



STATE OF WISCONSIN

Legislative Audit Bureau

NONPARTISAN • INDEPENDENT • ACCURATE

Report 22-25
December 2022

University of Wisconsin System

FY 2021-22



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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.

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Contents

Letter of Transmittal	1
<hr/>	
Introduction	3
<hr/>	
Revenues	4
Expenses	6
Debt Service Costs	8
Cash and Net Position	8
Information Technology Systems	10
Program Revenue Balances Reporting	11
<hr/>	
Program Revenue Balances as of June 30, 2022	11
Unrestricted Program Revenue Balances	13
Program Revenue Sources	15
Levels of Commitment for Program Revenue Balances	16
UW Institution Spending and Savings Plans	18
Supplemental Federal Funds	21
<hr/>	
Sources of Funding	21
Higher Education Institution Financial Assistance Program	23
Governor’s Emergency Education Relief Fund	25
Higher Education Emergency Relief Fund	27
Improving the Administration of Supplemental Federal Funds	31
Auditor’s Report	33
<hr/>	
Finding and Response Schedule	37
Corrective Action Plan	41
<hr/>	
Appendices	
<hr/>	
Appendix 1—Members of the UW System Board of Regents	
Appendix 2—Total Unrestricted Program Revenue Balances, by Institution	
Appendix 3—Summary of UW System Unrestricted Program Revenue Balances, by Level of Commitment	
Response	
<hr/>	
From the President of the University of Wisconsin System	

Opinions Published Separately

The financial statements and our unmodified opinions on them are included in the University of Wisconsin System's *2022 Annual Financial Report*.



STATE OF WISCONSIN

Legislative Audit Bureau

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State Auditor

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December 22, 2022

Senator Robert Cowles
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles:

As required by s. 13.94 (1) (t), Wis. Stats., we have completed a financial audit of the University of Wisconsin (UW) System. We have provided unmodified opinions on UW System's fiscal year (FY) 2021-22 financial statements, including the aggregate discretely presented component units. These financial statements and our audit opinions on them are included in UW System's *2022 Annual Financial Report*, which may be found on UW System's website.

On the basis of generally accepted accounting principles, UW System's net position was \$6.4 billion as of June 30, 2022. UW System revenues were \$5.9 billion, including \$1.4 billion in revenue from Student Tuition and Fees. UW System expenses totaled \$5.5 billion in FY 2021-22, including \$3.4 billion for Total Salary and Fringe Benefits.

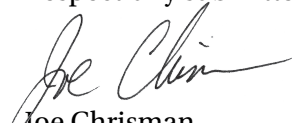
We reviewed UW System's FY 2021-22 *Report on Program Revenue Balances by Institution and Level of Commitment*, which was approved by the Board of Regents in November 2022. On a budgetary basis, UW System's total program revenue balance was \$1.6 billion as of June 30, 2022. Of that amount, \$1.1 billion was from unrestricted sources, such as tuition and auxiliary operations. Unrestricted program revenue balances were 13.2 percent more than in FY 2020-21.

In response to the Joint Legislative Audit Committee's request that we evaluate how state agencies spent supplemental federal funds, we completed a limited-scope review of how UW institutions administered these funds from three sources, including the Higher Education Emergency Relief Fund. We found UW institutions used \$239,200 from the Fund for costs that were unallowable by criteria that the federal government established. We recommend that UW System Administration improve how UW System administers these funds, including by working with the federal government to resolve the unallowable costs that our review identified.

The Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is required by *Government Auditing Standards*, begins on page 35. We report a significant deficiency in internal control related to a new computer application implemented in April 2021. We recommend that UW System Administration improve its oversight of the application.

A response from the UW System President follows the appendices.

Respectfully submitted,


Joe Chrisman
State Auditor

JC/SH/ss

Introduction

The University of Wisconsin (UW) System provides postsecondary academic education for approximately 163,000 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.

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.

The Board of Regents establishes policies to govern UW institutions.

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 18-member Board of Regents, shown in Appendix 1, 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.

We provided our unmodified audit opinions on UW System's financial statements for the year ended June 30, 2022.

As required by s. 13.94 (1) (t), Wis. Stats., we completed a financial audit of UW System. We audited UW System's financial statements for the year ended June 30, 2022, and we provided our unmodified audit opinions to UW System Administration for inclusion in UW System's *2022 Annual Financial Report*. UW System's financial statements were prepared using generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and include the financial activity of all UW institutions. UW System Administration has determined that UW institution foundations are component units of UW System. The financial statements of these component units are presented in UW System's *2022 Annual Financial Report*. As a state agency, UW System's financial information is also included in the State's Annual Comprehensive Financial Report (ACFR), which is available on the Department of Administration's website. In the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is required by *Government Auditing Standards*, we report a significant deficiency in internal control related to ShopUW+, which is a new computer application implemented in April 2021.

Revenues

Student Tuition and Fees accounted for 24.0 percent of UW System's total revenue in FY 2021-22.

As shown in Table 1, UW System revenue was \$5.9 billion in fiscal year (FY) 2021-22 and \$5.7 billion in FY 2020-21. During FY 2021-22, UW System's largest revenue was Student Tuition and Fees, which includes tuition and other academic student fees. The \$1.4 billion in Student Tuition and Fees collected by UW System in FY 2021-22 was 24.0 percent of its total revenue. From FY 2020-21 through FY 2021-22, revenue from Student Tuition and Fees reported in UW System's financial statements increased by 1.4 percent. Overall Student Tuition and Fees remained relatively unchanged due to no changes in undergraduate tuition rates for Wisconsin resident students. According to UW System data, enrollment across UW System declined in FY 2021-22 and has been declining since 2014. Although freshman enrollment at the four-year institutions increased for fall 2021 and fall 2022, UW officials again reported an overall enrollment decline of 1.0 percent for fall 2022.

Table 1

UW System Revenue¹
(in millions)

Financial Statement Account	FY 2020-21 ²	FY 2021-22	Percentage Change
Student Tuition and Fees ³	\$1,403.2	\$1,422.7	1.4%
State Appropriations ⁴	961.6	998.2	3.8
Federal Grants and Contracts	707.8	725.7	2.5
State, Local, and Private Grants and Contracts	438.0	532.1	21.5
Other Operating Revenue	369.8	444.4	20.2
Gifts	438.1	415.8	(5.1)
Sales and Services of Auxiliary Enterprises ²	263.3	405.0	53.8
Sales and Services of Educational Activities	241.1	328.5	36.3
Coronavirus Federal Grants and Aid	240.5	288.8	20.1
Capital Appropriations	188.6	191.3	1.4
Federal Pell Grants	141.0	137.5	(2.5)
Sales and Services to UW Hospital and Clinics Authority	56.9	60.6	6.5
Other Nonoperating Revenue	50.0	29.2	(41.6)
Capital Grants and Gifts	57.4	19.1	(66.7)
Student Loan Interest Income and Fees	4.0	3.3	(17.5)
Net Investment Income/(Loss)	129.0	(63.8)	(149.5)
Total	\$5,690.3	\$5,938.4	4.4

¹ On a GAAP basis.

² Restated.

³ Excludes scholarships and fellowships applied to student accounts.

⁴ Excludes general purpose revenue (GPR) appropriated to UW System for debt service payments.

State Appropriations was UW System's second-largest revenue during FY 2021-22.

State Appropriations was UW System's second-largest revenue during FY 2021-22. Except for general purpose revenue (GPR) appropriated to UW System for its debt service payments, GPR that UW System received was reported on UW System's financial statements as State Appropriations. In FY 2021-22, State Appropriations totaled \$998.2 million and accounted for 16.8 percent of total revenues. From FY 2020-21 through FY 2021-22, State Appropriations increased by \$36.6 million, or by 3.8 percent.

Federal Grants and Contracts totaled \$725.7 million in FY 2021-22 and accounted for 12.2 percent of UW System's total revenue. From

FY 2020-21 through FY 2021-22, Federal Grants and Contracts increased by \$17.9 million, or by 2.5 percent. UW System also separately reported a total of \$288.8 million in Coronavirus Federal Grant and Aid, which was an increase of 20.1 percent from FY 2020-21 through FY 2021-22. Revenues from State, Local, and Private Grants and Contracts totaled \$532.1 million, an increase of 21.5 percent, and included grants and contracts received from other state agencies, Wisconsin municipalities, and other nonfederal entities.

Certain revenues pertaining to student activities increased during FY 2021-22 after declining during FY 2020-21 due to the public health emergency.

UW System also reported increases during FY 2021-22 in several other revenue accounts pertaining to student activities that had declined during FY 2020-21 due to the public health emergency, including:

- Sales and Services of Auxiliary Enterprises, which included revenue received for services such as student housing and food service, totaled \$405.0 million, or an increase of 53.8 percent since FY 2020-21;
- Sales and Services of Educational Activities, which 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, totaled \$328.5 million, an increase of 36.3 percent since FY 2020-21; and
- Other Operating Revenue, which included revenue from intercollegiate athletics, student health services, child care centers, and certain administrative services, totaled \$444.4 million, an increase of 20.2 percent since FY 2020-21.

Expenses

Total Salary and Fringe Benefits was UW System's largest expense and totaled \$3.4 billion, or 62.4 percent of its total expenses in FY 2021-22.

