



STATE OF WISCONSIN
Legislative Audit Bureau
NONPARTISAN • INDEPENDENT • ACCURATE

Report 21-23
December 2021

State of Wisconsin

FY 2020-21 Financial Statements



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State of Wisconsin

FY 2020-21 Financial Statements



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Legislative Audit Bureau

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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.

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Response

From the Department of Administration

OPINIONS PUBLISHED SEPARATELY

The financial statements and our opinions on them are included in the State of Wisconsin's Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2021.



STATE OF WISCONSIN
Legislative Audit Bureau

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State Auditor

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December 21, 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:

We have completed our financial audit of the State of Wisconsin as of and for the fiscal year ended June 30, 2021, and issued unmodified opinions dated December 20, 2021, on the State's financial statements. The financial statements were prepared by the Department of Administration (DOA) in accordance with generally accepted accounting principles (GAAP) prescribed by the Governmental Accounting Standards Board (GASB) and are included in the State's fiscal year (FY) 2020-21 Annual Comprehensive Financial Report (ACFR), which may be found on DOA's website. In October 2021, GASB issued a new accounting standard that renamed the comprehensive annual financial report as the annual comprehensive financial report. DOA implemented this new standard for the FY 2020-21 ACFR.

The ACFR helps to describe the State's fiscal condition and contains information on the funds administered by the State. In our report, we discuss the financial condition of the General Fund and Transportation Fund, which are the State's two largest governmental funds; quantify the State's long-term debt; provide information on the Unemployment Reserve Fund's and the University of Wisconsin System's financial statements; report four significant deficiencies in internal control over financial reporting; and provide information on certain other matters we identified during the course of our audit.

We appreciate the courtesy and cooperation extended to us by DOA and other state agencies during the audit. During our FY 2021-22 audit, we will follow up on the progress of state agencies in implementing our recommendations.

A response from the Department of Administration follows the corrective action plans.

Respectfully submitted,

Joe Chrisman
State Auditor

JC/CS/ss

General Fund
Transportation Fund
Long-Term Debt
Unemployment Reserve Fund
University of Wisconsin System
Findings Related to Internal Control over Financial Reporting
Federal Funding for the Public Health Emergency
Other Matters of Interest

FY 2020-21 Annual Comprehensive Financial Report

***We provided unmodified
opinions on the State's
financial statements as of
and for the year ended
June 30, 2021.***

The Department of Administration (DOA) prepares the Annual Comprehensive Financial Report (ACFR), which contains financial statements prepared in accordance with generally accepted accounting principles (GAAP) prescribed by the Governmental Accounting Standards Board (GASB). The ACFR helps to describe the State's fiscal condition and contains information on state funds, including the State's General Fund, the Transportation Fund, the University of Wisconsin (UW) System, the Unemployment Reserve Fund, and the Wisconsin Retirement System. In addition to the financial statements and notes, the ACFR includes Management's Discussion and Analysis, which describes the State's financial performance for the year, and a statistical section, which provides the reader information to assist in understanding the State's economic condition. The statistical section includes information such as financial trends and debt capacity. We have completed a financial audit of the State's ACFR and have provided unmodified opinions on the State's financial statements as of and for the year ended June 30, 2021.

General Fund

***As reported on a GAAP
basis, the General Fund
total fund balance
improved from \$6.7 million
as of June 30, 2020, to
\$1.2 billion as of
June 30, 2021.***

On a GAAP basis, the General Fund total fund balance is primarily made up of both amounts restricted or committed for specific purposes, and an unassigned amount. On a GAAP basis, the General Fund total fund balance improved from \$6.7 million as of June 30, 2020, to \$1.2 billion as of June 30, 2021, as shown on page 44 of the ACFR. The largest component of total fund balance is the committed fund balance of \$1.7 billion, which includes the amount held in the statutory Budget Stabilization Fund, also known as the State's rainy day fund. The balance in the Budget Stabilization Fund increased from \$761.8 million as of June 30, 2020, to \$1.7 billion as of June 30, 2021. The increase is primarily related to a \$967.4 million transfer that was initiated by law

because tax revenues in fiscal year (FY) 2020-21 exceeded the projections in 2019 Wisconsin Act 9, the 2019-21 Biennial Budget Act.

As reported on a GAAP basis, the General Fund's unassigned fund balance was in a deficit of \$912.0 million, as of June 30, 2021.

On a GAAP basis, the unassigned fund balance in the General Fund was in a deficit of \$912.0 million as of June 30, 2021, as shown on page 42 of the ACFR. This deficit in unassigned fund balance indicates that more resources were spent and obligated from the General Fund than were received or anticipated to be received in the short term. For example, the State recorded a liability of \$2.4 billion related to tax refunds payable, most of which related to amounts collected from individuals through payroll withholdings and tax filings that will be refunded when individuals file income tax returns. This liability reduced the General Fund unassigned fund balance. In October 2021, the Department of Revenue (DOR) announced that it will update the individual income tax withholding tables, effective January 1, 2022. This update will reduce the amount of tax revenue collected from withholdings and the tax refunds liability in the future. In addition, the State delayed the payment of \$75 million in school aids to local school districts to July 2021. This delay created a liability as of June 30, 2021, which reduced the General Fund unassigned fund balance. 2021 Wisconsin Act 58, the 2021-23 Biennial Budget Act, eliminates this delayed payment beginning in FY 2021-22.

Total General Fund revenue increased by \$5.2 billion and totaled \$34.6 billion for FY 2020-21.

On page 29 of Management's Discussion and Analysis, DOA noted that total General Fund revenue increased by \$5.2 billion and totaled \$34.6 billion for FY 2020-21. This increase was largely attributed to a \$3.9 billion increase in federal revenues the State received related to the public health emergency. In addition, DOA noted that tax revenues increased by \$1.2 billion, largely due to sales and income tax increases. We note that FY 2020-21 was the first full fiscal year for which the State collected sales or use taxes on taxable sales from marketplace providers, which are entities that facilitate a retail sale by a seller by listing or advertising the sale for the seller and processing the payment from the purchaser (see report 20-20).

Total General Fund expenditures increased by \$4.6 billion and totaled \$31.4 billion for FY 2020-21.

On page 29 of Management's Discussion and Analysis, DOA noted that total General Fund expenditures increased by \$4.6 billion and totaled \$31.4 billion for FY 2020-21. Increases in Medical Assistance expenditures and the expenditure of federal funding received as a result of the public health emergency were the largest contributors to the increase in General Fund expenditures.

Transportation Fund

On a GAAP basis, the total fund balance of the Transportation Fund increased from \$843.6 million as of June 30, 2020, to \$1.0 billion as of June 30, 2021.

On a GAAP basis, the total fund balance of the Transportation Fund increased from \$843.6 million as of June 30, 2020, to \$1.0 billion as of June 30, 2021, as shown on page 44 of the ACFR. On page 31 of Management's Discussion and Analysis, DOA noted that the majority of the Transportation Fund's balance (95.7 percent) was restricted by the Wisconsin Constitution to be used for transportation purposes. Primary revenue sources in the Transportation Fund include motor fuel taxes, federal revenues, and registration fees. On page 31 of

Management's Discussion and Analysis, DOA noted that total revenues decreased by \$5.3 million to a total of \$3.0 billion, primarily as a result of decreases in federal revenues. Transportation Fund expenditures decreased by \$120.9 million to a total of \$2.7 billion in FY 2020-21.

Long-Term Debt

The State's long-term debt decreased from \$13.2 billion as of June 30, 2020, to \$12.9 billion as of June 30, 2021.

On a GAAP basis, the State's long-term debt decreased from \$13.2 billion as of June 30, 2020, to \$12.9 billion as of June 30, 2021, as shown on page 34 of Management's Discussion and Analysis. The State repaid long-term debt in excess of new debt issuances during FY 2020-21, resulting in the decrease in overall debt. As shown on page 34 of Management's Discussion and Analysis, \$1.5 billion in new general obligation bonds and notes were issued during FY 2020-21. Of this amount, \$569.4 million was for UW System academic facilities and \$297.7 million was for transportation projects. The amount of outstanding annual appropriation bonds decreased by \$143.7 million, and revenue bonds decreased by \$123.2 million.

The State's bond rating was upgraded in August 2021.

In August 2021, Kroll Bond Rating Agency upgraded its long-term rating on the State of Wisconsin's General Obligation bonds from AA+ to AAA, with a stable outlook. Similarly, in August 2021, the S&P Global Ratings upgraded its long-term rating for the State of Wisconsin General Obligation bonds from AA to AA+, with a stable outlook. Each rating agency identified the increase in the State's budget reserves as a reason for the upgraded rating.

Unemployment Reserve Fund

Unemployment benefit payments of \$3.5 billion were reported for FY 2020-21, compared to \$3.4 billion for FY 2019-20.

Wisconsin's Unemployment Insurance (UI) program is accounted for in the State's ACFR in the Unemployment Reserve Fund, which is administered by the Department of Workforce Development (DWD). The Unemployment Reserve Fund collects contributions made by employers and other federal program receipts that accumulate to make payments to employees who have lost their jobs. In Management's Discussion and Analysis on page 32, unemployment benefit payments of \$3.5 billion were reported for FY 2020-21, compared to \$3.4 billion for FY 2019-20. Federal assistance contributed \$2.5 billion in aid in FY 2020-21 to fund unemployment insurance benefits for individuals whose employment was affected by the public health emergency. In comparison, \$2.4 billion in such federal assistance was contributed in FY 2019-20. As shown on page 50 of the ACFR, as of June 30, 2021, the Unemployment Reserve Fund's net position declined from \$1.7 billion as of June 30, 2020, to \$1.2 billion as of June 30, 2021, or by \$526.2 million.

University of Wisconsin System

As required by s. 13.94 (1) (t), Wis. Stats., we performed a financial audit of UW System, which included an audit of UW System's financial statements as of and for the year ended June 30, 2021, and issued report 21-22. UW System's financial statements are also presented in the State's ACFR. As shown on page 50 of the ACFR, UW System's net position increased from \$5.4 billion as of June 30, 2020, to \$6.0 billion as of June 30, 2021, primarily as a result of the reporting of a net pension asset and a net other postemployment benefit (OPEB) asset.

Findings Related to Internal Control over Financial Reporting

We identified four significant deficiencies in internal control over financial reporting.

We identified internal control deficiencies during our audit that are required to be reported under *Government Auditing Standards*. Specifically, we identified four significant deficiencies in internal control. 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. In comparison, a material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the State's basic financial statements will not be prevented, or will not be detected and corrected, on a timely basis. We did not report any material weaknesses. The Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which begins on page 19 of our report (report 21-23), discusses each concern and includes the response from management of the responsible agency. The corrective action plans from agency management begin on page 36.

Department of Administration

DOA continues to be in noncompliance with Wisconsin Statutes that require it to provide oversight and monitoring of executive branch agency IT operations.

