

**FINANCIAL INTERNAL CONTROL INITIATIVE**  
**Summary of Work to Date**

September 2016

In April 2014, in conjunction with the first annual Financial Forum, a multi-year, enterprise-level Financial Internal Controls Initiative was launched. The overarching goal of the initiative was to attain excellence in financial stewardship. The key deliverable was to develop and implement a framework for Financial Internal Controls for UW-Madison utilizing the Committee of Sponsoring Organizations (COSO) Internal Control Integrated Framework as a guide.

An external consultant conducted an independent financial internal controls risk assessment and identified 12 processes as areas of focus for UW-Madison to update and strengthen in order to mitigate risks. Process redesign teams were launched for seven of the twelve processes identified, in partnership with the Office of Administrative Process Redesign (APR). The teams launched were Capital Equipment and Asset Tracking Valuation, Financial Information Management and Financial Reporting, Cash Handling, Revenue, Internal Billing, Inventory and Procure-to-Pay.

The teams began by analyzing financial information and data from the Deans and Directors of campus various units. In addition, a landscape scan gathered publicly available financial information to assist in assessing current practices in other higher education institutions.

To date, all seven teams have developed recommendations for process redesign. Alignment and prioritization of these recommendations will be followed by development of implementation plans and timelines. Except for the Capital Equipment and Asset Tracking Valuation team whose solutions are already in implementation. Timing and launch of the five remaining teams (Grants, Gifts/Development, HRS/Payroll Management, Scholarships/Financial Aid/Tuition Remission, and Costs Transfers) is being assessed.

Lean Six Sigma forms the basis of the process redesign methodology. Unlike traditional LSS projects, outcomes of the projects may not be fully driven by efficiency or cost savings. Rather, they are balanced with a defined standard of internal control. This work is done from a campus/institutional perspective.

To see the summary for each team, please link to the document on the project page at:

[www.bussvc.wisc.edu/intcntrls/projects](http://www.bussvc.wisc.edu/intcntrls/projects)

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## Financial Information Management and Financial Reporting Team Summary

Posted October 7, 2016

### GOALS

- Establish accounting processes and activities to ensure the integrity of financial data contained within the General Ledger.
- Provide a supporting structure necessary for the production and distribution of financial reports in accordance with stakeholder requirements and customer needs.

### BACKGROUND

This team will remain in effect through the duration of the other process improvement teams to “anchor” the other teams’ work to a comprehensive, consistent and cohesive framework for campus-wide financial information management and reporting. Priorities for subsequent work include building a comprehensive Chart of Accounts, developing a common set of financial reports, drafting the policy on reconciliation, controlling access to the SFS GL, identifying staff competencies, and developing training.

### RECOMMENDATIONS

#### Financial Reports

1. Assign responsibility for monitoring transactions to ensure data quality and appropriate use of resources. Common reports must be developed first to enable monitoring.
2. Define and monitor for uniform SFS funding string fields use as defined by a new policy. Improved definitions for “program code” and “account code” followed by training are recommended.
3. Strengthen existing policy on establishing and monitoring revenue producing activities.
4. Publish a comprehensive accounting policy manual including a glossary of terms to ensure we can operate according to consistent business practices.
5. Develop capacity to produce GAAP/GASB financial reports.
6. Explore the integration of shadow systems, which are systems put in place by campus units to meet business and reporting needs not met by Shared Financial System. The overall goal is to have one book of record for all financial transactions. We recognize in the interim, we may need to review and certify shadow systems to ensure they are reliable sub-ledgers.

#### General Ledger (GL) Entry

7. Overall, policies and procedures are to be written, easily accessible and enforced to support GL controls.
8. SFS direct entry access needs to be limited only to those that truly require it and a post entry monitoring process should be developed to control access on an ongoing basis.
9. Journal Entry Tool (JET) would be redesigned to limit users to only areas of the tool that each one needs. Redesign would include an audit trail, documentation capabilities and an entry review/approval workflow.
10. Establish criteria (roles, approvals, access, etc.) for shadow systems that provide outputs that are processed through JET. Shadow systems would be inventoried, reviewed centrally & certified.

#### Account Reconciliations

11. Establish policy defining account reconciliation requirements and developing a resolution tracking tool.
12. Develop a standard reconciliation format, then communicate and train balance sheet account owners.
13. Enable processes to support balance sheet reconciliations. This includes ensuring balance sheet data are available in SFS, there are tools to support the account reconciliation process including standard formats and guidance for addressing outstanding reconciling items.
14. Support balance sheet reconciliations by making data readily available in SFS and developing standard formats and guidance for addressing outstanding reconciling items.

## Revenue Team Summary

Posted October 7, 2016

### GOALS

- Control common revenue cycle activities.
- Provide accurate information for accrual-basis financial reporting.
- Allow for central aging of AR and tracking of related write-offs.
- Ensure the completeness of all contractual revenue streams.
- Meet requirements for sales taxes and unrelated business income taxes.
- Introduce continuous monitoring and improvement activities.
- Promote the prevention and detection of fraud.
- Accommodate the diverse business needs of UW-Madison divisions.

