Report 19-1
January 2019

Biennial Report

January 1, 2017 – December 31, 2018

State of Wisconsin



Legislative Audit Bureau

Report 19-1
January 2019

Biennial Report

January 1, 2017 – December 31, 2018

Report 19-1
January 2019

LEGISLATIVE AUDIT BUREAU

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.*

Contact the Bureau at 22 East Mifflin Street, Suite 500, Madison, Wisconsin 53703; *askLAB@legis.wisconsin.gov;* or (608) 266-2818.

CONTENTS

STATE OF WISCONSIN | Legislative Audit Bureau
22 East Mifflin St., Suite 500 ▪ Madison, WI 53703 ▪ (608) 266-2818 ▪ Hotline: 1-877-FRAUD-17 ▪ www.legis.wisconsin.gov/lab

Joe Chrisman
State Auditor

January 11, 2019

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

Dear Governor Evers and Members of the Legislature:

This biennial report, which is required under s. 13.94 (1) (j), Wis. Stats., summarizes the nonpartisan Legislative Audit Bureau's statutory responsibilities and highlights significant accomplishments from January 1, 2017, through December 31, 2018.

The Bureau publishes independent audits, evaluations, reviews, opinions, and certifications that help to assure the Legislature and the public that financial transactions and management decisions are made effectively, efficiently, and in compliance with the law and that the policies and practices of state agencies are consistent with legislative intent. Our reports frequently include recommendations that improve government programs and services, and ensure public funds are wisely spent and appropriately accounted for. 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,

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, the Joint Legislative Audit Committee, or the Joint Committee on Legislative Organization;
- issues independent auditor's reports on the State's financial statements, which are published in the State's Comprehensive Annual Financial Report (CAFR) 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;
- conducts periodic "best practices" reviews of governmental service delivery by counties and municipalities; and
- performs other financial audit and performance evaluation work initiated by the State Auditor or in response to requests by individual legislators or other units of government.

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 they 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 2017 and 2018 requires the Bureau 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 (required by 2017 Wisconsin Act 58);
- conduct an audit, if so requested by the Department of Corrections (DOC), of a county's net operating costs for a secured residential care center for children and youth that holds only female juveniles

for the purpose of determining the amount, if any, of a net operating loss to be reimbursed by DOC (required by 2017 Wisconsin Act 59); and

- review certain determinations made by the Department of Revenue related to the calculation of individual income tax rates and report to the Joint Legislative Audit Committee and the Joint Committee on Finance not later than November 1, 2019 (required by 2017 Wisconsin Act 368).

Other recurring statutory audit responsibilities are described in Appendix 1.

Budget and Staffing

The Bureau's annual operating budget is approximately $6.4 million in general purpose revenue (GPR) and $2.2 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 make up the remaining audit staff. Our current organization chart is Appendix 2.

The Bureau adheres to professional auditing standards.

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.

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 September 2018. In addition, our evaluations of the *Wisconsin Economic Development Corporation* (report 15-3) and the *State Highway Program* (report 17-2) were recognized for "significant impact on public policy" by the National Conference of State Legislatures' National Legislative Program Evaluation Society in September 2017 and 2018, respectively.

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 approved five audit requests and held nine public hearings in 2017 and 2018.

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 the 2017-2018 legislative session, its members were:

Senator Robert Cowles, Co-chairperson	Representative Samantha Kerkman, Co-chairperson
Senator Chris Kapenga	Representative John Macco
Senator Alberta Darling	Representative John Nygren
Senator Kathleen Vinehout	Representative Melissa Sargent
Senator Mark Miller	Representative Terese Berceau

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

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 an evaluation or audit by writing to the Audit Committee co-chairs.

Any legislator may request a performance evaluation or a financial audit by writing to the Audit Committee's 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.

A briefing sheet is prepared for each report and provides a one-page summary of the audit's background, key findings, and recommendations. Many reports also include a report highlights, which features key issues and the report's main findings and recommendations. Report highlights are available in print, as podcasts, and on the Bureau's website, *www.legis.wisconsin.gov/lab.* An email notification service is also available by free subscription. Individuals may follow the Bureau on Twitter *@WiLegAudit.*

The Bureau's website lists audits in progress and numbered reports published since 2011, and the website may be searched for the full text, briefing sheets, and highlights of all published reports from 1998 through 2018. 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 received since 2011 is currently available.

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

■ ■ ■ ■

Financial Audits and Performance Evaluations ▪

From January 2017 through December 2018, the Bureau published more than 40 reports, including:

- financial audit reports, including two single audits that tested compliance with federal grant requirements related to approximately $12 billion in federal financial assistance administered annually by state agencies in fiscal year (FY) 2015-16 and FY 2016-17;
- 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 general financial statements, which required on-site audit work at major state agencies and were published annually in the State of Wisconsin's CAFR;
- independent auditor's reports on the financial statements of the University of Wisconsin (UW) System, which were published in its annual reports;
- numerous 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 include detailed, impartial reviews of the financial statements prepared by an audited entity.

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 comprehensiveness 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 independent 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 that indicates whether financial transactions have been conducted and reported appropriately, as well as a report on internal controls and on our tests for compliance with certain laws and other regulations. Noncompliance in these tested cases could have a direct and material (that is, quantitatively or qualitatively significant) effect on the amounts shown in the financial statements and may be defined as a significant deficiency or a material weakness.

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

An unmodified, or "clean," opinion signifies that after reviewing an agency's financial statements and the accompanying notes, the auditor has concluded they conform to generally accepted accounting principles (GAAP), or in some cases to another standard, and that they reliably represent the agency's true financial condition. A modified opinion expresses reservations about the financial statements because, for example, underlying records are not sufficient or accounting principles have not been consistently applied from year to year.

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

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.

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 2017 and 2018, we identified improvements that could be made to financial reporting by state agencies.

In 2017 and 2018, we identified improvements that could be made to financial reporting by state agencies:

- We reported a significant deficiency in internal control over financial reporting after we found the State Controller's Office (SCO) within DOA had not performed or documented complete monthly reconciliations that included all components and reconciling items of the cash balance on the accounting records to the bank records, nor had it prepared a monthly bank reconciliation statement since implementation in October 2015 of STAR, which is the State's enterprise resource planning system. Further, SCO staff had not developed written policies and procedures for preparing complete monthly bank reconciliations of cash balances. (For details, see report 17-4, *State of Wisconsin FY 2015-16 Financial Statements*.)

- We reported a significant deficiency related to use of inaccurate information to prepare the Statement of Cash Flows in the financial statement for the Injured Patient and Families Compensation Fund administered by the Office of the Commissioner of Insurance. (For details, see report 17-4, *State of Wisconsin FY 2015-16 Financial Statements*.)

- We again reported a significant deficiency related to errors we identified in ETF's financial statements and related notes. (For details, see report 17-7, *Department of Employee Trust Funds*.)

- We again reported a material weakness in the Public Service Commission's (PSC's) internal control over financial reporting for the Universal Service Fund (USF) after we identified several material or significant errors that required adjustments to the financial statements and notes. (For details, see report 17-11, *Universal Service Fund*.)

- We reported a significant deficiency in internal control over financial reporting at the Department of Health Services (DHS). Because certain corrections in STAR were not attributed to the correct fiscal year and DHS did not reflect them in their original submission for the State's basic financial statements, the Intergovernmental Revenue account was understated by $275.4 million on the Statement of Revenues, Expenditures, and Changes in Fund Balance. In addition, the Due from Other Governments account and Fund Balance were both understated by $275.4 million on the Balance Sheet. We recommended that DHS take steps to ensure that entries recorded in a subsequent fiscal year should instead be recorded in the current fiscal year. (For details, see report 18-20, *State of Wisconsin FY 2017-18 Financial Statements.)*

- We identified two concerns related to reporting of infrastructure capital assets and other nondepreciable capital assets by the Department of Transportation (DOT). We considered these findings, when combined, to be a material weakness in internal control over financial reporting at DOT, and we recommended DOT address these concerns. We note that we previously identified a significant deficiency in internal control over financial reporting at DOT in report 18-3. (For details, see report 18-20, *State of Wisconsin FY 2017-18 Financial Statements*.)

We identified improvements that could be made to IT security by state agencies.

We also identified improvements that could be made to information technology (IT) security by state agencies:

- We reported a material weakness related to weaknesses in DOA policies, standards, and procedures related to IT security that resulted in weaknesses in the administration of STAR. (For details, see report 17-4, *State of Wisconsin FY 2015-16 Financial Statements*.) We reported continued concerns with STAR security for FY 2016-17 and FY 2017-18. (For details, see report 18-3, *State of Wisconsin FY 2016-17 Financial Statements* and report 18-20, *State of Wisconsin FY 2017-18 Financial Statements*.)

- We reported a significant deficiency related to weaknesses in DOA's Division of Enterprise Technology (DET) security standards and procedures, as well as in DET's IT practices and settings for FY 2015-16, FY 2016-17, and FY 2017-18. We recommended DOA report to the Joint Legislative Audit Committee by March 29, 2019, on its efforts to address our recommendations. (For details, see report 17-4, *State of Wisconsin FY 2015-16 Financial Statements*; report 18-3, *State of Wisconsin FY 2016-17 Financial Statements;* and report 18-20, *State of Wisconsin FY 2017-18 Financial Statements*.)

- We again reported a significant deficiency related to IT policies for UW System because UW System Administration had not taken significant steps to develop IT policies and procedures to cover certain critical areas and to meet the requirements of the Board of Regents policy to develop a comprehensive IT security program. (For details, see report 17-6, *University of Wisconsin System*, and report 18-2, *University of Wisconsin System*.)

- We continued to report a significant deficiency related to DOA's development of executive branch agency policies and standards. Given that we first reported these concerns in FY 2014-15, it is reasonable to expect that DOA would have made more progress to address these continuing findings. Therefore, we recommended DOA report to the Joint Legislative Audit Committee by March 29, 2019, on its plans and timelines to address these concerns. (For details, see report 18-20, *State of Wisconsin FY 2017-18 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 recommended that DHS continue its efforts to ensure local agency caseworkers follow up in a timely manner and document resolution of discrepancies resulting from computer data matches used to verify eligibility determinations for the Medical Assistance program. Although we noted overall improvements in timeliness, we continued to identify timeliness concerns for specific cases we reviewed. Because caseworkers were not consistently following up in a timely manner on the identified data match discrepancies, it is unknown whether the most accurate information available was used to make eligibility determinations. (For details, see report 17-5, *State of Wisconsin FY 2015-16 Single Audit;* and report 18-5, *State of Wisconsin FY 2016-17 Single Audit.)*

- DHS receives funding under the Children's Health Insurance Program (CHIP) to provide health care coverage to uninsured children. To participate in CHIP, individuals must meet certain eligibility criteria, including being under age 19. We reviewed the ages of participants determined eligible for CHIP benefits between April 2016 and March 2017. We found 410 CHIP participants age 19 or older, including 12 participants who were ages 20 to 59. The remaining 398 participants were 19 years of age. We recommended DHS take steps to ensure CHIP participants do not exceed the age requirement. (For details, see report 18-5, *State of Wisconsin FY 2016-17 Single Audit*.)

We identified areas where state agency oversight of programs or third-party administrators should be improved.

We identified areas where state agency oversight of programs or third-party administrators should be improved. For example:

- We found that ETF either does not require or does not consider audits of controls of third-party administrators for benefit programs. ETF should use these audits as a tool to assess whether third-party administrators have effective controls in place with respect to ETF transactions being processed. (For details, see report 17-7, *Department of Employee Trust Funds*.)

- We found that WEDC did not collect sufficiently detailed information during the underwriting process from grant, loan, and tax credit applicants about their existing employees, it did not contractually require grant and loan recipients to submit information sufficiently detailed to allow it to determine the actual numbers of jobs created or retained, and it did not comply with statutes because it did not annually verify jobs-related information submitted by tax credit recipients on the extent to which contractually required results were achieved. Therefore, WEDC cannot be certain about the extent to which the jobs-related information in the online data is accurate. (For details, see report 17-9, *Wisconsin Economic Development Corporation*.)

- We found that State Fair Park did not effectively oversee its contracting practices, in part, because it did not maintain adequate and readily accessible information on its contracts. In addition, State Fair Park did not maintain sufficient expenditure and revenue documentation to evaluate the financial effects of its decision to independently operate the midway at the State Fair. (For details, see report 18-1, *State Fair Park*.)

