

MEETING NOTICE

Board of Regents of the University of Wisconsin System
Audit Committee

Friday, August 16, 2019
11:00 a.m.

To be held by telephone conference

1820 Van Hise Hall
1220 Linden Drive
Madison, Wisconsin

AGENDA

1. Calling of the roll
2. Approval of minutes from the July 11, 2019 meeting
3. Review and discuss the UW System report to the Joint Legislative Audit Committee on recommendations from Legislative Audit Bureau report 19-5

Individuals who wish to attend this meeting should contact the UW System President's Office at 608-262-2321 to schedule a time to access the meeting room from 10:30 a.m. to 11:00 a.m. on August 16, 2019. (Access to the 15th through 19th floors of Van Hise Hall is generally limited to employees and approved visitors.) A UW System staff member will meet individuals at the scheduled time, inside the front entrance on the first floor of Van Hise Hall (on the Linden Drive side of the building) to provide access to the designated meeting room.

August XX, 2019

RE: DRAFT Follow-Up to UWSA's Fiscal Year Audit Report 19-5

Dear:

Thank you for the opportunity to update the Joint Legislative Audit Committee on progress made by the University of Wisconsin System Administration (UWSA) to address the Legislative Audit Bureau's (LAB) recommendations in the Fiscal Year Audit Report 19-5, *University of Wisconsin System Fiscal Year 2017-18*.

I want to take this opportunity to provide responses to each of the recommendations (in italics) from Audit Report 19-5 in the areas of Program Revenue Balances Reporting, Personnel Systems, and Relationships with Primary Fundraising Foundations, Real Estate Foundations, and Other Affiliated Organizations. Please find attached to this response a table which details the action steps considered to be complete and in progress for each area.

Specifically relating to Relationships with Primary Fundraising Foundations, Real Estate Foundations, and Other Affiliated Organizations, the Board of Regents, UWSA, and each institution continue to take action to ensure effective management and transparency of these organizations. In Audit Report 19-5, LAB included new recommendations or expanded upon the original 18-4 recommendations. I now consider all the 18-4 recommendations to be complete, with three recommendations requiring ongoing reporting and monitoring.

To ensure effective management and transparency, it is important for UW System, the legislature, and the Legislative Audit Bureau to agree upon the definition and nomenclature of each organization to clearly delineate the difference between a primary fundraising foundation, real estate foundation, and other affiliated organization. Each are unique in their purpose, the type of relationship with the university, and how they should be managed. This ongoing audit has been helpful to develop a new definition to capture "other affiliated organizations", which are distinctly different from a primary fundraising foundation and real estate foundation.

Subject to UWSA policy 362, UWSA considers an "other affiliated organization" to be, "an entity that is legally distinct from the University but is organized and operated for the benefit and in support of the University and/or conducts activities that advance the mission of the University. Unless otherwise expressly authorized by the Board of Regents, affiliated organizations must hold a valid tax-exempt organization and corporate status under federal and applicable state law," with certain exclusions listed in the policy.

As we continue to develop policies and practices to manage "other affiliated organizations", we ask the legislature and others to work with us to ensure we are all utilizing the same definition. If there are suggestions or ideas regarding this definition, we welcome that feedback, too.

Program Revenue (PR) Balances Reporting

Recommendation: Provide guidance to University of Wisconsin institutions to ensure expenditures that are budgeted to be paid out of current-year revenues are not also reported as being funded from existing

program revenue balances in the spending plans in the program revenue balances report and do so before preparing the program revenue balances report for fiscal year 2018-19.

Completed: As UWSA indicated in the May response to Audit Report 19-5, UWSA provided guidance to University of Wisconsin (UW) institutions to ensure expenditures that are budgeted to be paid out of current-year revenues are not also reported as being funded from PR balances. This was completed during the Office of Finance's spring 2019 semester check-in with each campus. Further guidance was provided to institutional Chief Business Officers (CBOs) and budget officers at the June 21st meeting and there was discussion at the April 18th meeting.

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

In Progress: UWSA provides annual budget instructions to all institutions indicating that balances should be used to mitigate or phase in necessary rate increases. UWSA also has a policy on auxiliary management, however it is dated as it relates to the maximum balances allowed. As LAB acknowledges in the report, UWSA indicated this policy will be revised, and it included the list of policies to be revised for FY 20.

