Financial Internal Controls Initiative

Current State Conversation

September 30, 2015

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Financial Information Management
&
Financial Reporting Team

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Financial Information Management & Reporting

- Purpose is to “anchor” other process improvement teams.
- Provide uniform and consistent requirements for financial data integrity and reporting across financial processes.
- Formed three subteams:
  - Financial Reporting
  - Entry to General Ledger (GL)
  - Account Reconciliation

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Financial Information Management & Reporting

Area	Unit	Anchor-Entry to GL	Anchor-Acct Reconciliation	Anchor- Reporting
Administrative Unit	Accounting Services	X	X	X
Auxiliaries	Athletics	X		
Schools/Colleges	College of Engineering			X
Schools/Colleges	College of Letters & Science	X		X
Administrative Unit	DoIT	X		X
Administrative Unit	Facilities Planning & Management	X		
Auxiliaries	Housing	X		X
Administrative Unit	Madison Budget Office	X		
Administrative Unit	Office of Human Resources			X
Schools/Colleges	School of Pharmacy		X	
Administrative Unit	Research & Sponsored Programs	X	X	X
Schools/Colleges	School of Business			X
Schools/Colleges	School of Education	X		
Schools/Colleges	School of Human Ecology	X		
Schools/Colleges	School of Medicine & Public Health	X	X	
Affiliate	UW Health	X		
Schools/Colleges	VCRGE	X		
Schools/Colleges	School of Veterinary Medicine	X	X	X
Auxiliaries	Wisconsin Union	X	X	

Reviewed 246 separate financial reports gathered from 31 campus units

Interviews & Process Walks

9 Schools/Colleges
6 Administrative Units
3 Auxiliaries
1 Affiliate
19 Total

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Key Themes/Discoveries

- UW-Madison currently cannot prepare institution-wide GAAP/GASB financial statements; UW-System prepares on our behalf.
- Some campus units prepare GAAP financial statements, but most do not.
  - Schools/Colleges: do not need them; no policy requirement; managers focus on expenditure monitoring (less on revenue).
  - Auxiliaries: do need them; required by UW-System policy; managers focus on revenue due to nature of business.
- Difficult to define an "auxiliary enterprise" since the term changes meaning.
- Business needs have driven the adoption of shadow systems which allow more precise coding and better reporting than what is currently available to UW-Madison in the SFS General Ledger.
- Shadow systems are used to:
  - pull from SFS on the expenditure side (e.g., via data queries)
  - feed to SFS on the revenue side (e.g., via JET entries)
  - provide a full alternate general ledger

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Key Themes/Discoveries

Types of Financial Reports In Use

		Schools & Colleges	Auxiliaries & Student Services	Central Admin Units	Other
GAAP/GASB	Income Statement	25%	100%	33%	57%
	Statement of Cash Flows	8%	100%	33%	33%
	Balance Sheet	0%	67%	33%	14%
Other	Activity Report (similar to WISDM)	100%	78%	33%	57%
	Summary of Expenditures	25%	67%	100%	43%
	Budget Balance Available	25%	44%	33%	29%
	Carryforward Monitoring	8%	44%	67%	29%
	Receivables Monitoring	17%	22%	67%	14%
	Shadow System Reconciliation	0%	56%	0%	0%
	Inventories Monitoring	0%	11%	33%	0%
	FYE Submission (for UW System)	0%	22%	0%	0%