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:

- We found that the cash balance in the institutional operations account at the Wisconsin Veterans Home at King (King) totaled $35.2 million at the end of FY 2015-16. The Department of Veterans Affairs (DVA) had not established a formal plan for the use of King's cash balance, and we recommended that it do so. From FY 2011-12 through FY 2015-16, capital project expenditures for King totaled $20.2 million. From July 2011 through December 2016, 19 of the 29 capital projects King requested were initiated, but not all were initiated promptly, including the replacement of soiled carpeting in one of its skilled nursing facilities that took more than seven years to initiate. In addition, DVA had not created a ten-year facilities plan for the Wisconsin Veterans Homes that would facilitate its ability to plan for capital projects. We made recommendations for DVA to address these findings. (For details, see report 17-8, *Revenues, Expenditures, and Capital Projects at the Wisconsin Veterans Home at King.*)

- SWIB is authorized to establish its own budget and to create or eliminate staff positions. From 2013 through 2017, SWIB's annual expenses increased by 21.7 percent. After considering the effect of increases in assets managed by SWIB, we found the increases in expenses were attributable to higher management fees paid to external investment managers for more-complex investment strategies, an information systems implementation, and the hiring of additional staff. We recommend SWIB track future technology project expenses through a centralized process, develop policies to require Board approval for expenses that exceed the total budget, and report investment returns that include management fees and investment expenses to the Board. (For details, see report 18-19, *State of Wisconsin Investment Board*.)

Topics of Ongoing Legislative Consideration

Other matters we analyzed in 2017 and 2018 are likely to be topics of ongoing legislative consideration, as discussed below and on pages 16 through 18.

State Highway Construction

We found that the cost estimates DOT reported for 16 ongoing major highway projects increased from an estimated $2.7 billion at enumeration to an estimated $5.8 billion as of August 2016, or by $3.1 billion. We also found DOT budgeted to complete more major highway project work than could be completed with its available funding because it did not sufficiently take into account the extent to which inflation and unexpected cost increases would increase project expenditures over time. In addition, we found DOT established performance measure goals to help manage and improve its operations. If DOT had met these goals, it potentially could have saved more in recent years. However, DOT was not consistently using its performance measures to manage and improve its operations. We made recommendations for DOT to use its funds more effectively and improve its management of the state highway program. (For details, see report 17-2, *State Highway Program.*)

Read to Lead Development Fund

We found that, as of the end of FY 2016-17, the Read to Lead Development Fund was fully committed. Absent additional amounts appropriated to the Fund or the related GPR appropriation and absent funds received from private sources, amounts available to award grants to school boards and others in support of literacy and early childhood development programs in the future would be limited to unspent funds from prior-year grant awards funded by the Fund and minimal interest on unexpended balances. (For details, see report 17-18, *Read to Lead Development Fund*.)

UW Affiliated Organizations

From FY 2007-08 through FY 2016-17, UW institutions paid an estimated $257.9 million to affiliated organizations. In FY 2016-17, information provided by UW System Administration indicated that there were 90 affiliated organizations, two-thirds of which were not primary fundraising foundations. We examined the relationships between UW institutions and 25 primary fundraising foundations, and found that the operations of many UW institutions and foundations were not fully separate and independent from FY 2007-08 through FY 2016-17. We also reviewed new memoranda of understanding that UW institutions executed with primary fundraising foundations in 2017 and found that operational agreements associated with these memoranda of understanding did not consistently comply with the policy. We examined the relationships between UW institutions and four affiliated organizations that were not primary fundraising foundations. We found that these four affiliated organizations were not fully separate and independent. The Board of Regents has not established a policy governing the relationships between UW institutions and affiliated organizations that are not primary fundraising or real estate foundations. We recommend that UW System Administration work with the Board of Regents to establish such a policy. (For details, see report 18-4, *Relationships between the University of Wisconsin and Certain Affiliated Organizations.)*

Tax Credit Administration

In November 2017, WEDC executed a $2.85 billion tax credit contract under the Electronics and Information Technology Manufacturing Zone program with three corporations, which are collectively referred to as "Foxconn," to create jobs and make capital investments over the 15-year period from January 2018 through December 2032. Statutes and WEDC's contract require WEDC to award program tax credits for the wages of employees who perform services in Wisconsin. However, we found WEDC established written procedures that allow it to award program tax credits for certain employees who do not perform services in Wisconsin, as long as these employees are paid in the zone. In this way, these written procedures do not comply with statutes or WEDC's contract. WEDC indicated that it intends to award Foxconn program tax credits for the wages of employees who are directed from and paid in the zone. We note that employees who are directed from and paid in the zone may not necessarily perform services in Wisconsin. We recommend WEDC revise its written procedures and report to the Joint Legislative Audit Committee by January 31, 2019. (For details, see report 18-18, *Electronics and Information Technology Manufacturing Zone Program*.)

Benefit Administration System

We also identified a concern related to IT security over the Wisconsin Employee Benefit System at ETF. The Wisconsin Employee Benefit System, along with several other computer systems used by ETF in administering benefits, was anticipated to be replaced by the new Benefits Administration System. As was reported to the Legislature's Joint Committee on Finance in June 2018, the vendor hired by ETF to develop its new Benefits Administration System stopped providing services in March 2018. ETF has a contract with the vendor for the development of the new system for $27.1 million. The information systems that were scheduled to be replaced with this new system continue to age and present risks for ETF to manage. ETF will need to continue to maintain these older systems to ensure effective administration of the benefits. Because ETF's financial activity is reported separately from the State's, our finding was included in both report 18-10 and in report 18-20.

■ ■ ■ ■

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 administered by certified fraud examiners. It does not duplicate or replace other government hotlines or complaint resources. Since its inception, we have received 1,098 hotline reports alleging fraud, waste, and mismanagement. We address hotline reports by:

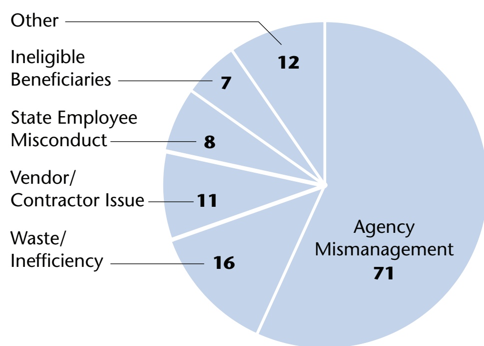
- following up during the course of ongoing audit work;
- initiating formal communication with other state agencies;
- conducting audits or reviews in response to substantiated allegations and reporting our findings to the Joint Legislative Audit Committee; and
- making referrals, providing information,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

From January 1, 2017, through December 31, 2018, 125 of the 203 concerns reported to the hotline were state-related issues.

From January 1, 2017, through December 31, 2018, 125 of the 203 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, such as compliance with applicable laws, personnel matters, or policy issues.

Figure 1

Reports of Fraud, Waste, and Mismanagement in State Government[1]
2017 and 2018

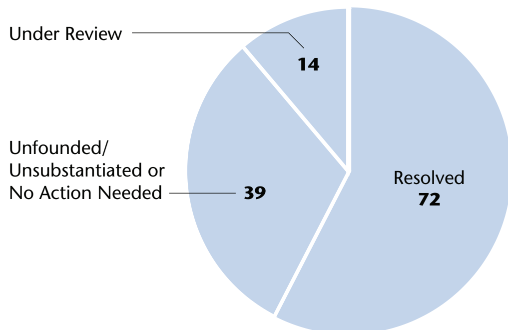


[1] A total of 125 state-related reports were received from January 1, 2017, through December 31, 2018.

As shown in Figure 2, we resolved 72 of the reports to the hotline either directly or by referral and determined that 39 reports were unfounded, unsubstantiated, or required no action as of December 31, 2018. In addition, 14 reported concerns remained under review as of December 31, 2018.

Figure 2

Status of Reports Received in 2017 and 2018
As of December 31, 2018



[1] A total of 125 state-related reports were received from January 1, 2017, through December 31, 2018.

Wisconsin Veterans Home at King

We resolved 33 allegations pertaining to DVA's Veterans Home at King.

We resolved 33 allegations pertaining to DVA's Veterans Home at King. In September 2016, the Joint Legislative Audit Committee approved an audit of King. The audit scope included a review of resident needs and resident concerns, compliance with federal and state regulatory requirements, staffing concerns, and budgetary matters at King. The audit also incorporated 33 hotline reports, many of which were received and reviewed during the audit. The audit substantiated 6 of the 33 hotline reports. We released report 17-8, which focused on the revenues, expenditures, and capital projects, and report 17-14, which focused on resident care needs, compliance with regulatory requirements, complaints, and staffing.

DOT's Construction Contract Provisions

DOT had paid a contractor $404,250 for a construction item that was unneeded on the Zoo Interchange megaproject.

We received a hotline report concerning provisions that DOT sometimes included in its construction contracts for state highways. In April 2017, we found that DOT had paid a contractor $404,250 for a construction item that was unneeded on the Zoo Interchange megaproject. As we indicated in report 17-2, the cost estimate for the Zoo Interchange megaproject was $1.7 billion in August 2016. The $404,250 payment occurred because of an error in DOT's design plans and because of DOT's use of a special provision allowed by its policies and included in its construction contract.

Although construction contracts typically require DOT to measure and pay for specific quantities of construction items, DOT policies allow for certain items to be designated as "pay plan quantity" items when engineers are able to accurately estimate the needed quantity. DOT does not measure the quantity used but instead typically pays for the quantity specified in the contract. "Undistributed quantities" are additional amounts of construction items that may or may not be needed to complete a project. We found that DOT policies did not prohibit an undistributed quantity from being designated as a pay plan quantity item. However, DOT indicated that an undistributed quantity should not be designated as a pay plan quantity item because an undistributed quantity is to be used when DOT is uncertain about the needed quantity, while a pay plan quantity item is to be used when DOT is certain about the needed quantity.

In April 2017, we recommended that DOT create written policies to prohibit undistributed quantities from being designated as part of pay plan quantity items, create written policies regarding inclusion of this special provision in construction contracts, and ensure that its staff adhere to these policies. DOT indicated that it had complied with our recommendations and would no longer include the special provision in its construction contracts.

We found 28 of the 287 construction contracts awarded in FY 2017-18 were not compliant with DOT's new policies.

To assess DOT's compliance with our recommendations, in fall 2018 we reviewed DOT's policies and examined all 287 construction contracts for state highways that DOT awarded in FY 2017-18 when its new policies were in effect. We found that DOT created the recommended policies and that none of these 287 construction contracts included the special provision. We found that 65 of these 287 construction contracts contained pay plan quantity items, and that 28 of these 65 construction contracts (43.1 percent) also contained undistributed quantities that were designated as part of pay plan quantity items. Therefore, the 28 contracts were not compliant with DOT's new policies.

In December 2018, we recommended that DOT create a plan to ensure its staff and engineering firms consistently adhere to its policies that prohibit undistributed quantities from being designated as part of pay plan quantity items, provide its staff with training and guidance on adhering to this plan, require its central office staff to review all state highway construction contracts to ensure that undistributed quantities are not designated as part of pay plan quantity items, and report to the Joint Legislative Audit Committee by January 31, 2019, on the status of its efforts to implement these recommendations. DOT agreed with these recommendations and indicated that it had begun to comply with them.

DOJ's Wisconsin Online Records Check System

We received a hotline report concerning the reconciliation of transactions processed through DOJ's criminal records check system

We received a hotline report concerning the reconciliation of transactions processed through the Department of Justice's (DOJ) criminal records check system, known as the Wisconsin Online Records Check System (WORCS). We reviewed the allegation and identified inconsistencies in reported information between the user request and fiscal payment components of the system. The inconsistencies were approximately $5,000 of the $8.0 million DOJ collects annually in such fees. After further researching the reasons for the discrepancies, DOJ requested several system modifications to correct processing errors in the data, some of which may have caused overpayments and underpayments of fees.

Prior to our review, DOJ had no formal comprehensive reconciliation procedures in place and was unaware that variances existed in the WORCS transactions. In a July 2018 correspondence with DOJ, we recommended that DOJ complete and resolve variances within WORCS in a timely manner and identify modifications to permit full reconciliation of transactions to ensure the accuracy of fees charged to customers.

