



STATE OF WISCONSIN

Legislative Audit Bureau

22 East Mifflin Street, Suite 500 ■ Madison, WI 53703 ■ (608) 266-2818 ■ Hotline: 1-877-FRAUD-17 ■ www.legis.wisconsin.gov/lab

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Joe Chrisman
State Auditor

February 10, 2015

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

We have completed our financial audit of the State of Wisconsin as of and for the fiscal year ended June 30, 2014, and have issued an unmodified opinion dated December 12, 2014, on the State's financial statements. These financial statements are prepared by the Department of Administration (DOA) in accordance with generally accepted accounting principles (GAAP) and are included in the State's fiscal year (FY) 2013-14 Comprehensive Annual Financial Report (CAFR), which DOA has published on its website. Information in the CAFR helps to describe the State's fiscal condition, including the balance of the State's General Fund and the amount of the State's long-term debt.

As reported on a GAAP basis, and as shown on page 44 of the CAFR, the General Fund deficit decreased from \$1.7 billion as of June 30, 2013, to \$1.4 billion as of June 30, 2014. DOA notes on page 29 that tax revenues increased \$341.5 million and intergovernmental revenues, primarily revenues from the federal government, increased \$144.8 million. Expenditures increased \$623.2 million, primarily because of increases in Medical Assistance costs and school aids payments.

As shown on page 106, the State's long-term debt issued for governmental activities was \$11.1 billion as of June 30, 2014. As shown in Table 8 on page 34, outstanding debt from both general obligation bonds and appropriation bonds decreased, but these decreases were partially offset by an increase in outstanding debt from revenue bonds, which primarily related to the issuance of new transportation revenue bonds.

During our audit, we identified internal control concerns that are required to be reported under *Government Auditing Standards*. Enclosed is the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which discusses each concern and includes the response from management of the responsible agency. This report is also provided to the Secretary of the Department of Administration, the Deputy State Controller, and management of the state agencies included in the report.

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
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February 10, 2015

We continue to report a material weakness in internal control over the Human Resource System (HRS) used by the University of Wisconsin (UW) System to process and record payroll for its employees (Finding 2014-001 and Finding 2014-002). Although UW System has taken corrective actions to address HRS security concerns reported in prior years, corrective actions were not finalized until near or after the end of FY 2013-14. Because incompatible access continued to exist during FY 2013-14, UW System continued to be at risk that inadvertent, erroneous, or unauthorized payments could be processed through HRS during FY 2013-14. We will test the effectiveness of UW System's corrective actions during the FY 2014-15 audit.

In addition, we continue to report a significant deficiency related to programmer access, which could result in unauthorized changes being made to information technology systems at the Department of Transportation (DOT) (Finding 2014-003). DOT took steps at the end of FY 2013-14 to address this finding. Because programmers continued to have conflicting access during FY 2013-14, DOT continued to be at risk of undetected erroneous or fraudulent changes. We will test the effectiveness of DOT's corrective actions during the FY 2014-15 audit.

We appreciate the courtesy and cooperation extended to us by the Department of Administration and other state agencies during the audit.

Sincerely,



Joe Chrisman
State Auditor

JC/KE/bm

Enclosure

cc: Senator Mary Lazich
Senator Alberta Darling
Senator Kathleen Vinehout
Senator Janet Bewley

Representative John Macco
Representative John Nygren
Representative Melissa Sargent
Representative Terese Berceau

Michael Huebsch, Secretary
Department of Administration

Jeffery Anderson, Deputy State Controller
Department of Administration



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Joe Chrisman
State Auditor

February 10, 2015

Mr. Michael Huebsch, Secretary
Department of Administration
101 East Wilson Street, 10th Floor
Madison, Wisconsin 53702

Mr. Jeffery Anderson, Deputy State Controller
Department of Administration
101 East Wilson Street, 5th Floor
Madison, Wisconsin 53702

Dear Mr. Huebsch and Mr. Anderson:

We have completed a financial audit of the State of Wisconsin as of and for the fiscal year ended June 30, 2014. The financial statements and related opinions are included in the State of Wisconsin's Comprehensive Annual Financial Report, which was published by the Department of Administration in December 2014.