As shown in Table 2, UW System expenses increased from \$5.1 billion in FY 2020-21 to \$5.5 billion in FY 2021-22, or by 8.0 percent. Total Salary and Fringe Benefits was UW System's largest expense and totaled \$3.4 billion, or 62.4 percent of its total expenses in FY 2021-22. We note that this represented an increase of 4.8 percent compared to FY 2020-21, in part due to the discontinuation of furloughs during the public health emergency, a general wage adjustment in January 2022, and an increase in student employee salaries.

Table 2

UW System Expenses¹
(in millions)

Financial Statement Account	FY 2020-21 ²	FY 2021-22	Percentage Change
Salaries	\$2,558.8	\$2,704.8	5.7%
Fringe Benefits	925.9	976.9	5.5
Fringe Benefits Related to Noncash Pension and OPEB	(205.7)	(245.8)	(19.5)
Total Salary and Fringe Benefits	3,279.0	3,435.9	4.8
Supplies and Services	1,082.7	1,236.8	14.2
Depreciation	378.2	393.6	4.1
Scholarships and Fellowships	186.1	269.9	45.0
Transfer to State Agencies	94.6	92.5	(2.2)
Interest Expense on Capital Asset-Related Debt	55.3	46.2	(16.5)
Other Operating Expenses	18.1	24.8	37.0
Loss on Disposal of Capital Assets	0.2	2.8	1,300.0
Total	\$5,094.2	\$5,502.5	8.0

¹ On a GAAP basis.

² Restated.

Total Salary and Fringe Benefits also includes fringe benefits expenses related to pensions and other post-employment benefits (OPEB). From FY 2020-21 through FY 2021-22, Fringe Benefits Related to Noncash Pension and OPEB decreased by \$40.1 million, or by 19.5 percent. UW System's pension expense decreased because of increases in the net pension asset and the net OPEB asset, in part due to higher investment income through December 2021 and other positive changes in assumptions used in estimating these amounts. 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 describe the net pension asset of the WRS in report 22-14. UW System also participates in three other OPEB programs, including for Retiree Health Insurance, Retiree Life Insurance, and the Supplemental Health Insurance Conversion Credit program. We described these programs in report 22-10, report 22-16, and report 22-19, respectively.

During FY 2021-22, Scholarships and Fellowships expenses increased by \$83.8 million, or 45.0 percent, due increased aid payments to students from federal aid granted for the public health emergency.

Other significant UW System expenses included those related to the purchase of supplies and services, depreciation on capital assets, and scholarships and fellowships. In FY 2021-22, Supplies and Services expenses increased by \$154.1 million, or 14.2 percent. UW System Administration attributed the increase in these expenses during FY 2021-22 to certain activities increasing, such as travel after declines were noted during the public health emergency. Scholarships and Fellowships expenses increased \$83.8 million, or 45.0 percent during FY 2021-22. This was largely due to UW System providing continued student aid from Coronavirus Federal Grants and Aid funding.

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 2021-22, GPR-funded debt service payments totaled \$206.6 million and program revenue-funded debt service payments totaled \$137.1 million. As of June 30, 2022, outstanding GPR-funded debt totaled \$1.4 billion, and outstanding program revenue-funded debt totaled \$1.7 billion.

Cash and Net Position

As of June 30, 2022, UW-Madison had invested \$500 million in excess cash balances in a new short-term investment portfolio.

UW System maintains cash balances to pay operational costs, such as employee salaries, as they come due and makes incremental payments for long-range projects, such as construction of new facilities and other strategic initiatives. UW System, as part of the State's General Fund, invests most cash balances in the State Investment Fund (SIF). As of June 30, 2022, UW System reported cash of \$1.9 billion, which was a decrease of \$328.7 million, or 13.6 percent, since FY 2020-21. This decrease was attributed to UW-Madison funding a new \$500 million short-term investment portfolio with balances that were previously included in the SIF. Combining UW cash balances and the new short-term investment portfolio, the UW's total cash balances increased from \$2.2 billion as of June 30, 2021, to \$2.4 billion, or an increase of 9.1 percent.

The UW System Office of Trust Funds, in conjunction with UW-Madison, established the externally managed investment portfolio pursuant to s. 36.11 (11m), Wis. Stats., which permitted UW to invest excess gift and grant revenue balances in investments other than the SIF, with the goal to obtain higher investment returns. Changes made to s. 36.11 (11m), Wis. Stats., in March 2022 by 2021 Wisconsin Act 165 further permitted the UW to invest excess cash balances from other program revenue sources, such as tuition.

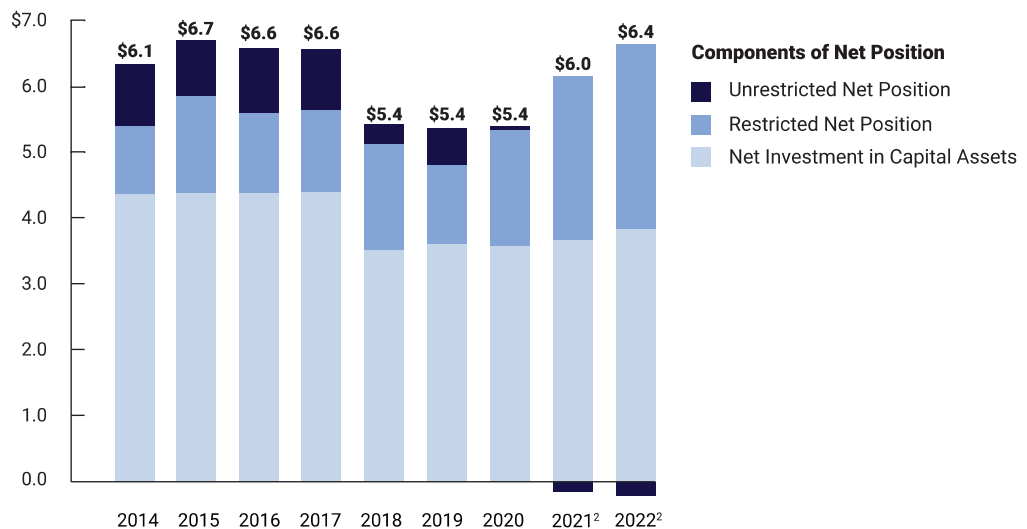
The State of Wisconsin Investment Board (SWIB) is the investment manager and oversight of the investment portfolio included an Investment Committee comprised largely of UW System and UW-Madison officials and an external investment consultant. As of June 30, 2022, the year-to-date investment return was a negative 2.8 percent. The portfolio fair value totaled \$479.3 million as of June 30, 2022, and was 85.0 percent invested in fixed income securities with the remaining 15.0 percent invested in global equity securities.

UW System's net position was \$6.4 billion as of June 30, 2022.

Net position provides a measure of overall financial condition. On a GAAP basis, UW System's net position was \$6.4 billion as of June 30, 2022, and \$6.0 billion as of June 30, 2021, as shown in Figure 1. On UW System's financial statements, net position was presented in three components: Net Investment in Capital Assets, Restricted Net Position, and Unrestricted Net Position.

Figure 1

Net Position of UW System¹
As of June 30
(in billions)



¹ On a GAAP basis.

² Unrestricted net position was a negative \$155.5 million as of June 30, 2021, and a negative \$209.6 million as of June 30, 2022, due to the reporting of pension and OPEB activities.

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,

which was the largest component of UW System's net position, was \$3.7 billion as of June 30, 2021, and \$3.8 billion as of June 30, 2022.

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 and OPEB, endowment funds, gifts, nonfederal grants and contracts, and federal student loans. Restricted Net Position increased from \$2.5 billion as of June 30, 2021, to \$2.8 billion as of June 30, 2022, primarily due to an increase in the net pension asset as of June 30, 2022.

On a GAAP basis, UW System's Unrestricted Net Position was a negative \$209.6 million as of June 30, 2022, due to the reporting of pension and OPEB activities.

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 when positive will be used for academic and research programs and initiatives, and capital programs. On a GAAP basis, Unrestricted Net Position decreased from a negative \$155.5 million as of June 30, 2021, to a negative \$209.6 million as of June 30, 2022, due to the reporting of pension and OPEB activities. The decrease in Unrestricted Net Position is a result of increases in assets from restricted sources, such as the net pension asset, an OPEB asset, and federal revenues, whereas its liabilities and other obligations exceeded available unrestricted assets.

Information Technology Systems

In October 2020, the Board of Regents approved the Administrative Transformation Program (ATP) to launch a new, integrated cloud-based enterprise resource planning system. The project will replace a number of systems, including the current payroll system (Human Resource System), the current financial system (Shared Financial System), and a research administration system. In July 2021, the Board of Regents approved a 10-year agreement with Workday, Inc., for development of the system and, in December 2021, the Board of Regents approved a 2-year agreement and two 1-year renewal options with Huron Consulting Group, Inc., to lead the implementation. Implementation is expected by July 2024.

The Administration Transformation Program began in January 2022 and has a budget of \$211.9 million.

Pursuant to s. 36.59, Wis. Stats., and Board of Regent policies, UW System provides semiannual updates to the Board of Regents for this major IT project. According to UW information, the project began in January 2022 and has a budget of \$211.9 million. In November 2022, the project was in the design phase. Although UW System had obtained approval to fund \$101.5 million of the project using the State's master lease program, in July 2022 UW System opted to use available cash balances to fund project costs.

