

6/24/19

BOARD OF REGENTS OF THE UNIVERSITY OF WISCONSIN SYSTEM

I.5. Audit Committee

Thursday, July 11, 2019
9:00 a.m. – 10:15 a.m.
Gordon Dining & Event Center, 2nd Floor
Overture Room
770 W. Dayton St.
Madison, Wisconsin

- a. Approval of the Minutes of the June 6, 2019 Meeting of the Audit Committee
- b. Internal Audit
 1. Fiscal Year 2020 Audit Plan Progress Report
 2. Progress on Management Responses to Audit Reports
 3. System Security and Access Audit Status and Themes
- c. UW System Response to Legislative Audit Bureau's Report 19-5 on the University of Wisconsin System Fiscal Year 2017-2018 Financial Audit
- d. Compliance with Laws and Regulations
- e. Move into closed session to consider strategy for crime detection and prevention as permitted under s. 19.85(1)(d) Wis. Stats.

July 11, 2019

Agenda Item I.5.b.1.

**UW SYSTEM ADMINISTRATION
OFFICE OF INTERNAL AUDIT
FISCAL YEAR 2020 AUDIT PLAN PROGRESS**

BACKGROUND

One of the responsibilities of the Audit Committee, as outlined in the committee charter, is to review and approve the annual internal audit plan and receive interim progress reports at least quarterly.

REQUESTED ACTION

No action requested. Item for information and discussion only.

DISCUSSION

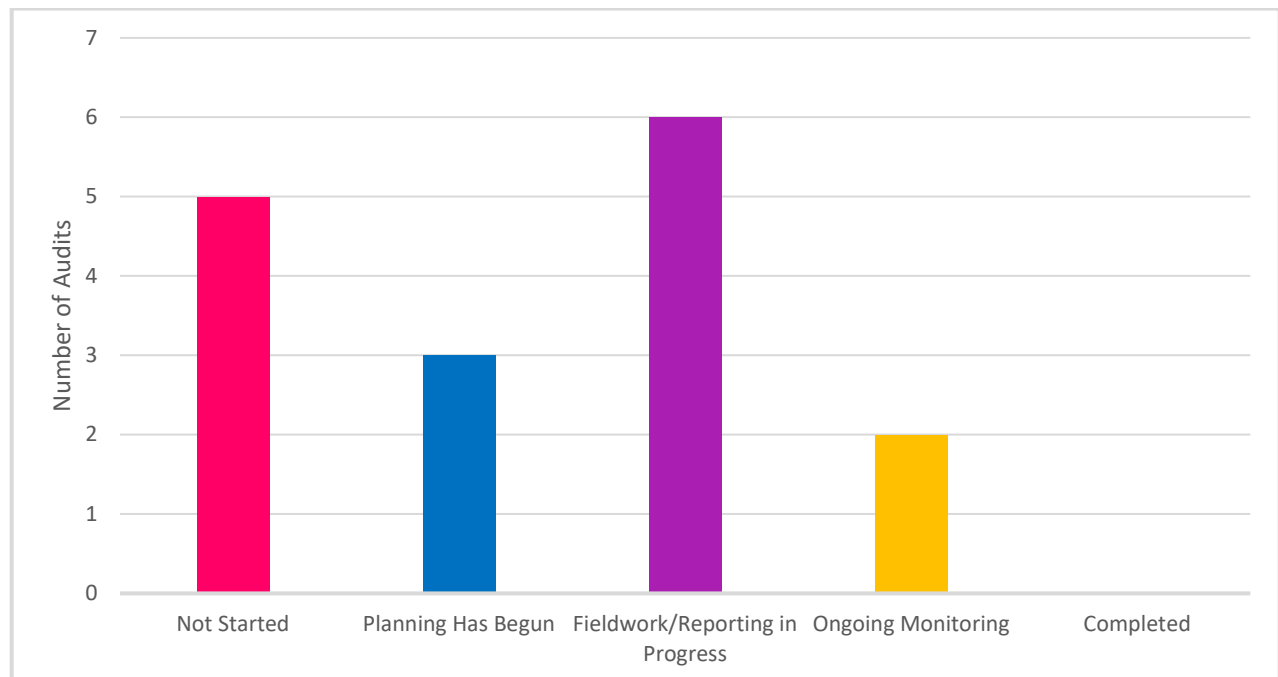
The attached chart provides a summary of audit progress for the Fiscal Year 2020 Audit Plan.

