

**Report 17-6  
April 2017**

# **University of Wisconsin System Fiscal Year 2015-16**

STATE OF WISCONSIN



Legislative Audit Bureau ■



# **University of Wisconsin System Fiscal Year 2015-16**

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## OPINION PUBLISHED SEPARATELY

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The financial statements and our unmodified opinion on them are included in the University of Wisconsin System's *2016 Annual Financial Report*





# STATE OF WISCONSIN | Legislative Audit Bureau

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

Joe Chrisman  
State Auditor

April 4, 2017

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) 2015-16 and FY 2014-15 financial statements. These financial statements and our audit opinion on them are included in UW System's *2016 Annual Financial Report*, which is available on its website.

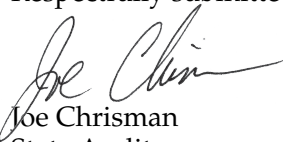
On the basis of generally accepted accounting principles (GAAP), UW System's net position decreased from \$6.7 billion as of June 30, 2015, to \$6.6 billion as of June 30, 2016. The decrease in net position is primarily the result of pension accounting standards that required UW System to report a net pension liability as of June 30, 2016. On a budgetary basis, the unrestricted program revenue balance for all UW institutions was \$883.3 million as of June 30, 2016, or \$40.6 million less than the balance as of June 30, 2015.

We reviewed compliance by UW institutions with policies related to nontraditional student fees, which UW institutions reported totaled \$98.7 million in FY 2015-16, and special course fees, which UW institutions reported totaled \$7.0 million in FY 2015-16. We found UW institutions did not have a process in place for conducting regular audits of special course fees as required by UW System Administration policy. We also found instances in which fees were inaccurately categorized in the statutorily required tuition and fee reports UW System provided to the Legislature. We recommend UW System Administration ensure the required audits are conducted and ensure the accuracy of the tuition and fee report.

We found that UW System Administration implemented our recommendations from report 16-3 related to UW institution reserve policies and administration of investments by the Office of Trust Funds. However, we again identified weaknesses in information technology security policies, procedures, and controls for several UW institutions. Because such weaknesses increase the risk that unauthorized or erroneous transactions could be processed; accounting, payroll, and student data could be changed; or personally identifiable information could be accidentally or maliciously exposed, we considered these weaknesses to be a significant deficiency in internal control in our Independent Auditor's Report on Internal Control and on Compliance and Other Matters, which begins on page 23.

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 report.

Respectfully submitted,

  
Joe Chrisman  
State Auditor

JC/CS/ss





## Introduction ■

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UW System provides postsecondary academic education for approximately 179,000 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 the 13 two-year colleges, which 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.

***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, the chancellor of UW-Extension and Colleges, and the deans 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 2015-16 and FY 2014-15.***

As required by s. 13.94 (1) (t), Wis. Stats., we completed a financial audit of UW System. We audited UW System's financial statements for the years ended June 30, 2016, and June 30, 2015, and provided our unmodified audit opinion to UW System for inclusion in its *2016 Annual Financial Report*, which is available on its website. As a state agency, UW System's financial information is also included in the State's Comprehensive Annual Financial Report (CAFR), which is available on the Department of Administration's website. 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.

Under provisions of GASB Statements 14, 39, and 61, UW System Administration is required to assess affiliated organizations on the basis of several factors, such as the legal status of the organization and the financial significance of the organization to UW System. For FY 2015-16 financial reporting purposes, UW System identified 74 such affiliated organizations, which include booster clubs, alumni organizations, and foundations. For fiscal year (FY) 2014-15, 74 such affiliated organizations were also identified.

***The UW Foundation's financial statements were presented in UW System's 2016 Annual Financial Report.***

As a result of its assessment, UW System Administration determined that one affiliated organization, the UW Foundation, was a component unit of UW System and has presented the UW Foundation's financial statements in UW System's *2016 Annual Financial Report*. In prior reports, the University of Wisconsin Foundation's condensed financial statements were presented in the notes to the financial statements.

During our FY 2014-15 audit, we identified weaknesses in information technology (IT) security policies, procedures, and controls for several computer applications at several UW institutions. Weaknesses in IT security policies, procedures, and controls increase the risk that unauthorized or erroneous transactions could be processed; accounting, payroll, and student data could be changed; or personally identifiable information could be accidentally or maliciously exposed. In December 2015, the UW System Board of Regents approved a high-level policy on information security that required UW System to develop and maintain a comprehensive information security program. Subsequent to the end of our audit period, systemwide IT policies were established in September 2016 through the UW Information Assurance Council, which was created to identify and analyze risks related to IT security, develop policies to address these risks, and review the performance of the UW System IT security program. The Council is made up of IT, legal, and audit staff representing different institutions, including UW System Administration. Chancellors and chief information officers at each institution are responsible for ensuring compliance with the new policies established by the Council.

***We again report a significant deficiency in internal control related to weaknesses in IT security policies, procedures, and controls at several UW institutions.***

During the FY 2015-16 audit, we continued to identify weaknesses in IT security policies, procedures, and controls at several institutions. We determined that the detailed results of our review were too sensitive to communicate publicly. Therefore, we communicated the concerns to the institutions involved through confidential interim memoranda. We considered these weaknesses to be a significant deficiency in internal control in our Independent Auditor's Report on Internal Control and on Compliance and Other Matters, which begins on page 23.