### BACKGROUND

UW-Madison generates revenue in diverse ways including via tuition, gifts, grants, and sales of goods and services. For day-to-day accounting, UW-Madison generally recognizes revenue when cash is received in accordance with cash-basis accounting. At fiscal year-end, UW-Madison centrally compiles supporting schedules from across campus then gives them to UW System who uses them to adjust revenue to accrual-basis for financial reporting. This adjustment includes deferral of cash-basis revenues indicated to be unearned as of fiscal year-end.

UW-Madison currently does not track AR centrally. For day-to-day accounting, the University relies on revenue-generating units across campus to track AR independently of the General Ledger. At fiscal year-end, UW-Madison centrally compiles supporting schedules for the units and gives them to UW System who uses them to calculate total AR and related revenue.

### RECOMMENDATIONS

1. Identify a process owner for institutional invoicing, then create a centralized shared services office that supports both accrual and cash methods of accounting and an institutional billing and receivable system
2. Create a website/portal front end that allows entry of billing data by campus units
3. Implement an institutional billing and receivable system to support AR tracking and aging. Draft policy requiring revenue-generating campus units to utilize the campus system or certify their alternate system.
4. Implement electronic payment options to
  - a) accept multiple payment options including ACH, check, online payment, or credit card via an online portal
  - b) have checks sent directly to a designated bank lockbox.
  - c) ensure payment remittance information is captured for easier cash application for all forms of payment
  - d) create an unapplied cash process for payments received without remittance information
5. Draft a policy covering collection, aging, allowance, and write offs requiring any units that generate invoices or revenue to utilize the campus system or a system that meets the campus standards.
6. Create a process and draft a policy to support annual certification of alternate systems by the central campus unit to ensure they meet requirements.
7. Evaluate current practices and draft policy to ensure proper revenue recognition under an accrual basis of reporting, for revenue sources based on long-term contracts.
8. Tuition and revenue systems require special consideration including the modification of the Integrated Student Information System (ISIS) so that it can be used as a sub ledger for reporting tuition based receivables and revenues in an accrual basis.
9. Explore campus-wide technology, specifically, the use of the PeopleSoft Billing and AR modules to see if it can at minimum meet the same standards being required of the alternate systems.

## **Inventory Team Summary**

Posted October 7, 2016

### **GOALS**

- 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

### **BACKGROUND**

For purposes of this project, inventories are defined as items for resale or consumable supplies, typically sold or consumed within one year. Over the past three fiscal years, UW-Madison has annually reported inventory valuations ranging from \$27.6 to \$29.0 million.

Despite maintaining inventories, UW-Madison currently does not have a standard definition of inventory, or comprehensive institutional process for inventory control. Additionally, UW-Madison does not monitor business practices at the divisions that hold material inventories.

### **RECOMMENDATIONS**

1. Develop an understanding of inventory at UW-Madison.
2. Identify a process owner for central oversight and guidance of inventory management practices across campus.
3. Establish inventory policy to ensure compliance with definition, tracking and reporting requirements, and corresponding procedures and business rules to guide inventory management and valuation.
4. Establish a new process to report year-end inventory values.
5. Create an electronic workflow to enhance the existing fiscal year-end submission process, including supporting documentation.

## Cash Handling and Deposits Team Summary

Posted October 7, 2016

### GOALS

- Control the receipt, deposit, and safeguarding of cash across UW-Madison.
- Provide accurate information for financial reporting.
- Meet applicable state, federal, and industry requirements.
- Introduce continuous monitoring and improvement activities.
- Promote the prevention and detection of fraud.
- Accommodate the diverse business needs of UW-Madison divisions.
- Optimize the number of areas where cash is received and held.

### BACKGROUND

At UW-Madison, cash is received, handled and deposited to the bank in a variety of ways, with few standard practices and controls. While this doesn't mean cash is mishandled, it would be hard to provide assurance that it is not. In FY14, the university had over 39,000 deposits worth over \$2.2 billion dollars.

The team observed two main process areas for cash handling; 1) the cash receipt process and 2) the cash advance process. While there are some well-documented policies and procedures (most notably in the auxiliary units), each process has challenges due to the large, decentralized nature of the institution.

The cash receipt process should generally follow the same pattern: 1) units perform services, provide products or receive gifts, 2) the payments are received, 3) the payments are deposited, 4) the information is entered into the shared financial system, and then 5) the transactions are reconciled. However, because of the diversity and variation of the financial activities within the departmental units, these processes can appear to be different across campus with little standardization and central oversight.

The cash advance process is used to handle small payments when immediate payment is required and the normal purchasing or expense reimbursement processes are impractical. In FY15, the university issued nearly 400 cash advances, advancing over \$1.8 million to university travelers. Although cash advances are simple in concept, the existing policies and procedures in this area are complex. There are seven types of cash advances administered by two separate offices. An area of concern is the lack of monitoring and oversight for cash advances. Although cash advances are to be returned or reconciled within 90 days, there have been instances where cash advances were returned after 90 days.

