

Report 19-5
May 2019

University of Wisconsin System Fiscal Year 2017-18

STATE OF WISCONSIN



Legislative Audit Bureau ■

University of Wisconsin System Fiscal Year 2017-18

Joint Legislative Audit Committee Members

Senate Members:

Robert Cowles, Co-chairperson
Chris Kapenga
Alberta Darling
Janet Bewley
Tim Carpenter

Assembly Members:

Samantha Kerkman, Co-chairperson
John Macco
John Nygren
Melissa Sargent
Katrina Shankland

State Auditor
Joe Chrisman

**Financial Audit
Director**
Carolyn Stittleburg

Team Leader
Rachael Inman

Auditors
Emily Pape
Stephanie Yost

Evaluators
Sara Sanders
Nate Staley

**Publications Designer
and Editor**
Susan Skowronski

The Legislative Audit Bureau supports the Legislature in its oversight of Wisconsin government and its promotion of efficient and effective state operations by providing nonpartisan, independent, accurate, and timely audits and evaluations of public finances and the management of public programs. Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau.

The Bureau accepts confidential tips about fraud, waste, and mismanagement in any Wisconsin state agency or program through its hotline at 1-877-FRAUD-17.

For more information, visit www.legis.wisconsin.gov/lab.



Contact the Bureau at 22 East Mifflin Street, Suite 500, Madison, Wisconsin 53703;
AskLAB@legis.wisconsin.gov; or (608) 266-2818.

CONTENTS

| | |
|---|----|
| Letter of Transmittal | 1 |
| Report Highlights | 3 |
| Introduction | 9 |
| Financial Condition | 11 |
| Revenue | 11 |
| Expenses | 13 |
| Debt Service Costs | 14 |
| Net Position | 14 |
| Information Technology | 16 |
| Tuition | 19 |
| Tuition Rates | 19 |
| Enrollment | 21 |
| Factors Affecting Enrollment | 24 |
| Tuition Revenue | 25 |
| Program Revenue Balances Reporting | 29 |
| Program Revenue Balances as of June 30, 2018 | 29 |
| Unrestricted Program Revenue Balances | 31 |
| Program Revenue Sources | 33 |
| Levels of Commitment for Program Revenue Balances | 35 |
| UW Institution Spending and Savings Plans | 37 |
| UW-Oshkosh Residence Life Department | 39 |
| Personnel Systems | 45 |
| Changes from Personnel Systems Implementation | 46 |
| UW Employee Salary Increases and Adjustments | 47 |
| Pay Plan Increases | 48 |
| Merit-Based Salary Adjustments | 50 |
| Coding Errors | 54 |
| Extraordinary Salary Ranges | 55 |
| University Personnel System | 55 |
| UW-Madison | 58 |
| Grievance Policies and Procedures | 60 |
| University Personnel System | 60 |
| UW-Madison | 62 |

| | |
|---|-----------|
| Relationships with Affiliated Organizations | 65 |
| UW-Oshkosh Foundation | 65 |
| Primary Fundraising Foundations and Real Estate Foundations | 66 |
| Other Affiliated Organizations | 70 |
| Oversight and Monitoring of All Affiliated Organizations | 73 |
| Guidance and Training | 78 |
| Unique Vendor Identification Numbers | 79 |
| Internal Auditing | 80 |
| Issues for Legislative Consideration | 81 |

Appendices

| | |
|---|--|
| Appendix 1—Enrollment, by Institution and Academic Year | |
| Appendix 2—Summary of UW System Unrestricted Program Revenue Balances by Level of Commitment | |

Response

From the University of Wisconsin System President



STATE OF WISCONSIN | Legislative Audit Bureau

22 East Mifflin St., Suite 500 ■ Madison, WI 53703 ■ (608) 266-2818 ■ Hotline: 1-877-FRAUD-17 ■ www.legis.wisconsin.gov/lab

Joe Chrisman
State Auditor

May 6, 2019

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 assessed selected aspects of UW System's operations. Tuition and Fees was UW System's largest revenue and totaled \$1.3 billion in fiscal year (FY) 2017-18. Although total tuition revenue increased from FY 2008-09 through FY 2017-18, resident tuition began to decrease after FY 2012-13 while nonresident tuition continued to increase. Nonresident tuition increases were driven by increases in nonresident tuition rates and enrollment. Nonresident enrollment increased from 21,639 students in academic year 2008-09 to 32,197 students in academic year 2017-18, or by 48.8 percent.

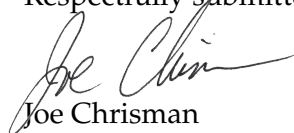
We reviewed UW System's FY 2017-18 *Report on Program Revenue Balances by Institution and Level of Commitment*, which was approved by the Board of Regents in October 2018. On a budgetary basis, UW System's total program revenue balance was \$1.3 billion as of June 30, 2018. Of this amount, \$906.9 million was from unrestricted sources such as tuition. We identified concerns with the program revenue balances reported and the student housing rates set by UW-Oshkosh and recommend improvements.

In FY 2017-18, Salary and Fringe Benefits was UW System's largest expense and totaled \$3.2 billion or 63.1 percent of total expenses. As required by statutes, UW System created two new personnel systems, which were implemented on July 1, 2015, and included compensation changes related to merit-based pay and new pay structures. We recommend UW System improve its policies to ensure justifications for pay increases and adjustments are adequately documented.

As part of our audit, we reviewed the status of recommendations made in report 18-4, *Relationships between the University of Wisconsin and Certain Affiliated Organizations*, which was released in March 2018. Although UW System took some steps to address these recommendations, it completed implementation of only one recommendation as of March 2019. We evaluated the steps taken and include recommendations for continued improvement.

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

Respectfully submitted,


Joe Chrisman
State Auditor

JC/CS/ss

Report Highlights ■

UW System's revenue totaled \$5.3 billion and expenses totaled \$5.1 billion for FY 2017-18.

From academic year 2008-09 to academic year 2017-18, nonresident enrollment increased by 10,558 students and resident enrollment decreased by 12,881 students.

Unrestricted program revenue balances have decreased at eight institutions and increased at nine institutions since June 30, 2014.

Beginning in 2015, UW System and UW-Madison implemented new personnel systems separate from the state civil service system.

As of March 2019, UW System has taken some steps but did not complete implementation of all of the recommendations from report 18-4.

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

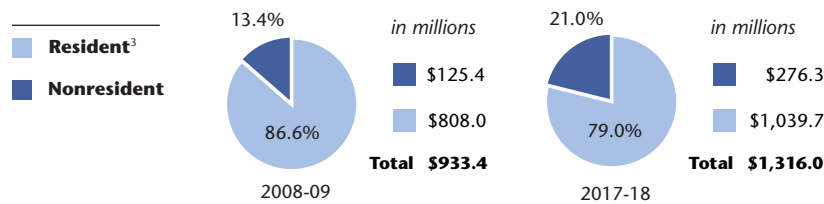
For FY 2017-18, UW System’s revenue totaled \$5.3 billion and its expenses totaled \$5.1 billion on the basis of generally accepted accounting principles (GAAP). Tuition and Fees was UW System’s largest revenue source in FY 2017-18 and totaled \$1.3 billion, or 24.3 percent of its total revenues. UW 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, as shown in Figure 1. Although nonresident tuition revenue has increased each year since FY 2008-09, resident tuition revenue has decreased each year since FY 2013-14.

Figure 1

Tuition Revenue^{1,2} By Fiscal Year



¹ 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](#)).

■ ■ ■ ■

Introduction ■

The University of Wisconsin (UW) System provides postsecondary academic education for approximately 171,000 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.

Prior to July 1, 2018, UW System also included UW Colleges, which were UW System's two-year colleges, and UW-Extension, which provided continuing education courses in classrooms and via distance education as well as public service programs to Wisconsin residents. 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. The plan to restructure will be phased in over a two-year period.

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.

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 Board of Regents establishes policies to govern UW institutions.

The 18-member Board of Regents 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 financial audit work for fiscal year (FY) 2017-18 with the purpose of assessing selected aspects of UW System's financial management and financial operations, including tuition revenue, program revenue balances, personnel systems, and affiliated organizations. 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 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.

UW System did not report all required information to the Governor and Legislature regarding its financial statement audit results.

Act 59 also required the external auditor to provide the Board of Regents, the Governor, the Joint Legislative Audit Committee, and the Joint Committee on Finance with the audited financial statements, performance improvement observations, and a management letter complete with internal control deficiencies and audit differences. Although the external auditor presented this information to the Board of Regents on December 5, 2018, UW System Administration had not provided this information to the Joint Legislative Audit Committee, or the Joint Committee on Finance as of April 1, 2019. At our prompting, UW System Administration provided the required information on April 25, 2019.

Financial Condition

We provided an unmodified audit opinion on the State's FY 2017-18 financial statements, which include UW System financial information.

As a state agency, UW System financial information is included in the State of Wisconsin's FY 2017-18 Comprehensive Annual Financial Report (CAFR). In December 2018, we completed our financial audit of the State of Wisconsin as of and for the fiscal year ended June 30, 2018, and published our findings in report 18-20. We provided an unmodified audit opinion on the State's FY 2017-18 financial statements, which were prepared using generally accepted accounting principles (GAAP) prescribed by the Governmental Accounting Standards Board (GASB).

Revenue

Tuition and Fees accounted for 24.3 percent of UW System's total revenue in FY 2017-18.

As shown in the State's CAFR and in Table 1, UW System revenue increased from \$5.1 billion in FY 2016-17 to \$5.3 billion in FY 2017-18, or by 3.6 percent. During FY 2017-18, the largest revenue was Tuition and Fees, which included tuition and other academic student fees. The \$1.3 billion in Tuition and Fees collected by UW System in FY 2017-18 was 24.3 percent of its total revenue. From FY 2016-17 through FY 2017-18, revenue from Tuition and Fees increased by \$21.1 million, or by 1.7 percent. This increase was largely the result of increases in tuition and enrollment for nonresident and graduate students.

Transfers In was the second-largest revenue during FY 2017-18. State appropriations, which is the largest portion of Transfers In, included the general purpose revenue (GPR) appropriated to UW System, excluding the amounts for debt service payments. In FY 2017-18, state appropriations totaled \$838.8 million and accounted for 16.0 percent of total revenue. From FY 2016-17 through FY 2017-18, state appropriations increased by \$30.6 million, or by 3.8 percent.

Federal Grants and Contracts totaled \$748.2 million in FY 2017-18 and accounted for 14.2 percent of total revenue. From FY 2016-17 through FY 2017-18, Federal Grants and Contracts decreased by \$161.3 million, or by 17.7 percent. However, most of this decrease was attributed to a financial reporting change for the Federal Pell Grant program.

Table 1

UW System Revenue^{1, 2}
(in millions)

| Financial Statement Account | FY 2016-17 | FY 2017-18 | Percentage Change |
|--|------------------|------------------|-------------------|
| Tuition and Fees ³ | \$1,258.2 | \$1,279.3 | 1.7% |
| Transfers In ⁴ | 935.5 | 1,004.1 | 7.3 |
| Federal Grants and Contracts ⁵ | 909.5 | 748.2 | (17.7) |
| Local and Private Grants and Contracts | 257.9 | 248.7 | (3.6) |
| Sales and Services of Auxiliary Enterprises ³ | 429.5 | 445.4 | 3.7 |
| Other Operating Revenue | 409.1 | 467.9 | 14.4 |
| Gifts and Donations | 378.1 | 370.0 | (2.1) |
| Sales and Services of Educational Activities | 335.6 | 319.5 | (4.8) |
| Operating Grants ⁵ | – | 162.7 | – |
| Other Nonoperating Revenue | 65.7 | 93.2 | 41.9 |
| Sales and Services to UW Hospital Authority | 69.2 | 69.7 | 0.7 |
| Capital Contributions | 20.9 | 45.1 | 115.8 |
| Total | \$5,069.2 | \$5,253.8 | 3.6 |

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

² Information obtained from the State of Wisconsin CAFR for FY 2016-17 and FY 2017-18.

³ Excludes scholarships and fellowships applied to student accounts.

⁴ Includes state appropriations and capital appropriations.

⁵ The Federal Pell Grant was reported under Federal Grants and Contracts in FY 2016-17 and under Operating Grants for FY 2017-18.

Other significant revenue for UW System in FY 2017-18 included:

- Local and Private Grants and Contracts, which totaled \$248.7 million and included grants and contracts received from Wisconsin municipalities and other nonfederal entities;
- Sales and Services of Auxiliary Enterprises, which totaled \$445.4 million and included revenue received for services, such as student housing and food service;
- Other Operating Revenue, which totaled \$467.9 million and included revenue from intercollegiate athletics, student health services, child care centers, student loan interest income, and certain administrative services;

- Gifts and Donations, which totaled \$370.0 million and included amounts received from donors; and
- Sales and Services of Educational Activities, which totaled \$319.5 million and included revenue received from the sales of goods or services that were incidental to the primary function of UW System, such as textbook rentals, laboratory fees, scientific and literary publications, and public service programs.

Expenses

As shown in Table 2, UW System expenses were \$5.1 billion in both FY 2016-17 and FY 2017-18.

Table 2

UW System Expenses^{1, 2} (in millions)

| Financial Statement Account | FY 2016-17 | FY 2017-18 | Percentage Change |
|---|------------------|------------------|-------------------|
| Salary and Fringe Benefits ³ | \$3,256.8 | \$3,190.1 | (2.0)% |
| Supplies and Services | 1,206.2 | 1,237.6 | 2.6 |
| Depreciation | 292.4 | 324.0 | 10.8 |
| Scholarships and Fellowships | 145.2 | 157.6 | 8.5 |
| Transfer Out | 85.9 | 81.3 | (5.4) |
| Interest Expense ⁴ | 53.4 | 50.6 | (5.2) |
| Other Operating Expenses | 24.9 | 12.3 | (50.6) |
| Loss on Disposal of Capital Assets | 24.8 | 2.1 | (91.5) |
| Total | \$5,089.6 | \$5,055.6 | (0.7) |

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

² Information obtained from the State of Wisconsin's FY 2016-17 CAFR and FY 2017-18 CAFR.

³ Reported in the Personal Services account in the CAFR.

⁴ Interest on indebtedness.

Salary and Fringe Benefits was UW System's largest expense and totaled \$3.2 billion in FY 2017-18.

Salary and Fringe Benefits was UW System's largest expense and totaled \$3.2 billion, or 63.1 percent of total expenses in FY 2017-18. From FY 2016-17 through FY 2017-18, Salary and Fringe Benefits expense decreased by 2.0 percent because, as of June 30, 2018, a net pension asset was reported that decreased UW System's pension expense. As a participating employer in the Wisconsin Retirement System (WRS), UW System is required to report its proportionate share of the net pension asset (or liability) for all employees participating in the WRS. We discussed the net pension asset of the WRS in report 18-10. Other significant UW System expenses included those related to the purchase of supplies and services, depreciation on capital assets, and scholarships and fellowships.

Debt Service Costs

The State of Wisconsin issues debt on behalf of UW System, as it does for other state agencies. The proceeds of this debt are used to acquire or build facilities and other capital assets. Debt on academic facilities is repaid using GPR appropriated to UW System for that purpose. Debt on other facilities, such as residence halls, is repaid using program revenue that is generated by payments from users of these facilities.

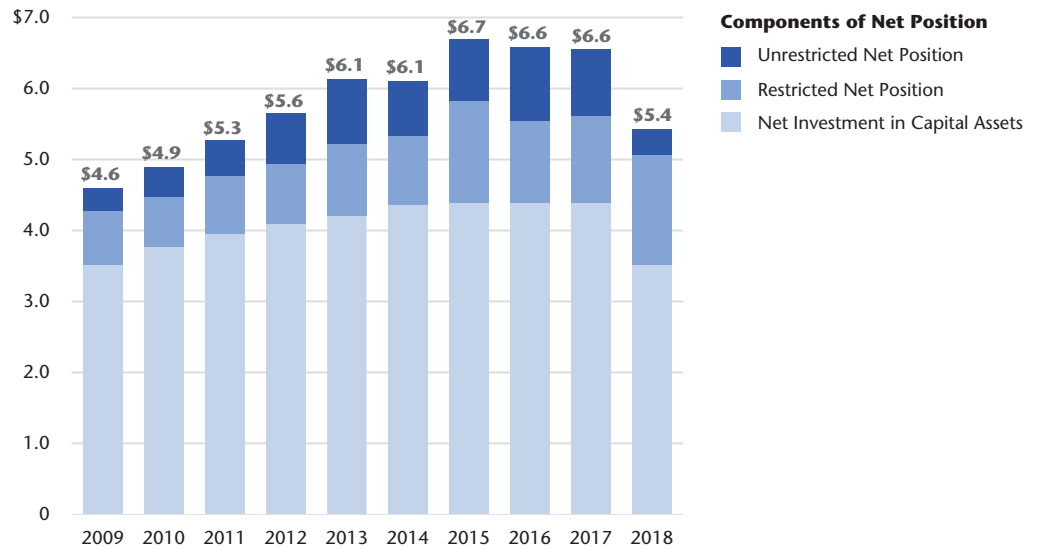
In FY 2017-18, GPR-funded debt service payments totaled \$207.0 million and program revenue-funded debt service payments totaled \$135.0 million. As of June 30, 2018, outstanding GPR-funded debt totaled \$1.7 billion and outstanding program revenue-funded debt totaled \$1.5 billion.

Net Position

UW System's net position was \$5.4 billion as of June 30, 2018.

Net position provides a measure of overall financial condition. On a GAAP basis, UW System's net position decreased from \$6.6 billion as of June 30, 2017, to \$5.4 billion as of June 30, 2018, as shown in Figure 2. The decrease is attributable to a \$1.3 billion restatement of UW System's FY 2017-18 beginning net position.

Figure 2

Net Position of UW System¹As of June 30
(in billions)¹ On the basis of generally accepted accounting principles (GAAP).

The majority of the restatement of net position was related to a financial reporting change that depreciated library holdings. Previously, UW System considered library holdings to be inexhaustible assets, which are not depreciated. The Legislative Audit Bureau first raised questions regarding the State's policy for accounting for library holdings with UW System financial reporting staff during our FY 2015-16 audit of UW System's financial statements. Beginning in June 2017, we also had discussions with the Department of Administration, which determined that, beginning in FY 2017-18, library holdings would be depreciated in the State's CAFR. As a result, the beginning net position was reduced by \$959.5 million.

The beginning net position was also reduced by \$221.0 million for the recognition of the Other Postemployment Benefit liability. In addition, the beginning net position was reduced by \$151.4 million because the Federal Perkins Loan Program was terminated.

UW System's net position is comprised of three main components: Net Investment in Capital Assets, Restricted Net Position, and Unrestricted Net Position. Net Investment in Capital Assets represents capital assets, such as buildings and equipment, less accumulated depreciation, and less any related outstanding program revenue-funded debt needed to purchase or construct these capital assets. Net Investment in Capital Assets was the largest

component of UW System's net position and decreased from \$4.4 billion as of June 30, 2017, to \$3.5 billion as of June 30, 2018, or by 20.5 percent. The decrease was attributable to the restatement of the beginning net position for the depreciation of library holdings.

Restricted Net Position represents amounts that have an external restriction on their use. The majority of UW System's Restricted Net Position relates to amounts that were restricted for pensions, endowment funds, gifts, nonfederal grants and contracts, and federal student loans. Restricted Net Position increased from \$1.2 billion as of June 30, 2017, to \$1.5 billion as of June 30, 2018, or by 25.0 percent. The increase is largely the result of reporting a net pension asset of \$399.1 million in Restricted Net Position as of June 30, 2018, compared to reporting a net pension liability of \$112.7 million in Unrestricted Net Position as of June 30, 2017.

On a GAAP basis, UW System's Unrestricted Net Position was \$357.4 million as of June 30, 2018

Unrestricted Net Position represents any remaining amounts not otherwise included in Net Investment in Capital Assets or Restricted Net Position. UW System Administration indicated that most of the Unrestricted Net Position will be used for academic and research programs and initiatives, and capital programs. Unrestricted Net Position decreased from \$935.2 million as of June 30, 2017, to \$357.4 million as of June 30, 2018, or by 61.8 percent. The decrease is a result of reporting a net pension asset and the restatement of the beginning net position due to the Other Postemployment Benefit liability.