## **Revenue and Expenses**

***Student Tuition and Fees accounted for 25.2 percent of UW System's total revenue in FY 2015-16.***

As shown in Table 1, UW System revenue increased by less than 1.0 percent from FY 2014-15 and was \$4.9 billion again in FY 2015-16. During FY 2015-16, UW System's largest revenue was Student Tuition and Fees, which includes tuition and other academic student fees. The \$1.2 billion in Student Tuition and Fees UW System collected in FY 2015-16 was 25.2 percent of its total revenue. From FY 2014-15 through FY 2015-16, revenue from Student Tuition and Fees reported in UW System's financial statements increased by 5.4 percent. This increase was largely the result of increases in tuition for nonresident and graduate students.

Table 1

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

Financial Statement Account	FY 2015-16	FY 2014-15	Percentage Change
Student Tuition and Fees <sup>2</sup>	\$1,231.8	\$1,169.2	5.4%
State Appropriations <sup>3</sup>	802.7	896.6	(10.5)
Federal Grants and Contracts	779.9	759.2	2.7
Sales and Services of Auxiliary Enterprises <sup>2</sup>	418.1	401.8	4.1
State, Local, and Private Grants and Contracts	414.6	389.5	6.4
Other Operating Revenue	394.7	327.3	20.6
Sales and Services of Educational Activities	317.1	327.8	(3.3)
Gifts	303.1	304.9	(0.6)
Capital Appropriations	89.1	157.5	(43.4)
Sales and Services to UW Hospital Authority	66.9	64.4	3.9
Capital Contributions	43.8	31.0	41.3
Other Nonoperating Revenue	16.1	47.2	(65.9)
Student Loan Interest Income and Fees	6.1	5.0	22.0
<b>Total</b>	<b>\$4,884.0</b>	<b>\$4,881.4</b>	<b>0.1</b>

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

<sup>2</sup> Excludes scholarships and fellowships applied to student accounts.

<sup>3</sup> Excludes GPR appropriated to UW System for debt service payments.

State Appropriations was UW System's second-largest revenue during FY 2015-16. Except for general purpose revenue (GPR) appropriated to UW System for its debt service payments, GPR that UW System received was reported on UW System's financial statements as State Appropriations. In FY 2015-16, State Appropriations totaled \$802.7 million and accounted for 16.4 percent of total revenue. From FY 2014-15 through FY 2015-16, State Appropriations decreased by \$93.9 million, or by 10.5 percent.

Federal Grants and Contracts totaled \$779.9 million in FY 2015-16 and accounted for 16.0 percent of UW System's total revenue. Other significant revenue for UW System in FY 2015-16 included:

- Sales and Services of Auxiliary Enterprises, which totaled \$418.1 million and included revenue received for services such as student housing and food service;

- State, Local, and Private Grants and Contracts, which totaled \$414.6 million and included grants and contracts received from other state agencies, Wisconsin municipalities, and other non-federal entities;
- Other Operating Revenue, which totaled \$394.7 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 \$317.1 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 \$303.1 million and included amounts received from donors.

As shown in Table 2, UW System expenses increased from \$4.8 billion in FY 2014-15 to \$5.0 billion in FY 2015-16, or by 4.5 percent.

Table 2

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

Financial Statement Account	FY 2015-16	FY 2014-15	Percentage Change
Salary and Fringe Benefits	\$3,194.1	\$3,034.3	5.3%
Supplies and Services	1,194.9	1,178.0	1.4
Depreciation	303.9	290.4	4.6
Scholarships and Fellowships	149.7	135.8	10.2
Transfer to State Agencies	78.6	73.5	6.9
Interest on Indebtedness	61.0	55.9	9.1
Other Operating Expenses	6.0	31.4	(80.9)
Loss on Disposal of Capital Assets	46.7	17.4	168.4
<b>Total</b>	<b>\$5,034.9</b>	<b>\$4,816.7</b>	<b>4.5</b>

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

***Salary and Fringe Benefits was UW System's largest expense and totaled \$3.2 billion in FY 2015-16.***

Salary and Fringe Benefits was UW System's largest expense and totaled \$3.2 billion, or 63.4 percent of its total expenses in FY 2015-16. From FY 2014-15 to FY 2015-16, Salary and Fringe Benefits expense increased by 5.3 percent because, as of June 30, 2016, a net pension liability was reported, which increased UW System's pension expense and is reflected as part of Salary and Fringe Benefits. As a participating employer in the Wisconsin Retirement System (WRS), UW System is required to report its proportionate share of the net pension liability (or asset) for all employees participating in the WRS. The net pension liability of the WRS was discussed in report 16-10. 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, 2016.***

In FY 2015-16, GPR-funded debt service payments totaled \$190.8 million and program revenue-funded debt service payments totaled \$145.1 million. As of both June 30, 2016, and June 30, 2015, outstanding GPR-funded debt totaled \$1.7 billion, and outstanding program revenue-funded debt totaled \$1.6 billion.