### RECOMMENDATIONS

1. Establish a consistent cash management process, from payment receipt to completed bank deposit, that includes controls to secure and accurately account for funds in a timely manner. The process includes point of receipt controls, remittance to a central cashiering or lockbox location, establishing electronic payments with automatic deposit as the primary methods of receipt and reconciliation to the general ledger.
2. Strengthen or create a central office to monitor and report on processes for cash handling operations across campus. This office would serve as a resource to campus for training, implementing controls and in monitoring activity.
3. Implement a central shared invoicing system to eliminate unit locally-owned systems, provide payment receipt and fund allocation and standardization of invoices, reports and training.
4. Streamline the cash advance process and improve controls. Once central office would be responsible for advancing cash to employees, monitoring outstanding advances, collecting cash back and action if cash becomes past due but would also ensure proper controls are in place.

## Procure-to-Pay Team Summary

Posted October 7, 2016

### GOAL

Deliver a redesigned process recommendation for managing purchasing and vendor payments which aligns with the objectives of UW-Madison's internal controls framework but also offers improved cost savings, efficiencies and internal customer service.

### BACKGROUND

The P2P process impacts UW-Madison's 22,000 employees in one way or another. Campus staff are faced with navigating a complex purchasing environment. Purchasing paths include a purchasing card, purchase order, direct payment, payment to individual, e-reimbursement, emergency transaction, blanket purchase order, internal billing, Shop@UW, DoIT direct bill, vendor direct, etc. Electronic to manual handoffs between different systems was called out by users as the greatest pain point. This also was a hindrance to data collection.

An overview of the volume of activity at UW-Madison during fiscal year 2015:

- \$720 million were paid to independent third parties for goods and services by UW-Madison
- 153,630 vouchers were issued against 14,404 purchase orders for a total of \$370 million
- Those 14,404 purchase orders were created against 1,028 contract/bids and 133 waivers from the competitive bid process.
- 237,972 pCard transactions for \$78M spend were processed
- 251,856 Shop@uw transactions for \$38M spend were executed
- 26,451 Direct Payments for \$191M spend were made
- 13,917 PIRs (Payment to Individuals) for \$12.3M spend were processed

### RECOMMENDATIONS

1. Strengthen and expand central P2P resources to better support campus users.
2. Develop an institutional centralized purchasing system or "portal."
3. Simplify and automate the invoice payment process.
4. Develop consistent guidelines for granting, application, and enforcement of delegation. These include delegation of vendor set-up, signature authority, purchasing authority, PCard, payables voucher upload and invoice audit.
5. Restructure campus Purchasing and Corporate card programs to minimize risk while maintaining ease of purchasing.
6. Implement an institutional, desktop receiving tool and related policy, procedures and training to support receipts for verification of vendor payment.
7. Review in depth the area of blanket orders to bring greater control without negatively impacting business operations.
8. Update existing, and develop new policies and procedures.
9. Develop a comprehensive purchasing training program.
10. Create a control plan for monitoring the efficiency of the portal, satisfaction with new procurement solutions and ensure accountability.

## **Internal Billing Team Summary**

Posted October 7, 2016

### **GOAL**

Design a comprehensive institutional internal billing process, and recommend policies, procedures, training, charge thresholds, payment vehicle guidelines and monitoring activities.

### **BACKGROUND**

While UW System maintains a broad definition of internal billing, for purposes of this project, internal billing has been redefined to include only transactions involving the sale and purchase of goods or services between entities on the UW-Madison campus. In FY15 alone, internal billing accounted for approximately 500,000 transactions.

The Internal Billing team identified three main process areas for review: approval to become a new service provider, rate setting authority, and transactions. Currently, setting up a service and establishing rates are highly distributed practices, with inconsistent if any review locally or at the campus level.

Initially, the team observed that campus discussions on internal billing tend to focus on the transactional details – timing, data and error correction. Upon deeper review, however, the team found that more significant financial risks reside in the service and rate setting processes and how internal sales are recorded/reported. While improving transaction processes is important to saving staff time and reducing rework, what UW-Madison charges for and the related financial tracking are key to compliance with federal regulations and UW System/state level reporting.

### **RECOMMENDATIONS**

1. Adopt National Council of Research Administrators (NCURA) Best Practices' recommendations to mitigate compliance risks.
2. Identify a process owner to lead a central office with authority to provide oversight and guidance, coordination of processes and procedures, and assure compliance with all state and federal internal billing regulations.
3. Implement a mandatory application process for all service/product providers.
4. Implement mandatory rate review and rate adjustment cycles.
5. Implement reporting requirements for all providers of internal products and services.
6. Utilize billing systems that adequately meet the needs of buyers and sellers across campus.
7. Establish requirements for standardized invoice guidelines, deadlines and supporting detail.
8. Establish standardized payment procedures for internal buyers.
9. Update and/or create related policies, procedures and forms for accuracy and clarity, and ensure that all are easily accessible to campus.
10. Initiate internal billing training programs to educate users about policies, procedures and risks.