Information Technology

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. In its August 30, 2018 communication to the Joint Legislative Audit Committee, UW System noted it developed a 24-month work plan, which was published and distributed to the UW institutions in April 2018. We will continue to monitor UW

System's progress in improving its IT security policies, procedures, and controls.

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

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. UW System Administration staff indicated the current payroll system, Human Resource System (HRS), and the current financial system, Shared Financial System, are not serving the diverse 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, UW System spent \$78.6 million to plan and implement HRS, with consulting services accounting for almost two-thirds of the total project expenditures. HRS was largely implemented in April 2011.

■ ■ ■ ■

Tuition ■

In FY 2017-18, tuition and fees were UW System's largest revenue source and totaled \$1.3 billion, or 24.3 percent of UW System's total revenues. Tuition is the amount charged to students who attend a UW institution. Tuition revenue is largely affected by changes in resident and nonresident tuition rates, as well as by changes in enrollment. Although total tuition revenue increased from FY 2008-09 through FY 2017-18, resident tuition began to decrease after FY 2012-13 while nonresident tuition continued to increase. We further analyzed trends in UW institution student enrollment over this ten-year period, assessed the reasons for these enrollment trends, and described the financial effects on tuition revenue for UW institutions.

Tuition Rates

The Board of Regents sets resident and nonresident tuition rates for UW students.

As authorized under s. 36.27, Wis. Stats., the Board of Regents sets base tuition rates for different types of students and for residents and nonresidents. Students who are residents of the State of Wisconsin are charged base tuition amounts commonly referred to as resident tuition rates. Wisconsin statutes define the circumstances under which a student may be deemed to be a resident of Wisconsin and, therefore, eligible to pay only resident tuition rates. Students who are not deemed to be residents of the state are charged resident tuition rates plus an incremental tuition amount, which combined form nonresident tuition rates. Resident and nonresident tuition rates are applicable to all programs, including advanced degrees in

the graduate programs and professional schools, such as medical school and law school.

The Board of Regents also has the authority to establish differential tuition at UW institutions. Differential tuition is an amount in addition to base tuition that supports additional services and programming for students. Differential tuition may be charged to all students enrolled at a particular institution; to a particular category of students, such as all undergraduates; or to students enrolled in certain programs that have higher operating costs, such as health sciences and engineering. In FY 2017-18, UW System Administration reported that differential tuition totaled \$100.7 million.

Although nonresident tuition rates are higher than resident tuition rates, multiple agreements and programs exist at UW institutions to provide nonresident students a rate that is less than the full nonresident tuition rate. One of the largest of these programs is the Minnesota-Wisconsin Higher Education Reciprocity Agreement, which allows Wisconsin and Minnesota students to attend UW institutions or Minnesota Colleges and Universities at the higher of the resident tuition rate of the student's home state or that of the institution in which the student is enrolled. Other similar programs include:

- the Midwest Student Exchange Program, which allows undergraduate and graduate students from certain Midwestern states to attend certain UW institutions at a tuition rate of no more than 150 percent of the resident tuition rate;
- the Tri-State Initiative, which allows nonresident undergraduate students from Illinois and Iowa, in certain programs at UW-Platteville, to be charged the resident tuition rate plus a premium of \$4,700 per year; and
- the Tuition Award Program, which allows nonresident juniors and seniors at UW-Parkside and UW-Superior enrolled in certain programs to pay resident tuition rates.

Resident tuition rates have remained unchanged since academic year 2012-13.

Although the Legislature does not directly set tuition rates, it has limited the amount by which the Board of Regents may increase tuition rates. Resident undergraduate tuition rates at UW System's 13 four-year universities increased 5.5 percent annually from academic year 2007-08 through academic year 2012-13. However, 2013 Wisconsin Act 20 required the Board of Regents to maintain resident undergraduate tuition rates for academic years 2013-14

and 2014-15 at the 2012-13 academic year levels. This “freeze” on resident undergraduate tuition rates continued in academic years 2015-16, 2016-17, 2017-18, and 2018-19. The Governor’s 2019-21 biennial budget proposal also includes a provision to continue the freeze through academic year 2020-21.

The Board of Regents has approved multiple increases in nonresident and graduate tuition rates at all UW institutions, except UW-Superior.

Although resident undergraduate tuition rates have not increased since academic year 2012-13, the Board of Regents has approved multiple increases in nonresident and graduate tuition rates at all UW institutions, except UW-Superior. The largest nonresident undergraduate and graduate tuition rate increases were approved in April 2015 for UW-Madison and included a \$10,000 increase in the nonresident undergraduate tuition rate and a \$20,000 increase in the nonresident tuition rate in the Doctor of Veterinary Medicine program. These increases were phased in over a four-year period.

Enrollment

From academic year 2008-09 through academic year 2017-18, enrollment at UW institutions fluctuated.

From academic year 2008-09 through academic year 2017-18, enrollment at UW institutions fluctuated. During this ten-year period, total enrollment across all UW institutions decreased by 2,519 students, or by 1.4 percent, as shown in Table 3. Peak enrollment during this period was 180,747 students in academic year 2010-11. From that time, through FY 2017-18, total enrollment across UW institutions decreased by 9,432 students.

Table 3

Enrollment, by Institution¹
By Academic Year

Enrollment decrease greater than 10 percent

Enrollment increase greater than 10 percent

| Institution | 2008-09 | 2017-18 | Enrollment Change | Percentage Change |
|----------------------|----------------|----------------|-------------------|-------------------|
| Green Bay | 6,286 | 7,178 | 892 | 14.2% |
| Platteville | 7,512 | 8,558 | 1,046 | 13.9 |
| Whitewater | 10,962 | 12,430 | 1,468 | 13.4 |
| La Crosse | 9,880 | 10,534 | 654 | 6.6 |
| Stout | 8,839 | 9,401 | 562 | 6.4 |
| Madison | 41,620 | 43,450 | 1,830 | 4.4 |
| Eau Claire | 11,140 | 10,825 | (315) | (2.8) |
| Superior | 2,689 | 2,590 | (99) | (3.7) |
| River Falls | 6,555 | 6,110 | (445) | (6.8) |
| Oshkosh ² | 11,531 | 10,734 | (797) | (6.9) |
| Stevens Point | 9,163 | 8,208 | (955) | (10.4) |
| Colleges | 13,275 | 11,608 | (1,667) | (12.6) |
| Milwaukee | 29,215 | 25,381 | (3,834) | (13.1) |
| Parkside | 5,167 | 4,308 | (859) | (16.6) |
| Total | 173,834 | 171,315 | (2,519) | (1.4) |

¹ As reported in UW System Administration's Headcount Reports.

² Excludes high school students in the Cooperative Academic Partnership Program, which enrolled 1,222 students in academic year 2008-09 and 3,201 students in academic year 2017-18.

From academic year 2008-09 through academic year 2017-18, three institutions—UW-Green Bay, UW-Platteville, and UW-Whitewater—had enrollment increases of more than 10 percent. During the same ten-year period, four institutions—UW-Stevens Point, UW Colleges, UW-Milwaukee, and UW-Parkside—experienced more than a 10 percent decrease in total enrollment. With a decrease of 16.6 percent, UW-Parkside experienced the largest decrease in enrollment.

Nonresident enrollment increased in every academic year from 2008-09 through 2017-18.

Although total UW System enrollment generally decreased from academic year 2008-09 through academic year 2017-18, nonresident enrollment increased and resident enrollment decreased. As shown in Figure 3, resident enrollment decreased from 138,018 students in

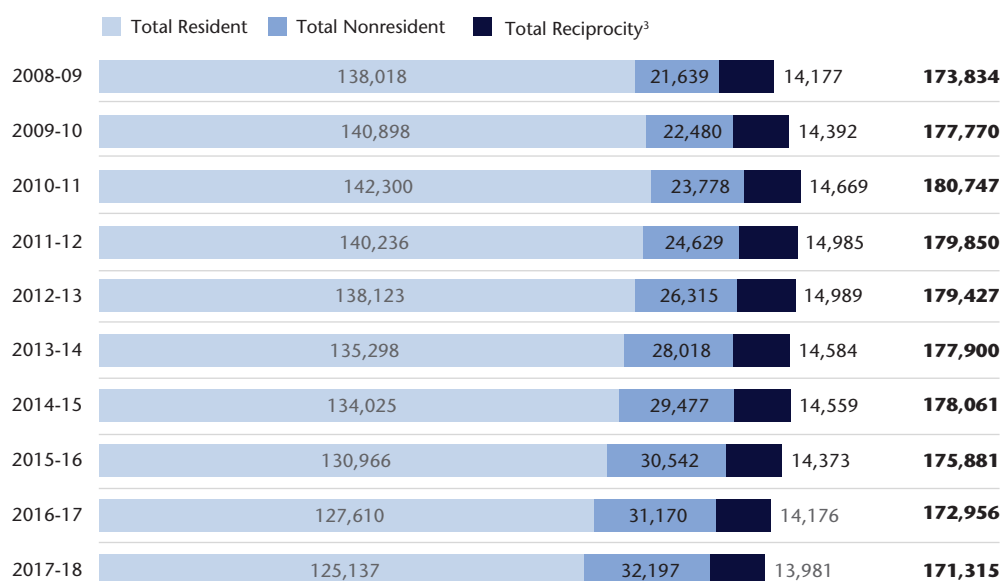
academic year 2008-09 to 125,137 students in academic year 2017-18, or by 12,881 students (9.3 percent).

Total resident enrollment has decreased every year since academic year 2010-11.

Total resident enrollment has decreased every year since academic year 2010-11. Excluding reciprocity students, nonresident enrollment increased from 21,639 students in academic year 2008-09 to 32,197 students in academic year 2017-18, or by 10,558 students (48.8 percent). Nonresident enrollment increased every year during this ten-year period.

Figure 3

Enrollment, by Residency^{1, 2}
By Academic Year



¹ As reported in UW System Administration's Headcount Reports.

² Excludes high school students enrolled in the Cooperative Academic Partnership Program at UW-Oshkosh.

³ Includes only those students enrolled through the Minnesota-Wisconsin Higher Education Reciprocity Agreement.

From academic year 2008-09 to academic year 2017-18, UW institutions experienced increases in nonresident enrollment. UW-Madison had the largest total increase in nonresident students with an additional 3,304 students over the 10-year period. Five institutions—UW-Milwaukee, UW-Eau Claire, UW-Green Bay, UW-Oshkosh, and UW-Whitewater—more than doubled their nonresident enrollments. For example, UW-Milwaukee nonresident enrollment increased from 1,991 nonresident students in academic

year 2008-09 to 4,090 nonresident students in academic year 2017-18, or by 105.4 percent. Annual enrollment by institution is included in Appendix 1.

Factors Affecting Enrollment

Enrollment decreases have been attributed to changes in demographics, a declining number of high school graduates, and reductions in the amount of time for a student to graduate from college.

To better understand enrollment trends, we interviewed staff at seven institutions—UW-Milwaukee, UW-Stevens Point, UW-Parkside, UW-Eau Claire, UW-River Falls, UW-Oshkosh and UW-Superior—that reported decreases in enrollment from academic year 2008-09 through academic year 2017-18. Some institutions indicated that regional demographic changes affected enrollment. For example, UW-Superior indicated that declining populations in northwestern Wisconsin decreased the population of students eligible to enroll at the institution. Most institutions noted that a decline in the number of high school graduates decreased enrollment. High school completion data from the Wisconsin Department of Public Instruction indicated that 62,255 students completed high school in school year 2009-10, compared to 58,447 students in school year 2016-17, a decrease of 6.1 percent. Finally, some institutions indicated that enrollment was affected by goals to shorten the amount of time it takes a student to graduate from college. For example, UW-Stevens Point staff indicated that students are not enrolled as long at the institution as a result of the institution’s focus on increasing the four-year graduation rate. Based on information provided by UW System Administration, 28.9 percent of the freshman class systemwide enrolled in the fall 2003 semester graduated in four years, compared to 39.9 percent of the freshman class systemwide enrolled in the fall 2013 semester.

UW institutions attribute increases in nonresident enrollment to diversity initiatives and programs that allow nonresident students to attend for less than the nonresident tuition rates.

In addition, UW institutions indicated that nonresident enrollment has been increasing because of various programs, such as diversity initiatives or the Midwest Student Exchange Program. For example, UW-Milwaukee and UW-Superior indicated that they have specifically targeted international students for enrollment as part of a diversity initiative. Further, UW-Parkside and UW-Milwaukee indicated that the Midwest Student Exchange Program allows Illinois students to attend UW institutions for less than certain Illinois institutions.

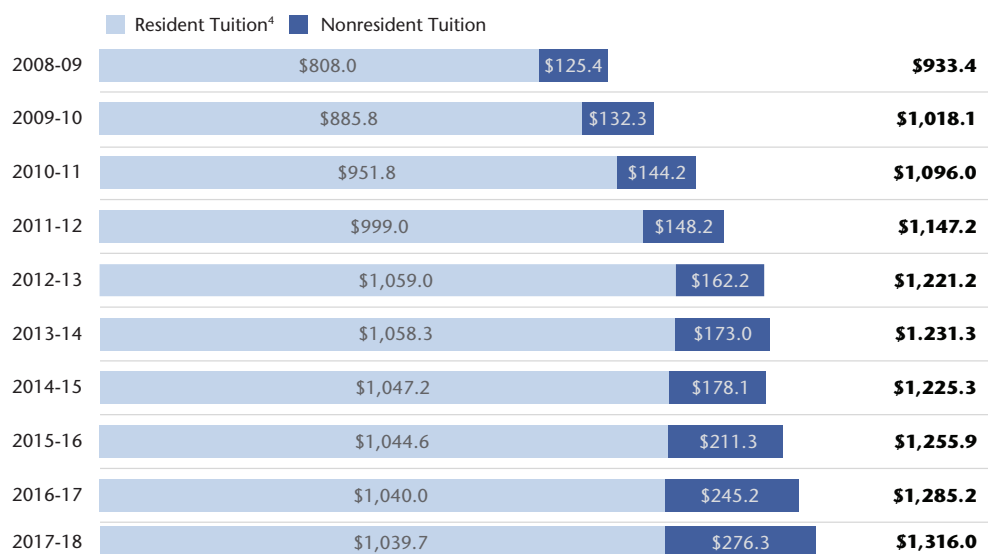
Tuition Revenue

Total tuition revenue increased from \$933.4 million in FY 2008-09 to \$1.3 billion in FY 2017-18, or by \$382.6 million.

Tuition revenue is determined by the established tuition rates and enrollment. The freeze on undergraduate resident tuition rates and the enrollment declines experienced by some UW institutions have decreased tuition revenue for those institutions. However, as shown in Figure 4, total tuition revenue increased from \$933.4 million in FY 2008-09 to \$1.3 billion in FY 2017-18, or by \$382.6 million. Of this total increase, \$150.9 million (39.4 percent) is attributed to tuition paid by nonresident students. Resident tuition revenue has decreased since resident undergraduate tuition was frozen at academic year 2012-13 rates, beginning in academic year 2013-14.

Figure 4

UW System Tuition Revenue^{1, 2, 3} by Fiscal Year (in millions)



¹ On the cash basis of accounting.

² Excludes revenue attributed to the master's of business program, which totaled \$3.3 million in FY 2017-18.

³ Includes UW-Madison's differential tuition because it could not be differentiated in the accounting system.


⁴ Tuition revenue related to reciprocity students is reported as resident tuition as the UW institution retains only the residential portion of the tuition revenue. Amounts above the resident tuition are transferred to the State's General Fund.

Since the tuition freeze, 9 of 14 UW institutions have experienced a decrease in tuition revenue.

Although tuition revenue increased in 9 of the last 10 years for UW System as a whole, increases did not occur at all UW institutions. As shown in Table 4, since the tuition freeze in FY 2013-14, 9 of 14 UW institutions experienced a decrease in tuition revenue.

Table 4

Tuition Revenue, by Institution^{1, 2}
(in millions)

 Decrease in tuition revenue from FY 2013-14 through FY 2017-18

| Institution | FY 2013-14 | FY 2014-15 | FY 2015-16 | FY 2016-17 | FY 2017-18 |
|----------------------|------------------|------------------|------------------|------------------|------------------|
| Madison ³ | \$ 480.7 | \$ 478.2 | \$ 522.3 | \$ 565.4 | \$ 606.2 |
| Milwaukee | 178.4 | 178.6 | 170.3 | 164.0 | 160.3 |
| Whitewater | 76.0 | 77.0 | 79.5 | 81.0 | 80.4 |
| La Crosse | 66.6 | 68.9 | 68.4 | 68.8 | 69.1 |
| Eau Claire | 62.2 | 60.8 | 60.3 | 61.0 | 61.7 |
| Stout | 57.2 | 58.7 | 59.3 | 59.7 | 58.1 |
| Oshkosh | 62.5 | 58.7 | 58.8 | 56.9 | 54.2 |
| Stevens Point | 57.6 | 57.0 | 55.7 | 52.8 | 51.7 |
| River Falls | 34.9 | 35.2 | 34.3 | 34.7 | 35.8 |
| Platteville | 35.2 | 35.6 | 35.1 | 34.7 | 34.0 |
| Green Bay | 32.0 | 31.1 | 30.7 | 30.3 | 30.2 |
| Parkside | 24.8 | 25.0 | 24.2 | 24.1 | 23.7 |
| Superior | 12.2 | 11.5 | 11.0 | 10.8 | 11.1 |
| Colleges | 51.0 | 49.0 | 46.0 | 41.0 | 39.5 |
| Total | \$1,231.3 | \$1,225.3 | \$1,255.9 | \$1,285.2 | \$1,316.0 |

¹ On the cash basis of accounting.

² Excludes revenue attributed to the master's of business administration program, which totaled \$3.3 million in FY 2017-18.

³ Includes differential tuition because it could not be differentiated in the accounting system.

Declining tuition revenues have affected UW institutions differently. Some institutions increased nonresident and graduate tuition rates to make up for declining resident enrollment. As noted, in April 2015, UW-Madison phased in a \$10,000 increase in the nonresident undergraduate tuition rates over a four-year period. However, some institutions continued to rely primarily on resident undergraduate enrollment to fund operations. Some institutions took measures to improve financial stability, including managing costs and setting aside program revenue balances in anticipation of revenue decreasing

due to declining enrollment. For example, UW-Milwaukee doubled its reserve balance from \$4.5 million as of June 30, 2017, to \$9.0 million as of June 30, 2018, in order to manage enrollment declines.

■ ■ ■ ■

Program Revenue Balances Reporting ■

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. Board of Regents policy requires UW System Administration to report fiscal year-end program revenue balances to the Board of Regents annually at its October meeting. We performed a limited review of the FY 2017-18 *Report on Program Revenue Balances by Institution and Level of Commitment* (program revenue balances report), which was approved by the Board of Regents in October 2018. We also evaluated a transfer related to UW-Oshkosh's financial recovery plan, and identified concerns with the reporting of program revenue balances by UW-Oshkosh. We also found UW-Oshkosh increased student housing rates over the past 10 years without taking its available cash balances into consideration. We recommend UW System Administration provide guidance to the institutions to improve the accuracy of the program revenue balances report and ensure available balances are considered when setting rates for auxiliary services.

Program Revenue Balances as of June 30, 2018

***On a budgetary basis,
UW System's total
program revenue balance
was \$1.3 billion, as of
June 30, 2018.***

UW System reports program revenue balances to the Board of Regents in the program revenue balances report. 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. Program revenue balances are also 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 on a budgetary basis. As shown in Table 5 , UW System’s total program revenue balance was \$1.3 billion as of June 30, 2018.

Table 5

UW System Total Program Revenue Balance¹
 As of June 30
 (in millions)

| Year | Total | Percentage Change |
|------|----------|-------------------|
| 2009 | \$ 563.7 | – |
| 2010 | 649.6 | 15.2% |
| 2011 | 836.8 | 28.8 |
| 2012 | 1,045.0 | 24.9 |
| 2013 | 1,273.5 | 21.9 |
| 2014 | 1,185.6 | (6.9) |
| 2015 | 1,182.4 | (0.3) |
| 2016 | 1,188.5 | 0.5 |
| 2017 | 1,223.4 | 2.9 |
| 2018 | 1,323.5 | 8.2 |

¹ On a budgetary basis.

