

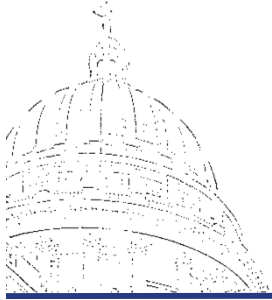
June 21, 2018

University of Wisconsin System

FY 2016-17 Financial Audit

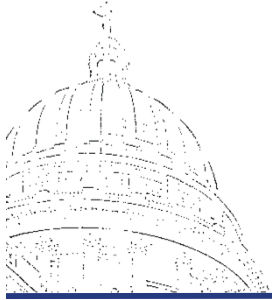
Report 18-2





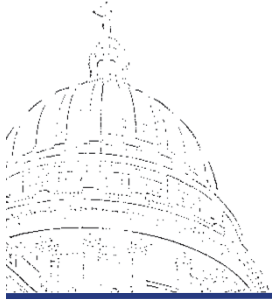
UW System Annual Financial Audit

- Provided an unmodified, or “clean” opinion on UW System’s FY 2016-17 and FY 2015-16 financial statements.
- Reviewed management areas, including program revenue balances and IT security policies, procedures, and controls.



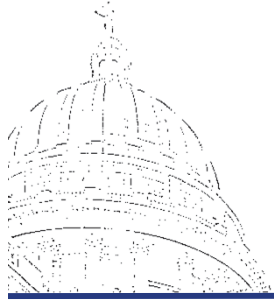
UW System Revenue

- UW System revenue totaled \$5.1 billion in FY 2016-17.
- Student Tuition and Fees are UW System's largest revenue and totaled nearly \$1.3 billion for FY 2016-17.

