



STATE OF WISCONSIN
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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:

Today, we issued two reports related to our annual audit of the Department of Employee Trust Funds (ETF). Report 16-10 relates to the financial statement audit of the Wisconsin Retirement System (WRS) for calendar year 2015, and report 16-11 relates to the audit of the Schedule of Employer Allocations of the WRS and the Schedule of Pension Amounts by Employer of the WRS (employer schedules) for calendar year 2015. ETF is responsible for managing the operations of the WRS, and prepares the financial statements and employer schedules for the WRS.

The 2015 WRS financial statements and the employer schedules, which are critical to financial reporting for employers participating in the WRS, were completed later than originally anticipated. This resulted in delays in financial reporting for many of the almost 1,500 employers participating in the WRS, including school districts, the University of Wisconsin Hospitals and Clinics Authority, the Wisconsin Housing and Economic Development Authority, and the Wisconsin Economic Development Corporation. We are providing additional information on these delays, which relate, in part, to the effects of the State's October 2015 implementation of a new enterprise resource planning system, STAR, on ETF's financial statement preparation. In addition, delays occurred because the State Controller's Office (SCO) in the Department of Administration (DOA) did not perform complete monthly bank reconciliations once STAR was implemented.

Like most state agencies, ETF's business processes were affected by the implementation of STAR, which includes both an accounting and payroll system. When we began our audit, we anticipated that the WRS financial statements and employer schedules would be provided to us by ETF in time for completion of audit work and issuance of the reports in August 2016. However, this original timeline was extended into fall 2016 while ETF staff worked to resolve a variety of issues resulting primarily from the implementation of STAR.

Delays also occurred because SCO did not perform and document complete monthly bank reconciliations that included all components and reconciling items between the accounting records and the State's bank records. SCO is the custodian of the State's cash assets and is responsible for a complex and broad set of responsibilities that include performing a daily cash flow analysis to determine the amount of cash to invest in the State Investment Fund. SCO is also responsible for implementing proper internal controls to ensure cash assets are properly managed

and safeguarded, including reconciling bank and STAR records in a timely manner. However, after implementation of STAR in October 2015, SCO stopped preparing complete monthly reconciliations between the accounting records and the bank records because management believed other processes within STAR were sufficient.

A complete monthly bank reconciliation identifies differences between an entity's accounting records and the bank statement account balance and ultimately provides assurance that both sets of records are correct. A monthly bank reconciliation is important for several reasons. First, a monthly bank reconciliation helps to ensure accurate financial reporting because financial statements are prepared based on the accounting records. Second, regular monthly bank reconciliations are an important control for detecting potential fraud. Third, regular monthly bank reconciliations help identify errors, including data entry errors made by the entity and errors made by the bank. Other state agencies, including ETF, rely on SCO to perform monthly bank reconciliations. In a July 2016 memorandum to the State Controller, we formally communicated concerns regarding the cessation of monthly reconciliations between the accounting records and the bank records. SCO agreed with our concerns and agreed to complete monthly bank reconciliations in a timely manner.

To ensure we had sufficient and appropriate audit evidence to complete our audit of the calendar year 2015 WRS financial statements, SCO needed to prepare complete monthly bank reconciliations through December 2015. In July 2016, SCO began working to prepare the reconciliations for each month from October 2015 through December 2015. We note that:

- for the month of October 2015, SCO provided us with a preliminary bank reconciliation in mid-September 2016;
- for the month of November 2015, SCO provided us with a preliminary bank reconciliation in mid-October 2016; and
- for the month of December 2015, SCO provided us with a preliminary bank reconciliation in late October 2016.

We received final bank reconciliations for each of these three months on November 29, 2016, and issued reports 16-10 and 16-11 on December 2, 2016.

SCO does have controls related to cash processing, including daily reconciliations and processes to determine the amount of cash to invest in the State Investment Fund. In addition, SCO has worked with the State's bank to implement fraud controls. Although these controls provide some assurances over the safeguarding of cash, they do not replace the assurances provided through the preparation of a complete monthly bank reconciliation, which helps to ensure that reconciling items are appropriately considered for financial reporting. For example, if a complete December 2015 bank reconciliation had been prepared in a timely manner, it would have identified a \$90.9 million timing difference between the amount of cash recorded by the bank and the amount of cash included in ETF's records in STAR as of December 31, 2015. Instead, as discussed on page 26 of report 16-10, we identified this as a \$90.9 million error in financial

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Representative Samantha Kerkman, Co-chairpersons
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reporting through other audit testing at ETF, and ETF made the necessary adjustment to its financial statements. We note that SCO's other controls did not identify this error for consideration in financial reporting.

We have determined the lack of complete and timely monthly bank reconciliations to be a significant deficiency in internal controls over financial reporting. This finding will be included in the internal control and compliance report for the audit of the State's fiscal year 2015-16 Comprehensive Annual Financial Report, which DOA indicates will be published in early 2017. In addition, due to the pervasiveness of this deficiency and its effects on state agencies and programs, this deficiency was reported to the users of the 2015 WRS financial statements on page 28 of report 16-10. We will assess the need to report this deficiency in the internal control and compliance report for each state agency and program we audit that relies on SCO's bank reconciliations.

I hope you find this additional information helpful. Please contact me with any questions.

Sincerely,



Joe Chrisman
State Auditor

JC/CS/cb

cc: Scott A. Neitzel, Secretary
Department of Administration

Robert J. Conlin, Secretary
Department of Employee Trust Funds

Jeffery C. Anderson, State Controller
Department of Administration