

**Report 20-7
July 2020**

University of Wisconsin System

STATE OF WISCONSIN



Legislative Audit Bureau ■

**Report 20-7
July 2020**

University of Wisconsin System

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STATE OF WISCONSIN | Legislative Audit Bureau

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Joe Chrisman
State Auditor

July 30, 2020

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 and reviewed UW System's progress in implementing certain audit recommendations we have made over the past five years. As required by 2017 Wisconsin Act 59, an external firm audited UW System's financial statements for fiscal year (FY) 2018-19. UW System's audited financial statements for FY 2018-19 and other required information were provided to the Joint Legislative Audit Committee and the Joint Committee on Finance on January 14, 2020.

On the basis of generally accepted accounting principles (GAAP), UW System's net position was \$5.4 billion as of June 30, 2019. On a budgetary basis, UW System's total program revenue balance was \$1.3 billion as of June 30, 2019. Of this amount, \$866.6 million was from unrestricted sources such as tuition. The effect of the COVID-19 global pandemic on program revenue balances will be reported in the next *Report on Program Revenue Balances by Institution and Level of Commitment*, which UW System Administration will submit to the Board of Regents at its October 2020 meeting.

We reviewed the status of recommendations we made in prior audits related to financial management of auxiliary operations, affiliated organizations, personnel systems, and information technology. We continue to make recommendations related to financial management of auxiliary operations and affiliated organizations. We found that UW System Administration and UW-Madison implemented our recommendations related to personnel system policies. In addition, UW System Administration partially implemented recommendations we made in prior audits related to information technology.

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

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Joe Chrisman".

Joe Chrisman
State Auditor

JC/ES/ss

Introduction ■

The University of Wisconsin (UW) System provides postsecondary academic education for approximately 172,000 students. UW System includes 13 four-year universities, 13 two-year branch campuses associated with a university, and UW System Administration. Each of the 13 universities awards bachelor's and master's degrees, and several also confer doctoral degrees. The 13 two-year branch campuses offer general education associate degrees and course credits that transfer to other degree-granting universities. 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.

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.

The Board of Regents establishes policies to govern UW institutions.

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 18-member Board of Regents,

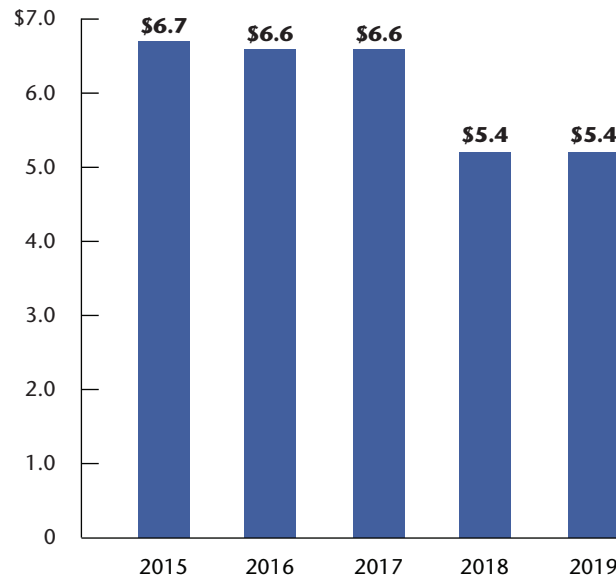
shown in Appendix 1, establishes policies to govern UW institutions. The Board is responsible for appointing the President of UW System, the chancellors of each of the 13 four-year universities, and the deans of the two-year branch campuses. The UW System President and the chancellors of each UW institution are responsible for implementing policies established by the Board of Regents. Each chancellor is responsible for the institution's operations, including financial administration.

Under s. 13.94 (1) (t), Wis. Stats., we completed a financial audit with the purpose of assessing UW System's progress in addressing prior audit recommendations related to financial management of auxiliary operations, affiliated organizations, personnel systems, and information technology. 2017 Wisconsin Act 59, the 2017-19 Biennial Budget Act, required UW System to hire an external auditor that is not the Legislative Audit Bureau to conduct a financial statement audit of UW System and render an opinion for fiscal year (FY) 2017-18 and FY 2018-19. In April 2018, UW System entered into a two-year, \$1.0 million contract with Plante Moran, PLLC to conduct these financial statement audits. As required by Act 59, UW System's audited financial statements for FY 2018-19, a report on internal control and compliance, and a letter containing other required audit communications with management were provided to the Joint Legislative Audit Committee and the Joint Committee on Finance on January 14, 2020.

