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Wealth Management.

University of Wisconsin System

Joint Meeting of the Audit & Business and Finance Committees
Board of Regents
2018 Audit Planning Meeting – June 7, 2018



Audit Planning Agenda

- **UW System Lead Audit Team**
- **Plante Moran - At a Glance**
- **Higher Education Practice - At a Glance**
- **Audit Process**
- **Reporting and Responsibilities**
- **Audit Approach**
- **GASB Rule Changes**
- **Current-Year Considerations**
- **Planned Timing and Key Dates**
- **GAO Standards and Peer Review Report**
- **Appendix – Definitions**



UW System Lead Audit Team



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Plante Moran – At A Glance

Fast facts

1924 Year founded

2,200+ Total staff

275+ Partners & affiliated entity members

approx. 900 Number of CPAs

23 Locations

27 Foreign languages of professional staff

"One-firm" firm

Without competing office-level profit centers, clients receive the collective power of the firm regardless of location or geography.



Prioritize client service over maximizing profits



Provide direct access to firmwide expertise



Deliver the best resources and talent for your specific needs



We are a people-first business and we live by the Golden Rule ("Do unto others as you would have them do unto you").



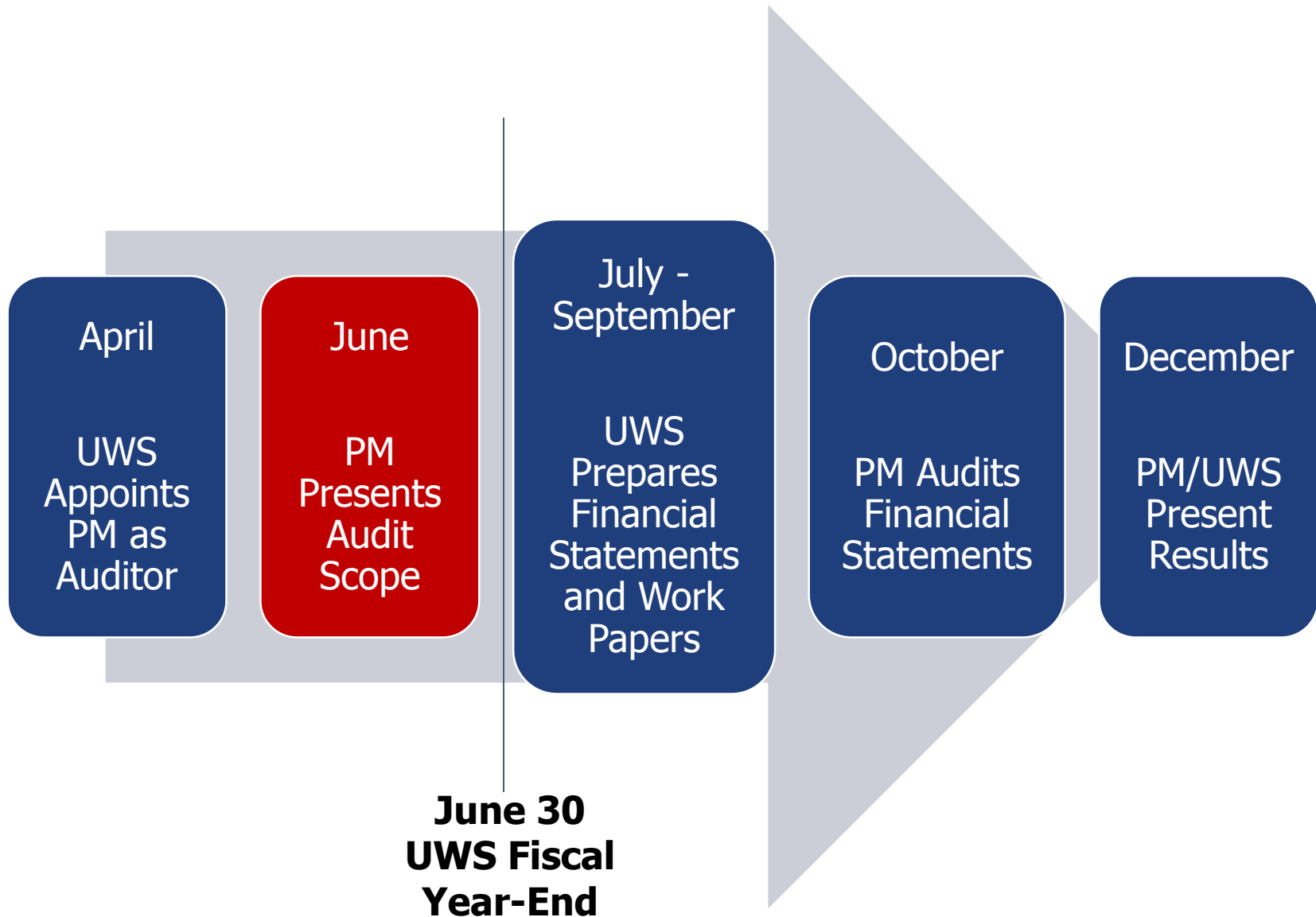
Higher Education Practice – At A Glance



Note: Plante Moran will not be conducting the single audit of the University of Wisconsin System – That will remain the responsibility of the Legislative Audit Bureau.