During our FY 2020-21 audit, we continued to find that DOA did not comply with s. 16.971 (2), Wis. Stats., which requires DOA to provide oversight and monitoring of executive branch agency IT operations and adherence to the State of Wisconsin *IT Security Policy Handbook* and related standards. Although DOA had initiated efforts in this area, DOA did not collect needed information from all executive branch agencies or establish a plan for other important monitoring steps. We report this concern as a significant deficiency in internal control (Finding 2021-001). We recommend DOA take steps to complete collection and analysis of information on IT controls at executive branch agencies; respond to the analysis; review and update the monitoring program; and review and update its risk management program. Finally, we recommend DOA report to the Joint Legislative Audit Committee by April 1, 2022, on the status of its efforts to implement these recommendations.

University of Wisconsin System

We continued to identify deficiencies in UW System Administration's information security policies.

We continued to identify weaknesses in UW System Administration's information security policies and we report a significant deficiency in internal control (Finding 2021-002). Although UW System Administration had taken corrective actions as of June 30, 2021, none of its new policies were in effect in FY 2020-21. We recommend UW System Administration ensure it monitors UW institutions for compliance with systemwide policies.

Department of Workforce Development

We report two significant deficiencies in internal control over financial reporting at DWD related to the Unemployment Reserve Fund.

We identified two internal control deficiencies related to the Unemployment Reserve Fund that we consider to be significant deficiencies. First, we report concerns related to DWD's use of a predictive analytics model to remove holds that could affect an individual's eligibility to receive unemployment benefits (Finding 2021-003). We recommend DWD seek approval from the U.S. Department of Labor regarding use of the predictive analytics model. We also recommend DWD implement and document adequate procedures to monitor the ongoing accuracy of the predictive analytics model. DWD disagreed with our finding but agreed with our recommendation. We include a rebuttal to DWD's disagreement on pages 31 and 32 of the internal control and compliance report and on page 45 of the corrective action plans.

Second, we report concerns with access controls over computer programs used by DWD to administer the UI program (Finding 2021-004). We determined that the detailed results of our review were too sensitive to communicate publicly. Therefore, we communicated the results in a separate confidential communication to DWD management. We recommend DWD complete implementation of its prior-year plan for improvement of information technology controls and address specific concerns we included in the confidential communication.

Federal Funding for the Public Health Emergency

In March 2020, the federal government and the State declared a public health emergency in response to COVID-19. In response to the public health emergency, the federal government enacted legislation, including:

- Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020;
- Families First Coronavirus Response Act;
- Coronavirus Aid, Relief, and Economic Security (CARES) Act;
- Paycheck Protection Program and Health Care Enhancement Act;

- Consolidated Appropriations Act, 2021;
- Continued Assistance Act of 2020;
- Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSAA); and
- American Rescue Plan Act (ARPA) of 2021.

Federal legislation to address the public health emergency provided additional federal funding to Wisconsin.

Under these federal laws, the State received additional federal funding for certain existing programs, including Medical Assistance and the UI program, as well as funding under new programs, including the Coronavirus Relief Fund (CRF), the Education Stabilization Fund, and the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF). As a condition of receiving federal funds, state agencies must meet the audit requirements of the federal Single Audit Act of 1984, as amended, and of the federal Office of Management and Budget *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). We are currently performing this audit for FY 2020-21.

New funding to address the public health emergency affected financial reporting in FY 2020-21. As part of our audit of the State's ACFR, we reviewed and summarized information regarding several key areas related to the public health emergency and the State's finances, including:

- the CRF;
- the CSLFRF;
- the revised federal medical assistance percentage (FMAP); and
- unemployment benefits.

In report 21-22, we discussed UW System's administration of the Higher Education Emergency Relief Fund (HEERF), which is a program funded under the federal CARES Act, the CRRSAA, and ARPA.

Coronavirus Relief Fund

In April 2020, the State was advanced \$2.0 billion in funding under the CRF.

The CARES Act created the CRF to distribute money directly to state, local, tribal, and territorial governments. The federal government advanced \$2.0 billion in CRF funds to the State of Wisconsin in April 2020 and included certain stipulations, including that the funds must be used for expenses that are incurred in response to the public health emergency between March 1, 2020, and December 30, 2020. Subsequent federal legislation extended the deadline for use of the funds to December 31, 2021. Any CRF funds not incurred by December 31, 2021, must be returned to the U.S. Treasury.

During FY 2020-21, \$1.6 billion in expenditures at 30 state agencies was incurred and paid by the CRF.

As shown in Table 1, DOA reported \$1.6 billion in expenditures at 30 state agencies was incurred and paid by the CRF during FY 2020-21. This total included amounts returned by agencies as other funding sources were identified or funding was no longer needed. The majority of the CRF activity was recorded in the General Fund. According to amounts reported by DOA in the State's accounting system, the largest total expenditures were incurred by DOA, Department of Health Services (DHS), and DOR.

Table 1
Expenditures Incurred and Paid by the Coronavirus Relief Fund¹
FY 2020-21

	Expenditures	Percentage of Total
Department of Administration	\$ 684,896,839	43.9%
Department of Health Services	436,709,004	28.0
Department of Revenue	224,570,677	14.4
Department of Workforce Development	83,610,473	5.4
Department of Children and Families	81,327,938	5.2
Department of Agriculture, Trade, and Consumer Protection	28,426,121	1.8
Department of Tourism	12,021,273	0.8
Public Service Commission	4,915,936	0.3
Department of Veterans Affairs	4,255,723	0.3
UW System ²	3,237,594	0.2
Department of Corrections	3,148,560	0.2
Department of Transportation	1,749,058	0.1
Supreme Court	685,319	0.0
Department of Natural Resources	628,002	0.0
Wisconsin Historical Society	220,840	0.0
Department of Public Instruction	202,781	0.0
Other State Agencies ³	542,553	0.0
Subtotal	\$ 1,571,148,691	
Amounts Reallocated ⁴	(11,614,155)	(0.7)
Total	\$ 1,559,534,536	100.0%

¹ As reported by DOA in the State's accounting system for the fiscal year ended June 30, 2021.

² In addition, UW System was provided \$50,340,099 in CRF funding under programs administered by DOA.

³ Includes 14 other state agencies that had expenditures between \$161 and \$187,693.

⁴ Includes correction of reporting errors in FY 2019-20, and amounts returned to DOA that were reallocated for other purposes in FY 2020-21.

DOA expended \$236.2 million in CRF funds on the statewide COVID-19 testing program and provided \$31.4 million to UW System for its testing program. DOA also reported \$23.7 million in expenditures related to the alternate care facility operations at State Fair Park.

DOA used CRF funds to administer a number of grants to assist local governments and businesses negatively affected by the public health emergency.

DOA also administered a number of grant programs to assist local governments and businesses negatively affected by the public health emergency. For example, DOA administered a grant program that provided \$201.1 million in grants to local governments during FY 2020-21. In addition, DOA provided individual grants to various Wisconsin businesses to address revenue losses and expenditures incurred due to the public health emergency, including a total of:

- \$20.2 million in grants to 611 lodging operators in Wisconsin;
- \$17.3 million in grants to 118 music and performance venues;
- \$15.0 million in grants to 384 nonprofit cultural organizations; and
- \$10.0 million in grants to 54 privately owned movie theaters.

DHS reported \$436.7 million in expenditures funded by the CRF for payments to providers and hospitals, purchase of PPE, contact tracing, and purchase of ventilators.

According to the state's accounting system, DHS reported \$436.7 million in expenditures funded by the CRF, including:

- \$173.7 million in payments to providers and hospitals to offset losses and compensate for additional expenditures to address the public health emergency;
- \$53.4 million for personal protective equipment (PPE);
- \$46.8 million in expenditures related to contact tracing; and
- \$15.0 million in expenditures related to the purchase of ventilators.

DOR expended \$224.6 million in CRF funds to provide grants to small businesses and farmers that were adversely affected by the public health emergency.

Finally, DOR expended \$224.6 million in CRF funds to provide grants to small businesses and farmers that were adversely affected by the public health emergency, including:

- \$133.8 million for the We're All In Small Business Grant Program;
- \$50.1 million for the Wisconsin Farm Support program; and
- \$40.2 million for the We're All In for Wisconsin Restaurants Program.

The Wisconsin Economic Development Corporation was responsible for promotion of the We’re All In grant programs, and DOR completed the administration of the programs, including reviewing grant applications and processing payments.

DOA anticipates that the full amount of CRF funds will be incurred or expended by December 31, 2021.

According to amounts reported by DOA in the accounting system, \$218.0 million of CRF funds remained available for the State to expend at the end of FY 2020-21. As noted, only allowable expenditures incurred by December 30, 2021, may be funded by the CRF. The \$218.0 million in remaining CRF funds is shown as Cash and Cash Equivalents and Unearned Revenue in the General Fund Balance Sheet as of June 30, 2021. Subsequent to June 30, 2021, and as of December 10, 2021, accounting records show an additional \$121.9 million in expenditures were funded by the CRF. DOA indicated that the full amount of CRF funds will be incurred or expended by December 31, 2021.

Coronavirus State and Local Fiscal Recovery Funds

In May 2021, the State was advanced \$1.5 billion in funding under the CSLFRF, including \$205.8 million for local governments.

ARPA created the CSLFRF to distribute money directly to state, local, tribal, and territorial governments. The State was allocated \$2.5 billion in CSLFRF funding, and was advanced \$1.5 billion in May 2021, including \$205.8 million to be distributed to local governments. The State is expected to be advanced the second round of the funding in the spring of 2022. The CSLFRF funding included certain stipulations, including that the funds must be used to:

- respond to the public health emergency or its negative economic impacts;
- respond to the needs of workers performing essential work during the public health emergency;
- provide government services to the extent revenue losses due to the public health emergency reduced revenues; and
- make necessary investments in water, sewer, or broadband infrastructure.

Further, federal regulations stipulate that eligible expenditures must be incurred between March 3, 2021, and December 31, 2024.

DOR expended \$469.2 million in CSLFRF funds in FY 2020-21, to provide grants to small businesses and to allocate funding to smaller governments in Wisconsin.

As shown in Table 2, DOR expended a total of \$469.2 million in CSLFRF funds in FY 2020-21. DOR entered into several memoranda of understanding with DOA to use CSLFRF funds to administer the Wisconsin Tomorrow and the We’re All In grant programs. These programs were established to assist businesses that had significant loss resulting from the public health emergency. DOR provided a total of \$265.4 million in grants to over 53,000 small businesses in FY 2020-21. In addition, DOR was responsible for distributing CSLFRF funds to non-entitlement units of government (NEUs), which are smaller units of general local governments,

as designated by the U.S. Treasury. DOR distributed \$203.8 million to over 1,500 NEUs as of June 30, 2021.

Table 2

Expenditures Incurred and Paid by the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)¹
 FY 2020-21

	Expenditures	Percentage of Total
Department of Revenue	\$469,193,457	98.1%
Department of Health Services	9,298,691	1.9
Department of Administration	5,015	0.0
Total	\$478,497,164	100.0%

¹ Expenditures incurred and paid, as recorded by DOA in the State’s accounting system for the fiscal year ended June 30, 2021.

