



STATE OF WISCONSIN

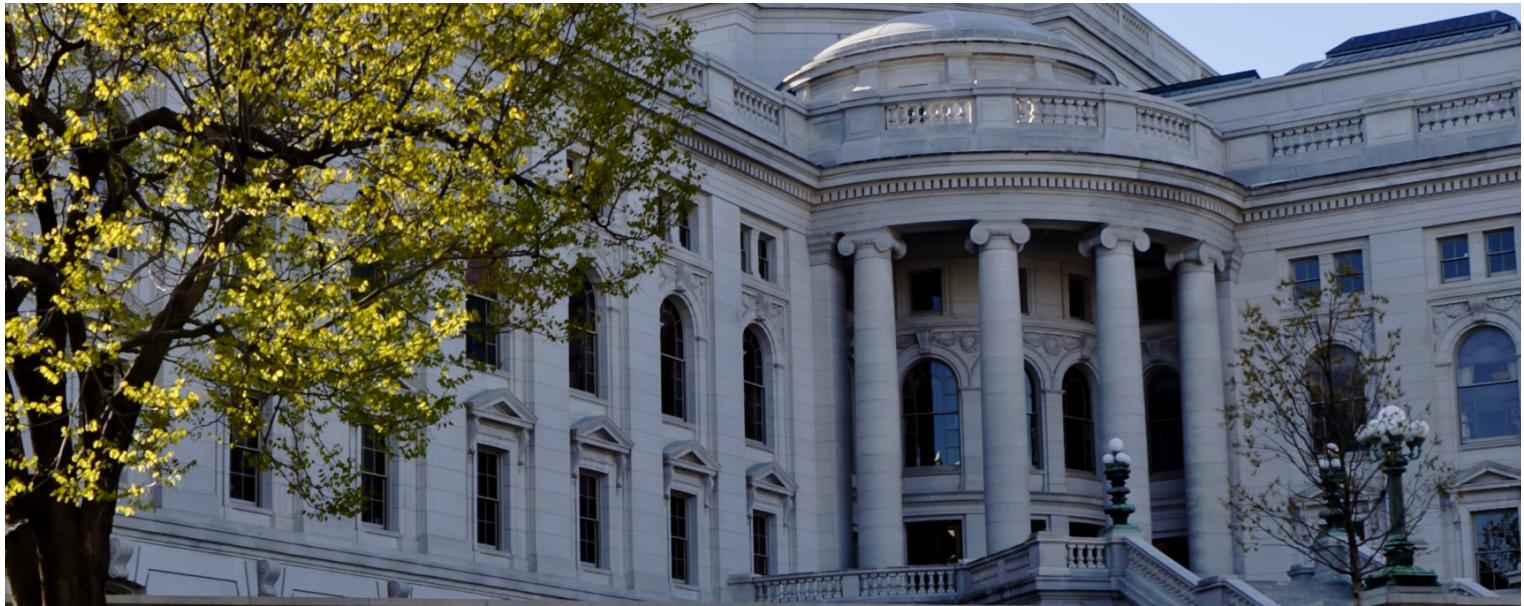
Legislative Audit Bureau

NONPARTISAN • INDEPENDENT • ACCURATE

Report 23-1
January 2023

Biennial Report

January 1, 2021 – December 31, 2022



Biennial Report

January 1, 2021 – December 31, 2022



STATE OF WISCONSIN —

Legislative Audit Bureau

NONPARTISAN • INDEPENDENT • ACCURATE

Report 23-1
January 2023

Legislative Audit Bureau

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The Legislative Audit Bureau supports the Legislature in its oversight of Wisconsin government and its promotion of efficient and effective state operations by providing nonpartisan, independent, accurate, and timely audits and evaluations of public finances and the management of public programs. Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

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.

For more information, visit www.legis.wisconsin.gov/lab.

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STATE OF WISCONSIN

Legislative Audit Bureau

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January 5, 2023

Governor Tony Evers and
Members of the Legislature
State Capitol
Madison, Wisconsin 53702

Dear Governor Evers and Members of the Legislature:

The biennial report, which is required under s. 13.94 (1) (j), Wis. Stats., summarizes the nonpartisan Legislative Audit Bureau's statutory responsibilities and highlights noteworthy findings from January 1, 2021, through December 31, 2022.

The Bureau supports the Legislature in its oversight of Wisconsin government and its promotion of efficient and effective state operations by providing nonpartisan, independent, accurate, and timely audits and evaluations of public finances and the management of public programs. Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement. In addition, the Bureau staffs a hotline to address allegations of fraud, waste, and mismanagement in state government.

We look forward to continuing to deliver nonpartisan, independent, accurate, and timely analyses to enhance accountability and assist the Legislature in its oversight of state government.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Joe Chrisman".

Joe Chrisman
State Auditor

JC/ss

Purpose and Organization

***The Legislative Audit Bureau
assists the Legislature in
maintaining effective
oversight.***

The Legislative Audit Bureau supports the Legislature in its oversight of Wisconsin government and its promotion of efficient and effective state operations by providing nonpartisan, independent, accurate, and timely audits and evaluations of public finances and the management of public programs. The Bureau independently and systematically examines the accounting records and financial statements of entities that receive public funds, performs reviews of government operations to promote good fiscal and management practices, and evaluates programs and services that the State of Wisconsin provides to its citizens. Specifically, the Bureau:

- conducts financial audits and performance evaluations of state agencies and programs as required by statutes, or as requested by the Legislature or the Joint Legislative Audit Committee;
- issues independent auditor's reports on the State's financial statements, which are published in the State's Annual Comprehensive Financial Report (ACFR) prepared by the Department of Administration (DOA);
- verifies state agencies' compliance with laws and program regulations pertaining to federal funds received by the State of Wisconsin each year;
- performs other independent audits at the request of state agencies in order to demonstrate compliance or provide assurance of sound financial practices;

- staffs a hotline to address allegations of fraud, waste, and mismanagement in state government; and
- conducts periodic “best practices” reviews of governmental service delivery by counties and municipalities.

Authority and Responsibilities

The authority and responsibilities of the Bureau and the State Auditor are set forth in s. 13.94, Wis. Stats.

The authority and responsibilities of the Bureau and the State Auditor are set forth in s. 13.94, Wis. Stats., which includes a broad mandate to provide assurance that financial transactions have been made in a legal and proper manner and to review state agency performance and program accomplishments. Statutes grant the Bureau access to financial records and other documentation, including those that are confidential by law, relating to state agencies and certain other entities, and statutes require the Bureau to be strictly nonpartisan and to maintain the confidentiality of audits in progress.

The authority to audit any county, city, village, town, or school district is described in s. 13.94 (1) (m), Wis. Stats. In addition, gaming compacts between the State of Wisconsin and 11 American Indian tribes require that audited financial statements and security audits of Indian gaming operations be made available to the Bureau.

Legislation enacted in 2021 and 2022 requires the Bureau, after June 30, 2026, to conduct a program evaluation audit of the agricultural exports program under s. 93.425, Wis. Stats, and submit its report no later than December 31, 2026 (2021 Wisconsin Act 92).

Other recurring statutory audit responsibilities are described in Appendix 1.

Budget and Staffing

The Bureau’s annual operating budget is approximately \$6.9 million in general purpose revenue (GPR) and \$2.4 million in program revenue from audit contracts with other state agencies. The Bureau has an authorized staffing level of 86.8 positions.

The Bureau maintains organizational and personal independence from the entities it audits.

As part of the legislative branch of state government, the Bureau maintains organizational independence from the entities it audits, which are primarily agencies of the executive branch. The State Auditor is appointed by the Legislature’s Joint Committee on Legislative Organization, and staff are appointed by the State Auditor and are unclassified employees. All staff are required to complete annual ethics statements to identify any personal or external circumstances that could reasonably lead third parties to question their independence.

Audit staff hold bachelor's degrees, and many have also earned advanced degrees in areas such as accounting, business administration, and public policy. The largest number of Bureau staff are in the Financial Audit Division, and most of the financial auditors are certified public accountants. Evaluators in the Performance Evaluation Division and investigative auditors in the investigative unit make up the remaining audit staff. Our current organization chart is Appendix 2.

Financial audit staff adhere to professional auditing standards promulgated by the American Institute of Certified Public Accountants and the Comptroller General of the United States. These standards require auditors to:

- be free, in both fact and appearance, from impairments to independence;
- maintain professional competence through continuing education;
- have an appropriate internal quality control system in place; and
- undergo peer reviews to assess compliance with auditing standards and the adequacy of the internal quality control system.