We assessed DOJ's compliance with our recommendations and we found that DOJ had completed timely reconciliations of WORCS from July through September 2018. We also found that the WORCS variances continued to decline and that DOJ was taking steps to refund customers when errors were identified.

Other Hotline Issues

The following are additional examples of the variety and breadth of other hotline issues.

We received a hotline report alleging that an interstate motor fuel carrier operating in Wisconsin was not properly reporting information to the State.

We received a hotline report alleging that an interstate motor fuel carrier operating in Wisconsin was not properly reporting information to the State and that the company had moved its headquarters to Illinois but remained registered in Wisconsin. In February 2017, we referred the matter to the Department of Transportation's Division of Motor Vehicles (DMV), which has statutory authority under s. 341.43, Wis. Stats., to conduct audits of motor fuel carriers to determine the adequacy of fees paid under the International Fuel Tax Agreement. The DMV conducted an audit, including granting the company several extensions to provide documentation, and concluded the audit in November 2017. The DMV assessed the company $3,700 and planned to monitor the company's registration transition to Illinois.

We received a hotline report concerning payments to a local company at the Northern Wisconsin Center.

We received a hotline report concerning payments to a local company at the Northern Wisconsin Center (NWC), a treatment facility managed by DHS. We assessed NWC's expenditures and identified 3 of 15 repair purchases that were not in compliance with a mandatory statewide contract established by DOA. As a result of our review, DHS also completed an on-site management review of NWC purchasing activities. The results of the review were available in November 2018 and included several recommendations to NWC, such as consistently using available mandatory statewide contracts. In a December 2018 correspondence, we recommended that DHS monitor NWC's purchasing activities, including continued efforts to provide education on statewide mandatory contracts, and periodically review NWC's compliance with DOA procurement requirements.

Several concerns were reported to the hotline regarding the hiring practices at SWIB during early 2018.

Several concerns were reported to the hotline regarding the hiring practices at SWIB during early 2018. We reviewed the allegations as part of our ongoing biennial management audit of SWIB. We found it was difficult to conclude that SWIB equally considered all qualified applicants in five recruitments it conducted in early 2018. We also found that a Board policy approved in October 2018 did not establish a process to ensure equal consideration of all qualified applicants. In report 18-19, we recommended that SWIB revise its hiring policy to ensure equal consideration of all applicants and improve its documentation.

▪ ▪ ▪ ▪

Report Summaries ▪

A chronological summation of reports published in 2017 and 2018 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. Appendix 5 includes the briefing sheets for all reports published in 2017 and 2018.

Reports Published in 2017

Report 17-1: Biennial Report

The Biennial Report summarizes the work of the nonpartisan Legislative Audit Bureau from January 1, 2015, through December 31, 2016, including noteworthy findings and the activity of the Fraud, Waste, and Mismanagement Hotline (1-877-FRAUD-17). In 2015 and 2016, we released more than 36 audit reports, and the Fraud, Waste, and Mismanagement Hotline received 185 reports, 143 of which were specific to state agencies or programs.

Report 17-2: State Highway Program

DOT's expenditures for state highways increased from $739.7 million in FY 1996-97 to $2.1 billion in FY 2015-16. DOT budgeted to complete more major highway project work than could be completed with available funding because it did not sufficiently take into account the effects of inflation and unexpected cost increases. We found DOT could take additional steps to control program costs, including by consistently using its performance measures to manage and improve its operations. We include recommendations that will help DOT use its funds more effectively and improve how it manages the planning, engineering, construction, and maintenance of state highways.

Report 17-3: State Investment Fund | FY 2015-16
State of Wisconsin Investment Board

We provided an unmodified opinion on the financial statements of the State Investment Fund for the year ended June 30, 2016. The Fund invests the excess operating funds of state agencies, the WRS, and the Local Government Investment Pool. The net position of the Fund increased from $7.9 billion as of June 30, 2015, to $9.5 billion as of June 30, 2016.

> *The financial statements and our opinion on them are included in the State of Wisconsin Investment Board's State Investment Fund Annual Financial Report for the fiscal year ended June 30, 2016.*

Report 17-4: State of Wisconsin FY 2015-16 Financial Statements

We provided unmodified audit opinions on the State of Wisconsin's FY 2015-16 financial statements. These statements are included in the State's CAFR, which is prepared by DOA. We identified a material weakness in internal control over financial reporting that relates to security concerns at DOA involving STAR, and significant deficiencies in IT security policies, security procedures, and controls. We include recommendations for DOA and UW System to make improvements in these areas. We also identified significant deficiencies in certain financial reporting processes at DOA, DOT, and OCI and recommended these agencies take steps to address the deficiencies we identified.

> *The financial statements and our opinions on them are included in the State of Wisconsin's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016.*

Report 17-5: State of Wisconsin FY 2015-16 Single Audit

In FY 2015-16, state agencies administered $11.6 billion in federal financial assistance. We audited 14 programs that accounted for 48.1 percent of the federal financial assistance administered by state agencies in FY 2015-16. Although we found that state agencies generally complied with federal requirements, we made recommendations to improve the administration of federal programs, including by DHS, Department of Natural Resources (DNR), and UW System.

Report 17-6: University of Wisconsin System | FY 2015-16

We provided an unmodified audit opinion on UW System's FY 2015-16 and FY 2014-15 financial statements. As of June 30, 2016, UW System's net position, which provides a measure of its overall financial condition, was $6.6 billion. We recommend UW System Administration ensure that UW institutions are following its policy to audit special course fee revenues and expenditures and work with UW institutions to improve the accuracy of the information in the tuition and fee report. We also recommended UW System Administration continue to work with the UW Information Assurance Council and UW institutions to implement the new IT policies and procedures.

> *The financial statements and our unmodified opinion on them are included in the University of Wisconsin System's 2016 Annual Financial Report.*

Report 17-7: Department of Employee Trust Funds | Calendar Year 2015

We provided unmodified opinions on the financial statements for the separate funds presented in ETF's 2015 CAFR. We recommended ETF obtain certain audit reports from its third-party administrators and review these reports to assess the effectiveness of third-party administrator controls. In addition, we recommended ETF closely monitor the financial status of the Income Continuation Insurance (ICI) program, work with the program's actuary in improving the fund balance of both the State and Local ICI programs, and report to the Joint Legislative Audit Committee by September 30, 2017, on the status of its efforts to address these concerns.

The financial statements and our opinions on them are found in the Department of Employee Trust Funds' 2015 Comprehensive Annual Financial Report.

Report 17-8: Revenues, Expenditures, and Capital Projects
Wisconsin Veterans Home at King

We found that the Wisconsin Veterans Home at King generated operating revenue of more than $8.0 million in excess of its expenditures each year from FY 2011-12 through FY 2015-16, and had a cash balance of $35.2 million at the end of FY 2015-16. Over this same period, capital project expenditures for King totaled $20.2 million. From FY 2003-04 through FY 2015-16, a total of $55.0 million was transferred from King's institutional operations account to other accounts that do not directly benefit King, including transfers of $28.4 million to the Wisconsin Veterans Home at Union Grove and $20.1 million to the Veterans Trust Fund.

Report 17-9: Wisconsin Economic Development Corporation

In FY 2015-16, WEDC administered 34 programs through which it provided $133.0 million in tax credits; awarded $21.5 million in grants and $17.3 million in loans; and authorized local governments to issue $17.4 million in bonds. We reviewed available information for 133 awards WEDC made and we found that WEDC had improved the administration of its grant, loan, and tax credit programs during the first six months of FY 2016-17. However, it cannot be certain about the numbers of jobs created or retained as a result of its awards, and its online data contained inaccuracies for certain awards.

Report 17-10: Unemployment Reserve Fund
Department of Workforce Development

We provided an unmodified opinion on the Fund's financial statements for FY 2015-16 and FY 2014-15. The Fund's net position was $1.2 billion as of June 30, 2016, which was an increase of $905.0 million since June 30, 2014. The net position of the Fund increased beginning in FY 2011-12 because employer taxes and other revenues began to exceed benefit payments and transfers. Due to its improved net position, the Fund has not borrowed from the federal government since July 2014.

Report 17-11: Universal Service Fund | FY 2015-16 and FY 2014-15
Public Service Commission

We provided an unmodified opinion on the financial statements for FY 2015-16 and FY 2014-15. The USF is funded by assessments on telecommunications providers that are typically recovered from consumers. In FY 2015-16, the USF expended

$39.6 million to support 14 programs operated by four state agencies. The PSC is responsible for establishing policies and procedures and for financial reporting for the USF. We made recommendations for the PSC to improve its financial reporting process and to establish a policy related to the minimum fund balance of the USF.

Report 17-12: Retirement Funds Investment Activity | Calendar Year 2016
State of Wisconsin Investment Board

We provided unmodified opinions on the financial statements of the Retirement Funds for the year ended December 31, 2016.

The financial statements and our opinions on them are included in the State of Wisconsin Investment Board's 2016 Retirement Funds Annual Report.

Report 17-13: Opportunity Schools and Partnership Program

The opportunity schools and partnership program was established by 2015 Wisconsin Act 55, the 2015-17 Biennial Budget Act. No schools have been transferred into the program, and no schools will be eligible for transfer into the program in the 2017-18 school year. However, at least 1 of 65 eligible Milwaukee Public School (MPS) schools should have been transferred into the program in the 2016-17 school year.

Report 17-14: Wisconsin Veterans Home at King

The Wisconsin Veterans Home at King is administered by the Department of Veterans Affairs. We found that the care needs of King residents increased from 2007 through 2016. In July 2013, King was authorized more than 80 additional nursing positions. However, it was not able to keep many of the additional positions filled and, in FY 2015-16, King's use of overtime for nursing staff exceeded the amount it used immediately prior to the creation of the additional positions. In response to our survey of King employees, those who responded generally indicated that the overall care provided at King was good, but raised concerns with issues such as the manner in which overtime is assigned and employee morale.

Report 17-15: Wisconsin Lottery | FY 2015-16

We provided an unmodified opinion on the Wisconsin Lottery's financial statements for FY 2015-16 and FY 2014-15. Lottery ticket sales increased from $574.6 million in FY 2014-15 to $627.1 million in FY 2015-16, or by 9.1 percent. Operating expenses increased from $415.4 million in FY 2014-15 to $451.9 million in FY 2015-16, or by 8.8 percent. During FY 2015-16, lottery proceeds used for property tax relief totaled $158.1 million.

Report 17-16: Wisconsin Retirement System | Calendar Year 2016

We provided an unmodified opinion on the Wisconsin Retirement System (WRS) financial statements and related notes for calendar year 2016. The fiduciary net position of the WRS increased from $88.5 billion as of December 31, 2015, to $92.6 billion as of December 31, 2016, or by 4.6 percent. This increase was primarily the result of an increase in investment income.

The WRS financial statements and our opinion on them are available on the Department of Employee Trust Funds' website.

Report 17-17: Wisconsin Retirement System for Participating Employers | Calendar Year 2016

We provided unmodified opinions on the Schedule of Employer Allocations for the WRS and the specified total amounts on the Schedule of Collective Pension Amounts for the WRS, and the related notes, for calendar year 2016. ETF prepared the schedules to assist participating WRS employers in reporting their proportionate share of the $0.8 billion net pension liability, as well as other amounts, in their financial statements. Because of an error made by ETF in preparing and presenting certain amounts in one of the schedules, we reported a significant deficiency and recommended that ETF improve its processes.

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

Report 17-18: Read to Lead Development Fund | FY 2016-17

The Read to Lead Development Fund and a related GPR appropriation provide grants to school districts and other entities to support literacy and early childhood development programs. From the Fund's creation in April 2012 through FY 2016-17, a total of $496,959 was awarded to 17 grant recipients and $461,365 was expended to reimburse recipients for grant-related costs. Unless additional funding is solicited or appropriated to the Fund, future grant funding will likely be limited to the related GPR appropriation for literacy and early childhood development programs. The Read to Lead Development Council is statutorily responsible for recommending grant awards and, as of October 2017, lacked a sufficient number of members to achieve a quorum to conduct business.

