



STATE OF WISCONSIN
Legislative Audit Bureau

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Joe Chrisman
State Auditor

January 10, 2013

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 (FY) ended June 30, 2012, and have issued an unqualified opinion dated December 13, 2012, 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 included in the State's FY 2011-12 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 \$2.9 billion as of June 30, 2011, to \$2.2 billion as of June 30, 2012. In its Management Discussion and Analysis on page 29, DOA attributes this change primarily to an increase of \$129.2 million in General Fund revenues, a decrease of \$498.7 million in expenditures, and a decrease of \$133.3 million in other financing sources and uses, such as transfers to other funds. In FY 2011-12, the State also paid two previously reported liabilities, including \$233.7 million to settle transfers previously made from the Injured Patients and Families Compensation Fund, and \$59.9 million to the State of Minnesota for individual income tax reciprocity.

The CAFR also reports information on the State's long-term debt. As shown on page 110, the State's long-term debt issued for general government operations was \$11.0 billion as of June 30, 2012, which is an increase of \$453.3 million since June 30, 2011.

During our audit, we identified internal control concerns that are required to be reported under *Government Auditing Standards*. The enclosed management letter includes the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is also provided to agency management.

In our report, we identified a material weakness related to security over the Human Resource System (HRS)—the University of Wisconsin (UW) System's new payroll and personnel system—that increases the risk of inadvertent, erroneous, or unauthorized changes (Finding WI-12-2 and Finding WI-12-3). We also identified that, due to a lack of oversight and monitoring of fringe benefit processes after

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the implementation of HRS, UW System overpaid health insurance premiums by \$15.4 million and Wisconsin Retirement System (WRS) contributions by \$17.5 million (Finding WI-12-4). Although the Department of Employee Trust Funds credited UW System for the \$17.5 million in overpayments to the WRS, provisions in the contracts between the State and health insurance providers appear to limit UW System's ability to recover the entire amount it overpaid for health insurance premiums.

We continued to identify a material weakness related to reporting errors made by the Office of the Commissioner of Insurance in the preparation of the financial statements for the Injured Patients and Families Compensation Fund (Finding WI-12-1). We also identified several reporting errors made by UW System in the preparation of its financial statements (Finding WI-12-5). In addition, we identified concerns with programmer access, which could result in unauthorized changes being made to information technology systems at the Department of Health Services (Finding WI-12-6) and the Department of Transportation (Finding WI-12-7). Discussion of each concern, and the response from management of the responsible agency, is included in the enclosed report.

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/sm

Enclosure

cc: Senator Mary Lazich
Senator Alberta Darling
Senator Kathleen Vinehout
Senator John Lehman

Representative Howard Marklein
Representative John Nygren
Representative Jon Richards
Representative Melissa Sargent

Michael Huebsch, Secretary
Department of Administration

Stephen Censky, State Controller
Department of Administration