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

In Progress: As the UW System continues to implement additional phases of and enhance its new budget planning and forecasting tool, Plan UW, we will continually refine how PR balances are reflected and monitored at the department-level.

Personnel Systems

In 2011, Wisconsin Act 32 required new personnel systems for UW System employees. The Act required the UW Board of Regents to develop a personnel system for all UW System employees except UW-Madison employees. Subsequently, UW System created the University Personnel System. Act 32 also directed the UW-Madison Chancellor to create a separate personnel system for UW-Madison employees, which is HR-Design. The responses below represent those from both institutions and are labeled accordingly.

Recommendations for University Personnel System (UPS)

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

In Progress: UPS Policy TC4: Pay Plan Distribution Guidelines for University Workforce provides guidance for pay plan administration for all UW Institutions. UWSA will develop a consistent process across all institutions to include the following: performance review period or cycle; implementation of a systemwide ePerformance tool and training on the tool; administrative procedures for a performance management program, which includes feedback from governance groups; and University of Wisconsin

System Human Resources (UWSHR) will review institution-level published administrative procedures and guidelines to ensure compliance and consistency.

Actions taken (May – July 31, 2019):

- A comprehensive review of all institution pay plan guidelines (see UPS 1274, formerly TC4) and (UPS 1254, formerly HR5) performance management policies and procedures has been completed;
- Institutions received feedback on pay plan guidelines and made corrections. Corrective actions on performance management policies will be shared on August 22, 2019.
- Detailed corrective actions will be communicated to all institutions under the UPS on August 22, 2019.
- Supporting materials, such as practice directives, policy appendices, and criteria check-lists have been developed and will be used as guides to develop a systematic performance review program at each institution. These materials shall address the requirement of meritorious or satisfactory performance for pay plan eligibility.
- Proposed policy changes were recommended to UPS 1254 and are being further considered.
- UWSHR consulted with the UWSA Office of Internal Audit (Internal Audit) on overall timeline, and Internal Audit will be further consulted to ensure that proposed guidelines are consistent with the development of a systematic performance evaluation program. An action plan and activity timeline with milestones toward a July 1, 2020 implementation date are being developed.

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

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

Actions taken (May – July 31, 2019):

- A comprehensive review of all institution merit-based pay policies and procedures against UPS Policy 1277, formerly TC3: Compensation was completed, and corrective actions will be communicated to institutions under the UPS on August 22, 2019.
- Proposed policy changes to UPS 1277 were developed, and consideration will be given to adopting UPS 1277 as the policy of record for merit-based pay for all institutions.
- Supporting materials, such as practice directives, policy appendices, and criteria check-lists will be used as guides and aligned with the criteria outlined in the systematic performance management program.
- UWSHR consulted with Internal Audit on overall timeline, and Internal Audit will be further consulted to ensure consistency across UW System institutions. An action plan and activity timeline with milestones toward a July 1, 2020 implementation date are being developed.

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

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

Actions taken (May – July 31, 2019):

- A comprehensive review of all institution merit-based pay policies and procedures against UPS Policy 1277, formerly TC3: Compensation was completed and corrective actions will be communicated to institutions under the UPS on August 22, 2019.
- Proposed policy changes were recommended to UPS 1277, formerly TC3, and consideration will be given to adopting UPS 1277 as the policy of record for merit-based pay for all institutions.
- Supporting materials, such as practice directives, policy appendices, and criteria check-lists will be used as guides and aligned with the criteria outlined in the systematic performance management program.
- UWSHR consulted with Internal Audit on overall timeline, and Internal Audit will be further consulted to ensure consistency across all UW System institutions. An action plan and activity timeline with milestones toward a July 1, 2020 implementation date are being developed.

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

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

Actions taken (May – July 31, 2019):

- The UW Service Center, in consultation with UWSHR, will review, refresh, and publish current knowledge-based documents supporting coding and entry of pay adjustments.
- Training will be developed and required for UW System institution human resources professionals responsible for entry.
- Internal Audit will be consulted to review training program materials and establish a regular cycle of auditing for HRS codes and data entry.
- UWSHR Consulted with Internal Audit on overall timeline, and Internal Audit will be further consulted to ensure development of internal controls, quality control, and continuous monitoring. An action plan and activity timeline with milestones toward a July 1, 2020 implementation date are being developed.