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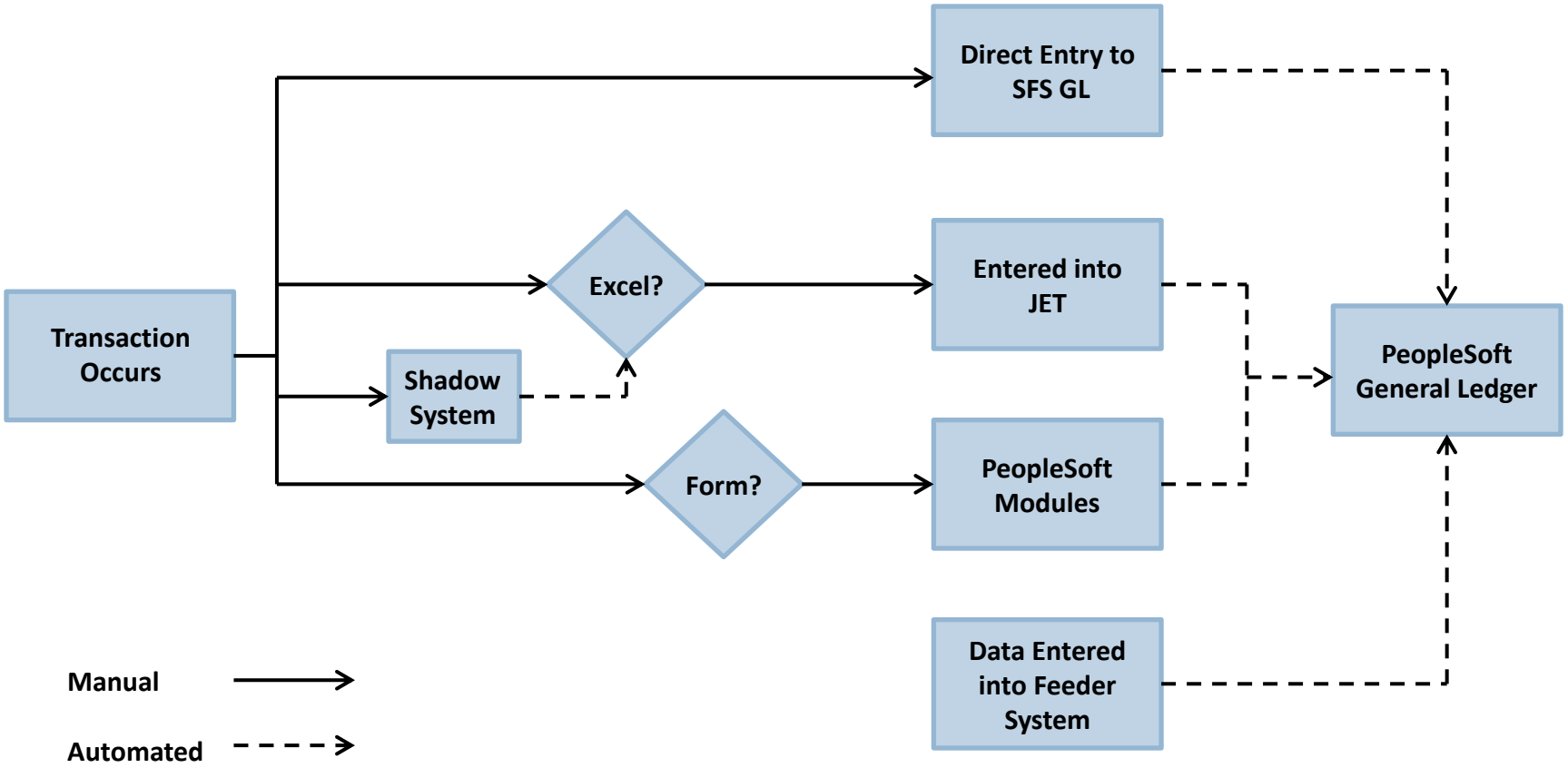
Entry to GL: High Level Process Map



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Entry to GL: Key Themes/Discoveries

- Current access roles and permissions within the SFS General Ledger do not have the granularity needed to match individual user requirements on campus.
- An external entity has access to make entries into the SFS General Ledger.
- JET is liked around campus because it's easy to use and convenient but there is little security or consistency in review/approval and monitoring.
- Despite best efforts, maintaining appropriate access to JET is difficult.

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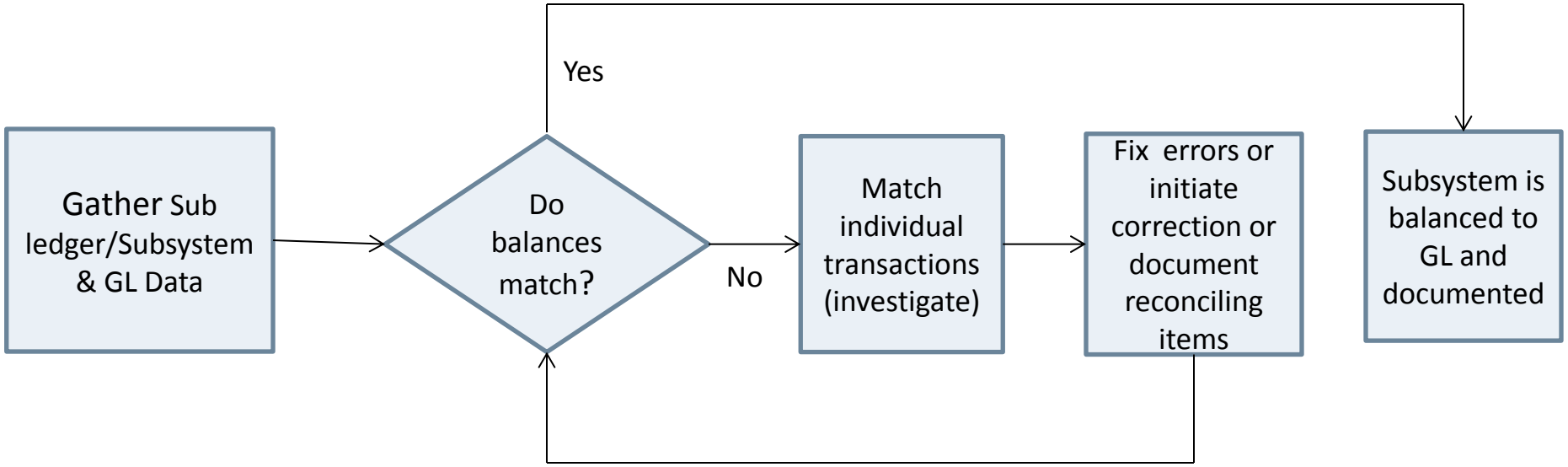
Account Reconciliation: High Level Process Map