RELATED BOARD OF REGENTS POLICIES

NA

**UW SYSTEM ADMINISTRATION
OFFICE OF INTERNAL AUDIT
FISCAL YEAR 2020
AUDIT PLAN PROGRESS**

	Title	Risks
1	Payroll (Continuous Monitoring)	Fraud
2	Purchasing Cards (Continuous Monitoring)	Fraud, Embezzlement
3	Shop @ UW (Continuous Monitoring)	Fraud, Embezzlement
4	Payment Card Industry Compliance	Data Breach of Personally Identifiable Information (PII)
5	Information Technology Procurement	Fraud, Security, Waste, Recording, Safeguarding
6	DoIT Services Group	Billing, Monitoring, Proper Prioritization
7	Institutional Relationships with Foundations and Other Affiliated	Fraud, Embezzlement, Reputation
8	Oversight of Programs with Minors	Physical Safety and Security
9	Discrimination, Harassment and Retaliation	Physical Safety and Security, Legal Compliance
10	Offboarding of Employees	Physical Access to Buildings, Access to Systems
11	Human Resource System (HRS) Segregation of Duties and UW-Madison	Fraud, Breach of Protected Information, Data Accuracy
12	Student Information Systems and Databases Security	IT Security, Breach of PII
13	Laboratory Safety	Physical Security and Safety, Legal Compliance
14	NCAA Athletics Division I Consulting Engagements	Regulatory Compliance, Revenue Loss
15	Other Affiliated Organizations	Fraud, Embezzlement, Reputation
16	External Assessment (Self-Assessment with Independent Validation)	Conformance with Standards and Code of Ethics



**UW SYSTEM ADMINISTRATION
OFFICE OF INTERNAL AUDIT
MANAGEMENT RESPONSE PROGRESS**

BACKGROUND

One of the responsibilities of the Office of Internal Audit as outlined in the charter is to establish a follow-up process to monitor and identify whether corrective actions have been effectively implemented, or whether senior management has accepted the risk of not taking action. The Audit Committee has requested regular progress reports on this monitoring.

REQUESTED ACTION

No action requested. Item for information and discussion only.