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

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

Actions taken (May – July 31, 2019):

- A comprehensive review of all institution merit-based pay policies and procedures against UPS Policy 1277, formerly TC3: Compensation was completed and corrective actions were communicated to institutions under the UPS.
- Supporting materials shall also include criteria focusing on external market data and internal equity.
- UWSHR consulted with Internal Audit on overall timeline, and Internal Audit will be further consulted to ensure consistency and coordination across UW System institutions. An action plan and activity timeline with milestones toward a July 1, 2020 implementation date are being developed.

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

In Progress: UWSHR will develop criteria and documentation requirements for establishing ESRs, provide oversight, and review institutional ESR requests for compliance with guidelines.

Actions taken (May – July 31, 2019):

- A comprehensive review of all institution policies and procedures on ESRs, see UPS Policy 1277, formerly TC3: Compensation, was completed and corrective actions will be communicated to institutions under the UPS on August 22, 2019.
- Proposed policy changes were recommended, and consideration will be given to adopting one policy of record for extraordinary salary ranges for all institutions.
- UWSHR consulted with Internal Audit on overall timeline, and Internal Audit will be further consulted to ensure consistency across all UW System institutions. An action plan and activity timeline with milestones toward a July 1, 2020 implementation date are being developed.

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

In Progress: UWSHR will develop criteria and documentation requirements for establishing ESRs, provide oversight, and review institutional ESR requests for compliance with guidelines.

Actions taken (May – July 31, 2019):

- A comprehensive review of all institution policies and procedures on ESRs, see UPS Policy 1277, formerly TC3: Compensation, was completed and corrective actions will be communicated to institutions under the UPS on August 22, 2019.
- Proposed policy changes were recommended, and consideration will be given to adopting one policy of record for ESRs for all institutions.
- UWSHR consulted with Internal Audit on overall timeline, and Internal Audit will be further consulted to ensure consistency across all UW System institutions. An action plan and activity timeline with milestones toward a July 1, 2020 implementation date are being developed.

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

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

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

Actions taken (May – July 31, 2019)

- A comprehensive review of all institution Grievance Procedures for Faculty, Academic Staff, and University Staff was completed, and corrective actions will be communicated to institutions under the UPS on August 22, 2019.
- Supporting materials, such as best practice processes and criteria check-lists, will be used as guides to ensure procedures adhere to statutory requirements and UPS policy.
- Consulted with Internal Audit on overall timeline, and Internal Audit will be further consulted to ensure consistency across all UW System institutions. An action plan and activity timeline with milestones toward a July 1, 2020 implementation date are being developed.

Recommendations for HR-Design Personnel System at UW-Madison

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

Completed: After an internal review of the LAB recommendations, UW-Madison found the current policy needed updating. In the years since the policy had been created, UW-Madison found electronic communications (ex. Email, Job and Employee Management System) to be a much more efficient way to communicate on a large decentralized campus. As such, requests for ESRs are received by the Office of Human Resources (OHR) via email and a formal memo is not received due to the electronic, written nature of the request. In addition, the job postings and organizational charts are held in our automated Job and Employee Management System (JEMS), which is accessible by the OHR. Therefore, requiring a copy of the job postings and organizational charts is redundant.

To address the redundancy and make a more efficient process for the approval of ESRs, the OHR revised its ESR policy in the following ways:

- Eliminated the need for a memorandum or letter, and instead relying on the electronic email as the documentation indicating a request for OHR to evaluate market information for an ESR.
- Eliminated the need for a copy of a job posting and organizational chart, and instead requiring email notification that there is a current automated human resources transaction in process at the time of the request.

These revisions to the policy will allow for more effective administration of the ESRs and address the findings of the LAB.

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

In Progress: Wis Stats 36.115(4)(b) indicates that the University personnel system must include “a hearing before an impartial hearing officer.” The LAB audit indicated the established hearing procedures for both faculty and academic staff “does provide standards for a fair and impartial hearing.” UWS 11.11 indicates that academic staff holding a probationary appointment, or a member of the academic staff holding a fixed term appointment and having completed an initial specified period of time, shall have the ability to appeal their dismissal to an impartial hearing body.