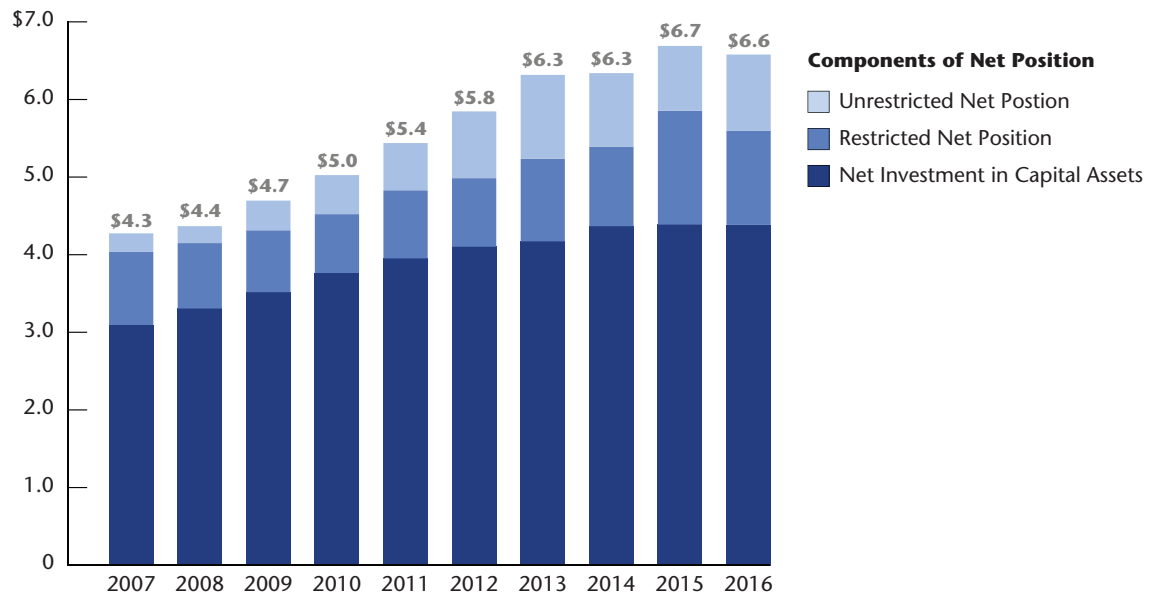
### **Net Position**

***UW System's net position was \$6.6 billion as of June 30, 2016.***

Net position provides a measure of overall financial condition. On a GAAP basis, UW System's net position decreased from \$6.7 billion as of June 30, 2015, to \$6.6 billion as of June 30, 2016, as shown in Figure 1. On UW System's financial statements, net position was presented in three components: Net Investment in Capital Assets, Restricted Net Position, and Unrestricted Net Position.

Figure 1

**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 both June 30, 2016, and June 30, 2015.

Restricted Net Position represents amounts that have an external restriction on their use. The majority of UW System's Restricted Net Position relates to amounts that were restricted for endowment funds, gifts, non-federal grants and contracts, and federal student loans. Restricted Net Position decreased from \$1.5 billion as of June 30, 2015, to \$1.2 billion as of June 30, 2016, or by 17.5 percent. This decrease is largely the result of reporting a net pension liability in Unrestricted Net Position as of June 30, 2016, compared to reporting a net pension asset in Restricted Net Position as of June 30, 2015.

**On a GAAP basis,  
UW System's Unrestricted  
Net Position was  
\$984.1 million as of  
June 30, 2016.**

Unrestricted Net Position represents any remaining amounts not otherwise included in Net Investment in Capital Assets or Restricted Net Position. 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 increased from \$833.8 million as of June 30, 2015, to \$984.1 million as of June 30, 2016, or by \$150.3 million. The increase is a result of reporting a net pension liability and related deferred amounts as of June 30, 2016. Additional information is included in Management's Discussion and Analysis on page 13 of UW System's 2016 Annual Financial Report.

### **Program Revenue Balances Reporting and Investment Oversight**

**On a budgetary basis,  
UW System's total  
program revenue  
balance was \$1.2 billion,  
as of June 30, 2016.**

UW System receives program revenue from sources such as tuition; auxiliary operations, which include fees charged for student housing and food service; federal revenue; and gifts. On a budgetary basis, and as shown in Table 3, UW System's total program revenue balance as of June 30, 2016, was \$1.2 billion.

Table 3

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

Year	Total	Percentage Change
2006	\$ 315.2	–
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)
2015	1,182.4	(0.3)
2016	1,188.5	0.5

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



**On a budgetary basis, unrestricted program revenue balances decreased from \$923.9 million as of June 30, 2015, to \$883.3 million as of June 30, 2016, or by \$40.6 million.**

UW System reports program revenue balances to the Board of Regents in its *Report on Program Revenue Balances by Institution and Level of Commitment* (program revenue balances report). According to the program revenue balances report for FY 2015-16, the increase in total program revenue balances is largely attributable to increases in restricted program revenues, such as gifts and non-federal grants. On a budgetary basis, unrestricted program revenue balances decreased from \$923.9 million as of June 30, 2015, to \$883.3 million as of June 30, 2016, or by \$40.6 million.