■ ■ ■ ■

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 annually report fiscal year-end program revenue balances to the Board of Regents. We performed a limited review of the FY 2021-22 *Report on Program Revenue Balances by Institution and Level of Commitment* (program revenue balances report), which was approved by the Board of Regents in November 2022. We found that unrestricted program revenue balances as of June 30, 2022, were \$1.1 billion on a budgetary basis, or 13.2 percent more than they were in FY 2020-21. Program revenue balances from unrestricted sources at 11 of the 14 UW institutions increased after increasing at all UW institutions in FY 2020-21. In FY 2021-22, UW System received additional federal revenues to address the public health emergency. As a result, program revenue balances in all unrestricted categories, except tuition increased during FY 2021-22.

Program Revenue Balances as of June 30, 2022

UW System Administration annually reports program revenue balances to the Board of Regents in its program revenue balances report.

As required by Board of Regents policy, UW System Administration annually reports program revenue balances to the Board of Regents in its program revenue balances report. 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. Program revenue balances are reported for four restricted program revenue sources: gifts, nonfederal grants and contracts, federal grants and contracts, and other restricted program revenue sources. Program revenue balances are reported for five program revenue sources that do not have restrictions on their use (unrestricted): tuition, auxiliary

12 › PROGRAM REVENUE BALANCES REPORTING

operations, general operations, federal indirect cost reimbursement, and other unrestricted program revenue sources. Tuition balances support the academic mission such as faculty salaries, academic or research software, and student advising. Auxiliary operations are managed as self-sufficient activities and include a number of disparate activities related to goods or services to students, staff, and faculty for a directly related fee.

Based on recommendations we made in report 20-7 and beginning in FY 2020-21, UW System Administration modified reporting of auxiliary operations program revenue balances to require UW institutions to categorize only positive balances within auxiliary operations. Therefore, the tables and figures within this report consistently report auxiliary operations with negative division-level balances and any other program balance with negative balances removed for FY 2020-21 and for FY 2021-22, and differ from the amounts shown in UW System's program revenue balances report. In FY 2020-21, and in response to a second recommendation in report 20-7, UW System Administration also began reporting with auxiliary operations the funds set aside for debt service related to auxiliary operations. In prior years, UW System Administration reported these funds with other unrestricted program revenue.

***On a budgetary basis,
UW System's total
program revenue balance
was \$1.6 billion as of
June 30, 2022.***

On a budgetary basis, UW System's total program revenue balance as of June 30, 2022, was \$1.6 billion of which \$1.1 billion was unrestricted, as shown in Table 3. The total program revenue balance increased from \$1.5 billion as of June 30, 2021, to \$1.6 billion as of June 30, 2022, or by 10.1 percent. This was largely the result of a \$128.6 million (13.2 percent) increase in unrestricted program revenue balances, from \$977.3 million as of June 30, 2021, to \$1.1 billion as of June 30, 2022.

Table 3

UW System Total Program Revenue Balance¹As of June 30
(in millions)

	Restricted ²	Unrestricted ³	Total	Percentage Change
2018	\$416.6	\$ 906.9	\$1,323.5	—
2019	468.0	866.6	1,334.6	0.8%
2020	452.6	773.2	1,225.8	(8.2)
2021 ⁴	509.8	977.3	1,487.1	21.3
2022 ⁴	531.1	1,105.9	1,637.0	10.1

¹ On a budgetary basis.² Includes four program revenue sources that have restrictions on their use: gifts, nonfederal grants and contracts, federal grants and contracts, and other restricted program revenue sources.³ Includes five program revenue sources that do not have restrictions on their use: tuition, auxiliary operations, general operations, federal indirect cost reimbursement, and other unrestricted program revenue sources.⁴ Reflects unrestricted program revenue balances with negative balances removed.**Unrestricted Program Revenue Balances**

From June 30, 2021, to June 30, 2022, unrestricted program revenue balances increased at 11 of the 14 UW institutions.

Unrestricted program revenue balances vary by institution. As shown in Table 4, UW institution unrestricted program revenue balances ranged from \$14.1 million at UW-Superior to \$469.9 million at UW-Madison as of June 30, 2022. From June 30, 2021, to June 30, 2022, unrestricted program revenue balances increased at 11 of the 14 UW institutions. The largest percentage increase was at UW-Stout where the balance increased by \$10.7 million (48.6 percent) from June 30, 2021, to June 30, 2022. The largest dollar increase in unrestricted program revenue balances was at UW-Madison where the balance increased by \$108.2 million (29.9 percent) from June 30, 2021, to June 30, 2022. For UW-Stout, the increases were primarily related to increases in tuition and general operations program revenue balances, and for UW-Madison the increases were largely due to increased federal indirect cost reimbursement.

Table 4

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

Institution	2018	2019	2020	2021 ⁴	2022 ⁴	Percentage Change 2021 to 2022
Stout	\$28.6	\$22.1	\$ 10.3	\$ 22.0	\$ 32.7	48.6%
Stevens Point	21.7	17.3	17.9	43.3	58.2	34.4
Whitewater	34.9	28.0	24.7	45.4	61.0	34.4
Madison	353.6	364.5	325.2	361.7	469.9	29.9
River Falls	22.3	22.5	18.6	30.0	34.8	16.0
Green Bay	22.8	28.6	32.5	39.9	46.0	15.3
Milwaukee	97.2	103.1	105.0	123.9	141.3	14.0
Superior	7.6	7.7	8.6	12.4	14.1	13.7
Platteville	33.3	28.5	18.7	24.8	28.0	12.9
Parkside	14.7	14.9	12.0	16.8	17.3	3.0
La Crosse	35.3	32.5	29.8	35.8	36.0	0.6
Eau Claire	52.3	52.1	52.4	68.4	63.9	(6.6)
Systemwide ⁵	101.8	76.3	88.8	120.8	82.4	(31.8)
Oshkosh	23.2	23.7	20.5	32.1	20.3	(36.8)
System Administration ⁶	\$ 10.2	\$ (5.4)	\$ 8.2	–	–	–
Total	\$859.5	\$816.6	\$773.2	\$977.3	\$1,105.9	13.2

¹ On a budgetary basis.

² Includes five program revenue sources that do not have restrictions on their use: 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 Reflects unrestricted program revenue balances with negative balances removed. This includes negative division-level auxiliary balances and other negative balances in other program revenue sources.

⁵ Accounts maintained by UW System Administration for the benefit of all UW institutions.

⁶ The UW System Administration business unit was consolidated into UW Systemwide in FY 2020-21.

The unrestricted program revenue balances for UW Systemwide accounts, which are maintained by UW System Administration for the benefit of all UW institutions, decreased from \$120.8 million to \$82.4 million, or by \$38.4 million (31.8 percent). According to the program revenue balances report, the decrease was attributable to decreases in tuition balances. Appendix 2 shows each UW institution's

annual program revenue balances as of June 30, 2014, through June 30, 2022.

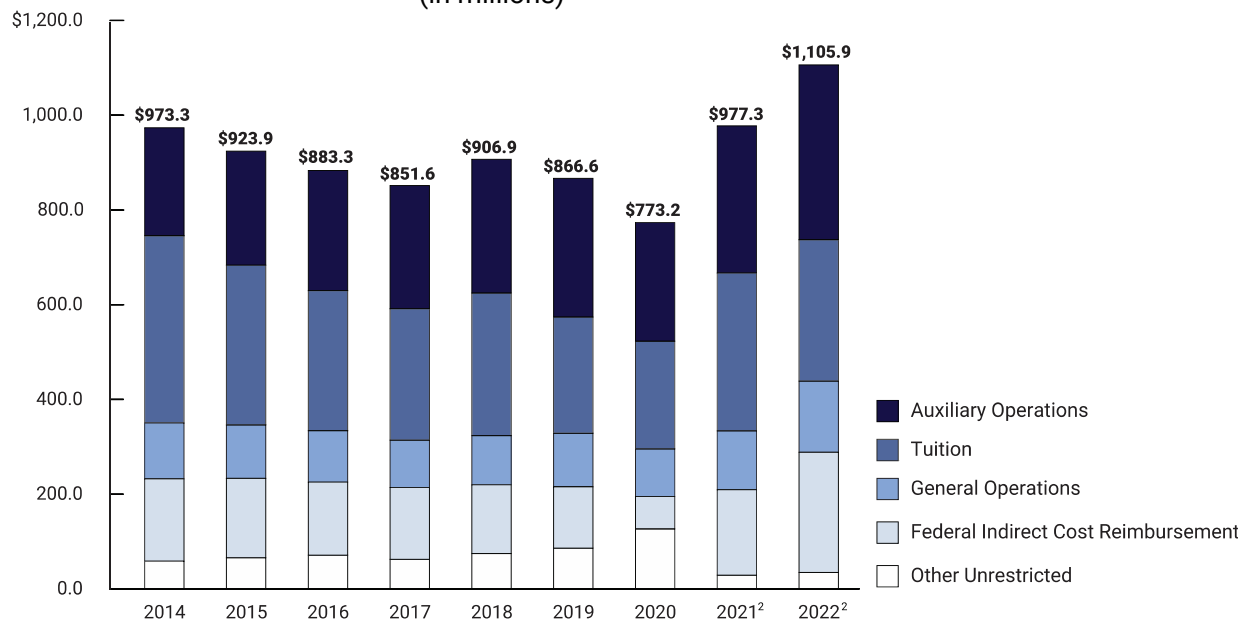
Program Revenue Sources

From June 30, 2021, to June 30, 2022, unrestricted program revenue balances increased for all program revenue sources, except tuition.