During the course of our audit, we identified internal control concerns at certain state agencies that are required to be reported under *Government Auditing Standards*. As provided for in those standards, we are furnishing you with the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters. The responses of those state agencies to our concerns and recommendations are summarized in the text of the report so that readers may see the State's intended resolution of the matters discussed. In future audits, we will determine the extent to which findings in the report have been resolved.

We appreciate the courtesy and cooperation extended to us by the Department of Administration and other state agencies during the audit.

Sincerely,

Joe Chrisman
State Auditor

JC/KE/bm

Enclosure



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Joe Chrisman
State Auditor

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Honorable Members of the Legislature The Honorable Scott Walker, Governor

We audited the financial statements and the related notes of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Wisconsin, which collectively comprise the State's basic financial statements, as of and for the year ended June 30, 2014, and issued our report thereon dated December 12, 2014.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States. The basic financial statements and related auditor's opinions have been included in the State of Wisconsin's Comprehensive Annual Financial Report (CAFR) for fiscal year 2013-14.

Our report includes a reference to other auditors who audited the financial statements of the Environmental Improvement Fund, the College Savings Program Trust, the Wisconsin Housing and Economic Development Authority, the University of Wisconsin Hospitals and Clinics Authority, and the University of Wisconsin Foundation, as described in our report on the State of Wisconsin's basic financial statements. The financial statements of the Environmental Improvement Fund, the College Savings Program Trust, the Wisconsin Housing and Economic Development Authority, and the University of Wisconsin Hospitals and Clinics Authority were audited in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. While the financial statements of the University of Wisconsin Foundation were audited in accordance with auditing standards generally accepted in the United States of America, they were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the University of Wisconsin Foundation.

Internal Control over Financial Reporting

Management of the State of Wisconsin is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the State's internal control to determine the

audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed in the following paragraphs and described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.

A deficiency in internal control 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 misstatements, or to detect and correct misstatements on a timely basis. *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 State's basic financial statements will not be prevented, or that a material misstatement will not be detected and corrected on a timely basis. *A significant deficiency* is a deficiency or 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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as Findings 2014-001 and 2014-002, when combined, to be a material weakness. We consider the deficiency described in the accompanying Schedule of Findings and Responses as Finding 2014-003 to be a significant deficiency. Because the University of Wisconsin (UW) System's financial activity is also reported separately from the State's CAFR, Finding 2014-001 and Finding 2014-002 will also be included in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters for the UW System's financial statements, which are issued separately.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's basic financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering the State's internal control and compliance. The purpose of this report is solely to describe the scope of our testing of internal control and compliance

and the result of that testing, and not to provide an opinion on the effectiveness of the State's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU

A handwritten signature in black ink, appearing to read "Joe Chrisman". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Joe Chrisman
State Auditor

December 12, 2014

SCHEDULE OF FINDINGS AND RESPONSES

This schedule includes all material weaknesses and significant deficiencies related to internal control over financial reporting that are required to be reported by auditing standards generally accepted in the United States of America and *Government Auditing Standards*. Repeat findings from the prior year are indicated with an asterisk (*).

Finding 2014-001: Access Concerns with the University of Wisconsin System's Human Resource System*

Criteria:

The Human Resource System (HRS), which was largely implemented in April 2011, is used by the University of Wisconsin (UW) System to track and maintain employee information, such as address, position, and benefit choices, and to process and record the biweekly and monthly payroll for all staff and students employed by UW institutions, including the 13 four-year universities, 13 two-year colleges, UW-Extension, and UW System Administration.

The UW Service Center provides support to all UW institutions related to payroll, benefits, and other automated human resources processing. UW-Madison's Division of Information Technology (DoIT) provides HRS information technology support, such as programming and data security.