In report 16-3, we performed a limited review of the program revenue balances report for FY 2014-15 and made recommendations to UW System Administration related to UW institution reserve policies. As part of our FY 2015-16 audit, we followed up on UW System Administration's progress in implementing our recommendations from report 16-3 and found that UW System Administration took steps to address our concerns. For example, in response to our recommendation related to reserve policies, UW System Administration provided training and guidance to UW institutions on appropriate reserve policies. In addition, we found that institution reserve policies that were not in compliance with Board of Regent policies or guidance provided by UW System Administration were revised to include appropriate information.

In report 16-3, we also evaluated the role of UW System Administration's Office of Trust Funds in overseeing investments of gifts, grants, and bequests made to the Board of Regents or individual UW institutions, and we made recommendations to improve oversight and administration of investments. As part of our FY 2015-16 audit, we followed up on UW System Administration's progress in implementing our recommendations from report 16-3 and found UW System Administration took steps to address our concerns. For example, UW System Administration completed all due diligence reviews and has worked with the Board of Regents to determine the appropriate level of information to provide to the Board of Regents. In addition, in November 2016, the Board of Regents created a subcommittee on investments within its Business and Finance Committee. The purpose of the subcommittee is to provide oversight for investment-related activities, such as recommending investment policies and practices to the Business and Finance Committee. The subcommittee, which held its first meeting on March 9, 2017, is anticipated to meet at least quarterly.

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## Nontraditional Student Fees and Special Course Fees ■

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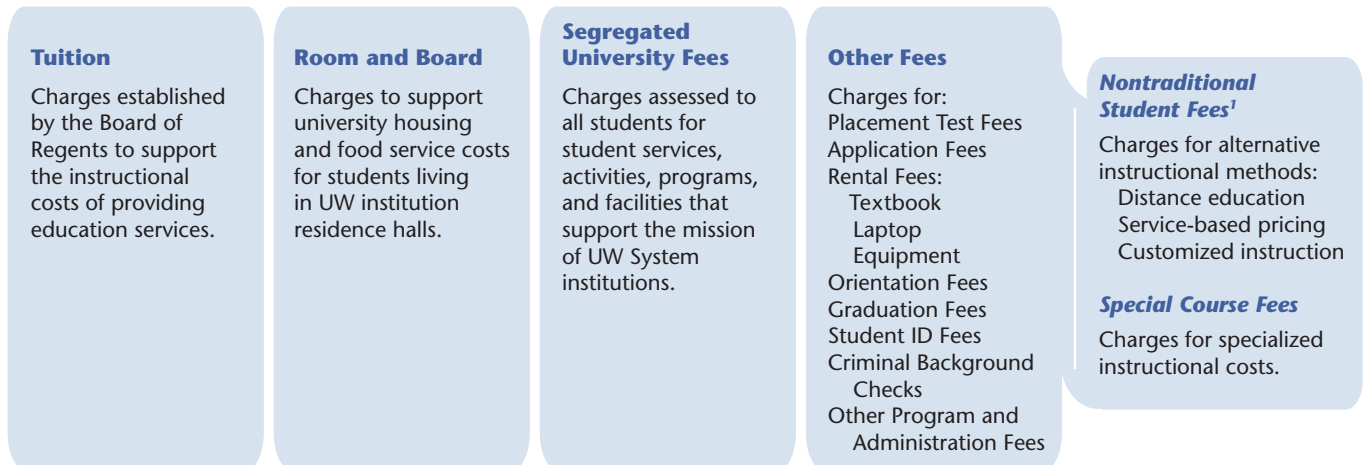
Students who attend UW institutions are charged tuition and fees. We reviewed compliance by UW institutions with policies related to nontraditional student fees, which UW institutions reported totaled \$98.7 million in FY 2015-16, and special course fees, which UW institutions reported totaled \$7.0 million in FY 2015-16. We found UW institutions did not have a process in place for conducting regular audits of special course fees as required by UW System Administration policy. We also identified errors in the statutorily required tuition and fee reports UW System provided to the Legislature. We recommend UW System Administration ensure the required audits are conducted and ensure the accuracy of the tuition and fee report.

***UW institutions charge students for tuition, room and board, segregated fees, and a variety of other fees.***

As shown in Figure 2, UW institutions charge students for tuition, room and board, segregated fees, and a variety of other fees. Tuition rates for the UW System are established by the Board of Regents as authorized under s. 36.27, Wis. Stats., to support the instructional costs of providing education services. For most students, tuition represents the most significant cost of attending a UW institution. Room and board charges support university housing and food service costs for students living in UW institution residence halls.

Figure 2

**Tuition and Student Fee Types**



<sup>1</sup> Applicable to students enrolled in nontraditional student programs and courses.

Segregated university fees are assessed to all students at each institution for specific student services and, under state law, must fund only the purposes for which they are collected. Segregated fees support certain student activities, such as student organizations, and also support long-term, fixed financial obligations, and ongoing operating costs for university buildings, such as student unions, health care centers, and recreational sports centers.

Other fees are charged to fund specific needs, course-related services, and additional program administrative costs. Institutions use other fees to fund special course instructional costs, alternative course delivery options for nontraditional students, testing for academic placement, special equipment rental programs, and enrollment-based needs, such as application processing and student orientation. The cost of fees to students varies depending on the institution, enrollment status of the student, and academic program.