Report 17-19: Petroleum Inspection Fee Revenue Obligations Program | FY 2016-17

We provided an unmodified opinion on the Petroleum Inspection Fee Revenue Obligations Program's financial statement for FY 2016-17 and FY 2015-16. The program was established to provide financing to pay claims under the State of Wisconsin Petroleum Environmental Cleanup Fund Award (PECFA) program. As of June 30, 2017, a total of $76.1 million in revenue obligations remained outstanding. The revenue obligations will be repaid using a $0.02 per gallon fee charged for petroleum products received for sale in Wisconsin. 2015 Wisconsin Act 55 sunset the PECFA program, and all claims for reimbursement must be submitted by July 1, 2020.

Report 17-20: Department of Employee Trust Funds | Calendar Year 2016

We provided unmodified opinions on the financial statements for the separate funds presented in the ETF's 2016 CAFR. ETF's financial statements present 13 separate funds used to account for the financial position and activity of various benefit programs available to state and local public employees. These programs include the WRS and health and life insurance programs for active and retired employees of the State and participating local governments.

The financial statements and our opinions on them are found in the Department of Employee Trust Funds' 2016 Comprehensive Annual Financial Report.

Report 17-21: Emergency Detention Pilot Program

The Emergency Detention Pilot Program created by 2013 Wisconsin Act 235 granted certain mental health professionals in Milwaukee County the authority to take individuals into custody for emergency detention. Under the pilot program, too few emergency detentions were conducted to allow for meaningful comparison with those conducted before the pilot program. Extending the pilot program in Milwaukee County or making it permanent is unlikely to result in a significant decrease in the number of emergency detentions initiated by law enforcement officers.

Report 17-22: State Investment Fund | FY 2016-17

State of Wisconsin Investment Board

We provided an unmodified opinion on the financial statements of the State Investment Fund for the year ended June 30, 2017.

> *The financial statements and our opinion on them are included in the State of Wisconsin Investment Board's State Investment Fund Annual Financial Report for the fiscal year ended June 30, 2017.*

Reports Published in 2018

Report 18-1: State Fair Park

State Fair Park's operating expenditures increased from $17.4 million in FY 2012-13 to $20.8 million in FY 2016-17, or by 20.1 percent. We found that the operations of State Fair Park are consistent with several best practices within the industry. However, we also found that State Fair Park did not have a comprehensive, long-term plan for assessing the condition of its primary grounds and facilities or a formal plan for the future use of the Milwaukee Mile racetrack. In addition, it did not maintain adequate information needed to assess the financial effects of continuing to independently manage its midway or complete and accurate management information needed to effectively oversee its contracting processes.

Report 18-2: University of Wisconsin System | FY 2016-17

We provided an unmodified audit opinion on UW System's FY 2016-17 and FY 2015-16 financial statements. As of June 30, 2017, UW System's net position, which provides a measure of its overall financial condition, was $6.6 billion. We recommended UW System Administration continue to work with the UW Information Assurance Council and individual institutions to continue development and maintenance of a comprehensive IT security program. We further recommended UW System Administration report to the Joint Legislative Audit Committee by August 31, 2018, on the status of the development of a comprehensive IT security program, including policies and standards established, and a summary of steps it has taken to address high-risk areas identified by a third-party vendor.

> *The financial statements and our unmodified opinion on them are included in the University of Wisconsin System's 2017 Annual Financial Report.*

Report 18-3: State of Wisconsin FY 2016-17 Financial Statements

We provided unmodified audit opinions on the State of Wisconsin's FY 2016-17 financial statements. These statements are included in the State's CAFR, which is prepared by DOA. We continue to report a material weakness in internal control over financial reporting related to security concerns involving STAR, and significant deficiencies in IT security policies, security procedures, and controls. We include recommendations for DOA, UW System, and DOR to make improvements in these areas. We also identified significant deficiencies in certain financial reporting processes at DOA and DOT and recommend these agencies take steps to address the deficiencies we identified.

The financial statements and our opinions on them are included in the State of Wisconsin's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017.

Report 18-4: Relationships between the University of Wisconsin and Certain Affiliated Organizations

In FY 2016-17, UW institutions had relationships with 90 affiliated organizations, including primary fundraising foundations. From FY 2007-08 through FY 2016-17, UW institutions paid an estimated $257.9 million to affiliated organizations. In December 2017, the Board of Regents established a specific written policy governing the relationships between UW institutions and their primary fundraising foundations, but it has not established a policy governing the relationships between UW institutions and other types of affiliated organizations. To help ensure the UW System President maintains fiscal control over UW System, as is statutorily required, we made a number of recommendations for UW System Administration to increase monitoring of the relationships between UW institutions and all affiliated organizations.

Report 18-5: State of Wisconsin FY 2016-17 Single Audit

In FY 2016-17, state agencies administered $11.6 billion in federal financial assistance. Our audit focused on 15 federal programs that accounted for 58.2 percent of the federal financial assistance administered by state agencies in FY 2016-17. We found that state agencies generally complied with federal requirements, and we provided an unmodified opinion on compliance with federal requirements for those programs we reviewed. We made recommendations to four state agencies—DOA, Department of Children and Families (DCF), DHS, and DOT—to improve the administration of federal programs. The federal government will work with state agencies to resolve the concerns we identified.

Report 18-6: Special Needs Scholarship Program

The Special Needs Scholarship Program is administered by the Department of Public Instruction (DPI) and provides scholarships for students with disabilities in kindergarten through 12th grade who attend participating private schools. The 26 private schools that participated in the program received a total of $5.6 million in program scholarships during the 2016-17 and 2017-18 school years. We surveyed the parents of all 306 participating students. Survey respondents indicated increased levels of satisfaction with participating private schools, compared to when their children had previously attended public schools. We recommended that DPI seek a statutory change that allows all funding provisions for the program to be followed.

Report 18-7: Wisconsin Lottery | FY 2016-17

We provided an unmodified audit opinion on the Wisconsin Lottery's financial statements for FY 2016-17 and FY 2015-16. Lottery ticket sales decreased from $627.1 million in FY 2015-16 to $602.8 million in FY 2016-17, or by 3.9 percent. Operating expenses decreased from $451.9 million in FY 2015-16 to $439.6 million in FY 2016-17, or by 2.7 percent. During FY 2016-17, lottery proceeds used for property tax relief totaled $183.3 million.

Report 18-8: Forestry Account

The Forestry Account funds DNR's forestry program and related administrative activities. In FY 2016-17, DNR and five other state agencies spent an estimated $121.6 million in state and federal funds. We estimate that 53.5 percent of Forestry Account expenditures was for activities that are primarily related to forestry, 40.5 percent was for activities that support forestry in addition to other programs, and 6.0 percent was for activities not directly related to forestry. We made recommendations to DNR and UW System to comply with statutory provisions that place requirements on the expenditure of Forestry Account funds.

Report 18-9: Retirement Funds Investment Activity | Calendar Year 2017

SWIB invests assets for the WRS that are held in the Core Retirement Investment Trust Fund and Variable Retirement Investment Trust Fund. Together, these funds are known as the Retirement Funds. We provided unmodified opinions on the financial statements of the Retirement Funds for the year ended December 31, 2017.

The financial statements and our opinions on them are included in the State of Wisconsin Investment Board's 2017 Retirement Funds Annual Report.

Report 18-10: Department of Employee Trust Funds | Calendar Year 2017

We provided unmodified opinions on the financial statements for the separate funds presented in the ETF's 2017 CAFR, which can be found on its website. ETF's financial statements present 12 separate funds used to account for the financial position and activity of the various benefit programs available to state and local public employees. These programs include the Wisconsin Retirement System and health and life insurance programs for active and retired employees of the State and participating local governments.

The financial statements and our opinions on them are found in the Department of Employee Trust Funds' 2017 Comprehensive Annual Financial Report.

Report 18-11: Wisconsin Retirement System Reporting for Participating Employers

We provided unmodified opinions on the Schedule of Employer Allocations of the WRS, the Schedule of Collective Pension Amounts of the WRS, and the related notes to these schedules as of and for the year ended December 31, 2017. ETF calculated a net pension asset for the WRS of $3.0 billion, as of December 31, 2017. Each of the 1,499 participating employers in the WRS is required to report its proportionate share of this net pension asset on its financial statements if prepared in accordance with generally accepted accounting principles. As of December 31, 2017, the proportionate share of the net pension asset for all State of Wisconsin agencies was $829.7 million, or 28.0 percent of the total net pension asset.

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

Report 18-12: Local Retiree Life Insurance Reporting for Participating Employers

We provided unmodified opinions on 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, 2017. Under s. 40.70, Wis. Stats., the Local Retiree Life Insurance program provides life insurance benefits to all eligible retired employees of the 738 local governments that participate in the program. When the total other postemployment benefit (OPEB) liability of $545.1 million for the Local Retiree Life Insurance program was subtracted from the fiduciary net position, the result was a net OPEB liability of $300.9 million, which indicates that the projected liability for benefit payments to employees exceeded the assets of the fund as of December 31, 2017.

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

Report 18-13: State Retiree Life Insurance Reporting for the State of Wisconsin

We provided unmodified opinions on the Schedule of Employer Allocations of the State Retiree Life Insurance program, the Schedule of Collective OPEB Amounts of the State Retiree Life Insurance program, and the related notes to these schedules as of and for the year ended December 31, 2017. Under s. 40.70, Wis. Stats., the State Retiree Life Insurance program provides life insurance benefits to all eligible retired employees of the State of Wisconsin. When the total OPEB liability of $845.5 million for the State Retiree Life Insurance program was subtracted from the fiduciary net position, the result was a net OPEB liability of $493.5 million, which indicates that the projected liability for benefit payments to employees exceeded the assets of the fund as of December 31, 2017.

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

Report 18-14: State Retiree Health Insurance Reporting for the State of Wisconsin

We provided unmodified opinions on the Schedule of Employer Allocations of the State Retiree Health Insurance program, the Schedule of OPEB Amounts by Participating Employer of the State Retiree Health Insurance program, and the related notes to these schedules as of June 30, 2017. DOA reported a total OPEB liability of $719.3 million for the State Retiree Health Insurance program, as well as other collective amounts, in the State's financial statements, which are included in the State's CAFR for the year ended June 30, 2018. In addition, the schedules were used by employers that are part of the State's financial reporting entity but that prepared separately issued financial statements. We recommended DOA work with the actuary for the State Retiree Health Insurance program to more thoroughly evaluate and support the current participation rate, upon which the total OPEB liability will be calculated for June 30, 2018, and used for financial reporting for the year ended June 30, 2019.

The schedules and our opinions on them are available on the Department of Administration's website.

Report 18-15: Petroleum Inspection Fee Revenue Obligations Program | FY 2017-18

We provided an unmodified opinion on the Petroleum Inspection Fee Revenue Obligations Program's financial statement for FY 2017-18 and FY 2016-17. The program was established to provide financing to pay claims under the State of Wisconsin Petroleum Environmental Cleanup Fund Award (PECFA) program. As of June 30, 2018, a total of $55.1 million in revenue obligations remained outstanding. These obligations are scheduled to be paid off on July 1, 2019. The revenue obligations will be repaid using a $0.02 per gallon fee charged for petroleum products received for sale in Wisconsin. 2015 Wisconsin Act 55 sunset the PECFA program, and all claims for reimbursement must be submitted by July 1, 2020.

Report 18-16: UW-Extension Student Financial Aid Attestation | FY 2017-18

We provided an unmodified opinion on UW-Extension's compliance with applicable requirements related to certain administrative services it provides as a third-party servicer for federal student financial aid. For FY 2017-18, UW-Extension entered into contracts with UW Colleges and UW-Milwaukee to administer federal student financial aid for students participating in the UW Flexible Option program. During FY 2017-18, UW-Extension disbursed nearly $1.4 million in federal student financial aid to 41 students from UW Colleges and 269 students from UW-Milwaukee who participated in the UW Flexible Option program.

Report 18-17: State Investment Fund | FY 2017-18
State of Wisconsin Investment Board

We provided an unmodified opinion on the financial statements of the State Investment Fund for the fiscal year ended June 30, 2018.

The financial statements and our auditor's opinions are published separately in the State of Wisconsin Investment Board's 2018 State Investment Fund Annual Report.