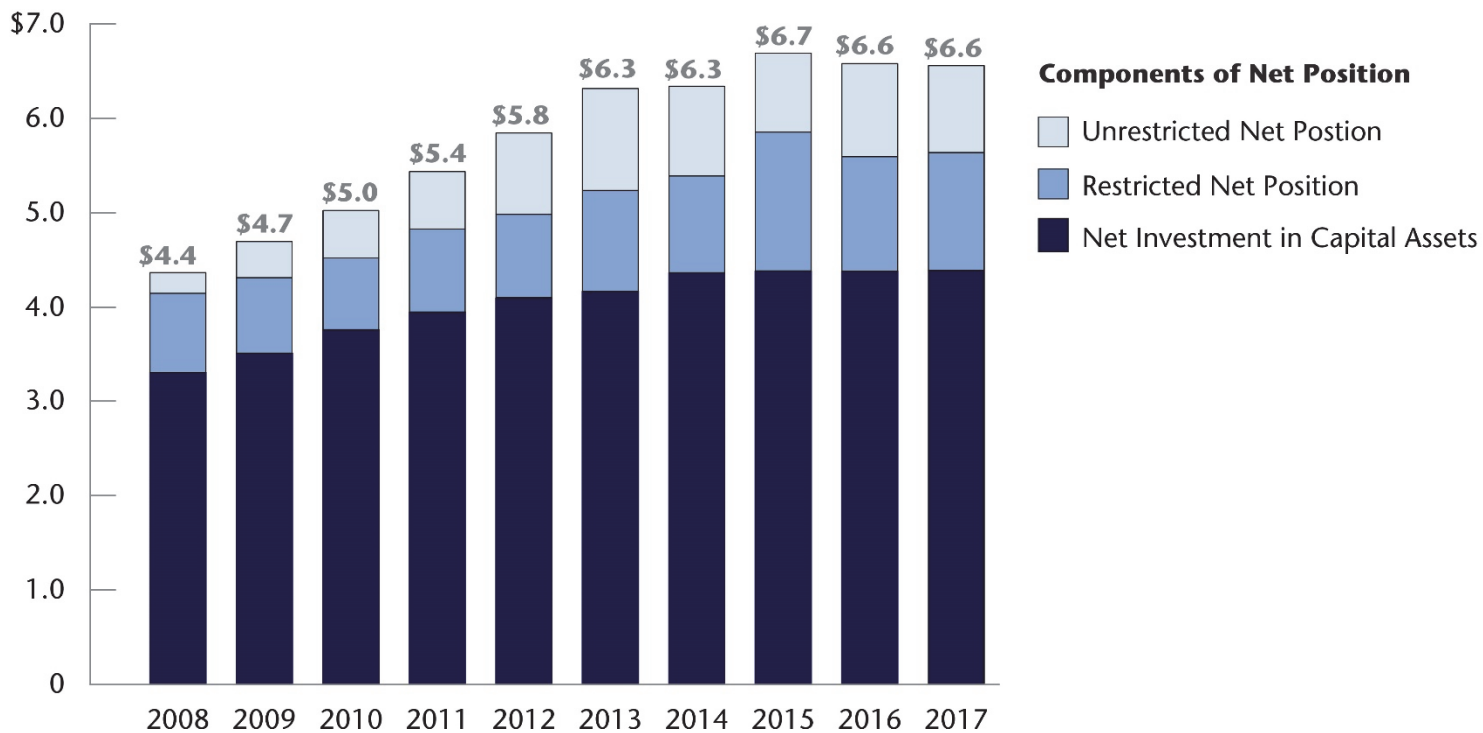


UW System Expenses

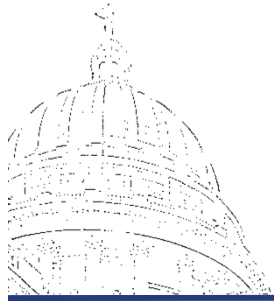
- UW System expenses totaled nearly \$5.1 billion in FY 2016-17.
- Salary and Fringe Benefits are UW System's largest expense and totaled nearly \$3.3 billion in FY 2016-17.



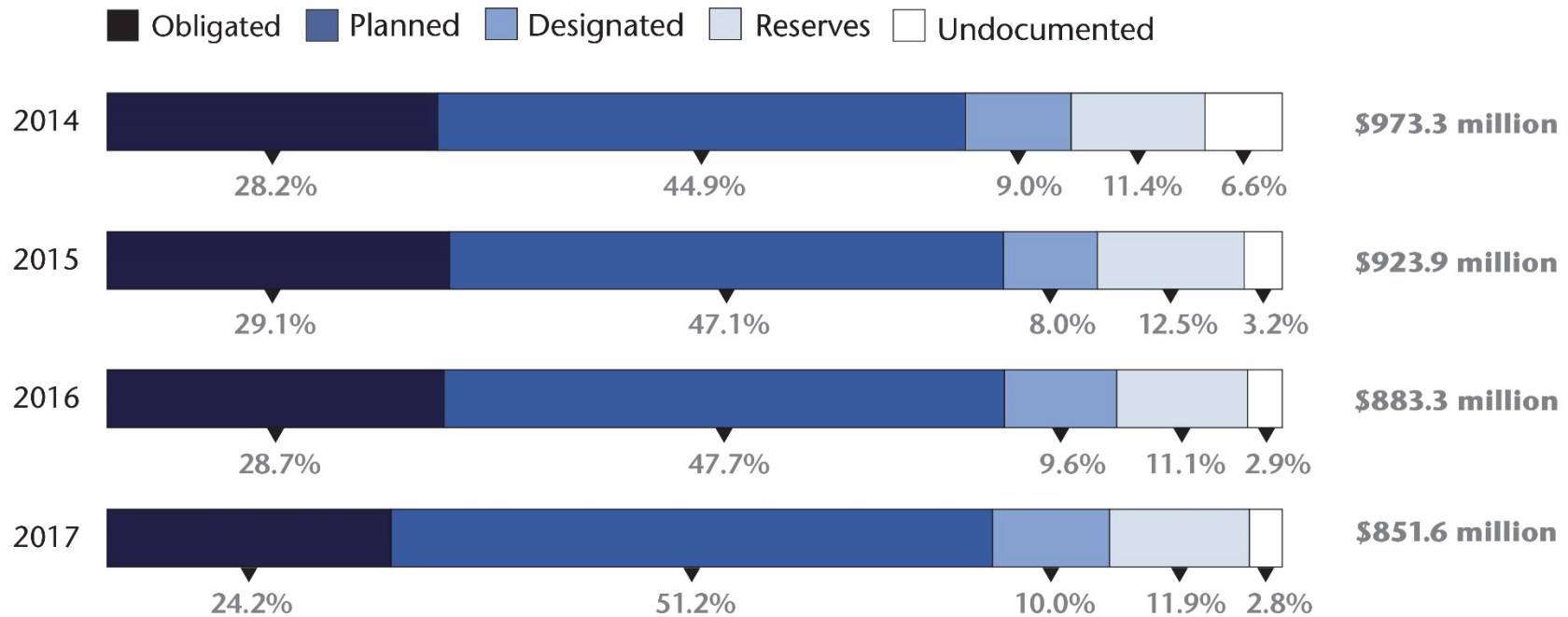
Net Position of UW System As of June 30 (in billions) ¹



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

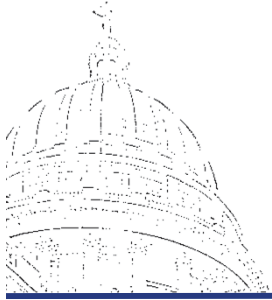


Unrestricted Program Revenue Balances, by Level of Commitment^{1,2}



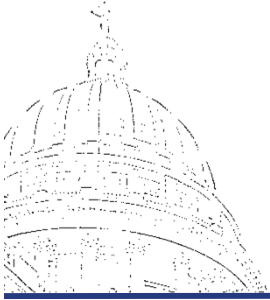
¹ As reported in UW System's reports on program revenue balances by institution and level of commitment.

