

# ADMINISTRATIVE TRANSFORMATION PROGRAM

Accrual Accounting  
Recommendation

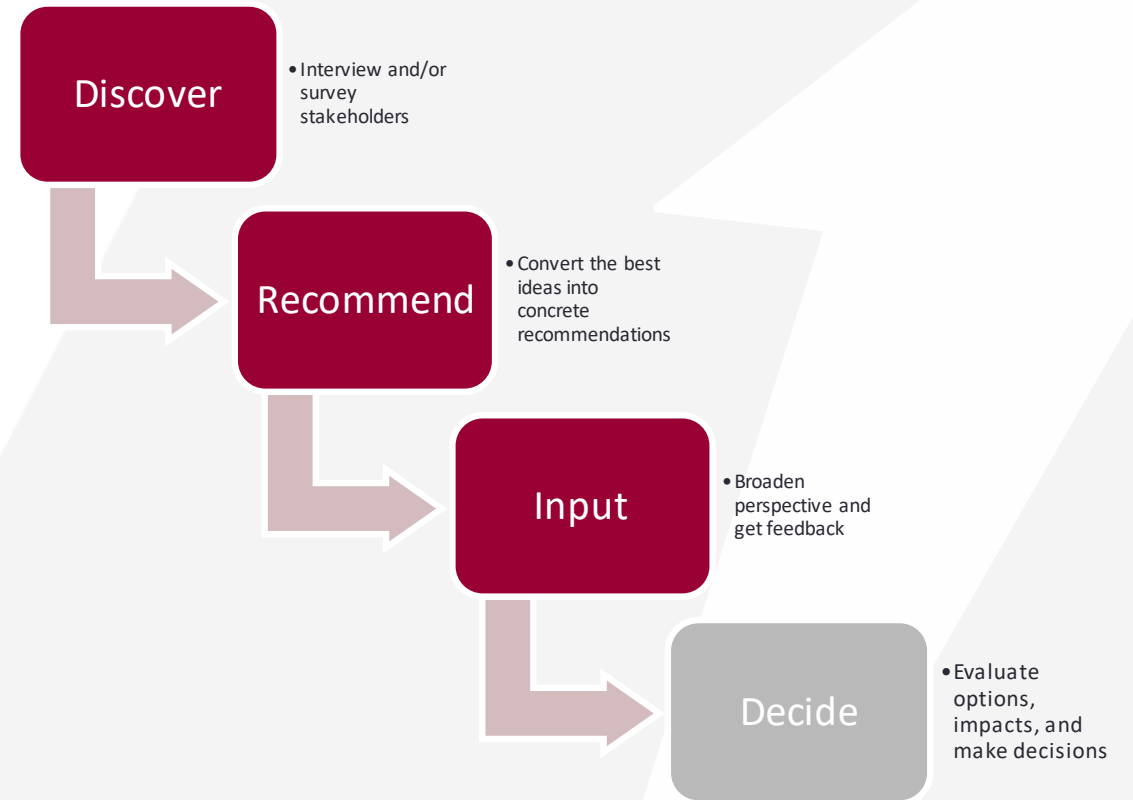


# Accrual Accounting Recommendation

## Why?

- **Decision** about future state is needed for Planning and Design work
  - Informs Chart of Accounts (CoA) design
  - Provides an understanding of change impact

## Phases





## Current Conditions

What are we not able to do that we want to do?



## Relevant Data

What have we done & what have we learned?



## Drivers to Change

What is driving the need to change?



## Desired Future

What will we be able to do that we can't do now?



## Review & Validation

Does this seem reasonable or are there objections?