The total program revenue balance for UW System decreased as of June 30, 2014 and June 30, 2015, but increased in each of the last three fiscal years. The total program revenue balance increased from \$1.2 billion as of June 30, 2017, to \$1.3 billion as of June 30, 2018, or by \$100.1 million (8.2 percent). According to the program revenue balances report, \$44.8 million (44.8 percent) of this increase was attributable to restricted program revenue balances, which increased from \$371.8 million as of June 30, 2017, to \$416.6 million as of June 30, 2018. The increase in restricted program revenue balances was primarily related to an increase in gifts, nonfederal grants, and contracts.

Unrestricted Program Revenue Balances

On a budgetary basis, the unrestricted program revenue balance was \$906.9 million as of June 30, 2018.

As shown in Table 6, on a budgetary basis, the total unrestricted program revenue balance decreased from \$973.3 million as of June 30, 2014, which was the first year UW System Administration prepared the program revenue balances report, to \$851.6 million as of June 30, 2017. The unrestricted program revenue balance increased from \$851.6 million as of June 30, 2017, to \$906.9 million as of June 30, 2018, or by \$55.3 million (6.5 percent).

Table 6

UW System Unrestricted Program Revenue Balance^{1, 2}
As of June 30
(in millions)

| Year | Total | Percentage Change |
|------|---------|-------------------|
| 2014 | \$973.3 | |
| 2015 | 923.9 | (5.1) |
| 2016 | 883.3 | (4.4) |
| 2017 | 851.6 | (3.6) |
| 2018 | 906.9 | 6.5 |

¹ On a budgetary basis.

² Program revenue sources that do not have restrictions on their use include tuition; auxiliary operations; general operations; federal indirect cost reimbursement; and other unrestricted program revenue sources.

From June 30, 2014 to June 30 2018, the largest dollar increase in unrestricted program revenue balances was at UW-Stout.

Since June 30, 2014, changes in unrestricted program revenue balances have varied by institution. As shown in Table 7, unrestricted program revenue balances have decreased at eight institutions and increased at nine institutions since June 30, 2014. The largest decrease in unrestricted program revenue balances was at UW-La Crosse where the balance declined by \$40.9 million (53.7 percent) from June 30, 2014, to June 30, 2018. This decrease occurred because multiple campus facility projects that had been funded with program revenue balances were completed. The largest percentage increase in unrestricted program revenue balances was at UW-Superior where the balance increased from a negative \$1.9 million as of June 30, 2014, to \$7.6 million as of June 30, 2018, or by \$9.5 million (500.0 percent). The largest dollar

increase in unrestricted program revenue balances was at UW-Stout where the balance increased by \$16.7 million (140.3 percent) from June 30, 2014 to June 30, 2018. According to UW-Stout staff, the increase was attributable to increases in the tuition balance after the establishment of a five percent reserve policy as well as increases in the auxiliary operations balance to fund future campus facility projects.

Table 7

Unrestricted Program Revenue Balances, by Institution^{1, 2}
As of June 30³
(in millions)

| Institution | 2014 | 2015 | 2016 | 2017 | 2018 | Percentage Change 2014 to 2018 |
|-------------------------|----------------|----------------|----------------|----------------|----------------|--------------------------------|
| Superior | \$ (1.9) | \$ 2.0 | \$ 7.7 | \$ 7.4 | \$ 7.6 | 500.0% |
| Stout | 11.9 | 14.1 | 20.4 | 25.4 | 28.6 | 140.3 |
| Parkside | 9.1 | 10.8 | 14.9 | 14.2 | 14.7 | 61.5 |
| Platteville | 22.7 | 25.6 | 32.3 | 32.2 | 33.3 | 46.7 |
| Milwaukee | 84.2 | 65.1 | 81.9 | 88.4 | 97.2 | 15.4 |
| River Falls | 19.7 | 22.2 | 19.5 | 21.7 | 22.3 | 13.2 |
| Systemwide ⁴ | 92.9 | 105.3 | 59.6 | 78.5 | 101.8 | 9.6 |
| Eau Claire | 50.3 | 39.2 | 43.0 | 48.1 | 52.3 | 4.0 |
| Green Bay | 22.2 | 20.6 | 20.7 | 20.6 | 22.8 | 2.7 |
| Extension | 27.1 | 26.0 | 24.5 | 22.5 | 25.4 | (6.3) |
| Madison | 386.5 | 377.3 | 369.4 | 336.7 | 353.6 | (8.5) |
| System Administration | 11.7 | 8.7 | 10.1 | 11.5 | 10.2 | (12.8) |
| Colleges | 25.5 | 25.7 | 26.1 | 22.9 | 22.0 | (13.7) |
| Whitewater | 45.6 | 41.7 | 46.1 | 41.0 | 34.9 | (23.5) |
| Stevens Point | 39.9 | 33.5 | 37.6 | 22.9 | 21.7 | (45.6) |
| Oshkosh | 49.7 | 43.6 | 38.8 | 28.2 | 23.2 | (53.3) |
| La Crosse | 76.2 | 62.5 | 30.7 | 29.4 | 35.3 | (53.7) |
| Total | \$973.3 | \$923.9 | \$883.3 | \$851.6 | \$906.9 | (6.8) |

¹ On a budgetary basis.

² Program revenue sources that do not have restrictions on their use include tuition; auxiliary operations; general operations; federal indirect cost reimbursement; and other unrestricted program revenue sources.

³ As adjusted by allocations to UW institutions from UW Systemwide accounts.

⁴ Accounts maintained by UW System Administration for the benefit of all UW institutions.

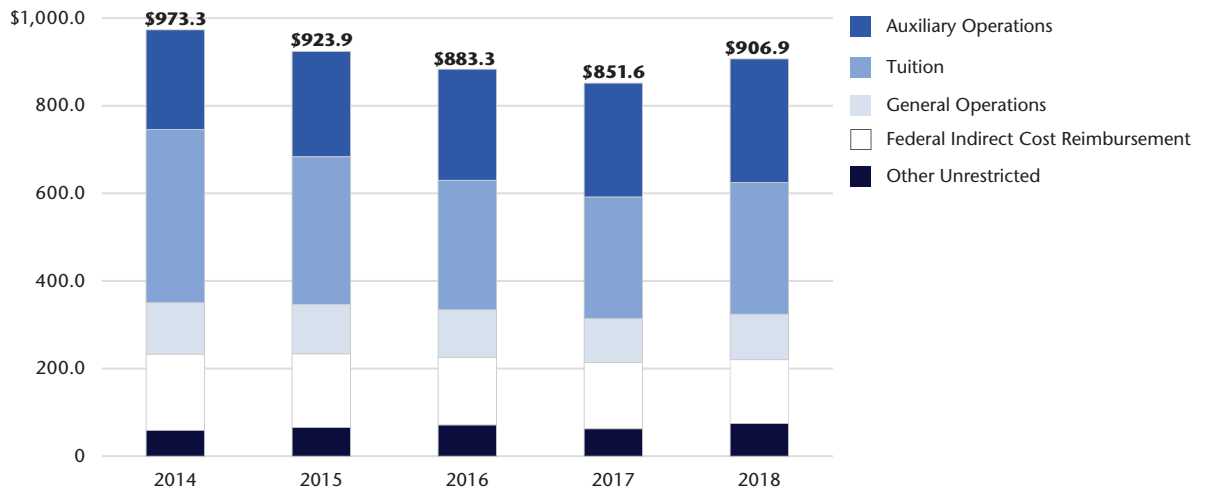
The unrestricted program revenue balance for UW Systemwide accounts, which are maintained by UW System Administration for the benefit of all UW institutions, increased from \$78.5 million as of June 30, 2017, to \$101.8 million as of June 30, 2018, or by \$23.3 million (29.7 percent). UW System Administration staff attributed this increase to unspent balances typically used to cover utility and fringe benefits expenditures. As of June 30, 2018, UW institution unrestricted program revenue balances ranged from \$7.6 million at UW-Superior to \$353.6 million at UW-Madison.

Program Revenue Sources

As shown in Figure 5, unrestricted program revenue balances have decreased overall since the first program revenue balances report was prepared for FY 2013-14. Except for federal indirect cost reimbursement, which decreased from \$151.3 million to \$145.4 million, unrestricted program revenue balances increased for all program revenue sources from June 30, 2017, to June 30, 2018. Federal indirect cost reimbursement is received from the federal government for various costs incurred in administering federal grant programs. Because there are no federal restrictions on the use of federal indirect cost reimbursement, institutions have considerable flexibility in expending these funds. In general, these funds are used for faculty and student research, facility and maintenance costs for research buildings, and capital investments. UW System Administration used federal indirect cost reimbursement funds to make payments in January 2019 for the UW-Oshkosh Foundation settlement. We discuss this settlement in detail on page 65.

Figure 5

Unrestricted Program Revenue Balances, by Program Revenue Source¹
 As of June 30
 (in millions)



¹ On a budgetary basis.

The program revenue balance for auxiliary operations has increased every year since the first program revenue balances report was prepared for FY 2013-14.

The program revenue balance for auxiliary operations, which was \$282.2 million as of June 30, 2018, has increased every year since the first program revenue balances report was prepared for FY 2013-14. According to the FY 2017-18 program revenue balances report, the increase in auxiliary operations was attributable to the accumulation of fees paid by students to fund large capital projects and renovation projects such as residence halls, dining halls, and student centers. The program revenue balance for tuition decreased annually from \$395.4 million as of June 30, 2014, to \$277.2 million as of June 30, 2017, before increasing to \$300.9 million as of June 30, 2018. The increase was attributable to the increase in the UW Systemwide balance. Tuition balances for the other institutions decreased by a total of \$6.9 million from June 30, 2017, to June 30, 2018.

Levels of Commitment for Program Revenue Balances

Program revenue balances are categorized according to the level of commitment for which funds are to be used.

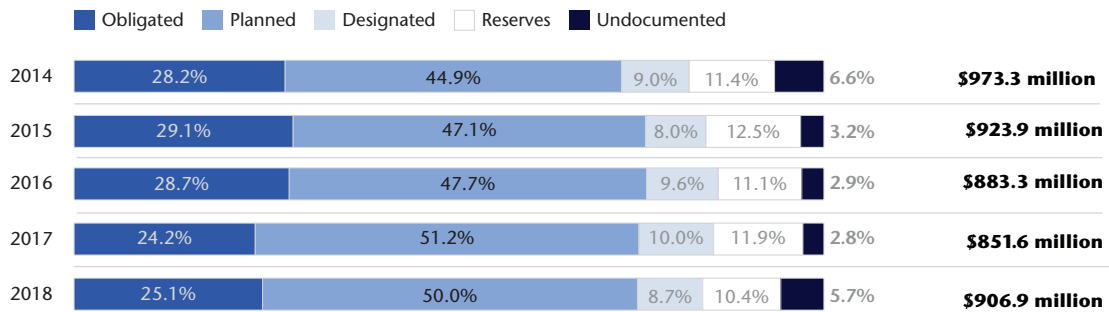
Board of Regents policy requires that reported year-end unrestricted balances be categorized according to the level of commitment for which funds are to be used. “Obligated” balances are firm commitments that cannot be easily redistributed, such as encumbrances or signed contracts. “Planned” balances are less committed than obligated balances and are held for a specific purpose as authorized by a chancellor or designee, such as planned financial aid that has not yet been awarded. “Designated” balances are held for purposes related to the original funding source for which there is no documentation or plan. Designated balances include, for example funds for general operations that often accumulate in advance of known expenses for future years, such as study abroad and athletic camps. “Reserves” are amounts approved in writing by the chancellor or authorized authority to be held for contingencies, such as unexpected enrollment declines, and are based on a dollar value or percentage of revenue. “Undocumented” balances do not have an obligation or plan and may be used for any purpose because there are no funding source requirements.

The percentage of the program revenue balance in each category has remained consistent since FY 2013-14.

Although the total unrestricted program revenue balance has decreased overall, the percentage of the balance in each category has remained consistent since UW System Administration prepared the first balances report for FY 2013-14, as shown in Figure 6. For example, the unrestricted program revenue balance categorized as obligated has ranged from 24.2 percent to 29.1 percent of the total unrestricted program revenue balance from June 30, 2014, through June 30, 2018. Undocumented balances continued to decrease each year until June 30, 2018, when the balance increased to 5.7 percent of the total unrestricted program revenue balances. This increase is primarily attributable to increases in undocumented balances for UW Systemwide. Appendix 2 shows each UW institution’s program revenue balance by level of commitment as of June 30, 2018.

Figure 6

Unrestricted Program Revenue Balances, by Level of Commitment^{1, 2}
As of June 30



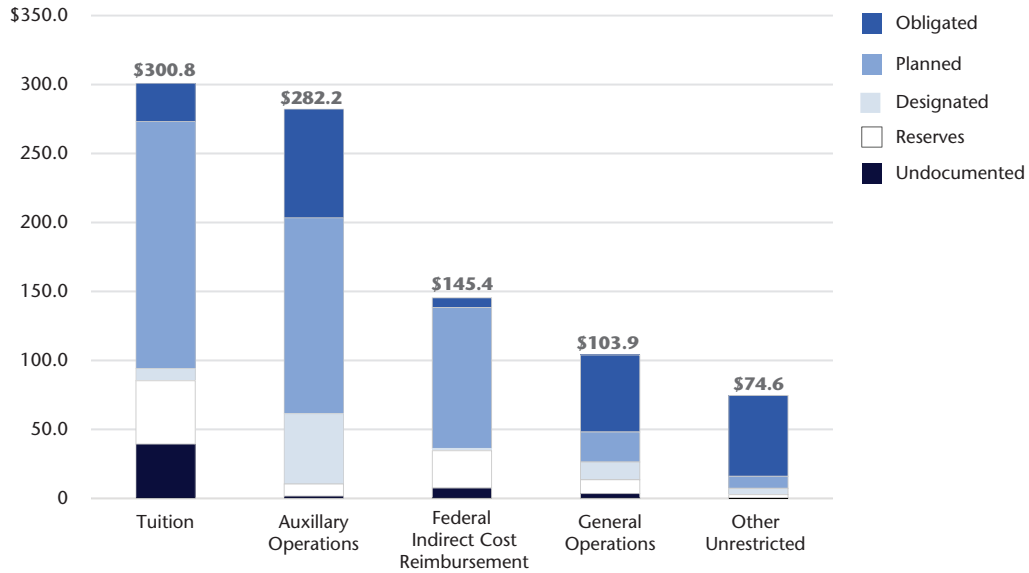
¹ As reported in UW System’s reports on program revenue balances by institution and level of commitment.

² Includes balances from tuition, including academic student fees and UW-Extension student fees; auxiliary operations; general operations; federal indirect cost reimbursement; and other unrestricted program revenue.

As shown in Figure 7, a majority of the tuition, auxiliary operations, and federal indirect cost reimbursement program revenue balance commitments were categorized as planned. However, most of the general operations and other unrestricted balances were categorized as obligated. All program revenue sources included balances categorized as reserves, the majority of which were related to tuition and federal indirect cost reimbursement program revenue balances.

Figure 7

Program Revenue Commitments, by Program Revenue Source¹
 As of June 30, 2018
 (in millions)



¹ As reported in UW System's FY 2017-18 Report on Program Revenue Balances by Institution and Level of Commitment.

UW Institution Spending and Savings Plans

UW institutions with positive balances in excess of 12.0 percent of fiscal year expenditures for certain unrestricted program revenue sources are required to provide a detailed spending plan.

Board of Regents policy requires institutions with positive balances in excess of 12.0 percent of fiscal year expenditures for tuition, auxiliary operations, and other unrestricted program revenue sources to provide a detailed spending plan and additional information for those balances. These detailed spending plans must include the total dollar amounts held, the total amounts set aside for specific upcoming projects by level of commitment, and the time frame for spending completion. These spending plans are included in the program revenue balances report.

From FY 2015-16 to FY 2017-18, each UW institution submitted a detailed spending plan in each year for at least two unrestricted program revenue sources. As shown in Table 8, the FY 2017-18 program revenue balances report included 47 detailed spending plans for unrestricted balances that exceeded the 12.0 percent limit. This was three more spending plans than were included in the FY 2016-17 program revenue balances report.

Table 8

Required Spending Plans, by Institution
FY 2016-17 to FY 2017-18

 Spending Plan required¹  No Spending Plan required

| Institution | Tuition | | Auxiliary Operations | | General Operations | | Other Unrestricted Program Revenue | |
|-------------------------|-------------------|-------------------|----------------------|-------------------|--------------------|-------------------|------------------------------------|-------------------|
| | 2018 ² | 2017 ³ | 2018 ² | 2017 ³ | 2018 ² | 2017 ³ | 2018 ² | 2017 ³ |
| Colleges | ■ | ■ | ■ | ■ | ■ | ■ | □ | □ |
| Eau Claire | □ | □ | ■ | ■ | ■ | ■ | □ | □ |
| Extension | □ | □ | ■ | ■ | ■ | □ | ■ | ■ |
| Green Bay | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| La Crosse | □ | □ | ■ | ■ | ■ | ■ | □ | □ |
| Madison | □ | □ | ■ | ■ | □ | □ | ■ | ■ |
| Milwaukee | ■ | □ | ■ | ■ | ■ | ■ | ■ | □ |
| Oshkosh | □ | □ | ■ | ■ | ■ | ■ | □ | □ |
| Parkside | ■ | ■ | □ | □ | ■ | ■ | □ | □ |
| Platteville | ■ | ■ | ■ | ■ | □ | ■ | ■ | ■ |
| River Falls | ■ | ■ | ■ | ■ | ■ | □ | ■ | ■ |
| Stevens Point | □ | □ | ■ | ■ | ■ | □ | ■ | ■ |
| Stout | □ | □ | ■ | ■ | ■ | ■ | □ | □ |
| Superior | □ | ■ | ■ | ■ | ■ | ■ | □ | □ |
| System Administration | □ | □ | ■ | ■ | ■ | ■ | □ | □ |
| Systemwide ⁴ | ■ | ■ | ■ | ■ | ■ | ■ | □ | □ |
| Whitewater | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |

¹ Required when the ratio of the balance to total expenditures exceeds 12.0 percent.

² As reported in UW System’s FY 2017-18 *Report on Program Revenue Balances by Institution and Level of Commitment*.

³ As reported in UW System’s FY 2016-17 *Report on Program Revenue Balances by Institution and Level of Commitment*.

⁴ Accounts maintained by UW System Administration for the benefit of all UW Institutions.

Board of Regents policy also requires institutions with negative balances in tuition or auxiliary operations to submit a savings plan on how and when they will eliminate the negative balance. No UW institution was required to submit a savings plan for FY 2017-18 or FY 2016-17.

UW-Oshkosh Residence Life Department

In February 2019, the Board of Regents approved a \$5.0 million transfer from the program revenue balance in the Residence Life Department at UW-Oshkosh.

In October 2017, UW-Oshkosh developed a financial recovery plan, in part, to fix a structural deficit. As part of the financial recovery plan, in February 2019, the Board of Regents approved a \$5.0 million transfer from the program revenue balance in UW-Oshkosh's Residence Life Department to support its GPR and tuition-funded student services. We identified three concerns related to the program revenue balance in the UW-Oshkosh Residence Life Department accounts.

First, the program revenue balance in the Residence Life Department was consistently categorized in the program revenue balances report as either obligated or planned from June 30, 2014, through June 30, 2018. However, in materials provided to the Board of Regents for the February 2019 meeting, UW-Oshkosh stated, "There is approximately \$7 million in our Residence Life Department reserve that has been unused for about six years."

UW-Oshkosh reported expenditures as being funded by both program revenue balances and current-year revenues.

Second, although the balances were categorized as either obligated or planned, UW-Oshkosh also had budgeted revenues to fund some of the obligations. For example, we found \$2.6 million was reported as obligated for debt service expenditures in UW-Oshkosh's spending plan in the FY 2013-14 program revenue balances report. However, UW-Oshkosh also included the debt service expenditures in its FY 2014-15 budget to be funded by current-year revenue. In addition, for every year since the first program revenue balances report in FY 2013-14, we found that UW-Oshkosh reported debt service expenditures as obligated in the program revenue balances report, while also budgeting the debt service expenditures to be funded by current-year revenue in the next fiscal year. For example, we found \$4.4 million was reported as obligated for nine months of debt service expenditures in UW-Oshkosh's spending plan in the FY 2017-18 program revenue balances report. However, UW-Oshkosh also included the full year of debt service expenditures in its FY 2018-19 budget to be funded by current-year revenue. UW-Oshkosh officials indicated that use of the program revenue balances to pay the debt service expenditures was not necessary because current-year revenue was available.

