



REPORT HIGHLIGHTS

Report 19-5
May 2019State Auditor
Joe Chrisman**University of Wisconsin System
Fiscal Year 2017-18**

The University of Wisconsin (UW) System provides postsecondary academic education through its 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 the universities. UW System Administration consists of the UW System President, who is statutorily responsible for administering and maintaining fiscal control. The Board of Regents is statutorily responsible for establishing the policies necessary for governing UW System.

Effective July 1, 2018, the 13 colleges that were previously part of UW Colleges became two-year branch campuses that were merged with certain four-year universities and UW-Extension merged certain divisions with UW-Madison and UW System Administration.

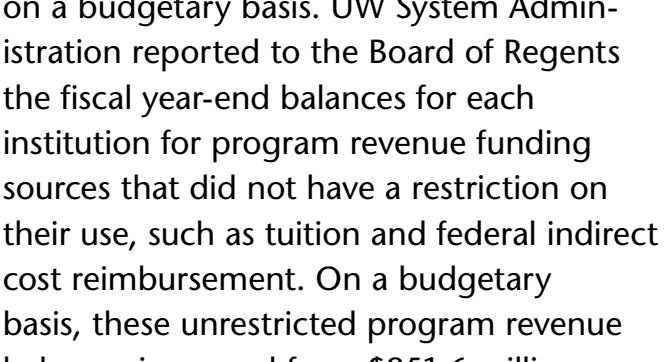
We are required by statute to perform an annual financial audit of UW System. As part of this audit, we assessed selected aspects of UW System's financial management and financial operations, including tuition revenue, program revenue balances, and personnel systems. In addition, we followed up on the status of recommendations we made in report 18-4, *Relationships between the University of Wisconsin and Certain Affiliated Organizations*.

Revenues and Expenses

For FY 2017-18, UW System's revenue totaled \$5.3 billion and its expenses totaled \$5.1 billion on the basis of generally accepted accounting principles (GAAP). Tuition and Fees was UW System's largest revenue source in FY 2017-18 and totaled \$1.3 billion, or 24.3 percent of its total revenues. UW System's largest expense was Salary and Fringe Benefits, which totaled \$3.2 billion, or 63.1 percent of total expenses for FY 2017-18.

Tuition

Total tuition revenue increased from \$933.4 million in FY 2008-09 to \$1.3 billion in FY 2017-18. Although nonresident tuition revenue has increased each year since FY 2008-09, resident tuition revenue has decreased each year since FY 2013-14.

Tuition Revenue^{1, 2} | By Fiscal Year¹ Tuition revenue is on the cash basis of accounting.² Excludes revenue attributed to the master's of business administration program and includes differential tuition at UW-Madison.³ Includes revenue related to the Minnesota-Wisconsin Higher Education Reciprocity Agreement.

Tuition revenue is largely affected by changes in tuition rates and enrollment. Although most institutions have increased nonresident and graduate tuition rates, resident undergraduate tuition rates have been frozen at the 2012-13 academic year levels since FY 2013-14.

Although resident enrollment across UW System declined by 12,881 students from 138,018 students in academic year 2008-09 to 125,137 students in academic year 2017-18, nonresident enrollment increased by 10,558 students, from 21,639 students in academic year 2008-09 to 32,197 in academic year 2017-18.

UW System attributes the decline in resident enrollment to fewer Wisconsin high school graduates, changes in regional demographics, and faster college graduation rates.

Program Revenue Balances

As of June 30, 2018, UW System's total program revenue balance was \$1.3 billion on a budgetary basis. UW System Administration reported to the Board of Regents the fiscal year-end balances for each institution for program revenue funding sources that did not have a restriction on their use, such as tuition and federal indirect cost reimbursement. On a budgetary basis, these unrestricted program revenue balances increased from \$851.6 million as of June 30, 2017, to \$906.9 million as of June 30, 2018, or by \$55.3 million.

Since the implementation of program revenue balances reporting in FY 2013-14, unrestricted program revenue balances have decreased at eight institutions and have increased at nine institutions.