Audit Process





Reporting and Responsibilities

Plante Moran Responsibilities

- To express an opinion on UW System Financial Statements
- To provide reasonable assurance
- To gain an understanding of Internal Controls

Plante Moran Reports/Letters

- Opinion on UW System Financial Statements
- Report on Internal Control over Financial Reporting (GAS)
- Report on the Conduct of the Audit



Reporting and Responsibilities (continued)

Auditor opinion changes for fiscal year 2018:

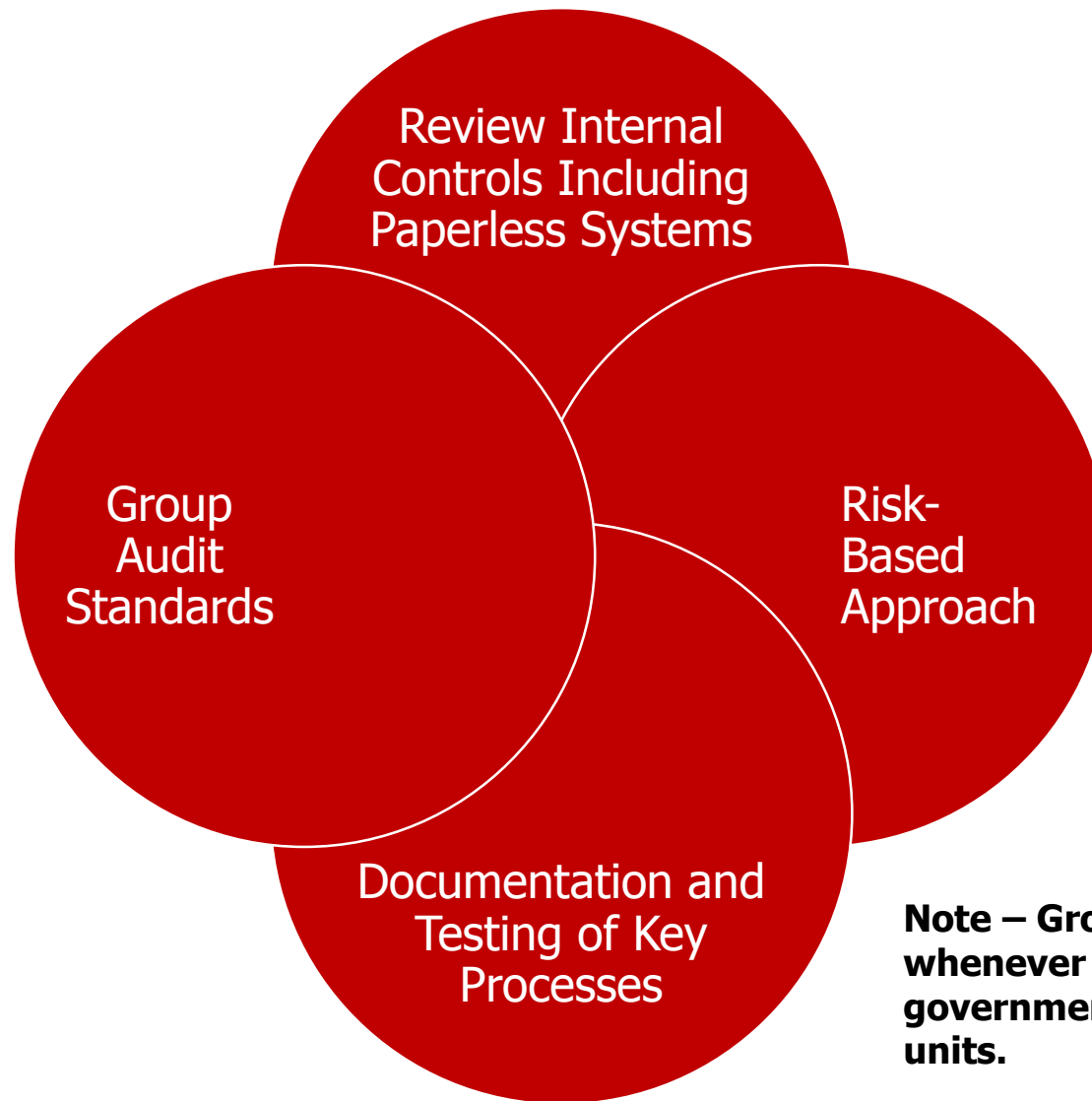
We will include a nonrecurring emphasis-of-matter paragraph in the auditor's opinion on the UW System financial statements informing the users that Plante Moran is auditing 2018, but did not audit 2017's financial statements.

