

**Report 19-20
September 2019**

Local Retiree Life Insurance Reporting for Participating Employers

Calendar Year 2018

STATE OF WISCONSIN



Legislative Audit Bureau ■

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Local Retiree Life Insurance Reporting for Participating Employers

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OPINIONS PUBLISHED SEPARATELY

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



STATE OF WISCONSIN | Legislative Audit Bureau

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Joe Chrisman
State Auditor

September 27, 2019

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

Dear Senator Cowles and Representative Kerkman:

As requested by the Department of Employee Trust Funds (ETF), we have completed an audit of the Schedule of Employer Allocations of the Local Retiree Life Insurance program, the Schedule of Collective OPEB Amounts of the Local Retiree Life Insurance program, and the related notes to these schedules as of and for the year ended December 31, 2018. These schedules, and our unmodified opinions on them, may be found on ETF's website.

We also audited the financial statements and related notes of the Local Retiree Life Insurance program as of and for the year ended December 31, 2018, and provided our unmodified opinion on them, as detailed in report 19-17, which we also published today. The fiduciary net position of the Local Retiree Life Insurance program, which represents resources available to pay benefits, increased slightly from \$244.2 million as of December 31, 2017, to \$244.9 million as of December 31, 2018.

Other postemployment benefits (OPEB) refer 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. ETF administers four separate OPEB plans for retired individuals, including the Local Retiree Life Insurance program.

Under s. 40.70, Wis. Stats., the Local Retiree Life Insurance program provides life insurance benefits to all eligible retired employees of the 719 local governments that participate in the program. Under this program, employers pay stated contribution amounts that are based upon the active employee premium amounts. After retirement, basic coverage is continued for eligible employees for life, with the benefit being reduced by a stated amount based upon the age of the retiree.

Accounting standards issued by the Governmental Accounting Standards Board require the calculation of a net OPEB liability, which is represented by the difference between the fiduciary net position reported in the financial statements and the total OPEB liability calculated by the actuary. As of December 31, 2018, ETF calculated a net OPEB liability for the Local Retiree Life Insurance program of \$258.0 million, which was a decrease from the liability of \$300.9 million as of December 31, 2017.

By participating in the Local Retiree Life Insurance program, employers have made a commitment to provide postemployment life insurance benefits to retired employees and are obligated to make contributions into the future to ensure that sufficient resources are available to make the benefit payments. Therefore, because the employers participating in the Local Retiree Life Insurance program have responsibility for the resulting OPEB obligations, each participating employer is required to report its proportionate share of the net OPEB liability in its financial statements if prepared in accordance with generally accepted accounting principles. Additional information related to the accounting standards for OPEBs is included in report 19-17.

The Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is required by *Government Auditing Standards*, begins on page 5. We did not identify any control or compliance concerns that were required to be reported under these standards.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Joe Chrisman". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Joe Chrisman
State Auditor

JC/CS/ss

Auditor's Report ■



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

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

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

We have audited the Schedule of Employer Allocations of the Local Retiree Life Insurance program as of and for the year ended December 31, 2018, and the related notes. We have also audited the totals for the columns titled Net OPEB Liability (Asset), Total Deferred Outflows of Resources Excluding Employer Specific Amounts, Total Deferred Inflows of Resources Excluding Employer Specific Amounts, and Plan OPEB Expense included in the Schedule of Collective OPEB Amounts of the Local Retiree Life Insurance program as of and for the year ended December 31, 2018, and the related notes. We have issued our report dated September 24, 2019, on these schedules. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

We have also audited the financial statements and related notes of the Local Retiree Life Insurance program as of and for the year ended December 31, 2018, 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*. We expressed an unmodified opinion, dated September 24, 2019, on those financial statements. In addition, we issued the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, dated September 24, 2019, and included in report 19-17, related to the audit of the financial statements.

Purpose of This Report

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

LEGISLATIVE AUDIT BUREAU



Joe Chrisman
State Auditor

September 24, 2019