UW-Madison’s Office of Legal Affairs, OHR, and the respective Secretaries of the Faculty and Academic Staff were consulted regarding this recommendation from LAB. These offices jointly recommend that language in Faculty Policies and Procedures Chapter 9.07(b) and Academic Staff Policies and Procedures (ASPP) 9.01 be amended to indicate that the Committee on Faculty Rights and Responsibilities and the Academic Staff Appeals Committee serve the purpose of the impartial hearing panel requirements identified in Wis. Stats. 36.115(4)(b).

The Office of Legal Affairs, OHR, and Secretary of the Academic Staff recommended that ASPP 6.03 be amended to indicate that the highest level of appeal for fixed-term and probationary academic staff grievances is the Board of Regents.

These amendments are anticipated to receive a first reading for adoption before the respective shared governance bodies (Senate and Assembly) in October 2019, and a second and final reading before these bodies in November 2019. This timeframe coincides when these governance bodies resume meeting in the fall semester.

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

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

Completed: UWSA completed its review and attached the checklist and associated materials from that review, which were also reviewed by Internal Audit.

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

Completed: The UWSA Office of General Counsel (OGC) is continuously improving the checklist in consultation with the Internal Audit. Internal Audit reviewed the Office of General Counsel’s 2019 Foundation MOU checklist in June and made recommendations to create additional columns within the checklist. These were items Internal Audit felt were material to Appendix A and should be included in the checklist to ensure institutions are in compliance with Regent Policy 21-9 Appendix A. Internal Audit also reviewed the remainder of the checklist against the available MOU’s and operating agreements for compliance. This will be part of the report to the audit committee of the Board of Regents in October 2019.

Pursuant to the specific recommendation on page 68 of Audit Report 19-5, OGC will add an additional column to the checklist to document the rent or in-kind payments requirement for office space at a fair-market rate that is already required and captured as part of the calculation in the cost-benefit analysis in UWSA Policy 362 (“facilities support should be calculated as a product of square footage and fair market value for similar space”). Additionally, in response to the recommendation from the LAB on page 69 of Audit Report 19-5, and pursuant to advice from Internal Audit, OGC added two additional columns to the checklist; the first to ensure there is a conflict of interest policy for the Foundation being reviewed, and the second to ensure the Foundation being reviewed has appropriate articles of incorporation, bylaws, and board member criteria.

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

Completed: UWSA completed its review and attached the checklist and associated materials from that review, which were also reviewed by Internal Audit.

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

Completed: As UWSA indicated in the May 2019 and October 2018 responses, the certifications completed were done with the understanding that new operational agreements were still being finalized. However, we acknowledge this qualification should have been written on the certification form. Going forward, this should not be a concern since all operational agreements are in place.

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

Completed: This prohibition is included in Regent Policy 21-9, and the single instance identified by LAB in Audit Report 19-5 is resolved.

Recommendation: Work with the Board of Regents to create a Board policy to govern the relationships between University of Wisconsin institutions and other affiliated organizations that are not primary fundraising foundations or real estate foundations.

In Progress: LAB’s original recommendation from the 18-4 Report in March 2018 stated UWSA should “work with the Board of Regents to establish a policy governing the relationships between University of Wisconsin institutions and affiliated organizations that are not primary fundraising foundations or real estate foundations,” which UWSA completed with the issuance of UWSA Policy 362 on January 25, 2019.

In Audit Report 19-5 from May 2019, LAB amended this recommendation to create a “Board Policy.” Board leadership, including the Chair of the Audit Committee, were consulted during the creation of the UWSA policy. UWSA chose to accomplish LAB’s original recommendation through UWSA policy to allow the policy to be amended more efficiently. LAB made additional recommendations in this report to strengthen the UWSA policy, and UWSA will consider those recommendations as well as putting it into Board policy.

Recommendation: Ensure this policy addresses University of Wisconsin employees serving on the boards of directors of other affiliated organizations that are not primary fundraising foundations or real estate foundations, University of Wisconsin employees working for these other affiliated organizations, and the terms under which University of Wisconsin institutions can provide support for these other affiliated organizations.

In Progress: Currently, Regent Policy 21-9 prohibits employees from serving as voting members on the boards of primary fundraising and real estate foundations. Board membership may vary significantly for other affiliated organizations depending on the nature of each relationship. UWSA indicated in the May response to Audit 19-5 that we will evaluate the best way to ensure board membership of other affiliated organizations as it relates to UW employees is appropriately managed as UWSA Policy 362 is implemented, which covers all affiliated organizations.

