



STATE OF WISCONSIN

Legislative Audit Bureau

22 East Mifflin Street, Suite 500  
Madison, Wisconsin 53703  
(608) 266-2818  
Fax (608) 267-0410

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Joe Chrisman  
State Auditor

January 31, 2012

Mr. Michael J. Spector, President  
Board of Regents  
University of Wisconsin System  
1860 Van Hise Hall  
1220 Linden Drive  
Madison, Wisconsin 53706

Mr. Kevin P. Reilly, President  
University of Wisconsin System  
1720 Van Hise Hall  
1220 Linden Drive  
Madison, Wisconsin 53706

Dear President Spector and President Reilly:

We have completed our financial audit of the University of Wisconsin (UW) System for the years ended June 30, 2011, and June 30, 2010. On December 21, 2011, we issued an unqualified auditor's report on the fair presentation of the financial statements and notes for those two fiscal years, which is included in the UW System's 2011 Annual Financial Report.

As provided for in *Government Auditing Standards*, we are furnishing you with the auditor's report on internal control over financial reporting and on compliance and other matters. In this report, we describe three findings related to internal controls at UW System that are required to be reported under these standards: mainframe computer program change controls; business resumption planning; and Human Resource System security. Management's responses to our concerns are included in the text of the report. 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 UW System staff during the audit.

Sincerely,

Joe Chrisman  
State Auditor

JC/CS/bm

Enclosure



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### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the University of Wisconsin (UW) System as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated December 21, 2011. The financial statements and related auditor's opinion have been included in UW System's 2011 Annual Financial Report. Our report includes a reference to other auditors. We conducted our audits 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*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the UW Foundation, which are presented in a condensed format in Note 11A to the financial statements, as described in our opinion on UW System's financial statements. While the financial statements of the UW 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*.

#### Internal Control over Financial Reporting

In planning and performing our audits, we considered UW System's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of UW System's internal control. Accordingly, we do not express an opinion on the effectiveness of UW System's internal control.

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 or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of UW System's financial statements will not be prevented or will not be detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined in the preceding paragraph. However, as discussed in the following paragraphs, we identified three deficiencies in internal control that we consider to be significant deficiencies. 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.

In our prior year report, dated December 10, 2010, we described four deficiencies in internal control that we considered to be significant deficiencies for the fiscal year ended June 30, 2010. UW System has taken corrective actions to address our concerns related to two of these deficiencies: the proper accounting treatment for an unusual accounting transaction and the misclassification of repair and maintenance projects. However, the remaining two concerns—mainframe computer program change controls and business resumption planning—continue to be significant deficiencies for the fiscal year ended June 30, 2011. These concerns, and one new concern, are described below.

### ***Mainframe Computer Program Change Controls***

Payroll-related expenses for UW System were processed using the UW's legacy payroll systems for three-quarters of our audit period, from July 2010 through early April 2011. UW System's process for making changes to the legacy payroll systems, which operated on the mainframe computer, did not include an independent review of program changes to assess the reasonableness of the modifications or compliance with users' requests. Further, programmers had the ability to move programs into the mainframe computer production environment. Because of the implementation of the Human Resource System (HRS), which replaced the legacy payroll systems in April 2011, UW System made no changes to the program change process for the legacy payroll systems. We continue to report this weakness in internal control over financial reporting because the legacy payroll systems were used to process payroll for most of our audit period. However, because the legacy payroll systems have been replaced, we make no recommendation and will review program change controls for the new payroll system in future audit work.

### ***Business Resumption Planning***

An effective business resumption plan helps to ensure that in the event of an emergency, such as a large-scale disaster or a system failure or power outage, business functions can be resumed in a timely manner. An effective business resumption plan should identify critical functions, provide detailed recovery procedures, identify personnel who would carry out the recovery efforts, and coordinate the efforts between departments and campuses. UW System continues to make progress in the development of its business resumption plan. Ten of the 13 four-year campuses, UW System Administration, and all two-year campuses have substantially completed their plans as of November 2011, and several of these have indicated that the plans have been tested.

However, several plans are not complete. Further, these plans rely on the recovery of critical accounting and reporting applications maintained by UW-Madison's Division of Information Technology (DoIT), such as the Shared Financial System, the accounting system used by all campuses. Additional testing of DoIT's recovery plan and the campus-level plans is needed to ensure these critical financial applications and operations can be resumed in a timely manner in the event of a disaster. In addition, communication between DoIT, UW System Administration, and the campuses regarding their plans, including the time frames necessary for the recovery of the accounting and financial reporting systems, is critical. We recommend UW System continue the development of its business resumption plan.

