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☞ Details: Legislative Audit Bureau Report included in the UW System's 2007 Annual Financial Report

(FORM UPDATED: 08/11/2010)

WISCONSIN STATE LEGISLATURE ... PUBLIC HEARING - COMMITTEE RECORDS

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* Contents organized for archiving by: Stefanie Rose (LRB) (October 2012)



STATE OF WISCONSIN

Legislative Audit Bureau

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Janice Mueller
State Auditor

February 6, 2008

Senator Jim Sullivan and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Sullivan and Representative Jeskewitz:

We have completed our financial audit of the University of Wisconsin (UW) System for the years ended June 30, 2007 and 2006. UW System's financial statements and our unqualified audit opinion on them, dated December 14, 2007, have been included in UW System's 2007 Annual Financial Report, which is enclosed. This report will be presented to the UW Board of Regents at its meetings on February 7 and 8, 2008.

UW System net assets increased by \$382.6 million in fiscal year (FY) 2006-07, largely because of a \$162.1 million increase in capital contributions, which represent gifts as well as proceeds from the issuance of general purpose revenue (GPR) bonds to finance the construction of capital assets. Capital contributions increased 111.8 percent, from \$145.0 million in FY 2005-06 to \$307.1 million in FY 2006-07.

GPR funding for general operations is shown as State Appropriations on UW System's financial statements. GPR funding increased 2.4 percent, from \$893.4 million in FY 2005-06 to \$914.9 million in FY 2006-07.

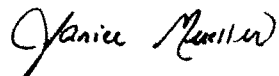
Total revenue earned through UW operations increased by \$114.1 million, or 4.7 percent, from FY 2005-06 to FY 2006-07, primarily because of a \$63.5 million increase in revenue from tuition and fees and a \$33.2 million increase in revenue from sales and services of educational activities, which range from textbook rentals to seminars held by UW-Extension. Revenue from tuition and fees increased from \$772.8 million in FY 2005-06 to \$836.3 million in FY 2006-07, largely because of a 6.8 percent tuition rate increase that was approved by the Board of Regents for the 2006-07 academic year.

UW System's total operating expenses were \$3.6 billion in FY 2006-07. Operating expenses increased \$131.7 million, or 3.8 percent from the FY 2005-06 total, largely because the cost of salaries and fringe benefits increased by nearly \$100.0 million, or 4.2 percent, in FY 2006-07. Salaries and fringe benefits represent 67.7 percent of all UW System operating costs.

Senator Jim Sullivan and
Representative Suzanne Jeskewitz, Co-chairpersons
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February 6, 2008

Government Auditing Standards require us to provide an auditor's report on compliance and internal control over financial reporting. That report accompanies this letter and includes three internal control concerns that we identified during our audit and that are required to be reported under these standards.

Sincerely,



Janice Mueller
State Auditor

JM/CS/bm

Enclosures

cc: Senator Julie Lassa
Senator Mark Miller
Senator Alan Lasee
Senator Robert Cowles

Representative Samantha Kerkman
Representative Kitty Rhoades
Representative David Cullen
Representative Joe Parisi





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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.

