

**Report 16-13
December 2016**

Retirement Funds Investment Activity Calendar Year 2015

State of Wisconsin Investment Board

STATE OF WISCONSIN



Legislative Audit Bureau ■

Retirement Funds Investment Activity Calendar Year 2015

State of Wisconsin Investment Board

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CONTENTS

Letter of Transmittal	1
------------------------------	----------

Auditor's Report	3
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OPINIONS PUBLISHED SEPARATELY

The financial statements and our opinions on them are included in the
State of Wisconsin Investment Board's *2015 Retirement Funds Annual Report*



STATE OF WISCONSIN
Legislative Audit Bureau

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Joe Chrisman
State Auditor

December 15, 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 required by ss. 13.94 (1) (df) and 25.17 (51), Wis. Stats., we have completed a financial audit of the Core Retirement Investment Trust Fund (Core Fund) and the Variable Retirement Investment Trust Fund (Variable Fund) managed by the State of Wisconsin Investment Board (SWIB) as of and for the year ended December 31, 2015. The Core Fund and Variable Fund invest assets of the Wisconsin Retirement System and together are known as the Retirement Funds. SWIB's financial statements report the investment activity for the Retirement Funds.

The financial statements and our unmodified opinions on them are included in SWIB's *2015 Retirement Funds Annual Report*, which may be found on SWIB's website. The net investment position of the Core Fund decreased from \$88.8 billion as of December 31, 2014, to \$85.4 billion as of December 31, 2015. The net investment position of the Variable Fund decreased from \$7.3 billion as of December 31, 2014, to \$6.7 billion as of December 31, 2015.

Net investment income for the period ending December 31, 2014, totaled \$4.6 billion for the Core Fund and \$0.5 billion for the Variable Fund. For the period ended December 31, 2015, net investment losses totaled \$0.6 billion for the Core Fund and \$0.1 billion for the Variable Fund. The decrease in net investment income reflects the decline in investment returns realized by each fund. The investment return of the Core Fund declined from 5.7 percent in 2014 to -0.4 percent in 2015. The investment return of the Variable Fund declined from 7.3 percent in 2014 to -1.2 percent in 2015.

The Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is required by *Government Auditing Standards*, begins on page 5. We report a significant deficiency in internal control as it pertains to certain central internal control functions at the Department of Administration related to cash that affect the Retirement Funds' financial statements. For additional information on this deficiency, please see a related correspondence from December 2, 2016.

Respectfully submitted,

Joe Chrisman
State Auditor

JC/SH/ss

Auditor's Report ■



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

Mr. Michael Williamson, Executive Director and
Members of the Audit Committee of the Board of Trustees
State of Wisconsin Investment Board

We have audited the financial statements and the related notes of the Core Retirement Investment Trust Fund and the Variable Retirement Investment Trust Fund (Retirement Funds) managed by the State of Wisconsin Investment Board (SWIB) as of and for the year ended December 31, 2015, and have issued our report 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. The financial statements and related auditor's opinions have been included in SWIB's *2015 Retirement Funds Annual Report*.

Internal Control over Financial Reporting

Management of SWIB 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 SWIB's internal control to determine the 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 SWIB's internal control. Accordingly, we do not express an opinion on the effectiveness of SWIB'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 Retirement Funds' 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, 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 below, related to external information available to support cash, that we consider to be a significant deficiency.

Cash Reconciliation at the Department of Administration:

The Department of Administration (DOA) is responsible for performing certain centralized internal control functions related to cash for state agencies. SWIB's Retirement Funds rely on these controls. As part of our separate audit of DOA, we identified a significant deficiency in the centralized controls related to cash. This weakness relates to the lack of a complete and timely reconciliation of cash reported by the bank with cash balances reported in the State's central accounting system, STAR. This control is important to ensure the cash and cash equivalents account balance is accurate and to ensure all receipts and disbursements have been properly recorded. Due to the pervasiveness of the deficiency and its effects on state agencies and programs, this deficiency is reported to the users of the financial statements of the Retirement Funds for the year ended December 31, 2015. We communicated this weakness to DOA, who agreed with the finding. DOA's response will be included in our separate report related to the State's Comprehensive Annual Financial Report. We did not request a response from the management of SWIB since DOA is responsible for corrective action.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Retirement Funds' financial statements 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 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*.

We noted technical matters related to access to Agresso and Markit Enterprise Data Management, which we reported to the management of SWIB in a separate letter dated July 13, 2016.

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 SWIB'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 results of that testing, and not to provide an opinion on the effectiveness of SWIB'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