



STATE OF WISCONSIN

Legislative Audit Bureau

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Janice Mueller  
State Auditor

December 10, 2010

Mr. Daniel J. Schooff, 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. Schooff and Mr. Censky:

We have completed a financial audit of the State of Wisconsin as of and for the fiscal year ended June 30, 2010. 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,

Janice Mueller  
State Auditor

Enclosure

JM/KE/bm



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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, 2010, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 10, 2010. 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) 2009-10. 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, and 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 entities 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 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 opinion 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.

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.

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, we consider the deficiencies described in the accompanying schedule of findings and responses 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.

### **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 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. In addition, we plan to report to the Joint Legislative Audit Committee certain budgetary accounting concerns.

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 used by anyone other than these specified parties.

LEGISLATIVE AUDIT BUREAU

December 10, 2010

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 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-10-01: Internal Control Weaknesses in Financial Reporting by State Agencies**

#### *Criteria:*

The Department of Administration's State Controller's Office 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, including the University of Wisconsin (UW) System, is responsible for maintaining effective internal controls to ensure the Uniform GAAP Conversion Policies and Procedures Manual is followed, that the information provided to the State Controller's Office for inclusion in the State's financial statements is fairly presented in accordance with GAAP, and that misstatements are prevented or detected in a timely manner. The State Controller's Office is responsible for performing limited reviews of the reasonableness of information submitted by other state agencies. In addition, it is responsible for developing certain information that is incorporated into the financial statements.

#### *Condition:*

In some instances, state agencies do not have sufficient procedures and controls in place to properly report financial statement balances in compliance with the Uniform GAAP Conversion Policies and Procedures Manual. In other instances, staff and management did not fully consider how to most appropriately report the information, or agencies did not appropriately review financial information for significant errors prior to submitting the information 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 agencies did not prevent or detect and correct in a timely manner misstatements in the financial information included in the State's financial statements. Agencies agreed to make corrections after the auditors brought the errors to their attention. Although adjustments were made to the financial statements, there remains a risk of potentially significant errors in the financial statements. 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<sup>1</sup></b>	<b>Cause</b>
<b><i>Department of Health Services (DHS)</i></b>	<b><i>General Fund</i></b>	On the Statement of Revenues, Expenditures, and Changes in Fund Balance, the Intergovernmental Revenues account was understated by \$84.3 million, the Miscellaneous Other Revenue account was overstated by \$38.9 million, and the Human Relations and Resources Expenditures account was understated by \$66.0 million. On the Balance Sheet, Due from Other Governments was understated by \$45.4 million, Accounts Payable and Other Accrued Liabilities was overstated by \$11.1 million, and Interfund Payables was understated by \$77.1 million.	Procedural changes affecting financial reporting were not communicated to staff responsible for financial reporting. Also, DHS's procedures to develop and review financial information were not sufficient to prevent or detect and correct these misstatements.
<b><i>Department of Children and Families (DCF)</i></b>	<b><i>General Fund</i></b>	On the Balance Sheet, Due from Other Governments and Due to Other Governments were understated by \$57.2 million.	DCF's procedures to develop and review financial information were not sufficient to prevent or detect and correct this misstatement.
<b><i>University of Wisconsin System (UW System)</i></b>	<b><i>UW System</i></b>	On the Statement of Revenues, Expenses, and Changes in Fund Equity, the Federal Grants and Contracts account was understated by \$51.9 million, the Local and Private Grants and Contracts account was overstated by \$43.8 million, and the Sales and Services of Educational Activities account was overstated by \$8.1 million.	UW System Administration staff did not identify and correct the misstatement that occurred in applying accounting guidance found in Financial Accounting Standards Board <i>Accounting Standards Codification 250, Accounting Changes and Error Corrections</i> .
<b><i>University of Wisconsin System (UW System)</i></b>	<b><i>UW System</i></b>	On the Statement of Revenues, Expenses, and Changes in Fund Equity, the Supplies and Services Expenses account is overstated by \$9.6 million and, on the Balance Sheet, Depreciable Capital Assets and/or Nondepreciable Capital Assets are understated by \$9.6 million. Further, because some capital projects that are not yet complete are currently misclassified as an expensed project rather than a capitalized project, additional misstatements will occur over several years. If the entire budgeted amounts are expended, we estimate that an additional \$37.2 million will be expensed rather than capitalized as a result of the misclassification.	UW System Administration financial reporting staff indicate that, due to a lack of staff resources, they were unable to thoroughly review UW's capital projects to ensure they were appropriately classified and reported as expensed or capitalized projects for financial reporting purposes.