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

Completed via Alternative Method: As UWSA indicated in the May response to Audit 19-5, UWSA elected to not report net cost/benefit amount because intangible benefits are substantial in nature and cannot be captured in a “snapshot-in-time” calculation. As a result, UWSA believes a calculated bottom line may actually be misleading. In addition, UWSA stated in the June 2018 response that tracking time is not feasible because a university employee's work at the university and affiliated organization simultaneously serves the purposes of both organizations and therefore cannot be decoupled. To accomplish the spirit of LAB's recommendation, UWSA included a calculation of each employee's direct salary support, including fringe benefits, as part of the calculation of administrative support provided to affiliated organizations.

Recommendation: Amend the administrative policy to include guidance to University of Wisconsin institutions on the items required to be included in any written agreement with an affiliated organization that is not a primary fundraising foundation or real estate foundation.

In Progress: Written agreements may vary significantly depending on nature of each relationship. As UWSA indicated in the May response to Audit 19-5, UWSA will evaluate the best way to ensure institutions have appropriate written agreements with other affiliated organizations as UWSA Policy 362 is implemented and trainings occur.

Recommendation: Amend the administrative policy to explain how the cost-benefit report will be evaluated by University of Wisconsin System Administration and to specify the reporting that will be made to the Board of Regents.

Completed: UWSA elected to give campus administrators the authority to make initial decisions on the relative importance and benefit of any specific affiliated organization, including taking into account the intangible or prospective benefits that an affiliated organization may provide to the institution. The UW System Office of Finance will receive and review the required cost-benefit worksheets. UWSA Policy 362 was revised in May 2019 to clearly note that UWSA will annually provide a summary of reported administrative support to and benefits received from foundations and other affiliated organizations to the Board of Regents. UWSA currently anticipates providing this information at the October 2019 BOR meeting.

Recommendation: Revise its administrative policy to require University of Wisconsin institutions to provide an accounting of the costs and benefits of the relationships with each affiliated organization to the University of Wisconsin institution.

In Progress: As UWSA indicated in the May response to Audit Report 19-5, UWSA believes a materiality threshold is reasonable. Currently, the established threshold in UWSA Policy 362 is at \$100,000 of administrative support. This amount was chosen after considering the size of UW system, each institution, materiality thresholds used for other evaluations, and the level of risk, both financially and reputationally, that these relationships present. The example of the UW-Oshkosh Business Success Center raised by LAB in Audit Report 19-5 is a good example of an organization that would have fallen under UWSA 362 since it received over \$100,000 in administrative support in two consecutive years.

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

In Progress: UWSA provided policy guidance to several campus stakeholder groups that interact with their campus foundations, including chancellors and chief business officers. UWSA also conducted an all-day workshop at the Annual Alumni Directors Meeting at UW-Oshkosh in June 2019, in which over 50 Foundation personnel from across UW System were present, to provide guidance, training, and roundtable discussions regarding UWSA and Board of Regent policies. An additional training will be conducted by the Association of Governing Boards (AGB) in November of 2019 to share best practices from across the country. This training will be open to all affiliated organizations associated with the UW System, as well as chancellors, chief business officers, and other related campus/UW System staff.

Recommendation: Continue to work with the University of Wisconsin-Madison to establish a timeline to begin using the centralized vendor file for all financial transactions.

In Progress: As UWSA indicated in the May response to Audit Report 19-5, UWSA and UW-Madison put into place an alternative method to meet LAB's intent of being able to easily compile payment information to all affiliated organizations. UWSA will continue to work with UW-Madison as the UW System evaluates other system changes (cloud ERP, procurement automation) that affect the ability to move UW-Madison to a centralized vendor file. UWSA is implementing a procurement automation tool for all of the campuses, which will improve internal controls around vendor management.

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

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

To ensure regular monitoring, Internal Audit reviewed the checklist and recommended that unique vendor identification numbers be added to the checklist. Internal Audit will audit Other Affiliated Organizations in accordance with its 2020 Audit Plan that was approved by the Board of Regents. The audit will test compliance with UWSA Policy 362, specifically testing for vendor identification numbers and the cost benefit analysis developed by management. This audit is to be presented to the Audit Committee of the Board of Regents at the December 2019 meeting.