Tuition and fees charged by UW System institutions, including UW Colleges, are reported in the “tuition and fee report” submitted by UW System Administration to the Joint Committee on Finance and the Joint Legislative Audit Committee annually by October 15, as provided under s. 36.65 (4), Wis. Stats.

***We focused our analysis on nontraditional student fees and special course fees.***

Based on the institutional variation in the amount charged and the number of fees charged, we focused our analysis on two types of fees:

- nontraditional student fees, which include fees for distance education, service-based pricing, and customized instruction; and
- special course fees, which are charged for specialized instructional costs.

We reviewed UW System policies, collected fee revenue data from the last five fiscal years from each institution, and performed a limited review to determine how institutions expended the fees. We also surveyed all 15 UW institutions, including UW Colleges and UW-Extension, about the administration of nontraditional student fees and special course fees. For each institution, except UW-Extension, we selected five special course fees and at least one nontraditional student fee for review. We selected these fees based on the FY 2015-16 fee amount, changes in the fee amount over time, and the academic department.

## **Nontraditional Student Fees**

***Nontraditional student fees include distance education fees, service-based pricing fees, and customized instruction fees.***

Nontraditional student fees are charged for programs that support nontraditional students who are age 25 or older, part or full time, at the undergraduate, graduate, or professional levels or students who are enrolled in programs delivered using alternative instructional methods such as flexible meeting times or online delivery. Examples of these fees include:

- distance education fees that support the delivery of courses for which instructors and students are separated for a majority of the course and technologies are used to enable learning;
- service-based pricing fees that support certificate and customized degree programs designed for adults, such as an evening Master of Business Administration (MBA) program at UW-Madison and an online Doctor of Business Administration program at UW-Whitewater; and
- customized instruction fees that support programming designed to meet the specific needs of businesses and their employees and are charged at a rate to cover all program instructional costs.

Fees for these programs may be assessed in several ways, including through a per credit fee that is charged in addition to tuition, or

through a program fee that includes tuition and all instructional costs for an entire academic program.

### Revenue from Nontraditional Student Fees

***In response to our survey, UW institutions reported \$98.7 million in nontraditional student fees in FY 2015-16.***

In response to our survey, UW institutions reported the revenue they collected from distance education and service-based pricing fees for the past five fiscal years. According to the information reported to us, and as shown in Table 4, revenue from these fees increased from \$77.9 million in FY 2011-12 to \$98.7 million in FY 2015-16, or by \$20.8 million. As noted in the *2015-16 Tuition and Fee Report* prepared by UW System Administration, the highest fee in this category was a \$62,000 fee at UW-Milwaukee for its 17-month Executive MBA program. The lowest fee in this category was a \$12.50 business certificate fee at UW-Madison.

Table 4

#### Nontraditional Student Fee Revenues, by UW Institution<sup>1, 2</sup>

Institution	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
Milwaukee	\$40,603,000	\$39,644,000	\$37,314,000	\$38,849,000	\$41,045,000
Madison	7,006,000	8,115,000	8,237,000	10,712,000	12,029,000
Oshkosh	7,477,000	7,719,000	8,991,000	9,760,000	9,792,000
Whitewater	6,039,000	6,228,000	6,366,000	7,928,000	9,223,000
Platteville	4,197,000	5,606,000	6,571,000	6,743,000	7,611,000
Eau Claire	2,411,000	2,549,000	3,098,000	3,418,000	4,554,000
Superior	3,139,000	3,244,000	3,610,000	3,786,000	3,799,000
River Falls	2,666,000	2,717,000	3,353,000	3,661,000	3,313,000
La Crosse	1,902,000	1,567,000	1,974,000	2,195,000	2,237,000
Extension	0	0	225,000	1,097,000	1,810,000
Colleges	1,870,000	2,094,000	1,910,000	1,933,000	1,714,000
Green Bay	588,000	640,000	841,000	789,000	837,000
Parkside	0	0	0	448,000	474,000
Stevens Point	0	20,000	31,000	68,000	217,000
Stout <sup>3</sup>	0	0	0	0	0
<b>Total</b>	<b>\$77,898,000</b>	<b>\$80,143,000</b>	<b>\$82,521,000</b>	<b>\$91,387,000</b>	<b>\$98,655,000</b>

<sup>1</sup> As reported by UW System institutions in response to our survey.

<sup>2</sup> Includes only distance education and service-based pricing fees.

<sup>3</sup> UW-Stout collects nontraditional student fee revenues under differential tuition, which is a type of tuition not shown in this table.

During this five-year period, certain institutions, including UW-Madison and UW-Platteville, generated increased revenue from distance education programs while UW-Eau Claire, UW-Oshkosh, and UW-Whitewater increased revenue by adding service-based pricing programs. In addition, in FY 2013-14, UW-Extension began collecting revenues from the UW Flexible Option program.

### **Administration of Nontraditional Student Fees**

Of UW System Administration policies regarding nontraditional student fees, the most complete policy is for programs using service-based pricing. The policy requires approval by the UW System President of service-based pricing fees. Proposals for such fees must provide relevant information about the adult education market, describe the use of competitive pricing, and provide other required information. Institutions must deliver materials to the UW System President for approval no less than two months before the anticipated effective date of the proposed service-based pricing fee.