# CURRENT CONDITIONS

The annual financial reporting cycle for a **Financial Program Manager in Housing** involves:

## Daily

**Monitoring** cash in and cash out in WISER from Accounts Payable and Deposit Activity (like a checkbook)

**Managing** receivables, inventories, depreciation, and accrual entries in Great Plains

## Monthly

**Reconciling** cash to ensure SFS and Great Plains match

**Generating** financial reports from Great Plains to distribute to Leadership / Business Owners

## Annually


**Reporting** all receivable and inventory activity for the year to Accounting Services

The annual financial reporting cycle ends 6 months later, after:

Accounting Services **reviews, compiles, and sends** data to UW-System Administration

UW-System Administration **creates** annual accrual entries for the Annual Financial Report

UW-System Administration **publishes** Annual Financial Report in December

 Delegation agreements are signed by campus Chief Business Officers (CBOs) attesting to internal controls

# State Appropriations vs. Other Revenue Sources

General Program Revenue (GPR) funds function differently than all other funds

- GPR "revenue" doesn't exist in actuals
- Reporting is difficult when we want to see money across all funds

| Item          | General Program Revenue (GPR) | Program Revenue (PR) |
|---------------|-------------------------------|----------------------|
| Cash          | No                            | Yes                  |
| Revenue       | Budget                        | Revenue              |
| Transfers     | Budget                        | Revenue              |
| P&L Reporting | Actuals & Budget Ledgers      | Actuals Ledger       |

# Interview Guide



Current accounting method(s)