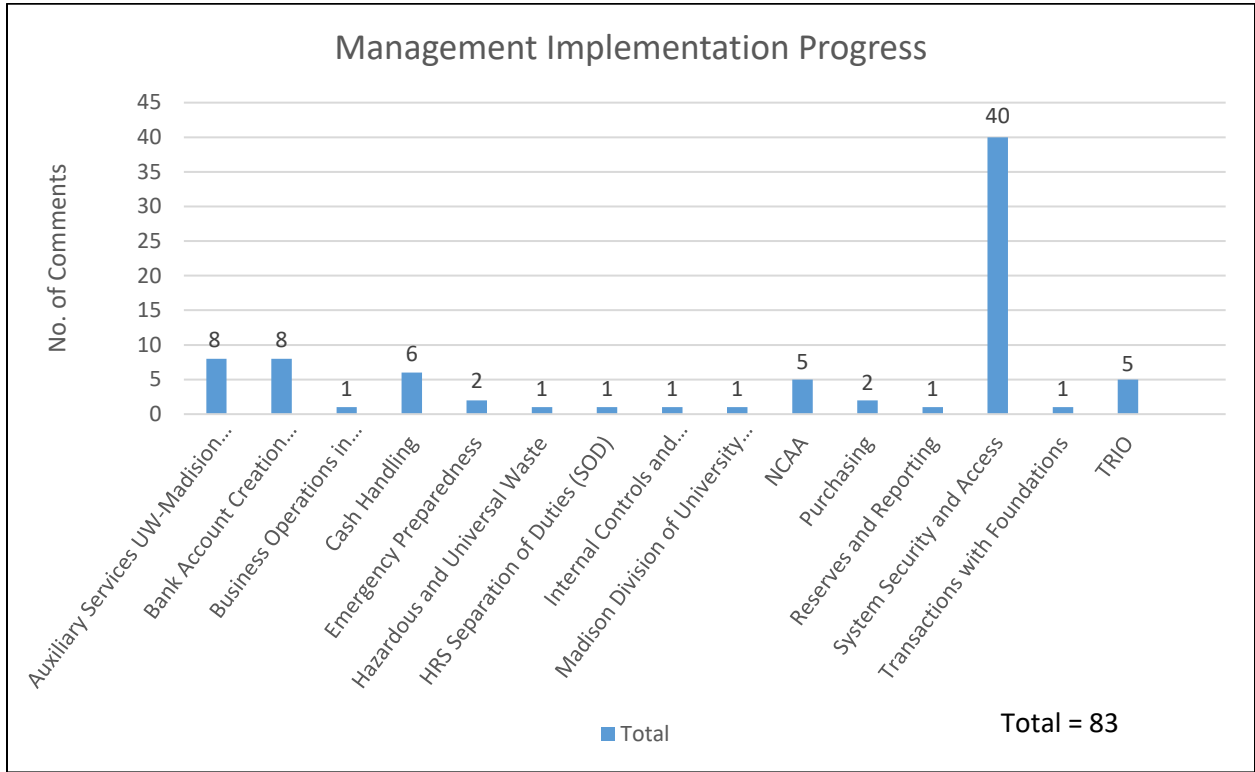
DISCUSSION

The following charts present audits issued during fiscal 2016 through fiscal 2019 and the progress management has made toward resolving the comments and recommendations included in the audit reports. Management's corrective action plans were audited by the Office of Internal Audit to determine if they were implemented.