At the end of FY 2020-21, \$993.9 million of CSLFRF funds, including \$2.0 million available for NEUs, remained available for expenditure. The \$993.9 million in remaining CSLFRF funds is shown as Cash and Cash Equivalents and Unearned Revenue in the General Fund Balance Sheet as of June 30, 2021. Subsequent to June 30, 2021, and as of December 10, 2021, accounting records show an additional \$49.1 million in expenditures were funded by the CSLFRF.

Federal Medical Assistance Percentage (FMAP)

In FY 2020-21, the State received \$517.5 million in additional federal funds for the Medical Assistance program as a result of an increase in Wisconsin’s FMAP.

The FMAP is the percentage of Medical Assistance expenditures the federal government will fund for the State. In March 2020, the federal Families First Coronavirus Response Act provided a temporary 6.2 percent increase in Wisconsin’s FMAP for benefit payments. The increase in the FMAP is anticipated to be in place until the federal government determines the public health emergency period for COVID-19 has ended. In FY 2020-21, the State received \$517.5 million in additional federal funding as a result of the increased FMAP. DHS lapsed \$610.9 million in GPR from the Medical Assistance budget for the 2019-21 biennium. The surplus was partially attributed to the increased FMAP, which DHS estimated would continue to be available through at least December 2021.

Unemployment Insurance Funding

Federal pandemic unemployment benefits to individuals expired on September 4, 2021.

Federal benefits established through the federal CARES Act to provide benefits under the unemployment benefit programs for individuals whose employment was affected by the public health emergency continued in FY 2020-21. These programs included the Federal Pandemic Unemployment Compensation program and the Pandemic Unemployment Assistance program. In addition, in FY 2020-21 an additional benefit program was established through the Lost Wages Assistance program, which provided funding for additional benefits for a six-week period from late July through early September 2020. Federal benefit programs established under the CARES Act were extended by the federal Continued Assistance Act and ARPA. These federal pandemic unemployment benefits expired on September 4, 2021.

Programs were also established to provide relief to employers, including federal reimbursement of certain regular unemployment benefits.

The CARES Act also established programs to provide relief to employers through federal reimbursement of certain regular unemployment benefits. In addition, 2019 Wisconsin Act 185 and 2021 Wisconsin Act 4 provided additional employer relief through:

- the use of the solvency account for regular unemployment benefits provided to employees of taxable employers; and
- for the use of funds in the interest and penalty account, which is maintained in the State's General Fund, for regular unemployment benefits provided to employees of reimbursable employers.

In report 21-9, we reported that DWD must review regular unemployment benefit payments made during the public health emergency to determine the extent of federal reimbursement for regular unemployment benefits or the amounts that will be charged to the solvency account or the interest and penalty account. DWD reported that its review is expected to be completed in early 2022. Once completed, the final amount of federal reimbursement, the amount that will be charged to the solvency account, and the amount that will be charged to the interest and penalty account will be determined.

Other Matters of Interest

During our audit work, we identified five issues that did not meet the requirements for reporting under *Government Auditing Standards*, but are matters of interest. These issues included clearing appropriation balances, DHS capitation payments, Unemployment Interest and Penalty Account, fringe benefit variance accounts, and Department of Transportation (DOT) appropriation balances. We will follow up on the status of these issues during our FY 2021-22 audit. We also followed up on the status of our recommendation made to DOA in report 20-30 on the timelines of financial reporting.

Clearing Appropriations

DOA is responsible for ensuring expenditures and revenues recorded in clearing appropriations are moved to the appropriate appropriation before the end of the fiscal year.

Statutes provide DOA with the authority to create clearing appropriations, which allow an agency to record expenditures temporarily until the agency determines the correct appropriation to charge. DOA policies in the *Wisconsin Accounting Manual* also allow an agency to record revenues in a clearing appropriation temporarily until the agency determines the correct appropriation to charge. DOA is responsible for ensuring the accounting transactions are completed to move the expenditures or revenues out of the clearing appropriation before the close of the accounting records for the fiscal year.

Due to ongoing litigation, a balance of \$32.2 million remained in a DOJ clearing appropriation used to record settlement funds.

In response to our recommendation in report 20-30, DOA conducted training sessions and worked with individual state agencies to assess balances in clearing appropriations and to identify steps to resolve the balances. The number of clearing appropriations with balances over a positive or negative \$1.0 million declined from seven as of June 30, 2020, to two as of June 30, 2021. A positive balance of \$32.2 million remained in a clearing appropriation used by the Department of Justice (DOJ) to record settlement funds until it determines how the funds would be spent. The balance in this clearing appropriation was \$22.6 million as of June 30, 2020, and \$16.1 million as of June 30, 2019. Both DOA and DOJ indicated that this balance remains unresolved due to a court order, which requires that these amounts may not be moved out of the clearing appropriation.

We recommended DOA continue its efforts to resolve balances in clearing appropriations and report to the Joint Legislative Audit Committee by April 1, 2022, on the status of its efforts.

In addition, a negative balance of \$9.2 million remained in a clearing appropriation used by DOA to administer the central fuel procurement program, which allows the state to consolidate fuel purchases for utilities and bargain for better utility rates by providing utilities in bulk. DOA did not identify alternative accounting methodologies for this program nor did DOA seek a statutory change that would allow the use of the clearing appropriation for this activity. Therefore, we recommended DOA continue its efforts to address balances remaining in clearing appropriations as of the end of the fiscal year, and report to the Joint Legislative Audit Committee by April 1, 2022, on the status of its efforts. DOA agreed with our recommendations.

Department of Health Services Capitation Payments

DHS charged 13 months of managed care organization capitation payments to its FY 2020-21 GPR appropriation.

DHS makes per-member, per-month (capitation) payments for Medical Assistance participants who receive services from a managed care organization (MCO). For each month, the payment is generally made in the first week of the month for which the MCO will provide services, with the exception of the June monthly payment, which had been made in July and recorded as an expenditure of the next fiscal year. For financial reporting purposes, DHS has annually reflected this amount as a liability in the GAAP-based General Fund financial statements.

However, in June 2021 DHS recorded the June payment to the current fiscal year resulting in using GPR funding for 13 months of MCO capitations for FY 2020-21. This is an expenditure for FY 2020-21, yet

had DHS followed its historical practice of recording the payment, an additional \$157.0 million would have been lapsed. Although the Medical Assistance budget was established considering 12 months of MCO payments, DHS stated that the payments were recorded in the current year because budget authority was available due to increased federal funding during the public health emergency. By making the June 2021 payment in FY 2020-21, DHS has in effect caught up on what has been a delayed payment of expenditures on a budgetary basis for many years. We would expect DHS to make 12 monthly payments in FY 2021-22, and in subsequent years, to ensure expenditures are charged to the fiscal year they are incurred.

Unemployment Interest and Penalty Account

Funding available in the General Fund interest and penalty account as of July 30, 2021, is expected to be insufficient to fully fund the \$64.8 million estimated by DWD.

In preparing the FY 2020-21 Unemployment Reserve Fund financial statements, DWD reported a \$64.8 million receivable as the estimated amount for which it expects to request reimbursement from the General Fund for benefit payments made to former employees of reimbursable employers, which are employers such as the State of Wisconsin that reimburse benefits paid by the Unemployment Reserve Fund for its former employees. These amounts are to be paid from the interest and penalty account, which is a program revenue appropriation established under s. 20.445 (1) (gd), Wis. Stats. As of June 30, 2021, the interest and penalty account had a continuing balance of \$17.4 million, which is insufficient to fully fund the Unemployment Reserve Fund for the \$64.8 million estimated by DWD. DOA and DWD indicate that the interest and penalty appropriation will be in a deficit position at the end of FY 2021-22 absent steps being taken to address this issue.

Fringe Benefit Variance Accounts

In processing payroll, DOA is responsible for deducting amounts from employee's paychecks for health insurance benefits. The Department of Employee Trust Funds (ETF) bills DOA for these amounts and for the employer share of health insurance premiums. When certain changes in benefits occur, such as a new hire, a termination, or a change in benefit type, there can be a timing difference between what is being deducted from an employee's paycheck and the employer's share of those benefits, and what ETF bills the agency for these amounts. In these cases, DOA pays the amount billed by ETF and charges the fringe benefit variance account for the amount billed for the employee.

The balance in the health insurance fringe benefit account increased from \$7.6 million as of June 30, 2016, to \$20.0 million as of June 30, 2021.

DOA is responsible for reviewing the balance in variance accounts and working with state agencies to research and resolve the variances. Although it would not be unexpected to have a balance in the health insurance fringe benefit account, the balance would be expected to be resolved in a timely manner and not increase over time. However, balances in the health insurance fringe benefit variance account steadily increased since the implementation of STAR HCM in 2016. The balance in the health insurance fringe benefit variance account has increased from \$7.6 million as of June 30, 2016, to \$20.0 million as of June 30, 2021. DOA indicates there are ongoing efforts to resolve the

variance. However, it is important that DOA address the variance in a timely manner, as it will become more difficult to resolve variances from earlier years. We note that a similar fringe benefit variance account exists for life insurance.

DOT Appropriation Balances

DOT has identified some inaccurate balances for certain appropriations dating back to the implementation of STAR.

Based on a report to the Bureau’s Fraud, Waste, and Mismanagement Hotline, we reviewed selected appropriations and their related STAR balances. DOT is responsible for state highway construction activities. To manage the large number of highway construction projects, DOT maintains detailed accounting records and a large number of appropriations to track its activities. During our review, DOT indicated that it believed that certain negative ending balances in segregated revenue (SEG) appropriations related to inaccurate beginning balances from the implementation of STAR and unreconciled prior-year accounts receivable variances it had noted within STAR.

We recommended DOT fully resolve the inaccuracies in its SEG appropriations before it certifies its appropriations for FY 2021-22.

In July 2021 DOT processed two adjustments within STAR to correct the unreconciled prior-year accounts receivable variances it had identified. These adjustments were reviewed and approved by DOA. However, DOT identified that STAR adjustments it completed did not fully resolve the variances. DOT intends to make adjustments in STAR in FY 2021-22 that will correct the issues. We recommended that DOT fully resolve the inaccuracies in its SEG appropriations before it certifies its appropriations for FY 2021-22. DOT agreed with our recommendation. It will also be important for DOA to continue to work with DOT to ensure that all inaccuracies are resolved during FY 2021-22.

Financial Reporting Process

The DOA State Controller’s Office has primary responsibility for compiling the ACFR, which reports the State’s activity in financial statements prepared following GAAP. As an issuer of municipal debt, DOA is required to complete and file its *Continuing Disclosure Annual Report* within 180 days of the end of the fiscal year in order to allow underwriters to meet requirements of the U.S. Securities and Exchange Commission Rule 15c2-12. This rule generally prohibits any underwriter from purchasing or selling municipal securities unless the issuer has completed its continuing disclosure requirements, which include the submission of audited financial statements. Failure to meet these requirements may negatively affect an entity’s standing in the bond market.

