



STATE OF WISCONSIN
Legislative Audit Bureau

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Janice Mueller
State Auditor

January 31, 2008

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 our financial audit of the University of Wisconsin (UW) System for the years ended June 30, 2007, and 2006. On December 14, 2007, 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 2007 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 three findings related to internal controls at UW System that are required to be reported under these standards: computer program change controls, enterprise-wide business resumption planning, and controls over financial reporting. 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 (UW) System as of and for the years ended June 30, 2007 and 2006, and have issued our report thereon dated December 14, 2007. The financial statements and related auditor's opinion are included in UW System's 2007 Annual Financial Report. Our report was modified to include a reference to other auditors. 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 financial statements 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 UW'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 UW 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 UW System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the UW 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 three 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 three deficiencies to be significant deficiencies in internal control over financial reporting.

Computer Program Change Controls

UW System does not perform an independent review to assess the reasonableness of changes to some financial-related computer applications, although a well-controlled program-change process would include such a review. Further, computer programmers have the ability to move some programs into production and thus even if independent reviews were performed, could circumvent procedures and make changes without oversight, review, or documentation.

Management indicated that subsequent to our audit period, they tightened, documented, and trained staff on the program-change process for the main accounting system. Management indicated these changes included requiring second-party testing and approval before program changes are moved into production, and performing reviews of records that identify who has approved and who has moved the changes into production. Additional improvements are also being investigated.

Enterprise-wide Business Resumption Planning

UW 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 that an enterprise-wide recovery plan is needed and will continue efforts to develop their continuation of operations plan.

Audit Adjustment

A lack of sufficient review procedures to ensure the accurate classification of gift revenue on the financial statements resulted in errors in information reported by UW-Madison to UW System Administration. These errors led to \$44.2 million in gift revenue received for the purpose of funding capital projects to be incorrectly classified in the financial statements. These errors were not detected by UW System Administration staff during the preparation of the financial statements.

Management corrected the errors before issuing the financial statements and agreed to develop a process for verifying the accuracy of amounts reported as gift revenue received for capital projects.

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

The UW System's written responses to our findings are described on the preceding page. We did not audit the UW System's responses and, accordingly, express no opinion on them.

This independent auditor's report is intended for the information and use of the UW 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 UW 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 14, 2007

by



Carolyn Stittleburg
Audit Director