Agency	Fund	Misstatement <sup>1</sup>	Cause
<i>Department of Workforce Development (DWD)</i>	<i>Unemployment Reserve Fund</i>	Because of an omission of certain activity related to reimbursable employers, various accounts were understated. On the Statement of Revenues, Expenses, and Changes in Fund Equity, both the Benefit Expense account and the Federal Aid for Unemployment Insurance (UI) Program Revenue account were understated by \$47.7 million. On the Balance Sheet, both Due from Other Governments and Accounts Payable and Other Accrued Liabilities were understated by \$47.7 million.	UI's oversight and procedures to develop and review financial information were not sufficient to prevent or detect and correct these misstatements.
<i>Department of Employee Trust Funds (ETF)</i>	<i>Pension and Other Employee Benefit Trust (Wisconsin Retirement System)</i>	On the Statement of Fiduciary Net Assets, Cash and the Financial Futures Contracts accounts were understated by \$125.0 million.	ETF staff did not properly incorporate a change to the financial information provided by the State of Wisconsin Investment Board, and procedures to review financial information were not sufficient to detect and correct this misstatement.

<sup>1</sup> The misstatements generally affect the State's fund-level financial statements. These misstatements may also affect the government-wide financial statements.

*Recommendation:*

We recommend the identified agencies improve their internal controls, including those over the financial reporting process.

*Management's Response:*

Agency management agreed to implement improvements.

**Finding WI-10-02: Staff Access to Critical Community Aids Reporting System (CARS) Tables at the Department of Health Services**

*Criteria:*

Access to CARS data and transactions should be separated so that one individual cannot complete each step in the process required to make a payment under a contract. Because of the limited number of staff assigned to the CARS unit, some job duties must be shared to ensure that contracts and expenditures are entered in a timely manner and that CARS processes payments during scheduled times. However, it is important that internal controls within CARS ensure that individuals do not process unauthorized transactions. The inability of CARS unit staff to add a new payee was cited by the Department of Health Services as a critical separation of duties control to prevent CARS unit staff from processing unauthorized payments.

*Condition:*

We found that three CARS unit staff members have access to a certain database table within CARS to enter payee information in an emergency situation. Access to this table, along with their normal access to the CARS data screens, presents the opportunity for these three CARS unit staff members to make and conceal fraudulent payments.

*Questioned Costs:*

None

*Context:*

CARS is a computer system used by the Department of Health Services to manage contracts and reimburse counties, local agencies, and vendors for the State's share of community aids contract costs. CARS records all expenditures reported by these entities and calculates amounts to be paid under the contracts. During FY 2009-10, the Department processed \$915.0 million in payments through CARS. Some of these payments were funded by federal grants.

*Effect:*

The current access granted to certain CARS unit staff members, combined with their knowledge of the CARS system, increases the risk that unauthorized transactions could be processed through CARS.

*Cause:*

CARS unit staff members were given this access in order to enter payee information in the event of an emergency when other authorized Department of Health Services staff members may not be available to do so.

*Recommendation:*

We recommend the Department of Health Services remove access granted to CARS unit staff members to eliminate their ability to update payee information, while still allowing employees to have access to data screens needed to perform their job duties.

*Management's Response:*

The Department of Health Services agrees with the recommendation and has eliminated entry access for CARS staff to the database tables that could be used to update payee information. While the Department agrees with the preventative control and has eliminated staff access to the table, there are other detective controls in place. For example, monitoring accountants review transactions as part of their controllership function for assigned appropriations. The Department believes that any unallowable costs and questionable vendors would have been identified during the review and reporting of expenditures.

**Finding WI-10-03: Access to the State's Central Accounting System and Central Payroll System\***

*Criteria:*

To provide proper internal control, access to the State's central accounting and payroll systems should be established to provide individuals with only the access needed to complete their job

duties. Further, 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 erroneous or unauthorized changes to computer programs and data.

*Condition:*

Some programmers and operations staff have access to the State's central accounting system in excess of that needed for their job duties. Further, programmers for the State's central accounting system and central payroll system had access to production data, and assigned programmers also had access to the related programs during FY 2009-10. While the Department of Administration has been working to restrict system access to that needed for individuals' job duties and to implement compensating controls for programmer access to production data and programs, these controls were not fully implemented throughout our audit period and, therefore, accounting and payroll-related data remained at risk of erroneous or unauthorized changes during FY 2009-10.

Department of Administration staff indicated that steps to limit programmers' ability to directly access accounting and payroll-related datasets were completed by early FY 2010-11 and that changes to those datasets are now made through the use of a new log-on identification, for which access is logged and monitored. In addition, staff stated they are in the process of further restricting access to the State's central accounting system, as well as developing procedures to log and review program changes to both the central accounting and central payroll systems after the changes have been made. We will evaluate these new procedures as part of our FY 2010-11 audit.

*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:*

Staff with system access in excess of that needed for their job duties could potentially process unauthorized transactions through the State's central accounting system. In addition, programmers with access to the computer programs and data could potentially make erroneous or unauthorized changes to the production data and conceal those changes. This risk is increased because some of these programmers also have access to the production programs for these systems.

