

**Report 18-20
December 2018**

State of Wisconsin FY 2017-18 Financial Statements

STATE OF WISCONSIN



Legislative Audit Bureau ■

**Report 18-20
December 2018**

State of Wisconsin FY 2017-18 Financial Statements

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Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau.

The Bureau accepts confidential tips about fraud, waste, and mismanagement in any Wisconsin state agency or program through its hotline at 1-877-FRAUD-17.

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Response

From the Department of Administration

OPINIONS PUBLISHED SEPARATELY

The financial statements and our opinions on them are included in the State of Wisconsin's CAFR for the fiscal year ended June 30, 2018



STATE OF WISCONSIN | Legislative Audit Bureau

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Joe Chrisman
State Auditor

December 21, 2018

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

Dear Senator Cowles and Representative Kerkman:

We have completed our financial audit of the State of Wisconsin as of and for the fiscal year ended June 30, 2018, and issued unmodified opinions dated December 20, 2018, on the State's financial statements. The financial statements were prepared by the Department of Administration (DOA) in accordance with generally accepted accounting principles (GAAP) and are included in the State's fiscal year (FY) 2017-18 Comprehensive Annual Financial Report (CAFR), which may be found on DOA's website.

The CAFR helps to describe the State's fiscal condition and contains information on over 90 funds. In this report, we discuss the financial condition of the General Fund and Transportation Fund, which are the State's two largest governmental funds; quantify the State's long-term debt; describe changes in the University of Wisconsin System's financial reporting; describe a new accounting standard related to Other Postemployment Benefits; report ten deficiencies in internal control over financial reporting, two of which, when combined, we consider to be a material weakness; and provide information on certain other concerns we identified during the course of our audit.

We appreciate the courtesy and cooperation extended to us by DOA and other state agencies during the audit. During our FY 2018-19 audit, we will follow up on the progress of state agencies in implementing our recommendations.

A response from DOA follows the corrective action plans.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Joe Chrisman".

Joe Chrisman
State Auditor

JC/CS/ss

FY 2017-18 Comprehensive Annual Financial Report (CAFR) ■

The Department of Administration (DOA) prepares the CAFR, which contains financial statements prepared in accordance with generally accepted accounting principles (GAAP). The CAFR helps to describe the State's fiscal condition and contains information on over 90 funds, including the State's General Fund, the Transportation Fund, the University of Wisconsin (UW) System, and the Wisconsin Retirement System. In addition to the financial statements and notes, the CAFR includes the Management's Discussion and Analysis, which describes the State's financial performance for the year, as well as a statistical section, which provides the reader information to assist in understanding the State's economic condition. The statistical section includes information such as financial trends and debt capacity. We have completed a financial audit of the State's CAFR and have provided unmodified opinions on the State's financial statements for the year ended June 30, 2018.

General Fund

As reported on a GAAP basis, the General Fund's fund balance improved from a deficit of \$1.6 billion as of June 30, 2017, to a deficit of \$1.3 billion as of June 30, 2018.

As reported on a GAAP basis, the General Fund's fund balance improved from a deficit of \$1.6 billion as of June 30, 2017, to a deficit of \$1.3 billion as of June 30, 2018, as shown on page 44 of the CAFR. On page 29 of the Management's Discussion and Analysis, DOA noted that total General Fund revenue increased by \$960.7 million and totaled \$26.4 billion for fiscal year (FY) 2017-18. Increases in tax and federal revenue were the primary contributors to the increase in General Fund revenue. Total General Fund expenditures increased by \$602.7 million primarily due to increases in school aids

payments, Medical Assistance costs, and tax relief and other general expenditures and totaled \$24.3 billion for FY 2017-18.

Transportation Fund

On a GAAP basis, the balance of the Transportation Fund increased from \$582.4 million as of June 30, 2017, to \$655.9 million as of June 30, 2018, as shown on page 44 of the CAFR. On page 31 of the Management's Discussion and Analysis, DOA noted that the majority of the Transportation Fund's balance (97.2 percent) was "restricted" by the Wisconsin Constitution to be used for transportation purposes. Primary revenue sources in the Transportation Fund include motor fuel taxes, registration fees, and federal revenues. On page 31 of the Management's Discussion and Analysis, DOA noted that total revenues increased by \$248.4 million to a total of \$2.7 billion, primarily as a result of increases in federal and local revenues. Transportation Fund expenditures increased by \$34.8 million to a total of \$2.5 billion in FY 2017-18.

Long-term Debt

The State's long-term debt increased from \$13.6 billion as of June 30, 2017, to \$13.9 billion as of June 30, 2018.

On a GAAP basis, the State's long-term debt increased from \$13.6 billion as of June 30, 2017, to \$13.9 billion as of June 30, 2018, as shown on page 34 of the Management's Discussion and Analysis. Part of this increase relates to the refunding of \$530.4 million in certain outstanding general obligation bonds and transportation revenue bonds. This debt, although refunded, continues to be reported as a liability on the financial statements because the state continues to remain liable for the original debt. The proceeds from the refunding bonds are reported as restricted cash until the crossover date, which is the call date or maturity date of the original debt.

As shown on page 34 of the Management's Discussion and Analysis, during FY 2017-18, \$1.9 billion in new general obligation bonds and notes were issued, of which \$647.2 million was for UW System academic facilities and \$472.0 million was for transportation projects. The amount of outstanding annual appropriation bonds and revenue bonds decreased by a total of \$94.8 million.

New Accounting Standard for Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued new accounting Statement Number 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, effective for the State in FY 2017-18.

OPEB refers to the benefits, other than pensions, that a state or local government employee may receive after they have left employment, generally upon retirement. The standards changed accounting and financial reporting requirements for measuring the OPEB liability for OPEB plans, as well as requirements for the notes and required supplementary information.

The State reported a liability for eligible retired employees of the State related to two OPEB programs.

The State reported a liability for eligible retired employees of the State related to two OPEB programs, the State Retiree Health Insurance program (report 18-14) and the State Retiree Life Insurance program (report 18-13). An OPEB liability indicates that, at that point in time, the projected liability for benefit payments to employees exceeded the assets of the fund. As shown in the notes to the financial statements on page 132, the State, including its component units, reported a Total OPEB Liability of \$719.3 million for the State Retiree Health Insurance program. In addition, as shown in the notes to the financial statements on page 135, the State, including its component units, reported a net OPEB liability of \$493.5 million for the State Retiree Life Insurance program. We report a finding related to deficiencies in DOA's implementation of GASB Statement Number 75 (Finding 2018-007) in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which begins on page 13.

University of Wisconsin System Financial Statements

2017 Wisconsin Act 59, the 2017-19 Biennial Budget Act, required UW System to hire an external auditor to conduct a financial statement audit of UW System for FY 2017-18 and FY 2018-19. The Legislative Audit Bureau continues to serve as the external auditor of the State of Wisconsin for purposes of auditing the State's CAFR. UW System is a state agency, and its activity is reported in the State's CAFR. Therefore, in accordance with auditing standards, we determined that we would rely on the audit work performed by UW System's external auditor for purposes of rendering our opinion on the State's CAFR. In compliance with s. 13.94 (1) (t), Wis. Stats., the Legislative Audit Bureau is auditing selected aspects of UW System's financial management and financial operations for FY 2017-18. Our report is expected to be released in winter 2019.

UW System changed its financial reporting for library holdings in its financial statements for the period ended June 30, 2018. To reflect depreciation of the holdings, this change in accounting principle resulted in a reduction of the reported amount of library holdings from \$1.1 billion to \$159.2 million as of the beginning of the reporting period, July 1, 2017. The Legislative Audit Bureau first raised questions regarding the State's policy for accounting for library holdings with

UW System financial reporting staff during our FY 2015-16 audit of UW System's financial statements. Beginning in June 2017, we had several discussions with the DOA State Controller's Office prior to the change in UW System's FY 2017-18 financial statements.

Findings Related to Internal Control over Financial Reporting

We identified ten reportable deficiencies in internal control, two of which when combined are considered a material weakness.

We identified internal control deficiencies during our audit that are required to be reported under *Government Auditing Standards*. Specifically, we identified ten reportable deficiencies in internal control, two of which, when combined, we consider to be a material weakness in internal control, and eight which we consider to be significant deficiencies in internal control. The Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which begins on page 13, discusses each concern and includes the responses from management of the responsible agency. The corrective action plans from management begin on page 37.

We identified two concerns related to reporting of infrastructure capital assets and other nondepreciable capital assets by the Department of Transportation (DOT). We consider these findings, when combined, to be a material weakness in internal control over financial reporting at DOT. First, DOT did not consider all relevant GASB standards when it made changes to its capitalization criteria for FY 2017-18. As a result, DOT reported a prior-period adjustment when such adjustments are to be reported only prospectively (Finding 2018-008). Second, DOT made errors in determining the amounts to report for infrastructure capital assets and other nondepreciable capital assets (Finding 2018-009). We include recommendations for DOT to address these concerns. We note that we previously identified a significant deficiency in financial reporting at DOT, as discussed in report 18-3.

We recommend DOA report to the Joint Legislative Audit Committee on its plans and timelines to address continuing concerns with IT security over the operations of the State's data centers.

