



**STATE OF WISCONSIN**  
Legislative Audit Bureau

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Janice Mueller  
State Auditor

December 11, 2008

Mr. Michael L. Morgan, 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. Morgan and Mr. Censky:

We have completed a financial audit of the State of Wisconsin as of and for the fiscal year ended June 30, 2008. 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 included 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,

Janice Mueller  
State Auditor

JM/KE/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 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, 2008, and have issued our report thereon dated December 11, 2008. The basic financial statements and related auditor's opinions have been included in the State of Wisconsin's Comprehensive Annual Financial Report for fiscal year 2007-08. Our report was modified to include a reference to other auditors. In addition, our report was modified to qualify our opinion on the aggregate discretely presented component units.

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 Badger Tobacco Asset Securitization Fund; 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 balance sheet for the University of Wisconsin Foundation, as described in our opinion on the State of Wisconsin's financial statements. While the financial statements of the Wisconsin Housing and Economic Development 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 other funds and component units audited by other auditors 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 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 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that none of the significant deficiencies described in the accompanying Schedule of Findings and Responses is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State of Wisconsin'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 during 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 the 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, 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 the effectiveness of the State'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, 2008

by



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 and compliance and other matters 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-08-01: Internal Control Weaknesses in Financial Reporting by State Agencies\***

#### *Criteria:*

The Department of Administration's (DOA's) State Controller's Office (SCO) is responsible for preparing and maintaining the Uniform GAAP Conversion Policies and Procedures Manual, which includes the State's policies and procedures used to prepare financial statements in accordance with generally accepted accounting principles (GAAP). The management of each state agency is responsible for maintaining effective internal controls to ensure agencies follow the Uniform GAAP Conversion Policies and Procedures Manual and that the information provided to SCO for inclusion in the State's financial statements is fairly presented and that misstatements are prevented or detected in a timely manner. SCO is responsible for performing limited reviews of the reasonableness of information submitted by other state agencies.

#### *Condition:*

In some instances, state agencies do not have sufficient procedures and controls in place to ensure compliance with the Uniform GAAP Conversion Policies and Procedures Manual. In other instances, agency staff and management did not fully consider how to most appropriately report the information. In addition, some agencies did not appropriately review financial information for significant errors prior to submitting the information to SCO for inclusion in the State's financial statements.

#### *Questioned Costs:*

None

#### *Context:*

The State's financial statements present financial activity for the State as a whole, in accordance with GAAP. Financial reporting for the State is complex, with many technical accounting issues.

#### *Effect and Cause:*

Some state agencies did not prevent or detect in a timely manner misstatements in the financial information included in the State's financial statements. Agencies and SCO agreed to make corrections after the auditors brought the errors to their attention. Examples of significant errors identified by auditors and the causes of these errors are presented in the following table:

<b>Agency</b>	<b>Fund</b>	<b>Misstatement</b>	<b>Cause</b>
<i>Department of Health Services</i>	<i>General Fund</i>	Both Other Revenue and Human Relations and Resources Expenditures were overstated by \$71.9 million in the Statement of Revenues, Expenditures, and Changes in Fund Balances.	Staff did not appropriately and consistently report some rebates received from drug companies.
<i>Department of Public Instruction</i>	<i>General Fund</i>	Both Due From Other Governments in the Balance Sheet and Intergovernmental Revenues in the Statement of Revenues, Expenditures, and Changes in Fund Balances were both understated by \$57.7 million.	Agency staff review was not sufficient to detect this error.
<i>Department of Revenue</i>	<i>General Fund</i>	Taxes Payable was understated by \$24.4 million, Taxes Receivable was understated by \$37.5 million, and Fund Balance, Unreserved, was understated by \$13.1 million in the Balance Sheet.	DOR does not have well-documented year-end procedures. Staff did not fully analyze year-end transactions and assumptions used. Supervisory review of adjusting entries did not detect these errors.

*Recommendation:*

We recommend agencies with identified control weaknesses improve their internal controls over the financial reporting process.

*Management's Response:*

Agencies' management agreed to implement improvements to controls over the financial reporting process.

**Finding WI-08-02: Programmer Access to the State's Central Accounting System and Central Payroll System Data and Programs\***

*Criteria:*

To provide proper internal control, computer programmers ideally should not have the ability to access or update production data and programs. If this is not possible, proper oversight, review, and documentation should be provided to minimize risk of unauthorized changes to computer programs and data.

*Condition:*

Programmers for the State's central accounting system and central payroll system have access to production data and programs, which could allow them to make unauthorized changes to the data. DOA has begun several projects that, when completed, may mitigate risks in some areas. For example, in recent years DOA has taken steps to limit programmers' ability to directly access several payroll and accounting-related datasets. Changes to those datasets are now made through the use of a new log-on identification, for which access is logged. However, DOA has not established sufficient monitoring procedures to ensure that all logged changes to datasets are reasonable. Further, DOA continues to allow programmers to directly access other payroll and accounting-related datasets. Finally, some programmers continue to have the ability to modify the production programs, which could allow them to change the programs or output in order to avoid detection of unauthorized changes. Although DOA has taken limited steps to improve controls, payroll and accounting data remained at risk during FY 2007-08.