Report 18-18: Electronics and Information Technology Manufacturing Zone Program
Wisconsin Economic Development Corporation

In November 2017, WEDC executed a $2.85 billion contract with Foxconn to create jobs and make capital investments over the 15-year period from January 2018 through December 2032. WEDC may first award tax credits to Foxconn in 2019, based on the jobs Foxconn created in 2018. Statutes and WEDC's contract require WEDC to award Foxconn tax credits for the wages of employees who perform services in Wisconsin. WEDC established written procedures that allow it to award tax credits for certain employees who do not perform services in Wisconsin, as long as these employees are paid in the zone. In this way, these written procedures do not comply with statutes or WEDC's contract. We recommend WEDC modify its written procedures to require it to award program tax credits only for the wages of employees who perform services in Wisconsin.

Report 18-19: State of Wisconsin Investment Board

SWIB managed $117.0 billion in assets, largely within the WRS, as of December 2017. The WRS Core Fund and Variable Fund exceeded five-year benchmarks with investment returns of 8.6 percent and 13.3 percent, respectively, in 2017. However, the Core Fund 20-year investment return did not meet the long-term expected rate-of-return assumption of 7.2 percent in 2016 and 2017. From 2013 through 2017, SWIB's annual expenses increased by 21.7 percent. After considering the effect of increases in assets managed by SWIB, we found the increase in annual expenses was attributable to higher management fees for more-complex investment strategies, an information systems implementation, and the hiring of additional staff.

Report 18-20: State of Wisconsin FY 2017-18 Financial Statements

We provided unmodified audit opinions on the State of Wisconsin's FY 2017-18 financial statements. These statements are included in the State's CAFR, which is prepared by the DOA. We report a material weakness in internal control over financial reporting related to infrastructure at DOT. In addition, we reported significant deficiencies related to information technology security concerns at DOA and ETF and made recommendations for improvement. We also identified significant deficiencies related to financial reporting at DOA, the Office of the Commissioner of Insurance, and the DHS and recommended these agencies take steps to address the deficiencies we identified.

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

▪ ▪ ▪ ▪

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 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.

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

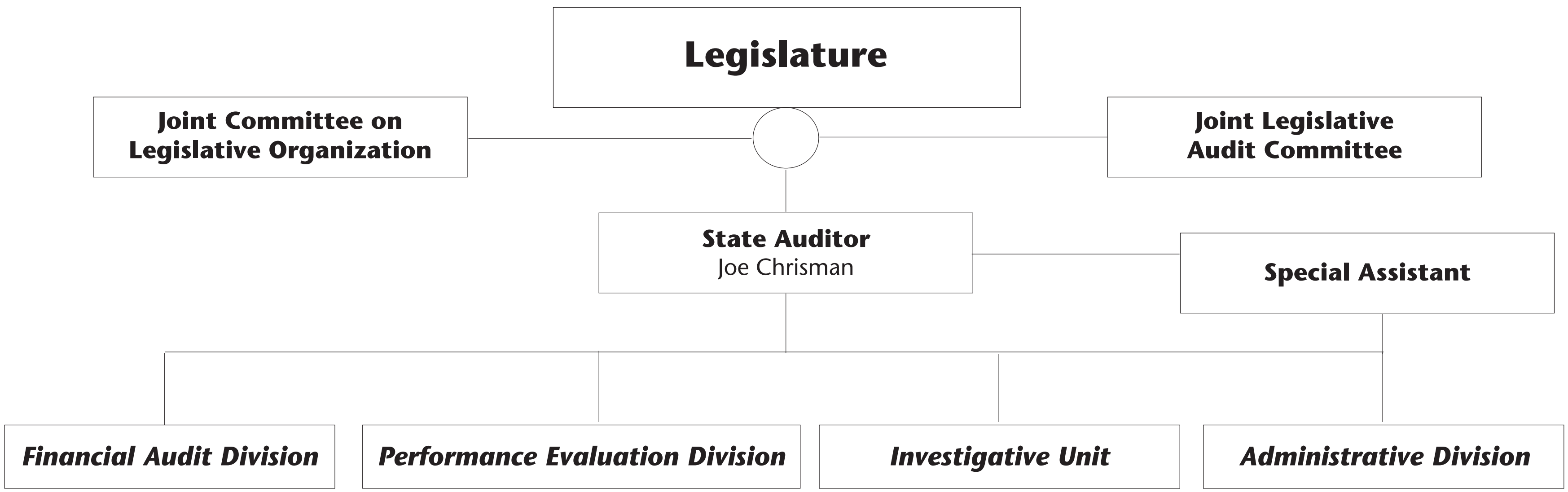
At least once every three years, we are required by statutes to audit the State Life Insurance Fund and the Injured Patients and Families Compensation Fund. In recent years, we have performed these audits every three years and have performed interim work each year for purposes of our annual audit of 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 2018



Appendix 3

Index by Audit Topic

Economic Development and Employment

Education

Environment and Natural Resources

Gaming and Lottery

Health Care and Human Services

Emergency Detention Pilot Program (report 17-21)

Revenues, Expenditures, and Capital Projects (report 17-8)
(Wisconsin Veterans Home at King)

Wisconsin Veterans Home at King (report 17-14)

Insurance

Local Retiree Life Insurance Reporting for Participating Employers (report 18-12)

State Retiree Life Insurance Reporting for the State of Wisconsin (report 18-13)

State Retiree Health Insurance Reporting for the State of Wisconsin
(report 18-14)

State Government Operations and Enterprises

Biennial Report (report 17-1)
(Legislative Audit Bureau)

State Investment Fund | FY 2015-16 (report 17-3)

State of Wisconsin FY 2015-16 Financial Statements (report 17-4)

State of Wisconsin FY 2015-16 Single Audit (report 17-5)

State Investment Fund | FY 2016-17 (report 17-22)

State of Wisconsin FY 2016-17 Financial Statements (report 18-3)

State of Wisconsin FY 2016-17 Single Audit (report 18-5)

State Fair Park (report 18-1)

State Investment Fund | FY 2017-18 (report 18-17)

State of Wisconsin FY 2017-18 Financial Statements (report 18-20)

Telecommunications: Broadband, Radio, and Television

Universal Service Fund | FY 2015-16 and FY 2014-15 (report 17-11)

Transportation

State Highway Program (report 17-2)

Department of Employee Trust Funds | Calendar Year 2015 (report 17-7)

Wisconsin Retirement System | Calendar Year 2016 (report 17-16)

Wisconsin Retirement System for Participating Employers | Calendar Year 2016 (report 17-17)

Department of Employee Trust Funds | Calendar Year 2016 (report 17-20)

Retirement Funds Investment Activity | Calendar Year 2016 (report 17-12)

Retirement Funds Investment Activity | Calendar Year 2017 (report 18-9)

Department of Employee Trust Funds | Calendar Year 2017 (report 18-10)

Wisconsin Retirement System Reporting for Participating Employers (report 18-11)

State of Wisconsin Investment Board (report 18-19)

Appendix 4

Index by Audited Entity

Administration, Department of

State Retiree Health Insurance Reporting for the State of Wisconsin (report 18-14)

Children and Families, Department of

Read to Lead Development Fund | FY 2016-17 (report 17-18)

Employee Trust Funds, Department of

Department of Employee Trust Funds | Calendar Year 2015 (report 17-7)

Wisconsin Retirement System | Calendar Year 2016 (report 17-16)

Wisconsin Retirement System for Participating Employers | Calendar Year 2016 (report 17-17)

Department of Employee Trust Funds | Calendar Year 2016 (report 17-20)

Department of Employee Trust Funds | Calendar Year 2017 (report 18-10)

Wisconsin Retirement System Reporting for Participating Employers (report 18-11)

Local Retiree Life Insurance Reporting for Participating Employers (report 18-12)

State Retiree Life Insurance Reporting for the State of Wisconsin (report 18-13)

Investment Board, State of Wisconsin (SWIB)

State Investment Fund | FY 2015-16 (report 17-3)

Retirement Funds Investment Activity | Calendar Year 2016 (report 17-12)

State Investment Fund | FY 2016-17 (report 17-22)

Retirement Funds Investment Activity | Calendar Year 2017 (report 18-9)

State Investment Fund | FY 2017-18 (report 18-17)

State of Wisconsin Investment Board (report 18-19)

Natural Resources, Department of

Petroleum Inspection Fee Revenue Obligations Program | FY 2016-17 (report 17-19)

Forestry Account (report 18-8)

Petroleum Inspection Fee Revenue Obligations Program | FY 2017-18 (report 18-15)

Milwaukee County Department of Health and Human Services

Behavioral Health Division

Emergency Detention Pilot Program (report 17-21)

Public Instruction, Department of

Opportunity Schools and Partnership Program (report 17-13)

Special Needs Scholarship Program (report 18-6)

Public Service Commission

Universal Service Fund | FY 2015-16 and FY 2014-15 (report 17-11)

Revenue, Department of

Wisconsin Lottery | FY 2015-16 (report 17-15)

Wisconsin Lottery | FY 2016-17 (report 18-7)

State Fair Park

State Fair Park (report 18-1)

State of Wisconsin, Comprehensive

State of Wisconsin FY 2015-16 Financial Statements (report 17-4)

State of Wisconsin FY 2015-16 Single Audit (report 17-5)

State of Wisconsin FY 2016-17 Financial Statements (report 18-3)

State of Wisconsin FY 2016-17 Single Audit (report 18-5)

State of Wisconsin FY 2017-18 Financial Statements (report 18-20)

Transportation, Department of

State Highway Program (report 17-2)

University of Wisconsin System

University of Wisconsin System | FY 2015-16 (report 17-6)

University of Wisconsin System | FY 2016-17 (report 18-2)

Relationships between the University of Wisconsin and Certain Affiliated Organizations (report 18-4)

UW-Extension Student Financial Aid Attestation | FY 2017-18 (report 18-16)

Wisconsin Economic Development Corporation

Wisconsin Economic Development Corporation (report 17-9)

Electronics and Information Technology Manufacturing Zone Program (report 18-18)

Workforce Development, Department of

Unemployment Reserve Fund (report 17-10)

Wisconsin Veterans Home at King

Revenues, Expenditures, and Capital Projects (report 17-8)

Wisconsin Veterans Home at King (report 17-14)

Appendix 5

Report Briefing Sheets

Reports Released in 2017

Report 17-1:	Biennial Report
Report 17-2:	State Highway Program
Report 17-3:	State Investment Fund | FY 2015-16
Report 17-4:	State of Wisconsin FY 2015-16 Financial Statements
Report 17-5:	State of Wisconsin FY 2015-16 Single Audit
Report 17-6:	University of Wisconsin System | FY 2015-16
Report 17-7:	Department of Employee Trust Funds | Calendar Year 2015
Report 17-8:	Revenues, Expenditures, and Capital Projects *(for Wisconsin Veterans Home at King)*
Report 17-9:	Wisconsin Economic Development Corporation
Report 17-10:	Unemployment Reserve Fund
Report 17-11:	Universal Service Fund | FY 2015-16 and FY 2014-15
Report 17-12:	Retirement Funds Investment Activity | Calendar Year 2016
Report 17-13:	Opportunity Schools and Partnership Program
Report 17-14:	Wisconsin Veterans Home at King
Report 17-15:	Wisconsin Lottery | FY 2015-16
Report 17-16:	Wisconsin Retirement System | Calendar Year 2016
Report 17-17:	Wisconsin Retirement System for Participating Employers | Calendar Year 2016
Report 17-18:	Read to Lead Development Fund | FY 2016-17
Report 17-19:	Petroleum Inspection Fee Revenue Obligations Program | FY 2016-17
Report 17-20:	Department of Employee Trust Funds | Calendar Year 2016
Report 17-21:	Emergency Detention Pilot Program
Report 17-22:	State Investment Fund | FY 2016-17

Reports Released in 2018

Report 18-1: State Fair Park

Report 18-2: University of Wisconsin System | FY 2016-17

Report 18-3: State of Wisconsin FY 2016-17 Financial Statements

Report 18-4: Relationships between the University of Wisconsin and Certain Affiliated Organizations

Report 18-5: State of Wisconsin FY 2016-17 Single Audit

Report 18-6: Special Needs Scholarship Program

Report 18-7: Wisconsin Lottery | FY 2016-17

Report 18-8: Forestry Account

Report 18-9: Retirement Funds Investment Activity | Calendar Year 2017

Report 18-10: Department of Employee Trust Funds | Calendar Year 2017

Report 18-11: Wisconsin Retirement System Reporting for Participating Employers

Report 18-12: Local Retiree Life Insurance Reporting for Participating Employers

Report 18-13: State Retiree Life Insurance Reporting for the State of Wisconsin

Report 18-14: State Retiree Health Insurance Reporting for the State of Wisconsin

Report 18-15: Petroleum Inspection Fee Revenue Obligations Program | FY 2017-18

Report 18-16: UW-Extension Student Financial Aid Attestation | FY 2017-18

Report 18-17: State Investment Fund | FY 2017-18

Report 18-18: Electronics and Information Technology Manufacturing Zone Program

Report 18-19: State of Wisconsin Investment Board

Report 18-20: State of Wisconsin FY 2017-18 Financial Statements

Report 17-1
January 2017

STATE OF WISCONSIN
Legislative Audit Bureau
BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703 | State Auditor: Joe Chrisman

Biennial Report

January 1, 2015 to December 31, 2016

Background

The Legislative Audit Bureau is a nonpartisan service agency created to assist the Legislature in maintaining effective oversight of state operations. The Bureau conducts objective financial audits and performance evaluations of state agency operations to ensure financial transactions have been made in a legal and proper manner and to determine whether programs are administered effectively, efficiently, and in accordance with the policies of the Legislature and the Governor. The results of these audits and evaluations are provided to the Legislature, along with recommendations for improvements in agency operations.