Third, UW-Oshkosh officials could not demonstrate these available program revenue balances were considered when making decisions regarding student housing rates. As shown in Table 9, the balance in the Residence Life Department increased until June 30, 2012, and then ranged between \$6.5 million and \$7.3 million through June 30, 2018.

Table 9

UW-Oshkosh Residence Life Department Balance¹
(in millions)

| Fiscal Year | Balance as of June 30 | Revenue ² | Balance as a Percent of Revenue |
|-------------|-----------------------|----------------------|---------------------------------|
| 2008-09 | \$2.0 | \$12.4 | 16.1% |
| 2009-10 | 3.2 | 13.2 | 24.2 |
| 2010-11 | 6.1 | 14.0 | 43.6 |
| 2011-12 | 7.1 | 14.0 | 50.7 |
| 2012-13 | 6.5 | 14.9 | 43.6 |
| 2013-14 | 6.8 | 15.3 | 44.4 |
| 2014-15 | 7.3 | 16.4 | 44.5 |
| 2015-16 | 6.8 | 13.7 | 49.6 |
| 2016-17 | 7.3 | 14.0 | 52.1 |
| 2017-18 | 7.1 | 15.9 | 44.7 |

¹ Balance is shown on the cash basis of accounting.

² Includes the amounts transferred to the principal repayment fund for debt service expenditures.

UW-Oshkosh has increased student housing rates over the past 10 years, despite having an available balance.

Although the Residence Life Department at UW-Oshkosh maintained a balance that accounted for as much as 52.1 percent of the annual revenue between FY 2008-09 and FY 2017-18, rates for student housing at UW-Oshkosh continued to increase. As shown in Table 10, annual room rates increased from \$3,320 in FY 2008-09 to \$4,388 in FY 2017-18, or by \$1,068 (32.2 percent). If UW-Oshkosh had considered its available program revenue balance before setting rates, it could have offset or perhaps avoided room rate increases.

Table 10

UW-Oshkosh's Room and Board Rates¹

| Fiscal Year | Annual Rate ² | Percent Change |
|-------------|--------------------------|----------------|
| 2008-09 | \$3,320 | – |
| 2009-10 | 3,440 | 3.6% |
| 2010-11 | 3,552 | 3.3 |
| 2011-12 | 3,680 | 3.6 |
| 2012-13 | 3,752 | 2.0 |
| 2013-14 | 3,864 | 3.0 |
| 2014-15 | 4,016 | 3.9 |
| 2015-16 | 4,096 | 2.0 |
| 2016-17 | 4,220 | 3.0 |
| 2017-18 | 4,388 | 4.0 |

¹ According to the UW System operating budgets approved by the Board of Regents.

² Rate is for the standard double-room occupancy.

UW-Oshkosh officials indicated that it was not until 2018 that they clearly understood balances should be evaluated prior to setting rates. Since June 1999, UW System Administration's policy on the financial management of auxiliaries, which include UW-Oshkosh's Residence Life Department, has stated that UW institutions shall have a review process and multi-year plan in place to ensure that adequate but not excessive balances are maintained. Further, the policy states that excess balances should be used to reduce rates in the next operating budget or, where appropriate, to smooth rates over time. However, UW-Oshkosh officials indicated that student housing rates were determined at the department level before 2018, and departments were not required to establish a maximum balance amount.

UW System Administration guidance on the financial management of auxiliaries is outdated and is currently being revised.

UW System Administration's policy on the financial management of auxiliaries also provided UW institutions with guidance regarding minimum and maximum balances. However, this guidance was based on an outdated statutory requirement for reporting excess auxiliary balances to the Legislature's Joint Committee on Finance. Although statutes changed in July 2015, after the implementation of the program revenue balances report, UW System Administration has not updated the policy on the financial management of auxiliaries. In February 2019, UW System Administration indicated that the policy is currently being revised. UW System Administration should ensure that the updated policy provides

clear guidance to UW institutions on establishing an appropriate program revenue balance.

Because the Residence Life Department balance was not considered in setting student housing rates, UW-Oshkosh may have unnecessarily increased the rates. Further, because UW-Oshkosh reported that certain expenditures were being funded both by the Residence Life Department program revenue balance and budgeted current year revenues, the information reported to the Board of Regents on UW-Oshkosh's program revenue balances has been inaccurate since the inception of the program revenue balances report for FY 2013-14.

The structure of the program revenue balances report does not allow a user, including the Board of Regents, to easily identify accumulating balances at the department level within an institution. Therefore, unless UW institutions have another mechanism to identify and monitor these balances, similar balances could be accumulating at other institutions. UW System Administration should provide additional guidance to UW institutions to better track and monitor department-level balances over time.

We did not review the detail of program revenue balances at other UW institutions. However, we believe the potential exists for similar inaccuracies in the program revenue balances report and in the procedures for setting rates for auxiliary services at the other UW institutions we did not review.

Recommendation

We recommend the University of Wisconsin System Administration:

- *provide guidance to University of Wisconsin institutions to ensure expenditures that are budgeted to be paid out of current-year revenues are not also reported as being funded from existing program revenue balances in the spending plans in the program revenue balances report and do so before preparing the program revenue balances report for fiscal year 2018-19;*
- *provide guidance to University of Wisconsin institutions on performing a review of balances reported in the FY 2018-19 program revenue balances report to ensure amounts are appropriately reported in the spending plans, and on considering available balances when establishing auxiliary services rates;*

- *direct University of Wisconsin institutions to ensure appropriate department-level or centralized controls are in place to monitor department-level program revenue balances and their use; and*
- *report to the Joint Legislative Audit Committee by August 30, 2019, on the status of its efforts to implement these recommendations.*

■ ■ ■ ■

Personnel Systems ■

As UW System's largest expense, salary and fringe benefits totaled \$3.2 billion and were 63.1 percent of its total expenses in FY 2017-18. Therefore, it is important to establish well-developed policies and procedures to ensure that pay increases and adjustments are properly awarded and recorded in the payroll system, and that employees are compensated according to the established salary ranges.

2011 Wisconsin Act 32 required new personnel systems for UW System employees. We reviewed the implementation of the new personnel systems and focused on the policies and procedures developed by UW System Administration and UW-Madison to:

- implement the state-approved pay plan for the 2017-19 biennium;
- award merit-based adjustments;
- establish extraordinary salary ranges; and
- ensure grievance policies and procedures complied with statutory compliance requirements.

We include recommendations for UW System to improve policies related to its new personnel system.

We found UW institutions' policies did not consistently comply with UW System Administration policy, and some institutions lacked published guidelines. We include recommendations for UW System to 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 include recommendations for UW-Madison to improve its policies related to extraordinary salary ranges and to ensure grievance policies and procedures comply with statutory requirements.

Changes from Personnel Systems Implementation

UW System Administration and UW-Madison's personnel systems were approved by the Legislature's Joint Committee on Employment Relations in April 2014.

2011 Wisconsin Act 32 required the UW Board of Regents to develop a personnel system for all UW System employees except UW-Madison employees. Act 32 also required the UW-Madison Chancellor to create a personnel system for UW-Madison employees. These personnel systems, which were to be established separately from the state civil service system under ch. 230, Wis. Stats., were required to be implemented on July 1, 2015. Prior to these statutory changes, UW employees were covered under ch. 230, Wis. Stats. The design and plans for the new personnel systems were approved by the Legislature's Joint Committee on Employment Relations (JCOER) in April 2014.

UW System Administration developed operational policies for the University Personnel System (UPS) to provide a framework for UW institutions, other than UW-Madison. UW-Madison's personnel system and related operational policies are known as Human Resources Design. The personnel systems implemented for UW System and UW-Madison included changes to multiple personnel areas, including employment categories, compensation structure, leave benefits, and grievance procedures.

UW System and UW-Madison's personnel systems feature the following employment categories:

- faculty—employees who provide instruction but who may also have administrative or directing roles;
- academic staff—the largest group of non-student employees, which includes a broad range of employees such as lecturers, faculty assistants, researchers, scientists, accountants, and coaches;

- university staff—employees formerly classified under the state personnel system who work in positions related to office and administrative work, food service, human resources, safety, and facilities, and who are not included under academic staff;
- limited appointees—employees appointed to a designated administrative position, including the president, vice presidents, and those appointments specified under s. 36.17(2), Wis. Stats.;
- employees in training—postdoctoral fellows and postgraduate trainees employed in additional training typical in their field of specialization;
- student assistants—commonly graduate students with fellowships who are employed to assist with research or who have teaching responsibilities; and
- student hourly—student employees are intended to help meet the needs of the university while receiving financial support in pursuit of their academic goals and opportunities for academic or administrative job experience.

In addition, there are certain titles within university staff and academic staff employment categories that are limited term. Faculty, academic staff, and university staff represent the largest non-student employee groups. As of June 30, 2018, there were, 23,237 academic staff, 10,711 university staff, and 6,416 faculty. There were also 1,720 limited appointees as of June 30, 2018. We examined the new personnel system policies related to salary increases and adjustments for these four employment categories.

UW Employee Salary Increases and Adjustments

Section 36.09 (1) (j), Wis. Stats., requires the Board of Regents to establish employee salaries prior to the start of each fiscal year and designate the effective dates for payments of the new salaries. The Board of Regents has delegated this authority through a Board of Regents policy to the UW-Madison Chancellor and to the UW System President for all other UW institutions. Increases to employee compensation for the state-approved pay plan are proposed through the biennial budget process, approved through a

Board of Regents resolution, and submitted to and approved by JCOER.

Statutes authorize the Board of Regents to increase employee salaries to recognize merit.

In addition to the state-approved pay plan, statutes authorize the Board of Regents to increase employee salaries to recognize merit, correct salary inequalities, fund job reclassifications or promotions, or recognize competitive factors. These adjustments are funded by institution funds, such as program revenue. Through various Board of Regents resolutions, this authority has been delegated to the UW System President, who has delegated some of the authority to the chancellor of each UW institution.

Well-developed policies and procedures provide a framework for institutions to follow and are an important control to ensure that pay increases and adjustments are properly awarded and accurately recorded in the payroll system. Therefore, we reviewed the policies and procedures developed by UW System Administration and UW-Madison to implement the state-approved pay plan for the 2017-19 biennium and reviewed policies and procedures related to how merit-based adjustments were administered.

Pay Plan Increases

UW System Administration and UW-Madison developed policies to administer the approved pay plan increases.

In February 2018, JCOER approved for UW employees a two percent increase over the budgeted salary base for each fiscal year of the 2017-19 biennium, to be fully funded by GPR. For audit purposes, we have defined JCOER-approved pay increases as “pay plan increases.” UW-Madison developed guidelines indicating that an employee was considered eligible for a pay plan increase if the employee met expectations in the last performance review and had served in the position since January 2018. UW System Administration established a policy for UW institution chancellors within UPS, which required that the increases be distributed based on solid performance and based on meritorious performance, using a systematic performance evaluation program. The policy stated that employees who performed at a satisfactory level were eligible for a pay plan increase. However, the policy did not provide the institutions with additional guidance in developing a systematic performance evaluation process that addresses requirements such as those for performance evaluations and the level of documentation to support performance.

We identified differences across the UW institutions in how the pay plan increases were approved and provided to employees.

We reviewed the guidelines established by each UW institution to award the pay plan increases for the 2017-19 biennium and assessed compliance with UW System Administration’s policy. We also reviewed UW-Madison’s pay plan guidance, which was not required to follow UW System Administration’s policy. We found the guidelines established by the UW institutions were complete and

generally similar across the institutions, although some guidelines included a greater level of detail and provided more clarity than others. Our review identified differences across the UW institutions in the requirements for performance evaluations, the timing of performance evaluations, the methods to allocate the pay plan increases, and the level of documentation required to support performance.

First, we found some UW institutions provided specific and clear guidance on the requirement for a performance evaluation to support the pay plan increase for an employee. However, other institutions indicated that a performance evaluation was optional. For example, some UW institutions required an employee to have a performance evaluation on file and indicated that supervisors who did not provide performance evaluations for their staff members were not eligible for a pay plan increase. Another UW institution's guidelines indicated that performance evaluations should be completed or some other proof of solid or meritorious performance should be provided. Another UW institution's guidelines stated that if a supervisor failed to provide a performance evaluation for a staff member, the staff member would be considered to be performing at or above expectations.

Second, we found some UW institutions allowed for flexibility in the timing of the performance evaluation used to support the pay plan increase, while other institutions provided a specific date after which the personnel evaluation should be completed. For example one UW institution allowed the supervisor to use the most recent performance evaluation when determining eligibility for the pay plan increase. Another UW institution indicated a performance evaluation should be completed and be on file on or after February 1, 2017, for academic staff and university staff. One UW institution accepted performance evaluations for academic staff and university staff completed on or after January 1, 2016, and accepted faculty evaluations completed on or after July 1, 2016.

Third, we found UW institutions used a variety of methods to allocate their pay plan increases. For instance, UW-Oshkosh, UW-Milwaukee, UW-Eau Claire, and UW-Stevens Point awarded higher increases to those individuals who performed at an outstanding level and lower increases to individuals who performed at a satisfactory level, but not a meritorious level. The remaining UW institutions awarded equal increases for all individuals performing at a satisfactory or meritorious level.

Because of varying guidelines at UW institutions, we identified differences in the level of documentation required to justify a pay plan increase.

Finally, the level of required documentation used to support pay plan increases differed. For example, UW Colleges and UW-Extension each required performance reviews to be submitted along with a cover sheet providing a final determination of whether the employee should receive a pay plan increase. Although, UW-Whitewater developed a standardized form to be completed for justification, it did not require the use of the form. In our review of a sample of UW-Whitewater pay plan increases, we found that the form was used for four of the seven employees we reviewed.

UW-Platteville's guidelines did not specify the level of documentation to be submitted to the human resources office to provide justification for the pay plan increases. Although UW-Platteville's guidelines indicated that employees must be performing at or above expectations, we found the documentation to justify the performance level varied. For five of seven employees we reviewed, UW-Platteville provided performance evaluations to justify the increase. However, we found the remaining two increases relied solely on a memorandum that summarized the employee's performance.

UW-La Crosse's guidelines did not specify the level of documentation to be submitted to the human resources office to provide justification for the increase. Although UW-La Crosse's pay plan increase guidelines indicated that employees needed to meet performance expectations through a current performance evaluation or other evidence from a supervisor, the human resources office only collected the names of employees who were not meeting performance expectations. For three of six employees we reviewed, we found UW-La Crosse was unable to provide documentation that the employee had met performance expectations.

Merit-Based Salary Adjustments

UW System Administration and UW-Madison each developed a policy for adjusting employee salaries for meritorious performance.

UW System Administration developed a policy to outline procedures for increasing salaries of UW employees when the increase was not related to a pay plan increase. The policy indicated that an institution's base funds, or program revenue, could be used to increase salaries beyond the JCOER-approved pay plan to recognize merit, correct salary inequalities, fund job reclassifications or promotions, or recognize competitive factors. UW-Madison's policy was very similar and also allowed for salary increases to recognize merit, correct salary inequalities, fund job reclassifications or promotions, or recognize competitive factors. Our review focused on those pay adjustments that were merit-based because this was a new provision for all employees in the development of the personnel systems.

The UW System Administration policy indicated that it is critical that each UW institution have published guidelines on merit-based salary adjustments.

The UW System Administration policy indicated that it is critical that each UW institution have published guidelines on granting salary adjustments, which include merit-based, lump sum payments or base salary adjustments, outside of the JCOER-approved pay plan. The UW System Administration policy included the following criteria for the institutions to consider when awarding merit-based adjustments:

- length or frequency of the outstanding performance;
- overall significance or importance of the employee's work products to the organization;
- regularity with which the outstanding performance or unique contribution is demonstrated; and
- additional competencies, that are both specialized and critical in carrying out the permanent function of the position, acquired by the employee.

In addition, the policy allows each UW institution to evaluate meritorious performance on other criteria established by the institution. We reviewed the guidelines published by each UW institution and assessed compliance with UW System Administration's policy related to these salary adjustments. Overall, the level of documentation required to justify the adjustments differed between institutions. We found some institutions developed guidelines that were detailed, provided specific steps required for awarding merit-based adjustments, and complied with UW System Administration's policy. For example, UW-Milwaukee's guidelines for adjustments provided background information on the changes in oversight from the state personnel system to the UPS; clearly defined meritorious performance; denoted which employees were ineligible for merit increases; and outlined the requirements and criteria that were in compliance with UW System Administration's policy. Further, to support a requested adjustment, UW-Milwaukee's guidelines included a requirement for a performance evaluation that was completed within the last 12 months or other demonstration by the supervisor that the employee exceeded performance expectations. In addition, UW-Milwaukee's guidelines included a form for supervisors to use when requesting adjustments. This form included a designated area for the supervisor to include the justification for the adjustment.

Some guidelines developed by UW institutions did not fully comply with UW System Administration's policy.

However, we also identified UW institutions that had published guidelines that did not fully comply with UW System Administration's policy and the guidelines had not been updated with current terminology after the implementation of UPS. For example, UW-Superior's guidelines were outdated and included awarding "Discretionary Merit Compensation," which was a type of compensation awarded when UW System was included in the state compensation plan. Further, UW-Superior included a standardized form that assigned points for items not related to merit, such as years of service and scope of duties. Although a point may be assigned for a high level of performance, the form did not reference or reflect the four criteria outlined in UW System Administration's policy. The form also did not require a performance evaluation or other justification to be submitted.

UW College's guidelines did not specifically address granting salary adjustments or reference or reflect the four criteria outlined in UW System Administration's policy. However, during FY 2017-18, UW Colleges awarded 26 employees with base-building adjustments that ranged from \$1,000 to \$2,080 on an annualized basis. For 2 of the 10 adjustments we reviewed, we found incorrect forms were used. First, we found a form intended for non-merit-based salary adjustments was used as support for a merit-based justification for one employee. For the other employee, we found a form intended for job changes was submitted with no justification for the increase. When we requested additional information, we were provided an email from February 2019, retroactively justifying an adjustment awarded in November 2017.

Some UW institutions did not publish guidelines to award merit-based salary adjustments.

We also identified UW institutions that had no published guidelines to award the merit-based adjustments and, therefore, did not comply with UW System Administration's policy. Although UW-La Crosse provided information about funding the merit-based adjustments, it did not have published guidelines for awarding the adjustments. However, UW-La Crosse awarded 1,131 employees approximately \$1.4 million in merit-based, lump sum payments that ranged from \$120 to \$4,150. UW-La Crosse indicated that any employee who was considered eligible for the pay plan increase was considered eligible for the merit-based adjustment, unless the human resources office had been notified of a performance-related issue. As noted, we found that UW-La Crosse did not specify the level of documentation to support justification of the pay plan increases. Further, UW-La Crosse was not clear on how the process was communicated to those making performance determinations. For 7 of the 11 adjustments we reviewed, we found the UW-La Crosse human resources office could not provide documentation that the employee had met performance expectations.

In addition, UW-Extension did not have published guidelines for providing merit-based adjustments. However, during FY 2017-18, UW-Extension awarded 33 employees with base-building adjustments that ranged from \$832 to \$8,344 on an annualized basis. UW-Extension also awarded 71 employees an additional \$143,000 in merit-based, lump sum payments that ranged from \$987 to \$5,000. For the eight adjustments reviewed, we found that departments used different methods to award adjustments. For example, one department submitted a form intended for non-merit-based salary adjustments, but included a merit-based justification. Another department requested approval through e-mail with a summarized justification for the adjustment. For one employee reviewed, UW-Extension provided only general information about the award rather than employee-specific information to support the adjustment.

Finally, although some UW institutions established adequate guidelines, we found merit-based adjustments were not always supported based on the criteria established by the institution. UW-Stevens Point developed a standardized form to be used by supervisors to document justification for an adjustment and required a personnel evaluation to be submitted with the form to the human resources office. However, for one of the two adjustments we reviewed, we found the required evaluation was not included with the standardized form.

Because salary and fringe benefits are the largest expenses for UW institutions, it is important to establish well-developed policies and procedures to ensure pay increases and adjustments are properly awarded and recorded in the payroll system. Overall, we found UW institution guidelines and documentation for both pay plan increases and merit-based adjustments differed and, in some instances, did not follow UW System Administration's policy.