*Questioned Costs:*

None

*Context:*

The State's central accounting system maintains the State's official accounting records. The system processes financial data for all state agencies and is the main source of information for financial schedules and statements, including the State of Wisconsin's financial statements. The State's central payroll system processes the biweekly payroll for most state employees. Both of these systems generate checks.

*Effect:*

Programmers with access to and extensive knowledge of the computer programs in the systems could make unauthorized changes to data and conceal those changes. This risk is increased because these programmers also have access to the production programs for these systems.

*Cause:*

DOA requires computer programmers to perform production and data control duties and does not believe the benefits of separating these duties outweigh the related costs. As of the end of FY 2007-08, DOA has not fully implemented compensating controls in this area but believes it would be difficult for a programmer to conceal unauthorized transactions without detection.

*Recommendation:*

We recommend DOA continue to implement compensating controls related to computer programmer access to data and programs, to reduce the risk of unauthorized transactions.

*Management's Response:*

DOA agrees with the recommendation to continue implementing compensating controls over programmer access to data and programs.

## **Finding WI-08-03: 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.

### *Condition:*

Computer programmers at DOT have access to programs in production, and some are allowed to move programs from the test environment to production. In addition, some computer programmers have access to production data through access to the Control-M job scheduling program.

### *Questioned Costs:*

None

### *Context:*

DOT maintains accounting and other systems critical to agency operations. These systems enable DOT to collect and expend \$2 billion annually; to issue driver 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 with extensive knowledge of the computer programs and data sets could make unauthorized changes to the programs or data and conceal those changes, resulting in undetected erroneous or fraudulent changes.

### *Cause:*

DOT believes it can more efficiently complete program changes and job scheduling by allowing programmers access to the production environment and to Control-M. To control production system security, it uses a combination of Changeman staging controls, user verification procedures, periodic access reviews, and supervisory oversight. DOT believes these factors somewhat mitigate the risk of programmers having access to production data and programs, and has decided to accept any remaining risk.

### *Recommendation:*

In prior audits, we have expressed our concerns regarding programmers' ability to access or update production data and programs and have recommended removal of programmers' access to critical production programs and to the Control-M job scheduling program. We continue to believe programmers should not have access to production data and programs. DOT is aware of our concerns but accepts the risks in this area. Therefore, we do not repeat our recommendation.



## **Finding WI-08-04 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:*

Program change procedures for critical financial applications operating on the mainframe computer have not changed. An independent review of program changes to assess the reasonableness of the modifications is not performed. Further, for some applications, programmers have 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:*

The University of Wisconsin (UW) -Madison maintains critical financial systems, including the UW-Madison legacy accounting system and the UW System legacy payroll system, on the mainframe computer.

### *Effect:*

Programmers with extensive knowledge of the computer programs could make unauthorized changes to the programs and conceal those changes, resulting in undetected erroneous or fraudulent information.

### *Cause:*

Controls were not originally developed to ensure proper oversight before programs are moved to production. There are no plans to change the current procedures for the mainframe computer programs because UW System is planning to move its critical financial applications from the mainframe computer to computer servers.

### *Recommendation:*

Given the lack of controls over the computer program change process, UW System remains at increased risk that unauthorized or erroneous changes could be made to computer programs operating in the mainframe computer environment. However, given plans to continue to move applications from the mainframe computer, it is anticipated the program change process will not change. UW System and UW-Madison are aware of our concerns but accept the risks in this area. Therefore, we do not repeat our recommendation.

*Management Response:*

Management of UW System and UW-Madison acknowledges that there continues to be a risk that unauthorized or erroneous changes could be made to the legacy accounting and payroll processes on the mainframe computer; however, given the continued decline in usage of the legacy accounting system and the long-term plans to replace the legacy payroll system, management accepts the risk.

**Finding WI-08-05: Integrity of the Injured Patients and Families Compensation Fund Provider System\***

*Criteria:*

The Injured Patients and Families Compensation Fund should ensure that its provider system, which is used to bill health care providers who participate in the Fund and to maintain the Fund's medical malpractice claims history, is able to accurately and efficiently process information. Further, this system should be properly secured to ensure data stored and processed by the system are protected from accidental or intentional misuse or destruction.

*Condition:*

The provider system was developed in the early 1990s and has not been able to easily accommodate changes that have occurred over time, which has resulted in errors occurring within the system. Fund staff estimate approximately 15 to 20 hours per week have been needed to address the problems that have developed. Further, these system issues have limited the Fund's ability to address system access control weaknesses.

*Questioned Costs:*

None

*Context:*

During our prior audit, we provided a separate audit communication to the Office of the Commissioner of Insurance identifying in detail our concerns related to the integrity of the provider system and various system access control weaknesses that could compromise data integrity. The Fund is focusing its efforts on developing a new system rather than making major changes to the current system. Therefore, the conditions noted during the prior audit remained concerns throughout FY 2007-08. Additional funding to complete work on the new provider system was approved as part of the 2007-2009 Biennial Budget Act.