Management's Response: Management concurs with this recommendation, but would like to highlight the substantial progress that occurred in fiscal year (FY) 2010-11, a year in which UW institutions dealt with significant competing priorities and staff turnover.

In FY 2010-11, UW System Administration continued its contract with the UW-Madison Police Department to coordinate the development of business resumption plans at each UW institution. Four additional four-year institutions completed development of their plans, and many institutions conducted training and testing exercises.

Of the three remaining four-year institutions that have not completed their plans, two are scheduled to have plans completed by the end of December 2011, with the final UW institution completing its plan in January 2012. UW-Madison's Division of Information Technology, which maintains critical system-wide accounting and financial reporting computer applications, currently plans to test its business resumption plan in December 2011.

### ***Human Resource System Security***

HRS is UW System's new computer system, implemented in April 2011, to track and maintain employee information, such as address, position, and benefit choices, and to process and record the biweekly or monthly payroll for all staff and students employed by the 13 four-year campuses, 13 two-year colleges, UW-Extension, and UW System Administration. As part of our current audit, we performed only a limited review of HRS, since the system was used to process payroll for only one-quarter of the fiscal year. We plan to conduct a full review of HRS beginning in the spring of 2012. During our limited review this year, we identified concerns with HRS security.

Responsibility for ensuring payroll is accurate and information within HRS is properly secured involves a collaborative effort between UW Service Center staff, who are responsible for ensuring the system correctly processes the payroll based upon information entered into HRS, and campus staff, who are responsible for ensuring employee information is correctly entered into the system and for reviewing and approving payroll. In order to ensure that information is properly safeguarded and to limit the risk that fictitious employees could be added to the payroll system or inappropriate payments could be processed, access to the system for both individual users and system accounts should be properly restricted.

We performed a limited review of access granted to UW Service Center employees, HRS contract staff, employees of one randomly selected campus, and several separate system accounts, and identified several concerns with incompatible or excessive access and sharing of passwords. As a result, UW System is at increased risk of processing erroneous or inappropriate payments through HRS, with potentially no accountability to an individual user.

The implementation of HRS was a large and complex project and it may not have been unexpected that some individual users and system accounts had access beyond what is required in a more mature or stable system or that some employees may have been asked to temporarily perform duties beyond their typical job. However, UW System should monitor and adjust access to enforce proper separation of duties. We recommend UW System Administration review the access concerns we identified and communicated in more detail in our December 2, 2011 memorandum, remove access that is not needed, and develop effective compensating controls for any remaining incompatible access.

Management's Response: The HRS project is currently in the stabilization phase. Access to HRS will evolve as the UW System becomes more familiar with the system and new business processes and as UW staff responsibilities become more defined.

UW System has developed a security role review plan for Service Center personnel, campus staff, and contractor access to HRS. In addition, UW System is implementing Identity and Access Management (IAM) attestation functionality, which is anticipated to be operational by summer 2012. This functionality will provide reports to more easily identify those individuals with access to incompatible duties. The security role review and IAM functionality will result in the removal of some employees' access that is proven to be unnecessary to perform assigned duties or that is incompatible with other duties. These efforts may also identify places where compensating controls must be developed and implemented because staffing constraints do not allow for the optimal separation of duties.

In addition, UW System is currently in the process of limiting the capabilities of batch accounts (system accounts) to a specific role to process run controls exclusively. Individual access will be requested and approved through the IAM security system. The batch account initiative should be completed in January 2012.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether UW System's financial statements are free of material misstatement, we performed tests of its 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*.

UW System's written responses to the findings identified in our audit are described in the preceding narrative. We did not audit the responses and, accordingly, express no opinion on them.

This independent auditor's report is intended solely for the information and use of UW System's management, the Board of Regents, and the Wisconsin Legislature. This report is a matter of public record and its distribution is not limited. However, because we do not express an opinion on the effectiveness of UW System's internal control or on compliance, this report is not intended to be used by anyone other than these specified parties.

LEGISLATIVE AUDIT BUREAU

December 21, 2011

by



Carolyn Stittleburg  
Audit Director