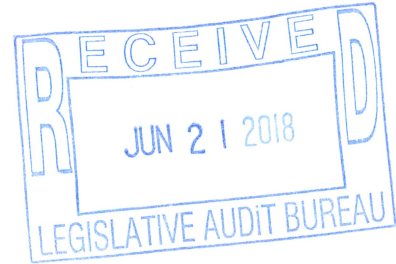




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June 21, 2018

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

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

RE: Audit Report 18-4 Follow-up

Dear Senator Cowles and Representative Kerkman:

Thank you for the opportunity to update the Joint Legislative Audit Committee on progress made by the University of Wisconsin System Administration ("UW System") to address the Legislative Audit Bureau's ("LAB") recommendations in Audit Report 18-4, *Relationships Between the University of Wisconsin and Certain Affiliated Organizations*.

Improving the management and transparency of these foundations and affiliated organizations is an ongoing effort that the UW System and Board of Regents takes seriously, and it does not start or end with this audit. In fact, many actions were taken prior to the LAB's issuance of Audit Report 18-4 and used as a standard in the audit, such as requiring new Memoranda of Understanding to be signed with primary foundations and codifying new accountability standards in Regent Policy 21-9. This is a clear sign that the Board of Regents, my administration, and our institutional leaders takes this matter seriously and acted in a proactive manner to address concerns identified both prior to and during the audit process.

LAB Audit Report 18-4 includes six recommendations for the UW System to consider and two recommendations for your committee to consider. As always, we appreciate and welcome the LAB's recommendations to enhance efficiency of our operations. To provide clarity and full transparency of our response to these recommendations, UW System leadership and staff, in consultation with members of the Board of Regents, divided the recommendations into 12 identifiable action steps. This action plan provides an update on the status of each action step as it relates to the LAB's recommendations.

Five of the 12 steps are complete:

- *Recommendation: Assess Memoranda of Understanding (MOUs) for compliance*
- *Recommendation: Resolve inconsistency between policy statement and policy regarding UW employees serving on boards of primary fundraising and real estate foundations*
- *Recommendation: Prohibit all UW employees from serving as voting members of Board of Directors of primary fundraising and real estate foundations*
- *Recommendation: Provide UW institutions with guidance on identifying affiliated organizations*
- *Recommendation: Require Chancellors to certify compliance*

Two additional steps are accepted and will be ongoing:

- *Recommendation: Annually review payments to affiliated organizations*
- *Recommendation: Annually assess relationships with affiliated organizations and determine whether any changes are necessary.*

We want to take this opportunity to provide additional information on the remaining five steps that are in progress as well as address the items for legislative consideration.

Recommendation: Assign unique vendor ID to affiliated organizations

In the summer of 2017, prior to the LAB audit, the UW System began an upgrade of our Shared Financial System. At that time, the UW System decided to include a project to move all institutions to a shared vendor file with unique vendor numbers. This upgrade is scheduled to go live in October of 2018. The transition to unique vendor ID numbers for foundations and affiliated organizations will be completed at that time.

Recommendation: Amend operational agreements to comply with Board of Regent policy

UW System legal staff is supporting institutional leaders working to amend their operational agreements with their foundations. This is a complex process since institutional leaders must coordinate their efforts with their foundation boards and agree on the terms of the operational agreement. We expect it will be fully completed by the end of FY 2019.

Recommendation: Establish policy governing relationship between UW institutions and affiliated organizations that are not primary fundraising or real estate foundations

UW System is currently developing such a policy. We researched how other higher education institutions, particularly the University of Vermont, managed this through policy and are using components of those policies and best practices to draft our policy. We anticipate finalizing the policy by September 2018 and having it fully implemented by the end of FY 2019. UW institutions will need this time to collect the necessary information and coordinate with the boards of those affiliated organizations.

Recommendation: Require UW employees to track the time they work for affiliated organizations, and provide guidance and training

Transparency and accountability to the public are necessary when university officials also work for affiliated organizations or when the university provides affiliated organizations with administrative support. By the nature of a university employee's work at the university and affiliated organization, that work simultaneously serves the purpose of both organizations and therefore cannot be decoupled. To gauge more accurately how resources are used under such scenarios, UW System is drafting a policy to require the institution's management conduct and disclose a return on investment analysis on tangible and intangible values. This is based on the Minnesota State Colleges and Universities' model identified in the audit report. In addition to LAB's recommendation, UW System believes this analysis should also be applied to primary fundraising or real estate foundations, not just affiliated organizations. UW System will include foundations in the analysis when drafting this policy.

This model will provide UW institutions the ability to evaluate if there is appropriate return on the investment. To fully capture the intangible benefits in the analysis, it will include narrative and rationale in addition to monetary estimates of administrative support and gifts to the university. The policy will allow institutions to make strategic decisions to continue or discontinue providing administrative support or employee time to an affiliated organization or foundation based on its tangible and intangible return on investment.

Recommendation: Require UW institutions to annually report information about their relationships with affiliated organizations and determine whether the reported information complies with Board of Regent policy

UW System reviewed the MOUs between institutions and their affiliated organizations. Going forward, UW System Office of Internal Audit will annually audit transactions between the institutions and their foundations and affiliated organizations. The results of the audits will be presented as an annual report to the Board of Regents and provide evidence to allow UW System leadership and the Board of Regents to determine if any changes to policy, MOUs, and operational agreements are warranted.

Legislative Consideration

The LAB included two items for the legislature to consider. UW System believes both considerations can and should be addressed through Board of Regent policy or UW System policy, and thus, we have made progress addressing these items.

Legislative Consideration: Require certain UW employees to annually file statements of economic interests with the Wisconsin Ethics Commission.

UW System agrees with LAB that it would provide added transparency by requiring any UW employee in the role of executive director of an affiliated organization not already designated as a state public official to file the equivalent of a statement of economic interest. These employees are not currently required to file a statement of economic interest, because they do not meet the definition of an "official required to file" as defined under Wis. Stat. s. 19.42(10). In addition to this recommendation, UW System believes additional employees should file outside activities reports. The UW System will resolve this issue by requiring these employees to file the equivalent of a statement of economic interest or an outside activities report through Board of Regent policy/UW System policy. Therefore, statutory change is not required.

Legislative Consideration: Define UW employees who also work for affiliated organizations to be state public officials.

It is first necessary to establish a definition of what constitutes an “affiliated organization.” Per LAB’s recommendation, the UW System is in the process of adopting a policy that defines and governs affiliated organizations. UW System will address this item by amending existing code of ethics policies that apply to UW employees. Existing policies that UW employees are subject to include Board of Regents Code of Ethics Policy 20-22, UWS-8 of the Wisconsin administrative code, and subchapter III of Wis. Stat. Chapter 19.

I want to thank the LAB for its work. If you have any questions regarding this update, please feel free to contact me.

Sincerely,



Ray Cross
President

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