



STATE OF WISCONSIN

Legislative Audit Bureau

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Janice Mueller
State Auditor

December 15, 2006

Mr. Stephen E. Bablitch, Secretary
Department of Administration
101 East Wilson Street, 10th Floor
Madison, Wisconsin 53702

Mr. William J. Raftery, State Controller
Department of Administration
101 East Wilson Street, 5th Floor
Madison, Wisconsin 53702

Dear Mr. Bablitch and Mr. Raftery:

We have completed a financial audit of the State of Wisconsin as of and for the fiscal year ended June 30, 2006. We have issued an unqualified auditor's report on the fair presentation of the basic financial statements. 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.

As provided for in *Government Auditing Standards*, we also are furnishing you with the auditor's report on internal control over financial reporting and on compliance and other matters. This report will also be included in the State's single audit report, which is expected to be issued by March 31, 2007. We identified a variety of internal control concerns at various state agencies that are required to be reported under these auditing standards. 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/bm

Enclosure

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 State of Wisconsin's basic financial statements as of and for the year ended June 30, 2006, and have issued our report thereon dated December 15, 2006. 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 2005-06. We did not audit the following financial statements: the Wisconsin Department of Transportation Revenue Bond Program and Commercial Paper Program, which represent 11 percent of the liabilities of the governmental activities and 2 percent of the expenditures of the aggregate remaining fund information; the Badger Tobacco Asset Securitization Fund, which represents 10 percent of the liabilities of the governmental activities; the Environmental Improvement Fund, which is a major fund and represents 18 percent of the assets and 19 percent of the liabilities of the business-type activities; or the College Savings Program Trust, which represents 2 percent of the assets of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts audited by others, are based solely upon their reports. In addition, we did not audit the financial statements of the discretely presented component units. Those financial statements were audited by other auditors. Our opinion on the aggregate discretely presented component units, insofar as it relates to the amounts audited by others, is based upon the reports of the Wisconsin Housing and Economic Development Authority, the University of Wisconsin Hospitals and Clinics Authority, and the University of Wisconsin Foundation.

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. The financial statements of the Wisconsin Housing and Economic Development Authority, which were audited by other auditors, were also audited in accordance with these standards. The financial statements of the other funds and component units that were audited by other auditors upon whose reports we are relying 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 audit, we considered the State's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the State's basic financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the attached narratives as findings WI-06-1 through WI-06-8.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above 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*.

We noted certain additional matters, which we will report or have already reported to the management of the 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 independent auditor's 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 internal control over financial reporting or on compliance, this report is not intended to be used by anyone other than these specified parties.

LEGISLATIVE AUDIT BUREAU

December 15, 2006

by



Bryan Naab
Audit Director

SCHEDULE OF FINDINGS - CAFR

This schedule includes all reportable conditions 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-06-1: 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:

While UW-Madison has made some improvements in its procedures for making computer program changes, an independent review of program changes is not performed to assess the reasonableness of the changes. 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:

UW-Madison maintains critical systems, including financial data for UW System accounting and payroll systems.

Effect:

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

Cause:

Controls were not originally developed to ensure proper oversight before programs are moved to production. Due to limited resources, not all necessary improvements have been made.

Recommendation:

We recommend UW-Madison continue to improve its internal controls related to changes to production programs to ensure only authorized programs changes are made and implemented.

Management Response:

UW-Madison notes that several improvements have been implemented and additional procedures are being considered.

Finding WI-06-2: Improvement in Security at the Data Centers*

Criteria:

The State's computer data centers - one administered by the Department of Administration and one by UW-Madison - should establish both data and physical security policies and procedures to ensure that software and data stored and processed by the data centers are protected from accidental or intentional misuse or destruction.

Condition:

While control improvements have been made, continued effort is needed at the data centers to improve both data and physical security policies and procedures. For instance, we found data security policies and procedures need to be developed and implemented for some platforms. Further, we found the environmental controls at some sites should be improved to reduce the risk that computer resources may be damaged.

Questioned Costs:

None

Context:

The data centers provide centralized computer processing facilities in which critical data, including accounting and payroll data, are stored and processed. We provided separate audit communications to these agencies identifying detailed security weaknesses.

Effect:

Control weaknesses increase the risk that unauthorized or erroneous changes are made to accounting, payroll, and other transactions and data.

Cause:

Efforts to address many of the identified issues are long-term projects. While improvements have been made, because of time constraints, some areas of concern remain.

Recommendation:

We recommend the computer data centers continue to review their security and improve controls.

