



STATE OF WISCONSIN
Legislative Audit Bureau

22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410
www.legis.wisconsin.gov/lab

Janice Mueller
State Auditor

March 30, 2010

Mr. David Stella, Secretary
Department of Employee Trust Funds
801 West Badger Road
Madison, Wisconsin 53702

Dear Mr. Stella:

We have completed the financial audit of the State of Wisconsin Department of Employee Trust Funds as of and for the year ended December 31, 2008. We have issued an unqualified auditor's report on the fair presentation of the Department's financial statements. The financial statements and related opinion are included in the Department's Comprehensive Annual Financial Report.

As required by *Government Auditing Standards*, we also are furnishing you with the auditor's report on internal control over financial reporting, compliance with laws and regulations, and other matters. We are pleased to note that the Department has taken steps to improve its oversight of the financial reporting process. However, we identified continuing concerns related to cash reconciliations and controls over employee access to certain computer systems.

The Department's responses and corrective action plans to implement recommended improvements are included in the text so that readers may see your intended resolution of the matters discussed. In future audits, the Audit Bureau will determine the extent to which the concerns discussed in this letter have been resolved.

We appreciate the courtesy and cooperation extended to us by the Department's staff during the audit.

Sincerely,

Janice Mueller
State Auditor

JM/DA/ss



STATE OF WISCONSIN

Legislative Audit Bureau

22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410
www.legis.wisconsin.gov/lab

Janice Mueller
State Auditor

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the State of Wisconsin Department of Employee Trust Funds as of and for the year ended December 31, 2008, and have issued our report thereon dated March 24, 2010. The financial statements and related auditor's opinion have been included in the Department's Comprehensive Annual Financial Report for 2008. 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*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department'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 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 Department's financial statements will not be prevented or will not be detected and corrected on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. Further, as discussed in the accompanying narrative, the Department has taken steps to resolve a material weakness noted in the 2007 audit pertaining to its financial reporting process.

However, we consider a continuing deficiency pertaining to cash reconciliations, which is further discussed in the accompanying narrative, to be a significant deficiency. 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.

Compliance and Other Matters

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

We noted certain additional matters pertaining to controls over employee access to two computer systems that are discussed in the accompanying narrative.

The Department's written response to the findings identified in our audit is described in the accompanying narrative. We did not audit the Department's response and, accordingly, express no opinion on it.

This independent auditor's report is intended solely for the information and use of the Department's management and governing boards, and the Wisconsin Legislature. This report is a matter of public record and its distribution is not limited. However, because we do not express an opinion on the effectiveness of the Department's internal control or on compliance, this report is not intended to be used by anyone other than these specified parties.

LEGISLATIVE AUDIT BUREAU

March 24, 2010

by



Diann Allsen
Audit Director

DEPARTMENT OF EMPLOYEE TRUST FUNDS

The Department of Employee Trust Funds is responsible for administering the Wisconsin Retirement System (WRS) and several other programs that provide retirement, disability, health insurance, and other benefits to participants who are current and retired employees of the state and local governments.

As part of our annual financial audits, we review and consider the Department's internal controls and compliance issues for the purpose of determining the audit work necessary to express an opinion on its financial statements. During our audit of the Department's 2008 financial statements, we note continuing concerns related to cash reconciliations and controls over employee access to certain computer systems. We also note that the Department has taken steps to improve its oversight of the financial reporting process.

Cash Reconciliations

The Department uses WiSMART, the State's official accounting system, to process financial transactions and a separate internal financial reporting software package, Helmsman, to create financial statements for its programs. Section 16.41, Wis. Stats., requires all agencies to keep their accounts and other financial records in the form prescribed by the Department of Administration (DOA) under s. 16.40, Wis. Stats. As a state agency, the Department is responsible for ensuring its information on WiSMART is complete and accurate. An important step in ensuring the accuracy of the financial information on WiSMART is to reconcile it to the Department's internal financial records and systems. Further, regular reconciliations between the systems better ensure that information reported by the Department in its financial reports is complete and accurate.

