

**Report 18-12
October 2018**

Local Retiree Life Insurance Reporting for Participating Employers

Calendar Year 2017

STATE OF WISCONSIN



Legislative Audit Bureau ■

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Local Retiree Life Insurance Reporting for Participating Employers Calendar Year 2017

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OPINIONS PUBLISHED SEPARATELY

The schedules and our opinions on them are available on the Department of Employee Trust Funds' website.



STATE OF WISCONSIN | Legislative Audit Bureau

22 East Mifflin St., Suite 500 ■ Madison, WI 53703 ■ (608) 266-2818 ■ Hotline: 1-877-FRAUD-17 ■ www.legis.wisconsin.gov/lab

Joe Chrisman
State Auditor

October 5, 2018

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

As requested by the Department of Employee Trust Funds (ETF), we have completed an audit of the Schedule of Employer Allocations of the Local Retiree Life Insurance program, the Schedule of Collective OPEB Amounts of the Local Retiree Life Insurance program, and the related notes to these schedules as of and for the year ended December 31, 2017. These schedules, and our unmodified opinions on them, may be found on ETF's website.

In 2015, the Governmental Accounting Standards Board (GASB) issued new accounting standards for other postemployment benefit (OPEB) plans, which ETF adopted for its 2017 financial statements. We audited the financial statements and related notes of the Local Retiree Life Insurance program as of and for the year ended December 31, 2017, and provided our unmodified opinion on them, as detailed in report 18-10, which we also published today.

OPEB refers to the benefits, other than pensions, that a state or local government employee may receive after they have left employment, generally upon retirement. An OPEB plan can include medical, prescription drug, dental, vision, and other health-related benefits, whether provided separately or through a pension plan, as well as death benefits, life insurance, and long-term care coverage, when provided separately from a pension plan. ETF administers four separate OPEB plans for retired individuals, including the Local Retiree Life Insurance program.

Under s. 40.70, Wis. Stats., the Local Retiree Life Insurance program provides life insurance benefits to all eligible retired employees of the 738 local governments that participate in the program. Under this program, employers pay stated contribution amounts that are based upon the active employee premium amounts. After retirement, basic coverage is continued for eligible employees for life, with the benefit being reduced by a stated amount based upon the age of the retiree.

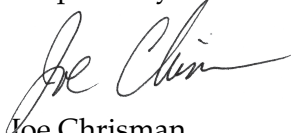
Under GASB standards, the calculation of a net OPEB liability is represented by the difference between the fiduciary net position reported in the financial statements and the total OPEB liability calculated by the actuary. The fiduciary net position of the Local Retiree Life Insurance program, which represents resources available to pay benefits, was \$244.2 million as of December 31, 2017. When the total OPEB liability of \$545.1 million for the Local Retiree Life Insurance program was subtracted from the fiduciary net position, the result was a net OPEB liability of \$300.9 million, which indicates that the projected liability for benefit payments to employees exceeded the assets of the fund as of December 31, 2017. Based upon the calculation of the total OPEB liability and the fiduciary net position of the fund under GASB requirements, the Local Retiree Life Insurance

program had a funded ratio of 44.8 percent as of December 31, 2017. Because GASB did not create its methodology to be used for funding purposes, the existence of a net OPEB liability for the Local Retiree Life Insurance program should not be used to support a change in contribution rates for the program. We note that the Group Insurance Board plans to review program funding policies at its November 2018 board meeting.

By participating in the Local Retiree Life Insurance program, employers have made a commitment to provide postemployment life insurance benefits to retired employees and are obligated to make contributions into the future to ensure that sufficient resources are available to make the benefit payments. Therefore, because the employers participating in the Local Retiree Life Insurance program have responsibility for the resulting OPEB obligations, each participating employer is required to report its proportionate share of the net OPEB liability, as well as other collective amounts, including OPEB expense, on its financial statements if prepared in accordance with generally accepted accounting principles. Additional information related to the OPEB standards is included in report 18-10.

The Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is required by *Government Auditing Standards*, is on page 5. We did not identify any control or compliance concerns that were required to be reported under these standards.

Respectfully submitted,



Joe Chrisman
State Auditor

JC/CS/ss

Auditor's Report ■



Report 18-12

**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters**

Senator Robert Cowles and
Representative Samantha Kerkman, Co-Chairpersons
Joint Legislative Audit Committee

Members of the Employee Trust Funds Board and
Mr. Robert J. Conlin, Secretary
Department of Employee Trust Funds

We have audited the Schedule of Employer Allocations of the Local Retiree Life Insurance program as of and for the year ended December 31, 2017, and the related notes. We have also audited the totals for the columns titled Beginning Net OPEB Liability (Asset), Ending Net OPEB Liability (Asset), Total Deferred Outflows of Resources Excluding Employer Specific Amounts, Total Deferred Inflows of Resources Excluding Employer Specific Amounts, and Plan OPEB Expense included in the Schedule of Collective OPEB Amounts of the Local Retiree Life Insurance program as of and for the year ended December 31, 2017, and the related notes. We have issued our report dated October 2, 2018, on these schedules. We conducted our audit 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*, which is issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Department of Employee Trust Funds (ETF) is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the Local Retiree Life Insurance schedules, we considered ETF's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the schedules, but not for the purpose of expressing an opinion on the effectiveness of ETF's internal control. Accordingly, we do not express an opinion on the effectiveness of ETF's internal control.

A deficiency in internal control 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 misstatements, or to detect and correct misstatements on a timely basis. *A material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the schedules will not be prevented, or that a material misstatement will not be detected and corrected on a timely basis. *A significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe

than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the Local Retiree Life Insurance program schedules are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of schedule 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 have also audited the financial statements and related notes of the Local Retiree Life Insurance program as of and for the year ended December 31, 2017, 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*. We expressed an unmodified opinion, dated October 2, 2018, on those financial statements. In addition, we issued an Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, dated October 2, 2018, and included in report 18-10, related to the audit of the financial statements.

Purpose of This Report

This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering ETF's internal control and compliance. The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of ETF's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU


Joe Chrisman
State Auditor

October 2, 2018