We continued to identify weaknesses in DOA's information technology (IT) security over the operations of the State's data centers (Findings 2018-003 and 2018-004), including its development of executive branch agency policies and standards. We report these concerns as significant deficiencies in internal control. Given that we first reported these concerns in FY 2014-15, it is reasonable to expect that DOA would have made more progress to address these continuing findings. Therefore, we recommend DOA report to the Joint Legislative Audit Committee on its plans and timelines to address these concerns. We note that subsequent to the end of the audit period, in October 2018, executive branch agency IT policies and standards were approved by the Information Technology Executive Steering Committee, which was established to address statewide IT issues, including the creation of enterprise IT policies. We

have discussed with the State Chief Information Officer the importance of communicating to the agencies their responsibilities for implementing these new policies and standards.

Although DOA has made progress in addressing prior-year concerns, we continued to identify concerns with security administration over STAR.

We found DOA continued to make progress in addressing concerns related to security over STAR, the State's enterprise resource planning system, which includes the accounting, payroll, and purchasing systems for the State. Since implementation of STAR in October 2015, DOA has implemented security policies and procedures, and has taken steps to reduce some of the inappropriate or excessive access we identified. However, although DOA has made progress in addressing prior-year concerns, we continued to identify concerns with security administration over STAR, and we report a significant deficiency in internal control (Finding 2018-005).

We also identified a new concern related to IT security over the Wisconsin Employee Benefit System at the Department of Employee Trust Funds (ETF) and report a significant deficiency in internal control (Finding 2018-006). Because ETF's financial activity is also reported separately from the State's CAFR, Finding 2018-006 was also included in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters for ETF's financial statements (report 18-10). The Wisconsin Employee Benefit System, along with several other computer systems used by ETF in administering benefits, was anticipated to be replaced by the new Benefits Administration System. As was reported to the Legislature's Joint Committee on Finance in a memorandum dated June 30, 2018, the vendor hired by ETF to develop its new Benefits Administration System stopped providing services in March 2018. ETF has a contract with the vendor for the development of the new system for \$27.1 million. The status of the new system and its implementation as of December 2018 is unclear. The information systems that were scheduled to be replaced with this new system continue to age and present risks for ETF to manage. ETF will need to continue to maintain these older systems to ensure effective administration of the benefits.

Other significant deficiencies in internal control over financial reporting were identified at the Department of Health Services (DHS) (Finding 2018-001), the Office of the Commissioner of Insurance (OCI) (Finding 2018-002), and DOA (Finding 2018-007 and Finding 2018-010). We include recommendations for DHS, OCI, and DOA to address their respective control deficiencies. We note that we had previously identified significant deficiencies in financial reporting at OCI, as discussed in report 17-4, and at DOA, as discussed in report 18-3.

Other Concerns

During our audit work, we identified other concerns that did not meet requirements for reporting under *Government Auditing Standards*. These are concerns that have been discussed with agency management and for which we made recommendations for improvement.

Delays in Receiving Federal Reimbursement at the Department of Health Services

DHS was delayed by up to ten months in receiving \$213.9 million in federal reimbursement for Children's Health Insurance Program expenditures from October 2017 to August 2018.

During our FY 2017-18 audit, we found several deficiencies in DHS's internal control in administering its federal awards, resulting in a significant delay in DHS receiving federal reimbursement. For example, DHS was delayed by up to ten months in receiving \$213.9 million in federal reimbursement for Children's Health Insurance Program (CHIP) expenditures from October 2017 to August 2018. In addition, DHS was delayed up to eight months in receiving \$32.1 million in federal reimbursement for Medical Assistance services provided by school districts. These delays were caused by several circumstances, including incorrectly establishing a federal award in STAR, turnover of DHS staff responsible for administering federal awards, and a lack of monitoring of federal award activity during the year. DHS identified these delays in federal reimbursements as part of its year-end review of accounts prior to the close of the accounting records. Since August 2018, DHS has taken actions to increase its monitoring of the timeliness of receiving federal funds and also plans to implement our recommendations to further improve its internal control.

Monthly Bank Statement Reconciliations at the Department of Administration

As of June 30, 2018, there was an unexplained variance of \$1.2 million between the bank statement and STAR records.

DOA has continued to identify variances with its monthly bank statement reconciliations since we first reported that DOA was not completing monthly bank statement reconciliations during our FY 2015-16 audit. As of June 30, 2018, there was an unexplained variance of \$1.2 million between the bank statement and STAR records. The monthly bank statement reconciliations have had variances each month during FY 2017-18, ranging from a low of \$258,098 for November 2017 to a high of \$1.6 million for July 2017. We have noted improvements in DOA's processes for completing the bank statement reconciliations. Because the variance as of June 30, 2018, was not material for financial reporting in the CAFR, we verbally recommended DOA continue to take steps to address the bank statement reconciliation variances. DOA indicated that it continues to make adjustments to its reconciliation process to resolve the variances.

Use of Proceeds from Sales of Real Property by the Department of Administration

DOA did not deposit the proceeds from the sale of property into the bond security and redemption fund to repay principal and interest on the debt, as required by statutes.

Section 16.848 (4), Wis. Stats., requires that if there is any outstanding debt used to finance the acquisition, construction, or improvement of any property that is sold or leased, DOA is required to deposit a sufficient amount of the net proceeds from the sale or lease of the property into the bond security and redemption fund to repay the principal and pay the interest on the debt. In two instances during FY 2017-18, DOA did not deposit net proceeds from the sale of property into the bond security and redemption fund to repay the principal and pay the interest on the debt for those properties. Instead, for the sale of 13.87 acres of land at the Hill Farms state office building site and 4.35 acres of property at 801 West Badger Road, both in the City of Madison, DOA used the net proceeds, which totaled \$13.1 million, to reduce the amount of debt it incurred when purchasing other real property.

The statutes do not contemplate applying outstanding debt on one property to the purchase of another property upon the sale of the first property. We discussed this noncompliance with DOA staff and recommended DOA ensure compliance with state statutes and determine whether it should seek statutory changes to provide it with greater flexibility in handling real property sales. In its response to our recommendation, DOA agreed to seek such statutory changes.

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Auditor's Report ■



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

Honorable Members of the Legislature The Honorable Scott Walker, Governor

We have audited the financial statements and the related notes of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Wisconsin, which collectively comprise the State's basic financial statements, as of and for the year ended June 30, 2018, and have issued our report thereon dated December 20, 2018.

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 basic financial statements and related auditor's opinions have been included in the State of Wisconsin's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2018.

Our report includes a reference to other auditors who audited the financial statements of the Environmental Improvement Fund, the University of Wisconsin (UW) System Fund, the College Savings Program Trust Fund, the Wisconsin Housing and Economic Development Authority, the UW Hospitals and Clinics Authority, and the UW Foundation, as described in our report on the State of Wisconsin's basic financial statements. The financial statements of the Environmental Improvement Fund, the UW System Fund, the College Savings Program Trust Fund, the Wisconsin Housing and Economic Development Authority, and the UW Hospitals and Clinics Authority were audited in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that were reported on separately by those auditors. Although the financial statements of the UW Foundation were audited in accordance with auditing standards generally accepted in the United States of America, they were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the UW Foundation.

Internal Control over Financial Reporting

Management of the State of Wisconsin 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 the State'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 the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State'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 State's basic 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. However, we identified certain deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.

We consider the deficiencies in internal control, described in the accompanying Findings and Responses Schedule as Findings 2018-008 and 2018-009, when combined, to be a material weakness. We consider the deficiencies in internal control, described in the accompanying Findings and Responses Schedule as Findings 2018-001 through 2018-007, and Finding 2018-010 to be significant deficiencies. Because the Department of Employee Trust Fund's (ETF's) financial activity is also reported separately from the State's CAFR, Finding 2018-006 was also included in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters for ETF's financial statements (report 18-10).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's basic financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

Responses to Findings

Agency-specific responses to the findings identified in our audit are described in the accompanying Findings and Responses Schedule. The corrective action plans begin on page 37. The responses and corrective action plans were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 the State'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 the State's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman
State Auditor

December 20, 2018

FINDINGS AND RESPONSES SCHEDULE

This schedule includes two deficiencies in internal control over financial reporting that, when combined, we consider to be a material weakness in internal control over financial reporting, and eight deficiencies that we consider to be significant deficiencies related to internal control over financial reporting. These deficiencies in internal control over financial reporting are required to be reported by auditing standards generally accepted in the United States of America and *Government Auditing Standards*. Findings 2017-001, 2017-002, 2017-006, and 2017-009 from the prior year (report 18-3) were no longer reportable. Repeat findings from report 18-3 are indicated with an asterisk (*). We did not follow up on the status of Finding 2017-003, as an external auditor completed the audit of the UW System's financial statements for FY 2017-18. Because this finding also affects federal grant administration, we will follow up on the status of this finding as part of our FY 2017-18 single audit work at UW System.

Finding 2018-001: Financial Reporting at the Department of Health Services

Criteria:

The Department of Health Services (DHS) is responsible for ensuring the information that it submits for inclusion in the State's basic financial statements is fairly presented and that misstatements are prevented, or detected and corrected in a timely manner.

