

**Report 16-11
December 2016**

Wisconsin Retirement System Reporting for Participating Employers Calendar Year 2015

STATE OF WISCONSIN



Legislative Audit Bureau ■

Wisconsin Retirement System Reporting for Participating Employers Calendar Year 2015

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OPINIONS PUBLISHED SEPARATELY

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



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Legislative Audit Bureau

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Joe Chrisman
State Auditor

December 2, 2016

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

Dear Senator Cowles and Representative Kerkman:

As requested by the Department of Employee Trust Funds (ETF), we have completed an audit of the Schedule of Employer Allocations of the Wisconsin Retirement System (WRS), the Schedule of Pension Amounts by Employer of the WRS, and the related notes to these schedules as of December 31, 2015. These schedules, and our unmodified opinions on them, may be found on ETF's website.

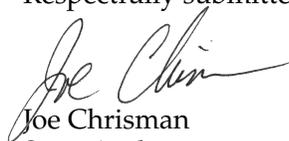
We have also audited the financial statements and related notes of the WRS as of and for the year ended December 31, 2015, and provide our unmodified opinion on them, as detailed in report 16-10, which we also published today. The fiduciary net position of the WRS, which represents resources available to pay pension benefits, decreased from \$92.2 billion as of December 31, 2014, to \$88.5 billion as of December 31, 2015, or by 4.0 percent. This decline is primarily attributable to the decline in net investment income from \$4.9 billion in 2014 to a loss of \$675.0 million in 2015, or by 113.8 percent.

Accounting standards for pension funds, issued by the Governmental Accounting Standards Board, require the calculation of a net pension liability or net pension asset, which is represented by the difference between fiduciary net position reported in the financial statements and the total pension liability calculated by the actuary. ETF calculated a net pension liability for the WRS of \$1.6 billion, as of December 31, 2015. This is a \$4.1 billion decrease from the net pension asset of \$2.5 billion, calculated as of December 31, 2014.

Each of the almost 1,500 participating employers in the WRS is required to report its proportionate share of this net pension liability on its financial statements if prepared in accordance with generally accepted accounting principles. The proportionate share of the net pension liability for all State of Wisconsin agencies was \$456.1 million, or 28.1 percent of the total net pension liability. Of this amount, \$220.8 million related to the University of Wisconsin System. The net pension liability for the state agencies will be reported in the State's Comprehensive Annual Financial Report for the year ended June 30, 2016.

This report was completed later than anticipated due to delays in ETF's financial statement preparation, which was affected by the State's implementation of a new enterprise resource planning (ERP) system. The significant deficiency in DOA's centralized cash reconciliations caused additional delays.

Respectfully submitted,



Joe Chrisman
State Auditor

JC/CS/ss

Auditor's Report ■



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Report 16-11

Joe Chrisman
State Auditor

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

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

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

We have audited the Schedule of Employer Allocations of the Wisconsin Retirement System as of and for the year ended December 31, 2015, and the related notes. We have also audited the total for all entities, referred to as specified column totals for the columns titled Ending Net Pension Liability (Asset), Total Deferred Outflows of Resources, Total Deferred Inflows of Resources, and Total Employer Pension Expense (Income) included in the Schedule of Pension Amounts by Employer of the Wisconsin Retirement System as of and for the year ended December 31, 2015, and the related notes. We have issued our report on these schedules thereon dated December 1, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent misstatements, or to detect and correct misstatements on a timely basis. *A material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the schedules will not be prevented, or that a material misstatement will not be detected and corrected on a timely basis. *A significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe

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

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

Compliance and Other Matters

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

We have also audited, 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, the financial statements and related notes of the Wisconsin Retirement System as of and for the year ended December 31, 2015. We expressed an unmodified opinion, dated December 1, 2016, on those financial statements. In addition, we issued an Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, dated December 1, 2016, and included in report 16-10, related to the audit of the financial statements and reported significant deficiencies in internal control over financial reporting.

Purpose of This Report

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

LEGISLATIVE AUDIT BUREAU



Joe Chrisman
State Auditor

December 1, 2016