



REPORT HIGHLIGHTS

Report 16-3
February 2016State Auditor
Joe Chrisman

University of Wisconsin System Fiscal Year 2014-15

The University of Wisconsin (UW) System provides postsecondary academic education for approximately 181,000 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, the chancellor of UW-Extension and Colleges, and the deans who head the two-year colleges.

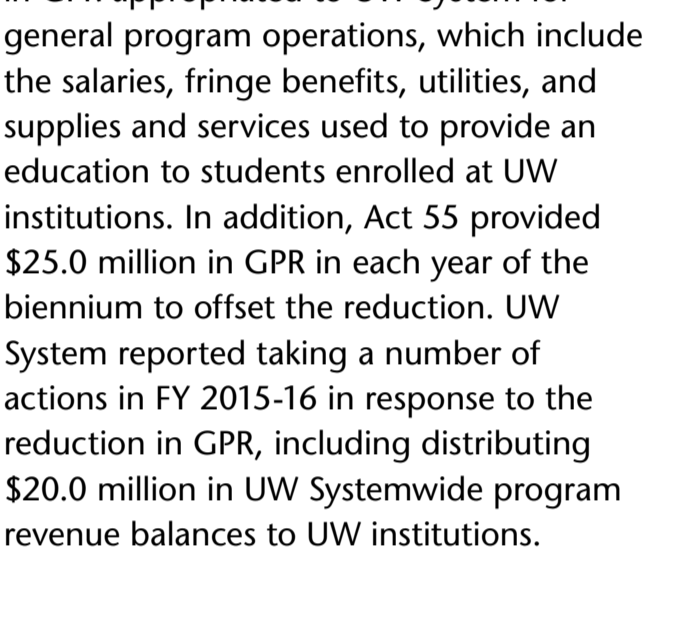
We are required by statute to perform an annual financial audit of UW System. Our unmodified opinion on UW System's financial statements for fiscal year (FY) 2014-15 and FY 2013-14 is included in its *2015 Annual Financial Report*. In completing our audit, we:

- reviewed UW System's overall financial condition;
- analyzed how UW System Administration apportioned a base budget reduction in general purpose revenue (GPR) appropriated by 2015 Wisconsin Act 55, the 2015-17 Biennial Budget Act, to UW institutions for FY 2015-16;
- performed a limited review of the FY 2014-15 program revenue balances report, which was submitted to the Board of Regents and the Legislature in October 2015; and
- evaluated the role of UW System Administration's Office of Trust Funds in overseeing investment of gifts, grants, and bequests made to the Board of Regents or individual UW institutions.

Financial Condition

In FY 2014-15, 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 \$1.2 billion and was 24.0 percent of total revenue. UW System expenses totaled \$4.8 billion and the largest expense was Salary and Fringe Benefits, which totaled \$3.0 billion and was 63.0 percent of total expenses.

As of June 30, 2015, UW System's net position, which provides a measure of its overall financial condition, was \$6.7 billion on a GAAP basis. Unrestricted Net Position, which are resources available for future spending, was \$833.8 million as of June 30, 2015.



¹ On the basis of generally accepted accounting principles (GAAP).

We identified weaknesses in information technology (IT) security policies, procedures, and controls for several applications at several UW institutions. These 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 for FY 2014-15.

For each year in the 2015-17 biennium, 2015 Wisconsin Act 55, the Biennial Budget Act, included a \$150.0 million reduction in GPR appropriated to UW System for general program operations, which include the salaries, fringe benefits, utilities, and supplies and services used to provide an education to students enrolled at UW institutions. In addition, Act 55 provided \$25.0 million in GPR in each year of the biennium to offset the reduction. UW System reported taking a number of actions in FY 2015-16 in response to the reduction in GPR, including distributing \$20.0 million in UW Systemwide program revenue balances to UW institutions.