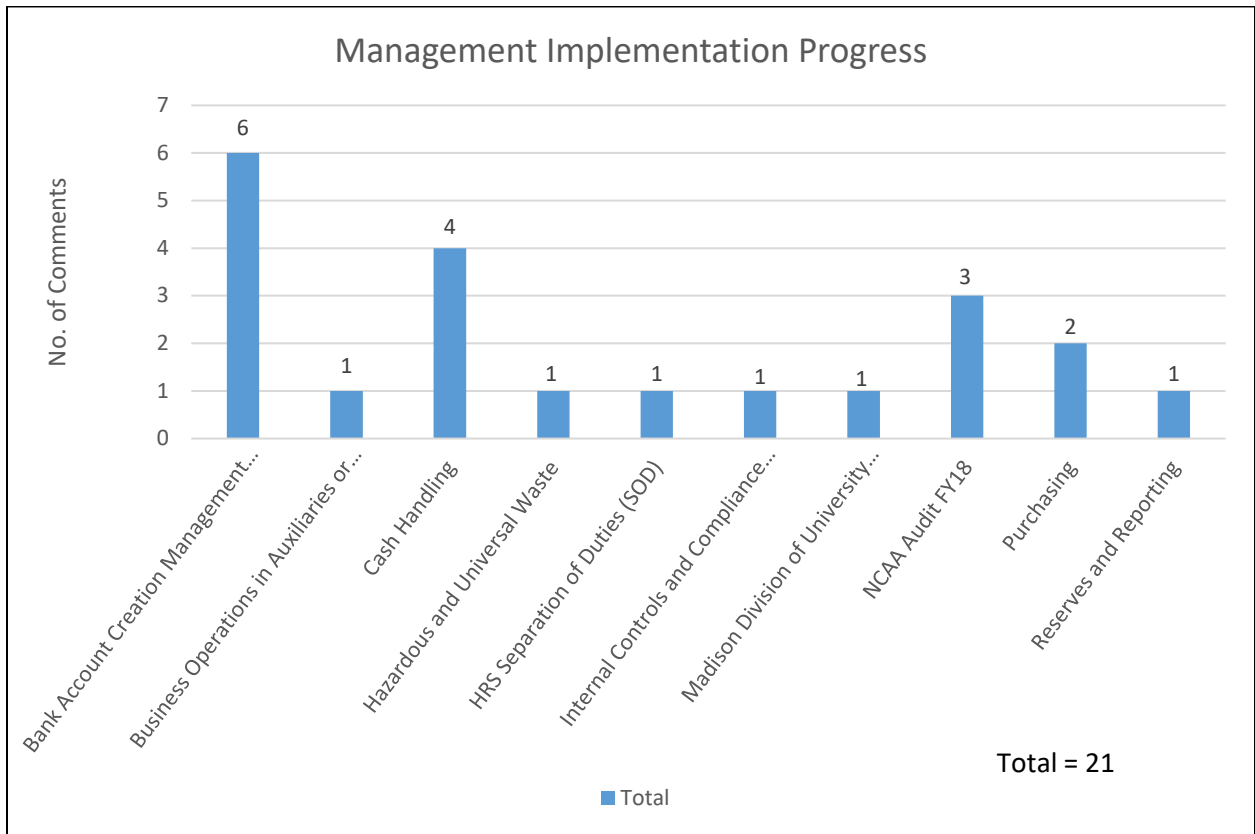
RELATED BOARD OF REGENTS POLICIES

NA

Prior Reporting Period

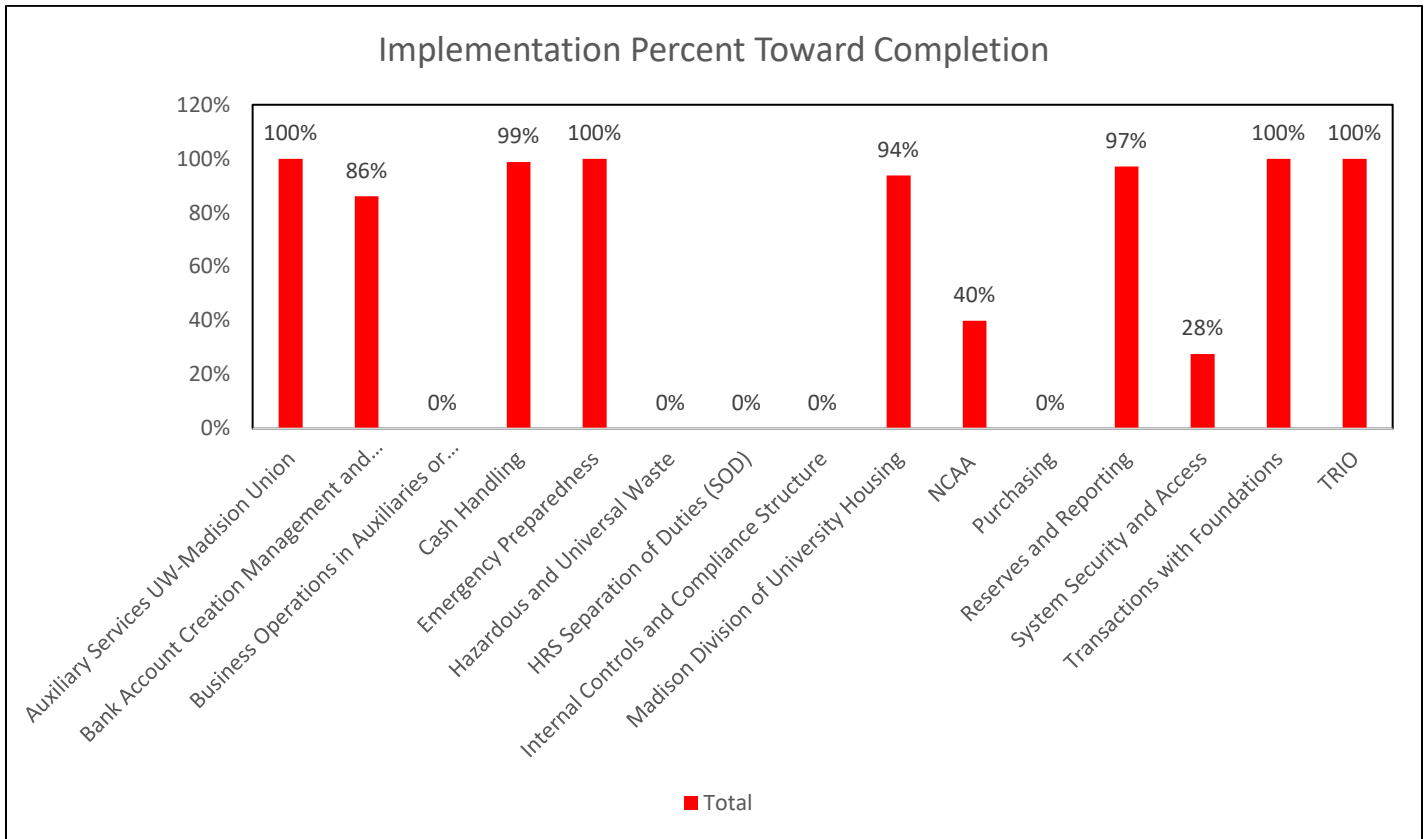


Current Reporting Period



Roll-forward from Prior Reporting Period to Current Reporting Period

Audit	Previously Reported Open Comments	Comments Issued	Comments Closed	Current Open Comments
Auxiliary Services UW-Madison Union	8	0	8	0
Bank Account Creation Management and Oversight	8	0	2	6
Business Operations in Auxiliaries or Student Services	1	0	0	1
Cash Handling	6	0	2	4
Emergency Preparedness	2	0	2	0
Hazardous and Universal Waste	1	0	0	1
HRS Separation of Duties (SOD)	1	0	0	1
Internal Controls and Compliance Structure	1	0	0	1
Madison Division of University Housing	1	0	0	1
NCAA	5	0	2	3
Purchasing	2	0	0	2
Reserves and Reporting	1	0	0	1
System Security and Access	40	0	40*	0
Transactions with Foundations	1	0	1	0
TRIO	5	0	5	0
Total	83	0	62	21



*System Security and Access audits have been deferred.

The above charts and graphs do not necessarily represent all audit comments outstanding due to timing issues

July 11, 2019

Agenda Item I.5.b.3.

**UW SYSTEM ADMINISTRATION
OFFICE OF INTERNAL AUDIT
SYSTEM SECURITY AND ACCESS AUDIT STATUS AND COMMENT THEMES**

BACKGROUND

The Board of Regents delegates to the President of UW System the authority to implement and maintain an information security program (Program). The Audit Committee has oversight responsibility over this Program.

REQUESTED ACTION

No action requested. Item for information and discussion only.

DISCUSSION

The attached chart provides a summary of audit progress for the System Security and Access audits. It also lists the most prevalent audit comments and matters encountered during the audits.