The proposed wording of the emphasis-of-matter paragraph follows:

The financial statements of the UW System as of and for the year ended June 30, 2017 were audited by a predecessor auditor who expressed an unmodified opinion on those statements. The predecessor's audit report was dated January 31, 2018.



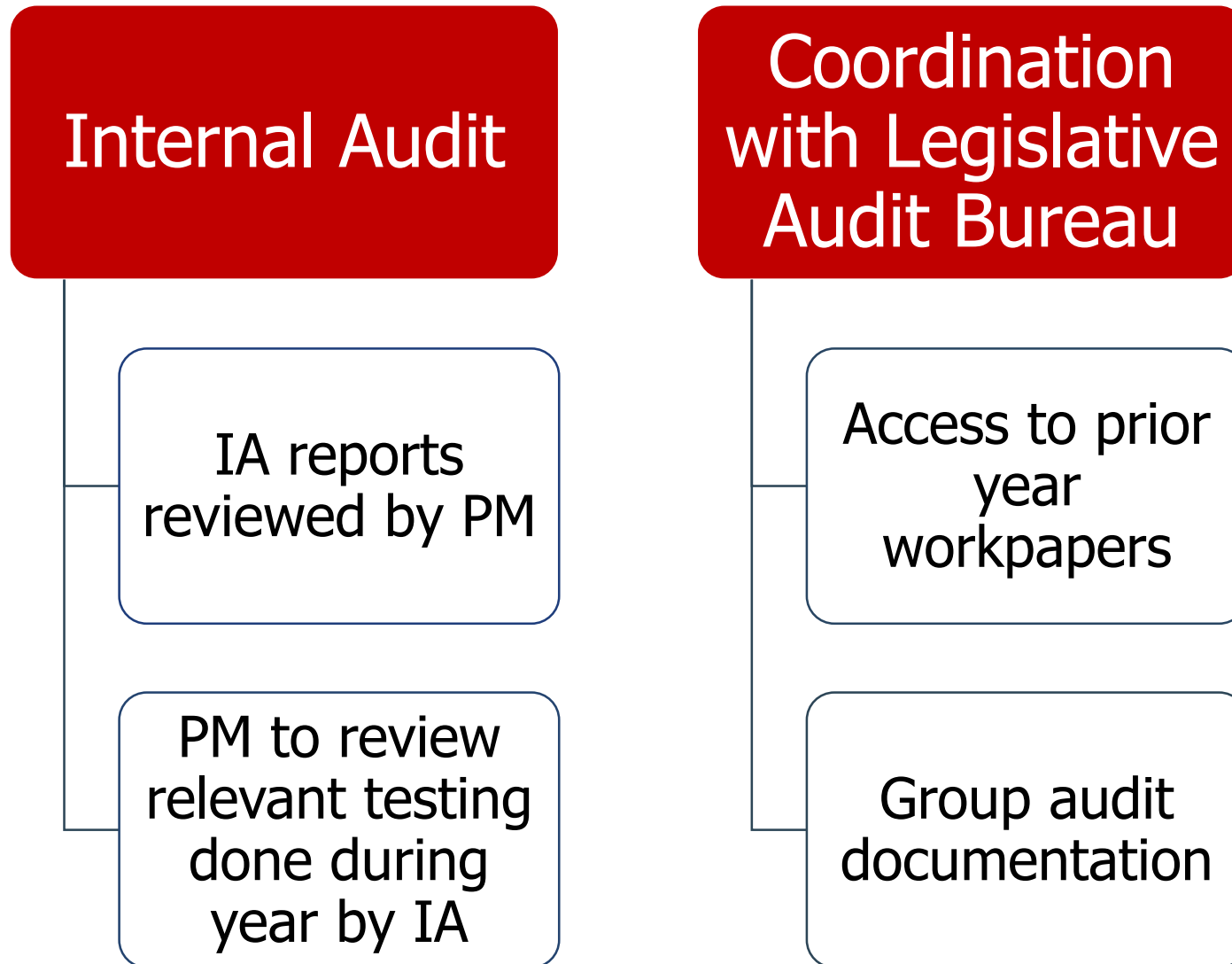
Audit Approach – Financial Statements



Note – Group Audit Standards apply whenever there are primary governmental units with component units.



Audit Approach – Other Items

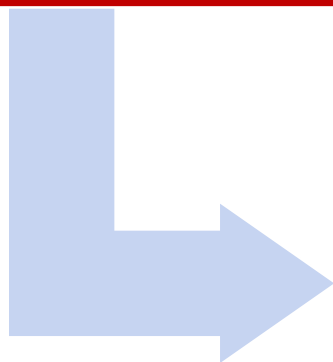




Audit Approach - Communications

Plante Moran
has been
advised

- UW System is in compliance with applicable financial reporting standards
- No material acts of fraud
- No unusual accounting entries
- No illegal or improper acts related to financial reporting