From June 30, 2021, to June 30, 2022, unrestricted program revenue balances increased for all program revenue sources except tuition balances, as shown in Figure 2. In FY 2019-20, all UW System unrestricted program revenue balances declined for the first time. UW System Administration staff attributed the decline, in part, to the public health emergency that began in March 2020. Following a decline in FY 2019-20 program revenue balances, the program revenue balances increased during FY 2020-21 and FY 2021-22 to amounts that, for some accounts, exceeded balances in FY 2013-14. However, program revenue balances of \$298.3 million for tuition were 24.6 percent lower in FY 2021-22 than the FY 2013-14 balance of \$395.4 million.

Figure 2

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



¹ On a budgetary basis.

² As a result of a change to Board of Regent policies, the amounts as of June 30, 2021, and June 30, 2022, exclude division-level auxiliary operations balances that were negative at year-end. We also excluded any other negative program revenue balance. In addition, debt service payments prior to June 30, 2021, were reported as other unrestricted and subsequently are reported in auxiliary operations.

UW System Administration staff attributed continued increases in most unrestricted program revenue balances during FY 2021-22 to two primary effects of the public health emergency: continued federal revenues to address lost revenue and certain expenses that had not yet returned to levels prior to the public health emergency. The decrease in tuition program revenue balances related primarily to a higher salaries expense due to eliminating furloughs in place during FY 2020-21 as a result of the public health emergency and an increase in tuition funds that were available as of June 30, 2021, to fund a lapse that was ultimately rescinded.

From June 30, 2021, to June 30, 2022, the auxiliary operations program revenue balance increased by 18.8 percent, primarily due to additional federal revenues to address the public health emergency.

The program revenue balance for auxiliary operations increased by 18.8 percent from \$310.4 million as of June 30, 2021, to \$368.8 million as of June 30, 2022. This increase was primarily attributed to auxiliary operations benefiting from additional federal revenues to address the public health emergency, including additional funding enacted as part of the American Rescue Plan Act of 2021.

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.

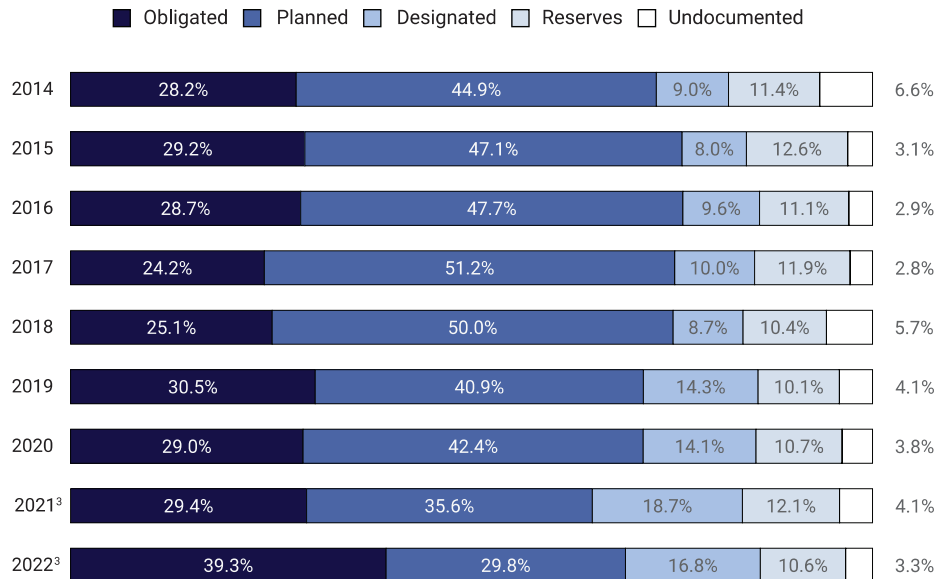
Board of Regents policy requires that reported year-end unrestricted balances be categorized according to the level of commitment for which funds are to be used. “Obligated” balances are firm commitments that cannot be easily redistributed, such as encumbrances or signed contracts. “Planned” balances 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 total unrestricted program revenue balance in each category has fluctuated since UW System Administration prepared the first program revenue balances report for FY 2013-14, as shown in Figure 3. For example, the unrestricted program revenue balance categorized as obligated has ranged from 24.2 percent to 39.3 percent of the total unrestricted program revenue balance from June 30, 2014, through June 30, 2022. Undocumented balances decreased each year until June 30, 2018, when the balance increased to 5.7 percent of the total unrestricted program revenue balances, but declined to 3.3 percent of the total unrestricted program revenue balances in June 30, 2022.

Appendix 3 shows each UW institution’s program revenue balance by level of commitment as of June 30, 2022.

Figure 3

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, auxiliary operations, general operations, federal indirect cost reimbursement, and other unrestricted program revenue.

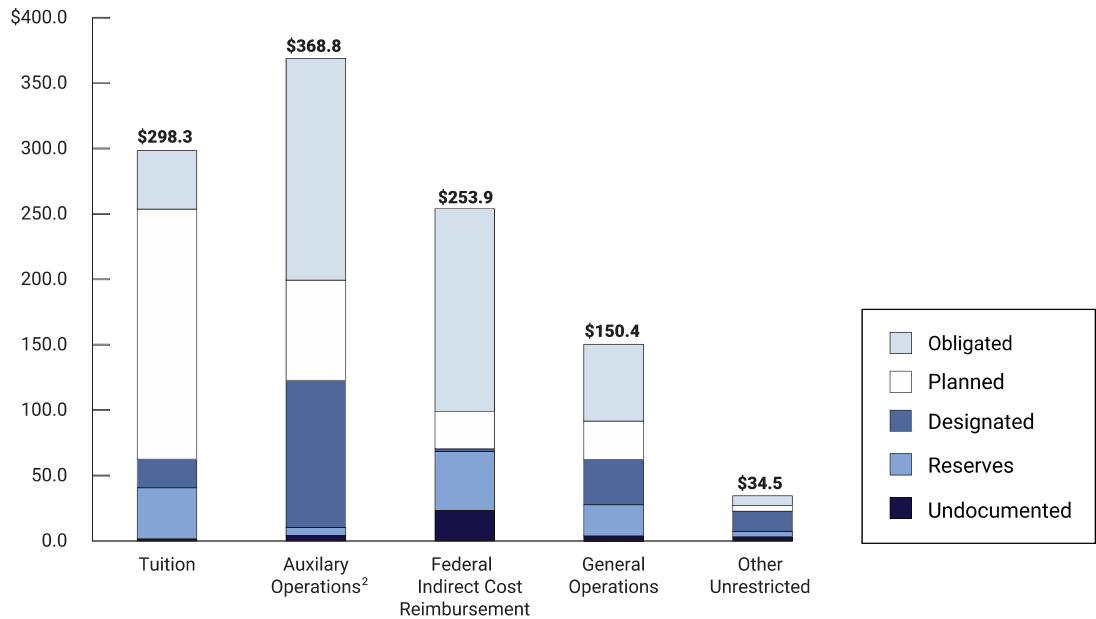
³ We excluded negative program revenue balances that were not related to auxiliary operations.

Overall, reserves accounted for 10.6 percent of the total program revenue balances.

The level of commitment varies by program revenue source, as shown in Figure 4. The majority of the tuition program revenue balance commitments were categorized as planned. However, most of the auxiliary operations were categorized as obligated or designated. All program revenue sources included balances categorized as reserves. Overall, reserves accounted for 10.6 percent of the total balances. The highest percentage categorized as reserves for a fund source was 17.7 percent for federal indirect cost reimbursement. Auxiliary operations had the lowest percentage categorized as reserves at 1.7 percent.

Figure 4

Program Revenue Commitments, by Program Revenue Source¹
 As of June 30, 2022
 (in millions)



¹ As reported in UW System’s FY 2020-21 Report on Program Revenue Balances by Institution and Level of Commitment.

² Total reflects unrestricted program revenue balances with negative balances removed, which was the amount categorized by each institution.

UW Institution Spending and Savings Plans

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 FY 2021-22 program revenue balances report.

As shown in Table 5, the FY 2021-22 program revenue balances report included 37 detailed spending plans for unrestricted balances that exceeded the 12.0 percent limit. All 14 UW institutions submitted a detailed spending plan for at least one unrestricted program revenue source. This included three institutions that were required to submit one for each unrestricted program revenue source—UW-Green Bay, UW-Milwaukee, and UW Systemwide—six institutions that were

required to submit spending plans for three unrestricted revenue sources, and three institutions that were required to submit spending plans for two unrestricted program revenue sources. Only UW-Madison and UW-Stout were required to submit a spending plan for one unrestricted program revenue source, including auxiliary operations and general operations, respectively. 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. There were no institutions that were required to submit a savings plan in FY 2021-22.

Table 5

Required Spending Plans, by Institution
FY 2020-21 to FY 2021-22

Spending plan required¹
 Savings plan required²
 No spending plan required

Institution	Tuition		Auxiliary Operations		General Operations		Other Unrestricted Program Revenue	
	2021 ³	2022 ⁴	2021 ³	2022 ⁴	2021 ³	2022 ⁴	2021 ³	2022 ⁴
Eau Claire	■	■	■	■	■	■	□	□
Green Bay	■	■	■	■	■	■	■	■
La Crosse	□	□	■	■	■	■	□	□
Madison	□	□	■	■	□	□	□	□
Milwaukee	■	■	■	■	■	■	■	■
Oshkosh	■	■	■	□	■	□	□	□
Parkside	■	■	■	■	■	■	□	□
Platteville	■	□	■	■	□	■	□	□
River Falls	■	■	■	■	■	■	□	□
Stevens Point	■	■	■	■	■	■	□	□
Stout	□	□	□	□	■	■	□	□
Superior	■	■	■	■	■	■	□	□
Systemwide ⁵	■	■	■	■	■	■	■	■
Whitewater	■	■	■	■	■	■	■	□

¹ Required when the ratio of the balance to total expenditures exceeds 12.0 percent. For auxiliary operations, the 12.0 percent calculation is made prior to removing any division-level negative balances.

