

University of Wisconsin System Fiscal Year 2013-14

February 2015

Report Highlights ■

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

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

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

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

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

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

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

- analyzed how UW System accounts for the use of general purpose revenue (GPR) and tuition to fund its general program operations budget, which includes the salaries, fringe benefits, utilities, and supplies and services used to provide an education to students enrolled at UW institutions;
- performed a limited review of UW System's new program revenue balances report, which was submitted to the Board of Regents and the Legislature in October 2014;
- reviewed tuition remissions awarded by UW institutions in FY 2013-14; and
- followed up on prior audit recommendations related to security over the Human Resource System (HRS), which is UW System's payroll and personnel system.

Financial Condition

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

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

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

General Program Operations Budget

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

From FY 2000-01 through FY 2013-14, UW System's total general program operations budget increased \$716.4 million, or by 48.6 percent. In FY 2000-01, tuition funded \$517.2 million (35.1 percent) of UW System's general program operations budget, and GPR funded \$855.9 million (58.1 percent). In FY 2013-14, tuition funded \$1.2 billion (54.2 percent) of the general program operations budget, and GPR funded \$899.6 million (41.1 percent).

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

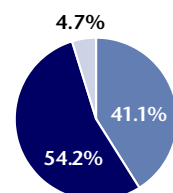
General Program Operations Budget

FY 2013-14 *(in millions)*

GPR ¹	\$ 899.6
Tuition	1,186.4
Other Program Revenue	104.6

Total **\$2,190.6**

Percentage of Total

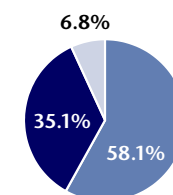


FY 2000-01 *(in millions)*

GPR ¹	\$ 855.9
Tuition	517.2
Other Program Revenue	101.1

Total **\$1,474.2**

Percentage of Total



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

Program Revenue Balances

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

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

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

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

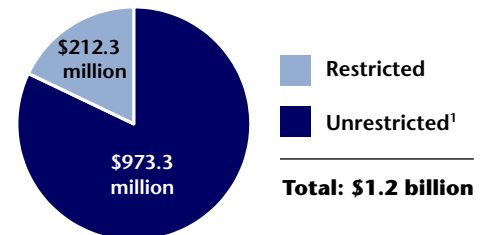
As of June 30, 2014, \$90.7 million in balances were categorized as "reserves" by UW institutions and \$20.0 million in balances were held as reserves in a systemwide tuition account. We found that 7 of 14 institutions that categorized balances as reserves did not have sufficient documentation to support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

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

Tuition Remission

Tuition remission is an amount of resident or nonresident tuition that is not charged to a student. We focused our review on certain statutory remissions and excluded veterans remissions. In FY 2013-14,

Total Program Revenue Balance As of June 30, 2014



¹ Categorized as "obligated," "planned," "designated," "reserves," and "undocumented," in UW System's 2014 program revenue balances report.

Key Facts and Findings

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

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

We identified instances in which the documentation provided by the UW institution did not support its categorization of a program revenue balance.

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

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

UW institutions granted \$136.2 million in the tuition remission categories we reviewed. Under ch. 36, Wis. Stats., tuition remission may be granted to certain students. UW System has considerable discretion in determining the criteria for awarding tuition remissions, and institutions have differing interpretations of how this discretion is applied when awarding tuition remission to “needy and worthy” students.

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

Recommendations

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

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

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

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

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



Legislative Audit Bureau | State Auditor: Joe Chrisman

Address questions regarding this report to the State Auditor at (608) 266-2818 or at AskLAB@legis.wisconsin.gov.