Financial reports



Users



System capabilities



Skillset challenges

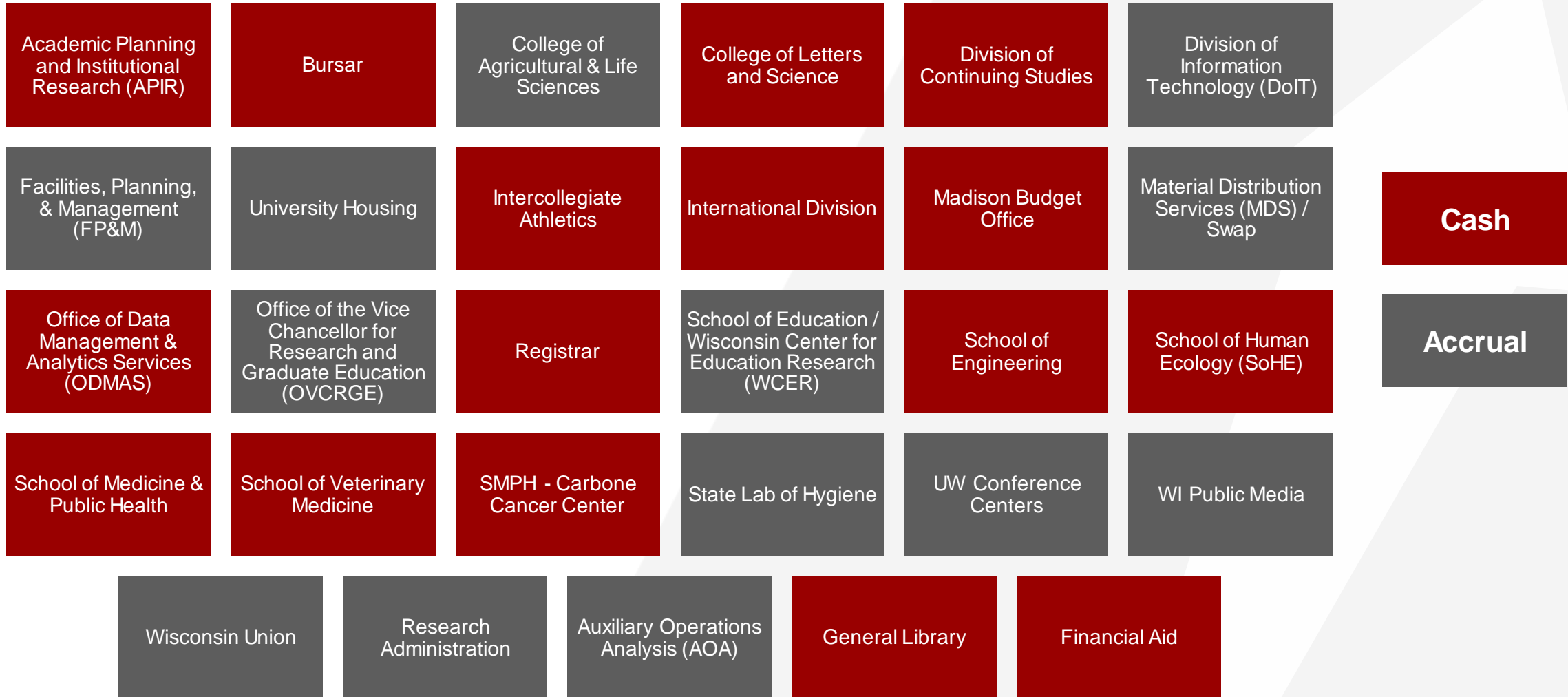


Applicable accruals



Level & frequency preferences

# INTERVIEWS – UW MADISON



# INTERVIEWS – UW Institutions

|            |             |          |               |
|------------|-------------|----------|---------------|
| Eau Claire | River Falls | Superior | Green Bay     |
| Oshkosh    | Platteville | Stout    | Stevens Point |
| Whitewater | Milwaukee   | Parkside | La Crosse     |

Cash

Accrual



# INTERVIEW DATA

## 01-Accrual

Accruals are necessary for management level decision making and to eliminate the spend and maintenance of ancillary technology.

## 02-Level

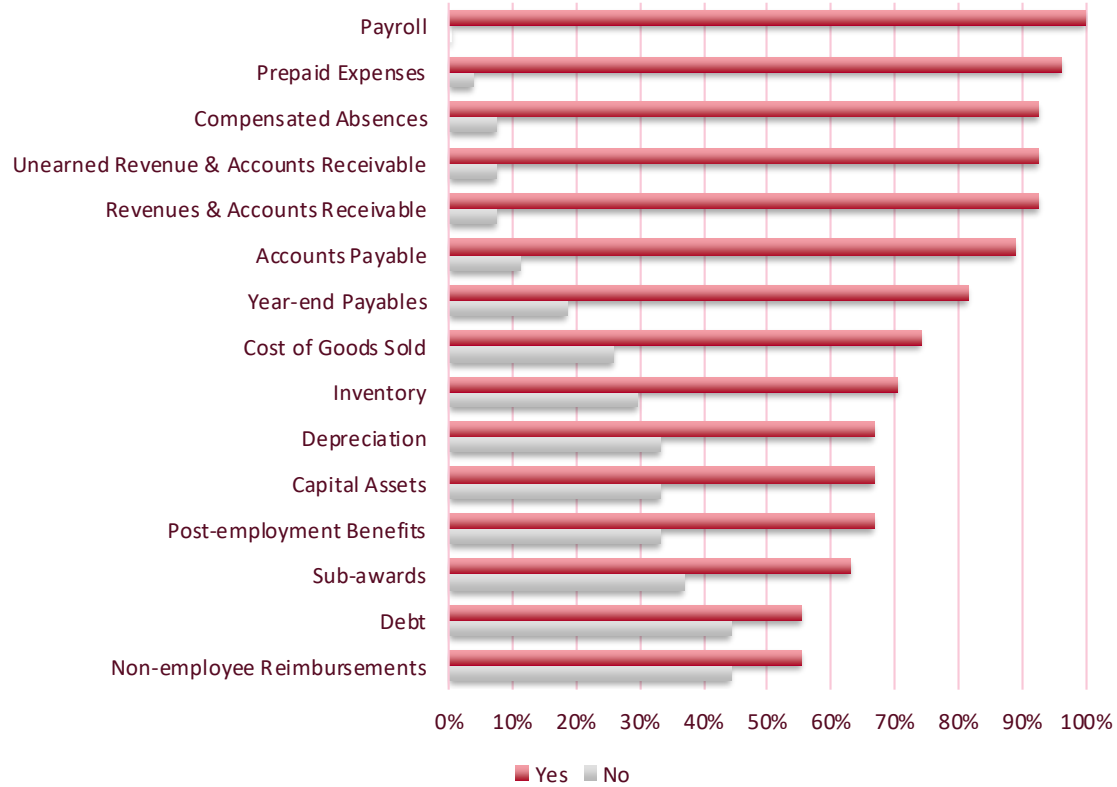
Most interviewees indicated a desire for sub-department level accruals. This makes sense for most transactions, especially ones that can be done systematically, but certain accruals like capital/depreciation, debt, or pension liabilities should be done at a higher level.