Financial auditors complete 80 hours of continuing professional education every two years, as required by government auditing standards, and both financial auditors and performance evaluators receive training in core audit skill areas. Our internal quality control system includes detailed auditing policies and procedures, documentation requirements, supervisory review of all working papers, and both senior staff and editorial reviews of report drafts.

The Bureau's work has earned recognition from peer audit organizations for both quality and impact.

Every three years, through the National State Auditors Association, the Bureau's peers from other states review this system and the working papers from selected financial audits for compliance with financial auditing standards. The Bureau successfully completed its most recent peer review in August 2021. In addition, our evaluations of the *Unemployment Insurance Call Centers* (report 20-13) and *Elections Administration* (report 21-19) were recognized for "significant impact on public policy" by the National Conference of State Legislatures' National Legislative Program Evaluation Society in 2021 and 2022, respectively.

In 2022, the Bureau earned recognition through the Employer Support of the Guard and Reserve program.

In 2022, the Bureau earned recognition through the Employer Support of the Guard and Reserve program, which is administered by the United States Department of Defense. The award honors the work of employers that have helped to ensure that individuals are able to sustain their civilian careers while also training and deploying in their military careers.

Joint Legislative Audit Committee

The Joint Legislative Audit Committee has advisory responsibilities for the Legislative Audit Bureau.

The Joint Legislative Audit Committee has advisory responsibilities for the Legislative Audit Bureau. It may direct the Bureau to conduct audits and evaluations, and it receives and reviews issued reports. The Audit Committee held four public hearings in 2021 and 2022.

The Audit Committee consists of its co-chairs, the co-chairs of the Joint Committee on Finance, one other majority and two minority party senators, and one other majority and two minority party representatives. During most of the 2021-2022 legislative session, its members were:

Senator Robert Cowles, Co-chairperson	Representative Samantha Kerkman, Co-chairperson
Senator Dale Kooyenga	Representative John Macco
Senator Howard Marklein	Representative Mark Born
Senator Melissa Agard	Representative Dianne Hesselbein
Senator Tim Carpenter	Representative Francesca Hong

Representative Samantha Kerkman resigned from the Legislature on June 7, 2022, and no other members were appointed to serve in 2022.

Additional information on Audit Committee hearings—including hearing notices, live and recorded broadcasts, and presentation materials from past hearings—can be found on the Bureau’s website, www.legis.wisconsin.gov/lab.

Requesting Our Services

Any legislator may request an evaluation or audit by writing to the Audit Committee co-chairs.

Most performance evaluation work is requested by legislators through the Joint Legislative Audit Committee. State agencies may also request audit services in order to meet external audit requirements.

Any legislator may request a performance evaluation or a financial audit by writing to the Audit Committee co-chairs. Audit requests should clearly identify the topic, program, and agency in question, as well as the specific concerns that may be addressed by an audit or evaluation. Before submitting a request to the Audit Committee co-chairs, legislators may wish to discuss it with the State Auditor, who will provide information on similar topics that have been previously audited and help to assess the feasibility, size, and scope of the proposed inquiry.

Whether initiated in response to legislation or requested by individual members of the Legislature and approved by the Audit Committee, audit work remains confidential until released by the State Auditor. When the audit report is released, it is distributed electronically to all members of the Legislature, the Governor, members of the media, and other interested parties. An email notification service is also available by free subscription. Individuals may follow the Bureau on

Twitter @WILegAudit. For copies of our publications, please visit www.legis.wisconsin.gov/lab or call (608) 266-2818.

The Bureau's website, www.legis.wisconsin.gov/lab, lists audits in progress and numbered reports published since 2011, and the website may be searched for the full text and summaries of all published reports from 1998 through 2022. The first two digits of each document number indicate the year of publication.

Audit follow-up documents submitted by state agencies to the Audit Committee in response to recommendations contained in reports are also available on the website. Audit follow-up documents received since 2011 are currently available.



Financial Audits and Performance Evaluations

From January 2021 through December 2022, the Bureau published 49 reports, including:

- financial audit reports, including two single audits that tested compliance with federal grant requirements related to \$37.4 billion in federal financial assistance administered by state agencies in fiscal year (FY) 2019-20 and FY 2020-21;
- performance evaluation reports and reviews designed to measure the extent to which state agencies or programs have achieved their intended objectives;
- independent auditor's reports on the State of Wisconsin's financial statements, which were published annually in the State of Wisconsin's ACFR;
- audit reports detailing financial management issues at the University of Wisconsin (UW) System, which were published annually;
- semiannual reports describing activity on the Bureau's Fraud, Waste, and Mismanagement Hotline; and
- other audit opinions and certifications, including those published in annual reports prepared by the State of Wisconsin Investment Board (SWIB) and the Department of Employee Trust Funds (ETF).

Financial audits are detailed, impartial reviews of the financial statements prepared by an audited entity.

An unmodified opinion signifies that audited financial statements reliably represent an entity's financial condition.

Performance evaluations measure the extent to which an agency or program is achieving its objectives.

Financial audits are detailed, impartial reviews that focus on:

- the accuracy of financial statements prepared by an audited entity;
- the effectiveness of internal controls, which are the policies and procedures established by management to ensure the integrity and accuracy of financial reporting and proper administration of state funds; and
- compliance with required accounting or other standards, including laws, regulations, and contracts or grant agreements.

We perform financial audits as required by statutes and in response to requests by some state agencies. Our financial audit reports generally include an auditor's opinion on the agency's financial statements indicating whether the financial statements and notes are fairly stated in all material respects. An unmodified, or "clean," opinion signifies that the auditor has concluded that an agency's financial statements and the accompanying notes conform to generally accepted accounting principles (GAAP), or in some cases to another standard, and that they reliably represent the agency's financial condition. A modified opinion expresses reservations about financial statements because, for example, accounting principles were not appropriately applied.

In addition, our financial audits include a report on internal controls related to financial reporting and on our tests of compliance with certain laws and regulations that could have material (that is, quantitatively or qualitatively significant) effect on the determination of amounts shown in the financial statements and accompanying notes. In the report on internal controls and compliance, we include concerns we identified related to internal controls and noncompliance that may be defined as a material weakness or a significant deficiency. 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 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, which includes those responsible for oversight of the financial reporting process.

Performance evaluations and reviews establish performance criteria; measure existing conditions, their probable causes, and actual and potential effects; and typically include recommendations for improving agency operations or enhancing legislative oversight.

Investigations assess information reported to the Bureau's hotline to determine appropriate next steps.

In 2021 and 2022, we identified improvements that could be made to financial reporting by state agencies.

We conduct investigations to assess information reported to the Bureau's Fraud, Waste, and Mismanagement Hotline. As noted, we describe the activity of the hotline in semiannual summary reports that include selected highlights from hotline investigations.

Noteworthy Findings

Our audit and evaluation work frequently identifies opportunities for the Legislature to increase its oversight of high-profile initiatives, important policy issues, and government operations.

In 2021 and 2022, we identified improvements that could be made to financial reporting by state agencies. For example:

- We reported a material weakness in internal control over financial reporting after we found the 2019 financial statements for the basic Accumulated Sick Leave Conversion Credit (ASLCC) program were materially misstated because ETF did not have a reasonable basis for estimating the probability of employees becoming eligible in the future to receive basic ASLCC program benefits. In addition, ETF did not adjust the liability balance for the accounts of deceased participants or for accounts that were closed. We recommended ETF improve its calculation of the compensated absence liability estimate; ensure when implementing changes to financial reporting that it completes its planning, review, and assessment process before the close of the affected financial reporting period; and work with DOA on areas that affect the State's Comprehensive Annual Financial Report. (For details, see report 21-3, *Department of Employee Trust Funds*.)
- We reported a material weakness in internal control over financial reporting related to the FY 2019-20 Unemployment Reserve Fund's financial statements. We found the Department of Workforce Development (DWD) did not properly consider the significant backlog of claims that resulted from the public health emergency when calculating benefits payable as of June 30, 2020. We recommended DWD revise its procedures for calculating the benefits payable. (For details, see report 21-9, *Unemployment Reserve Fund*.)
- We reported a significant deficiency in internal control over financial reporting related to the monitoring and use of predictive analytics for the Unemployment Insurance program by DWD. We recommended DWD seek approval from the U.S. Department of Labor regarding use of the predictive analytics model. We also recommended DWD implement and document adequate procedures to monitor the ongoing accuracy

of the predictive analytics model. (For details, see report 21-23, *State of Wisconsin FY 2020-21 Financial Statements*.)