***Definition of Reconciliation**: Balancing data in independent source to General Ledger. Check agreement of the two to each other.*

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Account Reconciliation: Key Themes/Discoveries

- Almost a third of the reconciliations were cash related (cash receipts, bank reconciliations), which emphasized the focus on campus for having effective cash reconciliations.
- High degree of inconsistency in reconciliations.
- 25% of reconciliations are to Great Plains, a non-SFS general ledger.
- Each type of area tended to have their own characteristics:
  - **Central Admin Units**: More in number and more advanced reconciliations (e.g. , automated, system to system).
  - **Schools/Colleges**: Focused on revenue deposits and receivables.
  - **Auxiliaries**: Often use a full general ledger (e.g., Great Plains) and supporting modules (e.g., Fixed Assets, A/R). As result, they have the most comprehensive set of reconciliations.

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Overall Lessons Learned

- Inconsistent financial processes and terminology used across campus.
- Campus units are highly reliant on manual processes.
- Many transactions, for revenue in particular, require multiple entries prior to reaching their final destination.
- There is unclear or non-existent financial policy for Financial Reporting, GL Entry, and Account Reconciliation.
- People want to do the right thing; overall everyone that we have talked to were supportive of the effort to improve financial internal controls.

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Revenue Team

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Project Goal

To recommend an institutional process for control of revenue and related AR records.

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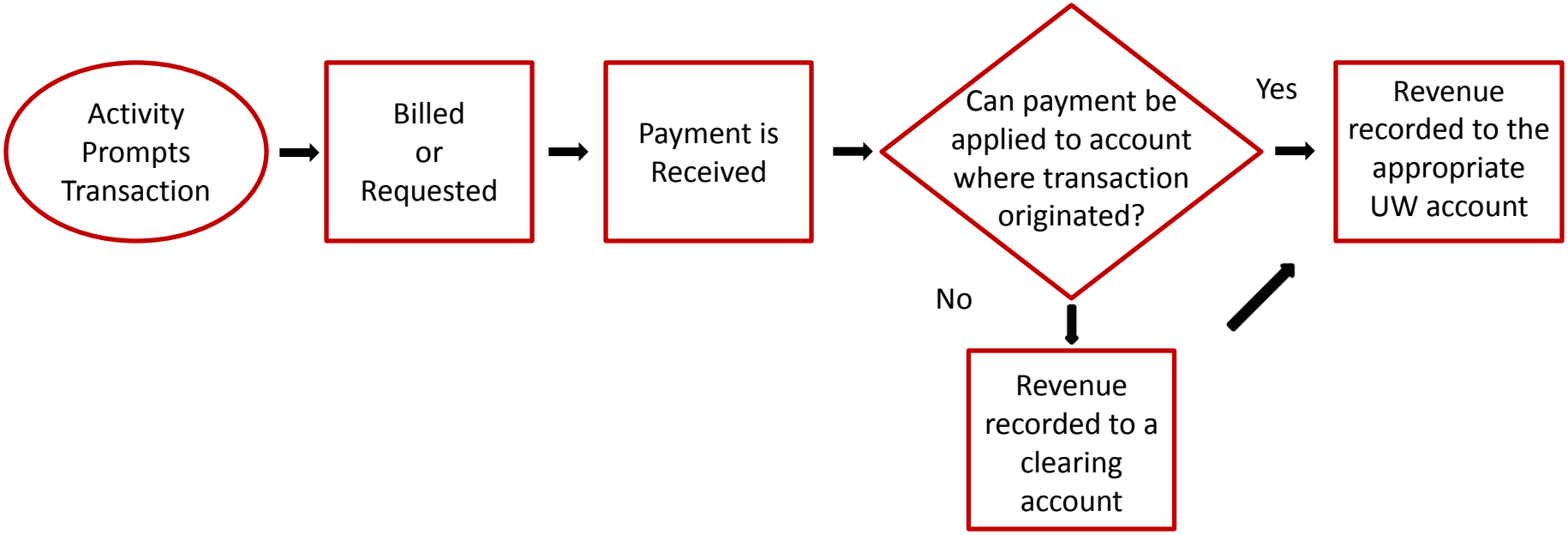
High Level Process Map



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Revenue and Accounts Receivable

- Identifying divisions:

Account Code Analysis by Program/Division

Sum of Total			Fiscal Year	
Prog - Desc	Divisio	Div Name	2014	2015
0-Student Services	02	General Services	$482,873.85	$397,676.51
	04	Dean of Students	$477,129.91	$406,728.55
	05	Enrollment Management	$1,316,427.98	$591,224.95
	06	Information Technology		$0.00
	12	School of Business	$262.14	
	17	School of Education	$351,282.44	$163,161.39
	19	College c		
	34	Vice Char		
	37	WiScience		
	42	Intercolle		
	45	Law Scho		
	48	College c		
	53	Medical S		
	57	Univ Heal		

Fiscal Year	2015
Acct - Desc	(All)

Row Labels	Acct Descr	Sum of Total	Count of FundOrgProj
9050	Sales Credits-Internal	$301,226,338.73	1,031
9051	Sales Credits-External	$7,620,252.00	199
9060	Sales Credits-Electricity Sold	$3,696,319.77	2
9061	Sales Credits-Internal Heat	$2,018,951.83	2
9062	Sales Credits-Heat Sold	$8,106,729.31	4
9100	Summer-Tuition & Fee Clearing	$4,023,404.16	17
9101	Summer-Resident-Undergrad	$8,899,881.45	2
9102	Summer-Special Course Fees	$6,375.00	5
9103	Summer-Resident-Grad	$5,835,596.09	25
9105	Summer-NonResident-Undergrad	$4,294,382.89	1

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Definition of Revenue

Internal:
Revenue resulting from transactions between departments within UW-Madison.

External:
Revenue resulting from transactions with any individual or entity outside of the UW-Madison.

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Voice of Customer

Interviewed a primary financial leader (Martha Kerner):

- Both cash and accrual accounting are needed
- Must be able to validate financial statements
- Important to define revenue for UW-Madison
- Need a single source of truth/book of record

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Key Themes and Observations

- High degree of variability in revenue reporting/recognition
- Inability to verify data in financial statements
- Heavy use of clearing accounts
- Lack of standard operating procedures
- Crossover with Internal Billing, Cash Handling, and Anchor teams

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We were surprised by…

- Complications defining internal/external revenue
- The difficulty in defining when to recognize revenue, as campus and as divisions
- Sheer number of revenue types and how they must be handled
- Variability on campus in reporting common types of revenue

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Next Steps

Scheduling ‘walk the process’ meetings with a subset of stakeholders on campus:

- Types and volume of revenue
- Size of department
- Reporting revenue but not A/R
- Institution’s reputational risk

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Cash Handling Team

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Project Goals

- Control receipt, deposit and safeguard cash
- Meet regulatory requirements
- Provide accurate financial reporting
- Promote the use of electronic forms of payments
- Promote the detection of fraud

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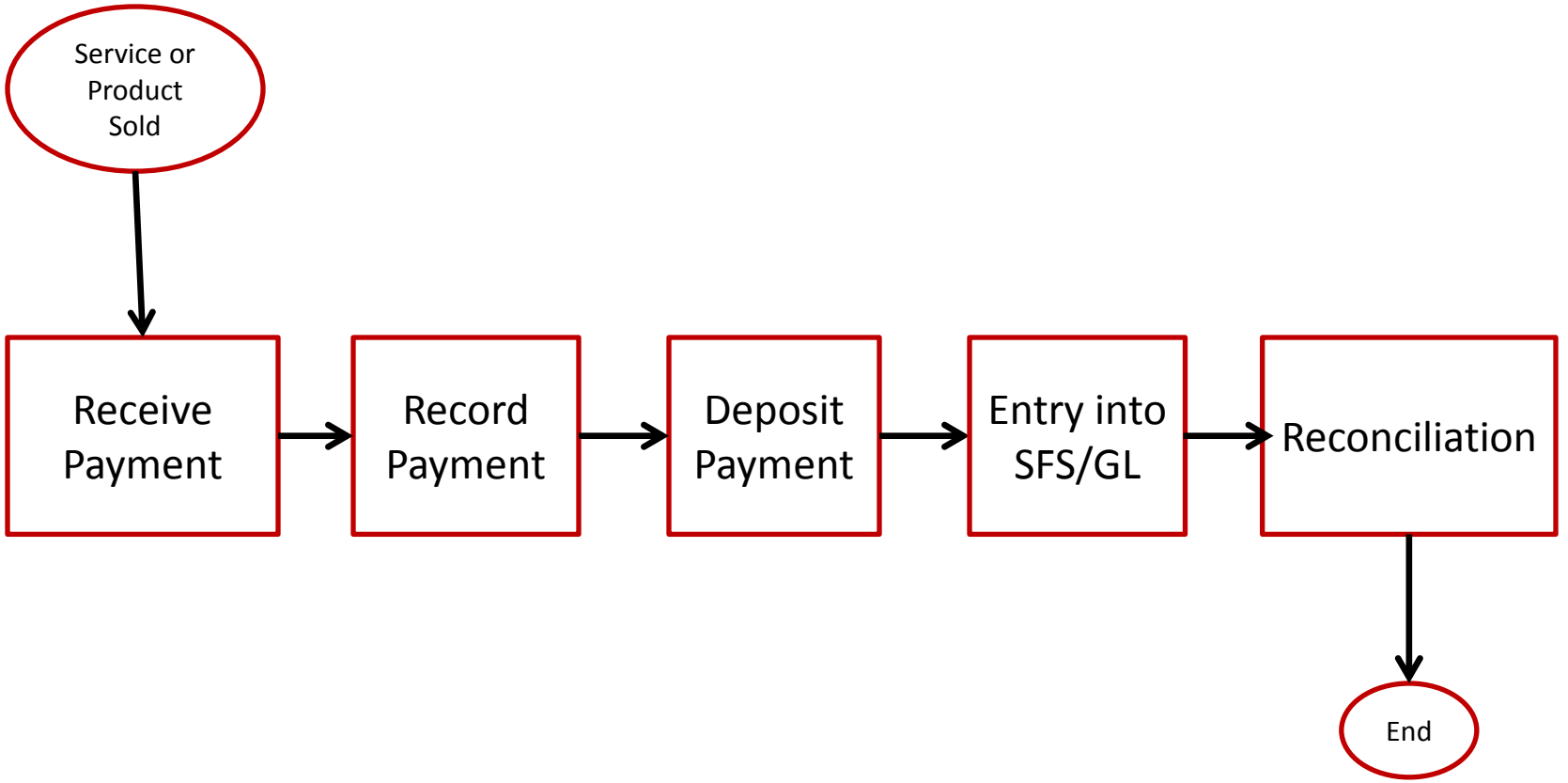
High Level Process