We identified concerns with reporting of program revenue balances for UW-Oshkosh, as well as concerns with its accumulated balances for auxiliary services.

In February 2019, UW-Oshkosh reported to the Board of Regents that it had a program revenue balance of \$7.0 million that had been unused for about six years. We found that UW-Oshkosh has increased student housing rates over the past 10 years, despite having an available program revenue balance that could have been used to offset or perhaps avoid room rate increases. We also found that UW-Oshkosh reported debt service expenditures as being funded by both this program revenue balance and by its current year revenue.

New Personnel Systems

2011 Wisconsin Act 32 required the Board of Regents to develop a personnel system for all UW System employees except UW-Madison employees, and for the UW-Madison Chancellor to create a personnel system for UW-Madison employees. These personnel systems were to be established separate from the state civil service system, and were to be implemented on July 1, 2015.

UW System Administration established policies and required institutions to develop guidelines to administer pay plan increases and other types of pay adjustments. However, UW institutions did not develop guidelines that followed UW System Administration's policy nor ensure appropriate documentation was maintained to support pay plan increases or merit-based adjustments that we reviewed. We also identified concerns with policies for extraordinary salary ranges and identified employees who were paid outside of an approved salary range.

Affiliated Organizations

UW institutions have relationships with various affiliated organizations, including primary fundraising foundations and real estate foundations. We made several recommendations in report 18-4 to improve the oversight and monitoring of these relationships. In our current audit, we found UW System took some steps but did not complete implementation of all of the recommendations from report 18-4. For example, UW System:

- has not reviewed all memoranda of understanding and operational agreements with primary fundraising foundations and real estate foundations; and
- has not reviewed for appropriateness a sample of payments from UW institutions to other affiliated organizations that are not primary fundraising foundations or real estate foundations.

UW System did not seek to establish a Board policy to govern affiliated organizations that are not primary funding foundations or real estate foundations. Instead, it implemented an administrative policy requiring UW institutions to annually report to UW System Administration the administrative support provided to an affiliated organization if the amount is \$100,000 or more net of amounts reimbursed by the affiliated organization.

However, the administrative policy does not require a complete accounting of all costs and benefits, a calculation of the return on investment the UW institution is making in the affiliated organization, or that a cost-benefit report be completed for all affiliated organizations.

The administrative policy also does not address how the cost-benefit reports will be evaluated by UW System Administration nor does it specify what information, if any, will be formally reported to the Board of Regents.

Recommendations

We include recommendations for UW System Administration to report to the Joint Legislative Audit Committee by August 30, 2019, on its efforts to:

- 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 (p. 42);
- ensure UW institutions have developed guidelines that comply with UW System's policy for granting pay plan increases and merit-based adjustments, and include guidance on the appropriate payroll system codes to be used to record merit-based adjustments (pp. 54 and 55);
- revise its policy for administering extraordinary salary ranges, require UW institutions to develop guidelines, and evaluate whether the guidelines have been consistently complied with (p. 58); and
- review grievance procedures of all UW institutions and ensure the procedures meet statutory requirements (p. 62).

We also recommend UW-Madison ensure its staff are trained on its policy on extraordinary salary ranges and that such ranges are approved in compliance with the policy (p. 60), and revise its grievance policy to meet statutory requirements (p. 63).

In addition, we largely repeat the recommendations from report 18-4 regarding affiliated organizations (p. 69, p. 72, p. 78, p. 79 and p. 80). We also recommend UW System Administration revise its administrative policy and cost-benefit report to require all UW institutions to provide an accounting of all of the costs and benefits of the relationships with each affiliated organization, revise the spreadsheet it uses to review certain documents in order to determine compliance with Board policy, and report the status of its efforts to the Joint Legislative Audit Committee by August 30, 2019 (p. 69 and p. 77).

Issue for Legislative Consideration

As noted in report 18-4, the Legislature could modify statutes to require certain UW employees to annually file statements of economic interests with the Wisconsin Ethics Commission and define UW employees who also work for affiliated organizations to be state public officials (p. 81).

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