Campus Foundations, Ltd.

---

Barron County Campus Foundation, Inc.

---

UW-Rock County Foundation, Inc.

---

University Foundation—UW-Marshfield/Wood County

---

UW-Fox Valley Foundation, Inc.

---

Washington County Campus Foundation

---

UW-Sheboygan County Foundation, Inc.

---

UW-Manitowoc Foundation, Inc.

---

UW-Green Bay Foundation, Inc.

---

**Real Estate Foundations**

---

UWM Real Estate Foundation, Inc.

---

UW-Platteville Real Estate Foundation, Inc.

---

Blugold Real Estate, LLC

---

**Research Organizations**

---

Wisconsin Alumni Research Foundation (WARF)

---

Center for Advanced Studies in Business, Inc.

---

Center for Applied Research and Services, Inc.

---

University Research Park, Inc.

---

University Research Park Facilities Corp.

---

WISYS Technology Foundation, Inc.

---

Morgridge Institute for Research

---

UWM Research Foundation, Inc.

---

**Other Organizations**

---

Babcock House

---

Kelab, Inc.

---

Madison Family Residency Corp., Inc.

---

Memorial Union Association, Inc.

---

University Health Care, Inc.

---

**Other Organizations** *(continued)*

---

UW-Madison Supporting Organization, Inc.

---

William F. Vilas Trust Estate

---

University Village Housing, Inc. c/o U.W.G.B., Business & Finance

---

UW-Marathon County Food Service Cooperative

---

UW-Washington Food Service Cooperative

---

UW-Marathon County Bookstore Cooperative

---

Wisconsin Center for Education Products & Services (WCEPS)

---

<sup>1</sup> As identified by UW System.





## Appendix 4

## Tuition Remissions, by UW Institution and Statutory Category<sup>1, 2</sup>

FY 2013-14

Institution	Resident Tuition	Nonresident Tuition	Total
<b>Colleges</b>			
Graduate Students <sup>3</sup>	\$ -	\$ -	\$ -
Needy and Worthy Based on Merit <sup>3</sup>	n/a	115,378	115,378
Athletic Scholarships <sup>3</sup>	-	-	-
Needy and Worthy Foreign Students <sup>3</sup>	-	13,500	13,500
Extraordinary Circumstances <sup>3</sup>	n/a	-	-
Survivor's Benefits	-	n/a	-
Funeral Assistants	25	-	25
Subtotal	25	128,878	128,903
<b>Eau Claire</b>			
Graduate Students <sup>3</sup>	2,700	38,054	40,754
Needy and Worthy Based on Merit <sup>3</sup>	n/a	303,207	303,207
Athletic Scholarships <sup>3</sup>	-	-	-
Needy and Worthy Foreign Students <sup>3</sup>	-	295,350	295,350
Extraordinary Circumstances <sup>3</sup>	n/a	16,093	16,093
Survivor's Benefits	4,724	n/a	4,724
Funeral Assistants	1,175	-	1,175
Subtotal	8,599	652,704	661,303
<b>Green Bay</b>			
Graduate Students <sup>3</sup>	1,300	9,131	10,431
Needy and Worthy Based on Merit <sup>3</sup>	n/a	56,011	56,011
Athletic Scholarships <sup>3</sup>	1,493,678	222,818	1,716,496
Needy and Worthy Foreign Students <sup>3</sup>	-	178,280	178,280
Extraordinary Circumstances <sup>3</sup>	n/a	7,573	7,573
Survivor's Benefits	-	n/a	-
Funeral Assistants	-	-	-
Subtotal	1,494,978	473,813	1,968,791
<b>La Crosse</b>			
Graduate Students <sup>3</sup>	11,450	308,422	319,872
Needy and Worthy Based on Merit <sup>3</sup>	n/a	292,750	292,750
Athletic Scholarships <sup>3</sup>	-	-	-
Needy and Worthy Foreign Students <sup>3</sup>	-	46,152	46,152

