



**STATE OF WISCONSIN**  
Legislative Audit Bureau

22 East Mifflin Street, Suite 500  
Madison, Wisconsin 53703  
(608) 266-2818  
Fax (608) 267-0410  
[www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab)

Janice Mueller  
State Auditor

January 12, 2009

Senator Kathleen Vinehout and  
Representative Peter Barca, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator Vinehout and Representative Barca:

We have completed our calendar year 2006 financial audit of the Department of Employee Trust Funds (ETF), as requested by ETF and to fulfill our audit requirements under s. 13.94(1)(dd), Wis. Stats. ETF's financial statements report information on the financial position and activity of various benefit programs available to public employees. The statements and our unqualified opinion on them are included in ETF's 2006 Comprehensive Annual Financial Report, which can be found on ETF's Web site.

The late issuance of the financial report was primarily a result of ETF's delays in implementing a new accounting standard for other post employment benefits (OPEB) plans. We are currently in the process of completing the audit of ETF's 2007 financial statements. ETF anticipates its 2007 financial report will be issued in spring 2009.

The largest program administered by ETF is the Wisconsin Retirement System, which reported net assets of \$80.4 billion at the end of 2006 and provided benefits totaling \$3.3 billion during 2006. Positive investment returns contributed to a net increase in retirement assets of \$8.9 billion in 2006. However, the adverse events in the global investment markets and corresponding volatile market conditions in 2008 have resulted in a considerable decrease in the Wisconsin Retirement System's investment assets from the balances in 2006. Additional information on the effect of the market volatility on the Wisconsin Retirement System can be found on ETF's and the State of Wisconsin Investment Board's Web sites.

As noted, in 2006, ETF implemented a new accounting standard for the OPEB plans it administers for the Duty Disability Insurance, Retiree Life Insurance, and Retiree Health Insurance programs for participating state and local government employers. The State also implemented a new accounting standard for OPEBs in its fiscal year 2007-08 Comprehensive Annual Financial Report.

Senator Kathleen Vinehout and  
Representative Peter Barca, Co-chairpersons  
Page 2  
January 12, 2009

Accompanying this letter is a management letter we provided to ETF. As required by *Government Auditing Standards*, we include an auditor's report on internal control and compliance with the management letter. We identified four new and continuing concerns required to be reported under these standards:

- inadequate planning for the implementation of the new accounting standard for OPEB plans;
- inadequate procedures and insufficient attention and oversight to ensure the accuracy of the financial reporting process;
- a continuing concern with the lack of cash reconciliations on a program level; and
- a federal tax compliance issue.

ETF agrees with our recommendations and identifies the steps it plans to take to address our concerns. We also note that ETF has adequately addressed concerns with the use of clearing accounts and the administration of the Badger Rx Gold Program that we noted in our 2005 audit. We will continue to monitor and report on ETF's progress in addressing our outstanding concerns in future audits.

Sincerely,



Janice Mueller  
State Auditor

JM/DA/kc

Enclosure

cc: Senator Robert Jauch  
Senator Mark Miller  
Senator Robert Cowles  
Senator Mary Lazich

Representative Andy Jorgensen  
Representative Mark Pocan  
Representative Bill Kramer  
Representative Samantha Kerkman

David Stella, Secretary  
Department of Employee Trust Funds