



STATE OF WISCONSIN

## Legislative Audit Bureau

22 East Mifflin Street, Suite 500 ■ Madison, WI 53703 ■ (608) 266-2818 ■ Hotline: 1-877-FRAUD-17 ■ [www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab)

Celebrating  
50 Years of  
Service

1966-2016

Joe Chrisman  
State Auditor

February 10, 2015

Senator Robert Cowles and  
Representative Samantha Kerkman, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

We have completed our audit of the University of Wisconsin (UW) System's financial statements for the years ended June 30, 2013, and June 30, 2014. UW System's financial statements and our unmodified audit opinion on them, dated December 12, 2014, have been included in UW System's *2014 Annual Financial Report*, which can be found on UW System's website at [www.wisconsin.edu/financial-administration/forms-and-publications/annual-financial-reports/](http://www.wisconsin.edu/financial-administration/forms-and-publications/annual-financial-reports/). This was the first phase of an annual financial audit of UW System, which is required by s. 13.94(1)(t), Wis. Stats. The second phase will include our review of certain financial management topics.

In the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, we again report a material weakness in internal control over the Human Resource System (HRS), which is used by UW System to process and record payroll for its employees. Although UW System has taken corrective actions to address HRS security concerns reported in prior years, corrective actions were not finalized until near or after the end of fiscal year (FY) 2013-14. Because incompatible access continued to exist during FY 2013-14, UW System continued to be at risk that inadvertent, erroneous, or unauthorized payments or program code changes could be made during FY 2013-14. We will test the effectiveness of UW System's corrective actions during the FY 2014-15 audit.

Because UW System's financial activity is also included in the State of Wisconsin's Comprehensive Annual Financial Report, these internal control findings are also included in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters related to our audit of the State of Wisconsin's financial statements that was released on February 10, 2015.

Senator Robert Cowles and  
Representative Samantha Kerkman, Co-chairpersons  
Page 2  
February 10, 2015

We appreciate the courtesy and cooperation extended to us by staff of UW System during the audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Joe Chrisman". The signature is fluid and cursive, with a long horizontal stroke at the end.

Joe Chrisman  
State Auditor

JC/CS/bm

Enclosure

cc: Senator Mary Lazich  
Senator Alberta Darling  
Senator Kathleen Vinehout  
Senator Janet Bewley

Representative John Macco  
Representative John Nygren  
Representative Melissa Sargent  
Representative Terese Berceau

Dr. Raymond Cross, President  
University of Wisconsin System



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State Auditor

February 10, 2015

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

Dr. Raymond Cross, President  
University of Wisconsin System  
1720 Van Hise Hall  
1220 Linden Drive  
Madison, Wisconsin 53706

Dear President Falbo and President Cross:

We have completed our audit of the financial statements of the University of Wisconsin (UW) System as of and for the fiscal years ended June 30, 2013, and June 30, 2014. The financial statements for those years and the related auditor's report are included in UW System's *2014 Annual Financial Report*.

During the course of our audit, we identified internal control concerns 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. In this report, we again report a material weakness in internal control over the Human Resource System (HRS), which is used by UW System to process and record payroll for its employees. Although UW System has taken corrective actions to address HRS security concerns reported in prior years, corrective actions were not finalized until near or after the end of fiscal year (FY) 2013-14. Because incompatible access continued to exist during FY 2013-14, UW System continued to be at risk that inadvertent, erroneous, or unauthorized payments or program code changes could be made during FY 2013-14. We will test the effectiveness of UW System's corrective actions during the FY 2014-15 audit.

Because UW System's financial activity is also included in the State of Wisconsin's Comprehensive Annual Financial Report, these internal control findings are also included in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters related to our audit of the State of Wisconsin's financial statements that was released on February 10, 2015.

We appreciate the courtesy and cooperation extended to us by UW System during the audit.

Sincerely,

Joe Chrisman  
State Auditor

JC/CS/bm

Enclosure



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Joe Chrisman  
State Auditor

## Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Senator Robert Cowles and  
Representative Kerkman, Co-chairpersons  
Joint Legislative Audit Committee

Members of the Board of Regents  
University of Wisconsin System

We audited the financial statements and the related notes of the University of Wisconsin (UW) System as of and for the years ended June 30, 2014, and June 30, 2013, and issued our report thereon dated December 12, 2014. 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*, which is issued by the Comptroller General of the United States. The financial statements and related auditor's opinion have been included in UW System's *2014 Annual Financial Report*.

### Internal Control over Financial Reporting

Management of UW System is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audits of the financial statements, we considered UW System's internal control to determine the audit procedures that are appropriate in the circumstances 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.

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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that, when combined, we consider to be a material weakness.

*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 misstatements, 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 that a material misstatement will not be detected and corrected on a timely basis. 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. We consider the deficiencies described in the accompanying schedule of findings and responses as Findings 1 and 2, when combined, to be a material weakness. These deficiencies, when combined, were also considered to be a material weakness in the fiscal year (FY) 2012-13 Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, dated December 11, 2013.

Because UW System's financial activity is also included in the State of Wisconsin's Comprehensive Annual Financial Report, these internal control findings are also included in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters related to our audit of the State of Wisconsin's financial statements.