## 03-Frequency

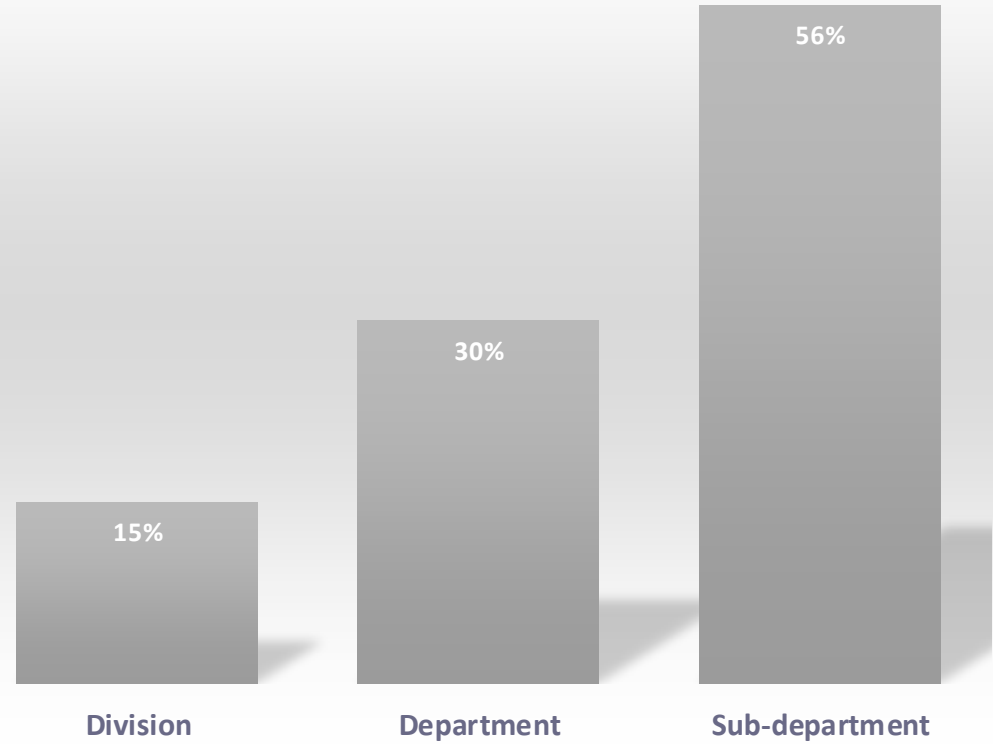
Most interviewees indicated a desire for monthly accruals. The new ERP can be designed to do many accruals systematically/daily. A select few would need to be done manually and monthly.

# INTERVIEW DATA

## Preferred Accruals



## Preferred Level



# KEY TAKEAWAYS

- UW-Madison & Comprehensives
  - Most of our conversations about a transition to accrual were well-received, more concern from the comprehensives who are currently operating mostly in cash basis.
  - Many interviewees had concerns about the need for training
  - There is a large variation in how UW-Madison units are currently managing accruals due to ancillary technology differences and a lack of standardization
  - Budget Office / Accounting Office reporting relationships vary among all campuses
- Big Ten Institutions
  - Most operate in cash and report accruals only at year-end with the exception of Ohio State and University of Iowa
  - State appropriations are received in cash via wire transfer / ACH every month

# DRIVERS TO CHANGE



## Financial data integrity and control is improved

- Potential to misrepresent data
- Delays in identifying problems & risks
- Financial data is open to interpretation
- Inexperienced financial staff reporting on transactions



## Financial data is more consistent and transparent

- Different fund sources are reported in different ways (GPR vs. PR)
- Accrual accounting is being performed in different ways, using different systems
- Financial reports are being developed at Division or Department Levels due to lack of accruals in SFS



## University activities are better managed

- Difficult to plan future operational resource expectations and commitments
- Inability to match revenues and expenses for rate setting
- Unable to determine if Revenue Producing Activities (RPAs) are profitable
- Difficult to decide whether we should be doing business with certain customers