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Who cares about Cash Deposits

- Consumer: Customers who actually make payment to the University
- Senior Financial Leadership who manage and accounted for payments received
- Business unit and administrators

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Cash Entry

- Point of Sales (Badger Markets, Hoofers, DoIT Tech Store, etc.)
- Tuition, Fees and Housing Payments
- Conference Services
- Public sales (SWAP, Dairy Store, Parking, etc.)
- Off-campus locations
- Fee for Service Customers

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Types of Cash

- Cash and coins
- Checks and electronic checks
- ACH/Wire transfers
- Credit Card
- Custodial fund transfers

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Early VOC

- Some purchasers depend on using cash and checks only
- Some units rely on sophisticated point-of-sale systems
- Lost customer payments are inconvenient for everyone
- Bonus VOC from another APR project: dissatisfaction with limited payment options

Key Observations

- Overlap with revenue team
- Large volume of transfers with variety of clearing accounts
- No central Accounts Receivable system
- Cash Controls vary with shadow systems
- Almost every unit interviewed has both internal and external payment processes

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Next Steps

- Walk the process
- Gathering data

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Internal Billing Team

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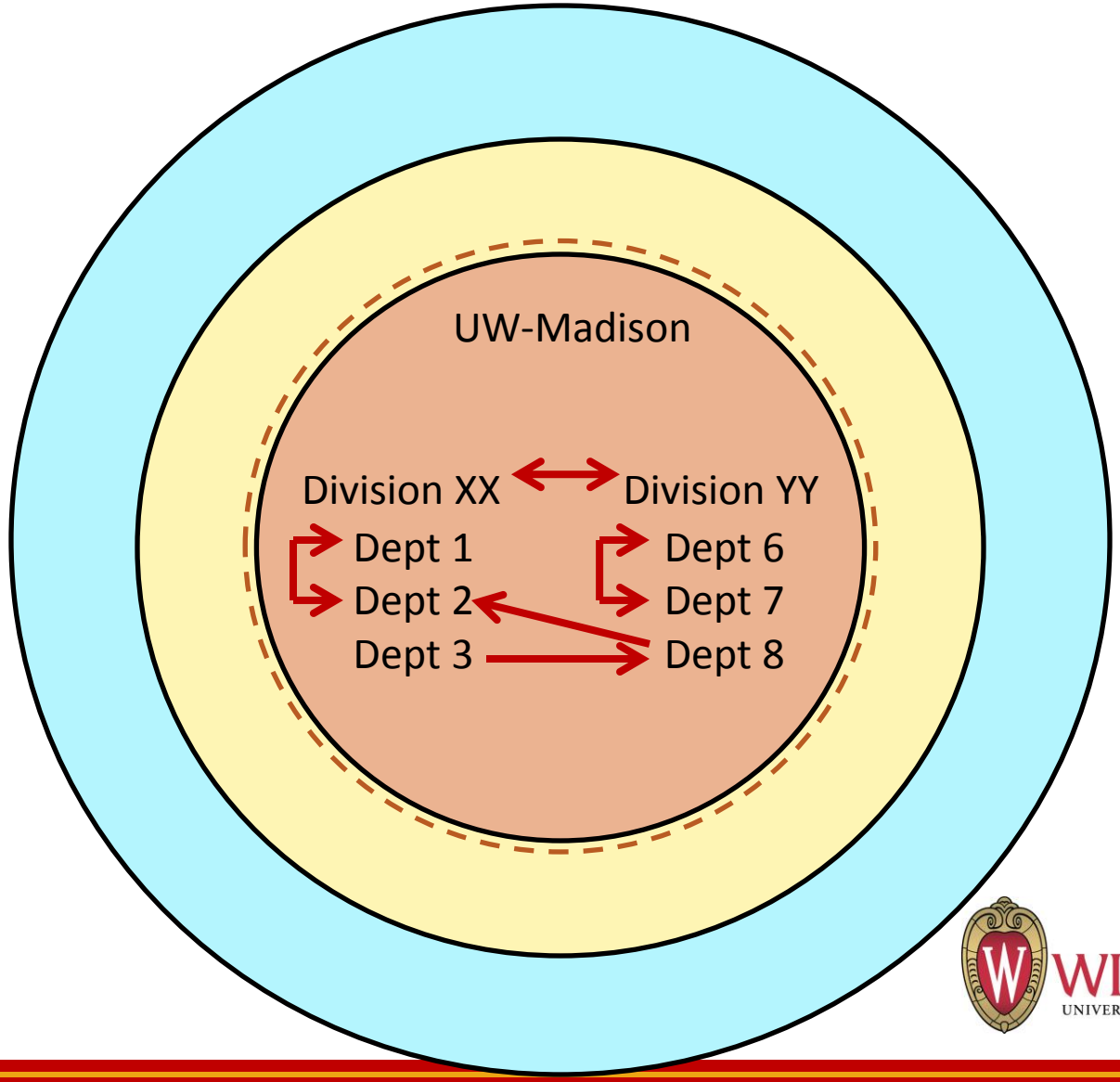
What is Internal Billing?