- We reported two material weaknesses in internal control over financial reporting at the Office of the Commissioner of Insurance (OCI) related to the financial reporting process for the Injured Patients and Families Compensation Fund during FY 2018-19, FY 2019-20, and FY 2020-21. Given that we identified financial reporting concerns for several years, we recommended OCI review its financial reporting process and take additional steps to improve. (For details, see report 22-6, *Injured Patients and Families Compensation Fund*.)
- We reported two significant deficiencies in internal control over financial reporting in FY 2021-22 for the Medical Assistance (MA) Program administered by the Department of Health Services (DHS). First, we identified an MA Program payment for outpatient services that was not properly identified and denied because of cost avoidance rules programmed in the Medicaid Management Information System (MMIS). Second, we found DHS did not consider whether the funds derived from the increased federal medical assistance percentage (FMAP) required an adjustment to properly reflect the activity in the General Fund financial statements. We recommended that DHS take steps to improve its financial reporting process. (For details, see report 22-26, *State of Wisconsin FY 2021-22 Financial Statements*.)
- We reported a significant deficiency in internal control over financial reporting in FY 2021-22 related to the assessment of internal controls at a custodian bank relied upon by the Board of Commissioners of Public Lands for certain investment transaction processing and safekeeping. We recommended the Board improve its oversight of these internal controls. (For details, see report 22-26, *State of Wisconsin FY 2021-22 Financial Statements*.)

***We identified improvements
that state agencies could
make to IT security.***

We also identified information technology (IT) security concerns at state agencies, and we made recommendations for improvements. For example:

- We found a continuing concern with IT controls at UW System, particularly related to its development of information security policies and procedures, and we reported a significant deficiency for FY 2020-21. (For details, see report 21-22, *University of Wisconsin System*; report 21-23, *State of Wisconsin FY 2020-21 Financial Statements*).

- We found a concern with access controls over the Unemployment Insurance System operated by DWD in FY 2020-21, and we reported a significant deficiency. (For details, see report 21-23, *State of Wisconsin FY 2020-21 Financial Statements*.)
- We continued to report a significant deficiency related to DOA's oversight responsibilities for IT in state agencies. Because DOA continued to be in statutory noncompliance, we recommended that DOA report to the Joint Legislative Audit Committee by March 31, 2023, on the status of its efforts to implement our recommendations. (For details, see report 21-23, *State of Wisconsin FY 2020-21 Financial Statements*; and report 22-26, *State of Wisconsin FY 2021-22 Financial Statements*.)
- We reported two significant deficiencies related to weaknesses in DOA's Division of Enterprise Technology information security access review process and its IT policy exception process. (For details, see report 22-26, *State of Wisconsin FY 2021-22 Financial Statements*.)
- We reported a significant deficiency related to UW System's internal controls over ShopUW+, which was a new computer application implemented in April 2021. (For details, see report 22-25, *University of Wisconsin System*; and report 22-26, *State of Wisconsin FY 2021-22 Financial Statements*).

We recommended improvements to the State's administration of federal funds.

We also recommended improvements to the State's administration of federal funds. For example:

- We qualified our opinion on compliance related to eligibility requirements for the Emergency Rental Assistance Program at DOA for FY 2020-21. Specifically, we found DOA could not be assured that only those eligible for emergency rental assistance received program benefits. We also qualified our opinion on compliance related to reporting requirements for the Unemployment Insurance program at DWD for FY 2020-21. Specifically, we found DWD could not be assured that it reported complete and accurate information to enable the U.S. Department of Labor to assess the outcomes of Wisconsin's Unemployment Insurance program. We made 25 recommendations to state agencies and questioned \$314,531 in expenditures charged to federal programs in FY 2020-21. (For details, see report 22-5, *State of Wisconsin FY 2020-21 Single Audit*.)

- We qualified our opinion on compliance related to physical inventory requirements for the Food Distribution Cluster at DHS for FY 2020-21. Specifically, we found DHS did not ensure that annual physical inventory of food commodities donated from the U.S. Department of Agriculture (USDA) was performed. We also qualified our opinion on compliance related to physical inventory requirements for the Child Nutrition Cluster at the Department of Public Instruction (DPI) for FY 2019-20. Specifically, we found DPI did not ensure than an annual physical inventory of USDA-donated food commodities was performed. We made 22 recommendations to state agencies and questioned \$1.6 million in expenditures charged to federal programs. (For details, see report 21-6, *State of Wisconsin FY 2019-20 Single Audit*.)
- For the Child Care Counts program at the Department of Children and Families (DCF), we recommended that DCF take into account all information submitted by providers when it conducts reviews of the amounts awarded through supplemental rounds of federal funding. (For details, see report 21-4, *Child Care Counts Program*.)
- We found that health care facilities did not consistently notify the Department of Safety and Professional Services (DSPS) in a timely manner when providers credentialed in other states had begun practicing in Wisconsin. We recommended that DSPS review the notification forms provided by health care facilities and ensure that these forms were submitted in timely manner and contained accurate information. (For details, see report 21-5, *Credentialing of Certain Health Care Providers*.)
- We recommended that DOA improve how it administers the Emergency Rental Assistance Program, including by improving the program's application process, modifying the process for prioritizing applications for program benefits, and improving how it administers the program. For the Employment Solutions Grant Program, we recommended that DOA improve its program monitoring efforts, including by always selecting itself the case files to review at each entity rather than allow the entities to select the case files. (For details, see report 22-3, *Emergency Rental Assistance and Emergency Solutions Grant Programs*.)

- We recommended that OCI improve how it audits the claims of health insurers that request reimbursement under the Wisconsin Healthcare Stability Plan. (For details, see report 22-4, *Wisconsin Healthcare Stability Plan*.)
- We recommended that the Public Service Commission improve its administration of broadband expansion grant programs, including by establishing comprehensive written program policies and improving how it reviews and awards grants, reimburses telecommunications providers, and oversees the programs. (For details, see report 22-11, *Certain Broadband Expansion Grant Programs*.)
- We made recommendations to the Department of Revenue related to its efforts to identify We're All In and Wisconsin Tomorrow program grants it awarded in error. (For details, see report 22-21, *We're All In and Wisconsin Tomorrow Programs*.)
- We recommended that DOA improve the transparency and clarity of the State's use of supplemental federal funds, including by documenting how decisions were made to use discretionary funds for particular state programs and adding information on its website about plans for spending remaining funds and how such plans change over time. (For details, see report 22-23, *Decisions About the Use of Supplemental Federal Funds*.)
- We recommended that UW System Administration improve how UW System administers funds from the Higher Education Emergency Relief Fund, including by providing written guidance to UW institutions about allowable uses of funds, including correct information in expenditure reports, and working with the federal government to resolve the \$239,300 in unallowable costs that our review identified. (For details, see report 22-25, *University of Wisconsin System*.)

We identified areas where improvements to program operations and effectiveness could be achieved.

We identified areas where improvements to program operations and effectiveness could be achieved. For example:

- In report 17-9, we reported that total resources available to the Wisconsin Economic Development Corporation (WEDC) exceeded total payments made by WEDC for each quarter from July 1, 2011, when WEDC became fully operational, through June 30, 2016. In report 19-6, we found total resources available to WEDC continued to exceed total payments made by WEDC for each

quarter from July 1, 2016, through June 30, 2018. As a result, WEDC's cash and investments balance also increased from \$69.9 million as of June 30, 2016, to \$77.0 million as of June 30, 2018, or by \$7.1 million (10.2 percent). This increase was, in part, due to the process through which state funding was provided to WEDC quarterly. In report 21-7, we found that WEDC's total available funding in the quarter ending on June 30, 2020, was \$67.2 million more than its total payments, excluding \$75.0 million in federal funding WEDC received in June 2020. We indicated that the Legislature may wish to consider specifying that funding be provided based on WEDC demonstrating its actual need for funding to cover the costs of its operations and fulfill its grant and loan commitments. In report 21-7, we also made recommendations to improve WEDC's program management. (For details, see report 21-7, *Wisconsin Economic Development Corporation*.)