RELATED BOARD OF REGENTS POLICIES

Regent Policy Document 25-3, Acceptable Use of Information Technology Resources
Regent Policy Document 25-5, Information Technology: Information Security

System Security and Access Audit Status

	UWSA	Eau Claire	Green Bay	La Crosse	Madison	Milwaukee	Oshkosh	Parkside	Platteville	River Falls	Stevens Point	Stout	Superior	Whitewater
Audit Status														

- Report issued, and comments closed
- Report issued, and Internal Audit is auditing management's response to close comments
- Report issued, and management is addressing comments
- Audit reporting in process (Plan to issue reports in July 2019)

System Security and Access Audit Comment Themes:

- Authentication requirements, including multi-factor
- Data classification and protection
- Audit documentation requirements
- Varying interpretations of risk and policies

UW SYSTEM RESPONSE TO THE LEGISLATIVE AUDIT BUREAU'S REPORT 19-5 EXECUTIVE SUMMARY

BACKGROUND

In May 2019, the Legislative Audit Bureau (LAB) completed its fiscal year 2018-19 management audit of the UW System. LAB identified the following areas for review during this audit: program revenue balance reporting, UW System's personnel systems, and the relationships between UW System institutions and primary fundraising foundations, real estate foundations, and other affiliated organizations. At the May 2019 joint meeting of the Business & Finance and Audit Committees, regents received an update on LAB's Report 19-5 regarding UW System actions to improve upon the management and transparency of its relationships with foundations and other affiliated organizations. Time constraints prohibited the joint committee from completing the full review of LAB's report 19-5.