***UW System's net position
was \$5.4 billion as of
June 30, 2019.***

As a state agency, UW System financial information was included in the State of Wisconsin's FY 2018-19 Comprehensive Annual Financial Report (CAFR). In December 2019, we completed our financial audit of the State of Wisconsin as of and for the fiscal year ended June 30, 2019, and published our findings in report 19-30. We provided an unmodified audit opinion on the State's FY 2018-19 financial statements, which were prepared using generally accepted accounting principles (GAAP) prescribed by the Governmental Accounting Standards Board (GASB). As reported in the FY 2018-19 CAFR, and as shown in Figure 1, UW System's net position, which provides a measure of overall financial condition, was \$5.4 billion as of June 30, 2019. UW System's net position was also \$5.4 billion as of June 30, 2018.

Figure 1

Net Position of UW System¹As of June 30
(in billions)¹ On the basis of generally accepted accounting principles (GAAP).**Program Revenue Balances
as of June 30, 2019**

**On a budgetary basis,
UW System's total
program revenue balance
was \$1.3 billion as of
June 30, 2019.**

As required by Board of Regents policy, UW System Administration annually 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). 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. Program revenue balances are reported for four restricted program revenue sources, including gifts, nonfederal grants and contracts, federal grants and contracts, and other restricted program revenue sources. Program revenue balances are reported for five program revenue sources that do not have restrictions on their use (unrestricted), including tuition, auxiliary operations, general operations, federal indirect cost reimbursement, and other unrestricted program revenue sources. On a budgetary basis, and as shown in Table 1, UW System's total program revenue balance as of June 30, 2019, was \$1.3 billion, of which \$866.6 million was unrestricted. Appendix 2 shows each UW institution's program revenue balance by level of commitment as of June 30, 2019.

Table 1

UW System Total Program Revenue Balance¹As of June 30
(in millions)

Year	Restricted ²	Unrestricted ³	Total	Percentage Change
2015	\$258.5	\$923.9	\$1,182.4	–
2016	305.2	883.3	1,188.5	0.5%
2017	371.8	851.6	1,223.4	2.9
2018	416.6	906.9	1,323.5	8.2
2019	468.0	866.6	1,334.6	0.8

¹ On a budgetary basis.² Includes four program revenue sources that have restrictions on their use, including gifts, nonfederal grants and contracts, federal grants and contracts, and other restricted program revenue sources.³ Includes five program revenue sources that do not have restrictions on their use, including tuition, auxiliary operations, general operations, federal indirect cost reimbursement, and other unrestricted program revenue sources.

In March 2020, due to the COVID-19 global pandemic, all UW institutions took actions to temporarily move in-person instruction online. By April 2020, all UW institutions closed for the remainder of the spring semester. The effect of the global pandemic on program revenue balances will begin to be reflected in the next program revenue balances report, which UW System Administration will submit to the Board of Regents at its October 2020 meeting. However, at the June 2020 Board of Regents meeting, UW System Administration reported that the unrestricted program revenue balance from tuition, auxiliary operations, general program operations, and federal indirect cost reimbursement is estimated to be \$650.0 million as of June 30, 2020.



Status of Prior Audit Findings ■

We followed up on the status of UW System Administration's efforts to address recommendations we made in our prior financial audits related to financial management of auxiliary operations, affiliated organizations, personnel systems, and information technology. We found that UW System Administration partially implemented recommendations we made related to financial management of auxiliary operations, and we include recommendations for further improvements. UW System implemented 10 recommendations we made related to affiliated organizations, and we recommend UW System continue its efforts to implement our recommendations. In addition, we found that UW System Administration and UW-Madison implemented recommendations we made related to personnel system policies. Finally, UW System Administration partially implemented recommendations we made related to information technology.

Financial Management of Auxiliary Operations

UW System Administration partially implemented recommendations made in report 19-5 related to financial management of auxiliary operations.