The Department is not able to fully reconcile its cash balances between the systems. While it has made some attempts to reconcile cash balances at a fund level, varying amounts of unreconciled differences exist at the end of each year. Further, the Department has made only limited progress in reconciling cash balances on a program level, which is the level at which it reports and at which we opine on the financial statements in its annual financial report.

We have, to date, accepted the cash balances reported by the Department in its financial reports as materially correct. However, larger unreconciled variances could affect our ability to issue unqualified auditor's opinions in the future. Because the Department has a responsibility to ensure the accuracy of its information on the State's official accounting system and records, we have recommended in each of our audits since 2004 that it take steps to reconcile the cash balances for each program.

In response to our past audit recommendations, the Department agreed that it would be desirable for the State's accounting system to have the most accurate balances for the Department's programs, although it indicated that fully reconciling the systems may not be possible given the amount of time that has passed since WiSMART was implemented. The Department has sought help from the State Controller's Office in addressing questions related to the reconciliation of cash balances between the two systems.

In addition, in August 2009, the Department hired a limited-term employee who, among other tasks, began to analyze the reasons for the discrepancies in the cash balances. However, the Department still needs to determine what corrections should be made in these programs. Further, a detailed analysis of the Department's other programs remains uncompleted. While the Department has made a commitment to completing these tasks, further progress in the reconciliation needs to be made.

☑ Recommendation

We recommend the Department of Employee Trust Funds continue its efforts to reconcile the cash balances for each program and take steps to correct any inaccuracies identified in the cash balances on the State's accounting system or Helmsman through the reconciliation process.

Department Response and Corrective Action Plan: The Department continues to make progress in reconciling the cash balances of various programs. Pending available staff time at both the Department and the State Controller's Office, we are on track to complete this task in calendar year 2010.

Access to Certain Computer Systems

In a management letter for our 2007 audit, we recommended that the Department be more diligent in ensuring that necessary access changes to the Wisconsin Employee Benefit System (WEBS) and WiSMART are made in a timely manner. The same concern discussed in that management letter, which was issued November 18, 2009, also existed for 2008.

In its response to our past recommendation, the Department agreed that a review of its access procedures would be beneficial and identified potential procedural changes. These potential changes include, but are not limited to, using e-mails generated by the Division of Management Services to terminate or adjust employee access, and emphasizing the importance of completing annual supervisor access reviews in a timely manner.

Because the November 2009 management letter was issued recently, the Department has not had time to fully implement its planned procedural changes. We will, therefore, defer our review of these changes to our 2009 audit. However, because the concern existed during 2008, we continue to report it as a deficiency.

Department Response and Corrective Action Plan: The process used when agency employees transfer to different positions within the Department has been modified to ensure that the access associated with the old position is terminated coincident with the start date of the new position. In addition, the Secretary's Office sent a communication to all supervisors reinforcing the current policy and process regarding the granting and termination of access to the Department's information technology systems. This communication also reiterated the process for granting and terminating access to contract staff. This information was also communicated at a recent meeting of agency managers and supervisors. Finally, the Department will continue to have supervisors perform an annual review of access to WEBS and require a timely response for this review.

Oversight of the Financial Reporting Process

During our audits of the financial statements for 2006 and 2007, we reported on concerns that the Department did not have adequate procedures and did not provide sufficient attention and oversight to ensure the accuracy of its financial reporting process.

The Department agreed with our concerns and initiated efforts to improve the oversight of the financial reporting process. These efforts included adding one full-time accountant position, increasing a part-time position to full-time, and having the Department's Internal Audit staff provide a quality assurance review of the financial information before it is made available for audit.

These efforts initiated by the Department appear to have improved the reporting process. We did not identify the level of errors in the Department's financial reporting package that we found in 2006 and 2007. However, we caution that oversight of the financial reporting process is a continuous and iterative process that requires continued attention and monitoring by the Department.

Department Response: The Department continues to make progress in improving the oversight of the financial reporting process and is pleased that LAB has acknowledged improvement in this area. The Department intends on continuing the process changes made in recent years while exploring other desirable modifications that will assist in minimizing these issues in the future.