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Why Care About Internal Billing?

- Estimated FY15 internal expenditure activity:
  - $480+M spanning ~ 500K transactions
- Costs of internal economy:
  - FTE time
  - P-card bank fees
  - Risks and reputational costs
- Inconsistent rates create audit risks
- Timing of invoices is critical to grant closure, payments and managing campus budgets

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Project Goals

- Re-design/design processes to ensure internal billing processes meet:
  - Efficient and effective billing communication and payment between UW-Madison's customers and goods/services providers
  - State and Federal charging and accounting guidance
  - Financial internal controls objectives
- Provide guidance for fiscally responsible charge thresholds, billing practices and payment methods

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Project Orientation

Three Internal Billing Processes:

Establish New Service Provider	Annual Rate Setting	Transactions

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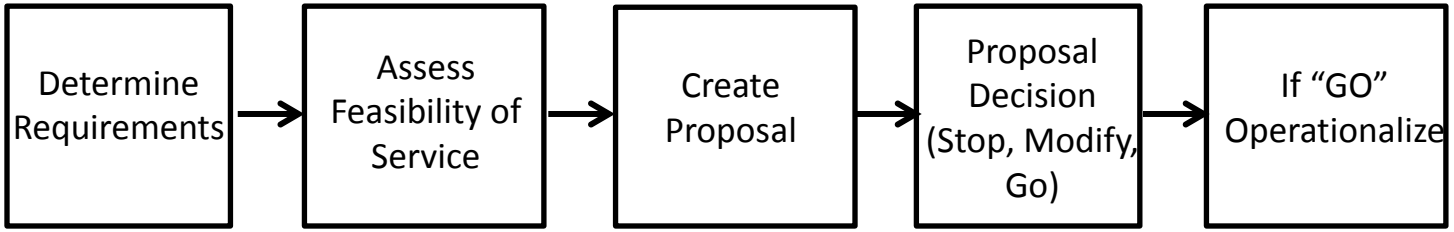
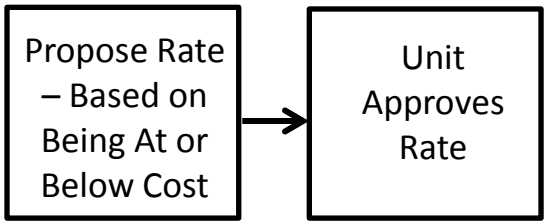
Process Maps

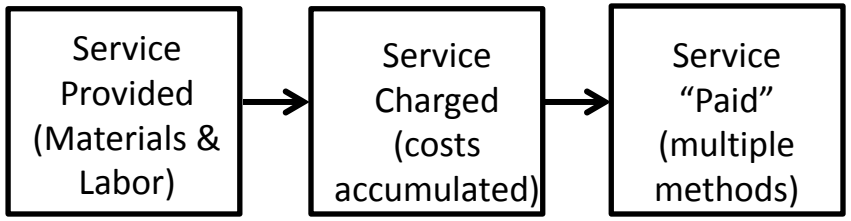
Establish New Service Provider



Annual Rate Setting



Transactional



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Discoveries and Observations