The ability to perform the various functions within HRS is controlled through the use of security roles. Each security role has specific permissions attached to it that allow the user to perform a specific task or tasks. In order to ensure that information is properly safeguarded and to limit the risk that inadvertent, erroneous, or unauthorized changes could be processed, UW System should ensure that access to HRS is limited to that necessary for individual users to complete their properly separated job duties.

Condition:

We reported concerns with access to HRS during the fiscal year (FY) 2010-11, FY 2011-12, and FY 2012-13 audits. We followed up on UW System's progress in implementing our prior audit recommendations during the FY 2013-14 audit and found that UW System Administration and DoIT took steps to address our concerns, such as completing their review of HRS security roles and reducing access. For example, we found 16 of the 19 users we had identified as having incompatible access at three UW institutions during our FY 2012-13 audit had their access reduced or removed. The remaining three users continued to have incompatible access in FY 2013-14, and we identified five additional users with incompatible access at those three UW institutions. We also reviewed access granted to HRS users at three additional UW institutions and identified seven users with incompatible access in FY 2013-14.

Although we identified 15 users with incompatible access during the FY 2013-14 audit, we found that UW System began to implement a compensating control when separation of duties could not be strictly enforced. This compensating control was tested by UW Service Center staff from May 2014 through June 2014 and was finalized and fully implemented in July 2014. Because incompatible access continued to exist during FY 2013-14, and because the compensating control was not fully implemented until FY 2014-15, UW System continued to be

at risk that inadvertent, erroneous, or unauthorized payments could be processed through HRS during FY 2013-14.

Questioned Costs:

None.

Context:

Payroll-related expense is the most significant expense of UW System, totaling nearly \$3.0 billion, or 61.4 percent of UW System's total expenses for FY 2013-14.

Effect:

During FY 2013-14, UW System was at increased risk that inadvertent, erroneous, or unauthorized payments could be processed through HRS.

Cause:

UW System did not fully implement compensating controls to reduce the risk that inadvertent, erroneous, or unauthorized payments could be processed through HRS until July 2014.

Recommendation:

University of Wisconsin System Administration indicated that the corrective actions it implemented in July 2014 will address the concerns related to access. Therefore, we do not make recommendations at this time. We will test the effectiveness of UW System's compensating control during the FY 2014-15 audit.

Response from University of Wisconsin System Administration:

None.

Finding 2014-002: Program Change Controls over the University of Wisconsin System's Human Resource System*

Criteria:

HRS, which was largely implemented in April 2011, is used by UW System to track and maintain employee information, such as address, position, and benefit choices, and to process and record the biweekly and monthly payroll for all staff and students employed by UW institutions, including the 13 four-year universities, 13 two-year colleges, UW-Extension, and UW System Administration.

The UW Service Center provides support to all UW institutions related to payroll, benefits, and other automated human resources processing. UW-Madison's DoIT provides HRS information technology support, such as programming and data security.

Procedures should be established to prevent users from making unauthorized changes to HRS program code or "configuration" information, such as various look-up tables used during payroll processing. The ability to perform program code or configuration changes is controlled through the use of security roles. Each security role has specific permissions attached to it that allow the user to perform a specific task or tasks. In order to ensure that information is properly safeguarded and to limit the risk that inadvertent, erroneous, or unauthorized changes could be made, UW System should ensure that access to security roles is limited to that necessary for employees to complete their properly separated job duties.

Condition:

We reported concerns related to program change controls during the FY 2011-12 and FY 2012-13 audits. We followed up on UW System's progress in implementing our recommendations and found that UW System Administration had continued to take steps to address our concerns, such as developing a role catalog for security roles in the Phire change management application and reviewing and adjusting the permissions attached to HRS security roles, including those related to configuration changes. In addition, in June 2014, UW System implemented a procedure to reconcile changes moved through Phire with supporting approval documentation on a biweekly basis. This procedure helps to ensure that all program code changes were approved.