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.



Information Technology Controls

- We reported weaknesses in UW System's IT security policies, procedures, and controls during our FY 2014-15 and FY 2015-16 audits.
- During our FY 2016-17 audit, we found UW System had developed policies and procedures in five areas.
- UW System had not taken significant steps to develop IT policies and procedures to cover other critical areas.
- We continued to identify areas of concern with IT controls at the institution level.



Recommendations

- We recommend UW System continue development and maintenance of a comprehensive IT security program.
- We also recommend UW System report to the Joint Legislative Audit Committee by August 31, 2018, on the status of the development of a comprehensive IT security program.

June 21, 2018



University of Wisconsin System

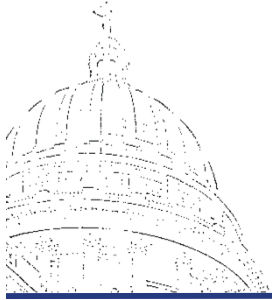
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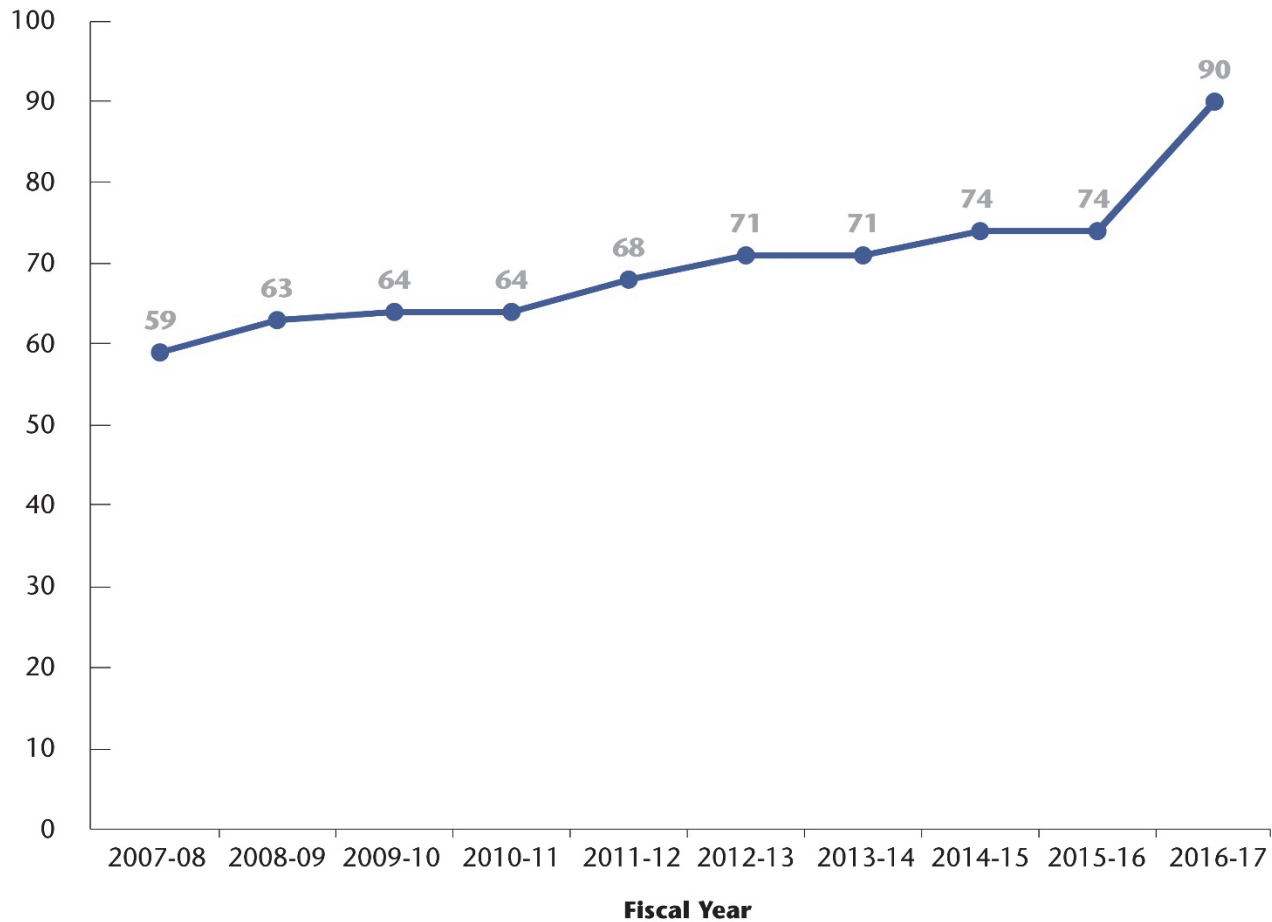