In report 19-5, we identified concerns with reporting of program revenue balances for UW-Oshkosh, as well as concerns with its accumulated balances for auxiliary operations. We recommended that UW System Administration provide guidance to UW institutions to ensure accurate reporting in the program revenue balances report and that balances are considered when establishing auxiliary service rates. In addition, we recommended that UW System Administration direct institutions to ensure appropriate controls are in place to monitor

department-level balances and their use. During our current audit, we found that UW System Administration partially implemented our prior audit recommendations, and we recommend improvements to UW System Administration's policy on financial management of auxiliary operations, as well as improvements to the reporting of auxiliary operations balances in the program revenue balances report.

Auxiliary Operations Policy and Guidance

UW System Administration did not provide written guidance to UW institutions to improve program revenue balances reporting.

In response to recommendations we made in report 19-5, UW System Administration included discussion of our recommendations on the agenda for a May 2019 meeting with UW institution chief business officers. However, written guidance from UW System Administration was not provided at this meeting. It is unclear if the information communicated orally to UW institutions adequately addressed our recommendations from report 19-5. Therefore, we considered these recommendations to be partially implemented.

In report 19-5, we noted that UW System Administration Policy 314, *Financial Management of Auxiliary Operations*, which was last updated in June 1999, was in the process of being revised. We indicated that UW System Administration should ensure that the updated policy provides clear guidance to UW institutions on establishing an appropriate program revenue balance. In an August 2019 letter to the Joint Legislative Audit Committee, UW System Administration indicated that the policy would be revised during FY 2019-20. However, the policy was not revised and reissued.

UW System Administration guidance on the financial management of auxiliary operations is outdated and inconsistent with Board of Regents policy.

Because the UW System Administration policy has not been updated since June 1999, there are inconsistencies between it and other UW System policies. For example:

- UW System Administration Policy 314 has not been updated to reflect the requirement of Regent Policy 21-6 *Program Revenue Calculation Methodology and Fund Balances Policy*, which was adopted in October 2013, for UW institutions to submit justifications for balances that exceed 12.0 percent of total fiscal year expenditures, including multi-year spending plans, and categorize the balances as obligated, planned, or designated for specific purposes.
- UW System Administration Policy 314 includes a definition of reserves that is different from the definition of reserves that is included in Regent Policy 21-6.

In addition, UW System Administration Policy 314 includes guidance related to minimum and maximum reserve levels, which is based on a statutory requirement for reporting excess auxiliary balances to the Legislature's Joint Committee on Finance that was removed from Wisconsin Statutes in July 2015.

To ensure its policy related to financial management of auxiliary operations is consistent with other UW System policies, UW System Administration should ensure it is kept up-to-date and that it provides clear and appropriate guidance to UW institutions.

Recommendation

We recommend the University of Wisconsin System Administration:

- *revise and implement its administrative policy on the financial management of auxiliaries;*
- *ensure the administrative policy is consistent with Board of Regents policies;*
- *ensure the administrative policy includes guidance for University of Wisconsin institutions regarding appropriate auxiliary program revenue balances, including balances categorized as reserves; and*
- *report to the Joint Legislative Audit Committee by November 13, 2020, on the status of its efforts to implement these recommendations.*

Auxiliary Operations Program Revenue Balances Reporting

We identified that the auxiliary operation program revenue balance may include some department-level balances that are positive and others that are negative.

During our current audit, we identified ways to improve the presentation of auxiliary operations balances in the program revenue balances report. As noted, auxiliary operations at UW institutions consist of a variety of activities, including housing, food service, and athletics. In the program revenue balances report, balances for all auxiliary operations at a UW institution are reported in total. In some instances, we identified that the total balance may include some department-level balances that are positive and others that are negative. For example, UW-Stout reported a total auxiliary operations balance of \$10.7 million in the program revenue balances report as of June 30, 2019. Through a review of department-level information at UW-Stout, we identified that this balance included a negative ending balance of \$2.5 million as of June 30, 2019, for the Athletics and Recreation Department, and positive balances of

\$6.0 million and \$2.8 million for the Residence Life Department and Dining Department, respectively.

Since these auxiliary departments are managed as self-sufficient activities, aggregating the respective positive and negative balances may make it difficult for UW institution staff to appropriately categorize the overall auxiliary balance. In addition, users of the program revenue balances report may not have sufficient information when making decisions related to setting rates for auxiliary operations, such as housing or food service. UW System Administration should modify reporting of auxiliary operations in the program revenue balances report to require UW institutions to categorize the program revenue balances resulting from positive department-level balances and report, but not categorize, negative department-level balances.

We identified that UW institutions inconsistently report auxiliary operations debt service in the program revenue balances report.