Condition:

DHS staff improperly set up the Children's Health Insurance Program (CHIP) grant in STAR, the State's enterprise resource planning system, which includes the accounting, payroll, and purchasing systems for the State. This error resulted in several issues. CHIP expenditure transactions in STAR did not generate the anticipated federal reimbursement draws, which resulted in \$182.4 million, or 75.3 percent, of CHIP expenditures for FY 2017-18 failing to be reimbursed in a timely manner. In addition, DHS staff anticipated that a \$93.0 million transaction entered into STAR would automatically begin the federal reimbursement process for CHIP. Instead the entry resulted in the recording of negative CHIP revenue in STAR.

DHS made corrections in STAR to address these issues, which DHS discovered when it completed its year-end review in August 2018. Because the corrections were made in STAR in FY 2018-19, they were attributed to that year rather than to FY 2017-18. After we brought this error to DHS's attention, it subsequently made an adjustment to the information submitted for the State's basic financial statements.

Questioned Costs:

None.

Context:

DHS administers several federal programs including CHIP, which are accounted for in the State's General Fund. DHS is responsible for ensuring that the information it records within STAR and subsequent adjustments it identifies are needed, accurate, and complete. The information reflects the financial activity of all programs DHS administers, which is presented in the State's basic financial statements.

Effect:

Because CHIP corrections in STAR were not attributed to the correct fiscal year and DHS did not reflect them in their original submission for the State's basic financial statements, the Intergovernmental Revenue account was understated by \$275.4 million on the Statement of Revenues, Expenditures, and Changes in Fund Balance. In addition, the Due from Other Governments account and Fund Balance were both understated by \$275.4 million on the Balance Sheet.

Cause:

Those DHS staff who were aware of the CHIP corrections in STAR did not communicate them to the DHS staff who were responsible for preparing financial reporting information. If these staff would have been informed of these corrections, they may have adjusted the information that was submitted for the State's basic financial statements.

Further, because the error in the setup of the CHIP grant in STAR was not a typical error, DHS's current process to prepare financial information does not consider whether revenues recorded in the subsequent fiscal year should be recognized in the current fiscal year for purposes of financial reporting.

 Recommendation

We recommend the Wisconsin Department of Health Services ensure that staff responsible for preparing financial information for the State's basic financial statements are made aware of corrections that are made during the year-end review and change its financial reporting process to include an assessment of whether entries recorded in the subsequent fiscal year should instead be recognized in the current fiscal year.

Response from the Wisconsin Department of Health Services: The Department of Health Services agrees with the audit finding and recommendation.

Finding 2018-002: Financial Reporting Process for the Injured Patients and Families Compensation Fund

Criteria:

The Injured Patients and Families Compensation Fund (IPFCF), which is administered by the Office of the Commissioner of Insurance, insures participating physicians and other health care providers in Wisconsin against medical malpractice claims that exceed the primary insurance thresholds established by statutes. IPFCF is a proprietary fund, and IPFCF staff are responsible for preparing and submitting financial statements and required supplementary information to the Department of Administration (DOA) State Controller's Office (SCO) for inclusion in the State's basic financial statements. IPFCF is responsible for maintaining effective internal controls to ensure the financial information submitted to SCO is fairly presented and that misstatements are prevented, or detected and corrected in a timely manner.

Condition:

IPFCF's process for preparing and reviewing financial information was not sufficient to prevent, or detect and correct in a timely manner certain substantive misstatements.

Questioned Costs:

None.

Context:

We reviewed the fiscal year (FY) 2017-18 financial statements and required supplementary information submitted to SCO for inclusion in the State's basic financial statements, discussed the process used in compiling the information with IPFCF staff, and examined supporting documentation.

Effect:

Through our review, we identified the following misstatements:

- Current Investments was understated and Noncurrent Investments was overstated by \$16.9 million on the Statement of Net Position.
- Net Change in Unrealized Gains and Losses on the Statement of Cash Flows was overstated by \$9.7 million.
- Total liability for future benefit and loss liabilities was understated by \$9.4 million in the Management's Discussion and Analysis information.

IPFCF staff corrected the misstatements we identified and submitted revised information to SCO.

Cause:

IPFCF's procedures for reviewing the financial statements and required supplementary information were not sufficient to prevent, or detect and correct in a timely manner certain substantive misstatements. Although IPFCF staff indicated that they used SCO-provided checklists and an internally developed checklist in preparing and reviewing this information, these resources did not include all steps needed to prevent the misstatements that we identified.

 Recommendation

We recommend the Wisconsin Office of the Commissioner of Insurance, Injured Patients and Families Compensation Fund, improve its process for preparing and reviewing the financial statements and required supplementary information, such as by identifying and specifying further analyses to assess reasonableness, as well as incorporating additional reviews to identify readily apparent misstatements.

Response from the Wisconsin Office of the Commissioner of Insurance: The Office of the Commissioner of Insurance recognizes, and agrees, with the interim findings.

Finding 2018-003: Department of Administration Division of Enterprise Technology Security Concerns**Criteria:*

Section 16.97, Wis. Stats., specifies the Department of Administration's responsibilities for the State's information technology (IT) services, including DOA's responsibility to ensure that all state data processing facilities develop proper privacy and security procedures and safeguards. As a part of DOA, the Division of Enterprise Technology (DET) provides a variety of services to state agencies, including managing the mainframe for all agencies; managing servers for DOA and other executive branch agencies; and maintaining DOA-related systems. In addition, DET performs programming and security functions, including maintaining the infrastructure for STAR.

Because the mainframe and servers contain financial data and confidential information, it is important that DET manage and maintain a secure environment. Managing a secure environment involves developing, approving, and following appropriate policies, standards, and procedures.

As defined by DET, IT policies are formal, brief, high-level statements or plans that reflect an agency's general beliefs, goals, rules, and objectives for a specific subject area. Standards are mandatory actions or rules designed to support policies. Procedures are a documented series of steps that align with policies and standards. Well-written policies, standards, and procedures provide staff with a consistent methodology for performing their job functions.

DET uses the federal National Institute of Standards and Technology's (NIST) framework as a guide to develop policies, standards, and procedures. Because of the diverse requirements of the agencies supported, DET's policies, standards, and procedures must comply with Wisconsin statutes, as well as requirements of other laws and standards, such as the Internal Revenue Service (IRS) laws, Criminal Justice Information Services (CJIS) standard, Health Insurance Portability and Accountability Act (HIPAA), Payment Card Industry Data Security Standard (PCI DSS), and Family Educational Rights and Privacy Act (FERPA).

It is also important that DET establish settings that enforce its policies, standards, and procedures. Settings are technical configurations that enforce controls for a computer or group of computers. For instance, password settings can enforce password length, which is prescribed by DET's policies and standards. Implementation of settings enforces the controls that are in place and, therefore, ensures that approved standards are being followed.

Condition:

We first reported concerns regarding a lack of policies, standards, and procedures over the operations of DET's data center during the FY 2014-15 audit. In that fiscal year and each subsequent fiscal year, we made recommendations to DET to develop policies, standards, and procedures and address specific concerns we identified with IT practices and settings (Finding 2017-004).

Although DET has taken steps to address some of the recommendations we made since the FY 2014-15 audit, corrective actions have not been fully implemented and, therefore, weaknesses continue to exist in IT security over the operations of DET's data centers.

For example:

- DET has not completed development of written procedures for all areas and noted in its FY 2016-17 corrective action plan that implementation would be ongoing through February 2020, which is more than four years after we first made our recommendation.
- DET has not completed development of an ongoing process to review settings and practices to ensure compliance with policies, standards, and procedures. It indicated this process would not begin until February 2019, which is more than three years since we first made our recommendation.
- Finally, DET indicated it completed its assessment of the risks related to concerns we identified in prior audits. However, it did not have documentation of these assessments.

It is reasonable to expect that more progress would have been made by June 30, 2018, to address these continuing concerns.

Questioned Costs:

None.

Context:

We reviewed the policies and standards developed by DET; interviewed the DOA Chief Information Officer, the DOA Deputy Administrator of Enterprise Operations, the DOA Chief Information Security Officer, and other DOA staff to gain an understanding of DET's efforts to implement its FY 2016-17 corrective action plan; and tested security settings and practices.

Most state agencies use computer systems that are located on the mainframe or on servers maintained in the DET data centers and that are relied on to complete critical functions, including processing checks, accounting for cash receipts, preparing financial statements, and administering federal grant programs.

Effect:

Procedures and settings that do not align with approved policies and standards weaken the level of security provided by DET. Failure to properly manage and maintain a secure environment at the DET data centers could result in inappropriate access, which could result in the issuance of erroneous or fraudulent checks or inappropriate viewing of confidential data.

Further, because DET hosts and supports a significant and growing number of executive branch agencies and systems at its data centers, risks at the data centers can affect the computing resources and data of a significant number of state agencies. For example, if a data center or the state network becomes compromised, there is an increased risk that harm could come to any of the systems or data of the agencies that use the data center or network.

Cause:

After recommendations from the FY 2014-15 audit, DET staff began developing policies and standards that would be used by DET and all executive branch agencies. However, delays

occurred as DET had difficulty in obtaining consensus from the agencies. Subsequently, DET focused solely on the development of the policies, standards, and procedures for DET. DET staff indicated that the competing demands of day-to-day operations and the development of written procedures for each security area have slowed progress in addressing our recommendations. Although DET has initiated projects in response to some of the security concerns we identified on prior audits, DET has not proactively completed a documented risk assessment to identify additional areas of concern. Such an assessment would assist DET in setting appropriate priorities based on risk.

