

Surprising UW Cash Reserve Needs Audit

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MADISON - “What’s happening to the UW reserve money?” the woman asked. She was concerned about criticism of the University of Wisconsin. “It seems like they want to attack the UW,” she told attendees at the Mondovi Town Hall Meeting.

A recent memo from the Legislative Audit Bureau (LAB) and the Legislative Fiscal Bureau (LFB) revealed nearly a billion dollars in what appeared to be reserve funds carried over from the last budget year.

Legislative leaders reacted by calling for a freeze on UW tuition. Other lawmakers want to cancel the promised \$181 million increase to the UW. University officials cautioned most of the money was obligated to student financial aid or support of high demand programs like business and engineering. They say unrestricted does not mean uncommitted.

Nothing was clear except the UW’s so-called “unrestricted net assets” took a big increase in the past few years.

LAB reported in January the sizable growth of UW unrestricted net assets – or dollars not restricted by the funding source. Auditors reported UW unrestricted assets at \$860.2 million. These assets increased by \$624.9 million over five years.

The discovery of a large sum of unrestricted net assets comes on the heels of sustained tuition increases. It also comes at a time when the Legislature gave the UW new freedoms in how to spend money.

In recent years, as state funding to the UW dropped, university officials asked for and were granted new authorities. Changes in the last budget made funds formerly directed for a specific purpose into a flexible block grant; to allow the UW to spend as it saw fit while honoring the needs of all campuses.

New authorities granted in the last budget allowed the UW to set its own travel policies. Beginning this summer the state gave the university system contracting authority for supplies and materials unique to the UW, and the UW Madison was to develop a new system-wide personnel system.

This decision was made after many problems and much expense with the last personnel system. Even with recognition of the system's problems, officials failed to stop recent overpayment of the health insurance and retirement of some employees. This discovery led the Joint Committee on Audit to approve an investigation of the UW personnel system as its first audit of 2013.

The discovery of large sums in reserve fractured the trust building between the UW and the Legislature. Sharp words and threats came from leaders when details about the exact purpose for which the money was set aside were hard to find.

My legislative colleagues on both sides of the aisle called for a freeze in tuition. Some said planned UW budget increases should be scrapped.

The surprise in the Legislature over the discovery of these dollars may reflect the general obscurity of the financial matters of the state and not any attempt by the UW to conceal cash.

Across the country, as in Wisconsin, legislators turn to the Comprehensive Annual Financial Report (CAFR) to learn of the state's fiscal health. Hoping to find cash to balance the budget, legislators identify what appear to be cash balances.

But few state reports are as opaque as the CAFR. Auditors examine finances according to governmental accounting standards. While this method may assist bonding agencies in

comparing risk, it does not provide legislators with necessary detailed financial and management information. So in Michigan, California and Wisconsin lawmakers seek funds the universities say are already committed.

Exactly what money is in reserve and what money is already committed is unclear.

This is why my Audit Committee colleagues and I recently directed the Legislative Audit Bureau to review the dollars and their oversight.

It is right for us to ask questions and we know the questions to audit: are the unrestricted net assets commitments or reserves? They can't be both. What is the appropriate level of reserves necessary for a \$5.5 billion operation like UW? What oversight do system officials provide and is this oversight adequate?

My legislative colleagues should slow their rush to judgment until auditors complete their investigation. It's always better to make decisions based on facts.

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