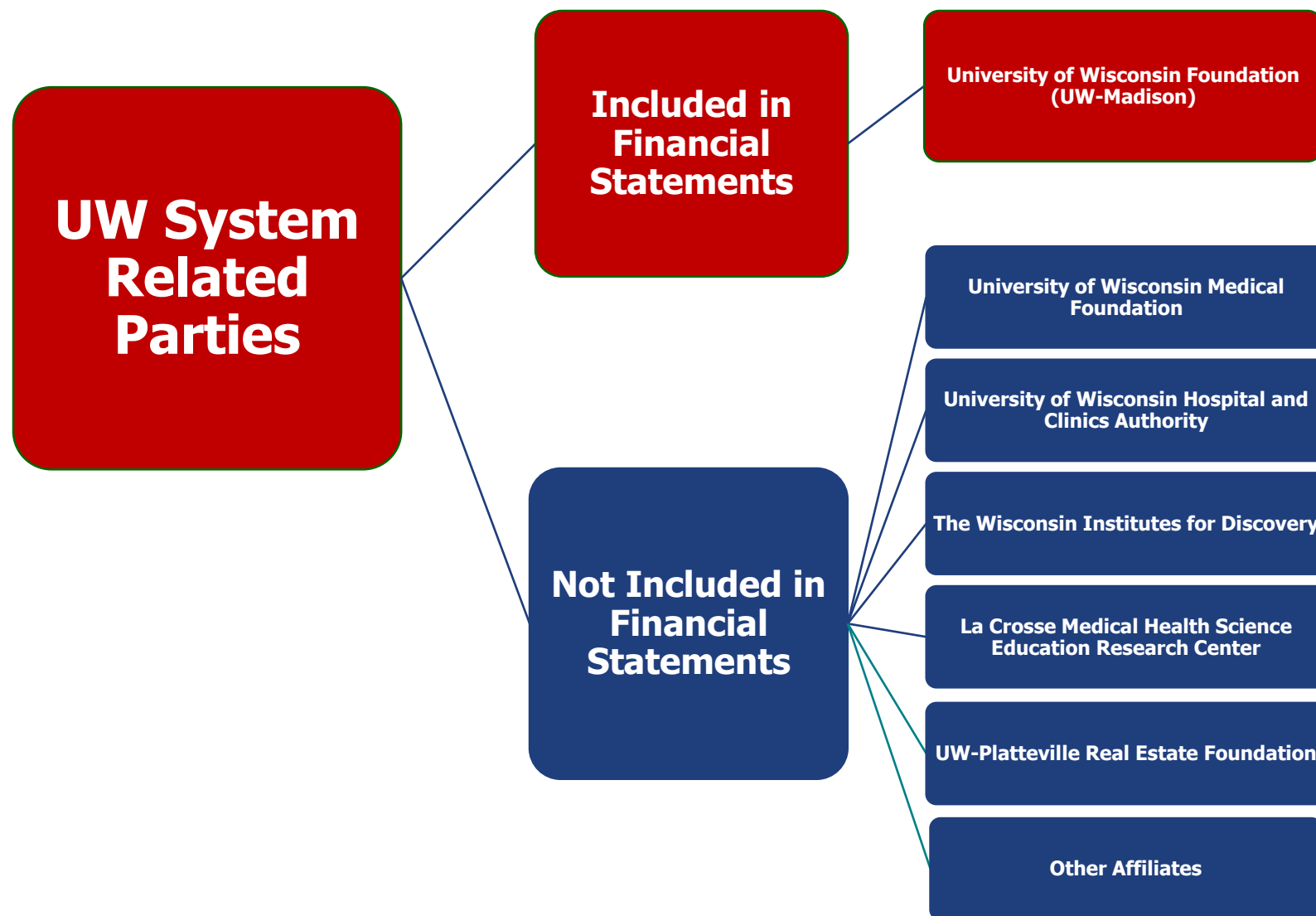
Board of
Regents
Communications

- Fraud Inquiry
- All PM Services Provided
- Independence
- Passed Adjustments
- Changes in Financial Reporting Presentation, if applicable

Our audit plan is structured so that we are planning on presenting and finalizing the audited financial statements by the end of 2018



Audit Approach – Related Parties





Audit Approach – Inherent Risk

AREA	INHERENT RISK ASSESSMENT* (HIGH, MODERATE, LOW)	AUDIT APPROACH
Cash/Investments and related earnings	Moderate/High	Key Process and controls systems testing; confirmations; fair market value testing; alternative procedures for those investments without a fair market value
Tuition and fees, auxiliaries, and student accounts receivable	Moderate/High	Key process and control systems testing; cutoff testing; tie out to reasonableness computation; analytical review
Allowances on student receivables	Moderate/High	Analytical procedures; review the methodology; consider historical experience and trends
Grants	Moderate/High	Review grant awards; vouch receipts; test disbursements
Private gifts, grants, and contracts, and pledges receivable	Moderate	Key process and controls systems testing; testing of detailed listings; vouch; consider confirming significant amounts
Expenditures and accounts payable	Moderate	Key process and controls system testing; tie out specific amounts (e.g. depreciation and interest); analytical procedures, including comparisons to prior year and budgeted amounts, search for unrecorded liabilities

***Inherent risk is affected by such things as materiality, the nature of transactions, the complexity of accounting for the transactions, and the level of estimating involved.**



Audit Approach – Inherent Risk (continued)