☑ Recommendation

We recommend the Wisconsin Department of Administration Division of Enterprise Technology:

- *complete written procedures for all areas;*
- *review all settings and practices to ensure they align with policies, standards, and procedures;*
- *complete projects initiated in response to security concerns we identified;*
- *develop, document, and implement a proactive process to identify, assess, and address risks; and*
- *report to the Joint Legislative Audit Committee by March 29, 2019, on its plans and timelines to address these ongoing concerns.*

Response from the Wisconsin Department of Administration: The Department agrees this finding and the associated recommendations. DOA has completed many items identified in the previous audits including the creation and approval of policies and standards. DOA will continue to execute the plans identified in the previous Corrective Action Plan updates, as well as the provided Corrective Action Plan for this finding.

Finding 2018-004: Executive Branch Agency Information Technology Policies and Standards*

Criteria:

Wisconsin Statutes give the Department of Administration responsibility for the State's IT services. For example, s. 16.971 (2), Wis. Stats., specifies DOA shall:

- *in cooperation with executive branch agencies, establish policies, procedures, and planning processes for the administration of IT services, which executive branch agencies must follow;*
- *ensure the policies, procedures, and processes address the needs of agencies, other than the Board of Regents of the University of Wisconsin System, to carry out their functions; and*
- *monitor adherence to these policies, procedures, and processes.*

Further, s. 16.971 (2), Wis. Stats., requires DOA to provide oversight and monitoring of state agency IT operations, including the responsibility for ensuring:

- management reviews of IT organizations are conducted;
- all executive branch agencies develop and operate with clear guidelines and standards in the areas of IT systems development and employ good management practices and cost-benefit justifications; and
- all state data-processing facilities develop proper privacy and security procedures and safeguards.

Finally, Executive Order 99, which was issued on April 26, 2013, established the Information Technology Executive Steering Committee (ITESC) with the purpose of aligning enterprise IT deployment with statewide business goals. One of ITESC's stated goals is to create and maintain enterprise IT policies.

NIST is a federal organization that is responsible for establishing standards, which DOA indicated would be used for developing the executive branch agency policies and standards. NIST *Publication 800-53r4* was developed by NIST to "fulfill their statutory responsibilities under the Federal Information Security Management Act (FISMA) to develop information security standards and guidelines, including minimum requirements for federal information systems" and provides information and guidance for all areas that should be considered for maintaining a secure IT environment. For example, NIST recommends organizations regularly perform vulnerability scanning to identify vulnerabilities and to remediate and minimize the opportunity for attacks to the organization's networks and systems. In addition, NIST recommends organizations conduct regular external and internal penetration tests to identify vulnerabilities and areas that may be used to exploit the organization's networks and systems.

Condition:

We first reported concerns regarding the lack of executive branch agency IT policies and standards during our FY 2015-16 audit. During our FY 2016-17 audit, we recommended that DOA review and revise its plans and timelines for the implementation of executive branch agency policies and standards; develop and implement plans to conduct vulnerability assessments and penetration testing; and complete a comprehensive risk assessment of all executive branch agency IT operations by December 31, 2018 (Finding 2017-005).

DOA agreed with the recommendations and developed a corrective action plan dated December 22, 2017. In its corrective action plan, DOA indicated it would:

- review and revise its plans and timelines for the establishment, approval, and implementation of these policies and standards, including meeting with the ITESC by April 30, 2018;
- develop a plan for implementing vulnerability assessments across all devices and networks within the DET data centers by April 30, 2018;

- develop a plan for penetration testing across all devices and networks within the DET Data Center by July 31, 2018, and begin implementation of penetration testing after the plan has been developed; and
- develop a plan and timeline by December 31, 2018, to identify executive branch agency systems and data, implement plans to complete vulnerability assessments beginning on December 31, 2018, and implement plans to complete penetration testing as part of a comprehensive risk assessment across all executive branch agencies after completion of the vulnerability assessments.

During FY 2017-18, DOA took steps to address some of our recommendations. For example, DOA met with ITESC on April 30, 2018, to discuss the status of the development and implementation of the executive branch agency policies and standards and to make revisions to the plans and timelines for completing the development and approval of the policies and standards. Subsequent to the audit period, in October 2018, all executive branch agency policies and standards were approved. In addition, DOA purchased a tool to be used for patch vulnerability assessments for all DET managed servers. However, DET's timeline for completing implementation of the assessments is December 2018.

We are concerned that DOA did not take the other steps outlined in its corrective action plan. For example, DOA delayed the development and implementation of detailed plans and timelines for vulnerability assessments and penetration testing. In its corrective action plan, DOA indicated it would develop a plan for penetration testing across all devices and networks within the DET data centers and begin implementation of the penetration testing by July 31, 2018. However, according to an updated status on the recommendations as of July 1, 2018, DOA has delayed initiation of penetration testing until July 31, 2019. DOA also has delayed completion of a comprehensive risk assessment across all executive branch agencies. In its corrective action plan, DOA indicated this risk assessment would be completed by December 31, 2018. However, according to an updated status on the recommendations as of July 1, 2018, DOA has delayed completion of this risk assessment until December 31, 2019.

By not completing all corrective action steps identified in its December 2017 corrective action plan and by delaying other steps, DOA continues to lack comprehensive information regarding the systems and data within the State's network and does not have reasonable certainty that the State's network is secured. Therefore, DOA may not be aware of vulnerabilities that could affect the State's network or the steps executive branch agencies are taking to reduce risks.

Questioned Costs:

None.

Context:

We interviewed the DOA Chief Information Officer, the DOA Deputy Administrator of Enterprise Operations, the DOA Chief Information Security Officer, and other DOA staff to gain an understanding of the steps that have been taken to develop executive branch agency IT policies and standards and monitoring and oversight of executive branch agency IT operations.

State agencies use computer systems that DOA is responsible for ensuring are properly secured and are relied on to complete critical functions, including processing checks, accounting for cash receipts, preparing financial statements, and administering federal grant programs.

Effect:

Because policies and standards were not implemented until October 2018, a lack of policies and standards existed throughout the audit period. A lack of policies and standards that apply to all executive branch agencies can lead to weaknesses in the State's network. Because there are interconnections across agencies in the State's network, weaknesses at one agency can affect security for other agencies.

Additionally, failure to monitor executive branch agencies' environments and practices can also lead to vulnerabilities in the State's network, known or unknown, because there is no assurance that all systems are meeting a minimum level of security for the State's IT environment, as determined by the policies and standards, or an acceptance of additional risk by appropriate personnel for the state. Weaknesses in the security of the network can lead to inappropriate access to confidential or sensitive data, unauthorized changes to the data within the system, or a failure of the system.

Cause:

DOA prioritized the development of the executive branch agency policies and standards as a prerequisite to completing vulnerability assessments and conducting penetration testing. Additionally, DOA used the DET policies and standards, which were not completed until March 2018, as a template for the executive branch agency policies and standards, which resulted in DOA further delaying completion of steps to address the other recommendations. Finally, DOA indicated staff vacancies and competing projects influenced its ability to prioritize the development and completion of penetration testing, vulnerability assessments, and a comprehensive risk assessment. We note that the Bureau of Security, which is responsible for leading the work in this area, had five vacancies during FY 2017-18.

Recommendation

We recommend the Wisconsin Department of Administration:

- *develop and implement a proactive process to identify, assess, and address risks for the parts of the State's information technology environment that it is statutorily responsible for, including:*
 - *prioritizing its plans and timelines to complete vulnerability assessments and penetration testing across all state devices and networks within the Division of Enterprise Technology data centers as well as*
 - *completing a comprehensive risk assessment across all executive branch agencies; and*
- *report to the Joint Legislative Audit Committee by March 29, 2019, on its plans and timelines to address these concerns.*

Response from the Wisconsin Department of Administration: The Department agrees with this finding and the associated recommendations. DOA has completed many items identified in the previous audits including the creation and approval of executive branch policies and standards by the ITESC. DOA will continue to execute the plans identified in the previous Corrective Action Plan updates, as well as the provided Correction Action Plan for this finding.

Finding 2018-005: STAR Security Concerns*

Criteria:

The Department of Administration is responsible for the maintenance of STAR. To provide proper internal control, information technology security policies and procedures are necessary to ensure data stored and processed in STAR are protected from accidental or intentional misuse or destruction. IT controls should be established to prevent inappropriate or inadvertent access to STAR and its related databases and to provide staff with a consistent methodology for performing their job functions. Finally, NIST *Special Publication 800-53r4* discusses the importance of creating policies and procedures, ensuring proper separation of duties, and maintaining a standard for access that seeks to provide a user with least privilege, which requires that only the minimum necessary rights are assigned to complete a task.