REQUESTED ACTION

This item is for information only.

DISCUSSION

The discussion will focus on the continuation of the previous update to the Board of Regents' Audit Committee on LAB's Report 19-5, specifically: (1) revenue from tuition and fees and the increase in nonresident enrollment trends over the last ten years; (2) review of program revenue balance reporting, (3) planned/future improvements to the UW System and UW-Madison personnel systems; and (4) if applicable, any further developments since the June 2019 joint meeting of the Business & Finance and Audit Committees relative to institutional relationships with affiliated organizations.

1) Tuition and Enrollment Trends

LAB reviewed tuition and fees over the last ten years and noted increases in nonresident enrollment in the aggregate for the UW System. There were no recommendations for further action included in this section of the report.

2) Program Revenue Balance Reporting

LAB reviewed UWSA's 2017-18 Report on Program Revenue Balances by Institution and Level of Commitment ("PR Balances Report"), as reviewed and approved by the Board of Regents in October of 2018. Several recommendations were included for further action by UW System that will be specifically addressed by Sean Nelson, Vice President for Finance.

3) Personnel Systems

LAB highlighted policies at UW institutions that did not consistently comply with UWSA policy and, further, indicated that some institutions lacked published guidelines. Several recommendations for the UW System are included in LAB's review that will be specifically addressed by Shenita Brokenburr, Senior Associate Vice President and Chief Human Resources Officer. LAB also noted recommendations specific to UW-Madison to improve policies related to extraordinary salary ranges and to ensure grievance policies and procedures comply with statutory requirements.

RELATED BOARD OF REGENTS POLICIES

Regent Policy Document 21-9, Institutional Relationships with Foundations

Regent Policy Document 21-6, Program Revenue Calculation Methodology and Fund Balances Policy

University of Wisconsin System Fiscal Year 2017-18

May 2019

Report Highlights ■

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

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

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

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

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

The University of Wisconsin (UW) System provides postsecondary academic education through its 13 four-year universities, 13 two-year branch campuses associated with a university, and UW System Administration. Each of the 13 universities awards bachelor's and master's degrees, and several also confer doctoral degrees. The 13 two-year branch campuses offer general education associate degrees and course credits that transfer to the universities. UW System Administration consists of the UW System President, who is statutorily responsible for administering and maintaining fiscal control. The Board of Regents is statutorily responsible for establishing the policies necessary for governing UW System.

Effective July 1, 2018, the 13 colleges that were previously part of UW Colleges became two-year branch campuses that were merged with certain four-year universities and UW-Extension merged certain divisions with UW-Madison and UW System Administration.

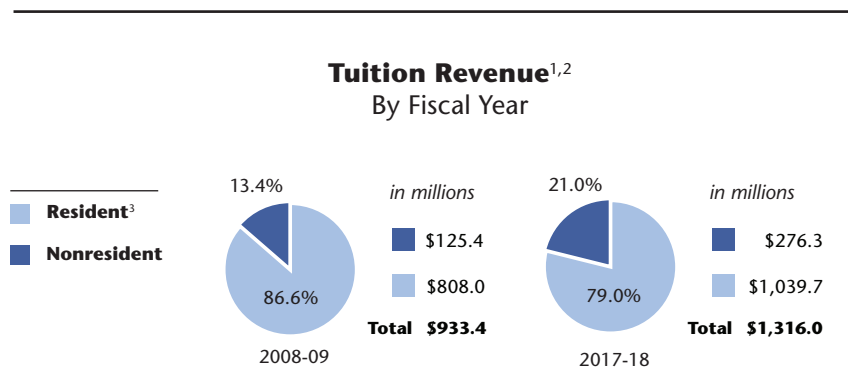
We are required by statute to perform an annual financial audit of UW System. As part of this audit, we assessed selected aspects of UW System's financial management and financial operations, including tuition revenue, program revenue balances, and personnel systems. In addition, we followed up on the status of recommendations we made in report 18-4, *Relationships between the University of Wisconsin and Certain Affiliated Organizations*.