We also found that many UW institutions include the principal repayment fund in their department-level budget of auxiliary operations. The principal repayment fund is used to hold money for future debt service payments. For program revenue balances reporting, the principal repayment fund is not reported with auxiliary operations. In our review of auxiliary operations budgets and the program revenue balances report, we identified that the majority of UW institutions do not have a balance in this fund at the end of the year. Rather, UW institutions transfer funds during the fiscal year from the auxiliary operations fund to the principal repayment fund to pay for debt service payments in that fiscal year.

Five UW institutions—UW-Madison, UW-Platteville, UW-River Falls, UW-Stevens Point, and UW-Whitewater—hold balances in the principal repayment fund for future debt service payments at the end of the fiscal year for auxiliary operations debt service. Although this practice is appropriate under UW System accounting policies, it results in inconsistency among UW institutions for program revenue balances reporting.

To improve consistency in program revenue balances reporting across UW institutions, UW System Administration should include principal repayment fund balances related to auxiliary operations with auxiliary operations funds in the program revenue balances report. This approach is consistent with how many UW institutions manage their department-level auxiliary operations budgets.

☑ Recommendation

We recommend the University of Wisconsin System Administration:

- *modify reporting of auxiliary operations program revenue balances in the program revenue balances report to require UW institutions to categorize only those program revenue balances resulting from positive department-level balances and report, but not categorize, negative department-level balances;*
- *include principal repayment fund balances related to auxiliary operations with auxiliary operations funds for program revenue balances reporting; and*
- *report to the Joint Legislative Audit Committee by November 13, 2020, on the status of its efforts to implement these recommendations.*

Relationships with Affiliated Organizations

We found UW System Administration implemented 10 of our 16 recommendations from report 19-5 related to affiliated organizations.

In report 18-4, we reviewed the scope of the relationships UW institutions have with foundations and other affiliated organizations and made recommendations to improve the oversight of these relationships by the Board of Regents and the monitoring of these relationships by UW System Administration. In report 19-5, we found that although UW System Administration took some steps to address our recommendations from report 18-4, as of March 2019 it had completed implementation of only one of these recommendations. We made recommendations for continued improvement. In our current audit, we followed up on the recommendations we made in report 19-5. Of our 16 recommendations included in report 19-5, we found 10 recommendations were implemented, 4 recommendations were not implemented, and 2 recommendations were partially implemented.

The Board of Regents did not adopt a policy to govern relationships between UW institutions and other affiliated organizations that are not primary fundraising foundations or real estate foundations.

In report 19-5, we recommended that UW System Administration work with the Board of Regents to create a Board policy to govern relationships between UW institutions and other affiliated organizations that are not primary fundraising foundations or real estate foundations. We further recommended that UW System Administration ensure this policy addresses various issues, such as the extent to which UW employees serve on the boards of directors of these organizations and the terms under which UW institutions can provide support to them. During our current audit, we found that these two recommendations were not implemented because the Board of Regents did not adopt a Board policy.

UW System Administration took steps to partially implement recommendations to improve its policy on administrative support of affiliated organizations.

In report 19-5, we made three recommendations to improve UW System Administration Policy 362, *University Administrative Support of Affiliated Organizations*. This policy requires UW institutions to annually report, through a cost-benefit report, the amount of administrative support UW institutions provide to an affiliated organization, including primary fundraising foundations and real estate foundations, if the amount of administrative support provided is \$100,000 or more net of amounts reimbursed by the affiliated organization. During our current audit, we found that UW System Administration took steps to partially address two of these recommendations. For example, UW System Administration amended the administrative policy to provide clarification between primary fundraising foundations, real estate foundations, and other affiliated organizations and to specify that summarized cost-benefit reports are reported annually to the Board of Regents. However, UW System Administration did not fully address our recommendations because the policy was not updated to include required items for a written agreement with an affiliated organization that is not a primary fundraising foundation and also did not include an explanation of how the cost-benefit reports would be evaluated by UW System Administration. In addition, UW System Administration did not implement our recommendation to revise the administrative policy to require UW institutions to provide a report for each affiliated organization.