It is important that UW System Administration provide clear guidance to UW institutions to ensure consistent treatment of employees across UW System.

UW System Administration staff indicated that they serve in a consulting capacity for UW institutions, but do not perform formal monitoring of the institutions' guidelines. Although each UW institution will establish guidelines and policies to meet its individual needs, it is important that UW System Administration provide clear guidance to the institutions to aid in the development of institution policies and procedures that ensure consistent treatment of employees across UW System and that appropriate documentation of pay increases and adjustments is maintained.

☑ Recommendation

We recommend the University of Wisconsin System Administration:

- *ensure University of Wisconsin institutions have a systematic performance evaluation program established for awarding pay plan increases;*
- *ensure all University of Wisconsin institutions develop published guidelines for granting merit-based adjustments, including the level of documentation required to support the adjustments;*
- *evaluate published guidelines of University of Wisconsin institutions to ensure compliance with the University of Wisconsin System Administration policy; and*
- *report to the Joint Legislative Audit Committee by August 30, 2019, on its efforts to implement these recommendations.*

Coding Errors

UW System Administration’s policy did not include guidance on the specific HRS codes that institutions should use to record the merit-based adjustments.

Payroll for all UW employees is processed through the HRS, and UW System Administration has developed specific codes to be used for recording pay adjustments in HRS. For example, a specific code exists for base-building adjustments and a separate code exists for lump sum payments. UW System Administration’s policy for merit-based adjustments did not include guidance on the specific HRS codes that institutions should use to record the adjustments.

We identified errors in the coding of merit-based adjustments in HRS.

For 12 of 45 merit-based adjustments we reviewed, we identified errors in coding the merit-based adjustments in HRS. Specifically, we found two adjustments for \$1,255 and \$2,000, coded in HRS as merit-based lump sum payments, and 10 adjustments coded in HRS as base-building adjustments that ranged from \$500 to \$6,660 on an annualized basis. However, the documentation to support these 12 adjustments indicated they were not actually merit-based adjustments but rather adjustments awarded for other purposes, such as to equalize pay among employees. Although adjustments to equalize pay among employees is allowed by UW System Administration policy, different payroll system codes exist to record these adjustments. Because UW institutions miscoded merit-based adjustments, it is difficult to accurately determine the amount awarded for merit-based adjustments. For example, we found

UW-Superior had guidelines for awarding merit-based adjustments, but did not appear to award any adjustments. UW-Superior indicated that it awarded \$52,000 in merit-based adjustments, but recorded these payments using an HRS code not specifically designated for merit-based adjustments.

Recommendation

We recommend the University of Wisconsin System Administration revise the merit-based salary adjustment policy to include guidance for University of Wisconsin institutions on which specific Human Resource System codes should be used to record merit-based adjustments.

Extraordinary Salary Ranges

UW institutions are authorized to establish extraordinary salary ranges to address recruitment and retention needs.

The authority to set salaries within the established salary ranges for each position title was delegated by the Board of Regents to the UW System President. The UW System President further delegated this authority to the chancellor of each UW institution. UW institutions are authorized to establish extraordinary salary ranges, beyond the established salary ranges, to address documented recruitment and retention needs. Prior to the implementation of the new personnel systems, only unclassified employees could have an extraordinary salary range. Under the new personnel systems, extraordinary salary ranges are allowed for all employment categories.

We evaluated the policy related to extraordinary salary ranges established by UW System Administration for UW institutions in UPS, and the policy established by UW-Madison. We also performed a review to determine if appropriate documentation was maintained for a selection of employees paid outside the established salary ranges as of June 30, 2018.

University Personnel System

UW System Administration developed a policy for extraordinary salary ranges that does not require specific documentation to be maintained, or require institutions to establish guidelines.

UW System Administration developed a salary structure that includes eight broad categories for which salary ranges were established. UW System Administration developed a policy that states extraordinary salary ranges, which require approval by the chancellor of each UW institution, may be used when the salary range assigned to a title does not adequately address the market conditions and affects documented recruitment and retention needs. Further, the policy states an extraordinary salary range should be based on salaries paid for comparable positions in the external market. The policy does not provide specific criteria or procedures for assessing extraordinary salary range requests, require specific

documentation to be maintained, or require institutions to establish guidelines for criteria, procedures, or documentation.

Although not required to do so, two institutions established written guidelines that incorporated UW System Administration's policy. UW-Green Bay's written guidelines require the human resources office to maintain all documents for an approved extraordinary salary range. UW-Oshkosh's written guidelines require all requests for extraordinary salary ranges to be initiated with the office of human resources prior to chancellor approval. The remaining UW institutions indicated the guidance provided in UW System Administration's policy on extraordinary salary ranges was used when establishing extraordinary salary ranges.

We identified 243 employees among UPS institutions that were paid outside an established salary range as of June 30, 2018. We performed a detailed review of 42 employees to assess whether there was a documented recruitment and retention need to necessitate an extraordinary salary range for the employee, and identified three areas of concerns.

UW-Green Bay inappropriately authorized an extraordinary salary range due to pay plan increases and merit-based adjustments.

First, we identified two UW-Green Bay employees with approved extraordinary salary ranges for which documentation provided by UW-Green Bay indicated the ranges were authorized because pay plan increases and merit-based adjustments for these employees exceeded the established salary range. This justification does not comply with the UW System Administration policy, which requires that extraordinary salary ranges be established based on external market conditions. Further, UW System Administration provided clarification to UW institutions that pay plan increases are not allowed to increase a salary above the established salary range.

Some employees were paid more than the established salary range for their job title without an approved extraordinary salary range.

Second, we identified three employees who did not have an approved extraordinary salary range, but received compensation above the established pay range. For example:

- One rehired employee was placed into a job title with a lower established pay range compared to the compensation the employee actually received. The employee was rehired at a rate of \$29.00 per hour, which was above the range of \$14.25 to \$22.70 per hour established for that job title.
- One UW Colleges employee was rehired and placed into a job title with a lower established pay range compared to the compensation the employee actually received. The employee was rehired at a rate of \$30.00 per hour, which was

above the range of \$18.03 to \$28.71 per hour established for that job title.

- One employee at UW-Extension was compensated at a rate outside of the established pay range because the employee was incorrectly given a \$1,000 base-building adjustment instead of a lump-sum payment. This employee was being paid \$9,185.17 per month, which was above the range of \$6,067.83 to \$9,101.83 per month established for the job title.

After we communicated these errors, UW System Administration, UW Colleges, and UW-Extension indicated they would correct the errors. As of April 12, 2019, we found that two of the employees have terminated employment and the pay rate for the employee at UW Colleges has not been corrected.

The UW System Administration policy does not address extraordinary salary ranges for part-time and temporary employees.

Finally, we found the policy does not provide sufficient guidance for determining pay rates for employees working part-time or limited hours. Additionally, the policy does not directly address eligibility for extraordinary salary ranges for temporary employees. We found three employees who either worked limited hours or were temporary employees and did not have an approved extraordinary salary range, but received compensation above the established pay range. For example:

- One employee at UW-La Crosse was employed part-time and was paid \$37 per hour. The maximum pay rate for this position was \$34.86 per hour. The institution noted the actual hours worked by the employee would not cause the employee's pay to exceed the annualized salary plan maximum.
- One employee at UW-La Crosse was employed full-time but worked limited hours and was paid \$40 per hour. The maximum pay rate for this position was \$34.86 per hour. The institution noted the actual hours worked by the employee would not cause the employee's pay to exceed the annualized salary plan maximum.
- One employee at UW-Stevens Point was an employee hired for a limited term and was paid \$150 per hour. The maximum pay rate for the position was \$103 per hour. UW-Stevens Point indicated the employee was a consultant, and

therefore did not have a maximum salary range. However, the employee was placed in a job title that had an established maximum pay rate.

Well-developed written policies and procedures ensure that appropriate pay ranges are established and extraordinary salary ranges are used appropriately. We found UW System Administration's policy did not include specific criteria, procedures, or documentation requirements, and most UW institutions did not implement specific guidelines for extraordinary salary ranges. As a result, we identified some employees were compensated above the established salary ranges. Although each UW institution will establish guidelines and policies to meet its individual needs, it is important that UW System Administration provide clear guidance to the institutions to aid in the development of institution policies and procedures that ensure consistent treatment of employees across UW System and that standard criteria are met to ensure extraordinary salary ranges are used appropriately.

Recommendation

We recommend the University of Wisconsin System Administration:

- *provide guidance to University of Wisconsin institutions on extraordinary salary ranges by revising its policy to include the criteria to be considered and the documentation required to support an extraordinary salary range;*
- *require University of Wisconsin institutions to develop guidelines for administering extraordinary salary ranges;*
- *evaluate whether University of Wisconsin institutions have developed guidelines and have consistently complied with those guidelines when administering extraordinary salary ranges; and*
- *report to the Joint Legislative Audit Committee by August 30, 2019, on its efforts to implement these recommendations.*

UW-Madison

UW-Madison's policy indicates that extraordinary salary ranges are used to provide pay flexibility when market conditions require a revised range to address either recruitment or retention needs.

UW-Madison requires that extraordinary salary range requests include evidence of a recruitment or retention need and include market data showing that the maximum of the existing salary range is below market value. UW-Madison's policy on extraordinary salary ranges requires the following:

- a memorandum or letter from the division justifying the need for an extraordinary salary range;
- relevant market data to demonstrate the need for an extraordinary salary range; and
- a current job posting with an organization chart showing the location of the position if the extraordinary salary range is being established for a new position.

Further, UW-Madison's policy indicates that once the extraordinary salary range is established, pay plan increases cannot result in an employee's salary exceeding the established extraordinary salary range.

UW-Madison did not provide all required documentation to support an approved extraordinary salary range for eight employees we identified.

We identified 195 employees at UW-Madison who were paid outside an established salary range as of June 30, 2018. We performed a detailed review of 36 employees to assess whether there was a documented recruitment or retention need to necessitate an extraordinary salary range for each employee. For eight of the employees reviewed, the documentation required by UW-Madison's policy was incomplete. Of these employees, we found five employee requests contained only market data, two employee requests contained only memoranda or letters, and one request contained only a current job posting for the employee's position.

UW-Madison officials indicated that the decision to approve extraordinary salary ranges is based on market data, noting that if market data is provided, there is less need for support in the form of a memorandum or letter requesting the extraordinary salary range. However, this practice is inconsistent with UW-Madison's policy, which requires market data, a memorandum, and a job posting for new positions. Further, UW-Madison officials indicated that when available market data is insufficient to support an extraordinary salary range, a memorandum or letter request, with other supporting information, such as an employee's prior salary at another institution, would be acceptable documentation.

UW-Madison has a written policy on extraordinary salary ranges, but it did not follow the policy in all instances.

UW-Madison has a well-developed written policy with specific criteria required to be documented to approve an extraordinary salary range. Because we found that UW-Madison did not consistently obtain all three of the required documents, it should take additional steps to train its staff and ensure required documentation is consistently received and maintained to support extraordinary salary ranges.

Recommendation

We recommend the University of Wisconsin-Madison ensure its staff are trained in the policy and extraordinary salary ranges are approved only in compliance with its established policy.

Grievance Policies and Procedures

Statutes require that the new personnel systems for UW System and UW-Madison include a grievance procedure that addresses employee terminations and includes the following:

- a written document specifying the process an employee and employer must follow;
- a hearing before an impartial hearing officer; and
- an appeal process in which the highest level of appeal is to the Board of Regents.

We identified concerns with the policies and procedures established by both UW System Administration and by UW-Madison.

University Personnel System

For UPS, UW System Administration established a general policy for grievances, which directs each institution to develop its own grievance procedures. For faculty and academic staff, the policy directs each UW institution to work with its shared governance groups to establish procedures. The policy specifically indicates that the impartial hearing officer concept must be incorporated into faculty and academic staff policies, and that academic staff shared governance groups must establish a procedure for the highest level of appeal to the Board of Regents for fixed-term and probationary employees. Further, the policy indicates that faculty are subject to administrative code chapters UWS 4 and UWS 6, and academic staff are subject to UWS 11.

We evaluated the grievance procedures developed by each UW institution and the related administrative code sections, for the university staff, faculty, and academic staff employment categories, and identified some areas of noncompliance with statutory requirements.

The grievance procedures established by UW institutions did not include all of the statutorily required items for each employment category.

For university staff, we found:

- all UW institutions developed a written document specifying the process an employee and employer must follow, but UW-Oshkosh's written document did not clearly address employee terminations;
- 12 of the 13 UW institutions had grievance procedures that included the concept of a hearing before an impartial hearing officer, but UW-Oshkosh's procedures did not explicitly include the concept of an impartial hearing officer; and
- all 13 UW institutions had an appeal process in which the highest level of appeal is to the Board of Regents.

For faculty, we found:

- all of the UW institutions except UW-River Falls developed a written document specifying the process an employee and employer must follow;
- none of the UW institution procedures or the applicable administrative code specifically included the concept of a hearing before an impartial hearing officer; and
- all of the UW institutions, except UW-River Falls, included clear language that the highest level of appeal for grievances was to the Board of Regents.

For academic staff, we found:

- all of the UW institutions except UW-River Falls developed a written document specifying the process an employee and employer must follow;

- none of the UW institutions procedures or the applicable administrative code specifically included the concept of a hearing before an impartial hearing officer; and
- 11 of the 13 UW institutions did not consistently indicate the Board of Regents was the highest level of appeal for fixed term or probationary academic staff grievances.

UW System Administration should review the grievance procedures of all UW institutions to ensure the procedures include all of the statutorily required items for each employment category.

Recommendation

We recommend the University of Wisconsin System Administration:

- *review the grievance procedures of all UW institutions to ensure the procedures meet statutory requirements; and*
- *report to the Joint Legislative Audit Committee by August 30, 2019, on its efforts to implement these recommendations.*

UW-Madison

With the implementation of its new personnel system, UW-Madison established a new grievance policy for university staff, which is maintained by the Office of Human Resources. Grievance policies for faculty and academic staff are maintained by shared governance groups. We evaluated the grievance policy developed by UW-Madison and the related administrative code sections, for the university staff, faculty, and academic staff employment categories, and we identified some areas of noncompliance with statutory requirements.

The grievance policy established by UW-Madison did not include all of the statutorily required items for each employment category.

For university staff, we found UW-Madison's policy:

- included a written document specifying the process an employee and employer must follow,
- included the concept of a hearing before an impartial hearing officer; and
- recognized that the Board of Regents was the highest level of appeal for grievances.

For faculty, we found UW-Madison's policy:

- included a written document specifying the process an employee and employer must follow;
- did not include the concept of an impartial hearing officer, although its hearing procedure does provide standards for a fair and impartial hearing; and
- included that the Board of Regents was the highest level of appeal for grievances.

For academic staff, we found UW-Madison's policy:

- included a written document specifying the process an employee and employer must follow;
- did not include the concept of an impartial hearing officer, although its hearing procedure does provide standards for a fair and impartial hearing; and
- did not indicate that the Board of Regents was the highest level of appeal for fixed-term and probationary academic staff grievances.

UW-Madison should ensure that the grievance policy includes all of the statutorily required items for each employment category.

Recommendation

We recommend the University of Wisconsin-Madison revise its grievance policy to ensure it meets statutory requirements.

Relationships with Affiliated Organizations ■

UW institutions have relationships with a variety of affiliated organizations, including primary fundraising foundations, real estate foundations, alumni associations, and other organizations. As a result of concerns raised about the relationship between UW-Oshkosh and UW-Oshkosh Foundation, the Joint Legislative Audit Committee directed the Legislative Audit Bureau to review the relationships between UW System and certain affiliated organizations. In report 18-4, released in March 2018, we reviewed the scope of the relationships between foundations and other affiliated organizations, the oversight of these relationships by the Board of Regents, and the monitoring of these relationships by UW System Administration. In our current audit, we followed up on the status of steps taken related to UW-Oshkosh Foundation, as well as UW System Administration's efforts to address the recommendations we made in report 18-4. Although UW System Administration has taken some steps to address our recommendations, it had completed implementation of only one recommendation made in report 18-4 as of March 2019.

UW-Oshkosh Foundation

Concerns were raised about the extent to which UW-Oshkosh provided financial, personnel, and other resources to UW-Oshkosh Foundation. The Board of Regents asked the Wisconsin Department of Justice (DOJ) to pursue civil legal action against two former UW-Oshkosh officials based on their actions involving UW-Oshkosh Foundation. According to the DOJ complaint filed in January 2017,

these officials made prohibited financial transfers from UW-Oshkosh to UW-Oshkosh Foundation related to certain real estate projects. In addition, the officials are alleged to have guaranteed UW-Oshkosh Foundation's obligations related to the projects by inappropriately committing UW-Oshkosh to make payments if UW-Oshkosh Foundation could not make them.

In January 2019, UW System used some of its program revenue balance to pay \$6.8 million to two banks to settle outstanding liabilities of UW-Oshkosh Foundation.

In June 2018, UW-Oshkosh Foundation filed a lawsuit against UW System asserting that UW System should be liable for the actions of the two former UW-Oshkosh officials. In January 2019, a settlement between UW System and UW-Oshkosh Foundation was signed, with UW System agreeing to pay \$6.8 million to two banks to settle outstanding liabilities. In January 2019, UW System used balances from UW System Administration's federal indirect cost reimbursement program revenue balance to make these payments. In addition, the settlement agreement required a third bank to return \$500,000 to UW System, which it did in January 2019. UW-Oshkosh agreed to reimburse UW System Administration \$3.8 million by making annual payments from January 2020 through July 2038. In addition, UW System Administration indicated that it is pursuing an insurance claim to recover some of the amounts.

Primary Fundraising Foundations and Real Estate Foundations

In report 18-4, we reviewed the Board of Regents policy, Regent Policy Document 21-9, *Institutional Relationships with Foundations*, which was established in December 2017 to provide guidance to UW institutions as they manage relationships with primary fundraising foundations and real estate foundations. This policy required each UW institution to develop and maintain a memorandum of understanding with its primary fundraising foundation, and any real estate foundation, that describes the respective responsibilities of the institutions and the foundations. In report 18-4, we found that 18 of the 19 new memoranda of understanding referred to operational agreements that specified the support to be provided by UW institutions to foundations, as well as the payments and services to be provided by foundations. As noted in report 18-4, we received only 5 of the 18 operational agreements, and we found that these 5 operational agreements did not consistently comply with the Board of Regents policy.

As of March 2019, UW System Administration had completed implementation of one of the four recommendations we made specific to primary fundraising foundations and real estate foundations.

In report 18-4, we made four recommendations specific to primary fundraising foundations and real estate foundations. As of March 2019, UW System Administration had partially implemented three recommendations, and had completed implementation of one recommendation, as shown in Table 11.

Table 11

**Status of Recommendations in Report 18-4
Related to Primary Fundraising Foundations and Real Estate Foundations
As of March 2019**

| Recommendation | Not Implemented | Partially Implemented | Completed |
|--|-----------------|-----------------------|-----------|
| Require UW institutions to amend operational agreements to correct noncompliance with Board policy. | | ☑ | |
| Assess whether all memoranda of understanding and operational agreements are in compliance with Board policy. | | ☑ | |
| Require each chancellor to certify that the memoranda of understanding and operational agreements are in compliance with Board policy. | | ☑ | |
| Rectify the inconsistency between the Board policy and policy statement and prohibit all UW employees from serving as voting members of the boards of primary fundraising foundations and real estate foundations. | | | ☑ |

UW System Administration’s review of amended operational agreements was ongoing as of April 2019.

We recommended UW System Administration require UW institutions to immediately amend operational agreements between the UW institutions and the foundations to correct the issues of noncompliance with the Board of Regents policy. In our current audit, we requested UW System Administration provide a list of amended operational agreements received and reviewed as of January 2019, and we made three additional requests for such a list in February 2019. The list UW System Administration provided in late April 2019 indicated UW System Administration had received updated operational agreements from some UW institutions and reviews of these agreements were ongoing.

In report 18-4, we also recommended UW System Administration require all UW institutions to submit all memoranda of understanding and operational agreements and then assess whether these documents comply with the Board of Regents policy. In our current audit,

UW System Administration staff indicated that amending the operational agreements is a complex process that requires institutional leaders to coordinate efforts with foundation boards and reach agreement on the terms of the operational agreements.