*Cause:*

The State's central accounting system's internal security is established in a manner that provides some individuals with more access than needed to complete their job duties. In addition, the



Department of Administration had not fully implemented compensating controls over access to production data and programs throughout FY 2009-10.

*Recommendation:*

We recommend the Department of Administration restrict access to the State's central accounting system to provide only the access needed for individuals to complete their job duties. We also recommend the Department of Administration continue to implement compensating controls related to computer programmer access to central accounting and central payroll-related data and programs.

*Management's Response:*

The Department of Administration's State Controller's Office agrees that individuals should be granted access to the State's central accounting system only to the extent needed to fulfill their job duties and will work to make the necessary changes to accomplish this to the extent possible.

**Finding WI-10-04: 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. Specifically, 29 computer programmers are allowed to move programs from the test environment to production, and 5 programmers have access to production data through access to the Control-M job scheduling program. Further, the Department uses shared log-on IDs to make changes related to Control-M schedules and jobs. Users are logging in to the Control-M job scheduling program with a shared Control-M log-on ID, rather than their individual log-on IDs.

*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 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 the person who

made the change, 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. To manage production system security, it uses a combination of Changeman staging controls, user verification procedures, periodic access reviews, and supervisory oversight. The Department of Transportation believes these factors somewhat mitigate the risk of programmers having access to production data and programs.

*Recommendation:*

We recommend the Department of Transportation develop and implement procedures for ensuring that changes to programs are authorized, appropriately tested, and comply with industry standards, including eliminating programmers' access to production programs and data or implementing effective compensating controls to reduce the risk of unauthorized changes. Further, we recommend the Department of Transportation discontinue its practice of sharing the Control-M log-on IDs and require users to log in with their individual log-on IDs.

*Management's Response:*

The Department of Transportation has been conducting semiannual reviews of the access granted to ChangeMan and Control-M, and this procedure will continue with a goal of reducing the number of programmers who can move programs into the production environment. The Department of Transportation will consider options for reducing or eliminating programmers' access to production data and programs and will investigate compensating controls for areas in which access cannot be eliminated. These options will be discussed with the auditors at a future date.

The Department of Transportation agrees with the concern regarding sharing of Control-M log-on IDs and will take the necessary steps to ensure users log in to the Control-M job scheduling program using individual log-on IDs, rather than the Control-M log-on ID.

**Finding WI-10-05: 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 program change process for UW System's legacy payroll systems operating on the mainframe computer does not include an independent review of program changes to assess the reasonableness of the changes or compliance with users' requests. Further, 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:*

UW-Madison maintains the UW System's legacy payroll systems.

*Effect:*

Programmers with extensive knowledge of the legacy payroll systems' 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. UW System is planning to replace its legacy payroll systems by the end of FY 2010-11, and therefore extensive changes to the program change process may not be a priority. However, staff state that additional controls are planned for the new system.

*Recommendation:*

We recommend UW System ensure a well-controlled program change process is established when its new payroll system is implemented.

*Management's Response:*

Management of UW System and the UW-Madison Division of Information Technology (DoIT) acknowledge and accept the findings but believe the risk associated with this finding is low and of limited duration. The legacy payroll systems will be obsolete after the implementation of the Human Resource System (HRS), which is scheduled for the fourth quarter of FY 2010-11. The program change control process for the HRS implementation is different from the program change control process associated with the legacy payroll systems. HRS is using STAT, a change management application, to track changes and their migration from development to test and then to production. The HRS program change control process will be re-evaluated after implementation. DoIT security staff will work with HRS and other DoIT staff to ensure that the findings are addressed during that review period.

**Finding WI-10-06: State-Wide 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:*

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 business resumptions plans, including pandemic planning, and some multi-agency communication drills have been performed. However, some agencies do not have complete and tested business resumption plans, and others do not perform regular updates and/or testing of the 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.

*Effect:*

Without effective business resumption plans in place, an emergency could disrupt the State's ability to provide critical services; to process the related accounting transactions, including delaying payments to vendors, citizens, and other governmental entities; and to 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 test drills. Since October 2009, one additional agency and 17 additional two- and four-year campuses completed their COOP plans, and several command center and tabletop exercises and communication drills have been performed. At this time, all 22 state agencies that were identified in the 2004 and 2005 COOP plan development have plans in place and have conducted at least one exercise of their agency command center and services.

The Continuity of Government program will continue to work with agencies and campuses to improve their plans and to conduct exercises and drills. The Continuity of Government program will continue to be a work in progress as more complex exercises are conducted and state agencies and campuses continue to strengthen and improve their preparedness for potential emergencies. Additional exercises are currently scheduled through January 2011, and plans are underway for a COOP component to the National Level Exercise 2011/Vigilant Guard 2011 Exercise that will take place in May 2011. The Wisconsin component of this exercise is expected to involve coordination and communication between the State Continuity Coordination Center, the State Emergency Operations Center, participating agencies, and Dane County Emergency Management in response to a scenario that will require a number of state agencies to activate their COOP plans.

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