² Required when the balance in tuition or auxiliary operations is negative. There were no required savings plans for FY 2021-22.

³ As reported in UW System’s FY 2020-21 *Report on Program Revenue Balances by Institution and Level of Commitment*.

⁴ As reported in UW System’s FY 2021-22 *Report on Program Revenue Balances by Institution and Level of Commitment*.

⁵ Accounts maintained by UW System Administration for the benefit of all UW institutions.

Supplemental Federal Funds

***We assessed how
UW institutions administered
supplemental federal funds
from three sources.***

In response to the Joint Legislative Audit Committee’s request that we evaluate how state agencies spent supplemental federal funds the state received because of the public health emergency, we assessed how UW institutions administered supplemental federal funds from three sources, including the Higher Education Institution Financial Assistance program, the Governor’s Emergency Education Relief Fund, and the Higher Education Emergency Relief Fund. All UW institutions except for UW-Platteville provided us with the information we requested in a timely manner. Our review of selected transactions found that UW institutions spent Higher Education Institution Financial Assistance program funds and Governor’s Emergency Education Relief funds for allowable costs. However, our review found that UW institutions used \$239,200 from the Higher Education Emergency Relief Fund for costs that were unallowable by criteria that the federal government established. We recommend UW System Administration improve how UW System administers funds from the Higher Education Emergency Relief Fund.

Sources of Funding

UW System received the supplemental federal funds we assessed from three sources:

- In June 2020, the Department of Administration (DOA) allocated to individual UW institutions \$18.9 million in Coronavirus Aid, Relief, and Economic Security (CARES) Act funds from the Higher Education Institution Financial Assistance program. UW institutions were allowed to use these

funds to cover unbudgeted costs they incurred from March 2020 through December 2020 as a result of the public health emergency.

- Through an April 2021 agreement between DOA, the Governor, and UW System, DOA allocated to UW System \$20.8 million in Coronavirus Response and Relief Supplemental Appropriations Act funds from the Governor’s Emergency Education Relief Fund. UW institutions were allowed to use these funds to cover costs they incurred from January 2021 through December 2021 for COVID-19 testing. An amendment to this agreement allowed UW institutions to use these funds to cover testing costs they incurred through June 2022.
- The U.S. Department of Education allocated a total of \$524.0 million in three funding rounds to UW institutions through the Higher Education Emergency Relief Fund, which was established and funded by multiple federal acts. The Department of Education allocated \$95.6 million in CARES Act funds in April 2020, \$154.3 million in Coronavirus Response and Relief Supplemental Appropriations Act funds in January 2021, and \$274.1 million in American Rescue Plan Act (ARPA) funds in May 2021. UW institutions are allowed to use these funds to cover costs they incur from March 2020 through June 2023 for student aid and as a result of the public health emergency.

From March 2020 through June 2022, UW System was allocated \$563.7 million in supplemental federal funds from the three sources we assessed.

From March 2020 through June 2022, UW System was allocated \$563.7 million in supplemental federal funds from the three sources we assessed, as shown in Table 6. Through June 2022, UW System spent \$536.5 million of these funds.

Table 6

Certain Supplemental Federal Funds Allocated to UW System
 March 2020 through June 2022
 (in millions)

	Allocated	Expenditures
Higher Education Institution Financial Assistance Program¹	\$ 18.9	\$ 18.9
Governor’s Emergency Education Relief Fund²	20.8	20.8
Higher Education Emergency Relief Fund³		
Round I	95.6	95.6
Round II	154.3	153.3
Round III	274.1	247.9
Subtotal	524.0	496.8
Total	\$563.7	\$536.5

¹ UW institutions could use the funds for costs incurred from March 2020 through December 2020.

² UW institutions could use the funds for costs incurred from January 2021 through June 2022.

³ UW institutions can use the funds for costs incurred from March 2020 through June 2023.

Higher Education Institution Financial Assistance Program

UW institutions spent \$18.9 million in Higher Education Institution Financial Assistance program funds from March 2020 through December 2020.

As shown in Table 7, UW institutions spent a total of \$18.9 million in Higher Education Institution Financial Assistance program funds from March 2020 through December 2020 to cover unbudgeted costs they incurred as a result of the public health emergency. Combined, UW-Madison and UW-Milwaukee spent 39.0 percent of this total. UW institutions had individually requested and received an advanced lump-sum amount from DOA.

Table 7

Higher Education Institution Financial Assistance Program Expenditures
March 2020 through December 2020

UW Institution	Amount	Percentage of Total
Madison	\$ 3,968,000	21.0%
Milwaukee	3,394,900	18.0
Whitewater	1,638,700	8.7
Eau Claire	1,422,500	7.5
La Crosse	1,361,800	7.2
Stevens Point	1,266,200	6.7
Oshkosh	1,245,100	6.6
Stout	993,400	5.3
Platteville	961,300	5.1
River Falls	888,000	4.7
Parkside	758,600	4.0
Green Bay	703,000	3.7
Superior	298,500	1.6
Total	\$18,900,000	100.0%

DOA required UW institutions to spend Higher Education Institution Financial Assistance program funds in compliance with the CARES Act, which required costs covered by the funds to have been:

- necessary because of the public health emergency;
- not accounted for in a given UW institution's most-recent budget; and
- incurred from March 2020 through December 2020.

We reviewed UW System's expenditure data and supporting documentation for 50 transactions involving a total of \$6.0 million in program funds, including the 5 largest transactions that each of 10 UW institutions covered with program funds from March 2020 through December 2020. The \$6.0 million represented 44.2 percent of total program expenditures made by these 10 UW institutions. We did not request supporting documentation from UW-Milwaukee or UW-Stout because we had previously reviewed their expenditures during the FY 2020-21 single audit of the State of Wisconsin (report 22-5).

Beginning on September 28, 2022, we attempted to contact UW-Platteville on multiple occasions to request its supporting documentation. After we received no response from UW-Platteville, we informed UW System Administration, which indicated via email on October 16, 2022, that it would contact UW-Platteville and provide us with the available information. However, we did not receive information from UW System Administration or UW-Platteville regarding this request until December 13, 2022, when UW-Platteville provided us a number of documents. Because UW-Platteville did not respond in a timely manner to our requests for its supporting documentation for five transactions, we did not include its transactions in our review. We will, however, include these transactions and documents in our FY 2021-22 single audit of the State of Wisconsin.

The 50 Higher Education Institution Financial Assistance transactions we reviewed were for costs that complied with CARES Act requirements.

We found that the 50 Higher Education Institution Financial Assistance transactions we reviewed were for costs that complied with the CARES Act requirements. The 10 UW institutions that responded to our requests provided appropriate supporting documentation for all 50 transactions that we reviewed. Typical transactions that we reviewed were for emergency sick leave for employees at UW institutions, enhanced distance learning capabilities, and personal protective equipment.

DOA required each UW institution to submit a payment request form that included a budget for how it planned to spend program funds and certification that it would comply with the program's requirements. DOA required UW institutions to submit these forms before they received their up-front lump sum amounts of program funds. In addition, each UW institution submitted to DOA a form that served as a final report for how it had spent program funds. We reviewed all of the forms submitted to DOA by all 13 UW institutions that had spent program funds, including UW-Milwaukee, UW-Platteville, and UW-Stout. We found that the forms were complete and submitted in a timely manner.

Governor's Emergency Education Relief Fund

UW institutions spent \$20.8 million from the Governor's Emergency Education Relief Fund from January 2021 through June 2022.

As shown in Table 8, UW institutions spent a total of \$20.8 million from the Governor's Emergency Education Relief Fund from January 2021 through June 2022 to cover the costs of COVID-19 testing expenses. Combined, UW-Madison and UW System Administration spent 47.4 percent of this total. UW System Administration coordinated with UW institutions to determine how to distribute the funds among the UW institutions and provided them with guidance about allowable costs and reporting requirements.

Table 8

Governor's Emergency Education Relief Fund Expenditures
January 2021 through June 2022

UW Institution	Amount	Percentage of Total
Madison	\$ 6,825,600	32.8%
System Administration	3,049,800	14.6
Whitewater	1,756,000	8.4
Milwaukee	1,257,000	6.0
Oshkosh	1,250,400	6.0
River Falls	1,174,600	5.6
Stevens Point	1,081,500	5.2
Stout	1,066,000	5.1
Platteville	984,600	4.7
Eau Claire	791,700	3.8
La Crosse	485,300	2.3
Parkside	423,000	2.0
Superior	374,700	1.8
Green Bay	312,800	1.5
Total	\$20,833,000	100.0%

We reviewed UW System's expenditure data and supporting documentation for 60 transactions involving a total of \$2.1 million from the Governor's Emergency Education Relief Fund, including the 5 largest transactions that each of 12 UW institutions covered with these funds from July 2021 through June 2022. The \$2.1 million represented 32.8 percent of the total amount of funds from the Governor's Emergency Education Relief Fund that were spent by these UW institutions in those 12 months. UW-Madison did not spend any funds from the Governor's Emergency Education Relief Fund in those 12 months because it had previously spent all such funds distributed to it. Because UW-Platteville did not respond in a timely manner to our requests for its supporting documentation for five transactions, we did not include its transactions in our review.