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

In Progress: Internal Audit will audit the Institutional Relationships with Foundations and Other Affiliated Organizations in accordance with its 2019 Audit Plan that was approved by the Board of Regents. The audit will consist of two parts. First, we will select a sample of payments for testing as we did in our 2019 audit of Transactions with Foundations. Second, we once again plan to test for compliance with Regent Policy 21-9. This audit is to be presented to the Audit Committee of the Board of Regents at the October 2019 meeting.

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

In Progress: Internal Audit will audit the Institutional Relationships with Foundations and Other Affiliated Organizations in accordance with its 2019 Audit Plan that was approved by the Board of Regents. The audit will consist of two parts. First, we will select a sample of payments for testing as we did in our 2019 audit of Transactions with Foundations. Second, we once again plan to test for compliance with Regent Policy 21-9. This audit is to be presented to the Audit Committee of the Board of Regents at the October 2019 meeting.

I want to thank the LAB for its work. If you have any questions regarding this update, please feel free to contact me.

Sincerely,

Action Steps Update from March 2018 18-4 Report		
LAB 18-4 Recommendation	UW Action	Status
Assign unique vendor ID to affiliated organizations	UWSA can use an alternative method to meet LAB's intent as ongoing system upgrades continue.	Complete
Amend Operational Agreements to comply with the Board of Regents Policy	UWSA completed its review and attached associated materials, which was also reviewed by Internal Audit.	Complete
Require Chancellors to certify compliance	Certification is required, and caveat for this year was communicated in October 2018 response to JLAC.	Complete
Assess MOUs for compliance	MOUs reviewed prior to issuance of 18-4; compliance assessed in FY 19 audit.	Complete
Establish policy governing relationship between UW institutions and affiliated organizations that are not primary or real estate foundations	UWSA Policy 362 issued on January 25, 2019 in consultation with Board, campus stakeholders, and best practices across country, and revised on May 29, 2019.	Complete
Resolve inconsistency between policy statement and policy regarding UW employees serving on boards of primary fundraising and real estate foundations	Appendix A of Regent Policy 21-9 was modified to reflect the Board of Regent's policy in February of 2019.	Complete
Prohibit all UW employees from serving as voting members of Board of Directors of primary fundraising and real estate foundations	Regent Policy 21-9 prohibits. UW-Milwaukee member identified by UWSA and LAB has been granted an exception.	Complete
Require UW employees to track the time they work for affiliated organizations, and provide guidance and training	UWSA Policy 362 requires calculation of percentage of UW employees' salary and fringe assigned to any Affiliated Orgs activities paid by the UW and not directly and fully reimbursed by the Affiliated Orgs.	Complete
Provide UW institutions guidance on identifying affiliated organizations	UWSA provided guidance to UW institutions and will have additional guidance and trainings.	Complete
Require UW institutions to annually report information about their relationships with affiliated organizations and determine whether the reported information complies with Board of Regent policy	Required in Regent Policy 21-9 and in UWSA Policy 362. The Office of Finance is currently reviewing the reports and will report to the Board of Regents in October.	In Progress
Annually review payments to affiliated organizations	Fiscal 2019 Audit Plan will audit compliance with Regent Policy 21-9 and UWSA Policy 362. Fiscal 2020 Audit Plan will audit compliance with UWSA Policy 362.	In Progress
Annually assess relationships with affiliated organizations and determine whether any changes are necessary	Evaluated through annual audits and disclosures of Affiliated Orgs and analysis of Affiliated Orgs per UWSA Policy 362.	In Progress