- We made 30 recommendations to the Wisconsin Elections Commission for improvements to elections administration. (For details, see report 21-19, *Elections Administration*.)
- SWIB is authorized to establish its own budget and to create or eliminate staff positions. From 2017 through 2021, SWIB's annual expenses increased by 64.3 percent. After considering the effect of increases in assets managed by SWIB in 2018 and 2019, we found that the increases in expenses were primarily attributable to an increase in management fees paid to external investment managers and growth in the total amount of assets SWIB managed. The percentage of SWIB assets managed internally decreased from 64.0 percent in December 2017 to 53.3 percent in December 2021. The Board authorized an additional 55.0 full-time equivalent (FTE) positions from December 2019 to December 2021. SWIB had 290.0 authorized FTE positions as of December 2021. Our evaluation of SWIB included a review of investment performance; an assessment of expenses, including external management fees and carried interest costs; and an analysis of staff compensation, including salaries and bonuses. We recommended that SWIB assess its planning and vendor evaluation processes used for a large IT project; provide the Board of Trustees with additional information about the external management fees; develop a multi-year strategic plan that includes goals for the proportion of assets managed internally; and modify its policies for awarding salary increases,

signing bonuses, and retention bonuses. (For details, see report 22-8, *State of Wisconsin Investment Board*.)

- In our audit of the retirement funds investment activity at SWIB, we found that SWIB reported \$49.5 million in external investment management fees in its 2021 financial statements, compared to the \$432.4 million it reported in 2020. The lesser amount reported in 2021 was not the result of a reduction in external investment management fees, which SWIB indicated totaled \$571.5 million in calendar year 2021. Rather, SWIB changed how it accounts for certain external investment management fees beginning in 2021. We recommended that SWIB provide specific information on external investment management fees in its future annual financial reports. (For details, see report 22-12, *Retirement Funds Investment Activity*.)

Topics of Ongoing Legislative Consideration

Certain matters we analyzed in 2021 and 2022 are likely to be topics of ongoing legislative consideration. For example:

Information Technology

We continued to identify concerns with IT in state government, including continuing statutory noncompliance by DOA in its responsibility to oversee and monitor IT resources in the executive branch. Because our audit concerns have not been fully resolved, there continues to be increased risk that the State's IT systems are not being properly controlled. DOA will report to the Joint Legislative Audit Committee by March 31, 2023, on the status of its efforts to take corrective action and implement our audit recommendations. (For more information, see report 22-26, *State of Wisconsin FY 2021-22 Financial Statements*.)

We also note that there are several other large-scale IT projects under development at state agencies. These include the Administrative Transformation Program (ATP) at UW System, which has a budget of \$211.9 million and implementation expected by July 2024; Project Centum at SWIB, which was behind schedule and over budget as of December 2021; and the imaging and workflow system and the Insurance Administration System at ETF. (For more information, see report 22-25, *University of Wisconsin System*; report 22-8, *State of Wisconsin Investment Board*, and report 21-14, *Department of Employee Trust Funds*.)

Supplemental Federal Funding

The State began receiving supplemental federal funding related to the ongoing public health emergency in April 2020. In February 2022, the Joint Legislative Audit Committee directed that we evaluate how state agencies spent this supplemental federal funding. Our work in response to the Committee's direction will continue into 2023.

In addition, and as a condition of receiving federal funds, state agencies must meet the audit requirements of the federal Single Audit Act of 1984, as amended, and of the federal Office of Management and Budget *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). We are currently performing this audit for FY 2021-22, which is anticipated to be completed in spring 2023.

■ ■ ■ ■

Fraud, Waste, and Mismanagement Hotline

The Bureau operates a toll-free hotline (1-877-FRAUD-17).

As required by s. 13.94 (1) (br), Wis. Stats., the Bureau operates a toll-free hotline (1-877-FRAUD-17) that allows the public and state employees to report alleged fraud, waste, and mismanagement within state government. Callers may remain anonymous, and the statute governing the hotline specifically requires us to protect their identities even when other information related to calls is made public. A secure web-based form is also available to report concerns and is available at <http://www.legis.wisconsin.gov/LAB/>.

The hotline has been in operation since April 2008 and is primarily administered by certified fraud examiners. It does not duplicate or replace other government hotlines or complaint resources. Since its inception, we have received 1,481 hotline reports alleging fraud, waste, and mismanagement. We address hotline reports by:

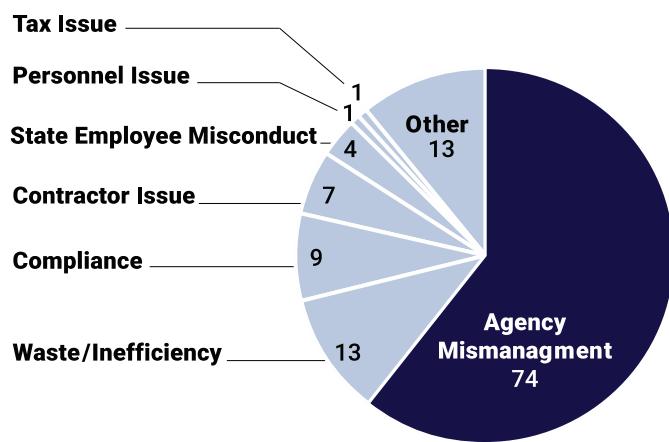
- following up on concerns during the course of ongoing audit work;
- initiating interviews and documentation reviews with other state agencies;
- conducting audits or reviews in response to substantiated allegations and reporting our findings to the Joint Legislative Audit Committee; and
- making referrals, providing information, and correcting misinterpretations that result in allegations.

From January 1, 2021, through December 31, 2022, 122 of the 180 concerns reported to the hotline were state-related issues.

From January 1, 2021, through December 31, 2022, 122 of the 180 concerns reported to the hotline were state-related issues. As shown in Figure 1, the majority of such reports pertained to concerns about state agency mismanagement, compliance with applicable laws, contractor issues, personnel issues, and waste/inefficiency.

Figure 1

Reports of Fraud, Waste, and Mismanagement in State Government¹
2021 and 2022



¹ A total of 122 state-related reports were received from January 1, 2021, through December 31, 2022.

We reported hotline activity to the Joint Legislative Audit Committee semiannually.

We reported hotline activity to the Joint Legislative Audit Committee in the following reports:

- *Biennial Report, January 1, 2019, through December 31, 2020* (report 21-1);
- *Fraud, Waste, and Mismanagement Hotline Semiannual Report: January through June 2021* (report 21-11);
- *Fraud, Waste, and Mismanagement Hotline Semiannual Report: July through December 2021* (report 22-1); and
- *Fraud, Waste, and Mismanagement Hotline Semiannual Report: January through June 2022* (report 22-9).

***Information reported
to the hotline was resolved in
three other audit reports issued
in 2021 and 2022.***

Information reported to the hotline may also be investigated by financial audit and performance evaluation audit teams engaged in the conduct of related, but distinct, audit work. We also included the resolution of information reported to the hotline in three other audit reports issued in 2021 and 2022:

- *Elections Administration* (report 21-19);
- *State of Wisconsin FY 2020-21 Financial Statements* (report 21-23); and
- *We're All In and Wisconsin Tomorrow Programs* (report 22-21).

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Report Summaries

A chronological summation of reports published in 2021 and 2022 follows. As noted, the full text of each document is available at www.legis.wisconsin.gov/lab. Appendix 3 is an index of reports by audit topic, and Appendix 4 is an index of reports by audited entity.

Reports Published in 2021

Report 21-1: Biennial Report

January 1, 2019 – December 31, 2020

The Biennial Report summarizes the work of the nonpartisan Legislative Audit Bureau from January 1, 2019, through December 31, 2020. During this period, the Bureau published more than 60 reports, including financial audits and performance evaluations. The Biennial Report lists the Bureau's noteworthy findings for 2019 and 2020. The report also summarizes the activity of the Bureau's Fraud, Waste, and Mismanagement Hotline (1-877-FRAUD-17). In 2019 and 2020, the Fraud, Waste, and Mismanagement Hotline received 203 reports, 140 of which were specific to state agencies or programs.

Report 21-2: Fraud, Waste, and Mismanagement Hotline

Semiannual Report: July 2020 – December 2020

We highlighted the activity of the Bureau's Fraud, Waste, and Mismanagement hotline for the period from July 1, 2020, through December 31, 2020, including the 54 state-related reports we received. We also described our review of the multiple Unemployment Insurance program issues reported to the hotline from March 2020 through December 2020, including our analysis of benefit payment delays.