In report 19-5, we recommended that UW System Administration continue to work with UW-Madison to establish a timeline to begin using the centralized vendor file for all financial transactions. Currently, the centralized vendor file is maintained by UW System Administration and includes a unique vendor number for each affiliated organization, except for those affiliated with UW-Madison. During our current audit, we found our recommendation was not implemented because no formal timeline was established. UW System Administration indicated that plans are in place to implement a new procurement system for all UW institutions, and that system would involve a shared vendor file between the institutions.

UW System Administration should continue its efforts to address recommendations we made in report 19-5.

We note that in its August 2019 report to the Joint Legislative Audit Committee, UW System Administration noted its status related to these recommendations was “in progress.” UW System Administration should continue its efforts to implement recommendations we made in report 19-5. Specifically, UW System Administration should:

- work with the Board of Regents to create a Board policy to govern the relationships between UW institutions and other affiliated organizations that are not primary fundraising foundations or real estate foundations, and address UW employees

serving on the boards of directors of these other affiliated organizations, UW employees working for these other affiliated organizations, and specify the terms under which UW institutions can provide support for these other affiliated organizations;

- amend UW System Administrative Policy 362 to include required items for a written agreement with an affiliated organization that is not a primary fundraising foundation or a real estate foundation and a description of how cost-benefit reports are evaluated by UW System Administration;
- revise UW System Administrative Policy 362 to require UW institutions to provide an accounting of the costs and benefits of the relationships with each affiliated organization to the UW institution; and
- work with UW-Madison to implement its use of the centralized vendor file.

Recommendation

We recommend the University of Wisconsin System Administration continue its efforts to implement our recommendations from report 19-5 and report to the Joint Legislative Audit Committee by November 13, 2020, on the status of its efforts to do so.

Personnel Systems

In report 19-5, we reviewed compliance by UW institutions with policies related to UW System's new personnel system. We found UW institutions' policies did not consistently comply with UW System Administration policy, and some institutions lacked published guidelines. We recommended UW System Administration improve policies related to certain pay increases and adjustments, develop and improve policies related to extraordinary salary ranges, and ensure grievance policies and procedures comply with statutory compliance requirements. In addition, we recommended UW-Madison improve its policies related to extraordinary salary ranges and ensure grievance policies and procedures complied with statutory requirements.

We found that UW System Administration implemented our recommendations from report 19-5 related to personnel systems.

During our current audit, we found that UW System Administration implemented the recommendations we made in report 19-5. For example, UW System Administration implemented new policies and improved existing policies related to performance evaluations, pay plan increases, merit-based pay, and extraordinary salary ranges. In addition, all UW institutions submitted an attestation statement certifying their compliance with UW System administration policies and state statutes. Further, UW System Administration reviewed UW institution policies and procedures for compliance with UW System Administration policies and state statutes, and requested that UW institutions make changes to their policies and procedures as necessary. UW System Administration continues to work with UW institutions to make the necessary changes.

We found that UW-Madison implemented our recommendations from report 19-5 related to personnel systems.

We also found that UW-Madison implemented the recommendations we made in report 19-5 by revising its grievance policy to meet statutory requirements and revised the extraordinary salary range policy to focus on market-based data. Further, UW-Madison hired centralized employees to focus on market data and approve extraordinary salary range requests submitted by the divisions.

Information Technology

UW System Administration partially implemented our prior audit recommendations related to IT policies and procedures.

Weaknesses in information technology (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. We reported weaknesses in UW System's IT security policies, procedures, and controls during our audits of UW System for FY 2014-15 (report 16-3), FY 2015-16 (report 17-6), and FY 2016-17 (report 18-2). During our single audit for FY 2017-18 (report 19-3), we reported UW System Administration did not make significant progress in development of its IT policies and procedures. In addition, we continued to report concerns with a lack of IT security policies and procedures at some institutions, and we identified that some policies and procedures were inadequate or incomplete. As part of our FY 2018-19 single audit (report 20-3), we followed up on UW System Administration's progress in addressing our concerns and found that UW System Administration partially implemented the recommendations we made. Further recommendations for improvement will be included in our forthcoming evaluation of IT needs assessment and procurement.

***UW System is considering
a new cloud-based
enterprise resource
planning system.***

We note that, in February 2019, the Board of Regents was informed that UW System Administration and UW-Madison are performing a preplanning effort to launch a new, integrated cloud-based enterprise resource planning system because the current payroll system, Human Resource System (HRS), and the current financial system, Shared Financial System, do not meet the needs of UW System Administration and UW-Madison. According to the board materials, the new system would also be phased in at other UW institutions. As we described in report 14-4, HRS was largely implemented in April 2011.

