



STATE OF WISCONSIN

Legislative Audit Bureau

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Janice Mueller  
State Auditor

February 1, 2007

Mr. David G. Walsh, President  
Board of Regents  
University of Wisconsin System  
1860 Van Hise Hall  
Madison, Wisconsin 53706

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

Dear President Walsh and President Reilly:

We have completed our financial audits of the University of Wisconsin (UW) System for the years ended June 30, 2006, and 2005. On December 15, 2006, 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 2006 Annual Financial Report.

As provided for in *Government Auditing Standards*, we are also furnishing you with the auditor's report on internal control over financial reporting and on compliance. In this report we describe two internal control concerns that we identified during our audit. First, we found computer programmers are granted access to implement computer program changes without independent oversight and review, increasing the risk that programmers could make and conceal inappropriate or unauthorized changes to the programs they maintain. UW System Administration staff agree with our findings in this area, but express concerns over the costs to implement our recommendation. Second, we note UW System lacks an enterprise-wide business resumption plan, increasing the risk that, in the event of an emergency, business functions could not be resumed in a timely manner. UW System Administration staff agree and note that an enterprise-wide business resumption plan is currently under development. 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 University of Wisconsin System staff during the audit.

Sincerely,

Janice Mueller  
State Auditor

JM/CS/ss

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, 2006 and 2005, and have issued our report thereon dated December 15, 2006. The financial statements and related auditor's opinion are included in UW System's 2006 Annual Financial Report. 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.

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

In planning and performing our audit, we considered UW System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted two matters, described in the paragraphs that follow, involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect UW System's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The first reportable condition pertains to access granted to computer programmers that could allow programmers to implement program changes without independent oversight and review. Independent review of program changes is required under a well-controlled program change process and without this review, the potential for programmers to make and conceal fraudulent changes to the programs they maintain is increased. Management agrees with these concerns but believes that the recommended independent review process would significantly increase costs and lengthen time lines. Management further notes that the program change process is actively being reviewed and enhanced to balance the needs of ensuring a secure financial system, minimizing costs, and effectively responding to the needs of the users.

The second reportable condition relates to the lack of an 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 that would carry out the recovery efforts, and provide coordination of efforts between departments and campuses. Currently, while many departments and campuses have recovery plans at various stages of development, these plans have not been coordinated across the UW System. Management agrees that an enterprise-wide recovery plan is needed and is currently coordinating the development of a plan.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

### **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 grants 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 that are required to be reported under *Government Auditing Standards*.

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

LEGISLATIVE AUDIT BUREAU

December 15, 2006

by



Carolyn Stittleburg  
Audit Director