Report 21-3: Department of Employee Trust Funds

Calendar Year 2019

We provided unmodified opinions on the financial statements of the separate funds presented in the Department of Employee Trust Fund's (ETF's) 2019 Comprehensive Annual Financial Report. We also reviewed ETF's efforts to implement recommendations we made in report 19-2 related to the administration and oversight of group insurance programs.

Report 21-4: Child Care Counts Program

Under provisions of 2019 Wisconsin Act 185, we completed a review of the Child Care Counts program administered by the Department of Children and Families (DCF). Through this program, DCF awarded \$51.0 million in funding to 2,720 child care providers, which used the funds to cover certain costs related to the public health emergency that were incurred from March 12, 2020, through May 26, 2020. We found that DCF administered the program according to the procedures it established. We provided DCF with recommendations to help ensure that program funds are spent appropriately.

Report 21-5: Credentialing of Certain Health Care Providers

Under provisions of 2019 Wisconsin Act 185, we completed a review of the credentialing of certain health care providers by the Department of Safety and Professional Services (DSPS). From March 27, 2020, through June 10, 2020, DSPS issued credentials to 1,720 health care providers formerly credentialed in Wisconsin or credentialed in other states that allowed these providers to temporarily practice without Wisconsin credentials through June 10, 2020, under provisions of Act 185 and Emergency Order 16. We found that facilities did not consistently notify DSPS in a timely manner that providers had begun practicing in Wisconsin, and we recommended DSPS carefully review notification forms for timely and accurate information.

Report 21-6: State of Wisconsin FY 2019-20 Single Audit

In fiscal year (FY) 2019-20, state agencies administered \$16.6 billion in federal financial assistance, including \$3.4 billion that was related to the public health emergency and that was separately identified in the State's Schedule of Expenditures of Federal Awards. Our audit focused on 22 federal programs that accounted for 77.0 percent of the federal financial assistance administered. We found that state agencies generally complied with federal requirements, and we provided an unmodified opinion on federal compliance for 20 of the programs we reviewed. We qualified our opinion on compliance for certain requirements related to the Food Distribution Cluster at the Department of Health Services and the Child Nutrition Cluster at the Department of Public Instruction. We made 22 recommendations to improve the administration of federal programs and to address the internal control deficiencies we identified related to financial reporting. We also identified \$1.6 million of questioned costs that state agencies charged inappropriately to federal funds. The federal government will work with state agencies to resolve the concerns we identified.

Report 21-7: Wisconsin Economic Development Corporation

In FY 2019-20, the Wisconsin Economic Development Corporation (WEDC) administered 31 economic development programs under which it allocated an estimated \$56.5 million in tax credits; awarded \$27.5 million in grants and \$2.2 million in loans; and authorized local governments to issue \$170.2 million in bonds. We found that WEDC largely complied with statutes and its contracts when administering its programs in FY 2019-20, but it should improve how it oversees tax credit contracts and assesses program results. WEDC's online data contained inaccuracies and were incomplete, and its total available funding for grants, loans, and administrative costs continued to exceed its total payments. WEDC's information indicated that 681 awards closed from FY 2011-12 through FY 2019-20, including 151 tax credit and loan awards that contractually required the recipients to create jobs and 131 tax credit and loan awards that contractually required the recipients to retain jobs. Recipients created 36.2 percent of the planned number of jobs and retained 59.3 percent of the contractually required jobs.

Report 21-8: Opportunity Schools and Partnership Program

Student achievement and other factors determine whether public schools are eligible for transfer into the program. Statutes include separate eligibility criteria for Milwaukee Public Schools (MPS) and all other school districts. No schools have been transferred into the program to date. No MPS schools will be eligible for transfer into the program for the 2021-22 school year. No schools in other school districts will be eligible for transfer into the program for the 2021-22 or the 2022-23 school years.

Report 21-9: Unemployment Reserve Fund

FY 2018-19 and FY 2019-20

We provided an unmodified opinion on the financial statements of the Unemployment Reserve Fund as of and for the years ended June 30, 2019, and June 30, 2020. The Unemployment Insurance program reported \$2.4 billion in federal reimbursement for FY 2019-20. The net position of the Fund decreased by \$345.4 million and was \$1.7 billion on June 30, 2020. As a result, the lowest tax rate schedule was in effect for calendar year 2021. We reported a material weakness in internal control over financial reporting and recommended that the Department of Workforce Development (DWD) make improvements. We also recommended that DWD report to the Joint Legislative Audit Committee in September 2021 on the status of its efforts related to certain issues that were ongoing after the end of FY 2019-20.

Report 21-10: Wisconsin Lottery

FY 2019-20

We provided an unmodified opinion on the Wisconsin Lottery's financial statements as of and for the years ended June 30, 2019, and June 30, 2020. Since its inception, the Wisconsin Lottery has provided \$4.9 billion in property tax relief, including \$270.4 million distributed in FY 2019-20. Wisconsin Lottery ticket sales increased from \$713.1 million in FY 2018-19 to \$725.4 million in FY 2019-20, or by 1.7 percent. The Wisconsin Lottery was in compliance with the statutory requirements for FY 2019-20. The Wisconsin Lottery spent \$43.7 million on basic commissions and \$7.0 million on Retailer Performance Program payments in FY 2019-20.

Report 21-11: Fraud, Waste and Mismanagement Hotline

Semiannual Report: January 2021 – June 2021

We highlight the activity of the Bureau's Fraud, Waste, and Mismanagement hotline for the period from January 1, 2021, through June 30, 2021, including the 45 state-related reports we received. We also describe our review of the multiple Unemployment Insurance program issues reported to the hotline from January through June 2021, including our analysis of benefit appeal timeliness.

Report 21-12: State Retiree Health Insurance Reporting for the State of Wisconsin

June 30, 2020

The State Retiree Health Insurance program, which is one of the other postemployment benefits (OPEB) programs offered by the State of Wisconsin to eligible retirees, is administered by ETF. The Department of Administration (DOA) is responsible for preparing the financial statements of the State of Wisconsin, including calculating the total OPEB liability for the program. DOA reported a total OPEB liability of \$642.0 million as of June 30, 2020, which was \$40.5 million less than the total OPEB liability as of June 30, 2019. DOA also prepares the employer schedules and notes for the program. We provided unmodified opinions on the employer schedules and related notes for the program as of and for the year ended June 30, 2020.

Report 21-13: Retirement Funds Investment Activity

Calendar Year 2020

We provided unmodified opinions on the financial statements and related notes of the Retirement Funds investment activity for the year ended December 31, 2020. These financial statements were prepared by the State of Wisconsin Investment Board (SWIB), which invests assets for the Wisconsin Retirement System (WRS) that are held in the Core Retirement Investment Trust Fund (Core Fund) and the Variable Retirement Investment Trust Fund (Variable Fund). Together, these funds are known as the Retirement Funds. The Core Fund was 93.9 percent of total investment assets of the Retirement Funds as of December 31, 2020. From December 31, 2019, to December 31, 2020, the net investment position of the Core Fund increased from \$107.8 billion to \$120.2 billion, while the net investment position of the Variable Fund increased from \$8.7 billion to \$9.6 billion. As of December 31, 2020, 50.7 percent of the investment assets of the Retirement Funds was managed internally by SWIB.

Report 21-14: Department of Employee Trust Funds

Calendar Year 2020

We provided unmodified opinions on the financial statements and related notes for the separate funds presented in the 2020 ETF Annual Comprehensive Financial Report (ACFR), which can be found on its website. These financial statements account for the financial position and activity of the eight benefit programs available to state and local public employees as of and for the year ended December 31, 2020. The fiduciary net position of the WRS increased by 11.5 percent and was \$125.0 billion as of December 31, 2020. We recommended that ETF improve certain aspects of its monitoring of the Employee Reimbursement Accounts/Commuter Benefits program.

We also provided unmodified opinions on the employer schedules and related notes prepared by ETF for the WRS, the State Retiree Life Insurance program, the Local

Retiree Life Insurance program, and the Supplemental Health Insurance Conversion Credit (SHICC) program as of and for the year ended December 31, 2020. These schedules are available on ETF's website. In these schedules, ETF reports a net pension asset for the WRS, a net OPEB liability for the State Retiree Life Insurance program and the Local Retiree Life Insurance program, and a net OPEB asset for the SHICC program. These schedules were prepared to assist participating employers, including the State of Wisconsin, in preparing their financial statements in accordance with generally accepted accounting principles.