## Financial data is available more frequently

- Lack of visibility and transparency
- Inaccurately tracked cash flows and projections
- Difficulty managing commitments against future cash flows
- More timely data and analysis equals more timely corrections



## Financial reports are distributed timely & accurately

- “Phone in method” to create the Annual Financial Report
- Time-consuming manual accruals & reporting at year-end
- Financial reports may not be entirely accurate
- Inconsistency in financial statements (matching principle doesn’t work)



## Assets and liabilities are better managed

- Various methods of tracking and reporting outstanding accounts receivable, inventory, purchase orders, and commitments

# BENEFITS REALIZATION

## What is Benefits Realization?

Benefits realization focuses on specific, realistic, and time-bounded gains that result in positive outcomes for staff, while also aligning with the UW's organizational objectives.

## Why?

When benefits are managed well, organizations receive the greatest possible return on their investments.

## How?

The ATP team will use metrics and measurable outcomes to track the program's **success** and provide **accountability**.

# EXAMPLES OF BENEFITS

## Financial Reporting



Financial reporting staff will be able to access data that will simplify financial reporting.



Management will have access to more information and real-time insight into our financial position.



Central administration will be able to increase accuracy and eliminate the administrative burden currently necessary to collect and consolidate information for financial reports.



University leadership will have real-time insight into the financial position of the university.

## Accounts Receivable & Billing



University leadership will be able to access consistent, accurate, and timely financial reports, and self-serve with drill-down capabilities when questions arise.

## Financial Close



Financial reporting staff will be able to eliminate the administrative burden of preparing financials in third-party systems.



Management will be able to make timely financial decisions and eliminate the efforts needed at year end with a thoroughly designed monthly close.



Central administration will be able to prepare financials more frequently and reduce the amount of time needed for preparation.



University leadership will be able to access consistent, accurate, and timely financial reports, and self-serve with drill-down capabilities when questions arise.

## Research Administration



University leadership will have real-time insight into the financial position of the university.

# DESIRED FUTURE STATE

## Consistent Modified Approach – All Units/Funds



### Monthly Modified Accruals

- Complete monthly modified accruals for all funding sources
- Rely on future ERP to systematically generate most accrual entries
- Support accrual entries at a combination of sub-department, department, division, and campus levels



### Reporting Layers

- Provide capability to generate reports in cash or accrual
- Enable drill down and drill through analysis depending on user's needs



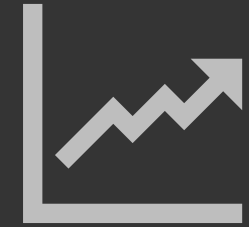
### Training

- Offer training for staff to develop and/or refresh accrual accounting competencies



### Year-end Reporting

- Reduce manual activity required to complete Annual Financial Report
- Shorten timeline to produce Annual Financial Report



### GPR Recorded as Revenue

- Report and compare fund revenues and expenses between GPR and PR funds
- Simplify revenue transfer process



# Fund 128 Housing Residence Halls Major Department Jan 2019

Net effect of Deferred Revenue and Accounts Receivable on an Accrual Basis is \$13M lower in January. Housing has large cash receipts for Spring Semester that will be earned over the next several months.

| <b>Accrual</b>                            |                          |
|---|--------------------------|
| <b>BALANCE SHEET</b>                      |                          |
| <b>ASSETS</b>                             | <b>2019</b>              |
| <b>CURRENT ASSETS</b>                     |                          |
| Cash                                      | \$ 53,333,624.02         |
| Accounts Receivable                       | \$ 3,911,767.20          |
| Allowance for Doubtful Accounts           | \$ (39,512.80)           |
| Inventory                                 | \$ 1,657,887.00          |
| Prepaid Expenses                          | \$ 42,991.00             |
| <b>TOTAL CURRENT ASSETS</b>               | <b>\$ 58,906,756.42</b>  |
| <b>FIXED (LONG-TERM) ASSETS</b>           |                          |
| Property, Plant, and Equipment            | \$ 308,821,413.51        |
| (Less Accumulated Depreciation)           | \$ (118,364,625.00)      |
| <b>TOTAL FIXED ASSETS</b>                 | <b>\$ 190,456,788.51</b> |
| <b>TOTAL ASSETS</b>                       | <b>\$ 249,363,544.93</b> |
| <b>LIABILITIES AND NET POSITION</b>       |                          |
| <b>2019</b>                               |                          |
| <b>CURRENT LIABILITIES</b>                |                          |
| Salaries and Fringe Payable               | \$ 133,078.00            |
| Compensated Absenses                      | \$ 27,582.25             |
| Unearned Revenue                          | \$ 18,632,031.14         |
| Accounts Payable                          | \$ 249,189.00            |
| <b>TOTAL CURRENT LIABILITIES</b>          | <b>\$ 19,041,880.39</b>  |
| <b>NET POSITION</b>                       |                          |
| Net Position                              | \$ 230,321,664.54        |
| <b>TOTAL NET POSITION</b>                 | <b>\$ 230,321,664.54</b> |
| <b>TOTAL LIABILITIES AND NET POSITION</b> | <b>\$ 249,363,544.93</b> |