AREA	INHERENT RISK ASSESMENT* (HIGH, MODERATE, LOW)	AUDIT APPROACH
Net position/assets (including endowment funds)	Moderate	Test carry-forward balances; verify donor intentions on new gifts; review documents and supporting schedules; test corpus balances to supporting documentation
Property and equipment and related depreciation	Low	Test carry-forward of prior-year balances; vouch additions; limited depreciation testing for consistency and appropriateness; testing of disposals
Long-term debt obligations	Low	Confirmations; review documents and supporting schedules
Accrued payroll and related liabilities, compensation expenses and related benefits	Low	Key process and controls systems testing; analytical procedures based on increase in pay rates and/or FTEs; examine and test schedules or other support
Other liabilities	Low	Examine and test supporting schedules
Prepaid expenses and other current assets	Low	Examine and test supporting schedules

***Inherent risk is affected by such things as materiality, the nature of transactions, the complexity of accounting for the transactions, and the level of estimating involved.**



GASB Rule Changes

FY 2018

- GASB 75
 - OPEB (retiree health benefits)
 - Due to adoption in a prior year, will impact primarily disclosures and RSI
- GASB 81
 - Applies to charitable remainder trusts
 - Minimal impact to UWS

FY 2019

- GASB 83
 - Asset Retirement Obligations
 - Minimal impact to UWS

Future

- GASB 84 (FY 2020)
 - Applies to funds held in fiduciary capacity
- GASB 87 (FY 2021)
 - Recording all leases as assets/liabilities in the financial statements
- UWS is evaluating the impact



Current-Year Considerations

Current-year Transactions and Items for our Consideration

- Research and conclusion related to change in accounting for library holdings
- Transition of investment management to State of Wisconsin Investment Board
- Full Adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- Adoption of GASB Statement No. 81, *Irrevocable Split-Interest Agreements*
- Termination of the Federal Perkins Loan program (revolving loan pool) by the U.S. Department of Education
- Ongoing construction and capital projects



Current-Year Considerations (continued)

Sensitive Estimates for reporting/disclosure

- Student accounts receivable and loans receivable allowance for uncollectible accounts
- Valuation of alternative investments
- Any contingent liabilities
- Net pension and OPEB liability (asset)

Prior-year Finding(s)

- Significant deficiency related to information technology controls



Planned Timing and Key Dates

Opening conference with executive management	March 27, 2018
Preliminary fieldwork begins	Mid May 2018
Plante Moran audit scope presentation to Joint Audit and Finance Committees	June 7
Meeting with management to discuss preliminary findings, if any	Mid June/Early July
Year-end fieldwork begins	October 1
Draft financial statements to Plante Moran	Late October
Closing meeting with management and final draft of financial statements	Mid November
Submission of draft management letter to administrative staff, if applicable	Mid November
Dissemination of draft statements to Audit and Business and Finance Committees	Late November
Board of Regents approval of audited statements	December 2018



GAO Standards and Peer Review Report



A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
www.pncpa.com

In accordance with Generally Accepted *Government Auditing Standards* (GAO Standards or GAS), we are required to communicate all noncompliance with provisions of laws, regulations, contracts, or grants that have a material effect on the financial statements that comes to our attention. GAO standards also require that we report any instances of abuse identified during that audit that could be quantitatively or qualitatively material to the financial statements.

Under the Government Accounting Office (GAO) requirements, if a federal expenditure audit is being performed, prior to commencement of audit work, the Audit Committee and/or Board of Trustees are required to receive from the audit firm the Peer Review Report (this is performed every three years – last report is from 2016 for Plante Moran).

System Review Report

To the Partners of
Plante & Moran, PLLC
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Plante & Moran, PLLC. (the firm) applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended June 30, 2016. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*; audits of employee benefit plans, audits performed under FDICIA, and examinations of service organizations [Service Organizations Control (SOC) 1 and SOC 2 engagements].

In our opinion, the system of quality control for the accounting and auditing practice of Plante & Moran, PLLC in effect for the year ended June 30, 2016, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Plante & Moran, PLLC has received a peer review rating of *pass*.