To facilitate review of the memoranda of understanding and operational agreements between UW institutions and primary fundraising foundations and real estate foundations for compliance with Board of Regents policy, UW System Administration Office of General Counsel developed a spreadsheet. However, we identified that the spreadsheet did not include the specific items required by the Board policy to be included in a memorandum of understanding or an operational agreement with an affiliated organization. For example, the spreadsheet does not prompt the reviewer to assess whether a memorandum of understanding documents that rent or in-kind payments for office space are at a fair-market rate. In addition, provisions in the Board of Regents policy related to personnel were not specifically included in the spreadsheet. To be a more effective tool for conducting a review of a memorandum of understanding or an operational agreement, the spreadsheet should include clear criteria based on the requirements of the Board of Regents policy.

For example, we performed a more detailed review of the spreadsheet completed by the Office of General Counsel for the memorandum of understanding and the operational agreement between UW-Oshkosh and its new fundraising foundation, Titan Alumni Foundation, Inc. The agreement specifies that the Titan Alumni Foundation will rent 234 square feet of UW-Oshkosh office space at a monthly rate of \$234, which equates to \$1 per square foot per month, and \$12 per square foot per year. The spreadsheet had no notation of concerns with this rate, which was below the fair-market rate. We asked the Office of General Counsel if, in its review of the agreement, it raised questions regarding the \$1 per square foot per month office space rental agreement with Titan Alumni Foundation. The Office of General Counsel incorrectly indicated that the agreement included a \$12 per square foot per month rate. By more clearly defining the criteria to be reviewed in the spreadsheet, the Office of General Counsel may have questioned the appropriateness of this rate.

Although revised operational agreements had yet to be completed, we found all UW institution chancellors and chief business officers certified compliance with the Board of Regents policy as of June 30, 2018.

In report 18-4, we recommended UW System Administration require each chancellor to certify in writing that the memorandum of understanding and operational agreement between the institution and the foundation fully comply with the Board of Regents policy. In our current audit, we found UW System Administration added an additional certification to the annual financial reporting attestations signed by each UW institution's chancellor and chief business officer. The added language requires the institution's chancellor and chief business officer to certify that primary fundraising foundations and real estate foundations are governed by a memorandum of understanding and operational agreement

that complies with the Board of Regents policy. We found that all chancellors and chief business officers signed and submitted the annual financial reporting attestations for the year ended June 30, 2018, and certified that memoranda of understanding and operational agreements complied with Board of Regents policy. However, we found the chancellors and chief business officers had certified compliance as of June 30, 2018, which was before the operational agreements were completed.

UW System Administration was unaware that one UW employee continued to serve as a voting member on a foundation board as of April 2019.

The Board of Regents Policy indicates that any UW employee who is a member of a foundation’s board of directors shall serve as an ex-officio board member and cannot have voting powers. In December 2018, UW System Administration corrected an inconsistency in its policy that we had identified in report 18-4 related to UW employees who are also members of foundation boards. In addition, UW System Administration provided letters from the UW System President related to exceptions that were granted, as allowed by the policy, for certain employees serving on foundation boards affiliated with UW-Madison and UW-Superior. At a January 2019 meeting, UW System Administration staff indicated that, other than approved exceptions, they were not aware of any UW employees with voting power serving on foundation boards. However, we identified one employee at UW-Milwaukee who continued to serve as a voting member on the foundation board as of April 2019, and for whom no exception had been granted. This was the same employee we identified in report 18-4. After we brought this to the attention of UW System Administration, the UW System President granted a formal exception on April 26, 2019, for this employee to continue to serve on the foundation board.

Recommendation

We recommend the University of Wisconsin System Administration:

- *require University of Wisconsin institutions to finish amending the operational agreements to correct the issues of noncompliance with the Board of Regents policy and to submit these amended agreements to the University of Wisconsin System Administration for review;*
- *revise the spreadsheet used by the Office of General Counsel to review memoranda of understanding and operational agreements to ensure they include clear criteria related to all requirements of the Board of Regents policy;*
- *complete its review of the amended operational agreements by June 30, 2019, to ensure compliance with the Board of Regents policy;*

- *advise chancellors to certify compliance with the Board of Regents policy only if the operational agreements are in place;*
- *ensure all University of Wisconsin institutions are in compliance with the Board of Regents policy that prohibits University of Wisconsin employees from serving as voting members of the boards of directors of primary fundraising foundations and real estate foundations; and*
- *report to the Joint Legislative Audit Committee by August 30, 2019, on the status of its efforts to implement these recommendations.*

Other Affiliated Organizations

In FY 2017-18, UW institutions had relationships with 70 potential affiliated organizations that were not primary fundraising foundations and real estate foundations and that were not governed by a Board of Regents policy.

In this report, we define affiliated organizations that are not primary fundraising foundations or real estate foundations as “other affiliated organizations.” In the list of potential affiliated organizations provided to us by UW System Administration for FY 2017-18, primary fundraising foundations and real estate foundations made up only 29 of the 99 potential affiliated organizations. UW institutions have relationships with 70 potential other affiliated organizations that are not governed by existing Board of Regents policy, and that may increase financial and reputational risks to UW System if the relationships are not properly overseen and monitored. For example, as noted in report 18-4, UW-Oshkosh created the Business Success Center, an affiliated organization intended to improve economic development by providing paid consulting, research, training, and other services to regional businesses and other organizations. However, concerns were raised with a lack of formal written agreements between UW-Oshkosh and the Business Success Center, the use of UW-Oshkosh faculty and staff as independent contractors to provide services, and the use of financial accounts outside of UW System. The Business Success Center was dissolved in April 2017 after UW System Administration determined the organization was not legally separate from UW-Oshkosh.

In report 18-4, we recommended UW System Administration work with the Board of Regents to establish a policy governing the relationships between UW institutions and other affiliated organizations that are not primary fundraising foundations or real estate foundations. Such a policy would help to ensure that all affiliated organizations are fully separate and independent from UW institutions and that state resources are used in a transparent and accountable manner. We noted that this policy should clarify a number of issues for other affiliated organizations that are not primary

fundraising foundations or real estate foundations, including the extent to which:

- UW employees are allowed to serve on the boards of directors of these affiliated organizations and whether they are allowed to have voting powers;
- UW employees are allowed to also work for these affiliated organizations, including as executive directors; and
- UW institutions are allowed to provide office space and other assets to these affiliated organizations and, if so, the terms under which they are allowed to do so.

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

The Board of Regents did not adopt a Board policy to govern relationships with other affiliated organizations that are not primary fundraising foundations or real estate foundations. Instead, UW System Administration issued a UW System Administrative Policy in January 2019, titled *University Administrative Support of Affiliated Organizations*. The policy requires UW institutions to annually 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.

UW System Administration indicated that it did not seek to establish a Board of Regents policy to govern relationships with other affiliated organizations that are not primary fundraising foundations and real estate foundations because UW System Administration considers these other affiliated organizations to be less risky than primary fundraising foundations and real estate foundations due to their comparatively lesser volume of financial activity. In addition, UW System Administration indicated concern with the additional administrative burden that may be required if a Board policy were developed that required oversight and reporting for these other affiliated organizations. UW System Administration also noted concerns with the potential effects on the recruitment of faculty who may find the potential of required disclosures for institutional relationships with these other affiliated organizations to be less attractive when considering employment.

As noted, affiliated organizations that are not primary fundraising foundations and real estate foundations constitute the majority of the potential affiliated organizations on the list provided by UW System Administration. Although some such affiliated organizations may have a lesser volume of financial activity, we identified others on the list that have more financial activity than

some of the primary fundraising foundations and real estate foundations whose relationships with UW institutions are governed by Board policy. Some other affiliated organizations that are not primary fundraising or real estate foundations may present greater risk given that they may be more integrated and reliant on administrative support from a UW institution. We note that the list provided by UW System Administration also included affiliated organizations we identified that were not fully separate and independent at the time of our fieldwork for report 18-4.

The existence of a Board policy to govern the relationships with these other affiliated organizations would also provide guidance to UW institutions when developing new relationships with entities that are not primary fundraising foundations or real estate foundations but that vary widely in purpose, structure, and complexity. For example, in August 2018 UW-Madison entered into an agreement with FEWI Development Corporation (Foxconn) with the intent of developing the Foxconn Institute for Research in Science and Technology (FIRST) to foster interdisciplinary research and applied science problems across multiple fields in engineering and physical science. When developed, FIRST would appear to meet the definition of an affiliated organization under UW System Administration's policy. However, it is not clear whether FIRST would meet the \$100,000 threshold for reporting to UW System Administration.

The number of affiliated organizations that are not primary fundraising foundations or real estate foundations vary in the volume of their financial activity and in the nature of their relationships with UW institutions. Yet, the administrative policy, which may be altered at the discretion of UW System Administration, does not indicate how UW System Administration will evaluate these relationships nor does it specify what information, if any, will be formally reported to the Board of Regents. A Board policy rather than an internal UW System administrative policy would increase transparency and better enable the Board of Regents to consistently oversee relationships with all affiliated organizations.

Recommendation

We recommend the University of Wisconsin System Administration:

- *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;*
- *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; and

- *report to the Joint Legislative Audit Committee by August 30, 2019, on its efforts to implement these recommendations.*

Oversight and Monitoring of All Affiliated Organizations

UW System Administration completed implementation of none of the nine recommendations we made to increase the oversight and monitoring of all affiliated organizations.

In report 18-4, we made nine recommendations for UW System Administration to increase its efforts to monitor the relationships between UW institutions and all affiliated organizations, including primary fundraising foundations, real estate foundations, and other types of affiliated organizations. Specifically, we made recommendations detailing how UW System Administration could increase oversight and monitoring, including by:

- requiring UW employees to track the amount of time they work for any affiliated organization;
- requiring UW institutions to annually report certain information about the nature of each relationship with an affiliated organization;
- annually assessing each relationship with an affiliated organization, determining whether any changes are necessary, and reporting the results of each assessment to the Board of Regents; and
- providing UW institutions with written guidance on identifying all affiliated organizations.

As of March 2019, UW System Administration had not implemented five recommendations, had partially implemented four recommendations, and had completed implementation of no recommendations, as shown in Table 12.

Table 12

**Status of Recommendations in Report 18-4
Oversight and Monitoring of All Affiliated Organizations**
As of March 2019

| Recommendation | Not Implemented | Partially Implemented | Completed |
|--|-------------------------------------|-------------------------------------|-----------|
| Require UW employees to track the amount of time they work for any affiliated organization. | <input checked="" type="checkbox"/> | | |
| Require UW institutions to annually report certain information about the nature of relationships with affiliated organizations. | | <input checked="" type="checkbox"/> | |
| Annually assess each relationship with an affiliated organization, determine if changes are needed, and report the results to the Board. | <input checked="" type="checkbox"/> | | |
| Provide UW institutions with written guidance on identifying all affiliated organizations. | | <input checked="" type="checkbox"/> | |
| Provide guidance and training to UW employees who work with affiliated organizations. | | <input checked="" type="checkbox"/> | |
| Assign a unique vendor identification number to each affiliated organization in the UW System accounting system. | | <input checked="" type="checkbox"/> | |
| Independently and regularly monitor that UW institutions use the vendor identification number. | <input checked="" type="checkbox"/> | | |
| Direct the Office of Internal Audit to annually review a sample of payments from UW institutions to affiliated organizations. | <input checked="" type="checkbox"/> | | |
| Direct the Office of Internal Audit to determine whether information annually reported by UW institutions complied with Board policy. | <input checked="" type="checkbox"/> | | |

UW System Administration's administrative policy did not require UW employees to track the amount of time they worked for an affiliated organization nor did it perform an assessment of each relationship with an affiliated organization, as we had recommended. Although the policy defined an affiliated organization, it did not provide guidance to UW institutions on identifying all affiliated organizations.

UW System Administration issued an administrative policy requiring reporting of relationships in which a UW institution provides an affiliated organization with administrative support of \$100,000 or more net of amounts reimbursed by the affiliated organization.

UW System Administration's administrative policy requires UW institutions to annually complete a cost-benefit report for each affiliated organization, including primary fundraising foundations and real estate foundations that a UW institution provides with administrative support of \$100,000 or more net of amounts reimbursed by the affiliated organization. The first such report is required to be submitted to the UW System Administration Vice President for Finance by May 31, 2019. Further, if a UW institution provides administrative support valued at \$100,000 or more net of amounts reimbursed by the affiliated organization, the UW institution must have a written agreement with the affiliated organization within six months of the entity being identified as an affiliated organization. Administrative support is defined in the policy as the personnel, facilities, and other monetary or material resources a UW institution provided to the affiliated organization without direct and full reimbursement.

We evaluated the administrative policy and the related cost-benefit report that were developed by UW System Administration. Although the policy describes the cost-benefit report as providing a comparison of the administrative support provided by and the benefits received from an affiliated organization, we identified weaknesses in the administrative policy and the cost-benefit report that limit the effectiveness of these management tools.

The cost-benefit report does not calculate the return on the investment the UW institution is making in the affiliated organization.

For example, the cost-benefit report developed by UW System Administration includes neither a calculation netting the costs and benefits reported nor a calculation of the return on the investment the UW institution is making in the affiliated organization. This type of information would make the cost-benefit report a better tool to assess whether a given relationship is beneficial to a UW institution. There may also be intangible benefits provided by the affiliated organization that may be more difficult to assess than items such as grants and scholarships support, but may be important to the overall consideration of the costs and benefits of the relationships. For example, an affiliated organization may provide research or experiential opportunities to students, for which the financial value is difficult to quantify but that provide value to the students and the reputation of the UW institution. The administrative policy and cost-benefit report provide little guidance to assist UW institutions in assessing and documenting the value of these benefits provided by the affiliated organization.

UW System Administration's cost-benefit report does not require a complete accounting of all support that a UW institution provides to an affiliated organization.

As noted, the cost-benefit report does not require a complete accounting for all of the support that a UW institution provided to an affiliated organization during the fiscal year. For example, the report does not require information on salary and fringe benefit support that is provided by a UW institution and reimbursed by an affiliated organization. Transparency of the relationships would be increased by requiring UW institutions to include the full cost of

salaries, and separately report the amount of those salaries that were reimbursed by an affiliated organization. In addition, the report excludes the value of office space support that was provided by a UW institution to an affiliated organization but that was also used by UW employees.

We also found that the administrative policy requires a written agreement between a UW institution and an affiliated organization when it is determined a UW institution has provided administrative support of \$100,000 or more net of amounts reimbursed by the affiliated organization. However, the policy provides no information regarding what should be included in the written agreements. As noted, the administrative policy does not address how the cost-benefit reports will be evaluated by UW System Administration or what information will be provided to the Board of Regents, if any.

UW System’s administrative policy does not require UW institutions to provide an accounting of the costs and benefits of the relationships with each affiliated organization.

Another concern is that the administrative policy does not require UW institutions to provide an accounting of the costs and benefits of the relationships with each affiliated organization. An accounting of costs is required when a UW institution provides administrative support of \$100,000 or more net of amounts reimbursed by the affiliated organization. Although the fiscal effect on a UW institution is a measure of materiality and risk to the UW institution and to UW System, other factors may also present risks. For example, in report 18-4, we noted that the UW-Oshkosh Business Success Center had been found by UW System Administration’s Office of General Counsel to potentially be in violation of prohibitions on employers independently contracting with their employees because the center hired UW-Oshkosh faculty and staff as independent contractors to provide services to the organization’s clients. Even if the Business Success Center would not have met the financial threshold for oversight and monitoring by UW System Administration, it still posed a reputational and financial risk to UW-Oshkosh and UW System.

In report 18-4, we noted that institutions in the Minnesota State Colleges and Universities system are required to annually complete analyses that compare the financial costs and benefits of the relationship between each institution and its foundation. Although UW System Administration based its cost-benefit report on Minnesota’s report, Minnesota’s report is more comprehensive and requires more information to be reported. For example, we found that Minnesota’s report required separate disclosures of the full amount of salary and fringe benefits paid by the institution and required the amount of costs reimbursed by the foundation also to be separately disclosed. Additionally, Minnesota’s report required a calculation of the return on investment that is not required for UW System Administration’s cost-benefit report.

UW System Administration indicated it developed the UW System administrative policy and the cost-benefit report as a mechanism to collect information in order to identify areas where additional detailed review is needed. However, the administrative policy does not provide criteria to be used to evaluate the information submitted in a cost-benefit report nor does it describe any process for an additional detailed review.

Improving the administrative policy and the cost-benefit report would provide better transparency.

Improving the administrative policy and the cost-benefit report would provide better transparency and a more-complete assessment of the financial activity among UW institutions and affiliated organizations. In addition, improvements would allow UW institutions, UW System Administration, and the Board of Regents to consider more broadly the costs and benefits of the relationships and to determine if changes are needed in any particular relationship. Although UW System Administration will not be able to address the weaknesses we identified before the first cost-benefit reports are due for submission on May 31, 2019, it should take corrective action to improve the cost-benefit reports that will be submitted by March 31, 2020.

Recommendation

We recommend the University of Wisconsin System Administration:

- *revise its cost-benefit report to provide a full accounting of all costs, time, and benefits of each relationship with an affiliated organization, including tracking employee time and adding a calculation of the net cost or net benefit, or a return on investment calculation;*
- *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;*
- *amend the administrative policy to explain how the cost-benefit report will be evaluated by the University of Wisconsin System Administration and to specify the reporting that will be made to the Board of Regents;*
- *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;

- *report to the Joint Legislative Audit Committee by August 30, 2019, on its efforts to implement these recommendations.*

Guidance and Training

UW System Administration did not provide documentation to demonstrate guidance and training was provided to UW employees who also work for an affiliated organization.

To ensure the relevant policies related to affiliated organizations are implemented correctly and consistently, we also recommended in report 18-4 that UW System Administration provide guidance and training to UW employees who also work for an affiliated organization. For example, employees who work for an affiliated organization would benefit from training regarding the December 2017 Board of Regents policy to help them understand the policy and ensure compliance, training related to how to resolve conflicts of interest they may face in working for an affiliated organization, and training to help them better understand their statutory obligations, including compliance with contracting and purchasing laws. UW System Administration indicated training was held for various UW institution staff, including procurement officers and chief business officers. However, UW System Administration did not provide documentation to demonstrate guidance and training was provided to those UW employees who also work for an affiliated organization.

UW System Administration staff indicated that guidance and training will be provided on its January 2019 administrative policy to UW employees who manage primary fundraising foundations, real estate foundations, and other affiliated organization relationships, including the employees involved in the completion of the cost-benefit report. In addition, UW System Administration indicated it plans to provide training to others, including controllers, chief business officers, and advancement officers. However, as of March 2019, no formal training dates had been scheduled.

Recommendation

We recommend the University of Wisconsin System Administration:

- *provide guidance and training to University of Wisconsin employees who also work for an affiliated organization; and*
- *report to the Joint Legislative Audit Committee by August 30, 2019, on its efforts to implement this recommendation.*

Unique Vendor Identification Numbers

In report 18-4, we found that UW System Administration set up its accounting system in such a way that the amount of payments from UW institutions to a given affiliated organization could not be accurately determined. We recommended UW System Administration assign a unique vendor identification number to each affiliated organization in UW System's accounting system.

UW System Administration has not required UW-Madison to use the centralized vendor file used by all other UW institutions.

UW System Administration indicated that in October 2018, after an upgrade to UW System's accounting system, steps were taken to assign a unique vendor number to each affiliated organization. UW System Administration now approves vendors for all institutions and maintains a centralized vendor file with a unique vendor number for each affiliated organization, except for those affiliated with UW-Madison. UW-Madison continues to use its own vendor numbers for affiliated organizations and, therefore, multiple vendor identification numbers may exist for an affiliated organization in the accounting system. For example, we identified that UW-Madison uses a unique vendor number for both UW Foundation and UW Medical Foundation, but remaining UW institutions use a different vendor number for those affiliated organizations. Although UW System Administration indicated that it anticipates UW-Madison eventually will use the centralized vendor file, no timeline has been established for this conversion. UW-Madison indicated it is more difficult for it to convert to the centralized vendor file because it uses a different purchasing system than the other UW institutions.

We also recommended UW System Administration independently and regularly monitor that UW institutions consistently use the unique vendor numbers. UW System Administration reported to the Joint Legislative Audit Committee in October 2018 that the appropriate use of vendor codes is subject to institutional review, including by the UW System Office of Internal Audit. No such monitoring has been performed by UW System Administration or the Office of Internal Audit.