Revenues and Expenses

For FY 2017-18, UW System's revenue totaled \$5.3 billion and its expenses totaled \$5.1 billion on the basis of generally accepted accounting principles (GAAP). Tuition and Fees was UW System's largest revenue source in FY 2017-18 and totaled \$1.3 billion, or 24.3 percent of its total revenues. UW System's largest expense was Salary and Fringe Benefits, which totaled \$3.2 billion, or 63.1 percent of total expenses for FY 2017-18.

Tuition

Total tuition revenue increased from \$933.4 million in FY 2008-09 to \$1.3 billion in FY 2017-18. Although nonresident tuition revenue has increased each year since FY 2008-09, resident tuition revenue has decreased each year since FY 2013-14.



¹ Tuition revenue is on the cash basis of accounting.

² Excludes revenue attributed to the master's of business administration program and includes differential tuition at UW-Madison.

³ Includes revenue related to the Minnesota-Wisconsin Higher Education Reciprocity Agreement.

Key Facts and Findings

Tuition and Fees was UW System's largest revenue source and was \$1.3 billion for FY 2017-18.

Resident enrollment has declined by 12,881 students from academic year 2008-09 to academic year 2017-18.

Nonresident enrollment has increased by 10,558 students from academic year 2008-09 to academic year 2017-18.

Program revenue balances without a restriction on their use increased from \$851.6 million as of

June 30, 2017 to \$906.9 million as of June 30, 2018, or by \$55.3 million.

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

UW System did not ensure appropriate policies and procedures were implemented for some areas of its new personnel systems.

UW System's administrative policy does not require a complete accounting of all administrative support that a UW institution provides to an affiliated organization.

Tuition revenue is largely affected by changes in tuition rates and enrollment. Although most institutions have increased nonresident and graduate tuition rates, resident undergraduate tuition rates have been frozen at the 2012-13 academic year levels since FY 2013-14.

Although resident enrollment across UW System declined by 12,881 students from 138,018 students in academic year 2008-09 to 125,137 students in academic year 2017-18, nonresident enrollment increased by 10,558 students, from 21,639 students in academic year 2008-09 to 32,197 in academic year 2017-18. UW System attributes the decline in resident enrollment to fewer Wisconsin high school graduates, changes in regional demographics, and faster college graduation rates.

Program Revenue Balances

As of June 30, 2018, UW System's total program revenue balance was \$1.3 billion on a budgetary basis. UW System Administration reported to the Board of Regents the fiscal year-end balances for each institution for program revenue funding sources that did not have a restriction on their use, such as tuition and federal indirect cost reimbursement. On a budgetary basis, these unrestricted program revenue balances increased from \$851.6 million as of June 30, 2017, to \$906.9 million as of June 30, 2018, or by \$55.3 million.

Since the implementation of program revenue balances reporting in FY 2013-14, unrestricted program revenue balances have decreased at eight institutions and have increased at nine institutions. We identified concerns with reporting of program revenue balances for UW-Oshkosh, as well as concerns with its accumulated balances for auxiliary services.

In February 2019, UW-Oshkosh reported to the Board of Regents that it had a program revenue balance of \$7.0 million that had been unused for about six years. We found that UW-Oshkosh has increased student housing rates over the past 10 years, despite having an available program revenue balance that could have been used to offset or perhaps avoid room rate increases. We also found that UW-Oshkosh reported debt service expenditures as being funded by both this program revenue balance and by its current year revenue.