Program Revenue Balances

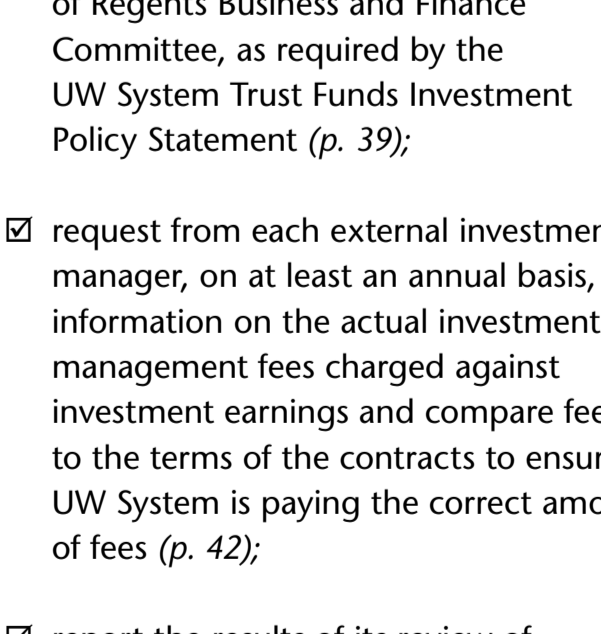
As of June 30, 2015, UW System's total program revenue balance was \$1.2 billion. During the Board of Regents October 2015 meeting, UW System Administration reported to the Board the fiscal year-end balances for each institution for program revenue funding sources that did not have a restriction on their use, such as tuition and federal indirect cost reimbursement. On a budgetary basis, these balances decreased from \$973.3 million as of June 30, 2014, to \$923.9 million as of June 30, 2015, or by \$49.4 million.

UW System took steps to address recommendations we included in report 15-1 to improve its program revenue balances report. However, additional review and guidance is needed related to the reserves policies developed by UW institutions.

Investments

The Board of Regents is responsible for investing all gifts, grants, and bequests made to the Board of Regents or to individual UW institutions. UW System Administration's Office of Trust Funds is responsible for the daily management and administration of the trust funds.

As of June 30, 2015, UW System held \$523.4 million in such investments. Most of these investments are in the Long Term Fund, which is used to invest endowed assets, and the Intermediate Term Fund, which is used to invest fully expendable assets. We reviewed the role of the Board of Regents and UW System Administration's Office of Trust Funds in overseeing the investment of these funds, and the policies used to manage the investments.



¹ Short-term pool of state and local government funds managed by the State of Wisconsin Investment Board.

Approximately 82.0 percent of the assets in the Long Term and Intermediate Term funds are managed by external investment managers. We found the Office of Trust Funds did not conduct required due diligence meetings for two of six external investment managers in 2015 and that documentation to support ongoing due diligence was not always available. In addition, we found the Office of Trust Funds did not prepare required reports to the Board of Regents related to due diligence activity that it performed.

External investment managers charge a fee to UW System Administration for investment management services. In FY 2014-15, external investment management fees totaled \$3.1 million, of which \$1.4 million was directly billed to UW System and \$1.7 million was charged against investment earnings. We found the Office of Trust Funds did not monitor the fees charged against investment earnings to ensure they complied with the terms of the contracts with the external investment managers.

Recommendations

We recommend UW System Administration review current UW institution reserves policies to ensure the policies are complete and consistently in compliance with Board of Regents policies and UW System Administration guidance (p. 29).

We also recommend UW System Administration:

- review the asset allocation plans for investments to determine if changes should be made, report the results of its review to the Board of Regents, and seek approval of any revisions (p. 37);
- improve its current processes to ensure that ongoing due diligence of external investment managers is being completed and documented in accordance with the UW System Trust Funds Investment Policy Statement (p. 39);
- complete and provide an annual due diligence report for each external investment manager to the Board of Regents Business and Finance Committee, as required by the UW System Trust Funds Investment Policy Statement (p. 39);
- request from each external investment manager, on at least an annual basis, information on the actual investment management fees charged against investment earnings and compare fees to the terms of the contracts to ensure UW System is paying the correct amount of fees (p. 42);
- report the results of its review of investment management fees to the Board of Regents on an annual basis (p. 42);
- review the benchmarks used to assess and report on investment performance of the Intermediate Term Fund, determine if an alternative benchmark should be used, and report to the Board of Regents the results of the review and propose any changes to be made (p. 46); and
- improve the content and the availability of its investment reports to the Board of Regents (p. 47).

We recommend UW System Administration report to the Joint Legislative Audit Committee by July 29, 2016, on the status of its efforts to implement these recommendations (pp. 29, 37, 39, 42, 46, and 47).

Further, we recommend UW System Administration assist UW institutions in implementing changes to IT controls and develop a UW System-wide IT security program (p. 54).

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