



STATE OF WISCONSIN

Legislative Audit Bureau

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Joe Chrisman  
State Auditor

December 21, 2011

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

Mr. Stephen Censky, State Controller  
Department of Administration  
101 East Wilson Street, 5<sup>th</sup> Floor  
Madison, Wisconsin 53702

Dear Mr. Huebsch and Mr. Censky:

We have completed a financial audit of the State of Wisconsin as of and for the fiscal year ended June 30, 2011. The financial statements and related opinion are included in the State of Wisconsin's Comprehensive Annual Financial Report, which is published by the Department of Administration.

During the course of our audit, we identified a variety of internal control concerns at various 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 state agencies' responses 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

Enclosure

JC/KE/ss



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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 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 as of and for the year ended June 30, 2011, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 21, 2011. The basic financial statements and related auditor's report have been included in the State of Wisconsin's Comprehensive Annual Financial Report for fiscal year (FY) 2010-11. Our report includes a reference to other auditors.

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*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Wisconsin Department of Transportation Revenue Bond Program and Commercial Paper Program; 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 financial statements. The financial statements of the Wisconsin Department of Transportation Revenue Bond Program and Commercial Paper Program, 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*. The financial statements of the University of Wisconsin Foundation were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *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 may have been reported on separately by those auditors.

#### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the State's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the State's basic 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 significant deficiencies or material weaknesses, and therefore there can be no assurance that all

deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed in the following paragraphs and described in the accompanying schedule of findings and responses, we identified one deficiency in internal control that we consider to be a material weakness, and other deficiencies that we consider to be 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 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 financial statements will not be prevented or will not be detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as Finding WI-11-1 to be a material weakness.

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 WI-11-2 through WI-11-5 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State's basic 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*.

The State's written responses to findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the responses and, accordingly, express no opinion on them.

We noted certain additional matters, which we will report or have already reported to management of certain state agencies in separate communications.

This independent auditor's report is intended for the information and use of the management of the State of Wisconsin, the Wisconsin Legislature, federal awarding agencies, and pass-through entities. 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 the State's internal control or on compliance, this report is not intended to be and should not be used by anyone other than these specified parties.

December 21, 2011

by

LEGISLATIVE AUDIT BUREAU



Bryan Naab  
Deputy State Auditor for Financial Audit

## SCHEDULE OF FINDINGS AND RESPONSES

This schedule includes all 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 WI-11-1: Financial Reporting Process for the Injured Patients and Families Compensation Fund**

*Criteria:*

The Injured Patients and Families Compensation Fund's management is responsible for maintaining effective internal controls that ensure the Fund's financial statements included in the State's basic financial statements are fairly presented and that misstatements are prevented or detected in a timely manner.

*Condition:*

Sufficient procedures and controls are not in place to ensure that the Injured Patients and Families Compensation Fund's financial statements are fairly presented. Fund staff did not follow the procedures established for calculating the Fund's future benefit and loss liabilities on the Balance Sheet and the related benefit expense on the Statement of Revenues, Expenses, and Changes in Fund Equity. In addition, controls over the preparation of the Fund's Statement of Cash Flows were not sufficient to prevent or detect material misstatements, especially as they related to investing activities.

*Questioned Costs:*

None

*Context:*

The Injured Patients and Families Compensation Fund's accountant obtains and enters amounts from a variety of sources, including the most recent actuarial analysis and reports generated from the Fund's provider system, into a spreadsheet to calculate the estimated loss liabilities balances and related benefit expense amounts reported in the State's basic financial statements. Historically, the Statement of Cash Flows was prepared based on amounts calculated from the Fund's manually prepared general ledger and corroborated with other supporting information, including information from WiSMART, the State's central accounting system, and the State of Wisconsin Investment Board.

*Effect:*

Misstatements in each of the Injured Patients and Families Compensation Fund's financial statements were identified as part of the audit process and not as part of the Fund's controls over its financial reporting process. The most significant errors include:

- Benefit Expense was overstated by \$62.9 million; Future Benefit and Loss Liabilities—Current was overstated by \$12.2 million; and Future Benefit and Loss Liabilities—Noncurrent was overstated by \$50.7 million. This error also affected balances in the reconciliation of operating income to net cash provided by operating activities in the Statement of Cash Flows.

- The cash flows from investing activities contained the following errors: Proceeds from Sale and Maturities of Investment Securities was understated by \$12.2 million; Investment and Interest Receipts was overstated by \$9.8 million; and Purchase of Investment Securities was understated by \$2.6 million. We also identified several smaller errors in other accounts on the Statement of Cash Flows.

Fund staff subsequently corrected the financial statements for these and other less significant errors identified during our audit work.

