



STATE OF WISCONSIN

Legislative Audit Bureau

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Janice Mueller
State Auditor

January 30, 2009

Mr. Mark J. Bradley, 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 Bradley and President Reilly:

We have completed a financial audit of the University of Wisconsin (UW) System for the years ended June 30, 2008 and 2007. On December 11, 2008, 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 2008 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 two findings related to internal controls at UW System that are required to be reported under these standards: 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, 2008 and 2007, and have issued our report thereon dated December 11, 2008. The financial statements and related auditor's opinion are included in the University of Wisconsin System's 2008 Annual Financial Report. Our report was modified to include a reference to other auditors and to disclose 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 2006 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. The financial statements of the University of Wisconsin Foundation were audited in accordance with auditing standards generally accepted in the United States of America, but not 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 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University of Wisconsin System'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 two 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 following two deficiencies to be significant deficiencies in internal control over financial reporting.

Computer Program Change Controls

The University of Wisconsin System does not perform an independent review of program changes to assess the reasonableness of modifications to critical financial applications operating on the mainframe computer, including the University of Wisconsin System's legacy payroll system and University of Wisconsin-Madison's legacy accounting system. 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 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.

Enterprise-Wide Business Resumption Planning

The University of Wisconsin System does not currently have 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 who would carry out the recovery efforts, and coordinate the efforts between departments and campuses.

Management agrees and will continue efforts to develop an enterprise-wide business resumption plan and to ensure that this plan is tested to the extent practical.

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 neither of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

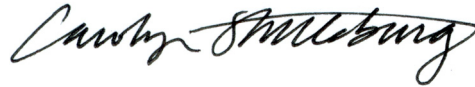
As part of obtaining reasonable assurance about whether the University of Wisconsin System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with

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 or other matters that are required to be reported under *Government Auditing Standards*.

The University of Wisconsin System's written response to findings identified are described above. We did not audit the University of Wisconsin System's response and, accordingly, express no opinion on it.

This independent auditor's report is intended for the information and use of the University of Wisconsin System's management, the Board of Regents, and the Wisconsin Legislature's Joint Legislative Audit Committee. 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 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, 2008

by

Carolyn Stittleburg
Audit Director