This biennial report, which is required under s. 13.94 (1) (j), Wis. Stats., summarizes the Bureau's statutory responsibilities and highlights noteworthy findings from January 1, 2015, through December 31, 2016.

Financial Audits and Performance Evaluations

From January 2015 through December 2016, the Bureau published more than 36 reports including:

- financial audit reports, including two single audits that tested compliance with federal grant requirements related to approximately $12 billion in federal financial assistance administered annually by state agencies;
- performance evaluations and reviews designed to measure the extent to which state agencies or programs have achieved their intended objectives;
- annual independent auditor's reports on the State of Wisconsin's general financial statements and on the financial statements of the University of Wisconsin System;
- an actuarial audit of the Wisconsin Retirement System; and
- numerous other audit opinions and certifications, including those published in annual reports prepared by the State of Wisconsin Investment Board and the Department of Employee Trust Funds.

Noteworthy Findings

The Bureau's 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 2015 and 2016, the Bureau's work identified:

- improvements that could be made to financial reporting by state agencies;
- instances in which we questioned whether a fund administered by a state agency or that is funded by state revenue had a balance that was larger than necessary;
- areas where improvements to program operations and effectiveness could be achieved;
- matters that are likely to be topics of ongoing legislative consideration; and
- issues related to information technology.

Fraud, Waste, and Mismanagement Hotline

Since its inception in April 2008, the hotline has addressed 895 reports. From January 1, 2015, through December 31, 2016, 143 of the 185 concerns reported to the hotline were state-related issues. The majority of these reports related to concerns about state agency mismanagement, such as compliance with applicable laws, personnel matters, or policy issues. Individuals may report concerns to the hotline by calling 1-877-FRAUD-17. Persons contacting the hotline may remain anonymous, and state law specifically requires the Bureau to protect callers' identities. Additional information is available on the Bureau's website.

Report 17-2
January 2017

STATE OF WISCONSIN
Legislative Audit Bureau

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703
State Auditor: Joe Chrisman

State Highway Program

Background

The Department of Transportation (DOT) is responsible for planning, designing, constructing, and maintaining the 11,758 miles of Wisconsin's state highways. DOT's expenditures for state highways increased from $739.7 million in fiscal year (FY) 1996-97 to $2.1 billion in FY 2015-16. The state highway program includes major highway projects and Southeast Wisconsin freeway megaprojects that must be enumerated in statutes before DOT can begin to construct them, rehabilitation projects that range from resurfacing to reconstructing existing highways, and maintenance work that includes removing snow and filling potholes.

Key Findings

We found:

- The proportion of state highways rated in good condition decreased steadily from 53.5 percent in 2010 to 41.0 percent in 2015.
- When a major highway project is considered for enumeration, DOT provides the Governor and the Legislature with an estimate of total project costs, but such estimates were incomplete, in part, because they did not take into account that inflation would increase project expenditures over time.
- From enumeration to August 2016, the cost estimates DOT reported for 16 ongoing major highway projects increased by an estimated $3.1 billion.
- DOT budgeted to complete more major highway project work than could be completed with its available funding because it did not sufficiently take into account the extent to which project expenditures increased over time as a result of inflation and unexpected cost increases.
- DOT has not changed the proportion of funds allocated among its five regions to complete certain rehabilitation projects since 2006, did not fully comply with administrative rules for selecting projects, and did not document why it selected particular projects to construct over other potential projects.
- From FY 2006-07 through FY 2014-15, work completed by DOT staff declined from 46.4 percent to 33.4 percent of total design engineering expenditures and from 37.6 percent to 32.4 percent of total construction engineering expenditures.
- DOT generally had effective oversight of the processes for soliciting bids and awarding construction contracts and took steps to control construction costs, but it could take additional steps.
- DOT potentially could achieve considerable additional savings if it met its performance measure goals.
- DOT has established performance measure goals to improve its management of the state highway program. However, DOT is not consistently using them to manage and improve its operations.

Recommendations

We make recommendations that will help DOT use its funds more effectively and improve how it manages the planning, engineering, and construction phases of state highway projects, as well as its maintenance of state highways. In addition, we identify modifications the Legislature could consider making to statutes.

View Report 17-2 Highlights

STATE OF WISCONSIN
Legislative Audit Bureau

Report 17-3
February 2017

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703 | State Auditor: Joe Chrisman

State Investment Fund
Fiscal Year 2015-16

State of Wisconsin Investment Board

Background

The State of Wisconsin Investment Board (SWIB) manages the State Investment Fund as authorized by s. 25.14, Wis. Stats. SWIB is governed by a nine-member Board of Trustees. Six of the trustees are appointed by the Governor, with the advice and consent of the Senate, to serve a six-year term; two of the trustees are participants in the Wisconsin Retirement System (WRS); and the Secretary of the Department of Administration or a designee also serves as a trustee.

The State Investment Fund invests the excess operating funds of State of Wisconsin agencies, the Wisconsin Retirement System, and the Local Government Investment Pool (LGIP). The LGIP is a voluntary option for local governments, such as counties, cities, villages, towns, and school districts. SWIB's investment objectives for the State Investment Fund are liquidity, safety of principal, and competitive rates of return. Although SWIB is responsible for State Investment Fund investment activities, the Department of Administration is responsible for distributing earnings to participants.

To fulfill our statutory requirements, we conducted a financial audit of SWIB by auditing the financial statements for the State Investment Fund in accordance with applicable government auditing standards, issuing our auditor's opinion, and reviewing internal controls.

Audit Results

Our unmodified opinion on the State Investment Fund financial statements is included in SWIB's *State Investment Fund Annual Financial Report* for the fiscal year (FY) ended June 30, 2016. We provide an unmodified opinion when audit evidence supports the conclusion that the financial statements provide a fair view of an entity's financial activity in accordance with government accounting standards. Our report includes the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

Key Findings

On the basis of generally accepted accounting principles, the net position of the State Investment Fund increased from $7.9 billion as of June 30, 2015, to $9.5 billion as of June 30, 2016.

Net investment income earned by the State Investment Fund increased from $7.9 million in FY 2014-15 to $25.5 million in FY 2015-16. The annual investment return for the State Investment Fund increased from 0.11 percent in FY 2014-15 to 0.28 percent in FY 2015-16. These investment returns exceeded the benchmarks established for the State Investment Fund, and the higher investment income in FY 2015-16 resulted from the increase in the federal funds rate that occurred in December 2015.

Report 17-4
March 2017

STATE OF WISCONSIN
Legislative Audit Bureau

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703 | State Auditor: Joe Chrisman

State of Wisconsin
Fiscal Year 2015-16 Financial Statements

Background

Annually, the Department of Administration (DOA) prepares the State of Wisconsin's Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting principles (GAAP). The report includes the State's financial statements for the past fiscal year and other information that describes the State's fiscal condition. To prepare the statements, DOA uses information from a variety of sources, including information provided by other agencies, and the State's accounting system, which is part of the State's new enterprise resource planning system (STAR) implemented on October 1, 2015.

The CAFR typically is published by DOA each December. However, the fiscal year (FY) 2015-16 financial statements were the State's first financial statements compiled using information obtained from STAR. Consequently, DOA indicated that the first year-end close required additional time for training, development of new procedures, and system adjustments. Similarly, new audit work associated with these new procedures and system adjustments in STAR affected the audit timeline.

We conducted a financial audit of the State by auditing its financial statements in accordance with applicable government auditing standards, issuing our auditors' opinions, reviewing internal controls, and making recommendations for improvements. Although we audited information presented in the financial statements derived from STAR that was sufficient to provide our audit opinion, we did not conduct an audit of the implementation of STAR.

Audit Results and Key Findings

We provided unmodified opinions on the State's FY 2015-16 financial statements presented in the CAFR, which can be found on DOA's website. We provide an unmodified opinion when audit evidence supports the conclusion that the financial statements provide a fair view of an entity's financial activity in accordance with GAAP. Our audit report includes the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

We also found:

- The General Fund's GAAP deficit remained at $1.7 billion as of June 30, 2016.
- The balance of the Transportation Fund decreased from $777.5 million as of June 30, 2015, to $717.3 million as of June 30, 2016. The balance for FY 2014-15 included a one-time transfer of $133.3 million from the General Fund to the Transportation Fund.
- The State's long-term debt increased from $13.6 billion as of June 30, 2015, to $13.7 billion as of June 30, 2016.
- The State's proportionate share of the Wisconsin Retirement System (WRS) net pension liability was $455.5 million. This decrease of $1.1 billion, from the $686.9 million net pension asset reported for FY 2014-15, is generally related to the decline in investment performance for WRS assets in 2015.

Audit Recommendations

As part of our audit, we identified one material weakness and six significant deficiencies in internal control. We identified a material weakness and significant deficiencies in information technology (IT) security policies and procedures and in IT controls, including those related to STAR. We include recommendations in our report for DOA and the University of Wisconsin System to make improvements related to these concerns. We also identified significant deficiencies in certain financial reporting processes at DOA, the Department of Transportation, and the Office of the Commissioner of Insurance. We recommend each agency take steps to address the identified weaknesses.

Report 17-5
March 2017

STATE OF WISCONSIN
Legislative Audit Bureau

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703 | State Auditor: Joe Chrisman

State of Wisconsin

FY 2015-16 Single Audit

Background

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's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Single Audit Act requires there to be one audit of federal grant programs. This audit also incorporates our annual audit of the State's financial statements, which were included in the Comprehensive Annual Financial Report (CAFR) issued by the Department of Administration (DOA). We performed the single audit for fiscal year (FY) 2015-16 at the request of state agencies that administered federal financial assistance. This audit also assists us in fulfilling our audit responsibilities under s. 13.94, Wis. Stats.

During FY 2015-16, state agencies administered $11.6 billion in federal financial assistance, including $10.4 billion in cash assistance; $1.0 billion in noncash assistance, such as food commodities; and $200.6 million in outstanding federal loan balances. We audited 14 federal programs that accounted for 48.1 percent of the federal financial assistance administered by state agencies in FY 2015-16. We evaluated internal controls, tested for compliance with federal requirements, and followed up on findings from the FY 2014-15 single audit (report 16-5).

Audit Results and Key Findings

We provided an unmodified opinion on federal compliance for the federal programs we reviewed. Although state agencies generally complied with federal requirements, we made nine recommendations to improve the administration of federal programs, including by the Department of Health Services (DHS), the Department of Natural Resources (DNR), and the University of Wisconsin (UW) System. For example:

- We continued to identify timeliness concerns for resolving computer data match discrepancies for the Medical Assistance program at DHS.
- We found DNR did not retain adequate documentation to support certain licensure information it reported to the U.S. Fish and Wildlife Service for fish and wildlife management activities.
- At University of Wisconsin institutions, we identified concerns regarding compliance with federal requirements for the receipt of funding under TRIO Cluster programs, which help first-generation college students and economically disadvantaged students achieve success at the postsecondary level by facilitating high school completion and postsecondary education entry, retention, and completion.