At the April 2020 Board of Regents meeting, UW System Administration staff indicated that preplanning was expected to be completed in May 2020. However, at the June 2020 Board of Regents meeting, UW System Administration staff indicated that the project would not be advanced for approval by the Board of Regents before fall 2020.

■ ■ ■ ■

Appendices ■

Appendix 1

Members of the UW System Board of Regents
June 2020

Member	Term
Robert Atwell	May 2017 to May 2024
Scott Beightol	November 2018 to May 2023
Amy Blumenfeld Bogost	May 2020 to May 2027
Héctor Colón	March 2020 to May 2025
José Delgado	May 2014 to May 2021
Michael M. Grebe	June 2015 to May 2022
Eve Hall	May 2014 to May 2021
Mike Jones	May 2017 to May 2024
Tracey L. Klein	May 2016 to May 2023
Becky Lezvow	Ex officio
Edward Manydeeds III	May 2019 to May 2026
Andrew S. Petersen	May 2015 to May 2022
Cris Peterson	May 2018 to May 2025
Corey Saffold (student)	May 2020 to May 2022
Carolyn Stanford Taylor	Ex officio
Karen Walsh	May 2019 to May 2026
Kyle M. Weatherly	May 2020 to May 2027
Olivia Woodmansee (student)	May 2019 to May 2021

Appendix 2

Summary of UW System Unrestricted Program Revenue Balances by Level of Commitment¹
 FY 2018-19 Ending Program Revenue Balances

Institution	Obligated	Planned	Designated	Reserves	Undocumented (Discretionary)	Total
Madison	\$121,978,693	\$189,868,952	\$26,191,592	\$26,417,328	–	\$364,456,565
Milwaukee	17,557,433	31,791,887	41,025,332	11,000,000	\$ 1,776,981	103,151,633
Eau Claire	13,621,389	10,083,599	19,664,166	7,189,816	1,526,843	52,085,813
Green Bay	1,278,903	10,052,642	8,612,609	5,901,453	2,767,184	28,612,791
La Crosse	14,538,115	15,240,994	2,280,595	384,251	81,234	32,525,189
Oshkosh	4,174,652	7,190,955	8,037,810	3,033,868	1,236,834	23,674,119
Parkside	2,243,676	8,759,206	1,852,933	–	2,099,889	14,955,704
Platteville	12,290,577	9,862,585	4,164,502	2,000,000	154,050	28,471,714
River Falls	5,994,360	15,460,062	326,630	736,690	–	22,517,742
Stevens Point	8,338,621	5,253,545	2,105,494	1,270,978	380,598	17,349,236
Stout	9,747,185	4,781,768	–	7,423,913	123,322	22,076,188
Superior	1,314,260	1,718,111	657,225	1,000,000	3,028,247	7,717,843
Whitewater	8,000,840	15,742,398	4,088,471	207,472	–	28,039,181
Colleges	–	15,052,212	–	–	15,276,871 ²	30,329,083 ²
Extension	3,305,638	4,369,914	4,425,793	1,229,141	6,130,138	19,460,624
System Administration	89,276	–	319,276	–	(5,833,333)	(5,424,781)
Systemwide	40,047,584	9,274,324	181,462	20,082,664	6,692,328	76,278,362
Total	\$264,521,202	\$354,503,154	\$123,933,889	\$87,877,574	\$35,441,186²	\$866,277,006²
	30.5%	40.8%	14.3%	10.1%	4.1%	100%

¹ As reported in Appendix 7 of UW System's FY 2018-19 Report on Program Revenue Balances by Institution and Level of Commitment.

² A balance of \$349,561 is not included in the UW Colleges undocumented balance because of an error.

Level-of-Commitment Categories

“Obligated” balances are held for a purpose as indicated by documentation such as a contract or encumbrance that would make it difficult for the 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 an appropriate approving authority. The 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, including institutional reserve policies. Contingencies may result for unexpected funding shortfalls that must be addressed in order to ensure the continuation of operations and from an unanticipated need.

“Undocumented” balances which are not yet obligated or planned and for which there are no funding source requirements.

Response ■



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July 27, 2020

Joe Chrisman, Auditor
Legislative Audit Bureau
22 East Mifflin Street, Suite 500
Madison, WI 53703

Dear Auditor Chrisman,

Thank you for the opportunity to respond to the Legislative Audit Bureau's (LAB) review of the University of Wisconsin (UW) System. Please see UW System's response attached.