### **Compliance and Other Matters**

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

### **Purpose of This Report**

This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering UW System's internal control and compliance. The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of UW System's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman  
State Auditor

December 12, 2014

# SCHEDULE OF FINDINGS AND RESPONSES

## Human Resource System Security

The Human Resource System (HRS), which was largely implemented in April 2011, is used by the University of Wisconsin (UW) System to track and maintain employee information, such as address, position, and benefit choices, and to process and record the biweekly and monthly payroll for all staff and students employed by UW institutions, including the 13 four-year universities, 13 two-year colleges, UW-Extension, and UW System Administration.

The UW Service Center provides support to all UW institutions related to payroll, benefits, and other automated human resources processing. UW-Madison's Division of Information Technology (DoIT) provides HRS information technology support, such as programming and data security.

### **Finding 1: Access Concerns with the University of Wisconsin System's Human Resource System**

#### *Criteria:*

The ability to perform the various functions within HRS is controlled through the use of security roles. Each security role has specific permissions attached to it that allow the user to perform a specific task or tasks. In order to ensure that information is properly safeguarded and to limit the risk that inadvertent, erroneous, or unauthorized changes could be processed, UW System should ensure that access to HRS is limited to that necessary for individual users to complete their properly separated job duties.

#### *Condition:*

We reported concerns with access to HRS during the FY 2010-11, FY 2011-12, and FY 2012-13 audits. We followed up on UW System's progress in implementing our prior audit recommendations during the FY 2013-14 audit and found that UW System Administration and DoIT took steps to address our concerns, such as completing their review of HRS security roles and reducing access. For example, we found 16 of the 19 users we had identified as having incompatible access at three UW institutions during our FY 2012-13 audit had their access reduced or removed. The remaining three users continued to have incompatible access in FY 2013-14, and we identified five additional users with incompatible access at those three UW institutions. We also reviewed access granted to HRS users at three additional UW institutions and identified seven users with incompatible access in FY 2013-14.

Although we identified 15 users with incompatible access during the FY 2013-14 audit, we found that UW System began to implement a compensating control when separation of duties could not be strictly enforced. This compensating control was tested by UW Service Center staff from May 2014 through June 2014 and was finalized and fully implemented in July 2014. Because incompatible access continued to exist during FY 2013-14, and because the compensating control was not fully implemented until FY 2014-15, UW System continued to be at risk that inadvertent, erroneous, or unauthorized payments could be processed through HRS during FY 2013-14.

#### *Questioned Costs:*

None.

***Context:***

Payroll-related expense is the most significant expense of UW System, totaling nearly \$3.0 billion, or 61.4 percent of UW System's total expenses for FY 2013-14.

***Effect:***

During FY 2013-14, UW System was at increased risk that inadvertent, erroneous, or unauthorized payments could be processed through HRS.

***Cause:***

UW System did not fully implement compensating controls to reduce the risk that inadvertent, erroneous, or unauthorized payments could be processed through HRS until July 2014.

***Recommendation:***

University of Wisconsin System Administration indicated that the corrective actions it implemented in July 2014 will address the concerns related to access. Therefore, we do not make recommendations at this time. We will test the effectiveness of UW System's compensating control during the FY 2014-15 audit.

***Response from University of Wisconsin System Administration:***

None.

**Finding 2: Program Change Controls over the University of Wisconsin System's Human Resource System**

***Criteria:***

Procedures should be established to prevent users from making unauthorized changes to HRS program code or "configuration" information, such as various look-up tables used during payroll processing. The ability to perform program code or configuration changes is controlled through the use of security roles. Each security role has specific permissions attached to it that allow the user to perform a specific task or tasks. In order to ensure that information is properly safeguarded and to limit the risk that inadvertent, erroneous, or unauthorized changes could be made, UW System should ensure that access to security roles is limited to that necessary for employees to complete their properly separated job duties.

***Condition:***

We reported concerns related to program change controls during the FY 2011-12 and FY 2012-13 audits. We followed up on UW System's progress in implementing our recommendations and found that UW System Administration had continued to take steps to address our concerns, such as developing a role catalog for security roles in the Phire change management application and reviewing and adjusting the permissions attached to HRS security roles, including those related to configuration changes. In addition, in June 2014, UW System implemented a procedure to reconcile changes moved through Phire with supporting approval documentation on a biweekly basis. This procedure helps to ensure that all program code changes were approved.

Because the steps taken by UW System to address our concerns were not implemented until June 2014, UW System continued to be at risk that inadvertent, erroneous, or unauthorized program code changes could be made during most of FY 2013-14.

***Questioned Costs:***

None.

***Context:***

Payroll-related expense is the most significant expense of UW System, totaling nearly \$3.0 billion, or 61.4 percent of UW System's total expenses for FY 2013-14.

***Effect:***

During FY 2013-14, UW System was at increased risk that inadvertent, erroneous, or unauthorized program code changes could be made to HRS.

***Cause:***

The corrective actions taken by UW System to reduce the risk that inadvertent, erroneous, or unauthorized program code changes could be made were not implemented until June 2014.

***Recommendation:***

University of Wisconsin System Administration indicated that the corrective actions it implemented in June 2014 will address the concerns related to program change controls. Therefore, we do not make recommendations at this time. We will test the effectiveness of UW System's corrective actions during the FY 2014-15 audit.

***Response from University of Wisconsin System Administration:***

None.