Recommendation

We recommend the University of Wisconsin System Administration:

- *continue to work with the University of Wisconsin-Madison to establish a timeline to begin using the centralized vendor file for all financial transactions;*
- *design and implement a procedure for independent and regular monitoring to ensure*

consistent use of the unique vendor identification numbers by all University of Wisconsin institutions; and

- *report to the Joint Legislative Audit Committee by August 30, 2019, on the status of its efforts to implement these recommendations.*

Internal Auditing

Report 18-4 also included recommendations directing the UW System Office of Internal Audit to determine whether the information annually reported by UW institutions complies with the Board of Regents December 2017 policy and to annually review a sample of payments from UW institutions to other affiliated organizations to determine the appropriateness of these payments.

UW System’s Office of Internal Audit has not reviewed a sample of payments to other affiliated organizations to determine if the payments are appropriate.

In September 2018, the Office of Internal Audit released a report titled *Transactions with Foundations at the University of Wisconsin System*. This report focused on transactions with only primary fundraising foundations and real estate foundations, and it did not include transactions with other affiliated organizations. In addition, the Office of Internal Audit did not evaluate whether UW institutions complied with the Board of Regents policy. The Office’s FY 2018-19 audit plan anticipates an audit to review institutional relationships with foundations. In February 2019, the Chief Audit Executive indicated that a review of affiliated organizations other than primary fundraising foundations and real estate foundations will be considered when planning the audit.

Recommendation

We recommend the University of Wisconsin System Administration:

- *direct the Office of Internal Audit to annually review a sample of payments from University of Wisconsin institutions to other affiliated organizations and determine the appropriateness of these payments;*
- *direct the Office of Internal Audit to determine whether University of Wisconsin institutions are complying with the Board of Regents policy; and*
- *report to the Joint Legislative Audit Committee by August 30, 2019, on its efforts to implement these recommendations.*

Issues for Legislative Consideration

In report 18-4, we included an issue for legislative consideration related to the general duties of public officials under ch. 19, Wis. Stats. We raised concerns that certain UW System employees who have prominent roles in UW institution finances, such as chief business officers and others who hold positions that are important for the relationships between UW institutions and their corresponding foundations, are not statutorily required to annually file statements of economic interests. We also noted the Legislature could consider modifying statutes to define all UW employees who also work for affiliated organizations to be state public officials under s. 19.42(14), Wis. Stats. Doing so would require these UW employees to adhere to the statutorily prescribed code of ethics.

At its February 2019 meeting, the Board of Regents approved an amendment to Regent Policy Document 21-9, *Institutional Relationships with Foundations*, to require any UW employee who is also the executive director of a primary fundraising foundation or real estate foundation to annually file a statement of economic interest with the Office of the Board of Regents. The policy indicates that the statement of economic interest will contain the information required by s. 19.44, Wis. Stats., which defines the requirements for state employees required to file statements of economic interests with the Wisconsin Ethics Commission. In addition, the policy was modified to require any UW employee who is also the executive director of a primary fundraising foundation or real estate foundation, to take responsibility for identifying and disclosing any potential conflicts of interest and managing any conflicts in accordance with ch. UWS 8, Wis. Adm. Code, which contains the Board of Regents unclassified staff code of ethics, and ch. 19 Wis. Stats., which contains the general duties of public officials.

The Legislature may wish to consider statutory changes to require certain UW employees to file annual statements of economic interests with the Wisconsin Ethics Commission.

Although these steps may increase reporting to the Board of Regents for those UW employees who also serve as executive directors of foundations, the Legislature may also consider statutory changes to require chief business officers at UW institutions or those UW employees who also work as the executive directors, or the equivalent, of foundations, who are involved with important financial decisions, to annually file statements of economic interests with the Wisconsin Ethics Commission.

Modifying statutes to define all UW employees who also work for affiliated organizations to be state public officials would also require these UW employees to adhere to the statutorily prescribed code of ethics. Although UW System has a code of ethics applicable to UW faculty and academic staff, its requirements are not as broad as the requirements in the code of ethics for state public officials. For example, although both codes of ethics prohibit an employee from using a public position for personal gain, s. UWS 8.03 (1), Wis. Adm.

Code, requires this conduct to be “contrary to the interests of the University of Wisconsin System.” The parallel provision applicable to state public officials prohibits a public official, without qualification, from using “his or her public position or office to obtain financial gain or anything of substantial value for the private benefit of himself or herself.”

■ ■ ■ ■

Appendices ■

Appendix 1

Enrollment, by Institution and Academic Year¹

| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| UW-Madison | | | | | | | | | | |
| Resident | 24,806 | 24,669 | 24,699 | 24,544 | 24,240 | 24,211 | 24,060 | 23,926 | 23,779 | 23,758 |
| Nonresident | 13,444 | 13,611 | 14,052 | 14,045 | 14,691 | 15,300 | 15,410 | 15,892 | 16,120 | 16,748 |
| Reciprocity ³ | 3,370 | 3,374 | 3,429 | 3,476 | 3,532 | 3,392 | 3,395 | 3,246 | 3,095 | 2,944 |
| Total | 41,620 | 41,654 | 42,180 | 42,065 | 42,463 | 42,903 | 42,865 | 43,064 | 42,994 | 43,450 |
| UW-Milwaukee | | | | | | | | | | |
| Resident | 26,790 | 27,687 | 27,574 | 26,606 | 25,811 | 24,214 | 23,934 | 22,904 | 21,718 | 20,953 |
| Nonresident | 1,991 | 2,253 | 2,419 | 2,624 | 2,836 | 3,140 | 3,616 | 3,784 | 3,921 | 4,090 |
| Reciprocity ³ | 434 | 478 | 477 | 496 | 467 | 430 | 463 | 431 | 372 | 338 |
| Total | 29,215 | 30,418 | 30,470 | 29,726 | 29,114 | 27,784 | 28,013 | 27,119 | 26,011 | 25,381 |
| UW-Eau Claire | | | | | | | | | | |
| Resident | 8,677 | 8,659 | 8,738 | 8,442 | 8,194 | 8,007 | 7,752 | 7,447 | 7,416 | 7,308 |
| Nonresident | 326 | 383 | 441 | 489 | 557 | 614 | 642 | 709 | 816 | 904 |
| Reciprocity ³ | 2,137 | 2,174 | 2,234 | 2,303 | 2,296 | 2,286 | 2,298 | 2,375 | 2,473 | 2,613 |
| Total | 11,140 | 11,216 | 11,413 | 11,234 | 11,047 | 10,907 | 10,692 | 10,531 | 10,705 | 10,825 |
| UW-Green Bay | | | | | | | | | | |
| Resident | 5,912 | 6,254 | 6,184 | 6,197 | 6,304 | 6,169 | 6,406 | 6,246 | 6,420 | 6,505 |
| Nonresident | 286 | 305 | 369 | 395 | 409 | 435 | 452 | 469 | 529 | 588 |
| Reciprocity ³ | 88 | 79 | 83 | 73 | 77 | 63 | 63 | 64 | 81 | 85 |
| Total | 6,286 | 6,638 | 6,636 | 6,665 | 6,790 | 6,667 | 6,921 | 6,779 | 7,030 | 7,178 |
| UW-La Crosse | | | | | | | | | | |
| Resident | 8,045 | 8,107 | 8,206 | 8,234 | 8,293 | 8,345 | 8,469 | 8,332 | 8,504 | 8,449 |
| Nonresident | 687 | 759 | 772 | 794 | 739 | 770 | 780 | 752 | 716 | 709 |
| Reciprocity ³ | 1,148 | 1,143 | 1,157 | 1,230 | 1,348 | 1,387 | 1,415 | 1,402 | 1,404 | 1,376 |
| Total | 9,880 | 10,009 | 10,135 | 10,258 | 10,380 | 10,502 | 10,664 | 10,486 | 10,624 | 10,534 |

| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| UW-Oshkosh² | | | | | | | | | | |
| Resident | 11,169 | 11,664 | 11,881 | 11,646 | 11,468 | 11,356 | 10,850 | 10,608 | 10,244 | 9,824 |
| Nonresident | 287 | 317 | 338 | 380 | 439 | 550 | 707 | 699 | 780 | 854 |
| Reciprocity ³ | 75 | 72 | 67 | 68 | 70 | 68 | 67 | 62 | 62 | 56 |
| Total | 11,531 | 12,053 | 12,286 | 12,094 | 11,977 | 11,974 | 11,624 | 11,369 | 11,086 | 10,734 |
| UW-Parkside | | | | | | | | | | |
| Resident | 4,658 | 4,785 | 4,601 | 4,318 | 4,189 | 3,941 | 3,859 | 3,658 | 3,594 | 3,480 |
| Nonresident | 497 | 504 | 540 | 554 | 567 | 668 | 717 | 777 | 799 | 818 |
| Reciprocity ³ | 12 | 14 | 19 | 15 | 13 | 8 | 8 | 8 | 6 | 10 |
| Total | 5,167 | 5,303 | 5,160 | 4,887 | 4,769 | 4,617 | 4,584 | 4,443 | 4,399 | 4,308 |
| UW-Platteville | | | | | | | | | | |
| Resident | 5,964 | 6,127 | 6,127 | 6,278 | 6,436 | 6,482 | 6,464 | 6,450 | 6,395 | 6,209 |
| Nonresident | 1,439 | 1,568 | 1,687 | 1,874 | 2,122 | 2,111 | 2,301 | 2,365 | 2,255 | 2,228 |
| Reciprocity ³ | 109 | 108 | 114 | 110 | 120 | 124 | 136 | 135 | 132 | 121 |
| Total | 7,512 | 7,803 | 7,928 | 8,262 | 8,678 | 8,717 | 8,901 | 8,950 | 8,782 | 8,558 |
| UW-River Falls | | | | | | | | | | |
| Resident | 3,409 | 3,454 | 3,536 | 3,355 | 3,134 | 2,968 | 2,850 | 2,839 | 2,803 | 2,901 |
| Nonresident | 238 | 215 | 235 | 222 | 243 | 323 | 471 | 379 | 386 | 427 |
| Reciprocity ³ | 2,908 | 3,059 | 3,131 | 3,211 | 3,070 | 2,880 | 2,863 | 2,740 | 2,742 | 2,782 |
| Total | 6,555 | 6,728 | 6,902 | 6,788 | 6,447 | 6,171 | 6,184 | 5,958 | 5,931 | 6,110 |
| UW-Stevens Point | | | | | | | | | | |
| Resident | 8,330 | 8,323 | 8,551 | 8,520 | 8,627 | 8,483 | 8,170 | 8,051 | 7,477 | 7,094 |
| Nonresident | 486 | 525 | 567 | 589 | 687 | 780 | 788 | 849 | 836 | 808 |
| Reciprocity ³ | 347 | 361 | 382 | 368 | 363 | 380 | 364 | 355 | 314 | 306 |
| Total | 9,163 | 9,209 | 9,500 | 9,477 | 9,677 | 9,643 | 9,322 | 9,255 | 8,627 | 8,208 |

| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| UW-Stout | | | | | | | | | | |
| Resident | 6,003 | 6,224 | 6,438 | 6,370 | 6,131 | 6,124 | 6,117 | 6,136 | 6,218 | 6,139 |
| Nonresident | 542 | 502 | 571 | 621 | 719 | 842 | 974 | 1,019 | 1,034 | 1,035 |
| Reciprocity ³ | 2,294 | 2,291 | 2,330 | 2,365 | 2,397 | 2,320 | 2,280 | 2,380 | 2,367 | 2,227 |
| Total | 8,839 | 9,017 | 9,339 | 9,356 | 9,247 | 9,286 | 9,371 | 9,535 | 9,619 | 9,401 |
| UW-Superior | | | | | | | | | | |
| Resident | 1,436 | 1,488 | 1,512 | 1,466 | 1,375 | 1,353 | 1,315 | 1,208 | 1,176 | 1,264 |
| Nonresident | 189 | 255 | 288 | 277 | 283 | 279 | 275 | 333 | 352 | 372 |
| Reciprocity ³ | 1,064 | 1,051 | 1,056 | 1,082 | 1,042 | 1,024 | 999 | 948 | 959 | 954 |
| Total | 2,689 | 2,794 | 2,856 | 2,825 | 2,700 | 2,656 | 2,589 | 2,489 | 2,487 | 2,590 |
| UW-Whitewater | | | | | | | | | | |
| Resident | 9,989 | 10,064 | 10,308 | 10,192 | 10,311 | 10,196 | 10,301 | 10,351 | 10,520 | 10,339 |
| Nonresident | 912 | 1,011 | 1,193 | 1,393 | 1,664 | 1,756 | 1,806 | 1,926 | 2,043 | 2,027 |
| Reciprocity ³ | 61 | 64 | 56 | 58 | 56 | 63 | 52 | 74 | 65 | 64 |
| Total | 10,962 | 11,139 | 11,557 | 11,643 | 12,031 | 12,015 | 12,159 | 12,351 | 12,628 | 12,430 |
| UW Colleges | | | | | | | | | | |
| Resident | 12,830 | 13,393 | 13,945 | 14,068 | 13,610 | 13,449 | 13,478 | 12,810 | 11,346 | 10,914 |
| Nonresident | 315 | 272 | 306 | 372 | 359 | 450 | 538 | 589 | 583 | 589 |
| Reciprocity ³ | 130 | 124 | 134 | 130 | 138 | 159 | 156 | 153 | 104 | 105 |
| Total | 13,275 | 13,789 | 14,385 | 14,570 | 14,107 | 14,058 | 14,172 | 13,552 | 12,033 | 11,608 |
| TOTAL UW SYSTEM | | | | | | | | | | |
| Total Resident | 138,018 | 140,898 | 142,300 | 140,236 | 138,123 | 135,298 | 134,025 | 130,966 | 127,610 | 125,137 |
| Total Nonresident | 21,639 | 22,480 | 23,778 | 24,629 | 26,315 | 28,018 | 29,477 | 30,542 | 31,170 | 32,197 |
| Total Reciprocity ³ | 14,177 | 14,392 | 14,669 | 14,985 | 14,989 | 14,584 | 14,559 | 14,373 | 14,176 | 13,981 |
| TOTAL | 173,834 | 177,770 | 180,747 | 179,850 | 179,427 | 177,900 | 178,061 | 175,881 | 172,956 | 171,315 |

¹ As reported in UW System Administration's Headcount Reports.

² Excludes high school students enrolled in the Cooperative Partnership Program at UW-Oshkosh.

³ Includes only those students enrolled through the Minnesota-Wisconsin Higher Education Reciprocity Agreement.

Appendix 2

Summary of UW System Unrestricted Program Revenue Balances by Level of Commitment
 FY 2017-18 Ending Program Revenue Balance

| Institution | Obligated | Planned | Designated | Reserves | Undocumented (Discretionary) | Total |
|-----------------------|----------------------|----------------------|---------------------|---------------------|------------------------------|----------------------|
| Madison | \$100,416,142 | \$212,937,236 | \$12,342,264 | \$27,901,461 | - | \$353,597,103 |
| Milwaukee | 18,071,093 | 42,028,013 | 26,037,148 | 9,036,052 | \$ 2,033,569 | 97,205,875 |
| Eau Claire | 7,693,850 | 24,889,467 | 10,504,216 | 6,585,561 | 2,674,253 | 52,347,347 |
| Green Bay | - | 8,245,231 | 8,110,665 | 6,042,570 | 384,965 | 22,783,431 |
| La Crosse | 13,802,715 | 15,810,990 | 4,635,328 | 887,257 | 118,013 | 35,254,303 |
| Oshkosh | 12,789,098 | 6,567,350 | 1,798,185 | 2,047,322 | - | 23,201,955 |
| Parkside | 691,822 | 7,584,820 | 2,664,403 | - | 3,796,099 | 14,737,144 |
| Platteville | 10,739,269 | 17,656,257 | 1,801,588 | 3,000,000 | 112,776 | 33,309,890 |
| River Falls | 6,645,131 | 14,355,892 | 145,223 | 1,012,650 | 92,940 | 22,251,836 |
| Stevens Point | 8,986,709 | 7,539,306 | 2,576,227 | 1,547,471 | 1,089,225 | 21,738,938 |
| Stout | 13,508,320 | 6,213,958 | 322,830 | 7,307,418 | 1,280,604 | 28,633,130 |
| Superior | 415,332 | 3,375,833 | 612,310 | 1,000,000 | 2,208,720 | 7,612,195 |
| Whitewater | 3,214,097 | 22,887,673 | 2,794,675 | 5,248,261 | 780,756 | 34,925,462 |
| Colleges | 603,382 | 20,049,735 | 857,614 | 473,393 | - | 21,984,124 |
| Extension | 4,626,899 | 15,153,398 | 3,237,296 | 2,258,835 | 83,110 | 25,359,538 |
| System Administration | 195,008 | 5,022,698 | 324,732 | - | 4,682,124 | 10,224,562 |
| Systemwide | 25,658,443 | 23,105,503 | 183,201 | 20,056,382 | 32,755,218 | 101,758,747 |
| Total | \$228,057,310 | \$453,423,360 | \$78,947,904 | \$94,404,633 | \$52,092,372 | \$906,925,580 |
| | 25.1% | 50.0% | 8.7% | 10.4% | 5.7% | 100% |

Source: Appendix 7 of UW System's FY 2017-18 Report on Program Revenue Balances by Institution and Level of Commitment

Response ■



Office of the President

1700 Van Hise Hall
1220 Linden Drive
Madison, Wisconsin 53706-1559
608-262-2321
rcross@uwsa.edu
www.wisconsin.edu

May 2, 2019

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.

One area of particular note included in this audit is the ongoing review of how the UW System is managing the relationships between our institutions, their primary fundraising foundations, real estate organizations, and other affiliated organizations. As we have stated in the past, these organizations provide significant support for students through scholarships, academic opportunities, and professional development. They are critical to the success of students and in many cases play a major role in supporting and enhancing the work of our institutions.

We also recognize the importance of ensuring maximum transparency and accountability when these organizations receive administrative support as part of their ongoing partnership with an institution. As your audit reflects, there are many considerations when creating the processes and policies necessary to ensure a responsible relationship exists. To ensure effective management and transparency, it is necessary to clearly delineate the difference between a primary fundraising foundation, real estate foundation, and other affiliated organization. Each are unique in their purpose, the type of relationship with the university, and how they should be managed. We are pleased with the progress the UW System has made and acknowledge that more work is yet to be done.

The UW System remains committed to working with LAB, the legislature, and all our stakeholders to continue to ensure transparency and accountability. Thank you for LAB's work on this audit. I value the knowledge gained from our ongoing internal process, as well as the recommendations included in your audit. As LAB requested, we are happy to report to the Joint Legislative Audit Committee by August 30, 2019 on the recommendations contained in this audit.

Sincerely,

A handwritten signature in black ink that reads "Ray Cross".

Ray Cross
President

Introduction

We appreciate LAB's recommendations as we continue to improve the management, transparency, and effectiveness of our policies. We want to take this opportunity to provide updates on the progress made by the University of Wisconsin System Administration (UWSA) on several areas, including:

- Information Technology
- Tuition policy
- Program Revenue (PR) Balances Reporting
- Personnel Systems
- Policies governing relationships with primary fundraising foundations, real estate foundations, and other affiliated organizations.

In addition to LAB's audit, this year for the first time, UW System was required by 2017 Wisconsin Act 59, the 2017-19 Biennial Budget Act, to hire an external auditor to conduct our financial statement audit. UW System hired Plante Moran to conduct the audit, which was transmitted to the Board of Regents in December 2018. Plante Moran's report highlights areas where, with Plante Moran's guidance and expertise in higher education, the UW System fully implemented a new accounting standard for post-employment benefits other than pensions, revised its reporting of component units, and revised its accounting for library holdings, Pell grants, and the Perkins Loan program. We appreciate Plante Moran's collaborative approach and guidance and look forward to working with them on the audit for next fiscal year.

UWSA and the Board of Regents take both audits seriously as evidenced by the steps taken outlined above, in the following response, and the table that outlines progress made on Report 18-4's recommendations. In the following response, we will provide updates in each area audited by LAB, the steps taken by the UW System, and our ongoing efforts related to each of the LAB's recommendations.

Information Technology (IT)

LAB made no recommendations regarding IT security in this report; however, IT security continues to be a priority for the UW System.