Condition:

DOA continues to make progress in addressing concerns related to STAR security. During our FY 2015-16 and FY 2016-17 audits of STAR, we identified weaknesses in policies, standards, and procedures related to security, as well as areas of inappropriate or excessive access to STAR. In response to recommendations from our FY 2015-16 and FY 2016-17 audits, the STAR Program Office adopted the security administration policies developed by the DOA Division of Enterprise Technology in the *DET IT Security Policy Handbook*, which are based on the NIST security framework. In addition, DOA developed security procedures in the *STAR Security Administration Handbook*, which was implemented in June 2017. Finally, DOA took steps to reduce some of the excessive or inappropriate access identified during our prior audits.

During our FY 2017-18 audit, we completed testing of security related to STAR Finance, STAR Procurement, STAR Human Capital Management (HCM), and the underlying databases; we reviewed and tested access related to the change management process; and we followed up on the progress DOA has made to address recommendations from our FY 2016-17 audit (Finding 2017-007). We found DOA continues to take steps to address the recommendations. For example, in February 2018, DOA implemented an annual user attestation procedure to review user access to STAR. In addition, we noted DOA took steps to further reduce some of the excessive or inappropriate access identified during prior audits and to implement new procedures in certain areas. However, some of the steps taken by DOA were later in the audit period or subsequent to the end of the audit period and, in other areas, we continued to identify access concerns and a lack of procedures. We determined that the detailed results of our review were too sensitive to communicate publicly. Therefore, we communicated the results in confidential interim memoranda to the DOA State Controller's Office and the STAR Program Office.

Questioned Costs:

None.

Context:

We completed testing of security administration over the STAR Finance, STAR Procurement, and STAR HCM applications and the related databases. We interviewed staff in the STAR Program Office, the DOA State Controller's Office, and the DOA Division of Personnel Management to gain an understanding of the security administration policies and procedures, and the steps taken to address our prior-year recommendations. In addition, we performed queries to test access to accounts and roles in STAR, and we requested documentation to test in other areas of security administration.

STAR functions include processing vendor payments, accounting for cash receipts, tracking and maintaining employee information, tracking employee time, and processing payroll. STAR is used by the State Controller's Office and most state agencies to report financial information, monitor budgets, administer federal grants, process payroll, process transactions, and manage assets.

Effect:

Although it can be difficult to determine how IT concerns such as those we identified affect the financial statements and material federal compliance areas, ineffective general IT controls in areas such as these may permit controls over individual systems to operate improperly and may allow financial statement misstatements and noncompliance to occur and not be detected.

Weaknesses in IT security controls increase the risk that unauthorized or erroneous transactions could be processed or changes could be made to accounting, payroll, and other data. In addition, failure to provide an appropriate level of protection for systems and data increases the risk that personally identifiable information could be accidentally or maliciously exposed.

Cause:

DOA continues to develop its procedures and controls over the STAR environment, and to learn about the complexities and intricacies of security in this environment. Because some procedures were not implemented until late in the audit period, or after the end of the audit period, risks continued to exist.

 Recommendation

We recommend the Wisconsin Department of Administration:

- *review and update its annual user attestation procedure by January 31, 2019, to ensure a comprehensive review of access to STAR is performed for the next review, adjust access as necessary as a result of the review, and maintain documentation of all access reviews;*
- *by June 30, 2019, complete a review of security practices and settings for STAR, document procedures and ensure controls over the applications conform to the policies in the Division of Enterprise Technology IT Security Policy Handbook, and document justifications for any exceptions to the established policies; and*
- *by June 30, 2019, take corrective actions related to the specific recommendations in the confidential interim memoranda provided during the audit.*

Response from the Wisconsin Department of Administration: The Department of Administration agrees with the recommendations.

Finding 2018-006: Wisconsin Employee Benefit System Security

Criteria:

The Wisconsin Employee Benefit System (WEBS) is a DB2 system implemented by the Department of Employee Trust Funds in 1992 to administer Wisconsin Retirement System (WRS) data and serve as a central repository for benefit data for programs administered by the Department of Employee Trust Funds. WEBS is maintained on the Department of Administration Division of Enterprise Technology mainframe. To access WEBS, users require access to both the mainframe and to WEBS. WEBS contains information for all WRS participants, including sensitive information such as social security numbers, birthdates, earnings, and beneficiary information for state and local government employees. Due to the sensitive nature of this information WEBS access should be appropriately limited.

To ensure access remains appropriate, the ETF Bureau of Information Technology Services (BITS) completes an annual review of access to WEBS. As part of this review, BITS sends a listing of WEBS access to supervisors in each division, requests the supervisors review the access for appropriateness, and notify BITS of any needed changes to user's access. BITS is responsible for updating the WEBS access based on the information provided by the division supervisors.

Condition:

We reviewed the process BITS performed to conduct the annual WEBS access review. We reviewed all responses BITS received from the division supervisors, and we identified access changes were requested by supervisors for 25 users. We found that BITS did not make the requested access changes for 21 of the 25 users. Further, one of the users who continued to have access was no longer employed at ETF. We did identify that this user's access to the mainframe had been revoked. Therefore, the user would not have been able to access the WEBS system.

Questioned Costs:

None.

Context:

In performing our testing, we requested the emails sent by BITS to division supervisors, the responses from supervisors, and current WEBS access listings. Our review focused on supervisor responses and whether BITS made the access changes requested by supervisors.

Effect:

Inappropriate access to WEBS increases the risk that personal and confidential state and local employee information could be inappropriately changed or compromised. For example, access was not removed for one user who had the ability to change a beneficiary.

Cause:

BITS did not track the WEBS access review responses to ensure the access was removed as requested.

Recommendation

We recommend the Wisconsin Department of Employee Trust Funds review its procedures for tracking the responses from supervisors for WEBS access changes and update as necessary to ensure that access changes are made as requested

Response from the Wisconsin Department of Employee Trust Funds: The Department of Employee Trust Funds agrees with the recommendation.

Finding 2018-007: Financial Reporting Concerns—Other Postemployment Benefits Note Disclosures

Criteria:

The Department of Administration State Controller's Office is responsible for preparing the State of Wisconsin's CAFR. This responsibility includes ensuring new accounting standards, issued by the GASB, are implemented as they become effective. For FY 2017-18, GASB Statement Number 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* became effective. This GASB standard changed accounting and financial reporting requirements for measuring the other postemployment benefit (OPEB) liability for OPEB plans, as well as requirements for both the notes and required supplementary information for the employers that participate in OPEB plans. OPEB refers to the benefits, other than pensions, that a state or local government employee may receive after they have left employment, generally upon retirement. An OPEB plan can include medical, prescription drug, dental, vision, and other health-related benefits, whether provided separately or through a pension plan, as well as death benefits, life insurance, and long-term care coverage, when provided separately from a pension plan. GASB's overall goal with the issuance of new OPEB accounting standards was to improve the usefulness of OPEB information for making financial decisions and assessing accountability.

Condition:

The State, including the University of Wisconsin System and state authorities reported as component units of the State, participate in two OPEB programs: the State Retiree Health Insurance program and the State Retiree Life Insurance program. In our audit of the State's CAFR, we reviewed the note disclosures prepared by SCO and considered the requirements of GASB Statement Number 75 that would apply to each of the programs. SCO did not initially include numerous note disclosures required by GASB Statement Number 75. For example, SCO did not include:

- amounts for each of the State's component units that detailed each component's share of the net OPEB liability, OPEB expense, and deferred inflows and outflows related to the State Retiree Life Insurance program; for example, SCO did not report that the component units share of the \$493.5 million net OPEB liability for the State Retiree Life Insurance program was \$45.5 million;

- a Schedule of Changes in the net OPEB liability, which details the specific changes to the total OPEB liability and the plan assets over the past year, for the State Retiree Life Insurance program;
- the dates of the experience study that was used in developing the assumptions used in calculating the liability for the State Retiree Health Insurance program and the State Retiree Life Insurance program; and
- changes in assumptions used in calculating the total OPEB liability for the State Retiree Life Insurance program.

In addition, SCO did not include required supplementary information that is required by GASB Statement Number 75 for either the State Retiree Health Insurance program or the State Retiree Life Insurance program. After our inquiry, SCO updated the information to meet the requirements of GASB Statement Number 75 for both OPEB programs.

Questioned Costs:

None.

Context:

In conducting our audit of the State's CAFR, we reviewed the accounting standards issued by GASB and assessed whether these standards were properly considered when preparing the financial statements and required note disclosures.

Effect:

Without the disclosures required by GASB, users of the financial statements may not be fully informed about relevant information pertaining to the OPEBs that the State provides to its employees upon retirement.

Cause:

SCO did not properly consider the requirements of GASB Statement Number 75 in preparing the note disclosures for the State's CAFR.

Recommendation

We recommend the Wisconsin Department of Administration ensure GASB standards are fully considered and the requirements of the standards are being met when preparing the State's financial statements, required note disclosures, and required supplementary information.

Response from the Wisconsin Department of Administration: The Department of Administration agrees with the recommendation.

Finding 2018-008: Financial Reporting for Changes to Infrastructure-related Capital Assets at the Department of Transportation*Criteria:*

Generally accepted accounting principles (GAAP) require capital assets of governmental funds to be reported in the government-wide Statement of Net Position. This statement includes those capital assets for which the Department of Transportation (DOT) is responsible, including infrastructure capital assets and other nondepreciable capital assets. DOT has established capitalization criteria that is used to determine which construction projects should be capitalized as well as when a construction project is considered to be complete for financial reporting purposes. Construction projects that will be capitalized are reported as other nondepreciable capital assets until considered complete, at which time they are reported as infrastructure capital assets. For FY 2017-18, DOT changed its capitalization criteria.