Report 21-15: Wisconsin Retirement System Reporting for Participating Employers

Calendar Year 2020

Report 21-16: State Retiree Life Insurance Reporting for the State of Wisconsin

Calendar Year 2020

Report 21-17: Local Retiree Life Insurance Reporting for Participating Employers

Calendar Year 2020

Report 21-18: Supplemental Health Insurance Conversion Credit Program Reporting for the State of Wisconsin

Calendar Year 2020

Report 21-19: Elections Administration

As directed by the Joint Legislative Audit Committee, we evaluated elections administration issues, including:

- efforts by the Wisconsin Elections Commission (WEC) to comply with election laws, including by working with clerks to ensure voter registration records include only eligible voters, and by providing training and guidance to clerks;
- efforts by clerks to comply with election laws, including by administering elections, processing absentee ballots, and performing recount responsibilities, as well as the observations and concerns of clerks regarding elections administration;
- the use of electronic voting equipment, including the methodology and results of WEC's most-recent statutorily required post-election audit and the actions taken as a result of this audit; and
- General Election-related complaints filed with WEC and clerks, as well as how these complaints were addressed.

Because our audit was not approved until three months after the November 2020 General Election, we did not directly observe Election Day practices. Therefore, to complete this audit we relied on available evidence we were able to access. We contacted WEC's staff, surveyed all 1,835 municipal clerks and 72 county clerks in April 2021, contacted 179 clerks to obtain additional information about elections administration issues, analyzed voter registration data, physically reviewed

14,710 certificates that accompanied absentee ballots returned to clerks in 29 municipalities throughout the state, reviewed the results of 175 statutorily required tests of electronic voting equipment that clerks in 25 municipalities completed before the November 2020 General Election, and reviewed all 45 sworn, written complaints pertaining to the General Election that were filed with WEC as of late-May 2021.

We made 30 recommendations to WEC's staff for various improvements and included 18 issues for legislative consideration.

Report 21-20: State Investment Fund

FY 2020-21

We provided an unmodified opinion on the financial statements and related notes of the State Investment Fund (SIF) as of and for the year ended June 30, 2021. These financial statements were prepared by SWIB, which manages the SIF. The SIF invests the excess operating cash balances of State of Wisconsin agencies, the WRS, and the Wisconsin Local Government Investment Pool. As of June 30, 2021, State of Wisconsin agencies held 51.6 percent of the total participant shares in the SIF. Net investment income of the SIF decreased from \$198.0 million as of June 30, 2020, to \$14.8 million as of June 30, 2021. The net position of the SIF increased from \$16.0 billion as of June 30, 2020, to \$19.5 billion as of June 30, 2021.

Report 21-21: Electronics and Information Technology Manufacturing Zone Program

In April 2021, WEDC executed an amended and restated \$80.0 million contract with four corporations that are collectively referred to as "Foxconn." At the time of our audit fieldwork in early-December 2021, WEDC had not yet awarded program tax credits to Foxconn for creating jobs and making capital investments in 2020. Therefore, in this report, we evaluated WEDC's process for verifying information submitted by recipients of program tax credits. Although WEDC addressed our prior recommendations for modifying its procedures for awarding program tax credits, we recommended that it modify its written procedures to specify that it will award performance tax credits based on provisions in its April 2021 contract.

Report 21-22: University of Wisconsin System

FY 2020-21

We provided unmodified audit opinions on the University of Wisconsin (UW) System System's FY 2020-21 financial statements, including its aggregate discretely presented component units. UW System's net position increased from \$5.4 billion as of June 30, 2020, to \$6.0 billion as of June 30, 2021. A decline in revenue from tuition and auxiliary operations was offset by the increased federal funding UW System received related to the public health emergency. On a budgetary basis, UW System's unrestricted program revenue balance increased from \$773.2 million as of June 30, 2020, to \$977.3 million as of June 30, 2021, or by 26.4 percent. We continued to identify concerns related to establishing a comprehensive information security program at UW System. We recommended UW System Administration ensure it monitors UW institutions for compliance with systemwide policies.

Report 21-23: State of Wisconsin FY 2020-21 Financial Statements

We provided unmodified audit opinions on the State of Wisconsin's FY 2020-21 financial statements. These financial statements are included in the State's ACFR, which is prepared by DOA. We report three significant deficiencies in internal control related to information technology security at DOA, DWD, and UW System. We report an additional significant deficiency in internal control at DWD related to its use of a predictive analytics model for the Unemployment Insurance Program. We make recommendations to these agencies to address the deficiencies we identified, and we report on certain other matters of interest related to the State's activities in FY 2020-21.

Reports Published in 2022

Report 22-1: Fraud, Waste, and Mismanagement Hotline

Semiannual Report: July 2021 – December 2021

We highlight the activity of the Bureau's Fraud, Waste, and Mismanagement Hotline for the period from July 1, 2021, through December 31, 2021, including the 19 state-related reports we received. We also highlight selected reports we resolved since the publication of our last semiannual report.

Report 22-2: Electronics and Information Technology Manufacturing Zone Program

In April 2021, WEDC executed an amended and restated \$80.0 million contract with four corporations that are collectively referred to as "Foxconn." At the time of our audit fieldwork in early-December 2021, WEDC had not yet awarded program tax credits to Foxconn for creating jobs and making capital investments in 2020. Therefore, in report 21-21, we evaluated WEDC's process for verifying information submitted by recipients of program tax credits. In late-December 2021, WEDC awarded Foxconn \$28.8 million in program tax credits for creating jobs and making capital investments in 2020. In this report (report 22-2), we found that WEDC adhered to statutory and contractual requirements when it verified the program tax credits that it awarded.

Report 22-3: Emergency Rental Assistance and Emergency Solutions Grant Programs

DOA administers the Emergency Rental Assistance program and Emergency Solutions Grant program to provide housing assistance and emergency shelter assistance to individuals in need. The Emergency Rental Assistance program provided \$64.0 million in benefits for 15,968 households from March 2021 through September 2021. In July 2020, DOA was awarded \$32.5 million in supplemental federal funds for the Emergency Solutions Grant program, and these funds were used to serve 19,013 individuals from 12,001 households from July 2020 through December 2021. We made recommendations for DOA to improve how it administers the Emergency Rental Assistance program, including by improving the program's application process, modifying the process for prioritizing applications for program benefits, and improving how it monitors the program. We also made recommendations for DOA to improve how it monitors the Emergency Solutions Grant program.

Report 22-4: Wisconsin Healthcare Stability Plan

2017 Wisconsin Act 138 created the Wisconsin Healthcare Stability Plan, which is administered by the Office of the Commissioner of Insurance (OCI) and operates under a federal waiver that allows states to pursue innovative strategies for providing individuals with access to high-quality, affordable health insurance. Under the Plan, a health insurer in the individual market may be reimbursed by the State for a portion of the claims it incurred in the prior calendar year. OCI reimbursed health insurers \$174.3 million in 2020 and \$183.5 million in 2021. From 2018 through 2022, the number of types of plans in the individual market increased in 39 counties. Although we found OCI's administration and oversight of the Plan complied with legal requirements, we recommended that OCI improve how it audits the claims of health insurers that request reimbursement under the Plan.

Report 22-5: State of Wisconsin FY 2020-21 Single Audit

In FY 2020-21, state agencies administered \$20.8 billion in federal financial assistance, including \$6.6 billion that was expended related to the public health emergency and that was separately identified in the State's Schedule of Expenditures of Federal Awards. Our audit focused on 24 federal programs that accounted for 82.3 percent of the federal financial assistance administered. We found that state agencies generally complied with federal requirements, and we provided an unmodified opinion on federal compliance for 22 of the programs we reviewed. However, we qualified our opinion on compliance for certain requirements related to the Emergency Rental Assistance Program and the Unemployment Insurance program. We made 25 recommendations to improve the administration of federal programs and to address the internal control deficiencies we identified related to financial reporting. We also identified \$314,531 of questioned costs that state agencies charged inappropriately to federal funds. The federal government will work with state agencies to resolve the concerns we identified.