Because the steps taken by UW System to address our concerns were not implemented until June 2014, UW System continued to be at risk that inadvertent, erroneous, or unauthorized program code changes could be made during most of FY 2013-14.

Questioned Costs:

None.

Context:

Payroll-related expense is the most significant expense of UW System, totaling nearly \$3.0 billion, or 61.4 percent of UW System's total expenses for FY 2013-14.

Effect:

During FY 2013-14, UW System was at increased risk that inadvertent, erroneous, or unauthorized program code changes could be made to HRS.

Cause:

The corrective actions taken by UW System to reduce the risk that inadvertent, erroneous, or unauthorized program code changes could be made were not implemented until June 2014.

Recommendation:

University of Wisconsin System Administration indicated that the corrective actions it implemented in June 2014 will address the concerns related to program change controls. Therefore, we do not make recommendations at this time. We will test the effectiveness of UW System's corrective actions during the FY 2014-15 audit.

Response from University of Wisconsin System Administration:

None.

Finding 2014-003: Programmer Access to Critical Mainframe Production Programs and Data at the Department of Transportation*

Criteria:

To provide proper internal control, computer programmers should not have the ability to access or update production programs and data. Further, programmers should not have access to data when using the Control-M job scheduling program, and individuals should not be able to directly access Control-M logon IDs.

Condition:

For several years, we have reported concerns with programmer access to critical mainframe production programs and data at the Department of Transportation (DOT). During our FY 2012-13 audit, we found that 20 computer programmers had access that allowed them to move program changes from the test environment to production for all mainframe computer applications. In addition, because of this access, programmers had the ability to change the underlying data.

During FY 2013-14, DOT completed a project to create a new security group for all production libraries for financially related mainframe computer applications. As of May 2014, access to the security group that has the ability to move changes into production has been limited to three administrators responsible for moving program changes from the test environment to production. Programmers no longer have access that allows them to move program changes from the test environment to production for financially related mainframe applications. However, through April 2014, DOT programmers continued to have access to programs and data, increasing the risk of undetected erroneous or fraudulent changes.

During our FY 2012-13 audit, we also found that five programmers had access to production data through Control-M. The programmers could access the Control-M scheduler through their individual logon IDs and directly through a financially critical Control-M logon ID. To address part of this concern, in early May 2014, DOT removed programmers' direct access to the financially critical Control-M logon ID. However, DOT indicates that it could not separate duties because of limited staffing, and, as a result, programmer access to Control-M through programmers' individual logon IDs could not be removed. DOT notes that changes made to the processes used in Control-M-related jobs are managed through the program change control process. This reduces the risk that a programmer could manipulate data processed by a job. These changes were not implemented until early May 2014.

Because, through most of FY 2013-14, programmers continued to have the ability to access the scheduling program with their individual logon IDs, as well as with a financially critical Control-M logon ID, programmers could have accessed and made unauthorized changes to the scheduler resulting in changes to production data. Further, because an individual could have accessed the program using the Control-M logon ID, any changes made to Control-M schedules and jobs using this particular Control-M logon ID would not have been attributable to the individual who made the change.

Questioned Costs:

None.

Context:

DOT maintains accounting and other systems critical to agency operations. These systems enable DOT to collect and expend more than \$2.4 billion annually to issue driver's licenses and vehicle titles and registrations, to track drivers' records and traffic violations, and to oversee the State's construction of roads and bridges.

Effect:

DOT was at increased risk that inadvertent, erroneous, or unauthorized changes could be made to financially critical DOT programs and data.

Cause:

Recently, DOT has sought to implement changes to reduce the risks involved with allowing this access. However, these changes were not in place until early May 2014.

Recommendation:

The Department of Transportation indicated that the corrective actions it implemented in early May 2014 will address the concerns related to programmer access. Therefore, we make no recommendation at this time. We will test the effectiveness of the Department of Transportation's corrective actions during the FY 2014-15 audit.

Response from Department of Transportation:

None.