



STATE OF WISCONSIN

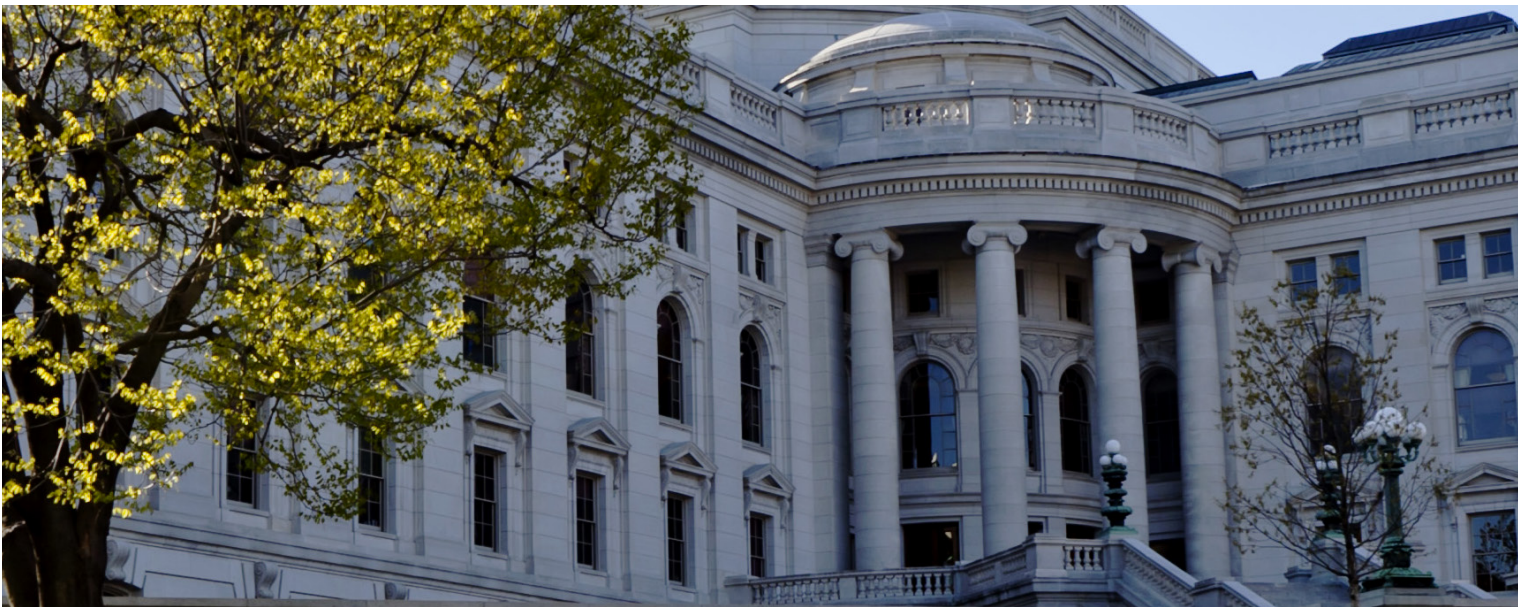
# Legislative Audit Bureau

NONPARTISAN • INDEPENDENT • ACCURATE

Report 21-18  
September 2021

## Supplemental Health Insurance Conversion Credit Program Reporting for the State of Wisconsin

Calendar Year 2020



## **Joint Legislative Audit Committee Members**

### Senate Members:

Robert Cowles, Co-chairperson  
Dale Kooyenga  
Howard Marklein  
Melissa Agard  
Tim Carpenter

### Assembly Members:

Samantha Kerkman, Co-chairperson  
John Macco  
Mark Born  
Dianne Hesselbein  
Francesca Hong

# **Supplemental Health Insurance Conversion Credit Program Reporting for the State of Wisconsin**

Calendar Year 2020



STATE OF WISCONSIN

Legislative Audit Bureau

NONPARTISAN • INDEPENDENT • ACCURATE

Report 21-18  
September 2021

## Legislative Audit Bureau

---

**State Auditor**  
Joe Chrisman

**Financial Audit  
Director**  
Erin Scharlau

**Assistant Financial  
Audit Director**  
Brian Geib

**Team Leader**  
Lauren Pawlowski

**Auditor**  
Niki Kulcyk

**Publications Designer  
and Editor**  
Susan Skowronski

The Legislative Audit Bureau supports the Legislature in its oversight of Wisconsin government and its promotion of efficient and effective state operations by providing nonpartisan, independent, accurate, and timely audits and evaluations of public finances and the management of public programs. Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau.

---

The Bureau accepts confidential tips about fraud, waste, and mismanagement in any Wisconsin state agency or program through its hotline at 1-877-FRAUD-17.

For more information, visit [www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab).