Institution	Resident Tuition	Nonresident Tuition	Total
<b>La Crosse</b> (continued)			
Extraordinary Circumstances <sup>3</sup>	\$ n/a	\$ –	\$ –
Survivor's Benefits	10,961	n/a	10,961
Funeral Assistants	–	–	–
Subtotal	22,411	647,324	669,735
<b>Madison</b>			
Graduate Students <sup>3</sup>	46,287,837	46,946,287	93,234,124
Needy and Worthy Based on Merit <sup>3</sup>	n/a	7,884,147	7,884,147
Athletic Scholarships <sup>3</sup>	2,712,549	2,324,451	5,037,000
Needy and Worthy Foreign Students <sup>3</sup>	–	–	–
Extraordinary Circumstances <sup>3</sup>	n/a	150,353	150,353
Survivor's Benefits	–	n/a	–
Funeral Assistants	375	–	375
Subtotal	49,000,761	57,305,238	106,305,999
<b>Milwaukee</b>			
Graduate Students <sup>3</sup>	7,703,316	7,165,944	14,869,260
Needy and Worthy Based on Merit <sup>3</sup>	n/a	1,392,405	1,392,405
Athletic Scholarships <sup>3</sup>	2,185,412	403,086	2,588,498
Needy and Worthy Foreign Students <sup>3</sup>	–	142,429	142,429
Extraordinary Circumstances <sup>3</sup>	n/a	556,206	556,206
Survivor's Benefits	15,000	n/a	15,000
Funeral Assistants	–	–	–
Subtotal	9,903,728	9,660,070	19,563,798
<b>Oshkosh</b>			
Graduate Students <sup>3</sup>	–	75,414	75,414
Needy and Worthy Based on Merit <sup>3</sup>	n/a	230,000	230,000
Athletic Scholarships <sup>3</sup>	–	–	–
Needy and Worthy Foreign Students <sup>3</sup>	55,429	334,064	389,493
Extraordinary Circumstances <sup>3</sup>	n/a	82,594	82,594
Survivor's Benefits	14,450	n/a	14,450
Funeral Assistants	–	–	–
Subtotal	69,879	722,072	791,951
<b>Parkside</b>			
Graduate Students <sup>3</sup>	–	–	–
Needy and Worthy Based on Merit <sup>3</sup>	n/a	842,409	842,409
Athletic Scholarships <sup>3</sup>	1,022,418	42,898	1,065,316

Institution	Resident Tuition	Nonresident Tuition	Total
<b>Parkside</b> <i>(continued)</i>			
Needy and Worthy Foreign Students <sup>3</sup>	\$ –	\$ 238,921	\$ 238,921
Extraordinary Circumstances <sup>3</sup>	n/a	–	–
Survivor's Benefits	7,873	n/a	7,873
Funeral Assistants	–	–	–
Subtotal	1,030,291	1,124,228	2,154,519
<b>Platteville</b>			
Graduate Students <sup>3</sup>	–	88,265	88,265
Needy and Worthy Based on Merit <sup>3</sup>	n/a	115,176	115,176
Athletic Scholarships <sup>3</sup>	–	–	–
Needy and Worthy Foreign Students <sup>3</sup>	–	144,000	144,000
Extraordinary Circumstances <sup>3</sup>	n/a	77,335	77,335
Survivor's Benefits	–	n/a	–
Funeral Assistants	350	–	350
Subtotal	350	424,776	425,126
<b>River Falls</b>			
Graduate Students <sup>3</sup>	–	–	–
Needy and Worthy Based on Merit <sup>3</sup>	n/a	88,483	88,483
Athletic Scholarships <sup>3</sup>	–	–	–
Needy and Worthy Foreign Students <sup>3</sup>	–	197,256	197,256
Extraordinary Circumstances <sup>3</sup>	n/a	7,573	7,573
Survivor's Benefits	–	n/a	–
Funeral Assistants	–	–	–
Subtotal	–	293,312	293,312
<b>Stevens Point</b>			
Graduate Students <sup>3</sup>	–	155,382	155,382
Needy and Worthy Based on Merit <sup>3</sup>	n/a	227,241	227,241
Athletic Scholarships <sup>3</sup>	–	–	–
Needy and Worthy Foreign Students <sup>3</sup>	–	259,542	259,542
Extraordinary Circumstances <sup>3</sup>	n/a	126,514	126,514
Survivor's Benefits	–	n/a	–
Funeral Assistants	100	–	100
Subtotal	100	768,679	768,779
<b>Stout</b>			
Graduate Students <sup>3</sup>	6,964	109,066	116,030
Needy and Worthy Based on Merit <sup>3</sup>	n/a	236,586	236,586
Athletic Scholarships <sup>3</sup>	–	–	–