***The 60 Governor’s
Emergency Education
Relief Fund transactions
we reviewed were for
allowable COVID-19
testing costs incurred
from July 2021 through
June 2022.***

We found that the 60 Governor’s Emergency Education Relief Fund transactions we reviewed were for allowable COVID-19 testing costs incurred from July 2021 through June 2022. The 12 UW institutions that responded to our requests provided appropriate supporting documentation for all 60 transactions that we reviewed.

The agreement with DOA and the Governor required UW System to record reimbursable costs in tracking spreadsheets provided by DOA and to submit these spreadsheets, along with supporting documentation, to DOA on a reporting schedule established by the agreement. We reviewed all three reports that UW System Administration submitted to DOA. We found that UW System Administration complied with the provisions of the agreement by submitting reimbursable costs and appropriate supporting documentation in a timely manner.

Higher Education Emergency Relief Fund

***UW institutions spent
\$496.8 million from the
Higher Education
Emergency Relief Fund
from March 2020 through
June 2022.***

As shown in Table 9, UW institutions spent \$496.8 million from the Higher Education Emergency Relief Fund from March 2020 through June 2022. Combined, UW-Madison and UW-Milwaukee spent 39.7 percent of this total. As noted, UW institutions are allowed to use these funds to cover costs they incur from March 2020 through June 2023 for student aid and as a result of the public health emergency.

Table 9

Higher Education Emergency Relief Fund Allocation and Expenditures¹
March 2020 through June 2022

UW Institution	Allocation	Expenditures	
		Amount	Percentage of Total
Madison	\$102,977,800	\$102,461,100	20.6%
Milwaukee	94,869,000	94,869,000	19.1
Whitewater	43,763,100	43,738,400	8.8
Eau Claire	40,005,000	34,662,600	7.0
Oshkosh	38,508,300	27,346,900	5.5
La Crosse	36,095,000	29,760,100	6.0
Stevens Point	34,263,000	32,724,800	6.6
Stout	28,466,900	27,446,900	5.5
Platteville	26,352,900	26,348,900	5.3
River Falls	24,091,500	23,860,300	4.8
Green Bay	23,393,900	22,750,600	4.6
Parkside	22,042,500	21,649,400	4.4
Superior	9,178,300	9,178,300	1.8
Total	\$524,007,400	\$496,797,400	100.0%

¹ Includes Round I, Round II, and Round III funds.

UW institutions indicated that UW System Administration did not provide them with formal guidance on using funds from the Higher Education Emergency Relief Fund or review their documentation for transactions involving these funds. However, UW institutions indicated that UW System Administration facilitated meetings to discuss these funds.

We reviewed UW System's expenditure data and supporting documentation for 116 transactions involving a total of \$77.8 million in Round III funds in FY 2021-22, including the 10 largest transactions that each of 11 UW institutions covered with these funds and all 6 transactions that UW-Milwaukee covered with these funds. The \$77.8 million represented 33.3 percent of total Round III funds spent by these 12 UW institutions in FY 2021-22. UW institutions used \$63.5 million of the \$77.8 million (81.6 percent) to offset revenue they had lost because of the public health emergency. Because UW-Platteville did not respond in a timely manner to our requests for its supporting documentation for 10 transactions, we did not include its transactions in our review.

The three federal acts that provided the funds, guidance from the Department of Education, and the federal Office of Management and Budget's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) each prohibit UW institutions from using the funds to cover certain costs, including for alcohol, entertainment, and student recruitment. Guidance from the Department of Education requires UW institutions to use the funds for costs they incurred on or after March 13, 2020, when the public health emergency began.

Our review of supporting documentation for the 116 transactions found that UW institutions used \$48,900 from the Higher Education Emergency Relief Fund for unallowable costs.

Our review of supporting documentation for the 116 transactions found that UW institutions used \$48,900 from the Higher Education Emergency Relief Fund for unallowable costs. Our review found that:

- UW-Superior used \$30,400 to offset lost revenue from the sale of alcohol at sporting and other events, which is prohibited by guidance from the Department of Education and Uniform Guidance. A portion of the \$30,400 included Round II funds, but the available information did not allow us to determine the precise amount.
- UW-La Crosse used \$17,600 to cover overhead costs of advertising and student recruitment, which is prohibited by the applicable federal acts, guidance from the Department of Education, and Uniform Guidance.
- UW-Stevens Point used \$930 to show a film for entertainment purposes during a pre-semester student program, which is prohibited by Uniform Guidance.

Our review of supporting documentation for additional transactions found that UW institutions used \$190,300 from the Higher Education Emergency Relief Fund for unallowable costs.

In addition to the 116 transactions, we reviewed certain transactions that had descriptions in UW System's expenditure data indicating they may have involved unallowable costs. These transactions included all three rounds of funding. Our review of supporting documentation found that UW institutions spent \$190,300 from the Higher Education Emergency Relief Fund for unallowable costs. Our review found that:

- UW-La Crosse paid \$54,000 for costs incurred before March 13, 2020, which is prohibited by guidance from the Department of Education; \$21,700 for billboard advertisements intended to recruit students, which is prohibited by the applicable federal acts and guidance from the Department of Education; and \$28,400 for salary and other costs incurred by an employee to travel to high schools around the state in order to recruit new students, which is prohibited by the applicable federal acts and guidance from the Department of Education.

- UW-Superior used \$1,500 for a musical performance at a pre-semester summer event, which is prohibited by Uniform Guidance.
- UW-Platteville used \$1,000 for bowling and movie theater expenses for a pre-semester summer program, which is prohibited by Uniform Guidance.
- UW-Oshkosh charged an otherwise allowable cost of \$453 twice. UW-Oshkosh corrected this accounting error after we brought the error to its attention.

The \$190,300 in unallowable costs includes two transactions that UW System Administration maintains were allowable by the Coronavirus Response and Relief Supplemental Appropriations Act and guidance from the Department of Education. However, our review found that:

- UW-La Crosse paid \$59,700 to a firm for consulting services related to increasing student enrollment that had declined because of the public health emergency. Documentation provided by UW-La Crosse indicated these costs were for “Consultation software and services geared toward increasing enrollment to levels seen before the pandemic.” Additional documentation provided by UW System Administration indicated these costs were for “financial aid awarding and packaging strategies designed to support new undergraduate student enrollment and revenue goals.” The Act and the guidance prohibit the funds from being used to increase student enrollment.
- UW-Platteville used \$23,500 to create online tours of its campuses for recruiting purposes. UW-Platteville indicated in a January 2021 press release that the online tours were developed in order to recruit students, and it indicated in a December 2022 email message that for several months the online tours were “the only way that prospective students could see/‘visit’ the campus. Since then we continue to see good traffic on the site and receive prospect leads from it.” The Act and the guidance prohibit the funds from being used to recruit students.

The three federal acts and guidance from the Department of Education require UW institutions to post Higher Education Emergency Relief Fund expenditure reports to their websites. As of November 2022, 11 UW institutions posted on their websites all of the required reports for FY 2019-20 through FY 2021-22, but UW-Parkside and UW-Platteville did not do so. We found that four UW institutions included incorrect information in their quarterly

expenditure reports for FY 2020-21 and FY 2021-22, such as cumulative expenditures rather than only the quarterly expenditures that were required to be reported or student aid expenditures rather than only the institutional expenditures that were required to be reported. We also found that UW-Parkside posted its report for April 2021 through June 2021 seven months late.

The three federal acts and guidance from the Department of Education require UW institutions to submit annual expenditure reports to the Department of Education. We reviewed certain information in the calendar year 2021 annual reports submitted by 12 UW institutions. We found that the 12 reports were submitted in accordance with the schedule established by the Department of Education. Because UW-Platteville did not respond in a timely manner to our request for information, we did not obtain its 2021 annual report.

Three UW institutions did not report spending funds from the Higher Education Emergency Relief Fund on two activities required by ARPA.

UW institutions are required by ARPA to spend a portion of Round III funds on evidence-based coronavirus prevention or management practices and on informing financial aid recipients about benefit changes for which they may be eligible. Through June 2022, UW-Milwaukee had not reported spending any funds from the Higher Education Emergency Relief Fund on either of these two activities, and UW-Parkside and UW-River Falls had each reported spending such funds on only one of these two activities. UW-Milwaukee had spent all such funds through June 2022, but UW-Parkside and UW-River Falls had not spent all of their funds.

Improving the Administration of Supplemental Federal Funds

UW System Administration should improve how UW System administers funds from the Higher Education Emergency Relief Fund.

UW System Administration should improve how UW System administers funds from the Higher Education Emergency Relief Fund, including by:

- working with the federal government to resolve the \$239,200 in unallowable costs that our reviews found that UW institutions had incurred;
- ensuring each UW institution complies with ARPA by spending a portion of Round III funds on evidence-based coronavirus prevention or management practices and on informing financial aid recipients about benefit changes for which they may be eligible; and
- providing written guidance to UW institutions about the allowable uses of the funds and including correct information in expenditure reports, which will help to ensure that all UW institutions consistently spend the funds only for allowable uses in the future.