We reviewed approval documentation for a selection of nontraditional student fees from 14 UW institutions based on the specific programs offered. For 2 of 22 programs we selected, we could not review documentation because these programs had been in place for more than ten years, and original documentation was not available. However, programs approved recently had documentation supporting authorizations at the appropriate level.

### **Special Course Fees**

***Special course fees fund instructional costs for individual courses that are not covered by tuition funds.***

Special course fees fund instructional costs for individual courses that are not covered by tuition funds. The instructional costs funded through special course fees include expenses such as transportation and admission for field trips, project materials that result in a product that may be retained by students, and private lessons for non-music majors.

UW System Administration has a special course fee policy that allows institutions to assess special course fees to pay for certain instructional costs that are not funded by the institution's regular instructional budget. According to the policy, special course fees may be used for a variety of purposes related to a course.

## Revenue from Special Course Fees

***In response to our survey, UW institutions reported \$7.0 million in special course fees in FY 2015-16.***

In response to our survey, UW institutions reported the revenue they collected from special course fees for the past five fiscal years. According to the information reported to us, and as shown in Table 5, revenue from these fees increased from \$5.5 million in FY 2011-12 to \$7.0 million in FY 2015-16, or by \$1.5 million. The largest increase occurred between FY 2014-15 and FY 2015-16 when revenues from special course fees increased by \$1.1 million, which is largely attributable to a \$507,000 increase in revenue from a new math literacy special course fee reported by UW-Milwaukee.

Table 5

### Special Course Fee Revenues, by UW Institution<sup>1</sup>

Institution	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
Oshkosh	\$1,059,000	\$1,443,000	\$1,422,000	\$1,394,000	\$1,354,000
Milwaukee	540,000	488,000	471,000	509,000	1,061,000 <sup>2</sup>
La Crosse	935,000	791,000	771,000	674,000	849,000
Stevens Point	909,000	940,000	871,000	905,000	754,000
Platteville	393,000	487,000	495,000	450,000	722,000
River Falls	471,000	567,000	571,000	564,000	615,000
Eau Claire	408,000	460,000	521,000	459,000	522,000
Whitewater	318,000	417,000	447,000	439,000	501,000
Madison	106,000	120,000	204,000	143,000	230,000
Colleges	159,000	132,000	135,000	135,000	147,000
Superior	81,000	119,000	107,000	119,000	136,000
Stout	98,000	116,000	85,000	60,000	57,000
Parkside	0	50,000	33,000	37,000	45,000
Green Bay	47,000	38,000	46,000	47,000	44,000
Extension <sup>3</sup>	0	0	0	0	0
<b>Total</b>	<b>\$5,524,000</b>	<b>\$6,168,000</b>	<b>\$6,179,000</b>	<b>\$5,935,000</b>	<b>\$7,037,000</b>

<sup>1</sup> As reported by UW System institutions in response to our survey.

<sup>2</sup> A new math literacy special course fee in FY 2015-16 accounted for an increase of nearly \$507,000 in course fee revenues.

<sup>3</sup> UW-Extension does not charge special course fees.

In our review of the *2015-16 Tuition and Fee Report* prepared by UW System Administration, we found that the highest special course fees generally funded clinical training in undergraduate nursing programs, such as a clinical practicum fee of \$2,500 at UW-La Crosse.



The lowest special course fee was a \$1.00 fee for several courses at UW-La Crosse, including a geography imagery analysis course. This fee was set at \$1.00 in recognition of a surplus special course fee balance in the academic department's account.

### **Administration of Special Course Fees**

UW System Administration policy for special course fees allows institutions to assess special course fees for a variety of purposes for the delivery of a course. Under UW System Administration policy, special course fees must be approved by the institution chancellor or designee and must only be used for the purposes for which they were intended. These fees may not be used for costs that should be covered by the regular instructional budget, such as instructor salaries. In addition, the policy requires that institutions establish procedures to account for special course fee revenues and expenditures and that they audit special course fees on a regular basis.

To determine if institutions were in compliance with UW System Administration policy, we reviewed approval documentation for a selection of special course fees from 14 institutions and found that the institutions had followed UW System Administration policies and institution procedures to obtain approval to add or change special course fees. In addition, we examined expenditures recorded in the accounting system for selected special course fees at several institutions for FY 2015-16. Although we were able to identify special course fee expenditures in the accounting system, the level of detail available made it difficult to determine which expenditures were related to a particular special course fee. Therefore, we could not readily determine if fees were used for the intended purpose.

Institution staff reported that they maintain oversight of special course fee revenues and expenditures by monitoring department balances, which would include any balances from special course fees, as part of their annual program revenue balance monitoring. One institution, UW-Stout, reported it has a process to review all special course fees for annual approval. However, most institutions indicated that their central business office does not regularly review individual special course fee expenditures to ensure that they were used for approved purposes. Instead, institutions reported that individual academic departments monitor their respective special course fee revenues and expenditures.

***UW institutions do not have processes in place to conduct regular audits of special course fees, as required by UW System Administration policy.***

In addition, none of the UW institution staff indicated they had a process in place to conduct regular audits of special course fees, as required by UW System Administration policy. Such audits would help to ensure that these fees are being appropriately assessed to students and are being used for the purposes for which they are intended.