Report 22-6: Injured Patients and Families Compensation Fund

FY 2018-19, FY 2019-20, and FY 2020-21

The Injured Patients and Families Compensation Fund insures health care providers in Wisconsin against medical malpractice claims that exceed the primary malpractice insurance thresholds established in statutes. The Fund is administered by OCI. We provided unmodified opinions on the Fund's financial statements as of and for the years ended June 30, 2021, June 30, 2020, and June 30, 2019. The Fund's net position was \$1.3 billion as of June 30, 2021, which is significantly above the minimum net position level set by the Board of Governors in September 2020. The assessment rates charged to participating health care professionals and providers were waived beginning in FY 2020-21. The Fund's procedures were not sufficient to prevent or detect errors in the financial statements on a timely basis. We reported two material weaknesses in internal control related to the Fund's financial reporting process, and we made recommendations to OCI for improvement.

Report 22-7: Wisconsin Lottery

FY 2020-21

We provided an unmodified opinion on the Wisconsin Lottery's financial statements as of and for the years ended June 30, 2020, and June 30, 2021. Since its inception, the Wisconsin Lottery has provided \$5.1 billion in property tax relief, including \$236.3 million distributed in FY 2020-21. Wisconsin Lottery ticket sales increased from

\$725.4 million in FY 2019-20 to \$894.5 million in FY 2020-21, or by 23.3 percent. The Wisconsin Lottery was in compliance with the statutory requirements for FY 2020-21. The Wisconsin Lottery spent \$54.0 million on basic commissions and \$8.8 million on Retailer Performance Program payments in FY 2020-21.

Report 22-8: State of Wisconsin Investment Board

SWIB invests assets for the WRS, the SIF, and four other funds. As of December 31, 2021, SWIB managed \$165.7 billion in assets, including \$147.2 billion in WRS assets. As of December 2021, the Core Fund of the WRS exceeded its five-year benchmark, but the Variable Fund of the WRS did not. The 20-year average annual investment return exceeded the long-term expected rate-of-return assumption as of December 2021. From December 2017 through December 2021, the proportion of assets SWIB managed internally decreased from 64.0 percent to 53.3 percent, and SWIB's expenses increased from \$427.4 million in 2017 to \$702.1 million in 2021 (64.3 percent) primarily because of an increase in management fees SWIB paid to external investment managers. SWIB's staff increased by 55.0 full-time equivalent (FTE) positions since December 2019 and totaled 290 FTE as of December 2021. SWIB has initiated several IT projects in recent years, including Project Centum that is behind schedule and over budget. For 2021 performance, 217 SWIB staff received a total of \$24.0 million in bonuses, which was the highest amount awarded over the past five years. In total, we made 13 recommendations to SWIB.

Report 22-9: Fraud, Waste, and Mismanagement Hotline

Semiannual Report: January 2022 – June 2022

We highlight the activity of the Bureau's Fraud, Waste, and Mismanagement hotline for the period from January 1, 2022, through June 30, 2022, including the 36 state-related reports we received.

Report 22-10: State Retiree Health Insurance Reporting for the State of Wisconsin

June 30, 2021

The State Retiree Health Insurance program, which is one of the OPEB programs offered by the State of Wisconsin to eligible retirees, is administered by ETF. DOA is responsible for preparing the financial statements of the State of Wisconsin, including calculating the total OPEB liability for the program. DOA reported a total OPEB liability of \$712.9 million as of June 30, 2021. DOA also prepares the employer schedules and notes for the program. We provided unmodified opinions on the employer schedules and related notes of the program as of and for the year ended June 30, 2021.

Report 22-11: Certain Broadband Expansion Grant Programs

The Public Service Commission of Wisconsin (PSC) administers programs that award grants to telecommunication providers that make broadband service available to businesses and residences. In October 2020, DOA allocated \$6.2 million in Coronavirus Aid, Relief, and Economic Security (CARES) Act funds to PSC. In July 2021, DOA allocated \$103.4 million in American Rescue Plan Act (ARPA) funds to PSC. Through June 2022, PSC awarded \$105.3 million in broadband grants and reimbursed telecommunication providers \$7.7 million. We recommended that PSC improve its program administration, including by establishing comprehensive written policies and improving how it reviews and awards grants, reimburses telecommunication providers, and oversees the programs.

Report 22-12: Retirement Funds Investment Activity*Calendar Year 2021*

We provided unmodified opinions on the financial statements and related notes of the Retirement Funds investment activity for the year ended December 31, 2021. These financial statements were prepared by SWIB, which invests assets for the WRS that are held in the Core Fund and the Variable Fund. Together, these funds are known as the Retirement Funds. The Core Fund was 94.1 percent of total investment assets of the Retirement Funds as of December 31, 2021. From December 31, 2020, to December 31, 2021, the net investment position of the Core Fund increased from \$120.2 billion to \$136.3 billion, while the net investment position of the Variable Fund increased from \$9.6 billion to \$10.9 billion. As of December 31, 2021, 49.0 percent of the investment assets of the Retirement Funds was managed internally by SWIB. We recommended that SWIB increase the transparency of its reporting of external investment management fees, which SWIB indicated totaled \$571.5 million in 2021.

Report 22-13: Wisconsin Retirement System*Calendar Year 2021*

We provided unmodified opinions on the financial statements and related notes prepared by ETF for the WRS (report 22-13), the Retiree Life Insurance programs (report 22-15), and the SHICC program (report 22-18). The fiduciary net position of the WRS increased by 13.5 percent and was \$141.8 billion as of December 31, 2021. As of December 31, 2021, the fiduciary net position of the State Retiree Life Insurance program was \$319.6 million, the fiduciary net position of the Local Retiree Life Insurance program was \$248.2 million, and the fiduciary net position of the SHICC program was \$1.4 billion. We also provided unmodified opinions on the employer schedules and related notes prepared by ETF for the WRS (report 22-14), the State Retiree Life Insurance program (report 22-16), the Local Retiree Life Insurance program (report 22-17), and the SHICC program (report 22-19).

Report 22-14: Wisconsin Retirement System Reporting for Participating Employers*Calendar Year 2021***Report 22-15: Retiree Life Insurance Programs***Calendar Year 2021***Report 22-16: State Retiree Life Insurance Reporting for the State of Wisconsin***Calendar Year 2021***Report 22-17: Local Retiree Life Insurance Reporting for Participating Employers***Calendar Year 2021***Report 22-18: Supplemental Health Insurance Conversion Credit Program***Calendar Year 2021***Report 22-19: Supplemental Health Insurance Conversion Credit Program****Reporting for Participating Employers***Calendar Year 2021*

Report 22-20: State Life Insurance Fund*Calendar Years 2021, 2020, and 2019*

We provided unmodified audit opinions on the State Life Insurance Fund's financial statements. The State Life Insurance Fund, which is self-funded through insurance premiums and investment earnings, provides low-cost life insurance to Wisconsin residents. The Fund's financial statements for the years ended December 31, 2021, December 31, 2020, and December 31, 2019, were fairly presented in accordance with financial reporting requirements prescribed by the Wisconsin Commissioner of Insurance. The surplus-to-assets ratio has been within the statutorily specified range since 2014 and was 9.3 percent as of December 31, 2021.

Report 22-21: We're All In and Wisconsin Tomorrow Programs

Using supplemental federal funding, the Department of Revenue (DOR) awarded \$220.7 million through June 2022 in 38,116 grants through its We're All In program to small businesses, restaurants, and similar entities. Through June 2022, DOR also awarded \$375.2 million in 61,637 grants through its Wisconsin Tomorrow program to small businesses and lodging establishments. We performed a detailed review of 172 grants and we found DOR did not follow written eligibility requirements when it awarded 45 of these grants. We recommended that DOR report to the Joint Legislative Audit Committee on the results of its ongoing efforts to identify and recover program grants it made in error.

Report 22-22: State Investment Fund*FY 2021-22*

We provided an unmodified opinion on the financial statements and related notes of the SIF as of and for the year ended June 30, 2022. These financial statements were prepared by SWIB, which manages the SIF. The SIF invests the excess operating cash balances of State of Wisconsin agencies, the WRS, and the Wisconsin Local Government Investment Pool. As of June 30, 2022, State of Wisconsin agencies held 61.2 percent of the total participant shares in the SIF. As of June 30, 2022, 51.7 percent of the investments in the SIF were in U.S. Treasury obligations and securities of federal agencies. The net position of the SIF increased from \$19.5 billion as of June 30, 2021, to \$20.2 billion as of June 30, 2022.