Institution	Resident Tuition	Nonresident Tuition	Total
<b>Stout</b> (continued)			
Needy and Worthy Foreign Students <sup>3</sup>	\$ -	\$ 339,305	\$ 339,305
Extraordinary Circumstances <sup>3</sup>	n/a	4,281	4,281
Survivor's Benefits	-	n/a	-
Funeral Assistants	-	-	-
Subtotal	6,964	689,238	696,202
<b>Superior</b>			
Graduate Students <sup>3</sup>	-	-	-
Needy and Worthy Based on Merit <sup>3</sup>	n/a	7,990	7,990
Athletic Scholarships <sup>3</sup>	-	-	-
Needy and Worthy Foreign Students <sup>3</sup>	-	332,163	332,163
Extraordinary Circumstances <sup>3</sup>	n/a	-	-
Survivor's Benefits	8,344	n/a	8,344
Funeral Assistants	-	-	-
Subtotal	8,344	340,153	348,497
<b>Whitewater</b>			
Graduate Students <sup>3</sup>	8,250	169,871	178,121
Needy and Worthy Based on Merit <sup>3</sup>	n/a	796,874	796,874
Athletic Scholarships <sup>3</sup>	-	-	-
Needy and Worthy Foreign Students <sup>3</sup>	-	236,000	236,000
Extraordinary Circumstances <sup>3</sup>	n/a	226,162	226,162
Survivor's Benefits	-	n/a	-
Funeral Assistants	-	-	-
Subtotal	8,250	1,428,907	1,437,157
<b>Total</b>	<b>\$61,554,680</b>	<b>\$74,659,392</b>	<b>\$136,214,072</b>

<b>All Institutions</b>			
Graduate Students <sup>3</sup>	\$54,021,817	\$55,065,836	\$109,087,653
Needy and Worthy Based on Merit <sup>3</sup>	n/a	12,588,657	12,588,657
Athletic Scholarships <sup>3</sup>	7,414,057	2,993,253	10,407,310
Needy and Worthy Foreign Students <sup>3</sup>	55,429	2,756,962	2,812,391
Extraordinary Circumstances <sup>3</sup>	n/a	1,254,684	1,254,684
Survivor's Benefits	61,352	n/a	61,352
Funeral Assistants	2,025	-	2,025
<b>Total</b>	<b>\$61,554,680</b>	<b>\$74,659,392</b>	<b>\$136,214,072</b>

<sup>1</sup> Includes all nonresident tuition remissions authorized under s. 36.27(3), (3m), and (3r), Wis. Stats.

<sup>2</sup> Based on amounts reported by UW institutions to UW System Administration.

<sup>3</sup> Remission proposed for repeal under the 2015-17 Biennial Budget Bill.

---

## **Response ■**

---





**Office of the President**

1700 Van Hise Hall  
1220 Linden Drive  
Madison, Wisconsin 53706-1559  
(608) 262-2321 Phone  
(608) 262-3985 Fax

e-mail: [rcross@uwsa.edu](mailto:rcross@uwsa.edu)  
website: [www.wisconsin.edu/](http://www.wisconsin.edu/)

February 18, 2015

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

Dear Mr. Chrisman:

Thank you for the opportunity to respond to the Legislative Audit Bureau's (LAB) audit of the University of Wisconsin System's 2014 Annual Financial Report, which received an unmodified or "clean" audit opinion. The UW System appreciates the time and effort that LAB staff invested in this audit, as well as the two additional areas selected for review—the UW System's new program revenue (PR) balance report and tuition remissions.

As noted within LAB's report, the fiscal year 2013-14 PR balance report was presented to the UW Board of Regents in October 2014, after the governing policy was approved by the Joint Legislative Audit Committee in April 2014 and the Joint Committee on Finance in May 2014. This report was the first full report prepared by the UW System, including categorized balances and detailed commitments, plans and designations for those balances. As we go forward, we anticipate refining our compilation processes, building on feedback received from key stakeholders, and adjusting guidance to UW institutions. Therefore, we agree with LAB's recommendations to improve the usefulness and accuracy of future reports.

The FY 2013-14 and subsequent PR balance reports will provide an increased level of transparency and understanding of what UW System balances are and how they are intended to be used. Using this report, we hope to also continue the dialogue with key stakeholders and avoid misconceptions that these balances are all reserves or surpluses. The balances may be restricted for particular purposes, and are held in thousands of accounts in departments and offices throughout the UW System's 13 four-year institutions, 13 two-year colleges, and UW Extension. The balances are maintained for a variety of locally necessary reasons, such as savings for future large purchases, ensuring positive cash flow of self-supporting operations, new initiatives or programs, and smoothing the effects of unexpected circumstances.

The other area of focus for this audit was tuition remissions, which are an important tool in addressing student affordability and access issues. While there are UW System policies on the tuition remissions process, the remissions themselves are administered by the UW institutions. We agree with LAB's recommendations to review and clarify remission policies to ensure they are awarded in a consistent manner.

Thank you again for the opportunity to comment on this report, as well as for the professionalism of your staff throughout the process.

Sincerely,

A handwritten signature in black ink that reads "Ray Cross".

Ray Cross