***We found instances in which fees reported in the 2015-16 Tuition and Fee Report were inaccurately categorized.***

During our audit, we found instances in which fees reported in the 2015-16 *Tuition and Fee Report* were inaccurately categorized. For example, we identified certain fees reported as special course fees that were instead distance education fees. UW System Administration should take steps to ensure the accuracy of information included in the tuition and fee report.

**Recommendation**

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*We recommend the University of Wisconsin System Administration:*

- *ensure that UW institutions are following UW System Administration policy to regularly audit special course fee revenues and expenditures; and*
- *work with UW System institutions to ensure the accuracy of information reported in the tuition and fee report submitted annually to the Legislature under s. 36.65 (4), Wis. Stats.*

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## **Auditor's Report ■**

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Report 17-6

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

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

Members of the University of Wisconsin Board of Regents, and  
Dr. Raymond Cross, President  
University of Wisconsin System

We have audited the financial statements and the related notes of the University of Wisconsin (UW) System as of and for the years ended June 30, 2016, and June 30, 2015, and have issued our report thereon dated March 30, 2017. 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 *2016 Annual Financial Report*. Our report includes a reference to other auditors who audited the financial statements of the UW Foundation, as described in our report on UW System's financial statements. While the financial statements of the UW Foundation were audited in accordance with auditing standards generally accepted in the United States of America, they were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the UW Foundation.

### 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.

*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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Finding and Response Schedule, that we consider to be a significant deficiency. These deficiencies were also considered to be a significant deficiency in FY 2014-15 Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, dated December 17, 2015.

Because UW System's financial activity is also included in the State of Wisconsin's Comprehensive Annual Financial Report, this significant deficiency is 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*.

### **Response to Finding**

UW System's written response to the finding identified in our audit is described in the accompanying Finding and Response Schedule. UW System's response and its corrective action plan were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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

A handwritten signature in black ink, appearing to read "Joe Chrisman". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Joe Chrisman  
State Auditor

March 30, 2017





## FINDING AND RESPONSE SCHEDULE

### **Finding 2016-001: Information Technology Controls at the University of Wisconsin System**

*Criteria:*

The University of Wisconsin (UW) System consists of 13 four-year universities, 13 two-year colleges, UW-Extension, and UW System Administration. UW System Administration maintains the Shared Financial System (SFS), which is UW System's accounting system, and the Human Resource System (HRS), which is UW System's payroll and personnel system. These systems are used by all UW institutions. In addition, each institution maintains its own student information system (SIS) to administer federal student financial aid programs, as well as other computer applications. To provide proper internal control, IT security policies and procedures are necessary to ensure software and data stored and processed by the institutions are protected from accidental or intentional misuse or destruction. In addition, IT controls should be established to prevent inappropriate or inadvertent access to systems and data.

*Condition:*

During the FY 2014-15 audit (report 16-3), we identified weaknesses in IT security policies, procedures, and controls for several computer applications at several UW institutions. We recommended UW System Administration work with the chief information officers, chief business officers, and others as appropriate to assist UW institutions in implementing timely corrective actions related to our institution-specific concerns (Finding 2015-001). In addition, we recommended UW System Administration develop systemwide IT security policies and procedures and provide guidance and training on them to all UW institutions.

In December 2015, the UW System Board of Regents approved a high-level policy on information security that required UW System to develop and maintain a comprehensive information security program. Further, subsequent to the end of our audit period, systemwide IT policies were established in September 2016 through the UW Information Assurance Council. The Council, which is made up of IT, legal, and audit staff representing different institutions, including UW System Administration, was created to identify and analyze risks related to IT security, develop policies to address these risks, and review the performance of the UW System IT security program. Chancellors and chief information officers at each institution are responsible for ensuring compliance with the new policies.

During the FY 2015-16 audit, we continued to identify weaknesses in IT security policies, procedures, and controls at several institutions. We determined the detailed results of our review were too sensitive to communicate publicly. Therefore, we communicated these results in confidential interim memoranda to the institutions involved. Further, we did not audit the IT security policies and procedures at all UW institutions or the IT controls over all computer applications used by the institutions. However, we believe there is a potential that similar weaknesses may exist at those institutions we did not review.

*Questioned Costs:*

None.

**Context:**

UW institutions operate in a highly computerized environment and are responsible for maintaining confidential and sensitive information, such as student data.

**Effect:**

Although it can be difficult to determine how IT concerns such as those we identified affect the financial statements and material federal compliance areas, ineffective general IT controls in areas such as these may permit controls over individual systems to operate improperly and may allow financial statement misstatements and noncompliance to occur and not be detected.

Weaknesses in IT security policies, procedures, and controls increase the risk that unauthorized or erroneous transactions could be processed or changes could be made to accounting, payroll, and student data. In addition, failure to provide an appropriate level of protection for UW systems and data increases the risk that personally identifiable information could be accidentally or maliciously exposed.