In response to our recommendation, DOA took steps to work with state agencies to improve the timeliness of financial reporting.

During our FY 2019-20 audit, we reported a finding related to the timeliness of DOA’s process for preparation of the ACFR. In response to our recommendations, DOA took steps to work with state agencies to understand those areas that caused delays in reporting and identified solutions to improve the timeliness of financial reporting. Overall, we note that agencies completed submissions of FY 2020-21 financial information to the DOA State Controller’s Office in a more timely manner.

Auditor's Report



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

Honorable Members of the Legislature

The Honorable Tony Evers, Governor

We have audited the financial statements and the related notes of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Wisconsin, which collectively comprise the State's basic financial statements, as of and for the year ended June 30, 2021, and have issued our report thereon dated December 20, 2021.

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 basic financial statements and related auditor's opinions have been included in the State of Wisconsin's Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2021.

Our report includes a reference to other auditors who audited the financial statements of the Environmental Improvement Fund, the Deferred Compensation Fund, the Wisconsin Housing and Economic Development Authority, the University of Wisconsin (UW) Hospitals and Clinics Authority, and the UW Foundation, as described in our report on the State of Wisconsin's basic financial statements. The financial statements of the Environmental Improvement Fund and the Wisconsin Housing and Economic Development Authority were audited in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that were reported on separately by those auditors. Although the financial statements of the Deferred Compensation Fund, the UW Hospitals and Clinics Authority, and the UW Foundation were audited in accordance with auditing standards generally accepted in the United States of America, they were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Deferred Compensation Fund, the UW Hospitals and Clinics Authority, or the UW Foundation.

Internal Control over Financial Reporting

Management of the State of Wisconsin is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the State's internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State'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 State's basic financial statements 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Findings and Responses Schedule as Findings 2021-001 through 2021-004, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's basic financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements. 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*.

Responses to Findings

Agency-specific responses to the findings identified in our audit are described in the accompanying Findings and Responses Schedule. The corrective action plans begin on page 36. The responses and corrective action plans were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 the State'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 the State's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman
State Auditor

December 20, 2021

FINDINGS AND RESPONSES SCHEDULE

This schedule includes four deficiencies in internal control over financial reporting that we consider to be significant deficiencies. These deficiencies in internal control over financial reporting are required to be reported by auditing standards generally accepted in the United States of America and *Government Auditing Standards*. Findings 2020-001, 2020-004, and 2020-005 from the prior year (report 20-30) are no longer reportable. Repeat findings from report 20-30 are indicated with an asterisk (*).

Finding 2021-001: Department of Administration Information Technology Oversight and Monitoring Responsibilities*

Background:

The Department of Administration (DOA) is responsible for the State's information technology (IT) services, including providing oversight and monitoring of executive branch agency IT operations. We first recommended that DOA develop and implement executive branch agency IT policies and standards and provide oversight and monitoring of executive branch agencies' IT operations during our fiscal year (FY) 2014-15 audit. During subsequent audits, we recommended that DOA take steps to identify, assess, and address risks for the State's IT environment. These steps were to include completion of a comprehensive risk management program across all executive branch agencies. During our FY 2018-19 audit, we found DOA had worked with executive branch agencies and implemented the State of Wisconsin *IT Security Policy Handbook*, which includes policies for IT security, and the related standards. Executive branch agencies are expected to comply with these policies and standards.

During our FY 2019-20 audit, we found DOA developed a risk assessment plan, which documented a plan for improving vulnerability management and completing penetration testing. However, we also found DOA had not taken sufficient steps to ensure executive branch agency compliance with the State of Wisconsin *IT Security Policy Handbook* and related standards, and we made recommendations for improvement.

One stated goal of DOA's *Wisconsin Strategic IT Plan 2020-2022*, which is developed to guide state IT operations, is strengthening cybersecurity and risk management practices on a long-term basis. Another goal is providing effective oversight of security policies, standards, and procedures.

Criteria:

Wisconsin Statutes give DOA responsibility for the State's IT services. Under s. 16.971 (2), Wis. Stats., DOA shall work with executive branch agencies to establish IT policies, procedures, and planning processes, and monitor adherence to these policies, procedures, and processes. Further, s. 16.971 (2), Wis. Stats., requires DOA to provide oversight and monitoring of executive branch agency IT operations, which includes ensuring:

- management reviews of IT organizations are conducted;
- all executive branch agencies develop and operate with clear guidelines and standards in the areas of IT systems development and employ good management practices and cost-benefit justifications; and
- all state data-processing facilities develop proper privacy and security procedures and safeguards.

Finally, s. 16.973 (3), Wis. Stats., states that DOA shall facilitate the implementation of statewide initiatives, including the development and maintenance of policies and programs to protect the privacy of individuals who are the subjects of information contained in the agency databases.

National Institute of Standards and Technology (NIST) 800-137 *Information Security Continuous Monitoring (ISCM) for Federal Information Systems and Organizations* indicates that ongoing monitoring is a critical part of an organization's risk management process. In addition, an organization's overall IT security architecture and accompanying security program should be monitored to ensure that organization-wide operations remain within an acceptable level of risk despite any changes that occur. Key steps in effective monitoring include:

- developing and communicating the policies, procedures, and standards that form the security framework;
- collecting information on the effectiveness of the policies, standards, and procedures;
- analyzing the information collected;
- responding to the results of the analyses; and
- reviewing and updating the monitoring program.

Condition:

During our FY 2020-21 audit, we continued to find that DOA did not have oversight and monitoring in place sufficient to ensure executive branch agency adherence to the State of Wisconsin *IT Security Policy Handbook* and related standards, and sufficient to monitor executive branch agency IT operations. Although we found that, as of June 30, 2021, DOA had initiated efforts to develop a baseline understanding of agency compliance with the State of Wisconsin *IT Security Policy Handbook* and related standards and to publish the baseline results in a dashboard, DOA did not collect needed information from all executive branch agencies. Further, DOA had not established a plan for other important monitoring steps, such as analyzing the effectiveness of the procedures established by executive branch agencies.

We also found DOA purchased, implemented, and began configuration of a new vulnerability management tool at DOA. DOA indicated that some executive branch agencies have purchased the tool, and it is DOA's expectation that executive branch agencies will purchase, implement, and configure the tool. The tool will provide DOA with information to improve its vulnerability management program and aid in meeting its responsibility to monitor executive branch agency IT operations. However, DOA has not specified completion dates for the executive branch agencies to purchase, implement, and configure the tool.

Finally, DOA's risk assessment plan did not include consideration of the risks related to known deviations from policies in the State of Wisconsin *IT Security Policy Handbook* and related standards. For example, DOA may approve an exception to allow an agency to deviate from an established IT security policy such as a password policy. Although deviations from the policies have been approved, the deviations may bring additional risk that DOA should consider in its oversight and monitoring of the State's IT environment. We determined that the detailed results of our review of DOA's process to approve policy exceptions were too sensitive to communicate publicly. Therefore, we communicated the results in a separate confidential communication to the Chief Information Officer at DOA.

Context:

State agencies rely on computer systems to complete critical functions, including processing checks, accounting for cash receipts, preparing financial statements, and administering federal grant programs. DOA is responsible for ensuring these computer systems are properly secured. We interviewed key DOA staff to gain an understanding of the steps that were taken by June 30, 2021, to provide oversight and monitoring of executive branch agency IT operations and adherence to the State of Wisconsin *IT Security Policy Handbook* and related standards, and to gain an understanding of DOA's plans for implementing the enterprise vulnerability management tool and identifying vulnerabilities with security patch, configuration, and regulatory compliance issues.

Because DOA has responsibility to provide oversight and monitoring over IT operations for executive branch agencies, and because there are connections among agencies in the State's network, IT weaknesses at one agency can affect IT security for other agencies.

Questioned Costs:

None.

Effect:

For FY 2020-21, DOA did not comply with s. 16.971 (2), Wis. Stats., which requires DOA to provide oversight and monitoring of executive branch agency IT operations and adherence to the State of Wisconsin *IT Security Policy Handbook* and related standards. Insufficient monitoring of agency IT environments can lead to vulnerabilities in the State's network, known or unknown, because there is no assurance that all systems are meeting the minimum level of security for the State's IT environment, as established in the State of Wisconsin *IT Security Policy Handbook* and related standards. Weaknesses in the security of the network can lead to inappropriate access to confidential or sensitive data, unauthorized changes to the data within the system, or a failure of the system.

Cause:

DOA did not collect the information necessary to monitor executive branch agency adherence to the State of Wisconsin *IT Security Policy Handbook* and related standards. DOA's initial efforts to develop a dashboard providing detail on the status of implementation of the IT security policies resulted in insufficient and incomplete data from agencies because DOA did not require agencies to provide the information.

Further, DOA did not establish a monitoring process to analyze the effectiveness of executive branch agency procedures, such as through reviews of agency procedures; respond to the results of its analyses; and review and update its monitoring program. Collecting information on the effectiveness of policies, standards, and procedures; analyzing this information; and responding to the analysis is important to effectively monitor an IT environment. In addition, regularly scanning, analyzing, reporting, and remediating known vulnerabilities is important in managing risk in an ever-changing IT environment.

Finally, DOA indicated that it encountered delays in implementing the new vulnerability management tool due to a lack of availability of vendor support and resources. Although DOA noted its expectation that executive branch agencies purchase, implement, and configure the new vulnerability management tool, DOA did not develop a detailed timeline for when agencies would do so. Establishing this timeline is important for DOA to meet its statutory requirement to monitor executive branch agency IT operations.

☑ Recommendation

We recommend the Wisconsin Department of Administration:

- *complete collection of information to develop the dashboard and analyze executive branch agency adherence to the State of Wisconsin IT Security Policy Handbook and related standards by December 30, 2021;*
- *respond to the analyses by working with executive branch agencies that are not adhering to the State of Wisconsin IT Security Policy Handbook and related standards to bring them into compliance by September 30, 2022;*
- *review and update the monitoring program, including establishing specific ongoing monitoring processes that DOA will perform to be assured that executive branch agencies continue to adhere to the State of Wisconsin IT Security Policy Handbook and related standards by December 30, 2022;*
- *work with the executive branch agencies by January 31, 2022, to develop the timeline for purchase, implementation, and configuration of the vulnerability management tool;*
- *establish detailed plans by June 30, 2022, for how DOA will perform ongoing vulnerability assessments with the new vulnerability management tool, respond to those assessments, and make changes to further strengthen the State's IT environment; and*
- *review and continue to update its risk management program including considering the risks related to approved policy exceptions and remediating known vulnerabilities.*

In addition, we recommend the Wisconsin Department of Administration report to the Joint Legislative Audit Committee by April 1, 2022, on the status of its efforts to implement these recommendations.

Type of Finding: Significant Deficiency

Response from the Wisconsin Department of Administration: The Department of Administration agrees with the finding and recommendations.