Audit Recommendations

In addition to the nine recommendations we made to improve the administration of federal programs, we made seven recommendations related to internal controls over financial reporting from our audit of the State's FY 2015-16 financial statements (report 17-4). Agency responses and corrective action plans are included in the report, and the federal government will work with state agencies to resolve the concerns we identified.

View Report 17-5 Highlights

Report 17-6
April 2017

STATE OF WISCONSIN
Legislative Audit Bureau

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703

State Auditor: Joe Chrisman

University of Wisconsin System
Fiscal Year 2015-16

Background

The University of Wisconsin (UW) System provides postsecondary academic education for approximately 179,000 students and consists of 13 four-year universities, 13 two-year colleges, UW-Extension, and UW System Administration, which consists of the UW System President's staff. UW System is governed by an 18-member Board of Regents.

To fulfill our statutory requirement, we conducted a financial audit of UW System by auditing its financial statements in accordance with applicable government auditing standards, issuing our auditor's opinion, reviewing internal controls, and reviewing certain financial management topics.

Audit Results and Key Findings

Our unmodified opinion on UW System's financial statements for fiscal year (FY) 2015-16 and FY 2014-15 is included in its *2016 Annual Financial Report.* We provide an unmodified audit opinion when audit evidence supports the conclusion that the financial statements provide a fair view of an entity's financial activity in accordance with generally accepted accounting principles (GAAP).

We continued to identify weaknesses in information technology (IT) security policies, procedures, and controls for several UW institutions. We considered these weaknesses to be a significant deficiency in internal control in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

We also found:

- On a GAAP basis, UW System's net position, which provides a measure of its overall financial condition, decreased from $6.7 billion as of June 30, 2015, to $6.6 billion as of June 30, 2016.
- On a budgetary basis, UW System's unrestricted program revenue balances decreased from $923.9 million as of June 30, 2015, to $883.3 million as of June 30, 2016, or by $40.6 million.
- UW System Administration took steps to address concerns related to institution reserve policies and oversight and administration of investments by the Office of Trust Funds.
- In response to our survey, UW institutions reported $98.7 million in nontraditional student fees and $7.0 million in special course fees in FY 2015-16.
- UW institutions did not have a process in place for conducting regular audits of special course fees as required by UW System Administration policies. We also found instances in which fees were incorrectly categorized in reports provided to the Legislature.

Audit Recommendations

We recommend UW System Administration ensure that UW institutions follow its policy to audit special course fee revenues and expenditures, and recommend it work with UW institutions to ensure the accuracy of the information in the tuition and fee report. We further recommend UW System Administration continue to work with the UW Information Assurance Council and UW institutions to implement IT policies and procedures.

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703
State Auditor: Joe Chrisman

Department of Employee Trust Funds
Calendar Year 2015

Background

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

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

This report was completed later than anticipated due to delays in ETF's financial statement preparation, which was affected by the State's implementation of a new enterprise resource planning system called STAR.

Audit Results and Key Findings

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

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

We found:

- The WRS fiduciary net position, which represents resources available to pay pension benefits, decreased from $92.2 billion as of December 31, 2014, to $88.5 billion as of December 31, 2015, or by 4.0 percent. This decline resulted in the reporting of a net pension liability of $1.6 billion as of December 31, 2015.
- ETF contracts with third-party administrators to manage several of the benefit programs it administers, but ETF does not use available service organization audit reports to assess the controls of third-party administrators.
- The net position of the State Income Continuation Insurance (ICI) program declined from a positive $9.2 million as of December 31, 2006, to a negative $25.6 million as of December 31, 2015.
- The Group Insurance Board approved changes to redesign the ICI program based on recommendations of an actuary.

Audit Recommendations

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

Report 17-8
May 2017

STATE OF WISCONSIN
Legislative Audit Bureau

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703

State Auditor: Joe Chrisman

Revenues, Expenditures, and Capital Projects

Wisconsin Veterans Home at King

Background

The Wisconsin Veterans Home at King is administered by the Department of Veterans Affairs (DVA). In 2016, King provided skilled nursing care to a daily average of 685 veterans and their spouses. Operating expenditures for King increased from $68.8 million in fiscal year (FY) 2011-12 to $76.7 million in FY 2015-16. From FY 2011-12 through FY 2015-16, capital project expenditures for King totaled $20.2 million. This report is the first phase of our evaluation and analyzes revenues, expenditures, and capital projects.

Key Findings

During our audit, we found:

- King generated operating revenue of more than $8.0 million in excess of its expenditures each year from FY 2011-12 through FY 2015-16.
- From FY 2003-04 through FY 2015-16, a total of $55.0 million was transferred from King's institutional operations account to other accounts that do not directly benefit King, including transfers of $28.4 million to the Wisconsin Veterans Home at Union Grove and $20.1 million to the Veterans Trust Fund.
- The year-end cash balance in King's institutional operations account grew from $17.3 million at the end of FY 2011-12 to $35.2 million at the end of FY 2015-16, or by 103.5 percent.
- DVA has not developed a systematic process for comprehensively identifying and assessing capital-related project needs at King and the other Wisconsin Veterans Homes.
- From July 2011 through December 2016, 19 of the 29 capital projects King requested were initiated, but not all of the projects were initiated promptly. For example, more than seven years elapsed before an approved request to replace soiled carpeting in one of its skilled nursing facilities was initiated.
- Ten projects with budgets totaling $23.2 million that were requested by King were not initiated based upon decisions by DVA or the Building Commission. Three of these projects (30.0 percent) may have had a potential effect on resident safety.

Key Recommendations

We recommend that DVA modify its administrative rules to clarify terms used in calculating private pay rates; develop a management strategy for the level and use of the cash balance in the institutional operations account for King; and establish a systematic process for comprehensively identifying capital-related project needs for all Wisconsin Veterans Homes. We also recommend that DVA report to the Joint Legislative Audit Committee by September 1, 2017, on the status of its efforts to implement our recommendations.

Report 17-9
May 2017

STATE OF WISCONSIN
Legislative Audit Bureau
BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703 | State Auditor: Joe Chrisman

Wisconsin Economic Development Corporation

Background

The Wisconsin Economic Development Corporation (WEDC) is the State's lead economic development organization. It is funded primarily with state funds and is governed by a 14-member board. Statutes require the Legislative Audit Bureau to conduct biennially a financial audit of WEDC and a program evaluation audit of WEDC's economic development programs. In fiscal year (FY) 2015-16, WEDC administered 34 economic development programs that provided grants, loans, tax credits, and other assistance to businesses, individuals, local governments, and other organizations.

Key Findings

To assess WEDC's administration of its programs, we reviewed available information for 133 awards WEDC made. We also analyzed WEDC's revenues and administrative expenditures. We found:

- WEDC improved its administration of grant, loan, and tax credit programs during the first six months of FY 2016-17.
- WEDC did not contractually require grant and loan recipients to submit information sufficiently detailed to allow it to determine the extent to which jobs were actually created or retained.
- The potentially uncollectable balance of loans with repayments 90 days or more past due increased from $1.3 million on December 31, 2014, to $11.0 million on December 31, 2016.
- WEDC did not collect sufficiently detailed information from tax credit recipients about their existing employees. Collecting such information will help WEDC determine in future years the extent to which recipients actually created or retained contractually required jobs. In addition, WEDC did not comply with statutes because it did not annually verify jobs-related information submitted by recipients on the extent to which contractually required results were achieved.
- WEDC indicated that 192 awards it had made since July 2011 ended through September 2016, including 24 awards (12.5 percent) that WEDC indicated had an expected result of job creation or retention. Thirteen of the 24 awards ended before the contractually specified completion dates and, as a result, the recipients were no longer contractually required to create 183 jobs and retain 1,082 jobs. Eight of the 24 awards reached their contractually specified completion dates.
- WEDC cannot be certain about the numbers of jobs created or retained as a result of its awards. Additional actions need to be taken to improve the accuracy of the numbers that WEDC reports in its online data regarding jobs that were created or retained as a result of the awards it made.
- WEDC's cash and investments balance increased from $33.1 million as of June 30, 2012, to $69.9 million as of June 30, 2016, or by $36.8 million (111.2 percent). The cash and investments balance increased, in part, because WEDC received state funding quarterly and did not need most of these funds immediately.

Recommendations

We include recommendations for WEDC and its governing board to improve the administration of grant, loan, and tax credit programs, program oversight, and financial management. We also identify two issues for legislative consideration.

View Report 17-9 Highlights

Report 17-10
June 2017

STATE OF WISCONSIN
Legislative Audit Bureau
www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703
State Auditor: Joe Chrisman

BRIEFING SHEET

Unemployment Reserve Fund

Department of Workforce Development

Background

Wisconsin's Unemployment Insurance program, which was enacted in 1932 and was the first such program in the United States, is accounted for in the Unemployment Reserve Fund and managed by the Department of Workforce Development (DWD). The program, which provides benefits temporarily to replace a portion of wages lost when individuals become unemployed and meet certain eligibility requirements, is primarily funded through taxes paid by employers. Wisconsin Statutes created the Unemployment Insurance Advisory Council to advise DWD on matters related to unemployment insurance and make recommendations for unemployment insurance changes to the Legislature.

To help fulfill our statutory requirements, and at the request of DWD, we conducted a financial audit of the Fund by auditing the financial statements in accordance with applicable government auditing standards, issuing our auditor's opinion, and reviewing internal controls.

Audit Results and Key Findings

We provided an unmodified opinion on the Unemployment Reserve Fund's financial statements for fiscal year (FY) 2015-16 and FY 2014-15. We provide an unmodified opinion when audit evidence supports the conclusion that the financial statements provide a fair view of an entity's financial activity in accordance with generally accepted accounting principles. Our audit report also includes the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

Accompanying the financial statements is the Schedule of Cash Balance Related to Taxable Employers, which is used to determine the state unemployment tax rate paid by employers. Wisconsin Statutes include four unemployment insurance tax rate schedules. The second lowest tax rate schedule is in effect during calendar year 2017 based on the Fund's cash balance as of June 30, 2016.

The Fund's net position was $1.2 billion as of June 30, 2016, which was an increase of $905.0 million since June 30, 2014. The increase in net position is a result of revenues from employer taxes and other sources exceeding benefit payments and transfers since June 30, 2011. Due to its improved net position, the Fund has not borrowed from the federal government since July 2014.

We also found:

- the U.S. Department of Labor recommends that states have sufficient unemployment reserves to sustain 12 months of benefit payments, which is approximately $1.8 billion for Wisconsin for 2016, according to DWD staff; and

- the Fund earned $17.0 million in interest in FY 2015-16 and $5.6 million in FY 2014-15 because the cash balance maintained in the Federal Unemployment Trust Fund remained positive beginning July 2014.

Report 17-11
June 2017

STATE OF WISCONSIN
Legislative Audit Bureau

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703 | State Auditor: Joe Chrisman

Universal Service Fund
FY 2015-16 and FY 2014-15

Public Service Commission

Background

The Universal Service Fund (USF) was established in 1993 to ensure that all residents of Wisconsin receive essential telecommunications services and have access to advanced telecommunication service capabilities. In subsequent years, legislation has authorized the use of the USF for other purposes. In addition, providing access to advanced telecommunications service capabilities has been eliminated as a purpose of the USF.

The USF is funded by assessments on telecommunications providers that are typically recovered from consumers. The Public Service Commission (PSC) is responsible for establishing policies and procedures for the USF and for levying the assessments. The PSC is also responsible for financial reporting for the USF. At the request of the PSC, we conducted a financial audit of the USF by auditing the financial statements in accordance with applicable government auditing standards, issuing our auditor's opinion, reviewing internal controls, and recommending improvements.

Audit Results and Key Findings

We provided an unmodified opinion on the USF's financial statements for fiscal year (FY) 2015-16 and FY 2014-15. We provide an unmodified opinion when audit evidence supports the conclusion that the financial statements provide a fair view of an entity's financial activity in accordance with generally accepted accounting principles. Our audit report also includes the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

In FY 2015-16, revenues from assessments on telecommunications providers totaled $41.3 million. The USF expended $39.6 million in support of 14 programs managed by four state agencies. We also found:

- Aid to Public Library Systems, which is managed by the Department of Public Instruction, represented 37.9 percent of the USF's FY 2015-16 program expenditures. The USF has been the sole funding source for Aid to Public Library Systems since FY 2008-09.
- The Educational Telecommunications Access Program, which is managed by the Department of Administration (DOA), represented 35.9 percent of the USF's FY 2015-16 program expenditures. This program subsidizes the cost of broadband network services for pre-K-12 schools and other educational institutions and, beginning in FY 2015-16, supports educational technology training and infrastructure.
- 2015 Wisconsin Act 55, the 2015-17 Biennial Budget Act, directed $6.0 million of USF funding be used for the Broadband Expansion Grant Program.
- The PSC did not consider the balance in the USF when determining assessments on telecommunications providers. The fund balance increased during FY 2014-15 and FY 2015-16 and was $14.1 million as of June 30, 2016, as accounted for in accordance with generally accepted accounting principles.