Management Response:

The Department of Administration has taken steps and is developing plans to address all the concerns identified.

UW-Madison agrees with this recommendation. The data center strives to keep abreast of new technological developments and to implement available security controls to help reduce risks.

Finding WI-06-3: 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 the Department of Transportation 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:

The Department of Transportation maintains accounting and other systems critical to agency operations. These systems enable the Department to collect and expend \$2 billion annually; to issue driver's licenses and vehicle titles and registrations; and to track drivers' records and traffic violations.

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:

The Department of Transportation 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. Therefore, the Department of Transportation accepts the risk of programmers having access to production data and programs.

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. The Department of Transportation is aware of our concerns but accepts the risks in this area. Therefore, we do not repeat our recommendation at this time.

Finding WI-06-4: Programmer Access to the State's Central Accounting System and Central Payroll System Data and Programs*

Criteria:

To provide proper internal control, programmer duties should be separated from production and data control duties.

Condition:

Programmers for the State's central accounting system and central payroll system have access to production data and programs that would allow them to make unauthorized or inadvertent changes to the data stored in the data sets. The Department of Administration has begun several projects that, when completed, may mitigate risks in some areas. However, these are long-term projects and data remained at risk during fiscal year 2005-06.

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:

The Department of Administration 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 fiscal year 2005-06, the Department has not implemented compensating controls in this area.

Recommendation:

In prior audits, we have expressed our concerns regarding access granted to programmers and the risk of unauthorized transactions. We continue to believe that programmers should not have access to these data. The Department of Administration is aware of the concerns but accepts the risks in this area. Therefore, we do not make a recommendation to further address this issue.

Management's Response:

The Department of Administration (DOA), State Controller's Office continues to discuss with the DOA Division of Enterprise Technology (DET) potential ways to mitigate the risk of programmer access to data. As a potential solution, DET indicates that it is testing new software that identifies when a programmer gains access to data files and automatically records the date, time, and

programmer user ID each time data are accessed. DET states that the programmer would be required to log reasons why the access to data was required and what coding was changed. SCO believes that if DET tests are successful and the software in question implemented properly, including the manual logging, this solution will provide adequate control over programmer access risk

Finding WI-06-5: Programmer Access to Department of Revenue Programs*

Criteria:

To provide proper internal control, computer programmers' ability to access or update production programs should be limited.

Condition:

In past audits, we identified concerns with the Department of Revenue's program change process, including programmers' ability to move programs from the test stage to production. In response to our FY 2004-05 audit, the Department indicated that it had taken steps to review and document new procedures to provide more stringent computer change controls. However, due to other priorities, the Department has not implemented the newly developed procedures. As a result, at least 13 programmers continue to have the ability to make a change and move computer programs into production without review or oversight.

Questioned Costs:

None

Context:

The Department of Revenue maintains critical systems to collect and process approximately \$14.6 billion in taxes annually for the State of Wisconsin, and to issue tax refund checks.

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:

The Department of Revenue understands the need to properly control program changes and has made significant improvements since this issue was first brought to its attention. However, due to other priorities, it has not implemented the new procedures that it developed to fully address concerns in this area.

Recommendation:

Because the Department of Revenue continues to make progress, we make no new recommendation. However, we encourage the Department to fully implement its recently developed procedures to improve controls over the access to computer programs.

Management's Response:

The responsibility for implementing the new procedures for limiting programmers' access to move software from test into production is being given a higher priority for implementation. The Department of Revenue expects that it will be following an enterprise procedure after services consolidation is completed, but the Department will implement its new policy, procedures, and documentation standard on a priority basis. The project has been initiated and will be monitored regularly.

Finding WI-06-6: 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 a week are needed to address the problems that have developed. Further, these system issues have also limited the Fund's ability to address system access control weaknesses.

Questioned Costs:

None

Context:

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 with the current system.

Effect:

The aging 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 system results in less time available for more productive tasks for the Fund.

Cause:

The Fund's request for budget authority during the 2005-2007 biennium for the development of a new provider system to replace the aging current system was denied. Further, the Legislature's Joint Committee on Finance also denied the Fund's subsequent request under s. 13.10, Wis. Stats., because it did not deem the replacement of the aging provider system an emergency. As a result,

there have been an increased number of patches to fix problems that continue to arise with the current system.