Action Steps Update from May 2019 19-5 Report		
LAB 19-5 Recommendation	UW Action	Status
Information Technology		
No Recommendations	UWSA is implementing its 24-month workplan.	N/A
Tuition		
No Recommendations	Since 2009, UW institutions enroll the same percentage of WI High School graduates and is attracting more talent to the state.	N/A
Program Revenue (PR) Balances		
Provide guidance to institutions on the spending plans in the PR balances report	UWSA provided guidance during the Office of Finance's spring 2019 semester check-in and to institutional CBOs and budget officers at meetings on April 18 th and June 21 st .	Complete
Provide guidance to institutions on reviewing balances reported in FY2018-19 PR balances report	UWSA's policy on auxiliary management is under revision.	In Progress
Ensure department-level or centralized controls are in place to monitor department-level PR balances	UWSA newly implemented budget planning and forecasting tool, PlanUW, will allow department-level monitoring	In Progress
Personnel Systems		
Ensure institutions have a systematic performance evaluation program for pay plan increases.	UWSHR completed several action steps & developed an action plan with milestones toward a July 1, 2020 implementation date.	In Progress
Ensure institutions develop published guidelines for granting merit-based adjustments	UWSHR completed several action steps & developed an action plan with milestones toward a July 1, 2020 implementation date.	In Progress
Evaluate published guidelines by institutions to ensure compliance with UWSA policy	UWSHR completed several action steps & developed an action plan with milestones toward a July 1, 2020 implementation date.	In Progress
Revise policy to include guidance for institutions on which codes should be used to record merit-based adjustments	UWSHR completed several action steps & developed an action plan with milestones toward a July 1, 2020 implementation date.	In Progress
Provide guidance to institutions on ESRs	UWSHR completed several action steps & developed an action plan with milestones toward a July 1, 2020 implementation date.	In Progress
Require institutions to develop guidelines for administering ESRs	UWSHR completed several action steps & developed an action plan with milestones toward a July 1, 2020 implementation date.	In Progress
Evaluate whether developed guidelines have consistently complied with guidelines when administering ESRs	UWSHR completed several action steps & developed an action plan with milestones toward a July 1, 2020 implementation date.	In Progress
Review grievance procedures of all institutions to ensure procedures meet statutory requirements.	UWSHR completed several action steps & developed an action plan with milestones toward a July 1, 2020 implementation date.	In Progress

Ensure UW-Madison staff are trained in the policy and ESRs are approved in compliance with policy.	UW-Madison Office of Human Resources revised its ESR policy to allow for more effective administration of ESRs.	Complete
Revise UW-Madison grievance policy to ensure it meets statutory requirements.	UW-Madison's Faculty and Staff Governance bodies are considering recommended policy revisions at their Fall meetings.	In Progress
New Recommendations for Affiliated Organizations Not included in March 2018 Report 18-4		
Revise spreadsheet used to review MOU and operational agreements	UWSA General Counsel in consultation with Internal Audit revised the checklist.	Complete
Work with Board of Regents to create a Board policy to govern the relationships with other affiliated organizations	LAB amended 18-4 recommendation to specify this should be Board policy. UWSA completed 18-4 recommendation with issuance of UWSA Policy 362 on January 25, 2019.	In Progress
Ensure policy on other affiliated organizations addresses administrative support and employees working for or serving on the boards of directors.	UWSA will evaluate best way to appropriately manage board membership of other affiliated organizations with implementation of UWSA Policy 362	In Progress
Revise cost-benefit report to include tracking employee time and adding calculation of return on investment	UWSA included a calculation of each employee's direct salary support, including fringe benefits, as part of the calculation of administrative support provided to affiliated organizations.	Completed via Alternative Method
Amend administrative policy to include guidance to institutions on written agreement with other affiliated organizations	UWSA will evaluate the best way to ensure institutions have appropriate written agreements with other affiliated organizations with implementation of UWSA Policy 362	In Progress
Amend administrative policy to explain how the cost-benefit report will be evaluated by UWSA and reported to the Board of Regents.	UWSA elected to give campus administrators authority to make initial decisions. UW System Office of Finance will receive cost-benefit worksheets and share reports with Board of Regents.	Complete
Revise administrative policy to require institutions to provide an accounting of the costs and benefits of the relationships with each affiliated organization to the UW institution.	UWSA believes a materiality threshold is reasonable and will collect cost-benefit reports for those that meet the threshold.	In Progress
Provide guidance and training to UW employees who also work for an affiliated organization.	UWSA provided policy guidance to campus stakeholders and has additional training efforts underway.	In Progress
Develop a procedure to ensure consistent use of unique vendor ID numbers by all institutions.	UW System has taken steps to ensure all payments to affiliated organizations can be identified.	In Progress
Direct Internal Audit to determine whether UW institutions are complying with the Board of Regents policy.	The Fiscal 2019 Audit Plan was approved by the Board of Regents in June 2018 and will include whether institutions are complying with Regent Policy 21-9 and UWSA Policy 362. Fiscal 2020 Audit Plan will audit compliance with UWSA Policy 362.	In Progress