*Cause:*

The Injured Patients and Families Compensation Fund's accountant was newly hired for fiscal year (FY) 2010-11 and did not fully understand the procedures involved in the calculation of the Fund's future benefit and loss liabilities and related benefit expense. Similarly, the Fund's accountant was not familiar with and did not complete additional procedures to verify the accuracy of the cash flow information in the general ledger. Further, the Fund management's review of the financial statements prior to submission to the State Controller's Office was not sufficient to detect and correct the financial statement errors.

*Recommendation:*

We recommend the Office of the Commissioner of Insurance ensure that Injured Patients and Families Compensation Fund staff understands how to calculate the future benefit and loss liabilities and related benefit expense amounts and how to calculate and verify the information on the Statement of Cash Flows. Further, we recommend the management of the Injured Patients and Families Compensation Fund perform a more detailed review of the financial statements prior to their submission to the State Controller's Office.

*Management's Response:*

Injured Patients and Families Compensation Fund staff will establish and implement procedures to ensure that the calculations of the future benefit and loss liabilities are accurately calculated and all information is properly reflected in the Statement of Cash Flows. In addition, Fund management will establish and implement procedures that will ensure that the Fund's financial statements are thoroughly reviewed prior to submission to the State Controller's Office. These procedures will be in place prior to the preparation of the FY 2011-12 financial statements.

**Finding WI-11-2: Programmer Access to Critical 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 data and programs. Further, to maintain proper accountability, individuals should access the Control-M job scheduling program using their individual log-on IDs.

*Condition:*

Computer programmers at the Department of Transportation have access to production programs and data. Throughout most of FY 2010-11, 27 computer programmers were allowed to move programs from the test environment to production, and 5 programmers had access to production

data through the Control-M job scheduling program. Further, the Department continued to use shared log-on IDs to make changes related to Control-M schedules and jobs. Users logged in to the Control-M job scheduling program with shared Control-M log-on IDs, rather than their individual log-on IDs.

The Department has been working on steps to improve controls in these areas. Near the end of FY 2010-11, the Department reduced the number of programmers with access to move programs from the test environment to production from 27 to 16. Further, the Department is developing a compensating control that it believes will reduce the risk of allowing programmers access to move production programs from the test environment to production. In addition, the Department is working on a compensating control that would allow it to monitor the activity related to the Control-M job scheduling program, and it has discontinued the practice of sharing the password for its most financially critical Control-M log-on ID.

However, these controls were not implemented throughout our audit period and, therefore, data remained at risk of erroneous or unauthorized changes during FY 2010-11.

*Questioned Costs:*

None

*Context:*

The Department of Transportation maintains accounting and other systems critical to agency operations. These systems enable the Department to collect and expend over \$2.0 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:*

Programmers, who have extensive knowledge of the computer programs and datasets, could make unauthorized changes to the programs or data and conceal those changes, resulting in undetected erroneous or fraudulent changes. Further, because of the use of shared log-on IDs, any changes made to Control-M schedules and jobs will not be attributable to that person, making it more difficult to hold individuals accountable for any actions taken using the shared Control-M log-on ID.

*Cause:*

The Department of Transportation has indicated that it can more efficiently complete program changes and job scheduling by allowing programmers access to the production environment and to Control-M. However, the Department also recognizes the risks involved with allowing this access and is currently developing compensating controls that it believes would be effective in lowering the risks in this area.

*Recommendation:*

We recommend the Department of Transportation continue its efforts to develop and implement procedures for ensuring that changes to programs are authorized, appropriately tested, and comply with industry standards, including that programmers' access to production programs and data be eliminated, or that effective compensating controls be implemented to reduce the risk of unauthorized changes. Further, we recommend the Department of Transportation continue its efforts to improve controls over the use of the Control-M log-on IDs.

*Management's Response:*

The Department of Transportation has developed several processes to reduce the risks related to unauthorized changes to its programs and data, including ensuring that changes to program code for its financial systems are authorized and production jobs are only scheduled from production libraries. Further, the Department has eliminated access to the most financially critical Control-M log-on ID and now requires users to log on with their individual log-on IDs.

The Department of Transportation believes that these additional processes, along with processes in place during prior periods, significantly reduce the risks associated with programmers' access to programs and data.

**Finding WI-11-3: Mainframe Program Change Controls at the University of Wisconsin\***

*Criteria:*

To provide proper internal control, procedures should be established to prevent computer programs from being altered and/or put into production without proper oversight, review, and documentation.

*Condition:*

The University of Wisconsin (UW) System's legacy payroll systems were used to process payroll for three-quarters of FY 2010-11, from July 2010 through early April 2011. The program change process for the legacy payroll systems operating on the mainframe computer did not include an independent review of program changes to assess the reasonableness of the changes or compliance with users' requests. Further, programmers had the ability to move programs into production. Thus, even if such reviews were performed, programmers could circumvent these procedures and make changes without oversight, review, or documentation.