New Personnel Systems

2011 Wisconsin Act 32 required the Board of Regents to develop a personnel system for all UW System employees except UW-Madison employees, and for the UW-Madison Chancellor to create a personnel system for UW-Madison employees. These personnel systems were to be established separate from the state civil service system, and were to be implemented on July 1, 2015.

UW System Administration established policies and required institutions to develop guidelines to administer pay plan increases and other types of pay adjustments. However, UW institutions did not develop guidelines that followed UW System Administration's policy nor ensure appropriate

documentation was maintained to support pay plan increases or merit-based adjustments that we reviewed. We also identified concerns with policies for extraordinary salary ranges and identified employees who were paid outside of an approved salary range.

Affiliated Organizations

UW institutions have relationships with various affiliated organizations, including primary fundraising foundations and real estate foundations. We made several recommendations in report 18-4 to improve the oversight and monitoring of these relationships. In our current audit, we found UW System took some steps but did not complete implementation of all of the recommendations from report 18-4. For example, UW System:

- has not reviewed all memoranda of understanding and operational agreements with primary fundraising foundations and real estate foundations; and
- has not reviewed for appropriateness a sample of payments from UW institutions to other affiliated organizations that are not primary fundraising foundations or real estate foundations.

UW System did not seek to establish a Board policy to govern affiliated organizations that are not primary funding foundations or real estate foundations. Instead, it implemented an administrative policy requiring UW institutions to annually report to UW System Administration the administrative support provided to an affiliated organization if the amount is \$100,000 or more net of amounts reimbursed by the affiliated organization.

However, the administrative policy does not require a complete accounting of all costs and benefits, a calculation of the return on investment the UW institution is making in the affiliated organization, or that a cost-benefit report be completed for all affiliated organizations.

The administrative policy also does not address how the cost-benefit reports will be evaluated by UW System Administration nor does it specify what information, if any, will be formally reported to the Board of Regents.

Recommendations

We include recommendations for UW System Administration to report to the Joint Legislative Audit Committee by August 30, 2019, on its efforts to:

- ☑ provide guidance to UW institutions to ensure accurate reporting in the program revenue balances report and that balances are considered when establishing auxiliary service rates ([p. 42](#));

- ☑ ensure UW institutions have developed guidelines that comply with UW System’s policy for granting pay plan increases and merit-based adjustments, and include guidance on the appropriate payroll system codes to be used to record merit-based adjustments ([pp. 54](#) and [55](#));
- ☑ revise its policy for administering extraordinary salary ranges, require UW institutions to develop guidelines, and evaluate whether the guidelines have been consistently complied with ([p. 58](#)); and
- ☑ review grievance procedures of all UW institutions and ensure the procedures meet statutory requirements ([p. 62](#)).

We also recommend UW-Madison ensure its staff are trained on its policy on extraordinary salary ranges and that such ranges are approved in compliance with the policy ([p. 60](#)), and revise its grievance policy to meet statutory requirements ([p. 63](#)).

In addition, we largely repeat the recommendations from report 18-4 regarding affiliated organizations ([p. 69](#), [p. 72](#), [p. 78](#), [p. 79](#) and [p. 80](#)). We also recommend UW System Administration revise its administrative policy and cost-benefit report to require all UW institutions to provide an accounting of all of the costs and benefits of the relationships with each affiliated organization, revise the spreadsheet it uses to review certain documents in order to determine compliance with Board policy, and report the status of its efforts to the Joint Legislative Audit Committee by August 30, 2019 ([p. 69](#) and [p. 77](#)).

Issue for Legislative Consideration

As noted in report 18-4, the Legislature could modify statutes to require certain UW employees to annually file statements of economic interests with the Wisconsin Ethics Commission and define UW employees who also work for affiliated organizations to be state public officials ([p. 81](#)).



Legislative Audit Bureau | State Auditor: Joe Chrisman

Address questions regarding this report to the State Auditor at (608) 266-2818 or at AskLAB@legis.wisconsin.gov.