GAAP also establishes standards for changes that affect financial reporting. Specifically, GASB Statement Number 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, defines accounting changes due to a change in accounting principle or a change in accounting estimate and also defines a correction of an error. GASB Statement 62 further prescribes the financial reporting and other disclosure requirements for each type of accounting change and for a correction of an error.

Condition:

DOT did not fully consider relevant GASB requirements for financial reporting of its change to the capitalization criteria. Specifically, DOT did not assess whether the change should be classified as a change in accounting principle, change in accounting estimate, or correction of an error in accordance with GASB Statement 62. At our request, DOT completed an assessment of the relevant GASB Statement 62 requirements and, as a result of that assessment, it modified its reporting of infrastructure capital assets and other nondepreciable capital assets.

Questioned Costs:

None.

Context:

DOT submits financial information to the Department of Administration State Controller's Office, which is responsible for preparing the State's CAFR. Infrastructure capital assets and other nondepreciable capital assets are separately reported on the Statement of Net Position and within the related note disclosures in the CAFR. Infrastructure capital assets and other nondepreciable capital assets reported by DOT account for 100.0 percent and 62.1 percent, respectively, of the total for each type of asset.

We evaluated the change made by DOT to its capitalization criteria and assessed the reporting of the change against GASB standards. We could not initially assess the appropriateness of how DOT reported the change in its capitalization criteria because DOT did not initially provide a comprehensive summary of its rationale for the change in capitalization criteria; had not fully assessed the related reporting requirements in GASB Statement 62; and provided us infrastructure-related information that contained substantive errors (see Finding 2018-009). In response to our request, DOT assessed the relevant GASB Statement 62 requirements and

prepared a written summary of both the change in capitalization criteria, including DOT's rationale, and an assessment of the how the changes would be reported in accordance with the requirements of GASB Statement 62.

Effect:

DOT initially reported prior-period adjustments to the beginning balances that decreased infrastructure capital assets and increased other nondepreciable capital assets by \$713.2 million due to the change it made to its capitalization criteria. When completing the assessment we requested, DOT determined that the GASB Statement 62 requirements related to a change in estimate were applicable for the change in capitalization criteria that it had made, and that GASB required such changes to be applied only prospectively. As a result, DOT eliminated the prior-period adjustments.

Cause:

DOT did not consider all relevant GASB standards for the changes to its capitalization criteria, and it did not sufficiently communicate with others within DOT or to SCO about the changes to obtain guidance about relevant financial reporting requirements.

Recommendation

We recommend the Wisconsin Department of Transportation further its understanding of relevant financial reporting standards, assess the application of these standards before preparing financial statement information, and seek guidance from the Wisconsin Department of Administration State Controller's Office to do so.

Response from the Wisconsin Department of Transportation: The Department of Transportation agrees with the finding.

Finding 2018-009: Determination of Infrastructure-related Capital Assets by the Department of Transportation*

Criteria:

GAAP requires capital assets of governmental funds to be reported in the government-wide Statement of Net Position. This statement includes those capital assets for which the Department of Transportation is responsible, including infrastructure capital assets and other nondepreciable capital assets. To properly determine the amounts to report for infrastructure capital assets and other nondepreciable capital assets, DOT must analyze a variety of data related to expenditures incurred during the year, disposals that occurred during the year, and projects in progress or completed during the year. The determined amounts are considered to be estimates, and the procedures to produce them are complex. DOT's documented procedures and our discussions with DOT staff indicated to us that, except for a change in the capitalization criteria used, DOT intended to use the same process as in prior years.

Condition:

In completing its procedures to determine the amounts to report for infrastructure capital assets and other nondepreciable capital assets, DOT did not appropriately compile and analyze data,

determine the items that should be capitalized, or assess the classification of these items. This resulted in a variety of errors in the amounts reported for governmental activities on the Statement of Net Position. For example, DOT double-counted several projects in progress when calculating the amount it reported for other nondepreciable capital assets. As another example, DOT removed several infrastructure capital assets that had been appropriately capitalized in prior years and were not disposed of during FY 2017-18. During our FY 2016-17 audit, we also identified concerns with infrastructure (Finding 2017-008).

Questioned Costs:

None.

Context:

DOT submits financial information to the Department of Administration State Controller's Office, which is responsible for preparing the State's CAFR. The Statement of Net Position included in the CAFR reports total capital assets for governmental activities of \$24.5 billion, of which approximately \$20.5 billion represents infrastructure capital assets and other nondepreciable capital assets reported as a result of DOT's process.

During our review, we compared DOT's process for determining the amounts reported for infrastructure capital assets and other nondepreciable capital assets for FY 2017-18 to the process used for the prior year, and we considered the reasonableness and potential effect of changes in the process based on our understanding of the prior-year process.

Effect:

We identified multiple errors in the procedures DOT completed that resulted in DOT reporting inaccurate amounts for infrastructure capital assets and other nondepreciable capital assets for governmental activities on the Statement of Net Position. For example, DOT overstated the other nondepreciable capital assets by \$622.4 million because it double-counted several projects in progress. As another example, DOT understated infrastructure capital assets by \$136.2 million because it removed several infrastructure capital assets that had been appropriately capitalized in prior years. After discussing our concerns with DOT staff, they made revisions and submitted corrected information to SCO.

Cause:

Although both DOT's documented procedures and staff indicated that the process used to determine the amounts reported for infrastructure capital assets and other nondepreciable capital assets for FY 2017-18 was the same as the prior-year process, the actual process used for FY 2017-18 was not consistent with the prior-year process or with DOT's documented procedures. In addition, DOT's documented procedures were not sufficiently detailed to support successful completion of the process. Further, DOT staff did not sufficiently understand the process or how procedures related to each other and the determination and reporting of amounts for infrastructure capital assets and other nondepreciable capital assets. DOT staff were unable to explain how the procedures initially completed for FY 2017-18 would result in the reporting of appropriate amounts to SCO. When we explained our concerns with the procedures initially completed, DOT staff made multiple revisions in order to follow the prior-year process.

☑ Recommendation

We recommend the Wisconsin Department of Transportation take steps to improve the process for determining the amounts to be reported for infrastructure capital assets and other nondepreciable capital assets, including developing staff understanding of the process, revising documented procedures to provide additional detail, and training staff in appropriate completion of the procedures.

Response from the Wisconsin Department of Transportation: The Department of Transportation agrees with the finding.

Finding 2018-010: Accounting for Crossover Refunding Bonds***Criteria:***

The Department of Administration State Controller's Office is responsible for preparing the State of Wisconsin's CAFR. This responsibility includes ensuring new financial activity is accurately reflected in the financial statements in accordance with generally accepted accounting principles issued by the Governmental Accounting Standards Board (GASB).

A crossover refunding bond issuance is an issuance in which the proceeds are placed in escrow and used to make debt service payments on the refunding bonds until the crossover date, which is the call date or maturity date of the original bonds that are to be refunded. The original bonds continue to be reported as a liability on the financial statements because the entity remains liable for the original bonds. The crossover refunding bonds are also reported as a liability and the proceeds from the refunding bonds are reported as restricted cash until the crossover date of the original bonds.

In accordance with *GASB Implementation Guide 2015-1*, the refunding debt in a crossover refunding is not considered capital-related debt until the crossover date at which time the entity no longer has a liability for the bonds. At that time, the refunding bonds take on the characteristics of the original bonds, and if the original bonds were considered capital-related debt, the refunding bonds would be included in the calculation of net investment in capital assets in the government-wide financial statements.

Condition:

In FY 2017-18, the State issued crossover refunding bonds in which the State refunded \$530.4 million in certain outstanding general obligation bonds and transportation revenue bonds. The accounting for the crossover refunding bonds was not completed accurately and the GASB implementation guide was not followed.

Questioned Costs:

None.

Context:

In conducting our audit of the State's CAFR, we reviewed the accounting standards issued by GASB and assessed whether these standards were properly considered when preparing the financial statements and required note disclosures.

Effect:

The components of Net Position for governmental activities on the Statement of Net Position were misstated as follows:

- Net Investment in Capital Assets was understated by \$192.1 million.
- Restricted for Debt Service was overstated by \$432.4 million.
- Unrestricted, which is a deficit, was overstated by \$240.3 million.

Cause:

SCO did not properly consider the GASB requirements related to financial reporting for crossover refunding debt. SCO did not gain an adequate understanding of GASB standards to ensure the appropriate accounting for the crossover refunding bonds in the government-wide Statement of Net Position.

Recommendation

We recommend the Wisconsin Department of Administration take additional steps to review and ensure new financial activity of the State is properly reported in the financial statements in accordance with Governmental Accounting Standards Board standards and guidance.

Response from the Wisconsin Department of Administration: The Department of Administration agrees with the recommendation.