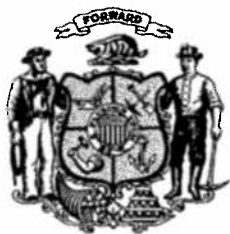
LEGISLATIVE AUDIT BUREAU

December 14, 2007

by



Carolyn Stittleburg
Audit Director

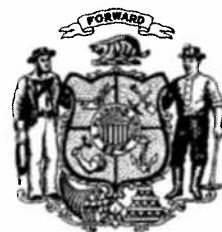


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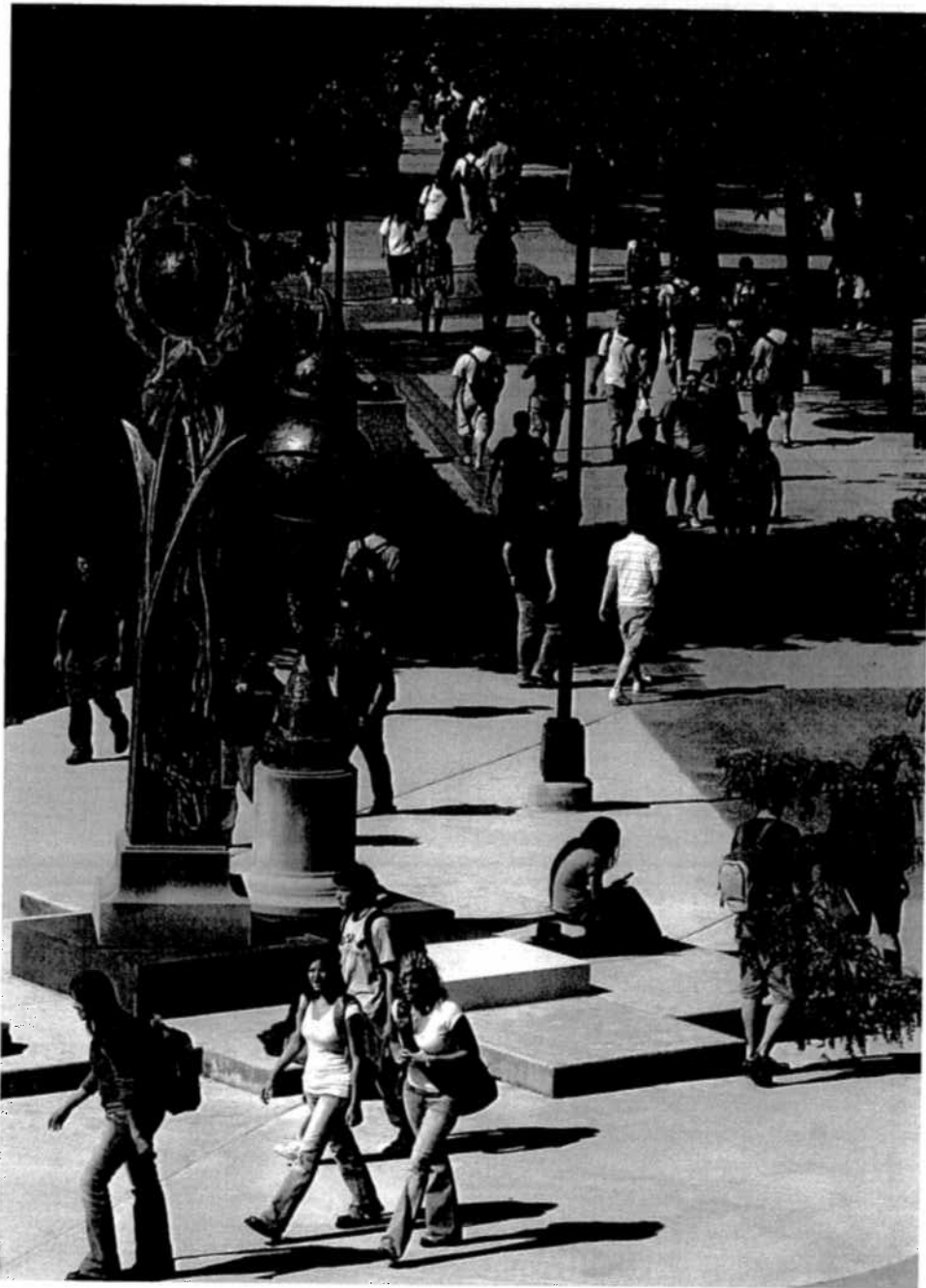
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Annual Financial Report 2007



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Cover Photo: Stratagems by Scott Wallace (c) 2006 - 3 bronze sculptures arranged as game pieces. Artist Statement: "Stratagem" is intended to reflect the spirit and activities of the Pioneer Student Union as well as serve as a metaphor for both the choices made by students during their academic career along with progress within the institution that effects the future of the university. The bronze and pre-cast concrete forms analogous to "game pieces" are installed on top of formed in-place raised concrete squares. The game-piece forms are intentionally not centered on the pre-cast squares to suggest mobility or natural placement.

Photo by: Andrew McNeill, UW-Platteville

**University of Wisconsin System
2007 Annual Financial Report**

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