Finding 2021-002: Information Security Controls at the University of Wisconsin System*

Background:

UW institutions rely on IT systems and are responsible for maintaining confidential and sensitive information, such as student data. UW System Administration maintains the Shared Financial System (SFS), which is UW System's accounting system, and the Human Resource System (HRS), which is UW System's payroll and personnel system. Both HRS and SFS data are stored on infrastructure managed by UW-Madison's Division of Information Technology (DoIT). These systems are used by all UW institutions. In addition, each institution maintains its own student information system to administer federal student financial assistance programs under the Student Financial Assistance Cluster, as well as other computer applications. UW System Administration is responsible for developing systemwide information security policies.

We first reported concerns with UW System Administration's information security policies, procedures, and controls in our financial audit of UW System for FY 2014-15 (report 16-3). During subsequent audits, we recommended UW System Administration take additional steps in the development of a comprehensive information security program. Most recently in report 20-29, we recommended that UW System Administration develop systemwide information security policies that align with NIST guidance, develop a structure to effectively monitor compliance with systemwide policies, and work with UW institutions to achieve compliance.

Criteria:

Under s. 36.09, Wis. Stats., the Board of Regents is responsible for the governance of UW System, including protecting institutional and research data. Board of Regents Information Security Policy 25-5, which was adopted in February 2016, delegates authority to the UW System President to implement and maintain an information security program. The policy specifies that this program be comprehensive to encompass all aspects of information security, including system access and authentication; system and data integrity; data access, privacy, and confidentiality; and incident response.

UW System Administration is responsible for developing systemwide policies that form the basis for a comprehensive information security program, and the policies are approved by the UW System President. Board of Regents Information Security Policy 25-5 requires that NIST standards be used as a guide in developing systemwide policies. Chancellors and chief information officers at each UW institution are responsible for monitoring compliance with the policies, but UW System Administration retains overall oversight authority and responsibility for ensuring implementation and adherence to the information security program. In April 2018, UW System developed an information security program document that identified proposed information security policies, which were expected to be implemented over multiple years.

In February 2021, the UW System Board of Regents President and UW System Interim President directed each UW institution to implement specific action steps throughout the institution. For example, UW System Administration was to define data elements to be captured as part of a monitoring program, and each UW institution was to begin monthly reporting on those data elements on July 1, 2021.

Condition:

Although UW System Administration had taken corrective actions as of June 30, 2021, none of its new policies were in effect in FY 2020-21. As a result, we continued to identify concerns for FY 2020-21 that were similar to prior years. As of June 30, 2021, UW System Administration had developed information security policies that aligned with the five core functions of the specific

NIST framework it adopted. For example, in FY 2020-21, UW System Administration developed five information security policies on IT asset management, risk management, privacy, logging and vulnerability management. The policies are expected to be in effect at staggered dates during FY 2021-22 and FY 2022-23.

Further, UW System Administration developed a structure to monitor UW institution compliance with systemwide policies in June 2021. However, the related reporting by UW institutions was not implemented until July 1, 2021, and included compliance with only those policies that were in effect at the time of reporting. As a result, UW institutions did not report on compliance with the five new policies developed in FY 2020-21.

Context:

We interviewed key UW System Administration staff to gain an understanding of the steps that were taken by June 30, 2021, in the development and implementation of a comprehensive security program, including systemwide policies and related oversight of UW institutions. We reviewed all systemwide policies developed before June 30, 2021, and compared them to the adopted NIST framework. We also reviewed documentation of periodic meetings between UW System Administration and UW institutions to discuss information system security topics throughout the year.

Questioned Costs:

None.

Effect:

Weaknesses in information security policies, standards, and procedures weaken the level of security provided by UW System Administration. For example, not providing guidance for the handling, protection, and privacy of an individual's personal data increases the risk that personally identifiable information could be accidentally or maliciously exposed.

Failure to monitor UW institution IT environments may lead to vulnerabilities in UW System's network, known or unknown, because there is no assurance that all systems are meeting the minimum level of security for UW System's IT environment, as established by systemwide policies and related standards and procedures. Weaknesses in the security of the network can lead to inappropriate access to confidential or sensitive data, unauthorized changes to the data within the system, or a failure of the system.

Although it can be difficult to determine how information security concerns affect the financial statements and material compliance areas, ineffective information security controls may permit controls over individual systems to operate improperly and may allow financial statement misstatements and noncompliance to occur and not be detected.

Cause:

UW System Administration developed five new policies, yet none were in effect in FY 2020-21 nor was the related monitoring in place in FY 2020-21.

☑ Recommendation

We recommend University of Wisconsin System Administration complete implementation of the systemwide policy monitoring program by:

- *collecting and analyzing UW institution compliance reports and;*
- *continuing to work with UW institutions to achieve compliance in a timely manner when noncompliance is identified.*

Type of Finding: Significant Deficiency

Response from University of Wisconsin System Administration: UW System Administration agrees with the finding and recommendations.

Finding 2021-003: Monitoring and Use of Predictive Analytics for the Unemployment Insurance Program

Background:

The Department of Workforce Development (DWD) administers the Unemployment Insurance (UI) program, which pays monetary benefits to certain individuals who have lost a job. Unemployed individuals file initial benefit claim applications and subsequent weekly benefit claims. When an initial claim or weekly claim is filed, DWD is required to verify the information provided in order to establish the statutory eligibility of individuals and the amount of weekly benefits to pay them. At times, DWD cannot verify the eligibility of an individual with the current information the individual filed. In these cases, it is DWD's process to review the issue and place a "hold" on the individual's account for each eligibility issue identified. A hold stops the processing of the claim until DWD staff review the hold. Holds are typically assigned for review to a claims specialist or an adjudicator, who is responsible for obtaining additional information to determine whether the hold can be removed or the claim should be denied.

In March 2020, the public health emergency resulted in a significant increase in unemployment insurance claims being filed. In addition, DWD began making payments through several new federal programs, created under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, that were aimed at providing additional benefits to unemployed individuals. DWD experienced a significant backlog of claims that needed to be processed, including claims that had holds in need of review. As of November 28, 2020, DWD reported a backlog of claims for 65,348 individuals with 98,915 holds requiring review.

To address the backlog of claims, DWD contracted with Google/SpringML to develop a predictive analytics model that DWD could use to remove eligibility holds. DWD provided the contractor with historical data, including information on holds related to claims and whether the holds had been removed. Using this data, the contractor developed the predictive analytics model that predicted whether or not a hold could be removed from an individual's account and assigned a confidence score to the prediction, which represented the level of confidence in the prediction. DWD reported that it reviewed the results of the predictive analytics model developed by the contractor through various analyses, including a comparison of the model's results with manual processes for holds removed in November 2020. DWD worked with the contractor to establish an acceptable confidence score threshold and then worked to refine the model through December 11, 2020.

In December 2020, DWD provided all outstanding holds to the contractor, which processed the information through the predictive analytics model. Beginning in January 2021 and each week thereafter, DWD loaded all outstanding holds to the contractor's platform, and DWD processed this information through the predictive analytics model. The predictive analytics model provided the results to DWD, including an assessment of the holds that could be removed and the assigned confidence score for each hold. DWD staff assessed the results; determined, in aggregate, which holds would be removed; and calculated an overall projected error rate using the assigned confidence scores and the results from the review performed in November 2020. DWD staff recommended the aggregate number of holds to be removed and the projected error rate for those holds to DWD management for approval.

Holds not removed through this process remained on the individual's account. DWD indicated that no individuals were denied benefits based upon the results of the predictive analytics model. According to DWD staff, holds for individuals who had applied for benefits under the Pandemic Unemployment Assistance program were not removed through the predictive analytics model due to insufficient history with this program.

Criteria:

DWD is responsible for ensuring the UI program adheres to federal statutes and federal regulations when determining the eligibility of an individual, including making this determination in a timely and accurate manner. Unemployment Insurance Program Letter (UIPL) 12-01, issued by the U.S. Department of Labor (DOL) in December 2000, states that the determination of an individual's eligibility for benefits involves determining the facts of an individual's situation and the adjudication of issues identified. Both of these actions are considered to be inherently governmental functions as they each require discretion in the interpretation of state law. An inherently governmental function is defined as a function that is so intimately related to the public interest as to mandate performance by governmental employees.

DOL released an update to UIPL 12-01 in January 2021, which indicates that states may outsource automated data processing functions provided the related activities:

- do not require the use of discretion in applying governmental authority; and
- do not affect decisions concerning whether or not an individual is eligible to receive unemployment insurance benefits.

To ensure outsourced functions operate correctly, it would be expected that procedures would be developed and implemented to adequately monitor the ongoing accuracy and reliability of the outsourced functions.

Condition:

DWD's approval process did not establish a projected error rate above which the removal of holds would not be approved. In addition, when making decisions to remove holds that could affect an individual's eligibility to receive benefits, DWD did not demonstrate that its predictive analytics model involved a review of each individual or each individual hold. Further, DWD did not adequately monitor the ongoing accuracy of the predictive analytics model, such as by reviewing and testing a sample of removed holds for accuracy. Instead, DWD relied on the review of the predictive analytics model that had been completed using the November 2020 data.

Context:

We interviewed DWD staff to gain an understanding of the process used to develop the predictive analytics model with the contractor, the process used to provide data to and receive data from the contractor, and the approval process for removing holds. Based on documentation provided by DWD staff, 169,257 holds were removed from individual accounts through the use of the predictive analytics model between December 2020 and June 2021. During FY 2020-21, DWD reported a total of 3.0 million holds were removed from individual accounts through both manual review and the predictive analytics model.

Questioned Costs:

Questioned costs cannot be determined because the removal of a hold from an individual's account may or may not result in a benefit payment.

Effect:

In data provided by DWD, the projected error rate that was calculated during the weeks in December 2020 to June 2021 ranged from a high of 26.8 percent to a low of 5.5 percent. For the period of December 11, 2020, to December 18, 2020, DWD removed 45,913 holds with calculated projected error rates that ranged from 22.7 percent to 23.7 percent. Therefore, while the removal of a hold from an individual's account may or may not have resulted in a benefit payment, it is likely that some

payments were made to ineligible individuals as a result of a hold removed through the predictive analytics model. Collection of overpayments that were paid because of a hold removed through this process is limited since s. 108.22 (8) (c), Wis. Stats., would classify such overpayments as department error for which collection is not permitted.

DOL requires DWD to perform quarterly reviews of a sample of benefit payments to assess the accuracy of DWD's processes. As a result of these reviews, DWD staff indicated errors were identified that were the result of department error and, since the predictive analytics model was implemented, these types of errors have increased.

In the absence of adequate monitoring over the predictive analytics model, and because DWD is not reviewing the facts and circumstances of each individual's eligibility in removing holds, it may be difficult for DWD to demonstrate that it retained its inherently governmental function, while outsourcing automatic data processes, as required by DOL.