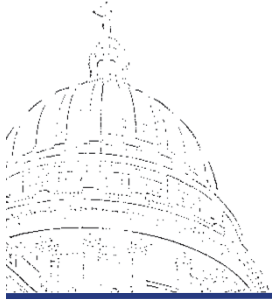
Relationships between the University of Wisconsin and Certain Affiliated Organizations

Report 18-4



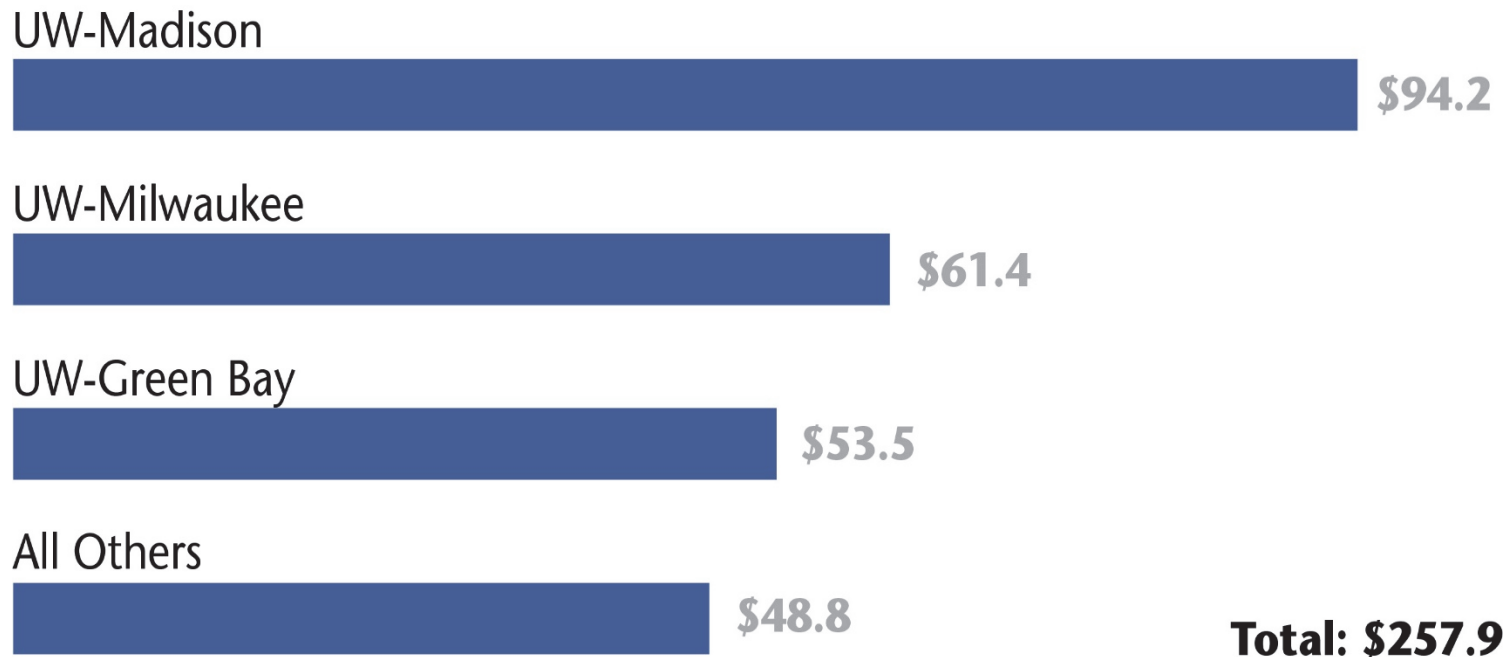
Number of Affiliated Organizations

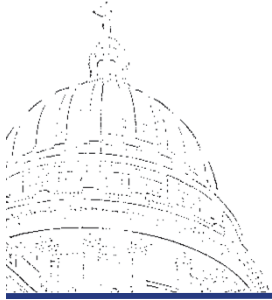




Estimated Payments to All Affiliated Organizations

FY 2007-08 through FY 2016-17
(in millions)

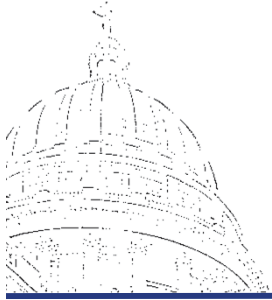




Primary Fundraising Foundations

The operations of many UW institutions and their foundations were not fully separate and independent from FY 2007-08 through FY 2016-17.

