



## Department of Employee Trust Funds Calendar Year 2015

### Background

The Department of Employee Trust Funds (ETF) is responsible for managing the operations of the 13 separate funds that account for the financial position and activity of [benefit programs](#) available to state and local government employees. These programs include the Wisconsin Retirement System (WRS) and health and life insurance programs for active and retired employees of the State and participating local governments.

To fulfill our statutory requirement, we conducted a financial audit of ETF by auditing its financial statements in accordance with applicable government auditing standards, issuing our auditor's opinion, reviewing internal controls, and making recommendations for improvements.

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 system called STAR.

### Audit Results and Key Findings

We [provided unmodified opinions](#) on the financial statements for the separate funds presented in ETF's [2015 Comprehensive Annual Financial Report](#), which can be found on its website. We provide an unmodified opinion when audit evidence supports the conclusion that the financial statements provide a fair view of an entity's financial activity in accordance with generally accepted accounting principles.

We identified weaknesses in internal controls over financial reporting and with certain centralized cash reconciliations performed by the Department of Administration. We considered these weaknesses to be significant deficiencies in internal control and reported them in the [Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters](#).

We found:

- The WRS fiduciary net position, 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 resulted in the reporting of a net pension liability of \$1.6 billion as of December 31, 2015.
- ETF contracts with third-party administrators to manage several of the benefit programs it administers, but ETF does not use available service organization [audit reports to assess the controls](#) of third-party administrators.
- The [net position of the State Income Continuation Insurance \(ICI\) program](#) declined from a positive \$9.2 million as of December 31, 2006, to a negative \$25.6 million as of December 31, 2015.
- The [Group Insurance Board approved changes to redesign the ICI program](#) based on recommendations of an actuary.

### Audit Recommendations

We [recommend](#) ETF obtain certain audit reports and reviews these reports to assess the effectiveness of third-party administrator controls. In addition, [we recommend](#) ETF closely monitor the financial status of the ICI program, work with the actuary in improving the fund balance of both the State and Local ICI programs, and report to the Joint Legislative Audit Committee by September 30, 2017, on the status of its efforts to address these concerns.