*Effect:*

The aging provider system presents an increased risk to the integrity of the Fund's financial operations. Access control weaknesses increase the risk that unauthorized or erroneous changes could be made to provider system data without being detected. In addition, increased time spent to correct processing problems that arise with the current provider system results in less time available for more productive tasks for the Fund's staff.

*Cause:*

The Fund was delayed in developing a new provider system because of past denials of its requests for budget authority. As a result, additional time was needed to implement an increased number of patches to fix problems that arose with the old system. Further, because of the difficulties in making program changes in the old system, the Fund opted to not address access control weaknesses with the old system, but to address them as part of the new system.

*Recommendation:*

We recommend the Fund continue its efforts to develop a new provider system that appropriately processes and secures system data.

*Management Response:*

The Office of the Commissioner of Insurance (OCI) agrees that the provider billing system is in need of updating. OCI continues its efforts to ensure that the new provider system will be completed and implemented in as timely a manner as possible, and to ensure that all data imported from the old system to the new are accurate. OCI expects the system to be operational early in calendar year 2009. The new system will address the concerns identified.

**Finding WI-08-06: Lack of Adequate Oversight of the Financial Reporting Process at the Department of Employee Trust Funds\***

*Criteria:*

Department of Employee Trust Funds (ETF) management is responsible for ensuring that it accurately compiles and fairly presents financial information for benefit programs it administers that are included in the State's comprehensive annual financial report (CAFR). In addition, ETF management is responsible for providing sufficient oversight over the compilation process to ensure that misstatements are prevented or detected in a timely manner.

*Condition:*

During our audit, we have observed that ETF does not consistently provide timely financial information; update all financial information from prior year amounts; ensure that information in the financial statements, note disclosures, and elsewhere is consistently presented and without misstatements; or include all required note disclosures.

*Questioned Costs:*

None

*Context:*

ETF is responsible for compiling financial information for a number of the State's fiduciary funds, enterprise funds, and other fund types presented in the State's CAFR. In addition, ETF is responsible for providing information for the State's note disclosures, including the State's pension plan, public entity risk pools, and other postemployment benefit plans.

*Effect:*

ETF fails to meet deadlines established by DOA in compiling financial information for the State's CAFR, and submitted information has increased risk of containing misstatements.

*Cause:*

ETF has not placed sufficient priority in compiling necessary financial information to meet DOA time lines. In addition, ETF staff do not provide sufficient attention and oversight to ensure the accuracy of the financial reporting process.

*Recommendation:*

We recommend ETF take steps to improve the attention and oversight given to its financial reporting process, including reconciling key balances between financial statements, notes, and other information and increasing the overall level of care applied to completing this information.

*Management's Response:*

ETF agrees with the recommendations and will improve the attention and oversight given to the financial reporting process. In the short term, ETF will use existing staff resources in the Office of Internal Audit to provide additional quality assurance reviews to make sure that statistics and financial information are consistently presented across sections of the CAFR. In addition, ETF is exploring the possibility of reallocating existing staff within the Office of Trust Finance and Data Analysis to assist with the development of financial statements and related schedules. Finally, ETF's 2009-2011 biennial budget request seeks additional staff positions for the department. Depending on the resources received, ETF will consider adding an additional accountant position.

**Finding WI-08-07: Business Resumption Planning\***

*Criteria:*

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

*Condition:*

DOA is coordinating a project to develop a statewide business resumption plan. Although state agencies have made progress, some do not have complete and tested business resumption plans. Therefore, a statewide plan is not available.

*Questioned Costs:*

None

*Context:*

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

*Effect:*

Without effective business resumption plans in place, an emergency could disrupt the State's ability to provide critical services.

*Cause:*

Because of budget and staffing restrictions, the State has not been able to devote sufficient resources to complete development of its business resumption plans and to test its ability to use the plans.

*Recommendation:*

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

*Management's Response:*

The Continuity of Government Project, led by DOA, has continued to make substantial progress in developing and testing Continuity of Operations (COOP) plans for state agencies with time-sensitive business services. Since October 15, 2007, four additional agency-level COOP plans have been completed, and nine business-service COOP plans have been completed at UW-Madison and UW-Milwaukee. All 34 agencies, including all UW campuses, have completed at least one communications alert drill. Twenty agency command center exercises have been held, and 184 business services have exercised their service COOP plans. In addition, COOP plan development is underway at the other UW campuses.

In the past year, a major focus of the COOP program has been to enhance COOP plans to prepare and enable agencies to maintain operations during an influenza pandemic. Seventeen agencies have completed pandemic COOP plans, and all other agencies are in the process of completing their plans. A state-level pandemic COOP operational plan has been completed in coordination with the Department of Health Services. Three State Continuity Coordination Center exercises and a multi-agency tabletop exercise have been held to test elements of that plan. DOA has also developed a new tabletop pandemic exercise for agency command centers and business services (Badger Flu I). Four agencies have already conducted this exercise, and 11 additional agencies are scheduled to do so in the near future. Scheduling for other agencies is underway. A progressive series of four additional Badger Flu exercises (II-V) has been developed, which includes individual agency and multi-agency exercises.

DOA will continue to work with agencies toward the goal of testing all state agency COOP plans on an annual basis.

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