Cause:

The predictive analytics model was implemented to address the backlog of claims that had holds in order to better meet DOL's timeliness requirement, as discussed in DOL's UIPL 04-01. However, DWD did not implement adequate procedures to monitor the ongoing accuracy of the predictive analytics model in assessing whether a hold could be appropriately removed.

☑ Recommendation

We recommend the Wisconsin Department of Workforce Development:

- *seek written assurance from the U.S. Department of Labor that the predictive analytics model is meeting federal requirements for DWD to review the facts and circumstances when making decisions that affect whether or not an individual is eligible to receive benefits; and*
- *implement and document adequate procedures to monitor the ongoing accuracy of the predictive analytics model in assessing whether a hold could be appropriately removed.*

Type of Finding: Significant Deficiency

Response from the Wisconsin Department of Workforce Development: The Department of Workforce Development agrees with the first finding and recommendation. DWD has already sought such written reassurance from the U.S. Department of Labor. DWD disagrees with the second finding in part but agrees with the recommendation.

In Finding 2021-003, regarding the Condition section, LAB writes, "Further, DWD did not adequately monitor the ongoing accuracy of the predictive analytics model, such as by reviewing and testing a sample of removed holds for accuracy." DWD disagrees with this finding as DWD did provide documentation to LAB demonstrating the agency's monitoring activities. Specifically, DWD—working with Google and SpringML—iteratively developed the predictive models based on 2,945,120 hold resolutions pertaining to 717,404 distinct UI claimants that occurred between January 1, 2019 and November 1, 2020. The accuracy of each model's prediction was compared to the actual, manually determined resolution of that hold, and this information was used to calculate an error rate by hold type.

While DWD may not have implemented and documented its monitoring the accuracy of the model in the way LAB describes, DWD believes that the agency's monitoring of the accuracy of the model (and minimizing the impact of any inaccuracy) is appropriate for the reasons stated in the accompanying Corrective Action Plan. Further, DWD has not performed manual sampling of holds, as LAB describes, for several reasons described in the Correction Action Plan.

DWD acknowledges the need to ensure accuracy of its predictive models and to document this process but clarifies that its models, which are based on the data from January 2019 through November 2020 and have been in use since DWD began using predicative analytics in December 2020, were and continue to be accurate. Model retraining is generally performed when there are significant changes to the environment in which the model functions. Specifically, in the case of a UI holds prediction model, model retraining may be required when there are law or policy changes that alter eligibility or significant system modifications. Since the inception of the use of the models to date, there have been no such law or policy changes or significant system modifications that would require retraining of the model. Retraining the models or recalculating the error rates using more recent holds resolution data would likely result in a less accurate model, since such data would include those holds that were removed based on model predictions. That is, the model would be based on the model's results and would introduce uncertainty to the machine learning process. DWD is committed to ensuring that the automated processes are accurate. Until there is a change to law or policy that alters eligibility or significant system modifications that may require DWD to retrain models and recalculate error rates, it will continue to use the current and accurate models. Therefore, DWD agrees with the recommendation to document its monitoring procedures, and if there are changes to law or policy, any updates to the model and process will be documented.

Rebuttal from the Wisconsin Legislative Audit Bureau: During the course of our audit fieldwork, we obtained audit evidence to support the conclusions reported in the finding. Within its response to Finding 2021-003, DWD indicated its disagreement with the finding that DWD did not adequately monitor the ongoing accuracy of the predictive analytics model, as noted in the Condition section of the finding. In its response, DWD indicated that it provided documentation to LAB demonstrating in-depth monitoring activities. The documentation DWD provided to us demonstrated that the predictive analytics model was reviewed prior to its use. However, the documentation did not provide evidence of adequate monitoring of the ongoing accuracy of the predictive analytics model, which is the basis for the recommendation that is being made in the finding.

We would also like to clarify a few points made in DWD's response on pages 30 and 31 or corrective action plan on pages 39 through 44.

- DWD reported that retraining the predictive analytics model would result in using more-recent hold resolution data and would likely result in a less accurate model. However, we did not recommend that DWD retrain the predictive analytics model. We recommended that DWD implement monitoring of the ongoing accuracy of the predictive analytics model.
- DWD reported that a sample of a small number of more-recent holds would not likely be more accurate than the tests already performed. Although we did suggest that this could be an approach to assessing the on-going accuracy of the predictive analytics model, we did not recommend this approach.
- DWD reported that its improper payment rate was estimated to be 15.93 percent. Although this rate was reported by DWD to be better than the national average, it is still above the improper payment error rate of 10 percent required by the Payment Integrity Information Act and established as a performance measure by the U.S. Department of Labor.

In its corrective action plan on pages 39 through 44, DWD discussed its current monitoring of the accuracy of the predictive analytics model. However, we were not provided audit evidence to support that DWD performed adequate monitoring of the ongoing accuracy of the predictive analytics model during FY 2020-21, which was the period we audited. As part of our FY 2021-22 audit, we will follow up on DWD's corrective actions and review the documentation of the monitoring DWD indicates is currently in place.

Finding 2021-004: Access Controls over Unemployment Insurance Program Systems

Background:

The Department of Workforce Development relies on IT systems to administer its programs, including the UI program. DWD uses several IT systems to maintain employer accounts and contributions, determine eligible program participants, and process UI benefit payments. For example, DWD uses the State Unemployment Insurance Tax Enterprise System (SUITES), which is used to maintain employer accounts and contributions. DWD is responsible for ensuring the security of SUITES.

We first identified concerns with access controls over DWD's IT systems during our FY 2018-19 audit, and we recommended DWD make improvements, including by completing required access reviews and removing access for terminated employees in a timely manner. During our FY 2019-20 audit, DWD noted that corrective actions were delayed due to the public health emergency. As a result, we continued to identify concerns related to the review of access controls over the SUITES system. We also identified concerns related to semiannual reviews of access to federal tax information. We recommended DWD improve controls (report 21-6).

Criteria:

As required by 2 CFR 200.303, DWD is responsible for establishing and maintaining effective internal control over its federal programs to provide reasonable assurance that the federal programs are administered in compliance with federal statutes and regulations. Controls over the security, maintenance, and processing of information in IT systems that are used to administer the UI program are part of an effective internal control system.

DWD is also required to follow Internal Revenue Service (IRS) Code regulations. Under 26 US Code 6103, every six months, the IRS requires a review of staff access to federal tax information. In addition, DWD is required to follow the Wisconsin *IT Security Policy Handbook* and associated standards established by the DOA. DOA standards require that access to all accounts be reviewed on an annual basis and access to privileged accounts must be reviewed every six months to determine whether access is still needed and remains appropriate. Further, the Wisconsin *IT Security Policy Handbook* and associated standards require that user accounts be disabled within a maximum of three days from the employee termination date.

Condition:

In response to the concerns identified in our prior audit, DWD developed a corrective action plan to review access to SUITES and federal tax information, establish a process to review access for both privileged and non-privileged accounts, and improve controls related to timely notification for employee terminations to allow for user accounts to be disabled.

Because implementation of the corrective action plan was delayed, we identified exceptions in our FY 2020-21 testing that were consistent with our prior concerns. For instance, access reviews for both privileged and non-privileged accounts, including employees with access to SUITES, were not completed during FY 2020-21. Although DWD completed a review of access to federal tax information in March 2021, the previous review was completed in FY 2018-19, which was less frequent than the required six-month period for these reviews. We also continued to identify accounts that were not disabled in a timely manner as a result of delays in notification of employee terminations to the IT staff. Finally, we identified a new concern related to DWD's monitoring of the IT system access granted to certain disabled accounts.

We determined that the detailed results of our review, both related to our findings identified in prior audits and the new concern related to monitoring of access, were too sensitive to communicate publicly. Therefore, we communicated the detailed results to DWD in a confidential communication.

Context:

We reviewed DWD IT procedures and compared them to federal regulations, state IT policies and standards issued by DOA, and NIST guidance. We requested an update from DWD on the status of planned corrective actions related to the concerns communicated as part of our prior audit. In addition, we interviewed DWD staff, requested information necessary to complete our testing, and performed testing to determine whether the concerns we identified in prior years continued into FY 2020-21.

Questioned Costs:

None.

Effect:

Procedures that do not align with federal regulations and state IT policies and standards weaken the level of security of IT systems. For example, not properly managing and maintaining appropriate access, or not performing access reviews for IT systems used to administer the UI program, could result in the issuance of erroneous or fraudulent payments, ineligible program participants, or inappropriate viewing of confidential data.

Cause:

DWD delayed implementation of the correction action plan it created in response to the recommendations we made in prior audits. DWD attributed this delay to the public health emergency. In addition, DWD indicated it did not monitor access granted to certain disabled accounts because DWD did not consider it necessary to monitor disabled accounts.

Recommendation

We recommend the Wisconsin Department of Workforce Development:

- *complete full implementation of its corrective action plan by March 2022; and*
- *address the specific concerns included in the confidential communication by June 2022.*

Type of Finding: Significant Deficiency

Response from the Wisconsin Department of Workforce Development: The Department of Workforce Development agrees with these findings and recommendations. DWD has made substantial progress in implementing its corrective action plan and will achieve full implementation by March 2022. Further, DWD will address the specific concerns included in the confidential communication by June 2022.



Corrective Action Plans



STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor
Joel Brennan, Secretary
Trina Zanow, Division Administrator

Corrective Action Plan

Finding 2021-001: Department of Administration Information Technology Oversight and Monitoring Responsibilities

Planned Corrective Action:

LAB Recommendation	DOA Planned Corrective Action	Anticipated Completion Date
1. Complete collection of information to develop the dashboard and analyze executive branch agency adherence to the State of Wisconsin IT Security Policy Handbook and related standards by December 30, 2021.	The Division of Enterprise Technology (DET) completed collecting information from executive branch agencies via the Agency IT Policies, Standards and Procedures (PSP) dashboard template. DET will complete analysis of individual executive branch agency PSP responses to assess adherence to the State of Wisconsin IT Security Policy Handbook and related standards.	September 15, 2021 December 30, 2021
2. Respond to the analyses by working with executive branch agencies that are not adhering to the State of Wisconsin IT Security Policy Handbook and related standards to bring them into compliance by September 30, 2022.	DET will work with executive branch agencies that are not in compliance with the State of Wisconsin IT Security Handbook and related standards. and use the established PSP procedures to ensure compliance.	September 30, 2022
3. Review and update the monitoring program, including establishing specific ongoing monitoring processes that DOA will perform to be assured that executive branch agencies continue to adhere to the State of Wisconsin IT Security Policy Handbook and related standards by December 30, 2022.	DET has created and published the PSP Dashboard and Operational Procedures which establishes specific ongoing monitoring processes that DOA will perform to assure that executive branch agencies continue to adhere to the State of Wisconsin IT Security Policy and related standards. This process will be reviewed and updated annually.	Completed – October 12, 2021
4. Work with executive branch agencies by January 31, 2022, to develop the timeline for purchase, implementation, and configuration of the vulnerability management tool,	DET will work with executive branch agencies to gather their plans for vulnerability management implementation.	January 31, 2022
5. Establish detailed plans by June 30, 2022, for how DOA will perform ongoing vulnerability assessments with the new vulnerability management tool, respond to those assessments, and make changes to further strengthen the State’s IT environment.	After completion of vulnerability management implementation, DET will work with the executive branch agencies to update the risk assessment plan, to assure that agencies are adhering to the Risk Assessment Policy and related standard.	June 30, 2022