☑ Recommendation

We recommend the University of Wisconsin System Administration:

- *work with the federal government to resolve the \$239,200 in unallowable costs that our reviews found that University of Wisconsin institutions had incurred;*
- *ensure all University of Wisconsin institutions comply with the American Rescue Plan Act by spending a portion of Round III funds from the Higher Education Emergency Relief Fund on evidence-based coronavirus prevention or management practices and on informing financial aid recipients about benefit changes for which they may be eligible;*
- *provide written guidance to University of Wisconsin institutions about allowable uses of funds from the Higher Education Emergency Relief Fund and include correct information in expenditure reports; and*
- *report to the Joint Legislative Audit Committee by March 1, 2023, on the status of its efforts to implement these recommendations.*

■ ■ ■ ■



Auditor's Report



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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Senator Robert Cowles, Co-chairperson
Joint Legislative Audit Committee

Members of the University of Wisconsin Board of Regents, and
Mr. Jay O. Rothman, President, University of Wisconsin System

We have audited the financial statements and the related notes of the University of Wisconsin (UW) System, and its aggregate discretely presented component units, as of and for the years ended June 30, 2022, and June 30, 2021. We have issued our report thereon dated December 20, 2022. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States. The financial statements and related auditor's opinion have been included in UW System's 2022 Annual Financial Report.

Our report includes a reference to other auditors who audited the financial statements of certain discretely presented component units, including the UW Foundation, as described in our report on UW System's financial statements. While the financial statements of the certain discretely presented component units were audited in accordance with auditing standards generally accepted in the United States of America, they were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or compliance and other matters associated with those component units.

Report on Internal Control over Financial Reporting

Management of UW System is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audits of the financial statements, we considered UW System's internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of UW System's internal control. Accordingly, we do not express an opinion on the effectiveness of UW System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent misstatements, or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the UW System's financial statements will not be prevented, or that a material misstatement will not be detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, included in the accompanying Finding and Response Schedule, as Finding 2022-001, that we consider to be a significant deficiency.

Because UW System's financial statements are also included in the State of Wisconsin's Annual Comprehensive Financial Report (ACFR), this significant deficiency is also included in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters related to our audit of the State of Wisconsin's financial statements.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of UW System are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

UW System Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the UW System's written response to the findings identified in our audit and described in the accompanying Finding and Response Schedule. The UW System response was not subjected to other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering UW System's internal control and compliance. The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of UW System's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU



December 20, 2022

FINDING AND RESPONSE SCHEDULE

Finding: UW System Information Technology Internal Control Deficiencies

Background:

In April 2021, the University of Wisconsin System implemented ShopUW+ (SUW) as a new procure-to-pay procurement system that integrates approval of purchases among all 13 UW institutions. Similar to other systemwide applications, UW System Administration was responsible for administering SUW, including developing systemwide policies and ensuring adequate internal controls. SUW is a cloud-based system, and some SUW activities are integrated with UW System's accounting system, the Shared Financial System (SFS). For example, SUW system roles responsible for providing approvals on UW purchases are authorized by designated individuals at each UW institution. Certain other roles are provisioned through a formal process within SFS. The process to provide SUW approval access, and subsequently monitor this access, was different than with SFS.

Criteria:

Under s. 36.09 (1), Wis. Stats., the Board of Regents is vested with the primary responsibility for the governance of UW System. In discharging this responsibility, compliance with local, state, and federal regulations is necessary to protect institutional and research data. *UW System Administrative Procedure 1031.B Information Security: Data Protections* requires that information technology systems follow operating system-specific best practices for system management and security. Such best practices include limiting access to those individuals who need access to complete properly separated job duties and periodically reviewing the access provided to ensure it remains appropriate.

According to the National Institute of Standards and Technology (NIST) Cybersecurity Framework and NIST 800-53 Release 5, when an entity uses a cloud-based third-party to process financial transactions or it outsources some of its information technology functions, the entity should consider whether assurances are needed to ensure the third-party internal controls are operating effectively. Weaknesses in the third-party's internal controls could affect the financial activity of the entity. These assurances are typically provided through a service organization audit report, which is a report on the service organization's internal controls by an independent auditor.

A service organization audit report is intended to meet the needs of management of user entities, such as UW System Administration, and user entities' auditors. One type of audit that may be completed includes an opinion on the fairness of management's description of the internal controls in place at a service organization, whether the auditor believes those controls are suitably designed to achieve the internal control objective, and whether the internal controls are effective at achieving the control objective.

Condition:

We identified two concerns with the internal controls over SUW. First, we found that UW System Administration had not formally documented that UW institutions should periodically review approval access authorized within the SUW application. We also note that these approval roles within SUW were not included in the SFS access review process conducted by UW institutions. UW System Administration provides weekly reports of employee job changes to assist UW institutions in monitoring SUW approval access. Although UW System Administration staff indicated that certain UW institution staff were responsible for conducting a review of this report to monitor SUW-authorized access, there was no established procedure nor any systemwide monitoring to ensure that each UW institution completed such a review. We contacted four UW institutions and only one UW institution identified the weekly job

change report provided by UW System Administration as part of their process to review SUW approval access.

Second, UW System Administration did not obtain a service organization audit report from its third-party SUW vendor during FY 2021-22 to provide assurances that the vendor had appropriate internal controls in place and that they were operating effectively. Because UW System Administration did not obtain the annual service organization audit report, it also did not consider the adequacy of certain activities that UW System should have in place to ensure reliance on the third-party vendor's internal controls, such as reviewing SUW access authorized by UW institutions.

Context:

We reviewed the SFS and SUW systems, which include internal controls over certain UW institution expenses reported in the FY 2021-22 financial statements and certain federal grant programs. During FY 2021-22, UW System approved \$1.3 billion in payments through access authorized within SUW. We also assessed established UW systemwide policies requiring adequate internal controls and procedures to ensure that each UW institution complied with these policies. In addition, we reviewed a UW System Office of Internal Audit report on certain SUW internal controls that was completed in March 2022. We further discussed the SFS and SUW access review process with UW System Administration and certain UW institutions. We performed transaction testing to review a sample of payments, including those approved through SUW, to ensure the transactions were appropriately approved. We discussed management of service organization audit reports with UW System Administration staff.

Questioned Costs:

None.

Effect:

Access reviews are important to ensure access remains appropriate based on user responsibilities and the principle of least privilege. Failure to monitor access can lead to inappropriate access to sensitive data or inappropriate transaction approvals. Although it can be difficult to determine how information security concerns affect the financial statements and material compliance areas, ineffective information security controls may permit controls over individual systems to operate improperly and may allow financial statement misstatements and noncompliance to occur and not be detected.

Cause:

UW System Administration had emphasized with UW institutions that each UW institution was responsible for granting appropriate access for SUW approvers. However, UW System Administration had not communicated in writing the responsibility of UW institutions to conduct periodic access reviews for SUW approval roles nor did UW System Administration include SUW approval roles in the SFS access review process due to the large number of approvers. UW System Administration is currently working on the Administrative Transformation Program (ATP), which will replace certain systemwide information technology applications, and it currently plans to retain SUW when the ATP project is completed. Therefore, UW System Administration should take further steps to clarify and monitor UW institution review requirements for SUW approval access.

UW System Administration performed a risk assessment in 2019 prior to contracting with the cloud-based third-party vendor to assess the vendor's internal controls, including security provisions. In addition, UW System's contract with the cloud-based third-party vendor provides for a service organization audit report. However, no UW System Administration staff were assigned the

responsibility or requirement to annually obtain and review such a report. As the application owner, UW System Administration should obtain and review a service organization audit report at least annually. Because UW System's current ATP project is planning to rely on additional cloud-based third-party vendors to administer aspects of these new systemwide applications, it is important for UW System Administration to establish systemwide policies to adequately monitor cloud-based third-party vendor internal controls.

☑ Recommendation

We recommend the University of Wisconsin System Administration improve its oversight of the ShopUW+ application by:

- *developing a written requirement for University of Wisconsin institutions to periodically review ShopUW+ approval access and communicating this requirement to all University of Wisconsin institutions;*
- *developing a procedure to monitor the compliance of all University of Wisconsin institutions with the requirement for periodic review of ShopUW+ approval access;*
- *developing a policy to require periodic review of the adequacy of certain cloud-based third-party vendors' internal controls, such as by assigning the responsibility to obtain a service organization audit report and ensuring such reports are reviewed; and*
- *annually obtaining and reviewing relevant service organization audit reports.*

Type of Finding: Significant Deficiency

Response from the University of Wisconsin System Administration: The University of Wisconsin System Administration agrees with the audit finding and recommendations.

■ ■ ■ ■

Corrective Action Plan



Office of Financial Administration
608-262-1313 | 608-262-5316 (fax)
780 Regent Street
Suite 255
Madison, WI 53715
www.wisconsin.edu/financial-administration/

Corrective Action Plan

Finding 2022-007: UW System Information Technology Internal Control Deficiencies

Planned Corrective Action: The UW System has adequate processes in place for reviewing access to ShopUW+ but agrees to better document these processes. UW System Administration (UWSA) has revised the disbursement internal control template, which all UW universities use in developing their internal control plans, to document the UW System's security reviews. UWSA will also update the language surrounding its weekly access reports, to explain their purpose and importance. To monitor this control, the UW System will add a statement to this effect in the universities' annual delegation agreement and certifications.

UWSA is actively taking steps to mature its third-party risk management practices, including the development of guidance and best practices for UW universities. Current efforts are focused on optimizing available resources to provide the highest return on value.

UWSA currently performs periodic reviews of cloud-based third-party internal controls during pre-contract evaluations and at the time of contract renewals. This includes obtaining and reviewing service organization audit reports, if available. UWSA will evaluate the efficacy of increasing the periodicity of these reviews to an annual basis. UWSA will also evaluate means for communicating identified expectations systemwide, up to and including the creation of a new policy.