■ ■ ■ ■

Corrective Action Plans as Prepared by Agency Management ■

Scott Walker
Governor



DIVISION OF ENTERPRISE SERVICES

1 WEST WILSON STREET
PO BOX 7850
MADISON WI 53707-7850

Linda Seemeyer
Secretary

State of Wisconsin
Department of Health Services

Telephone: 608-266-8445
Fax: 608-267-6749
TTY: 711 or 800-947-3529

DATE: November 30, 2018
TO: Sherry Haakenson, Financial Audit Director
Legislative Audit Bureau
FROM: Barry Kasten, Deputy Director
Bureau of Fiscal Services, Division of Enterprise Services
Department of Health Services
SUBJECT: Corrective Action Plan to Interim Audit Memos:
Financial Reporting at the Department of Health Services

Department of Health Services (DHS) staff has reviewed the Legislative Audit Bureau's (LAB) interim audit memo for Financial Reporting at the Department of Health Services. This is DHS' response.

Finding 2018-001: Financial Reporting at the Department of Health Services

Planned Corrective Action:

The Wisconsin Department of Health Services agrees with the audit finding and recommendation and has submitted the correcting entry to the Department of Administration. DHS Bureau of Fiscal Services will ensure closeout activities include detailed discussions of updates or changes that impact financial statement compilation.

Anticipated Completion Date: October 2019

Person responsible for corrective action:

Rebecca Mogensen, Managerial Accounting Section Chief
Division of Enterprise Services, Bureau of Fiscal Services
RebeccaJ.Mogensen@dhs.wisconsin.gov



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

Local Government Property Insurance Fund

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 264-8118 • Fax: (608) 264-6220
E-Mail: Brynn.Bruijnhanzen@wisconsin.gov
Web Address: oci.wi.gov

Corrective Action Plan

Finding 2018-002: Financial Reporting Process for the Injured Patients and Families Compensation Fund

Planned Corrective Action:

IPFCF has identified three avenues through which the Fund can improve its review process:

- Independent Internal Review by qualified OCI staff
- External Review by a vendor
- Combination of Independent Internal Review and External Review

OCI has identified four individuals within the Funds and Program Management area who are qualified to review financial statements and supplementary information. These individuals are not involved in any aspect of the financial management of the Fund, thus have no access to the Fund's information unless it is provided, assuring an independent review.

OCI has also identified an outside accounting firm who specializes in insurance accounting, and is familiar with the CAFR. Their services would have to be secured through the Sole Source Waiver process with DOA.

Currently IPFCF is recruiting for its open Accountant position. We hope to complete this process by February of 2019. Once this process is completed, we will determine which of the three options best compliments the skill set of the Accountant, and is feasible with current internal workloads.

Fund management anticipates that external assistance will be needed at some level and will pro-actively start the Sole Source Waiver process with DOA. The procurement process is not completely within the Fund's control, however we anticipate the Waiver to be approved by May 2019.

Anticipated Completion Date: July 1st, 2019

Person responsible for corrective action:
Brynn Bruijn-Hansen, IPFCF Manager
Office of the Commissioner of Insurance, Injured Patients and Families Compensation Fund
Brynn.bruijnhanzen@wisconsin.gov



STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION

Scott Walker, Governor
Ellen Nowak, Secretary
David Cagigal, Division Administrator

Corrective Action Plan

Finding 2018-003: Department of Administration Division of Enterprise Technology Security Concerns

LAB Recommendation	DOA Planned Corrective Action	Anticipated Corrective Action Date
<p>1. We recommend the Department of Administration, Division of Enterprise Technology (DET) complete written procedures for all areas</p>	<p>The Department will continue to execute its plan as follows:</p> <ul style="list-style-type: none"> • Town hall sessions were held in the spring with DET staff to reinforce the need to align procedures with policies and standards. Critical build procedures have been identified and prioritized for revisions. <ul style="list-style-type: none"> • Server Builds: complete • Staff Onboarding: complete with new Cherwell form • Network Builds: revisions are planned next <p>As new services are developed, it is required to document the appropriate procedures to align with Executive Branch IT Security policies and standards.</p> <p>Annual reviews of all procedures will take place to ensure compliance with any updates to the Executive Branch IT Security policies and standards.</p>	<p>Started 3/1/2018 with anticipated completion 02/28/2019</p>
<p>2. We recommend DET review all settings and practices to ensure they align with policies, standards, and procedures</p>	<ul style="list-style-type: none"> • Document the process for the continuous review of current settings/practices to ensure alignment with Executive Branch IT Security policies, standards and procedures. 	<p>Begin on or before 2/28/2019 with anticipated completion 6/30/2019</p>

LAB Recommendation	DOA Planned Corrective Action	Anticipated Corrective Action Date
	<ul style="list-style-type: none"> • Conduct initial review of current settings/practices to align with Executive Branch IT Security policies, standards and procedures. 	Begin on or before 6/30/2019 with anticipated completion 12/31/2020 and annually thereafter
3. Complete projects initiated in response to security concerns LAB identified	DET has assessed the risk and initiated projects to address the high-risk concerns.	Projects are underway with various completion dates based on project time lines with anticipated completions between 12/30/2018 and 1/14/2020
4. Develop, document, and implement a proactive process to identify, assess, and address risks	Document the process for the continuous review to identify, assess, and address risks	12/30/2018
5. Report to the Joint Legislative Audit Committee by March 29, 2019, on DET's plans and timelines to address these ongoing concerns	Will send a written report to the Joint Legislative Audit Committee prior to March 29th, 2019.	March 29, 2019

Person responsible for the corrective action:

Bill Nash

Director, Bureau of Security, Division of Enterprise Technology

Bill.Nash@Wisconsin.gov



STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION

Scott Walker, Governor
Ellen Nowak, Secretary
David Cagigal, Division Administrator

Corrective Action Plan

Finding: 2018-004: Executive Branch Agency Information Technology Policies and Standards

LAB Recommendation	DOA Planned Corrective Action	Anticipated Corrective Action Date
<p>1. Develop and implement a proactive process to identify, assess, and address risks for the parts of the state’s IT environment that DOA is statutorily responsible for, including: Prioritizing its plans and timelines to complete vulnerability assessments and penetration testing across all state devices and networks within the Division of Enterprise Technology data centers</p>	<p>Since vulnerability assessments and penetration testing are two separate functions, DOA will address these as separate plans and implementations as follows:</p> <p>DOA has procured a tool and is in the process of implementing the tool to perform Patch Vulnerability Assessments for all DET managed servers and endpoints. This project includes:</p> <ul style="list-style-type: none"> • Create the assessment process; • Conduct initial assessment review of the current environment and prioritize identified issues; • Remediate patching and configuration vulnerabilities needing immediate attention. <p>*Note this does not include servers located in the DET data centers that are managed by other entities.</p> <p>Determine tool, develop plan, and implement vulnerability assessments for DET managed network devices within the DET data centers.</p> <p>Penetration Testing for all DET managed devices and networks</p>	<p>Anticipated completion 12/21/2018</p> <p>Begin 12/21/18 with anticipated completion 07/31/2019</p> <p>Begin 7/31/2019 with</p>

LAB Recommendation	DOA Planned Corrective Action	Anticipated Corrective Action Date
	<p>within the DET data centers will be conducted after the vulnerability remediation efforts have been addressed. This project includes:</p> <ul style="list-style-type: none"> • Create the penetration testing process; • Conduct initial assessment review of the current environment and prioritize identified issues; • Remediate issues needing immediate attention. 	<p>anticipated completion to be determined based upon plan</p>
<p>3. Complete a comprehensive risk assessment across all executive branch agencies</p>	<p>Partial risk assessment information will be gathered based upon the steps completed above (item 2). For systems and data not managed by DET, DOA will work with executive branch agencies to develop a plan and timeline to determine the appropriate level of vulnerability assessments and penetration testing to be completed on a regular basis.</p> <ul style="list-style-type: none"> • Implementation of vulnerability assessments of the identified systems and data including a process for review of results, prioritization of identified issues, and tracking of remediation activity. • Implementation of penetration testing of the identified systems and data including a process for review of results, prioritization of identified issues, and tracking of remediation activity. 	<p>Begin 07/31/2019 with anticipated completion 12/31/2019</p> <p>Begin 12/31/2019 with anticipated completion to be determined, based on plan</p> <p>Begin post vulnerability remediation with anticipated completion to be determined, based on plan</p>
<p>3. Report to the Joint Legislative Audit Committee by March 29, 2019, on its plans and timelines to address these concerns</p>	<p>Will send a written report to the Joint Legislative Audit Committee prior to March 29th, 2019.</p>	<p>March 29, 2019</p>

44 ■ ■ ■ ■ CORRECTIVE ACTION PLANS

Person responsible for the corrective action:

Bill Nash

Director, Bureau of Security, Division of Enterprise Technology

Bill.Nash@Wisconsin.gov



STATE OF WISCONSIN DEPARTMENT OF ADMINISTRATION

Scott Walker, Governor
Ellen Nowak, Secretary
Waylon Hurlburt, Administrator

Corrective Action Plan

Finding 2018-005: STAR Security Concerns

Planned Corrective Action:

No later than January 31, 2019, the Department of Administration will review and update its annual user attestation procedure to ensure a comprehensive review of access to STAR is performed for the next review, adjust access as necessary as a result of the review, and maintain documentation of all access reviews.