LAB Recommendation	DOA Planned Corrective Action	Anticipated Completion Date
6. Review and continue to update its risk management program including considering the risks related to approved policy exceptions and remediating known vulnerabilities.	DET will review and update its risk management program and associated risk assessment plan to include consideration of risks related to approved policy exceptions and remediating known vulnerabilities.	June 30, 2022
7. The Wisconsin Department of Administration report to the Joint Legislative Audit Committee by April 1, 2022, on the status of its efforts to implement these recommendations.	The DOA will report the status of its efforts to implement the LAB recommendations for Finding 2021-001, per the DOA Corrective Plan to the Joint Legislative Audit Committee.	April 1, 2022

Person responsible for corrective action:

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University of Wisconsin (UW) System – Corrective Action Plan

Finding 2021-002: Information Security Controls at the University of Wisconsin System

Planned Corrective Action:

In July 2021, UW System Administration (UWSA) began analyzing UW institution compliance with systemwide information security policies and directives issued through a February 2021 Information Security Actions Memo by President Thompson and Regent President Petersen. Compliance status is determined through bi-monthly surveys filled out by each institution. Summary policy compliance reports are generated by UWSA and shared with each institution. Further, compliance reports identifying trends and patterns in policy compliance are generated, analyzed, and shared with UWSA leadership where appropriate.

UWSA's Office of Information Security (OIS) will continue to engage with UW institutions on an ongoing basis to advance systemwide compliance with policy as well as UW System's overall security posture. UWSA will continue to identify commonalities of noncompliance across institutions and determine if enterprise efforts or additional investment may be needed to assist institutions in achieving compliance.

In November 2021, OIS resumed on-site campus visits, engaging with campus IT leadership to understand barriers to information security policy compliance and areas that UWSA may assist. The intent is that all campuses will be visited at least annually. Summary reports from these visits will be generated and analyzed by OIS and shared accordingly.

Anticipated Completion Date: Completed

Person responsible for corrective action:
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Chief Information Security Officer
University of Wisconsin System Administration
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Tony Evers, Governor
 Amy Pechacek, Secretary-designee

Corrective Action Plan – Department of Workforce Development

Finding 2021-003: Monitoring and Use of Predictive Analytics for the Unemployment Insurance Program

- 1. RECOMMENDATION: SEEK WRITTEN ASSURANCE FROM THE U.S. DEPARTMENT OF LABOR THAT THE PREDICTIVE ANALYTICS PROGRAM IS MEETING FEDERAL REQUIREMENTS FOR DWD TO REVIEW THE FACTS AND CIRCUMSTANCES WHEN MAKING DECISIONS THAT AFFECT WHETHER OR NOT AN INDIVIDUAL IS ELIGIBLE TO RECEIVE BENEFITS.**

Planned Corrective Action:

The Department of Workforce Development (DWD) agrees with the recommendation and, in fact, has already sought such written reassurance from the U.S. Department of Labor (US DOL). However, it is important to note that no formal process exists for a state unemployment agency to request a written assurance that a particular aspect of its program meets federal conformity requirements. The unemployment compensation program is a federal-state partnership based on federal law but administered by the states. The state's unemployment program laws must meet federal conformity requirements, but US DOL does not normally review and approve a state's policy decisions in operating its program. While, from time to time, DWD's Unemployment Insurance (UI) Division has sought informal guidance from US DOL about implementing its program, it is not required to seek such pre-approval.

DWD is committed to ensuring the accuracy and integrity of automated data processing functions in the processing of UI claims. As indicated in the Legislative Audit Bureau's interim audit memo regarding Finding 2021-003, in March 2020, the public health emergency resulted in a significant and rapid increase in unemployment insurance claims being filed with DWD's UI Division.

During the public health emergency, DWD's highest priority and focus has been to address the unprecedented rate of unemployment in Wisconsin. Never has the state experienced such an incredible surge in claims so quickly. During previous economic downturns, claims slowly increased over time. For instance, during the Great Recession, Wisconsin's highest weekly regular UI claim total (approximately 195,000 claims) occurred in January 2010, three years after the recession began. It was within just six weeks of the COVID-19 public health emergency that DWD saw a peak of approximately 321,000 weekly claims. A total of 14,089,763 weekly claims were filed between March 15, 2020 and November 27, 2021. Whereas, in 2018, a total of 1,644,316 weekly claims were filed, and 1,598,105 weekly claims were filed in 2019.

DWD onboarded hundreds of contracted resources, reassigned state staff from within and outside of the agency, and hired and trained project and limited-term staff to enable the online filing and processing of the unprecedented number of UI claims. DWD also incorporated and programmed many law changes resulting from various federally enacted programs under the Coronavirus Aid, Relief, and Economic Security (CARES) Act and its amendments, including Pandemic Emergency Unemployment Compensation (PEUC) and Pandemic Unemployment Assistance (PUA) programs, as well as changes to state laws, including changes to employer charging and waiver and, subsequently, the suspension of work search rules. In addition, DWD developed enhancements to the UI Claims

Portal to provide critical information to claimants. With this tremendous workload and the backlog of UI claims, DWD looked for innovative and sound IT solutions to assist in accurately providing much needed UI benefits to eligible claimants as quickly as possible.

Despite these efforts, without intervention, claims processing would have been further substantially delayed while holds were resolved manually and eligible individuals would have continued to experience a significant wait for determinations and benefits payments. As DWD's June 15, 2021 response to previous LAB findings documented, longstanding complexities in Wisconsin's UI laws and DWD's antiquated IT infrastructure, which had not been updated after the Great Recession, contributed to delays in claims processing. As noted in the LAB's interim audit memo regarding Finding 2021-003 on November 28, 2020, DWD reported unresolved claims for 65,348 individuals with 98,915 holds requiring review. So, in the fall of 2020, DWD looked into contracting with a vanguard technology company to use predictive analytics to handle the deluge of claims resulting from the economic disruption caused by the COVID-19 pandemic. Because this innovative approach was novel for the UI program, DWD apprised the US DOL of DWD's use of predictive analytics to combat the backlog in conversations with DOL leadership.

As part of the solution to address the backlog in UI claims processing, DWD engaged for services with industry leader Google Cloud Professional Services (Google) and Google's sub-contractor SpringML via a contract with public sector IT service reseller Carahsoft Technology Corp. The contract entailed collaborative efforts to develop comprehensive predictive analytics models as well as confidence scores associated with various holds and issues on pending UI claims. The period of performance for this project was October 26, 2020 to December 15, 2020.

At the outset of using the predictive analytics models, during December 2020, DWD passed the holds data to Google and SpringML and, at DWD's request, SpringML ran the models and provided DWD with the output, including confidence scores. At the end of December 2020, however, that process was taken over by entirely DWD staff. Thus, since January 2021, the entire process of passing data to the Google and SpringML, running the models, and passing the output back to the DWD environment has been performed (solely) by DWD staff. DWD staff used the results of these analyses to determine whether holds could accurately be removed.

DWD did not outsource its inherently governmental functions. The models were developed by Google and SpringML using past performance data on claims determinations made by merit-based staff. In addition, DWD staff, solely, made the discretionary decisions to release holds based on the models' output. After Google and SpringML completed the models' development in December 2020, they were not involved in running the models. At all times, discretionary decisions were made by DWD merit-based staff using the models to improve customer service and increase operational efficiency; thus, DWD has retained its inherently governmental functions.

Nonetheless, because of the interest that US DOL expressed in DWD's ability to address the UI claims backlog, DWD has kept DOL leadership apprised of how DWD's staff was able to use data analytics to make discretionary determinations to resolve claim holds and quickly process claims. In spring 2021, DWD leadership reached out to US DOL leadership to discuss the Google analytics models that DWD staff were using to resolve holds, and US DOL leadership was supportive of the project.

DWD leadership followed up with US DOL leadership earlier this year and explained DWD's use of Google's predictive artificially intelligent (AI) technology to develop confidence scores on the eligibility probability of the claims in the backlog, allowing DWD staff to work through the pending claims more strategically. During that conversation, DWD leadership asked if DOL would provide written support for DWD's use of predictive analytics in this manner. While impressed with the project, US DOL responded to the request during a subsequent call that US DOL declined to provide a written

assurance regarding Wisconsin's use of analytics because that was outside of the role of DOL. Rather, DOL would issue guidance in the form of an Unemployment Insurance Program Letter (UIPL) that would be applicable to all states.

In conclusion, DWD agrees with the recommendation and has already taken LAB's recommended action. DWD will review and comply with the guidance provided in any forthcoming UIPL that DOL referenced.

Anticipated Completion Date:

Completed. Review and implementation of any additional guidance or requirements is dependent on the date the US DOL issues any forthcoming UIPL.

Persons responsible for corrective action:

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2. RECOMMENDATION: IMPLEMENT AND DOCUMENT ADEQUATE PROCEDURES TO MONITOR THE ONGOING ACCURACY OF THE PREDICTIVE ANALYTICS MODEL IN ASSESSING WHETHER A HOLD COULD BE APPROPRIATELY REMOVED.

Planned Corrective Action:

DWD agrees with the recommendation to issue a written procedure stating the procedures it has implemented to monitor the ongoing accuracy of the predictive analytics models and to assess whether a hold can properly be removed using the predictive analytics models. However, DWD states that it has always ensured the accuracy of the predictive analytics models and has a process in place to monitor the accuracy of the use of the models. The predictive analytics models currently in use are accurate and use appropriate confidence scores and error rate thresholds. DWD has adequately monitored the models' outcomes and developed procedures to determine accuracy during the development of the predictive analytics models.

Consistent with methodology used to establish tools, the models continue to provide accurate prediction of whether a hold can be appropriately removed absent any law or policy changes that would change the outcomes of eligibility. Updates will be implemented based on program and policy changes that would alter the eligibility of claimants. (While there were significant law changes to federal and state laws during this time, they did not affect the accuracy of the models.) DWD will continue to comply with all federal reporting requirements related to proper payments and assessment procedures.