# Contents

---

<b>Letter of Transmittal</b>	<b>1</b>
------------------------------	----------

---

<b>Auditor's Report</b>	<b>3</b>
-------------------------	----------

---

## 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

Joe Chrisman  
State Auditor

22 East Mifflin Street, Suite 500  
Madison, Wisconsin 53703

Main: (608) 266-2818  
Hotline: 1-877-FRAUD-17

[www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab)  
[AskLAB@legis.wisconsin.gov](mailto:AskLAB@legis.wisconsin.gov)

September 30, 2021

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 Supplemental Health Insurance Conversion Credit (SHICC) program, the Schedule of Collective OPEB Amounts of the SHICC program, and the related notes to these schedules as of and for the year ended December 31, 2020. These schedules, and our unmodified opinions on them, may be found on ETF's website.

ETF administers two sick leave programs, which include the Accumulated Sick Leave Conversion Credit program (basic ASLCC) and the SHICC program. Employees may be eligible for these programs if employed by the State of Wisconsin, including the University of Wisconsin (UW) System, and certain state authorities such as the UW Hospitals and Clinics Authority.

The basic ASLCC program allows eligible employees to convert unused sick leave balances earned during their employment to a balance for use in paying postemployment premiums for state group health insurance coverage after they terminate state service, including through retirement, layoff, or death. Financial statements for the basic ASLCC program, as of and for the year ended December 31, 2020, are included in ETF's Annual Comprehensive Financial Report (ACFR).

Under s. 40.95, Wis. Stats., the SHICC program provides certain eligible employees additional sick leave hours at termination that increases the balance available to pay for health insurance premiums. The SHICC program is considered an other postemployment benefits (OPEB) plan because it provides benefits to employees only upon termination and based on meeting certain requirements at termination. 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 may include medical, prescription drug, dental, vision, and other health-related benefits, whether provided separately or through a pension plan. An OPEB plan may also include death benefits, life insurance, and long-term care coverage, when provided separately from a pension plan.

We also audited the financial statements and related notes of the SHICC program as of and for the year ended December 31, 2020, and provided our unmodified opinion on them, as detailed in report 21-14, which we also published today. The fiduciary net position of the SHICC program, which represents resources available to pay benefits, increased from \$1.1 billion as of December 31, 2019, to \$1.2 billion as of December 31, 2020.

Accounting standards issued by the Governmental Accounting Standards Board require the calculation of a net OPEB liability or net OPEB asset, which represents the difference between the fiduciary net position

reported in the financial statements and the total OPEB liability calculated by the actuary. As of December 31, 2020, ETF calculated a net OPEB asset for the SHICC program of \$284.8 million, which is an increase from the net OPEB asset of \$151.8 million as of December 31, 2019.

The State of Wisconsin's commitment to provide postemployment benefits under the SHICC program results in an obligation to make contributions into the future to ensure that sufficient resources are available to make the benefit payments. Therefore, the State of Wisconsin has responsibility for the resulting OPEB obligations and will report the net OPEB asset for the SHICC program in the financial statements in the State's ACFR for the year ended June 30, 2021. In addition, the schedules will be used by state agencies and authorities that are part of the State's financial reporting entity, but that prepare separately issued financial statements. Additional information related to the OPEB accounting standards is included in report 21-14.

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

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

Respectfully submitted,



Joe Chrisman  
State Auditor

JC/BG/ss



---

# Auditor's Report

---





STATE OF WISCONSIN  
**Legislative Audit Bureau**

**Report 21-18**

Joe Chrisman  
State Auditor

22 East Mifflin Street, Suite 500  
Madison, Wisconsin 53703

Main: (608) 266-2818  
Hotline: 1-877-FRAUD-17

[www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab)  
[AskLAB@legis.wisconsin.gov](mailto:AskLAB@legis.wisconsin.gov)

## **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. A. John Voelker, Secretary  
Department of Employee Trust Funds

We have audited the Schedule of Employer Allocations of the Supplemental Health Insurance Conversion Credit (SHICC) program as of and for the year ended December 31, 2020, and the related notes. We have also audited the totals for the columns titled 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 (Revenue) included in the Schedule of Collective OPEB Amounts of the SHICC program as of and for the year ended December 31, 2020, and the related notes. We have issued our report dated September 28, 2021, 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. The schedules and related auditor's opinions have been included in the Wisconsin Department of Employee Trust Funds' (ETF's) 2020 Employer Schedules for the Supplemental Health Insurance Conversion Credit program.

### **Internal Control over Financial Reporting**

Management of ETF is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the SHICC program 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**

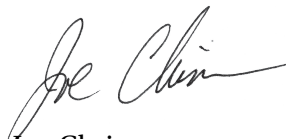
As part of obtaining reasonable assurance about whether the SHICC program schedules are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a material effect on the determination of schedule 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 SHICC program as of and for the year ended December 31, 2020, 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 September 28, 2021, on those financial statements. In addition, we issued the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, dated September 28, 2021, and included in report 21-14, 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

September 28, 2021