No later than June 30, 2019, the Department of Administration will complete a review of security practices and settings for STAR, document procedures and ensure controls over the applications confirm to the policies in the Division of Information Technology IT Security Policy Handbook, and document justifications for any exceptions to the established policies.

The Department of Administration has completed all corrective actions for seven of the specific recommendations in the confidential interim memoranda and will complete the corrective actions for all other recommendations no later than June 30, 2019.

Anticipated Completion Date: June 30, 2019

Person responsible for corrective action:

Tom Laux, STAR Project Manager
Department of Administration
Thomas.Laux@ wisconsin.gov



STATE OF WISCONSIN
Department of Employee Trust Funds
 Robert J. Conlin
 SECRETARY

Wisconsin Department
 of Employee Trust Funds
 PO Box 7931
 Madison WI 53707-7931
 1-877-533-5020 (toll free)
 Fax 608-267-4549
 etf.wi.gov

Correspondence Memorandum

Date: December 4, 2018

To: Lisa Kasel, Assistant Audit Director
 Legislative Audit Bureau

From: Cindy Klimke-Armatoski, CPA
 Chief Trust Financial Officer

Subject: Wisconsin Employee Benefit System (WEBS) Security Corrective Action Plan

Finding 2018-006: Wisconsin Employee Benefit System Security

The Bureau of Information Technology Services (BITS) staff provides ETF managers a report listing staff that have update access to WEBS. Managers review this report to ensure access is consistent with staff's current job responsibilities and report any changes needed to BITS. This is done on an annual basis.

ETF acknowledges that during the last annual review, some changes requested by managers were not made in the system. Fortunately, with the instances identified, the risk of inappropriate activity was low due to other internal controls in place. For example, when a beneficiary payment is processed, staff verify the payee matches the paper beneficiary form that was signed by the member. In addition, other security controls such as removing user credentials and requiring dual factor authentication prevent former employees from accessing any ETF mainframe systems.

Planned Corrective Action:

Since the audit, ETF has implemented the following process changes to improve tracking WEBS annual review responses and updating system access rights:

1. Security tickets are created in a ticket tracking system to provide a uniform way of tracking update requests.
2. Requests processed by a member of the security team are reviewed and verified by another member of the security team. BITS management reviews to ensure accuracy and completeness.

3. To assist managers in better understanding the access noted in the report, a document describing the WEBS screens will be provided.
4. A report has been created and reviewed by BITS staff to identify situations where users are still in the WEBS security tables, but their mainframe logon id has been removed.

We believe the process changes noted above will ensure that requested access changes are implemented in a timely manner. ETF recognizes the importance of ensuring access to our systems is appropriate. ETF has invested heavily in information security. Our recent efforts include hiring a Chief Information Security Officer (CISO), hiring two additional security staff, conducting a 3rd party security assessment against the SANS Top 20 security controls, creating an information security roadmap, and implementing a security incident response plan.

In addition to the above, BITS will consult with the Office of Internal Audit and business units to further analyze current WEBS access. Based on the analysis, new logical roles will be created that more consistently provide WEBS access based on job duties. Access granted to WEBS will be based on these new logical roles.

Anticipated Completion Date: June 30, 2019

Person responsible for corrective action:
Steve Mueller, Chief Information Officer
Division of Management Services
Steve.Mueller@etf.wi.gov



**STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION**

Scott Walker, Governor
Ellen Nowak, Secretary
Waylon Hurlburt, Administrator

Corrective Action Plan

Finding 2018-007: Financial Reporting Concerns – Other Postemployment Benefit Note Disclosures

Planned Corrective Action:

The Department of Administration will ensure that GASB standards are fully considered and the requirements of the standards are being met when preparing the State’s financial statements, required note disclosures, and required supplementary information.

No later than March 31, 2019, the Department of Administration will develop additional procedures to identify financial activities involving newer GASB standards, and ensure that those activities receive sufficient research, discussion and management review prior to inclusion in the draft Comprehensive Annual Financial Report.

Anticipated Completion Date: March 31, 2019

Person responsible for corrective action:

Cindy Simon, Financial Reporting Section Supervisor
State Controller’s Office
Department of Administration
Cynthia.Simon@wisconsin.gov

WisDOT Division of Business Management
 Bureau of Financial Management
 4822 Madison Yards Way
 Madison, WI 53705

Governor Scott Walker
Secretary Dave Ross
wisconsindot.gov

Telephone: enter (Area Code) Number
 FAX: enter (Area Code) Number
 Email: enter Email Address



December 7, 2018

Kendra Eppler
 Financial Audit Director
 Wisconsin Legislative Audit Bureau
 22 E Mifflin Street, Suite 500
 Madison, WI 53703

RE: Finding 2018-008, Financial Reporting for Changes to Infrastructure related Capital Assets at the Department of Transportation

Dear Ms. Eppler,

This letter is the Wisconsin Department of Transportation's corrective action plan for the finding and recommendations made by the Legislative Audit Bureau (LAB) in the interim memo dated December 4, 2018, regarding the financial reporting for changes to infrastructure related capital assets (Finding 2018-008).

The Wisconsin Department of Transportation agrees with the finding. The Department will ensure that staff have reviewed Governmental Accounting Standards Board (GASB) Statement Number 62 and understand the impacts of any changes to policy and procedure.

No later than March 31, 2019, the Department will develop a process to review any future accounting changes both internally and with the State Controller's Office. In addition, we will procure a copy of the Governmental Accounting, Auditing, and Financial Reporting (GAAFR) book published by the Governmental Financial Officers Association (GFOA) to assist staff with financial reporting presentation.

The individual responsible for these corrective actions is:

Scott B. Thornton, Controller
 Bureau of Financial Management
Scott2.thornton@dot.wi.gov

Sincerely,

Scott

Scott B. Thornton, Controller
 Wisconsin Department of Transportation

WisDOT Division of Business Management
Bureau of Financial Management
4822 Madison Yards Way
Madison, WI 53705

Governor Scott Walker
Secretary Dave Ross
wisconsindot.gov
Telephone: enter (Area Code) Number
FAX: enter (Area Code) Number
Email: enter Email Address



December 7, 2018

Kendra Eppler
Financial Audit Director
Wisconsin Legislative Audit Bureau
22 E Mifflin Street, Suite 500
Madison, WI 53703

RE: Finding 2018-009, Determination of Infrastructure-related Capital Assets by the Department of Transportation

Dear Ms. Eppler,

This letter is the Wisconsin Department of Transportation's corrective action plan for the finding and recommendations made by the Legislative Audit Bureau (LAB) in the interim memo dated December 6, 2018, regarding the determination of infrastructure-related capital assets (Finding 2018-009).

The Wisconsin Department of Transportation agrees with the finding. The Department will ensure that staff have reviewed and understand the department's policy and procedures for determining infrastructure related assets.

No later than March 31, 2019, the Department will develop a process for an additional review of data on infrastructure-related capital assets prior to reporting to the LAB and State Controller's Office. In addition, the Department will update procedures where necessary to clarify processes and will work with the Department of Administration STAR office to provide more consistent data in the STAR system on infrastructure-related projects and capital assets.

The individual responsible for these corrective actions is:

Bryan Thiel, Financial Management Supervisor
Bureau of Financial Management
Bryan.Thiel@dot.wi.gov

Sincerely,

Scott

Scott B. Thornton, Controller
Wisconsin Department of Transportation



**STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION**

Scott Walker, Governor
Ellen Nowak, Secretary
Waylon Hurlburt, Administrator

Corrective Action Plan

Finding 2018-010: Accounting for Crossover Refunding Bonds

Planned Corrective Action:

No later than March 31, 2019, the Department of Administration will develop additional procedures to identify new financial activities, and to ensure that those activities receive sufficient research, discussion and management review prior to inclusion in the draft Comprehensive Annual Financial Report.

Anticipated Completion Date: March 31, 2019

Person responsible for corrective action:

Cindy Simon, Financial Reporting Section Supervisor
State Controller's Office
Department of Administration
Cynthia.Simon@wisconsin.gov

Response ■



STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION

Scott Walker, Governor
Ellen Nowak, Secretary

December 18, 2018

Mr. Joe Chrisman, State Auditor
Legislative Audit Bureau
22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703

Dear Mr. Chrisman,

This is to respond to the two other concerns regarding the Department of Administration (DOA) that you raised in your letter for the FY 2017-18 Comprehensive Annual Financial Report. Although these concerns did not rise to the level of a significant deficiency or a material weakness, I am responding to provide assurance that DOA is working to address each as quickly as possible.

The Department of Administration (DOA) has redundant daily and monthly processes in place to safeguard the state's bank accounts and ensure that no unauthorized withdrawals have occurred. The reconciliation differences identified within your report represent unidentified issues with the determination of the target book balances, and not with unauthorized withdrawals. We are continuing to identify areas where the subsystem integrations may be creating variances within the target book balances and will resolve those variances no later than June 30, 2019.

In addition, DOA acted in the best interest of the State in using the proceeds of the Hill Farms state office building and the property at 801 West Badger Road to reduce the amount of debt incurred when purchasing other real property. Capital Finance staff are considering potential statutory changes that would explicitly provide for this option in the future.

Sincerely,

Ellen Nowak, Secretary
Department of Administration