- Wide range of campus service providers
- Wide range of billing systems / capabilities
- Multiple payment methods used
- No current policy on the timing and information content of internal invoices
- Grant payments have been affected

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Voice of Customer

- Initial VOC round focused on service “buyers” and therefore mostly on transactions process
- Discussions targeted with budget owners and financial personnel

Emerging Customer Wish List

- Consistent invoice content and monthly frequency
- Approvals, routing and attachments like cost transfer tool
- Ability to preview charges/resolve issues in advance
- Clearer guidelines, policies, procedures
- Improve training and skills of financial personnel

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Next Steps

- Leverage available payment data (p-card and JET) to identify more areas of inquiry
- Conduct process walks
- Additional VOC interviews

Procure to Pay Team

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Scope and Goals

Scope

The Procure to Pay process includes everything from the intent to purchase through payment and reconciliation.

Goal

A redesigned process recommendation for managing purchasing and vendor payments.

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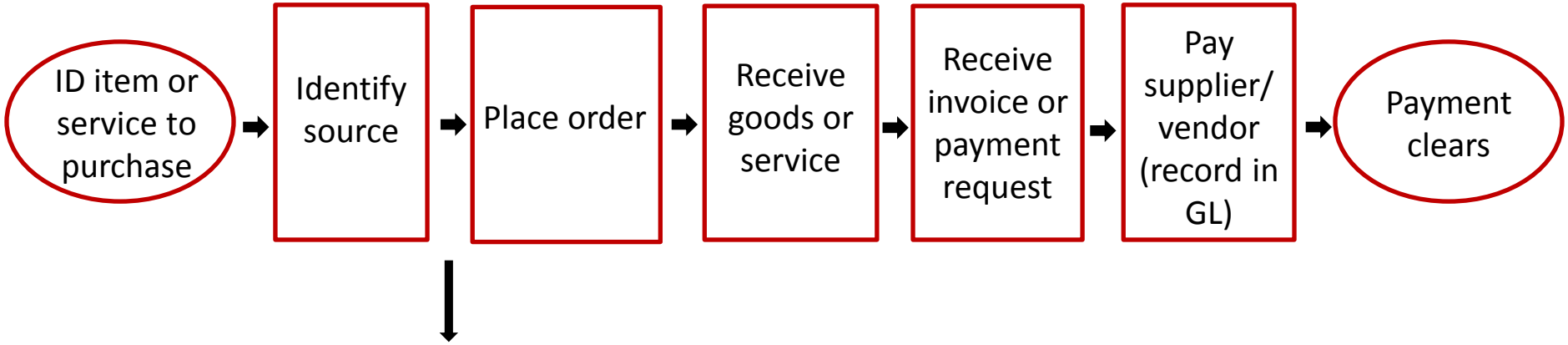
High Level Process Map



Complex sub-processes exist depending on:

- Type of item
- $ amount
- Method of purchase
  - DP/PIR, Travel, P-Card, PO, ecommerce

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Customers

- The customer is defined as the person who receives the product or service. *In other words, almost everyone on campus.*
  - Identified customers to get a representative VOC sample based on:
    - type of customer (lab, school, admin, etc.)
    - spend level (high, medium, low)
    - spend categories (e.g. food, lab supplies, etc.)

Voice of Customer

- Satisfaction, pain points, tools, guidance, tracking, resource stewardship
- VOC question broken into two distinct pieces: purchasing process and payment process.

Early Voice of Customer…

- Frustration with state procurement rules
- Online tools could be improved / more user friendly (Shop@UW and ImageNow)
- Fewer manual processes which take too long
- Need an electronic 1-stop shop
- Kudos to Purchasing/Accounts Payable staff
- Love P-Card

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Next Steps

- Complete “Voice of the Customer” interviews and analysis
- Complete “Process Walks”
- Begin to gather data

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Inventory Team

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Goals from Charter

- Record, safeguard incoming and outgoing items while on hand
- Provide accurate information for financial reporting
- Meet managerial cost controls
- Promote fraud prevention and detection
- Introduce continuous monitoring and improvement activities

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Who cares about Inventory:

- Consumer: Customers who actually use or buy the products stored in inventory
- Inventory Managers who control inventory levels in individual departments
- Senior financial leaders who ensure accurate accounting of inventory

Project Scope

Capital Equip.
>$5,000 last longer than 1 year

Non-Capital Equip.
<$5,000 last longer than 1 year

Resale/supply inventory consumed in less than 1 year

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Examples of Inventory

Items to be consumed or resold within 1 year

- Food & Beverages
- Store merchandise
- Art work for sale
- General supplies
- Lab supplies
- Office supplies
- Maintenance replacement parts
- Instrument component parts