In Finding 2021-003, regarding the *Condition* section of the interim audit memo, LAB writes, "Further, DWD did not adequately monitor the ongoing accuracy of the predictive analytics model, such as by reviewing and testing a sample of removed holds for accuracy." DWD disagrees with this finding as DWD did provide documentation to LAB demonstrating the agency's monitoring activities. Specifically, DWD—working with Google and SpringML—iteratively developed the predictive models based on 2,945,120 hold resolutions pertaining to 717,404 distinct UI claimants that occurred between January 1, 2019 and November 1, 2020. The accuracy of each model's prediction was compared to the actual,

manually determined resolution of that hold, and this information was used to calculate an error rate by hold type.¹

While DWD may not be monitoring the accuracy of the model in the way LAB describes, DWD believes that the agency's monitoring of the accuracy of the model (and minimizing the impact of any inaccuracy) is appropriate. Further, DWD has not performed manual sampling of holds, as LAB describes, for several reasons. First, since there has been no significant change to the environment in which the model operates there is little reason to believe the accuracy of the predictions have changed since they were first tested with large samples of data in November 2020. Second, manually sampling a small number of more recent holds would not be likely to be more accurate than the tests already performed with much larger samples of data. Third, performing such a sample would require DWD to *not* resolve holds that would otherwise be resolved based on the model and instead manually resolve them; this could create delays for UI claimants and additional work for UI adjudication staff with little added value.

DWD is monitoring the expected error rate of the holds removed based on the original calculations. DWD's current monitoring of the accuracy of the predictive analytics model consists of: (a) monitoring the environment in which the model operates to identify when any such change might affect accuracy and necessitate re-training or re-validation, at which point such a thing would occur; (b) ensuring the accuracy and integrity of the process used to select holds for removal; and (c) working over time to reduce both the number of holds resolved in this way and their potential error rate by choosing to resolve fewer holds with more accurate predictions.

DWD acknowledges the need to ensure accuracy of its predictive models but clarifies that its models, which are based on the data from January 2019 through November 2020 and have been in use since DWD began using predictive analytics in December 2020, were and continue to be accurate. Model retraining is generally performed when there are significant changes to the environment in which the model functions. Specifically, in the case of a UI holds prediction model, model retraining may be required when there are law or policy changes that alter eligibility or significant system modifications. While law changes have occurred, those changes did not affect eligibility for the type of holds that were analyzed using the models. As LAB noted, DWD did not use the models for PUA claims, which included new eligibility criteria; whereas, it did use the models for the other federal CARES Act programs' claims that were an extension of existing state law eligibility. Further, while there were state law changes to the work search requirements—specifically, whether it was waived or not—DWD was able to use or not use the model depending on the status of the work search requirements waiver.

In fact, retraining the models or recalculating the error rates using more recent holds resolution data would likely result in a less accurate model, since such data would include those holds that were removed based on model predictions. That is, the model would be based on the model's results and would introduce uncertainty to the machine learning process. DWD is committed to ensuring that the automated processes are accurate. Until there is a change to law or policy that alters eligibility or significant system modifications that may require DWD to retrain models and recalculate error rates, it will continue to use the current and accurate models. DWD agrees with the recommendation document to monitoring procedures, and if there are changes to law or policy, any updates to the model and process will be documented.

¹ The models generate a confidence score between 0 and 1 to determine the level of confidence the models have in the accuracy of each hold prediction. DWD worked with Google and SpringML to set a minimum confidence score above which analysis showed there was a strong likelihood the prediction was accurate, and only considered resolving holds with confidence scores above these thresholds: 0.7 for the "Allows" model, 0.8 for the "Washouts" model. As a further measure of accuracy, DWD used the models to develop predictions for the 27,600 outstanding holds as of November 7, 2020 that were resolved by November 20, 2020.

Concerning the *Effect* section of the interim audit memo, Finding 2021-003 provides the range experienced in the error rates between December 2020 to June 2021. For context, the error rates drastically decreased by January 2021. DWD balanced the need to reduce the exceptionally large backlog that existed in late 2020 against the need to limit the potential for error in the holds resolution process. As LAB has noted, DWD accepted error rates that were potentially above 20 percent for several weeks in December 2020; however, DWD accepted far lower error rates once the backlog had been reduced to a more manageable level by the end of December. Accepted error rates in January and February 2021 varied between 9.5 percent and 13.4 percent, and have not exceeded 10 percent after February 2021. Since mid-September 2021, the accepted (and significantly decreased) error rate has fluctuated between 2.2 percent and 4.1 percent. While DWD does not have a measurement of "accepted error rates" under the traditional, manual processing of holds on claims by which to compare the current predictive analytics error rate, it should be noted that one measure of error prior to model use could be the rate in which claims determinations were overturned through the appeals process. For example, in 2019, of the 13,466 claimant appeals filed, 4,693 determinations were reversed by an Administrative Law Judge (ALJ), for a rate of 35 percent of appeals filed. Also, in 2019, of the 2,474 employer appeals filed, ALJ decisions reversed 647 of the determinations at a rate of 26 percent.

In addition, the *Effect* section of the interim audit memo seems to directly correlate "departmental error" under Wis. Stats. [s. 108.02\(10e\)](#) and errors (improper payments) reported to US DOL for the Benefit Accuracy Measurement (BAM) survey. As experienced by other states, Wisconsin's UI program recorded an overall increase in the number of errors with the dramatic influx of UI claims since the start of the COVID-19 public health emergency. While it is possible that some improper payments may have been made with the use of the predictive models, there are multiple factors that have caused an increase in improper payments: the unprecedented increase in and overwhelming volume of claims, number of complex claims, new federal benefits programs, policy changes, policy waivers, increased volume of staff needed to process claims, ongoing hiring and training of staff, the use of vendor staff allowed under the waiver of the federal merit-based staffing requirements, and other factors.

Wisconsin's experience is similar to that of other states with rates of improper payments. In fact, Wisconsin ranked better than the national average based on results published by US DOL of the most recent BAM reporting period covering the third quarter of 2020 through the first quarter of 2021. Wisconsin's improper payment rate was estimated to be 15.93 percent, below the national average of 17.47 percent for the same period.

Again, while DWD is confident with the accuracy of the predictive analytics models that it has implemented and that it continues to monitor, DWD will document the process that has been implemented and how to continue to monitor the accuracy going forward.

Anticipated Completion Date: DWD will issue a written procedure documenting its current practice that it employs to monitor the ongoing accuracy of the predictive analytics model used to assess whether a hold can be appropriately removed by January 31, 2022.

Persons responsible for corrective action:

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Finding 2021-003

Rebuttal from the Wisconsin Legislative Audit Bureau:

During the course of our audit fieldwork, we obtained audit evidence to support the conclusions reported in the finding. Within its response to Finding 2021-003, DWD indicated its disagreement with the finding that DWD did not adequately monitor the ongoing accuracy of the predictive analytics model, as noted in the Condition section of the finding. In its response, DWD indicated that it provided documentation to LAB demonstrating in-depth monitoring activities. The documentation DWD provided to us demonstrated that the predictive analytics model was reviewed prior to its use. However, the documentation did not provide evidence of adequate monitoring of the ongoing accuracy of the predictive analytics model, which is the basis for the recommendation that is being made in the finding.

We would also like to clarify a few points made in DWD's response on pages 30 and 31 or corrective action plan on pages 39 through 44.

- DWD reported that retraining the predictive analytics model would result in using more-recent hold resolution data and would likely result in a less accurate model. However, we did not recommend that DWD retrain the predictive analytics model. We recommended that DWD implement monitoring of the ongoing accuracy of the predictive analytics model.
- DWD reported that a sample of a small number of more-recent holds would not likely be more accurate than the tests already performed. Although we did suggest that this could be an approach to assessing the on-going accuracy of the predictive analytics model, we did not recommend this approach.
- DWD reported that its improper payment rate was estimated to be 15.93 percent. Although this rate was reported by DWD to be better than the national average, it is still above the improper payment error rate of 10 percent required by the Payment Integrity Information Act and established as a performance measure by the U.S. Department of Labor.

In its corrective action plan on pages 39 through 44, DWD discussed its current monitoring of the accuracy of the predictive analytics model. However, we were not provided audit evidence to support that DWD performed adequate monitoring of the ongoing accuracy of the predictive analytics model during FY 2020-21, which was the period we audited. As part of our FY 2021-22 audit, we will follow up on DWD's corrective actions and review the documentation of the monitoring DWD indicates is currently in place.

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Tony Evers, Governor
Amy Pechacek, Secretary-designee

Corrective Action Plan – Department of Workforce Development

Finding 2021-004: Access Controls over Unemployment Insurance Program Systems

1. **RECOMMENDATION: COMPLETE FULL IMPLEMENTATION OF ITS CORRECTIVE ACTION PLAN BY MARCH 2022.**

Planned Corrective Action: DWD will fully implement its corrective action plan by March 2022.

- Corrective actions including access reviews, development of procedures, and documentation for four of the seven recommendations have been completed.
- Corrective actions including access reviews, development of procedures, and documentation for the remaining three of seven recommendations are in progress with anticipated completion dates by end of December 2021 and end of March 2022.

Anticipated Completion Date: March 2022

Persons responsible for corrective action:

Name, Title: Lynda Jarstad, Division of Operations Administrator
Division or Unit (If applicable): Administrative Services Division
Email address: lynda.jarstad@dwd.wisconsin.gov

Name, Title: Neeraj Kulkarni, Chief Information Officer/Information Technology Director
Division or Unit (If applicable): Administrative Services Division, Bureau of Information Technology
Email address: neerajv.kulkarni@dwd.wisconsin.gov

2. **RECOMMENDATION: ADDRESS THE SPECIFIC CONCERNS INCLUDED IN THE CONFIDENTIAL COMMUNICATION BY JUNE 2022.**

Planned Corrective Action: DWD will address the specific concerns included in the confidential communication by June 2022.

Anticipated Completion Date: June 2022

Persons responsible for corrective action:

Name, Title: Lynda Jarstad, Division of Operations Administrator
Division: Administrative Services Division
Email address: lynda.jarstad@dwd.wisconsin.gov

Name, Title: Neeraj Kulkarni, Chief Information Officer/Information Technology Director
Division: Administrative Services Division, Bureau of Information Technology
Email address: neerajv.kulkarni@dwd.wisconsin.gov

CC: Pam McGillivray
Lynda Jarsted
Neeraj Kulkarni
Jason Schunk

Response



STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor
Joel Brennan, Secretary

December 20, 2021

Joe Chrisman, State Auditor
Legislative Audit Bureau
22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703

Dear Mr. Chrisman:

I am writing in response to the Fiscal Year 2020-21 financial audit that the Legislative Audit Bureau recently completed and want to extend our appreciation to you and your staff for your diligent work related to this annual audit. I appreciate how staff from both the LAB and the State Budget and Controller's Office were able to complete this project in a collaborative and productive way.

The Department of Administration (DOA) takes very seriously all issues related to information technology across state government and has been taking steps to improve information technology security across the enterprise. Thus, I want to reiterate our concurrence with the LAB recommendations related to Information Technology oversight and monitoring responsibilities as noted in the audit report.

Thank you for acknowledging the work done by the State Controller's Office to assist agencies with implementing solutions to issues that were causing delays in reporting. Agencies submitting their financial information more timely certainly helped the SCO and LAB to more efficiently complete the compilation and audit process.

Further, we will continue to work with state agencies to ensure compliance with policies.

Again, thank you for your timely and important work.

Sincerely,

Joel Brennan, Secretary
Department of Administration