Recommendation:

We recommend that 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 will continue to focus its efforts on developing a new system that will appropriately address the system data integrity and control concerns noted. The Office of the Commissioner of Insurance has included a budget item in its 2007-2009 biennial budget request for additional budget authority to complete the new system by fiscal year 2008-09. If this budget request is not approved, the Office of the Commissioner of Insurance still plans to move toward the development of a new system, but is unsure of the timeline for completion without the additional budgetary authority.

Finding WI-06-7: Cash Reconciliations at the Department of Employee Trust Funds

Criteria:

As required under s. 16.41, Wis. Stats., the Department of Employee Trust Funds is responsible for ensuring its information on the State's central accounting system is complete and accurate. Regular reconciliations between the State's central accounting system and the Department's internal system is an important step to help ensure that information reported is complete and accurate on both systems.

Condition:

The Department has not fully reconciled its cash balances between the State's central accounting system and the Department's internal system.

Questioned Costs:

None

Context:

The State's central accounting system maintains the State's official accounting records while the Department uses its internal system for developing its separately issued financial report. Although the Department has made some attempts to reconcile cash balances, varying amounts of unreconciled differences exist at the end of each year.

Effect:

The cash balances could be misstated on the State's central accounting system and/or the Department's internal system, which could also result in misstatements in the financial reports.

Cause:

Cash balances were not properly allocated at the program level when the State's central accounting system was implemented. Further, the Department has not identified all reconciling items that should be considered in the reconciliation process.

Recommendation:

We recommend the Department of Employee Trust Funds develop a plan to fully reconcile the cash balances for each program and take steps to correct any inaccuracies identified in the beginning cash balances on the State's central accounting system or the Department's internal system through the reconciliation process.

Management's Response:

When the State's central accounting system was implemented, account balances were established that were inconsistent with the Department's historical records. The Department agrees that it would be desirable for the State's central accounting system to have the most accurate possible balances for the Department's programs. The Department has already contacted the State Controller's Office and they have agreed to commence work on reconciliation of cash balances between the systems.

Finding WI-06-8: Business Resumption Plan*

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. However, although state agencies have made progress, most do not have complete business resumption plans and, 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 the State.

Effect:

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

Cause:

Because of budget restrictions and the limited availability of staff, the State has not been able to devote sufficient resources to complete development of its business resumption plans and to test the State's 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 State and the Department of Administration (DOA) are committed to a permanent, ongoing Continuity of Operations Program (COOP) and Continuity of Government (COG) plan to ensure that there are effective business continuity plans in place to enable agencies to continue providing time sensitive, critical services even if an emergency disrupts normal operations.

The State has made tremendous progress since June of 2005. Twenty-four agencies have completed agency level plans and detailed plans for 249 time sensitive business services. DOA has committed resources and positions to provide the central direction, coordination, training, assistance, monitoring and evaluation to ensure that the plans are developed, maintained and tested in an effective and coordinated manner.

To date, 12 of the 24 agencies have completed the initial round of training for their agency command center personnel, plan leads and employees assigned to implement their individual business service plans. Eight of the 12 have completed their initial round of agency command center and individual business service plan tabletop exercises. One of the 12, the State of Wisconsin Investment Board, successfully completed a full scale operational exercise involving its agency command center and all 11 business service plans. The Board successfully executed over \$300 million in investment trades from its alternate site during the exercise.

The State is committed to working with the remaining agencies to complete their initial training and exercises as quickly as possible. Beginning in 2007, the State will move into a regular annual cycle of plan review, updates, refresher training, and exercises, with the exercises becoming increasingly more sophisticated. Each round will strengthen and improve agency level and business service plans as lessons learned in the exercises are incorporated into the next plan update. Over time, multi-agency exercises will be held to simulate an emergency event affecting two or more agencies.

The initial group of 24 agencies includes all of the State's major agencies, except for the UW System. The State is working with the UW System and the remaining smaller agencies in the executive branch to develop COOP plans, conduct initial training and exercises, and then begin a regular annual cycle of plan review, updates, refresher training, and exercises. It is expected that the smaller agencies will complete their plans in 2007. The UW System has a three-year time table to complete COOP plans for all 26 campuses and the UW Extension by the end of 2009.

That State is also working on finalizing a state-level Continuity of Government Plan that will document state-level management, coordination, and communications in the event an emergency affects two or more state agencies. In addition, the State and agencies have begun work on pandemic continuity supplements to their COOP plans to identify the steps agencies will take to prepare for, respond, and recover from an influenza pandemic.

The State believes that this on-going centrally directed, monitored, and coordinated program will ensure that state agencies will have and will maintain effective business resumption plans.
