



STATE OF WISCONSIN
Legislative Audit Bureau

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Janice Mueller
State Auditor

January 26, 2010

Mr. Charles Pruitt, 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 Pruitt and President Reilly:

We have completed our financial audit of the University of Wisconsin (UW) System for the years ended June 30, 2009, and 2008. On December 11, 2009, 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 2009 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: grant revenue clearing accounts; mainframe computer program change controls; and enterprise-wide business resumption planning. 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,

Janice Mueller
State Auditor

JM/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 System as of and for the years ended June 30, 2009 and 2008, and have issued our report thereon dated December 11, 2009. The financial statements and related auditor's opinion have been included in the University of Wisconsin System's 2009 Annual Financial Report. Our report includes a reference to other auditors and discloses that the calendar year 2007 condensed Statement of Revenues, Expenses, and Changes in Fund Equity of the University of Wisconsin Foundation, as included in the notes to the financial statements, was not audited. 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 calendar year 2008 financial statements and the calendar year 2007 Balance Sheet of the University of Wisconsin Foundation, which are presented in a condensed format in the notes to the financial statements, as described in our opinion on the University of Wisconsin System's financial statements. 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*.

Internal Control over Financial Reporting

In planning and performing our audits, we considered the University of Wisconsin 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 the University of Wisconsin System's internal control. Accordingly, we do not express an opinion on the effectiveness of the University of Wisconsin 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 the University of Wisconsin 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 over financial reporting 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.

Grant Revenue Clearing Accounts

During fiscal year (FY) 2008-09, the University of Wisconsin System received over \$1.0 billion in funding under federal, state, and local government grants and contracts, as well as under private grants and contracts. The University of Wisconsin-Madison, which received about 75 percent of this revenue, uses various clearing accounts to record the initial deposits of revenue and subsequently clears these revenues and liquidates the receivable upon determination of the grant project that received the revenue. It is important that revenues recorded in the clearing accounts are reviewed and reconciled to ensure they are properly accounted for and accurately reported. Due to changes in procedures, the clearing accounts were not being used properly during FY 2008-09, resulting in a misclassification between two revenue accounts: 1) Federal Grants and Contracts, and 2) State, Local and Private Grants and Contracts. An estimate was developed to adjust the financial statement balances for the misclassification; however, because the clearing accounts have yet to be reconciled, there continues to be a potential for additional misclassification between these accounts. We recommend the University of Wisconsin-Madison reconcile the existing clearing account balances and implement procedures to ensure these balances are appropriately reconciled and reported in the future.

Management agrees with the recommendation. University of Wisconsin-Madison staff have worked with the University of Wisconsin System Controller to establish procedures to monitor the account balance monthly and make transfers from the clearing account to the appropriate account and fund. These procedures will be implemented in January 2010. The outstanding balance in the clearing accounts will be reconciled and corrected by June 30, 2010.

Mainframe Computer Program Change Controls

The University of Wisconsin System's computer program change process for its critical financial systems operating on the mainframe, such as its legacy payroll systems, does not include an independent review of program changes to assess the reasonableness of the modifications or compliance with users' requests. Further, programmers have the ability to move programs into the mainframe computer production environment. Thus, even if the reviews were performed, programmers could circumvent these procedures and make changes without oversight, review, or documentation.

Management acknowledges that there continues to be a risk that unauthorized or erroneous changes could be made to the legacy payroll processes on the mainframe computer. The University of Wisconsin-Madison payroll service center will commence program change control discussions with University of Wisconsin-Madison's Division of Information Technology (DoIT)

to determine the feasibility of implementing the same program change control process that has been established for the Shared Financial System. Given the plans to replace the legacy payroll system within the next two years, and potential costs to implement program change control procedures, management believes the level of risk to be low and of limited duration. Thus, while potential program change controls procedures are being examined, management accepts this risk.

Enterprise-Wide Business Resumption Planning

The University of Wisconsin System does not have a comprehensive enterprise-wide business resumption plan, increasing the risk that in the event of an emergency caused by a large-scale disaster or a system failure or power outage, business functions could not be resumed in a timely manner. An effective business resumption plan would identify critical functions, provide detailed recovery procedures, identify personnel who would carry out the recovery efforts, and coordinate the efforts between departments and campuses. We recommend the University of Wisconsin System continue its development of an enterprise-wide business resumption plan.

Management agrees with the findings and recommendation. The University of Wisconsin System will continue to monitor and track the progress each campus is making to complete all five phases of the plan. During FY 2008-09, the planning efforts were shifted from completing the overall plan to completing pandemic plans to ensure readiness to the potential H1N1 threat. The pandemic plans have been completed, and efforts will now focus on completion of the overall plans.

Management of the University of Wisconsin System and University of Wisconsin-Madison acknowledges that there continues to be a risk relating to business continuity and disaster recovery. DoIT continues to work with University of Wisconsin-Madison and University of Wisconsin System Administration to enhance processes, document policies and procedures, and establish appropriate testing procedures to ensure the continuity and recovery of critical operations following physical disasters. It is anticipated that the overall planning process will be completed by the end of calendar year 2010.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University of Wisconsin 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*.

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

This independent auditor's report is intended solely for the information and use of the University of Wisconsin 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 the University of Wisconsin 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 11, 2009

by

Carolyn Stittleburg
Audit Director