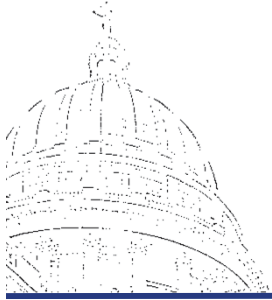
UW institutions provided information for 16 foundations indicating 14 of them each had at least one UW employee who was a voting member of the board of directors at some point from FY 2007-08 through FY 2016-17.



Primary Fundraising Foundations

As of June 30, 2017:

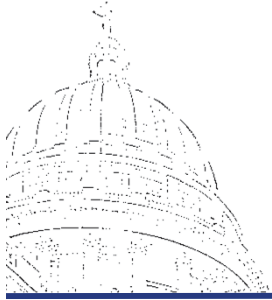
- UW employees worked as the executive directors of 10 foundations associated with four-year universities; and
- 9 foundations reimbursed UW institutions for work completed by 50 UW employees, other than executive directors.



New Agreements between UW Institutions and Foundations

Five operational agreements executed in 2017 did not comply with the Board of Regents policy because they did not consistently:

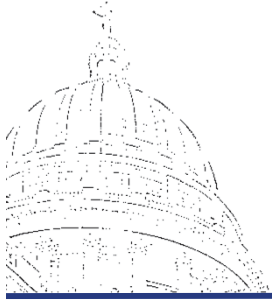
- indicate the specific services and payments that foundations were required to provide for the time that UW employees worked for them;
- require foundations that use UW office space to pay rent or make in-kind payments at fair-market rates; or
- indicate the specific services and payments that foundations were required to provide for UW assets.



Other Affiliated Organizations

Four affiliated organizations that were not primary fundraising foundations were not fully separate and independent from UW institutions.

The Board of Regents has not established a specific written policy governing relationships between UW institutions and affiliated organizations that are not primary fundraising or real estate foundations.

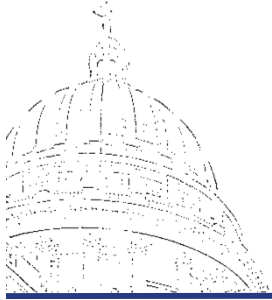


Business Success Center

At times, half or more of the board of directors were UW-Oshkosh employees or Regents.

Payments were made to UW-Oshkosh employees in addition to their salaries as UW employees.

The Business Success Center deposited funds into UW-Oshkosh Foundation accounts, even after UW-Oshkosh explicitly instructed it not to do so.

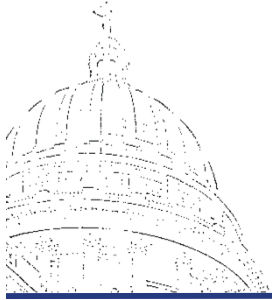


Increased Oversight

An inconsistency between a Board of Regents policy and accompanying policy statement should be rectified.

The policy stipulates that university “officials must be ex officio and non-voting members of the Foundation Board” [emphasis added]

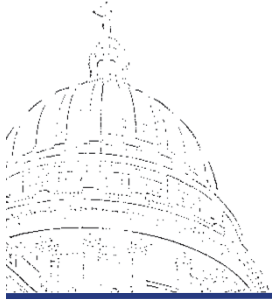
The policy statement stipulates that “any university employee that is a member of the foundation board of directors shall serve as an ex officio and nonvoting member of the foundation board” [emphasis added]



Increased Monitoring

We make a number of recommendations to UW System Administration, including:

- requiring UW employees to track the amount of time they work for any affiliated organization;
- providing guidance and training to UW employees who also work for any affiliated organization;
- providing UW institutions with written guidance on identifying affiliated organizations;



Increased Monitoring

We make a number of recommendations to UW System Administration, including:

- requiring UW institutions to annually report information about the nature of each relationship with an affiliated organization;
- directing its Office of Internal Audit to determine whether the information reported annually complies with the Board of Regents policy; and
- annually assessing each relationship and determining whether any changes are needed.

June 21, 2018



Relationships between the University of Wisconsin and Certain Affiliated Organizations

Report 18-4