



STATE OF WISCONSIN
Legislative Audit Bureau

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Janice Mueller
State Auditor

December 20, 2007

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 completed an annual financial audit of the Department of Employee Trust Funds in April 2007, as requested by the Department and to fulfill our audit requirements under s. 13.94(1)(dd), Wis. Stats. The audit covered the period of January 1, 2005 through December 31, 2005. The 2005 financial statements and our unqualified opinion on them are included in the Department's recently issued financial report, which provides information on the financial position and activity of various benefit programs available to public employees. The late issuance of the Department's financial report was a result of delays in its completion by the Department.

The largest program administered by the Department is the Wisconsin Retirement System, which reported net assets of \$71.5 billion at the end of 2005 and provided benefits totaling \$3.1 billion during 2005. Positive investment returns contributed to the net increase in retirement assets of \$3.6 billion. At the end of 2005, the Wisconsin Retirement System was 99.5 percent funded based on actuarial measures that compare the actuary's valuation of assets to the estimated value of the benefit obligations for services already rendered by present and future retirees.

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

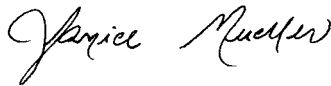
- the existence of outstanding balances in clearing accounts that the Department needs to review and eliminate;
- a continuing concern with the lack of cash reconciliations on a program level; and
- the lack of a written signed agreement with and review of invoices from the third-party administrator for the Badger Rx Gold Program.

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As noted in the management letter responses, the Department is making progress in addressing our concern with the outstanding balances in the clearing accounts. Further, the Department agrees with the value of completing cash reconciliations on a program level, but it has made limited progress to date because of other financial reporting priorities. Finally, the Department plans to obtain a signed agreement with the third-party administrator for the Badger Rx Gold Program. It does not agree with the recommendation for regular reviews of invoices for the program, but instead plans to rely on periodic compliance audits of it. We will continue to monitor and report on these areas in future audits.

We appreciate the courtesy and cooperation extended to us by Department staff during our audit.

Respectfully submitted,



Janice Mueller
State Auditor

JM/DA/ss

Enclosure

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