UWSA developed a 24-month workplan and continues to make progress on these steps. Within the work plan, UWSA anticipates updates to all existing policies this year, as well as publishing three to five new policies scheduled throughout the remainder of the calendar year. Additional ongoing work to improve UW System's IT security, includes:

- Enterprise deployment of a suite of security tools throughout UW System
- Multi-factor authentication for all employees this year and to students next calendar year
- Implementation of an enterprise-wide incident response plan
- Playbooks for institutions and system-wide tabletop exercise this summer (2019)
- A new round of external security assessments and penetration tests for select institutions

Tuition

LAB made no recommendations regarding tuition policy; however, the UW System remains committed to offering a world-class, affordable education to develop the future workforce of the state of Wisconsin. We do this by balancing the need to serve Wisconsin residents and attract talent to increase wages, address

workforce issues, and help Wisconsin prosper. This is especially important given the challenging demographics in the state. Wisconsin high school graduates peaked at 71,000 in 2009 and then steadily declined through 2017, yet the state has a severe workforce shortage and needs to attract young people to the state. UW System is the state's engine to develop and attract this talent.

The UW System has increased enrollment of out-of-state students to attract new talent, while enrolling essentially the same percentage of Wisconsin high school graduates in 2017 (31.8%) as it did in 2009 (31.9%). Our flagship institution, UW-Madison, reports an increase of 2% in their enrollment of first-year Wisconsin residents from Fall 2016 to Fall 2017 (3,671 up to 3,746). UW-Madison also reports that it admitted 60.6% of Wisconsin applicants in 2008 but admitted 72.3% of Wisconsin applicants in 2017.

Further, per Board of Regent Policy on Freshman Admissions (RPD 7-3), non-resident undergraduate enrollment shall not exceed 27.5% of the total undergraduate enrollment at any UW institution based on a three-year average. This limitation does not include Minnesota reciprocity students. The Board of Regents also took action in October 2015 by waiving this 27.5% enrollment limit for UW Madison for 2016-2017 through 2019-2020, but instead required UW-Madison to maintain a minimum of 3,600 Wisconsin resident in each new freshman class during the waiver period. This waiver was approved by the Board of Regents in consultation with legislative leadership.

Program Revenue (PR) Balances Reporting

LAB made three recommendations regarding the reporting of Program Revenue Balances. UWSA accepts these recommendations and took proactive steps to complete one prior to this audit.

UWSA appreciates the LAB's assistance in developing the PR balances reporting structure and continued recommendations to improve the PR Balances report to improve transparency. This tool helps UWSA and our institutions better manage balances at appropriate levels but still meet their obligations and unexpected emergencies. To best manage these funds and understand changes over time, it is necessary to do so at the institutional level rather than the System level.

Recommendation: Provide guidance to University of Wisconsin institutions to ensure expenditures that are budgeted to be paid out of current-year revenues are not also reported as being funded from existing program revenue balances in the spending plans in the program revenue balances report and do so before preparing the program revenue balances report for fiscal year 2018-19.

UWSA provided guidance to UW institutions to ensure expenditures that are budgeted to be paid out of current-year revenues are not also reported as being funded from PR balances. This was completed during the Office of Finance's spring 2019 semester check-in with each campus.

Recommendation: Provide guidance to University of Wisconsin institutions on performing a review of balances reported in the FY2018-19 program revenue balances report to ensure amounts are appropriately reported in the spending plans, and on considering available balances when establishing auxiliary services rates.

UWSA has a policy on auxiliary management. As LAB acknowledges in the report, UWSA indicated in February 2019 that this is currently under revision since the policy is dated as it relates to the maximum balances allowed. UWSA also provides annual budget instructions to all institutions, indicating that balances should be used to mitigate or phase in necessary rate increases.

Recommendation: Direct University of Wisconsin institutions to ensure appropriate department-level or centralized controls are in place to monitor department-level program revenue balances and their use.

As noted during our discussion on April 25, 2019, UWSA leadership is committed to working with the LAB to seek further refinements on how PR balances are reflected including monitoring department-level program revenue balances through the UWSA's newly implemented budget planning and forecasting tool, PlanUW.

UW-Oshkosh PR Balance Transfer

In addition to the recommendations made in this section, LAB specifically highlighted the \$5.0 million transfer from the program revenue balances in UW-Oshkosh's Residence Life Department to UW-Oshkosh's GPR and tuition-funded student services. UWSA agrees with LAB's concerns with how the balance was reported under the previous administration of UW-Oshkosh. We wish to provide additional context to this situation and how UW-Oshkosh's current leadership is improving its budgeting process.

The transfer is an essential part of UW-Oshkosh's Financial Recovery Plan to enable the university to meet its projected budget shortfall. UW-Oshkosh engaged the Vice Chancellors, Cabinet, and students in a detailed review of the transfer, and all groups concurred that it was a necessary and essential action to achieve the Financial Recovery Plan. At the February 2019 Board of Regents meeting, UW-Oshkosh presented the transfer request, and it was approved by the Board.

Close monitoring of PR balances is essential and taken seriously by UWSA and the Board of Regents. To achieve this, the current UW-Oshkosh Chancellor and Chief Business Officer made many changes to the previous structure of UW-Oshkosh's Finance and Administration, which was decentralized within the university. The current administration centralized all the Finance and Administration functions to enable improved visibility of key financial elements, a clear focus on its balances, and an improved budgeting process. This ensures that balances are given proper focus when rates are set, and that balances are properly reported and do not "double count" items that are funded from operating revenues. UW-Oshkosh is committed to continually improving their budgeting and reporting process.

Personnel Systems

LAB made several recommendations regarding UW System Human Resources (UWSHR) policies and some specific to UW-Madison. UWSHR and UW-Madison accepts these recommendations.

Recommendation: Ensure University of Wisconsin institutions have a systematic performance evaluation program established for awarding pay plan increases.

UPS Policy TC4: Pay Plan Distribution Guidelines for University Workforce provides guidance for pay plan administration for all UW Institutions. UWSHR will develop a consistent process across all institutions to include the following: performance review cycle (calendar year with mid-cycle touch points); implementation of a systemwide ePerformance tool and training on the tool; administrative procedures for a performance management program, which includes feedback from governance groups; and UWSHR will review institution-level published administrative procedures and guidelines to ensure compliance and consistency.

Recommendation: Ensure all University of Wisconsin institutions develop published guidelines for granting merit-based adjustments, including the level of documentation required to support the adjustments.

UWSHR will review institution-level published administrative procedures and guidelines for compliance, and it will develop and publish administrative procedures on granting merit-based adjustments to include criteria for eligibility for merit-based adjustments, such as: meritorious performance (with an agreed upon definition); internal equity (at the institution-level); market, focusing on external market data; completed mandatory training on sexual harassment and information security awareness; eligibility based on cut-off date; consideration given to whether or not salary adjustments received within last 12 months; and a Summary Justification Statement – in a standardized format to ensure consistency.

Recommendation: Evaluate published guidelines of University of Wisconsin institutions to ensure compliance with University of Wisconsin System Administration policy.

UWSHR will evaluate published guidelines and administrative procedures for merit-based adjustments to ensure compliance with UWSA policy.

Recommendation: University of Wisconsin System Administration revise the merit-based salary adjustment policy to include guidance for University of Wisconsin institutions on which specific Human Resource System codes should be used to record merit-based adjustments.

UWSHR will include information on specific HRS codes to use for processing merit-based adjustments. Institutions will receive training on proper usage and entry of codes.

Recommendation: Provide guidance to University of Wisconsin institutions on extraordinary salary ranges by revising its policy to include the criteria to be considered and the documentation required to support an extraordinary salary range.

UWSHR will develop criteria and documentation requirements for establishing extraordinary salary ranges (ESR), provide oversight and review institutional ESR requests for compliance with guidelines.

Recommendation: Require University of Wisconsin institutions to develop guidelines for administering extraordinary salary ranges.

UWSHR will develop criteria and documentation requirements for establishing extraordinary salary ranges (ESR), provide oversight and review institutional ESR requests for compliance with guidelines.

Recommendation: Evaluate whether University of Wisconsin institutions have developed guidelines and have consistently complied with those guidelines when administering extraordinary salary ranges.

UWSHR will develop criteria and documentation requirements for establishing extraordinary salary ranges (ESR), provide oversight and review institutional ESR requests for compliance with guidelines.

Recommendation: The University of Wisconsin-Madison ensure its staff are trained in the policy and extraordinary salary ranges are approved only in compliance with its established policy.

UW-Madison will provide additional training to staff involved with creating and maintaining the Extraordinary Salary Range (ESR) structure. The Office of Human Resources will ensure all elements required by policy are present when establishing or adjusting any ESRs.

Recommendation: The University of Wisconsin-Madison revise its grievance policy to ensure it meets statutory requirements.

UW-Madison will review grievance procedures relative to statutory requirements and ensure that such procedures are in compliance. Specifically, the review will focus on the grievance procedures related to the impartial hearing officer and BOR final appeal requirements. For any procedural adjustments based on the review, UW-Madison will seek input from shared governance groups to help inform the changes.

Recommendation: Review the grievance procedures of all UW institutions to ensure the procedures meet statutory requirements.

UWSHR will review grievance procedures of all UW institutions to ensure procedures meet statutory requirements for all employee categories and that the policy specifically indicates the concept of an impartial hearing officer and designates the Board of Regents as the highest level of appeal. Shared governance groups will have input into the establishment of a procedure.

Grievance policy shall indicate that faculty are subject to administrative code chapters UWS 4 (Faculty Procedures for Dismissal), UWS 6 (Faculty Complaints and Grievances), and UWS 7 (Dismissal of Faculty in Special Cases). Academic staff are subject to administrative code chapter UWS 11 (Dismissal of Academic Staff for Cause).

Relationships with Primary Fundraising Foundations, Real Estate Foundations, and Other Affiliated Organizations

Improving the management and transparency of the relationships with primary foundations, real estate foundations, and other affiliated organizations is an ongoing effort the UW System and Board of Regents take seriously. To ensure effective management and transparency, it is necessary to clearly delineate the difference between a primary fundraising foundation, real estate foundation, and other affiliated organization. Each are unique in their purpose, the type of relationship with the university, and how they should be managed.

Here we provide an update on the UW System's progress since LAB's original recommendations in Report 18-4 (please see the table below). In 18-4, LAB made 12 recommendations to improve UWSA and Board policies related to Primary Fundraising Foundations, Real Estate Foundations, and other affiliated organizations. Since the October 2018 follow-up to 18-4, UWSA and the Board of Regents completed four additional recommendations. In total, UWSA and the Board of Regents completed nine of the 12 recommendations, are in process of completing one, and consider the remaining two to be ongoing.

In this report, LAB included new recommendations or expanded upon the original 18-4 recommendations. Below, please see follow-up to each of LAB's recommendations in this report:

Recommendation: Require University of Wisconsin institutions to finish amending the operational agreements to correct the issues of noncompliance with the Board of Regents policy and to submit these amended agreements to the University of Wisconsin System Administration for review.

UWSA is on track to complete this by end of FY 2019, as UWSA committed in the June 2018 response to the Joint Legislative Audit Committee (JLAC).

Recommendation: Revise the spreadsheet used by the Office of General Counsel to review memoranda of understanding and operational agreements to ensure it includes clear criteria related to all requirements of the Board of Regents policy.

The UWSA Office of General Counsel (OGC) is continuously improving the checklist. LAB noted the checklist did not include a check on rent or in-kind payments for office space at a fair-market rate. OGC will update the checklist to include this, and review the checklist in comparison to Regent Policy 21-9 and Appendix A. In addition to this check, UWSA already included this as part of the calculation in the cost-benefit analysis required by UWSA Policy 362. As part of that analysis, UWSA states, “facilities support should be calculated as a product of square footage and fair market value for similar space.”

Recommendation: Complete its review of the amended operational agreements by June 30, 2019, to ensure compliance with the Board of Regents policy.

UWSA is on track to complete this by end of FY 2019, as UWSA committed in the June 2018 response to the JLAC. Please see the table below.

Recommendation: Advise chancellors to certify compliance with the Board of Regents policy only if the operational agreements are in place

The certifications completed were done with the understanding that new operational agreements are still being finalized, as we stated in the October 2018 response. However, we acknowledge that this qualification should have been written on the certification form. This will be done moving forward.

Recommendation: Ensure all University of Wisconsin institutions are in compliance with the Board of Regents policy that prohibits University of Wisconsin employees from serving as voting members of the boards of directors of primary fundraising foundations and real estate foundations

This prohibition is included in Regent Policy 21-9. The instance identified by LAB was for a UW-Milwaukee 0.18 FTE employee serving on the foundation board as a voting member that should have requested an exemption under the new policy. This issue is now resolved, and the employee was granted an exception by the UW System President.

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.

LAB’s original recommendation from 18-4 stated UWSA should “work with the Board of Regents to establish a policy governing the relationships between University of Wisconsin institutions and affiliated organizations that are not primary fundraising foundations or real estate foundations,” which UWSA completed with the issuance of UWSA Policy 362 on January 25, 2019.

In this report, LAB amended this recommendation to create a “Board Policy.” Board leadership, including the Chair of the Audit Committee, were consulted during the creation of the UWSA policy. UWSA chose to accomplish LAB’s original recommendation through UWSA policy to allow the policy to be amended more efficiently. LAB made additional recommendations in this report to strengthen the UWSA policy, and UWSA will consider those recommendations as well as putting it into Board policy.

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.

Currently, Regent Policy 21-9 prohibits employees from serving as voting members on the boards of primary fundraising and real estate foundations. Board membership may vary significantly for other affiliated organizations depending on the nature of each relationship. As UWSA Policy 362, which covers all affiliated organizations, is implemented, UWSA will evaluate the best way to ensure board membership of other affiliated organizations as it relates to UW employees is appropriately managed.

Recommendation: Revise its cost-benefit report to provide a full accounting of all costs, time, and benefits of each relationship with an affiliated organization, including tracking employee time and adding a calculation of the net cost or net benefit, or a return on investment calculation.

UWSA elected to not report net cost/benefit amount because intangible benefits are substantial in nature and cannot be captured in a “snapshot-in-time” calculation. As a result, UWSA believes a calculated bottom line would have little to no value. In addition, UWSA stated in the June 2018 response that tracking time is not feasible because a university employee's work at the university and affiliated organization simultaneously serves the purposes of both organizations and therefore cannot be decoupled. Therefore, to accomplish the spirit of LAB's recommendation, UWSA included a calculation of each employee's direct salary support, including fringe benefits, as part of the calculation of administrative support provided to 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.

Written agreements may vary significantly depending on nature of each relationship. As UWSA Policy 362 is implemented and trainings occur, UWSA will evaluate the best way to ensure institutions have appropriate 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.

UWSA elected to give campus administrators the authority to make initial decisions on the relative importance and benefit of any specific affiliated organization, including taking into account the intangible or prospective benefits that an affiliated organization may provide to the institution. The UW System Office of Finance will also receive each of the cost-benefit worksheets from each campus for review. The Office of Finance will share the reports with the Board of Regents.

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.

UWSA believes that a materiality threshold is reasonable. Currently, the established threshold is at \$100,000 of administrative support. This amount was chosen after considering the size of UW system, each institution, materiality thresholds used for other evaluations, and the level of risk, both financially and reputationally, that these relationships present.

For example, LAB highlights UW-Oshkosh's Business Success Center as an entity that posed risk to the institution. The new policy, UWSA 362, had it existed at the time would have flagged the Business Success Center. It was a 501(c)(3), which means it would have met UWSA 362's definition of an affiliated organization, and as LAB identified in Report 18-4, the Center received \$324,900 and \$226,200 in 2013-2014 and 2014-2015

respectively, in what would qualify as administrative support. We believe this example raised by LAB is a good example of an organization that would fall under the new policy.

Recommendation: Provide guidance and training to University of Wisconsin employees who also work for an affiliated organization.

UWSA provided policy guidance to several campus stakeholder groups that interact with their campus foundations, including chancellors and chief business officers. Additional training efforts are underway – including with Foundation leaders – to provide guidance on current policy and to aid in sharing best practices from across the country. UWSA also has a dedicated time slot with the Annual Alumni Directors Meeting at UW-Oshkosh in June 2019, in which Foundation personnel from across UW System will be present.

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.

UWSA and UW-Madison put into place an alternative method to meet LAB's intent of being able to easily compile payment information to all affiliated organizations. UWSA will continue to work with UW-Madison as the UW System evaluates other system changes (cloud ERP, procurement automation) that affect the ability to move UW-Madison to a centralized vendor file.

Recommendation: Design and implement a procedure for independent and regular monitoring to ensure consistent use of the unique vendor identification numbers by all University of Wisconsin institutions.

As noted above, the UW System has taken steps to ensure all payments to affiliated organizations can be identified. Through past and upcoming audits by the UW System Office of Internal Audit, Plante Moran, and LAB, further assurance will be provided that vendor identification numbers are being used.

Recommendation: Direct the Office of Internal Audit to annually review a sample of payments from University of Wisconsin institutions to other affiliated organizations and determine the appropriateness of these payments.

The Fiscal 2018 Audit Plan approved by the Board of Regents in June 2017 included an objective to audit compliance with *Foundation Principles, Best Practices and Requirements*, which was the guidance (Guidance) in place at that time. Its scope covered primary fundraising foundations and real estate foundations; Regent Policy 21-9 was adopted on December 7, 2017, with the same scope.

Recommendation: Direct the Office of Internal Audit to determine whether University of Wisconsin institutions are complying with the Board of Regents policy.

Internal Audit's fiscal 2018 audit was of compliance with the Guidance. Internal Audit did not audit other affiliated organizations as there was no regent or administrative policy in place to audit against at that time. The fiscal 2019 Audit Plan was approved by the Board of Regents in June 2018. Internal Audit will shortly begin its planning process and audit whether institutions are complying with Regent Policy 21-9 and UWSA Policy 362, which was issued in January 2019.

Action Steps Update from 18-4 Report

| LAB 18-4 Recommendation | UW Action | Status Compared to 18-4 |
|--|---|--------------------------------|
| Assign unique vendor ID to affiliated organizations | UWSA can use an alternative method to meet LAB's intent as ongoing system upgrades continue. | Moved to Complete |
| Amend Operational Agreements to comply with the Board of Regents Policy | On track to complete by end of FY 2019, as UWSA committed in June 2018 response to the JLAC. | On Track to Complete |
| Require Chancellors to certify compliance | Certification is required, and caveat for this year was communicated in October 2018 response to JLAC. | Remains Complete |
| Assess MOUs for compliance | MOUs reviewed prior to issuance of 18-4; compliance assessed in FY 19 audit. | Remains Complete |
| Establish policy governing relationship between UW institutions and affiliated organizations that are not primary or real estate foundations | UWSA Policy 362 issued on January 25, 2019 in consultation with Board, campus stakeholders, and best practices across the country | Moved to Complete |
| Resolve inconsistency between policy statement and policy regarding UW employees serving on boards of primary fundraising and real estate foundations | Appendix A of Regent Policy 21-9 was modified to reflect the Board of Regent's policy in February of 2019. | Remains Complete |
| Prohibit all UW employees from serving as voting members of Board of Directors of primary fundraising and real estate foundations | Regent Policy 21-9 prohibits. UW-Milwaukee member identified by UWSA and LAB has been granted an exception. | Remains Complete |
| Require UW employees to track the time they work for affiliated organizations, and provide guidance and training | UWSA Policy 362 requires calculation of percentage of UW employees' salary and fringe assigned to any Affiliated Orgs activities paid by the UW and not directly and fully reimbursed by the Affiliated Orgs. | Moved to Complete |
| Provide UW institutions guidance on identifying affiliated organizations | UWSA provided guidance to UW institutions and will send additional guidance and have trainings. | Remains Complete |
| 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 | Required in Regent Policy 21-9 and in UWSA Policy 362. First review cycle is coming up this year. | Moved to Complete |
| Annually review payments to affiliated organizations | Internal Audits' Fiscal 2018 Audit reviewed compliance with Guidance. Fiscal 2019 Audit Plan will audit compliance with Regent Policy 21-9 and UWSA Policy 362 | Remains Ongoing |
| Annually assess relationships with affiliated organizations and determine whether any changes are necessary | Evaluated through annual audits and disclosures of Affiliated Orgs and analysis of Affiliated Orgs per UWSA Policy 362. | Remains Ongoing |