



STATE OF WISCONSIN  
Legislative Audit Bureau

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Janice Mueller  
State Auditor

November 10, 2010

Mr. David Stella, Secretary  
Department of Employee Trust Funds  
801 West Badger Road  
Madison, Wisconsin 53702

Dear Mr. Stella:

We have completed the financial audit of the State of Wisconsin Department of Employee Trust Funds as of and for the year ended December 31, 2009. We have issued an unqualified auditor's report on the fair presentation of the Department's financial statements. The financial statements and related opinion are included in the Department's Comprehensive Annual Financial Report.

As required by *Government Auditing Standards*, we also are furnishing you with the auditor's report on internal control over financial reporting and on compliance and other matters. We identified a continuing concern related to cash reconciliations, but we are pleased to note that the Department has taken steps to improve its controls over employee access to certain computer systems.

The Department's response and corrective action plan to implement recommended improvements are included in the text so that readers may see your intended resolution of the matter discussed. In future audits, the Audit Bureau will determine the extent to which the concern discussed in this letter has been resolved.

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

Sincerely,

Janice Mueller  
State Auditor

JM/DA/ss

Enclosure



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### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements for the funds administered by the State of Wisconsin Department of Employee Trust Funds as of and for the year ended December 31, 2009, and have issued our report thereon dated November 10, 2010. The financial statements and related auditor's opinion have been included in the Department's Comprehensive Annual Financial Report for 2009. 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*, issued by the Comptroller General of the United States.

#### Internal Control over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

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 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 Department's financial statements will not be prevented or will not be detected and corrected on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, we consider a continuing deficiency pertaining to cash reconciliations, which is further discussed in the accompanying narrative, to be a significant deficiency. 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.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Department's written response to the finding identified in our audit is described in the accompanying narrative. We did not audit the Department's response and, accordingly, express no opinion on it.

We noted a certain additional matter pertaining to the reporting of inaccurate accumulated sick-leave conversion credit data to the Department by various state agencies. We reported the errors to management of the Department in a separate letter dated August 6, 2010.

This independent auditor's report is intended solely for the information and use of the Department's management and governing boards, and the Wisconsin Legislature. This report is a matter of public record and its distribution is not limited. However, because we do not express an opinion on the effectiveness of the Department's internal control or on compliance, this report is not intended to be used by anyone other than these specified parties.

LEGISLATIVE AUDIT BUREAU

November 10, 2010

by

  
Diann Allsen  
Audit Director

## DEPARTMENT OF EMPLOYEE TRUST FUNDS

The Department of Employee Trust Funds is responsible for administering the Wisconsin Retirement System and several other programs that provide retirement, disability, health, and other benefits to participants who are current and retired employees of state and local government employers.

As part of our annual financial audits, we review and consider the Department's internal controls and compliance issues for the purpose of determining the audit work necessary to express an opinion on its financial statements. During our audit of the Department's 2009 financial statements, we noted a continuing concern related to cash reconciliations. We also note that the Department has taken steps to improve controls over employee access to certain computer systems.

### Cash Reconciliations

The Department uses WiSMART, the State's official accounting system, to process financial transactions and Helmsman, a financial reporting software package, to create financial statements for its programs. Section 16.41, Wis. Stats., requires all agencies to keep their accounts and other financial records in the form prescribed by the Department of Administration under s. 16.40, Wis. Stats. As a state agency, the Department is responsible for ensuring its information on WiSMART is complete and accurate. An important step in ensuring the accuracy of the financial information on WiSMART is to reconcile it to the Department's internal financial records and systems. Further, regular reconciliations between the systems better ensure that information reported by the Department in its financial reports is complete and accurate.

The Department is not able to fully reconcile its cash balances between the systems. While the Department has been able to successfully reconcile cash balances at a fund level, varying amounts of unreconciled differences exist at a program level, which is the level on which the Department reports and on which we opine on the financial statements in its annual financial report.

While we have, to date, accepted the cash balances reported by the Department in its financial reports as materially correct, larger unreconciled variances could affect our ability to issue unqualified auditor's opinions in the future. Further, as a state agency, the Department has a responsibility to ensure the accuracy of its information on the State's official accounting system and records. Consequently, we have recommended in each of our audits since 2004 that the Department take steps to reconcile the cash balances for each program.

In response to our past audit recommendations, the Department agreed that it would be desirable for the State's official accounting system to have the most accurate balances for the Department's programs. During 2010, the Department was able to successfully reconcile the differences in the programs in Fund 262, which include the Life Insurance, Employee Reimbursement Accounts, Commuter Benefits, and Badger Rx programs. However, the Department continues to investigate the variances in cash balances for programs in Fund 747, which include the Wisconsin Retirement System, Accumulated Sick Leave Conversion Credit, Duty Disability, Health Insurance, Long-Term Disability Insurance, and Income Continuation Insurance programs. The Department anticipates resolving remaining cash differences by the end of 2010.

**☑ Recommendation**

We recommend that the Department of Employee Trust Funds continue its efforts to reconcile the cash balances for each program and take steps to correct any inaccuracies identified in the beginning cash balances on the State's official accounting system or Helmsman through the reconciliation process.

Department Response and Corrective Action Plan: The Department agrees with the recommendation.

**Access to Certain Computer Systems**

In a management letter for our 2007 audit, we recommended that the Department be more diligent in ensuring that necessary access changes to the Wisconsin Employee Benefit System and WiSMART are made in a timely manner. The same concern also existed for 2008 and was reported in the 2008 management letter.

During our 2009 audit, we found that the Department adopted new access control procedures, which are designed to more effectively control computer access. Additionally, these new procedures were placed in operation and appear to be operating effectively at the Department. We did not identify similar instances of excessive access that we identified in our prior audits. The Department should continue to follow its new procedures in order to ensure access is appropriately controlled in future years.

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