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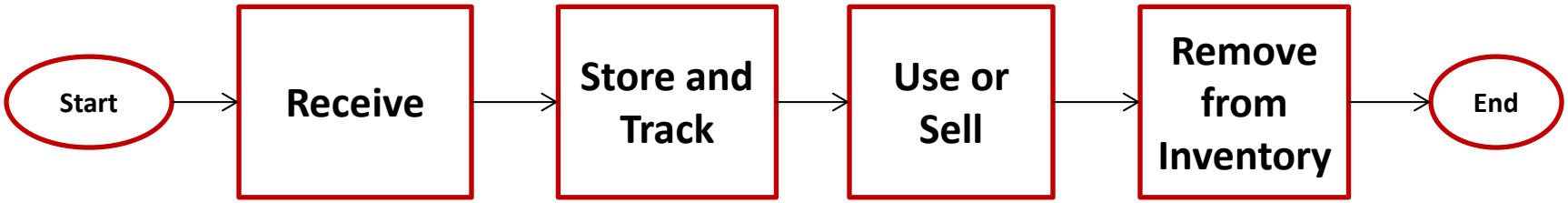
Challenges/ Gray Areas

- Materials not scheduled to be used in the next year
- Music equipment (instruments, uniforms, etc.)
- Dining trays, table linens or silverware
- Art, antique furniture or other collections not for sale

High Level Process



Key Observations

- Impact of definition of inventory
- Crossover with Capital Equipment Team related to assets under $5,000 but important to track
- Divisions track inventory in different ways

Next Steps

- Modify charter to include non-capital equipment tracking less than $5,000
- Finishing with Voice of the Customer
- Identify areas and conduct process walks

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Capital Equipment Implementation Team

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Project Focus and Goals

Project Focus

- Capital equipment assets (≥ $5,000 value, mobile and useful life > 1 year)

Project Goals

- Implement new capital equipment property control process across campus
- Provide accurate capital equipment valuation and depreciation information for financial reporting
- Verify new process complies with Sponsoring Agencies' and UW-System rules, and is compatible with UW-Madison's financial internal controls objectives

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Phase 1 of Capital Equipment Project

Lean-Six Sigma Project Sept 2014 – Jan 2015

- ✓ Asset Life-Cycle: Intake, In Use, Exit/Disposal
- ✓ External Benchmarking
- ✓ Couldn't Redesign → Design
- ✓ Brainstormed & Distilled >200 Improvement Ideas
- ✓ Deferred Transfer processes to Phase 2

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Phase 1 Key Conclusions

- Inconsistent /overly complex policies and procedures
- Unclear roles and responsibilities; no training
- Hybrid central/DPA model right, but DPA's out of loop
- Infrequent physical inventories → harder to manage
- Antiquated, inefficient paper-based process
- Campus disposal process needs overhaul

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Phase 1 Recommendations

- Future State Process Maps – Each Life-Cycle Stage
- 12 Areas – 47 Specific Recommendations Spanning:
  - Policy and Procedures
  - Organizational Roles and Responsibilities
  - Technology: Tagging, Workflow, Asset Management Software
  - Training
- Sponsors Approved ALL Recommendations

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Phase 2 Implementation Team – June to Date

- ✓ 3 Transfer Processes (In/Out/Inter-Departmental)
  - Draft Recommendations & Process Maps
  - Finalization pending statutory clarifications
- ✓ New/Improved Policies & Role Clarifications
  - 6 Policy and 1 Procedure drafts in progress
  - DPA Role & Responsibilities draft in progress
- ✓ Tagging Technology Improvements
  - RFID not at this time, improve barcode labels
  - New label order in progress, phase-in usage Oct 2015
- ✓ Met with Inventory Team

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Phase 2 Implementation – Cont'd

- ✓ Workflow/Asset Management Software
  - Most Challenging, Longest Lead-Time Item
  - De-centralized DPA model makes simple user interfaces very important
  - Evaluating PeopleSoft (PS) Enterprise and stand-alone options
    1) Preliminary requirements identified
    2) Participated in Overview Demos
    3) Technical Meeting with UW-System
    4) User Experience with UW-Milwaukee

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Phase 2 Implementation – Open Activities

1. Software – a Critical Path item:
    - Select Asset Management solution and/or Workflow Strategy
    - Determine Implementation Plan and/or Stop Gap Measures
2. Process Validation with UW-System
3. Training Resource – Develop Strategy, Curriculum Content and All Training Materials
4. Overall Roll-out Plan

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Lessons Learned

Phase 1 Recommendations

- Avoid temptation of jumping to conclusions and solutions too early
- Separate process need vs technology tools
- Believe you are empowered to consider changing any current policies, procedures, practices or job roles – it's true!

Phase 2 Implementation

- Good team mix: blend new members with Phase 1 members
- Don't under-estimate the process or time it will take to develop solid, prioritized requirements for technology decisions

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