Postlethwaite & Netterville

Baton Rouge, Louisiana
November 18, 2016

8550 United Plaza Blvd., Suite 1001 • Baton Rouge, LA 70809 • Tel: 225.922.4600 • Fax: 225.922.4611



Appendix – Definitions

Control Deficiency

- A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively. Control deficiencies may involve one or more of the five interrelated components of internal control.

Significant Deficiency

- A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Material Weakness

- A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

Fraud

- The term "fraud" includes "misstatements" arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.
- "Misstatements" arising from "fraudulent financial reporting" are intentional misstatements, or omissions of amounts or disclosures in financial statements intended to deceive financial statement users.
- "Misstatements" arising from "misappropriation of assets" involve the theft of assets where the effect of the theft causes the financial statements not to be presented in conformity with GAAP.
- The UW System is responsible for the design and implementation of programs and controls to prevent and detect fraud.

GAAP

- Generally Accepted Accounting Principles. Used by almost all entities in the USA to prepare periodic financial statements.

Allowance

- An estimate determined by management based on past history of write-off of student and contributions receivable of the amount of student and contribution receivables at June 30 that are not expected to be received.



Appendix – Definitions (continued)

Federal Awards Audit (Single Audit)

- The U.S. Office of Management and Budget (OMB) Part 200 – Uniform Administrative Requirements, Costs Principles and Audit Requirements (Uniform Guidance), which sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of States, local governments, and non-profit organizations expending Federal awards. This is focused on programs funded with federal dollars. At UW System, this primarily consists of student financial aid and research and development grants.

High-Risk Grant

- A grant is considered to be high risk if there are weaknesses in internal control over compliance for the program, program is administered under multiple internal control structures, weak system for monitoring subrecipients when significant parts are passed through to subrecipients, prior grant audit findings without corrective action, and/or identified by the Office of Management and Budget as high risk.

Component Unit (GASB)

- Component units are legally separate organizations for which the elected officials of the UW System are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with the University are such that exclusion would cause the University's financial statements to be misleading or incomplete.

Group audit

- The audit of Group financial statements, where the group represents all the components whose financial information is included in the Group financial statements.

Component (AICPA)

- An entity or business activity for which Group or component management prepares financial information that is required by the applicable financial reporting framework to be included in the Group financial statements.

Related Party (AICPA/GASB)

- Related parties are affiliates, joint ventures, jointly governed organizations, elected and appointed officials, management, and other parties with which the UW System can significantly influence the management or operating policies. Significant transactions with related parties are required to be disclosed.



Appendix – Definitions (continued)

GAAS

- Generally Accepted Auditing Standards. The standards that govern the conduct of independent audits of non-public companies, as determined by the Auditing Standards Board (ASB) of the AICPA.

GAGAS

- Generally Accepted Governmental Auditing Standards. Informally known as “Yellow Book”, these standards guide all audits of governmental units.

GAO

- Government Accountability Office. An independent agency in the legislative branch of the federal government that helps ensure the accountability of the federal government.

GASB

- Governmental Accounting Standards Board is the governing accounting body that issues reporting pronouncements. UW System prepares its financial statements in accordance with these pronouncements and guidance.

Unmodified Opinion

- A signed representation by an auditor as to the reliability and fairness of a set of financial statements. The opinion could be modified, unmodified, except for, or adverse. At UW System, the opinion has been unmodified, which is the best opinion to have from an auditor.

Auditor Opinion Date

- The date the audit is completed and the auditor can provide its opinion. This is defined as the date reviews are completed and the date management has asserted that it takes responsibility for the financial statements, including signing a representation letter to the auditors and approval by the Board of Regents.

Material Misstatement

- To present accidental or intentional untrue financial statement information that influences a University’s value.

Significant Adjustments

- A material error in financial reporting discovered by the auditor during performance of its audit fieldwork which was large enough that it was required to be booked to the financial statements and disclosed to the audit committee or Board of Regents.

Passed Adjustments

- A summary of proposed account adjustments not recorded by management and reviewed by auditors and determined, individually or in the aggregate, not to have a significant effect on the financial reporting process and, therefore, not recorded in the financial statements.



Thank you!

*We look forward to serving
the University of Wisconsin System!*

Higher Education Group

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