Anticipated Completion Date: June 30, 2023

Person responsible for corrective action:
Julie Gordon, Senior Associate Vice President
Finance, UW System Administration
jgordon@uwsa.edu

Appendices

Appendix 1

Members of the UW System Board of Regents November 2022

Member	Term
Angela Adams	May 2022 to May 2029
Robert Atwell	May 2017 to May 2024
Scott Beightol	November 2018 to May 2023
Amy Blumenfeld Bogost	May 2020 to May 2027
Héctor Colón	May 2020 to May 2025
Mike Jones	May 2017 to May 2024
Edmund Manydeeds III	May 2019 to May 2026
John W. Miller	May 2021 to May 2028
Rodney Pasch	Ex officio
Cris Peterson	May 2018 to May 2025
Ashok Rai	May 2021 to May 2028
Jennifer Staton	May 2022 to May 2024
Brianna Tucker	May 2021 to May 2023
Jill Underly	Ex officio
Dana Wachs	May 2022 to May 2029
Karen Walsh	May 2019 to May 2026
Kyle M. Weatherly	May 2020 to May 2027
Vacant	

Appendix 2

Unrestricted Program Revenue Balances since Inception, Totals by Institution^{1, 2}

As of June 30³
(in millions)

Institution	2014	2015	2016	2017	2018	2019	2020	2021 ⁶	2022 ⁷
Colleges ⁵	\$ 25.5	\$ 25.7	\$ 26.1	\$ 22.9	\$ 22.0	\$ 30.7	\$ -	\$ -	\$ -
Eau Claire	50.3	39.2	43.0	48.1	52.3	52.1	52.4	68.4	63.9
Extension ⁵	27.1	26.0	24.5	22.5	25.4	19.5	-	-	-
Green Bay	22.2	20.6	20.7	20.6	22.8	28.6	32.5	39.9	46.0
La Crosse	76.2	62.5	30.7	29.4	35.3	32.5	29.8	35.8	36.0
Madison	386.5	377.3	369.4	336.7	353.6	364.5	325.2	361.7	469.9
Milwaukee	84.2	65.1	81.9	88.4	97.2	103.2	105.0	123.9	141.3
Oshkosh	49.7	43.6	38.8	28.2	23.2	23.7	20.5	32.1	20.3 ⁸
Parkside	9.1	10.8	14.9	14.2	14.7	15.0	12.0	16.8	17.3
Platteville	22.7	25.6	32.3	32.2	33.3	28.5	18.7	24.8	28.0
River Falls	19.7	22.2	19.5	21.7	22.3	22.5	18.6	30.0	34.8
Stevens Point	39.9	33.5	37.6	22.9	21.7	17.3	17.9	43.3	58.2
Stout	11.9	14.1	20.4	25.4	28.6	22.1	10.3	22.0	32.7
Superior	(1.9)	2.0	7.7	7.4	7.6	7.7	8.6	12.4	14.1
System Administration	11.7	8.7	10.1	11.5	10.2	(5.4)	8.2	-	-
Systemwide ⁴	92.9	105.3	59.6	78.5	101.8	76.3	88.8	120.8	82.4
Whitewater	45.6	41.7	46.1	41.0	34.9	28.0	24.7	45.4	61.0
Total	\$973.3	\$923.9	\$883.3	\$851.6	\$906.9	\$866.6	\$773.2	\$977.3	\$1,105.9

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.

⁵ Beginning for the FY 2019-20 program revenue balances reports, UW Colleges and UW-Extension are not reported as separate institutions because, as part of the UW System restructuring, UW Colleges' campuses have become branch campuses to certain four-year institutions and UW-Extension units have transitioned to either UW-Madison or UW System Administration.

⁶ Total reflects unrestricted program revenue balances with negative division-level auxiliary balances removed. Without removing these negative auxiliary balances, the program revenue balances for FY 2020-21 were \$962.4 million.

⁷ Total reflects unrestricted program revenue balances with negative division-level auxiliary balances removed. Without removing these negative auxiliary balances, the program revenue balances for FY 2021-22 were \$1,088.0 million.

⁸ Total reflects unrestricted program balances with \$3.3 million in negative general operations and federal indirect cost reimbursement balances removed.

Appendix 3

Summary of UW System Unrestricted Program Revenue Balances by Level of Commitment¹
 FY 2021-22 Ending Program Revenue Balance

Institution	Obligated	Planned	Designated	Reserves	Undocumented (Discretionary)	Total
Madison	\$ 298,852,897	\$ 56,920,409	\$ 71,159,339	\$ 43,000,000	\$ -	\$ 469,932,645
Milwaukee	24,446,410	50,386,065	40,116,551	21,945,029	4,441,358	141,335,413
Systemwide	12,546,414	16,782,877	27,108,762	2,968,001	22,959,624	82,365,678
Eau Claire	22,296,340	35,186,084	5,887,820	0	549,875	63,920,119
Whitewater	6,470,473	31,842,610	8,576,993	12,335,207	1,743,676	60,968,959
Stevens Point	14,470,560	25,313,920	6,132,203	10,742,303	1,567,951	58,226,937
Green Bay	6,448,896	17,829,932	14,524,588	5,723,666	1,451,830	45,978,912
La Crosse	7,565,184	18,336,706	4,573,530	5,277,466	232,274	35,985,160
River Falls	8,522,054	25,660,868	-	630,133	-	34,813,055
Stout	12,890,204	11,761,224	559,562	6,756,905	776,968	32,744,863
Platteville	8,903,910	10,504,134	2,589,266	4,631,263	1,366,960	27,995,533 ²
Oshkosh	5,275,733	11,203,914	2,668,734	1,117,652	-	20,266,033 ³
Parkside	2,930,287	13,849,050	333,457	0	216,952	17,329,746
Superior	3,560,632	4,359,326	1,960,647	2,500,000	1,686,645	14,067,250
Total	\$435,179,994	\$329,937,119	\$186,191,452	\$117,627,625	\$36,994,113	\$1,105,930,303
	39.3%	29.8%	16.8%	10.6%	3.3%	100.0%

¹ As reported in Appendix 7 of UW System's FY 2020-21 Report on Program Revenue Balances by Institution and Level of Commitment.

² Total reflects unrestricted program balances of \$15,729 in negative other unrestricted balances removed.

³ Total reflects unrestricted program balances of \$3,269,251 in negative general operations and federal indirect cost reimbursement balances removed.

Response



Office of the President

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December 20, 2022

Mr. Joe Chrisman
State Auditor
State of Wisconsin
Legislative Audit Bureau
22 East Mifflin Street, Suite 500
Madison, WI 53703

Re: University of Wisconsin System

Mr. Chrisman:

We appreciate the opportunity to respond to the Legislative Audit Bureau's fiscal year 2021-22 review of the financial statements of the University of Wisconsin (UW) System.

The audit report gleans important information included in the UW System's 2021-22 Annual Financial Report and annual program revenue balance report. As noted in these UW-published reports, the financial performance of the UW System was significantly impacted by the COVID-19 pandemic and the related federal relief funding, as well as by the proactive responses implemented by the UW System, such as employee furloughs and other expense reduction measures. As we return to a greater on-campus presence, our fiscal challenges will include inflationary impacts on UW-purchased goods and services, employee compensation pressures from a competitive labor market, and the effects of a 10-year resident undergraduate tuition freeze.

To address these challenges, the UW System Board of Regents recently approved a five-year strategic plan, which features a commitment to stewardship as a core value. We are committed to ensuring our 13 universities are fiscally sustainable. The UW System's Annual Financial Report, the program revenue balance report, and the Legislative Audit Bureau's audit opinions on the accuracy of these reports will lay the groundwork for meaningful discussions with Governor Evers, legislators, and other stakeholders.

The Audit Bureau's conclusions regarding our expenditure of federal COVID relief funds also demonstrate the UW System's commitment to fiscal stewardship, accountability, and strong internal controls. The UW System was allocated \$564 million in multiple tranches of federal relief funds. We were and are committed to ensuring every dollar is spent in compliance with federal regulations so as to benefit our students in an effective and efficient manner.

Because of that commitment, the UW System anticipates removing \$215,700 in expenses identified by the Audit Bureau as unallowable and will claim other COVID-related expenses and lost revenues to fully utilize those allocated federal funds. This amount represents 0.04% of the funds received. We note, however, that the UW System disagrees with the Audit Bureau's conclusion that \$23,500 identified as unallowable costs for UW-Platteville are actually unallowable under applicable federal regulations. We will work with our federal cognizant agency to address these costs since that agency is the final arbiter of what is or is not allowable.

The UW System also disagrees with the observation and recommendation that UW System Administration should have provided written guidance to our universities about allowable uses for federal COVID relief funds. During the global pandemic, the UW System needed to operate under dynamic circumstances to best serve our students. The federal government and national professional organizations routinely provided implementation guides, frequently asked questions documents, and training sessions. Given the unique and changing nature of the pandemic and funding regulations, UW System Administration relied on this guidance. We believe this process was sufficient in providing our campuses with the necessary information, as evidenced by the low rate of LAB-identified unallowable costs. As a point of reference, we note that documentation regarding these extensive communications with our campuses was provided to the Audit Bureau in connection with its audit processes.

Once again, thank you for the Audit Bureau's time and effort in completing the audit report.

Sincerely,

A handwritten signature in black ink, appearing to read "Jay Rothman".

Jay Rothman
President