*Questioned Costs:*

None

*Context:*

Payroll-related expense is the most significant expense of UW System, totaling almost \$2.9 billion, or nearly 67.0 percent of the UW System's total expenses for FY 2010-11.

*Effect:*

Programmers with extensive knowledge of the legacy payroll systems' computer programs could make unauthorized changes to the programs and conceal those changes, which could have resulted in undetected erroneous or fraudulent information.

*Cause:*

Controls were not originally developed to ensure proper oversight before programs were moved to production. Further, because of the planned implementation of a new payroll system in April 2011, UW System did not make changes to the program change process for the legacy payroll systems.

*Recommendation:*

We continue to report this weakness in internal control over financial reporting because the legacy payroll systems were used to process payroll for three-quarters of our audit period. However, because the legacy payroll systems were replaced in April 2011, we make no recommendation and will review program change controls for the new payroll system as part of future audits.

**Finding WI-11-4: Security Concerns with the University of Wisconsin System's Human Resource System**

*Criteria:*

The Human Resource System (HRS) is UW System's new computer system used 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. We performed a limited review of HRS security issues during our current audit.

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 payroll based upon information entered into HRS, as well as 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.

*Condition:*

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.

*Questioned Costs:*

None

*Context:*

Payroll-related expense is the most significant expense of UW System, totaling almost \$2.9 billion, or nearly 67.0 percent of UW System's total expenses for FY 2010-11. HRS, which replaced UW System's legacy, mainframe-based computer systems in April 2011, was used to process \$635.0 million in payroll-related expenses for the last quarter of the fiscal year.

*Effect:*

UW System is at increased risk of erroneous or inappropriate payments being processed through HRS, with potentially no accountability to an individual user.

*Cause:*

The implementation of HRS was a large and complex project. As a result, 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.

*Recommendation:*

We recommend UW System Administration review the access concerns we identified and communicated in more detail in our December 2, 2011 interim 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 System 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.

**Finding WI-11-5: Statewide Business Resumption Planning\***

*Criteria:*

To minimize disruption that may occur in an emergency, Wisconsin state government should have an effective business resumption plan in place.

*Condition:*

The Department of Administration is coordinating a project to develop a statewide business resumption plan. State agencies have generally progressed with development and testing of functional-level plans, including alternative site planning, and some multi-agency communication drills have been performed. However, testing of functional-level plans does not occur regularly and agency functional-level plans do not include recovery planning in the event the data center is unavailable and the computer applications used to administer their programs cannot be used. Therefore, a comprehensive statewide plan is not available.

*Questioned Costs:*

None

*Context:*

The State provides a variety of critical services to citizens, local governments, and others in the State.

*Effect:*

Without an effective statewide business resumption plan in place, an emergency could disrupt the State's ability to provide critical services; process the related accounting transactions, including delaying payments to vendors, citizens, and other governmental entities; and prepare financial statements in an accurate and timely manner.

*Cause:*

Development of a comprehensive plan is a large project requiring significant resources. Because of budget restrictions and the limited availability of staff, the State has not been able to devote sufficient ongoing resources to complete development and testing in the short term. However, it does continue to work toward a comprehensive plan.

*Recommendation:*

We recommend the State continue to move forward to complete and test its business resumption plan.

*Management's Response:*

Wisconsin's Continuity of Government program, led by the Department of Administration, has continued to make significant progress to strengthen and improve Continuity of Operations (COOP) plans and conduct tests and drills. Between October 2010 and May 2011, agencies with the highest priority services conducted intensive reviews and made significant updates to their plans to improve the capability to maintain operations for critical services. In addition, in FY 2010-11, 24 agencies and UW System campuses conducted COOP exercises and the Continuity of Government program participated in a community exercise to test inter-agency communications and coordination in the event of a wide-scale power outage.

The Department of Administration is committed to the continual improvement of agency and enterprise continuity plans and annual testing of those plans and will continue to move forward to improve and strengthen continuity plans. An important element of continual improvement of agency COOP plans will be to more clearly document plans for agency business service continuity in the event the primary state data center is unavailable. The Continuity of Government program will also be initiating an all-agency Business Impact Assessment in January 2012 to verify and validate individual agency business service application recovery requirements and dependencies. The result of this assessment will be an updated business service priority listing that the Department's Division of Enterprise Technology will use to guide continuity planning and resumption of IT systems in the event of loss or damage to the State's primary data center. In addition, the Continuity of Government program will develop a five-year exercise plan for agencies in 2012 to enhance and validate continuity capabilities through progressively more complex and challenging exercises.

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