| <b>Cash</b>                               |                         |
|---|-------------------------|
| <b>BALANCE SHEET</b>                      |                         |
| <b>ASSETS</b>                             | <b>2019</b>             |
| <b>CURRENT ASSETS</b>                     |                         |
| Cash                                      | \$ 53,333,624.02        |
| <b>TOTAL CURRENT ASSETS</b>               | <b>\$ 53,333,624.02</b> |
| <b>LIABILITIES AND NET POSITION</b>       |                         |
| <b>2019</b>                               |                         |
| <b>CURRENT LIABILITIES</b>                |                         |
| Deferred Revenue                          | \$ 2,111,494.14         |
| <b>TOTAL CURRENT LIABILITIES</b>          | <b>\$ 2,111,494.14</b>  |
| <b>NET POSITION</b>                       |                         |
| Net Position                              | \$ 51,222,129.88        |
| <b>TOTAL NET POSITION</b>                 | <b>\$ 51,222,129.88</b> |
| <b>TOTAL LIABILITIES AND NET POSITION</b> | <b>\$ 53,333,624.02</b> |

Significant \$ differences  
Differences in what is displayed



# Fund 128 Housing Residence Halls Major Department Jan 2019

Net effect of Deferred Revenue and Accounts Receivable on an Accrual Basis is \$13M lower in January. Housing has large cash receipts for Spring Semester that will be earned over the next several months.

| Accrual                            |                        |
|------------------------------------|------------------------|
| INCOME STATEMENT                   |                        |
| OPERATING REVENUE                  | 2019                   |
| <b>REVENUE</b>                     |                        |
| Sales                              | \$ 1,634,498.00        |
| (Less Cost of Goods Sold)          | \$ (749,999.10)        |
| <b>NET PROFIT</b>                  | <b>\$ 884,498.90</b>   |
| Services                           | \$ 2,474,428.61        |
| Sales Credits                      | \$ 302,584.23          |
| <b>TOTAL OPERATING REVENUE</b>     | <b>\$ 3,661,511.74</b> |
| <b>OPERATING EXPENSES</b>          |                        |
| <b>EXPENSES</b>                    |                        |
| Salary and Fringe                  | \$ 2,234,378.67        |
| Services and Supplies              | \$ 1,301,361.43        |
| Depreciation Expense               | \$ 340,000.00          |
| Financial Assistance               | \$ 3,439.47            |
| Compensated Absences               | \$ 27,582.25           |
| Bad Debt Expense                   | \$ 79,025.60           |
| <b>TOTAL OPERATING EXPENSES</b>    | <b>\$ 3,985,787.42</b> |
| <b>NET OPERATING INCOME</b>        | <b>\$ (324,275.68)</b> |
| <b>NON-OPERATING REVENUE</b>       |                        |
| <b>NON-OPERATING REVENUE</b>       |                        |
| Miscellaneous Revenue              | \$ 1,516.15            |
| Investment Income                  | \$ 30,960.26           |
| Revenue Transfers                  | \$ (13,338.68)         |
| <b>TOTAL NON-OPERATING REVENUE</b> | <b>\$ 19,137.73</b>    |
| <b>NET INCOME</b>                  | <b>\$ (305,137.95)</b> |