Report 22-23: Decisions About the Use of Supplemental Federal Funds

From March 2020 through June 2022, DOA was provided \$5.7 billion in supplemental federal funds through the CARES Act; the Consolidated Appropriations Act; and ARPA. The State has the discretion to spend \$4.5 billion of the \$5.7 billion, but federal law requires that \$1.1 billion be spent for specified purposes. We found that DOA paid \$2.2 billion to other state agencies that used the funds for programs they administered, and DOA spent \$1.5 billion on its own programs. As of June 30, 2022, \$1.9 billion was remaining, including \$1.8 billion in discretionary funds. However, in December 2022, DOA indicated it had plans for using most of these funds. We recommended DOA improve the transparency and clarity of the State's use of supplemental federal funds.

Report 22-24: Electronics and Information Technology Manufacturing Zone Program

In April 2021, WEDC executed an amended and restated \$80.0 million contract with four corporations that are collectively referred to as "Foxconn." We evaluated WEDC's process for verifying information submitted by recipients of program tax credits. In November 2022, WEDC awarded Foxconn \$8.6 million in program tax credits for creating jobs and making capital investments in 2021. We found that WEDC adhered

to statutory and contractual requirements, as well as its written procedures, when it verified the program tax credits that it awarded to Foxconn in November 2022.

Report 22-25: University of Wisconsin System

FY 2021-22

We provided unmodified audit opinions on UW System's FY 2021-22 financial statements, including its aggregate discretely presented component units. UW System's net position increased from \$6.0 billion as of June 30, 2021, to \$6.4 billion as of June 30, 2022. On a budgetary basis, UW System's unrestricted program revenue balance increased from \$977.3 million as of June 30, 2021, to \$1.1 billion as of June 30, 2022, or by 13.2 percent. We also completed a limited-scope review of how UW institutions administered supplemental federal funds from three sources. We found that UW institutions used \$239,200 from the Higher Education Emergency Relief Fund for costs that were unallowable by criteria that the federal government established. In addition, we recommended UW System Administration improve its oversight of a new computer application.

Report 22-26: State of Wisconsin FY 2021-22 Financial Statements

We provided unmodified audit opinions on the State of Wisconsin's FY 2021-22 financial statements. These financial statements are included in the State's ACFR, which is prepared by DOA. The General Fund total fund balance improved from \$1.2 billion as of June 30, 2021, to \$4.6 billion as of June 30, 2022. We reported seven significant deficiencies in internal control over financial reporting, and we made 24 recommendations to state agencies. We also reviewed certain aspects of the federal funding the State received for the public health emergency, and we included in our report certain other matters of interest related to the State's activities in FY 2021-22.

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Appendices

Appendix 1

Recurring Audit Responsibilities

Under s. 13.94, Wis. Stats., and other statutory provisions, the Legislative Audit Bureau is required to conduct annual financial audits of:

- the University of Wisconsin System;
- the Department of Employee Trust Funds;
- the Capital Improvement Fund;
- the Bond Security and Redemption Fund;
- the State of Wisconsin Investment Board; and
- the Wisconsin Lottery.

Beginning in 2018, and for each of the next 5 years, we are required to evaluate the process used by the Wisconsin Economic Development Corporation (WEDC) to verify information submitted by recipients of tax credits allocated under the Electronics and Information Technology Manufacturing Zone program and analyze whether WEDC adhered to statutory and contractual requirements when it verified the amount of program tax credits to award. Report 22-24 was our final report issued in fulfillment of this statutory requirement.

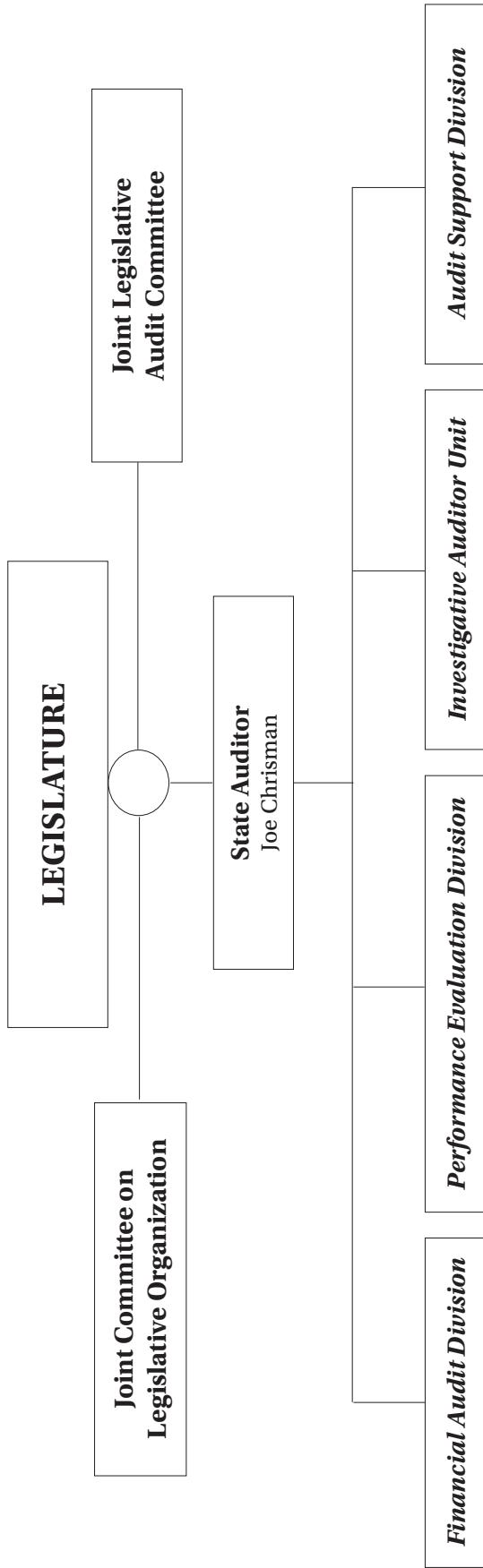
Statutes require us to conduct biennial performance evaluations of the State of Wisconsin Investment Board, WEDC, and the Opportunity Schools and Partnership Programs.

At least once every three years, we are required by statutes to audit the State Life Insurance Fund and the Injured Patients and Families Compensation Fund. In recent years, we have performed these audits every three years and have performed interim work each year for purposes of our annual audit of the State of Wisconsin's financial statements.

Statutes require us to periodically contract for an actuarial audit of the Wisconsin Retirement System and to conduct county and municipal best practices reviews. We are also required to review the quarterly statements of economic interest and reports of economic transactions that members and employees of the State of Wisconsin Investment Board file with the Wisconsin Ethics Commission, and we are responsible for conducting special examinations of the accounts and financial transactions of any department or office as the Legislature, the Joint Legislative Audit Committee, or the Joint Committee on Legislative Organization directs.

Appendix 2

Wisconsin Legislative Audit Bureau
December 2022



Appendix 3

Index by Audit Topic

Economic Development and Employment

Wisconsin Economic Development Corporation (report 21-7)

Unemployment Reserve Fund FY 2018-19 and FY 2019-20 (report 21-9)

Electronics and Information Technology Manufacturing Zone Program
(report 21-21)

Electronics and Information Technology Manufacturing Zone Program
(report 22-2)

We're All In and Wisconsin Tomorrow Programs (report 22-21)

Electronics and Information Technology Manufacturing Zone Program
(report 22-24)

Education

Opportunity Schools and Partnership Program (report 21-8)

University of Wisconsin System FY 2020-21 (report 21-22)

University of Wisconsin System FY 2021-22 (report 22-25)

Gaming and Lottery

Wisconsin Lottery FY 2019-20 (report 21-10)

Wisconsin Lottery FY 2020-21 (report 22-7)

Health Care and Human Services

Child Care Counts Program (report 21-4)

Credentialing of Certain Health Care Providers (report 21-5)

Emergency Rental Assistance and Emergency Solutions Grant Programs
(report 22-3)

Wisconsin Healthcare Stability Plan (report 22-4)

Insurance

State Retiree Health Insurance Reporting for the State of Wisconsin June 30, 2020
(report 21-12)

State Retiree Life Insurance Reporting for the State of Wisconsin Calendar Year 2020
(report 21-16)

Local Retiree Life Insurance Reporting for Participating Employers Calendar Year 2020
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