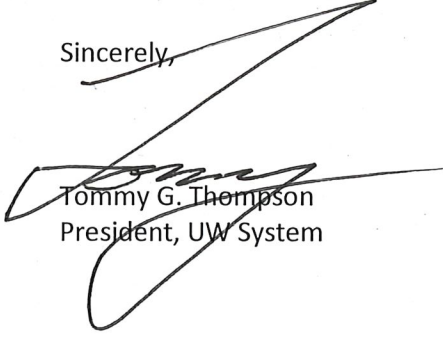
We appreciate LAB's recommendations as we continue to improve the management, transparency, and effectiveness of our policies. The UW System has made significant progress by implementing all of LAB's recommendations related to our personnel systems. In addition, we look forward to working together to improve our IT policies and procedures as part of the IT needs assessment and procurement report.

This report includes several helpful recommendations to improve our management of auxiliary operations and affiliated organizations. We have made substantial progress in these areas over the last two years as part of our ongoing process to refine and improve our policies and procedures. In our response, we outline our plans to address each of the recommendations from this report.

Thank you for LAB's work on this audit. The UW System remains committed to partnering with LAB, the legislature, and all our stakeholders to continue to ensure transparency and accountability of taxpayer resources.

We look forward to reporting to the Joint Legislative Audit Committee by November 13, 2020 on the recommendations contained in this audit.

Sincerely,


Tommy G. Thompson
President, UW System

Auxiliary Operations Recommendations

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

The UW System issued an interim policy related to auxiliary management to allow UW institutions to better manage through the COVID-19 pandemic. The goal is to evaluate the effectiveness of this interim policy, determine if any adjustments are necessary, and have the ongoing policy in place by summer 2021. Revisions to align terminology and expectations between Board and System policy will be undertaken at the same time.

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

The UW System and LAB have not identified any authoritative guidance on appropriate balance levels for entities that do not have separate bonding authority. In addition, there will likely be greater reliance on PR balances due to the COVID-19 pandemic. As a result, we will develop a policy that includes general parameters and considerations for PR balance levels, and we anticipate having this policy in place by summer 2021.

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

The UW System will implement this recommendation for the fiscal year 2020-21 PR balance report, since compilation of the 2019-20 report has already begun.

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

Since the first PR balance report was developed in 2013, the UW System has followed the report format initially identified by the LAB. We will make this revision for the fiscal year 2020-21 PR balance report, since compilation of the 2019-20 report has already begun.

Affiliated Organizations Recommendations

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

To address the original recommendation in Report 18-4, we created UW System Administrative Policy 362 to govern primary fundraising foundations, real estate foundations, and other affiliated organizations.

We will work with the Board of Regents to move UWSA Policy 362 into Board policy and make additional changes to address the other recommendations in this report.

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

We accept this recommendation. As we work with the Board of Regents to create a Board policy, we will incorporate language specifying clear guidelines for employees serving on the boards of directors of other affiliated organizations, employees working for other affiliated organizations, and the terms under which UW institutions can provide administrative support for other affiliated organizations.

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

We accept this recommendation. As we work with the Board of Regents to create a Board policy, we will include language specifying what should be included in written agreements with other affiliated organizations.

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

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

As LAB noted, we partially completed this recommendation, but to fully resolve this, we will specify in the new Board policy how the UW System will evaluate the cost-benefit reports.

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

We accept this recommendation. UW System needs to consider the cost and benefit of any policy prior to adoption. We evaluated the risk of our relationships with primary fundraising foundations, real estate foundations, and other affiliated organizations, and drafted policies to mitigate them. The preparation and review of the cost-benefit report consumes administrative time for the institution and System. We determined that \$100,000 was a reasonable threshold for annual evaluation. We believe the cost of preparation and review of this report for every affiliated organization annually outweighs the benefit.

To ensure smaller affiliated organizations are regularly assessed, we will perform the cost-benefit analysis for each affiliated organization at least once every five years. We believe this allows us to ensure our relationships with affiliated organizations are appropriate, in a cost-effective manner.

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

We accept this recommendation. The UW System is currently implementing a new procurement application, which will include UW-Madison's transition to the UW shared vendor file. This application is expected to go-live in April 2021.