| Cash                             |                         |
|----------------------------------|-------------------------|
| INCOME STATEMENT                 |                         |
| REVENUE                          | 2019                    |
| <b>REVENUE AND SALES CREDITS</b> |                         |
| Revenues                         | \$ 16,697,321.34        |
| Sales Credits                    | \$ 302,584.23           |
| <b>TOTAL</b>                     | <b>\$ 16,999,905.57</b> |
| <b>EXPENSES</b>                  |                         |
| <b>EXPENSES</b>                  |                         |
| All Salaries                     | \$ 1,514,024.48         |
| Fringe Benefits                  | \$ 587,276.19           |
| Services & Supplies              | \$ 1,846,102.00         |
| Capital                          | \$ 31,668.51            |
| Financial Assistance             | \$ 2,500.00             |
| <b>TOTAL</b>                     | <b>\$ 3,981,571.18</b>  |
| <b>FUND BALANCE</b>              |                         |
| <b>FUND BALANCE</b>              |                         |
| Beginning Fund Balance           | \$ 38,203,795.49        |
| Plus Current Year Revenue        | \$ 16,999,905.57        |
| (Less Current Year Expense)      | \$ (3,981,571.18)       |
| <b>CURRENT FUND BALANCE</b>      | <b>\$ 51,222,129.88</b> |
| <b>NET INCOME</b>                | <b>\$ 13,018,334.39</b> |

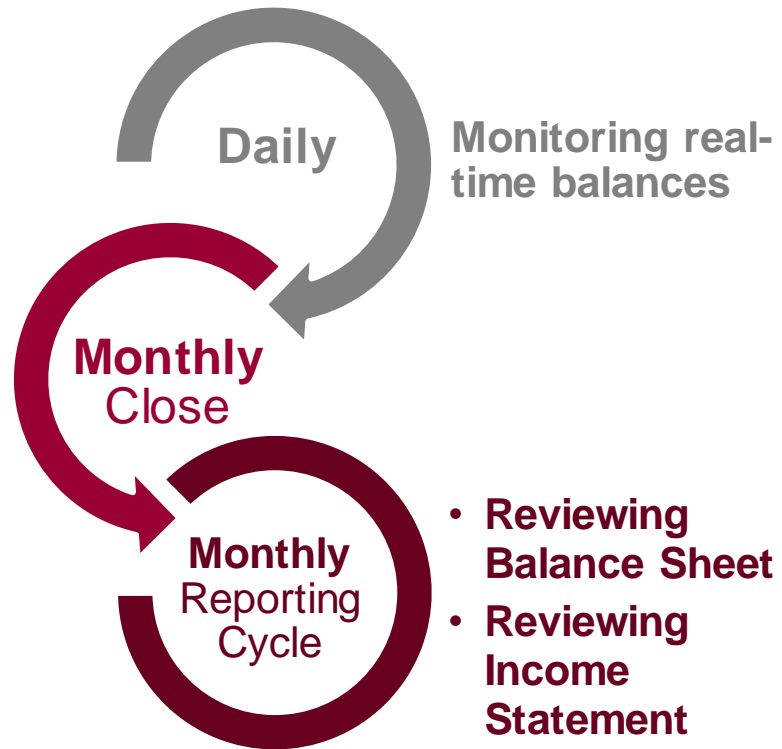
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# FUTURE CONDITIONS COMPARISON

The annual financial reporting cycle for UW-Madison involves:

- Reviewing automated journal entries
- Completing manual journal entries



The annual financial reporting cycle ends in **2-3 months**, after:

UW-System Administration completes necessary manual entries

UW-System Administration creates & publishes Annual Financial Report

# REVIEW & VALIDATION

## **Does this recommendation seem reasonable?**

We are seeking consensus before we present our recommendation to the Executive Sponsors of ATP.

## **Do you have any objections?**

We encourage you to think about reasons why this recommendation could not be accommodated (i.e. unique requirements).

## **Do you have questions or feedback to share?**

Please reach out to Susie Maloney - [susie.maloney@wisc.edu](mailto:susie.maloney@wisc.edu).