**Cause:**

IT staff at each UW institution are responsible for ensuring that IT security policies, procedures, and controls are properly developed and maintained. Those institutions that have smaller IT staff may find challenges in meeting these responsibilities, maintaining proper separation of duties, and monitoring sufficiently all security policies and procedures. In addition, with changing technologies, monitoring and assessment of current processes are necessary to evaluate changing data security risks. Some of the institutions indicated that corrective action on prior-year findings was delayed in some areas as the institutions awaited the development of systemwide IT policies by the UW Information Assurance Council.

**☑ Recommendation**

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*In addition to recommendations we made to individual UW institutions, we recommend UW System Administration continue to work with the UW Information Assurance Council and individual institutions to:*

- *plan for and implement the new information technology policies and procedures, including providing guidance and training regarding information technology security policies and settings, as needed;*
- *assist the institutions in implementing timely corrective actions related to our institution-specific recommendations; and*
- *develop procedures for assessing the level of protection provided for UW systems and data.*

**Response from the University of Wisconsin System:** UW System agrees with this finding.

**Corrective Action Plan from the University of Wisconsin System:**

- UW System institutions are actively implementing information security policies and procedures. The majority of these policies will be implemented by January 2018.
- Systemwide policies and procedures for Data Handling and Asset Inventory are under development and should be approved by June 2017.
- UW System Administration is providing and funding security awareness training modules to be used by all institutions. This will comply with the systemwide training compliance requirements by June 30, 2017. Some institutions may have previously acquired their own training programs.
- UW System Administration will work with institutions to safeguard information technology settings in student information systems. This may include sharing of practices across institutions, procedural changes, and instituting compensating controls.
- UW System Administration will assist the institutions in addressing institution-specific corrective actions. These efforts will be led by the Chief Information Security Officer (CISO) of UW System.
- UW System Administration will develop procedures for assessing the level of protection provided for UW system and data by December 2017.

UW System will continue to enhance its information security policies, procedures and practices. The specific actions below form the basis of the corrective action plan that will be advanced by UW System Administration.

**Anticipated Completion Date:**

Action	Anticipated Completion Date
Review of first five foundational Information Security Policies and Procedures related to authentication, security awareness, data classification, incident response, and acceptable use	April 30, 2017
Complete Procurement of Multi-factor Authentication Tool	May 30, 2017
Complete UWIAC Comprehensive Information Security Plan	May 30, 2017
Approve Data Handling Policy	June 30, 2017
Approve Asset Inventory Policy	June 30, 2017



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## **Response ■**

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**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/)

March 30, 2017

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 2016 Annual Financial Report. We appreciate the time and effort expended in completing the audit of our 2016 financial report, as well as the additional areas selected for review.

2016 Audited Financial Statements

As noted within our audited financial statements, the UW System's total net position declined by \$110 million between fiscal year (FY) 2015 and FY 2016. This decrease is the first reduction in net position since at least 2002, when the Governmental Accounting Standards Board revamped its financial reporting requirements.

One reason for this decline is a pension liability reported in FY 2016. While a \$330 million pension asset was reported in FY 2015, this asset became a \$220 million pension liability this year. The Department of Employee Trust Funds, which manages the Wisconsin Retirement System, attributes this swing to lower-than-expected investment returns and changes in actuarial assumptions.

Another reason for the reduction in total net position was a decline in state resources dedicated to the UW System in FY 2016. The State's 2015-17 biennial budget included a \$250 million budget reduction for the UW System. As LAB notes in its report, state appropriations declined by nearly \$94 million, or 10.5%, in FY 2016. The remaining portion of the 2015-17 reduction will need to be absorbed in the second year of the biennium. State appropriations for capital projects also declined \$68 million between FY 2015 and FY 2016 as capital projects were put on hold.

Special Course Fees

As defined in UW System policy, special course fees pay instructional costs not covered by tuition. Examples provided in the policy include the cost of transportation and admission on

field trips; materials for projects that result in tangible products retained by students; and private lessons to non-music majors.

The UW System policy currently states “institutions must audit special course fees on a regular basis.” At the time the UW System policy was developed, each UW institution employed its own internal auditor. Since that time, the internal audit function has been strengthened and now reports directly to the Board of Regents. Institutions no longer have the ability or resources to truly audit special course fees. Instead, institutional staff regularly ensure the documented purposes for these fees are consistent with UW System policy and review fee rates to determine if balances carried over from the prior year can be used to reduce current-year rates.

UW System agrees that the policy needs to be revised to reflect this change. UW System also agrees to enhance reporting instructions and further ensure the accuracy of information reported in the tuition and fee report submitted to the Legislature under s. 36.65(4), Wis. Stats.

#### Information Technology Security

Information technology security is of paramount importance for the UW System. We continue to strengthen our internal controls across all UW System institutions to protect against accidental or intentional malice or misuse of our data software and systems, as well as information storage.

These process improvements are being driven by the UW Information Assurance Council, which consists of chief information officers and other IT staff from each institution. The Council manages information security improvements across all UW System institutions to create consistent and appropriate information security policies. The Council is also charged with developing standards-based information security controls and improving the ability to audit our information systems.

The UW System agrees with LAB’s recommendations related to information technology security. Currently, the UW Information Assurance Council is focusing on continued implementation of the five recently-approved foundational information security policies and procedures. These policies and procedures address authentication, security awareness, data classification, incident response, and acceptable use.

Thank you again for the opportunity to comment on this report.

Sincerely,



Ray Cross