Audit Recommendations

We recommend the PSC establish a policy related to the minimum fund balance for the USF. We again report a material weakness in the PSC's internal control over financial reporting for the USF and make recommendations for the PSC to improve its financial reporting process. We also report a significant deficiency in DOA's centralized cash reconciliations, which are relied upon by the PSC for the USF.

Report 17-12
August 2017

STATE OF WISCONSIN
Legislative Audit Bureau

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703 | State Auditor: Joe Chrisman

Retirement Funds Investment Activity
Calendar Year 2016

State of Wisconsin Investment Board

Background

The State of Wisconsin Investment Board (SWIB) 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. SWIB also manages the State Investment Fund, and five other state insurance and trust funds. SWIB is governed by a nine-member Board of Trustees. Six of the trustees are appointed by the Governor, with the advice and consent of the Senate, and two of the trustees are WRS participants who are appointed by retirement boards. In addition, the Secretary of the Department of Administration or a designee also serves as a trustee.

To fulfill our statutory requirements, we conducted a financial audit of SWIB by auditing the financial statements for the Retirement Funds in accordance with applicable government auditing standards, issuing our auditor's opinions, and reviewing internal controls. These financial statements report the investment activity of the WRS.

Audit Results

We provided unmodified opinions on the Core Fund and the Variable Fund financial statements for the year ended December 31, 2016. We provide an unmodified opinion when audit evidence supports the conclusion that the financial statements provide a fair view of an entity's financial activity in accordance with governmental accounting standards. Our unmodified opinions are included in SWIB's *2016 Retirement Funds Annual Report*.

Key Findings

Net investment position provides a measure of overall financial condition. On the basis of generally accepted accounting principles (GAAP), the net investment position of the Core Fund increased from $85.4 billion as of December 31, 2015, to $89.4 billion as of December 31, 2016. The one-year investment return for the Core Fund increased from -0.4 percent in 2015 to 8.6 percent in 2016. The Core Fund reported a net investment loss of $0.6 billion in 2015 and a $6.9 billion investment gain in 2016. The higher Core Fund investment return in 2016 is primarily due to strong investment returns from stock, private equity, and real estate investments.

The net investment position of the Variable Fund increased from $6.7 billion as of December 31, 2015, to $7.0 billion as of December 31, 2016. The one-year investment return for the Variable Fund increased from -1.2 percent in 2015 to 10.6 percent in 2016. The Variable Fund reported a net investment loss of $0.1 billion in 2015 and a $0.7 billion investment gain in 2016. The higher Variable Fund investment return in 2016 is due to strong investment returns from stock investments.

Our report includes the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters. We did not identify any control or compliance concerns that were required to be reported under *Government Auditing Standards.*

STATE OF WISCONSIN
Legislative Audit Bureau
BRIEFING SHEET
www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703
State Auditor: Joe Chrisman

Opportunity Schools and Partnership Program

Background

2015 Wisconsin Act 55, the 2015-17 Biennial Budget Act, established the opportunity schools and partnership program. Student achievement and other factors determine whether public schools in a given school district are eligible for transfer into the program. Statutes include separate eligibility criteria for Milwaukee Public Schools (MPS) and all other school districts. An opportunity school is managed and controlled by a commissioner selected by the applicable county executive. After a school has been transferred into the program, statutes prohibit it from being transferred out of the program for five consecutive school years. Beginning in 2017 and biennially thereafter, Act 55 requires the Legislative Audit Bureau to prepare a performance evaluation audit of the program.

Key Findings

We found:

- No schools have been transferred into the program to date, and no schools will be eligible for transfer into the program in the 2017-18 school year.
- In October 2015, the Department of Public Instruction (DPI) formally notified the Milwaukee County Executive that 65 MPS schools were eligible for transfer into the program in the 2016-17 school year. Statutes required the commissioner to select at least one and not more than three MPS schools to be transferred into the program.
- In November 2015, the Milwaukee County Executive selected the first program commissioner for MPS schools. This commissioner did not transfer any MPS schools into the program. The commissioner resigned in June 2016, and the position has remained vacant since then.
- Even if no MPS schools are in the program, statutes require the Milwaukee County Executive to select a program commissioner. Statutes require the county executive to notify the Governor and the mayor of the City of Milwaukee if the position becomes vacant. The Governor, the county executive, and the mayor are statutorily required to each appoint an individual to compile a list of nominees for the position, and the county executive is to select a new commissioner from this list. The county executive has not notified the Governor and the mayor of the vacancy in the position.
- In the 2018-19 school year, MPS and the Racine Unified School District could have schools eligible for transfer into the program.
- Statutes require DPI to annually publish the School and School District Accountability Report by September. DPI indicated that it is not possible to publish this report by September and did not publish the 2016 report until November 17, 2016.

Recommendations

We include recommendations that the Milwaukee County Executive notify the Governor and the mayor of the City of Milwaukee that the program commissioner position is vacant, and that DPI either comply with statutes by annually publishing the School and School District Accountability Report by September or again request that the Legislature modify statutes to provide it with additional time to publish this report.

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703
State Auditor: Joe Chrisman

Wisconsin Veterans Home at King

Background

The Wisconsin Veterans Home at King is administered by the Department of Veterans Affairs (DVA). In 2016, King provided skilled nursing care to an average of 685 veterans and their spouses each day. Report 17-8 included our analyses of King's revenue, expenditures, and capital projects. This report (report 17-14) includes a review of resident care needs, staffing, regulatory requirements, complaints, and the results of our survey of King employees.

Key Findings

During our audit, we found:

- The care needs of residents increased from 2007 through 2016 based on several measures, such as the extent to which residents needed assistance with dressing and eating.
- Although King was authorized more than 80 additional nursing positions by 2013 Wisconsin Act 20, it has not been able to keep many of the positions filled. As of June 2016, 46.8 full-time equivalent nursing positions (9.3 percent) were vacant.
- In fiscal year (FY) 2015-16, King's use of overtime for nursing staff exceeded the amount it used immediately prior to the creation of the additional positions. The number of overtime hours worked by nursing staff increased from 36,800 in FY 2013-14 to 65,100 in FY 2015-16, or by 76.9 percent.
- From 2012 through 2016, the Department of Health Services (DHS) issued, on average, fewer citations to King for violations of federal nursing home regulations than it issued to other skilled nursing facilities in Wisconsin. Of the 184 citations DHS issued to King, one was in the highest severity category, for which it was assessed a civil penalty of $76,900 in June 2016.
- King employees who responded to our survey generally indicated that the overall care provided at King was good, but raised concerns with issues such as the manner in which overtime is assigned, employee morale, and management responsiveness to employee concerns.

Key Recommendations

We recommend DVA report to the Joint Legislative Audit Committee by January 8, 2018, on its progress in filling vacant nursing positions and reducing the use of overtime; reviewing King's informal processes for addressing resident concerns; reviewing concerns expressed by residents; assessing training needs; ensuring adequate steps are taken to encourage employees at King to routinely report concerns regarding residents, including occurrences of resident abuse, neglect, and misappropriation of resident property; and reviewing concerns about employee morale and the perception that King's hiring practices are not fair and transparent.

View Report 17-14 Highlights

Report 17-15
August 2017

STATE OF WISCONSIN
Legislative Audit Bureau

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703

State Auditor: Joe Chrisman

Wisconsin Lottery
Fiscal Year 2015-16

Background

The Wisconsin Lottery, which began operations in September 1988, is administered by the Department of Revenue. The Wisconsin Lottery sells instant tickets and lotto tickets, and participates in the national Powerball and Mega Millions lotto games. The Wisconsin Constitution and state statutes impose certain limitations on lottery expenses. The Wisconsin Constitution also requires that net proceeds from the Wisconsin Lottery be used exclusively for property tax relief for Wisconsin residents.

To fulfill our statutory requirement, we conducted a financial audit of the Wisconsin Lottery by auditing its financial statements in accordance with applicable government auditing standards, providing an auditor's opinion, reviewing internal controls, and assessing compliance with certain statutory spending limitations.

Audit Results and Key Findings

We provided an unmodified opinion on the Wisconsin Lottery's financial statements for fiscal year (FY) 2015-16 and FY 2014-15. We provide an unmodified opinion when audit evidence supports the conclusion that the financial statements provide a fair view of an entity's financial activity in accordance with generally accepted accounting principles. Our audit report also includes the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

Net proceeds from the Wisconsin Lottery are largely distributed to owners of primary residences in Wisconsin through the Lottery and Gaming Tax Credit. Since its inception, the Wisconsin Lottery has provided $4.0 billion in property tax relief, including $158.1 million distributed in FY 2015-16.

We also found:

- the sales of instant and lotto tickets increased from $574.6 million in FY 2014-15 to $627.1 million in FY 2015-16, or by 9.1 percent;
- operating expenses increased from $415.4 million in FY 2014-15 to $451.9 million in FY 2015-16, or by 8.8 percent; and
- in September 2016, the Department of Administration and the Legislature's Joint Committee on Finance authorized the use of $185.3 million in Wisconsin Lottery net proceeds for property tax relief in FY 2016-17.

In the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, we include a significant deficiency in the Department of Administration's centralized cash reconciliations, which are relied upon by the Department of Revenue for the Wisconsin Lottery.

Report 17-16
September 2017

STATE OF WISCONSIN
Legislative Audit Bureau

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703
State Auditor: Joe Chrisman

Wisconsin Retirement System

Calendar Year 2016

Background

The Wisconsin Retirement System (WRS) is a cost-sharing, multiple-employer, defined-benefit pension plan that provides post-retirement financial benefits to participating employees, as well as disability and death benefits to participants and their beneficiaries. The Department of Employee Trust Funds (ETF) is responsible for managing the operations of the WRS that interact with the almost 1,500 employers and over 622,000 participants as of December 31, 2016, including collecting contributions and paying retirement benefits.

As required by statutes, we conducted a financial audit of the WRS by auditing the financial statements in accordance with applicable government auditing standards, issuing our auditor's opinion, reviewing internal controls, and making recommendations for improvements.

Audit Results and Key Findings

We provided an unmodified opinion on the WRS financial statements for calendar year 2016. We provide an unmodified opinion when audit evidence supports the conclusion that the financial statements provide a fair view of an entity's financial activity in accordance with generally accepted accounting standards. Our audit report also includes the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters. We also found:

- The WRS is funded through investment earnings and annual employer and employee contributions. From 2007 through 2016, investment income represented 70.4 percent of total funding for the WRS and contributions represented 29.6 percent of total funding for the WRS.
- The fiduciary net position of the WRS, which represents the value of the plan's assets that are currently available to make benefit payments, increased from $88.5 billion as of December 31, 2015, to $92.6 billion as of December 31, 2016, or by 4.6 percent.
- Net investment income increased from a loss of $675.0 million in 2015 to a gain of $7.3 billion in 2016, or by 1,177.3 percent.
- Contributions to the WRS remained relatively stable at $1.9 billion in 2015 and 2016, while benefit payments increased from $4.7 billion in 2015 to $5.0 billion in 2016.
- The $0.8 billion net pension liability of the WRS reported as of December 31, 2016, represents an improvement in the net pension liability, which was $1.6 billion as of December 31, 2015.

Report 17-17
September 2017

STATE OF WISCONSIN
Legislative Audit Bureau

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703 | **State Auditor:** Joe Chrisman

Wisconsin Retirement System Reporting for Participating Employers

Calendar Year 2016

Background

The Wisconsin Retirement System (WRS) is a cost-sharing, multiple-employer, defined-benefit pension plan that provides post-retirement financial benefits to participating employees, as well as disability and death benefits to participants and their beneficiaries. The Department of Employee Trust Funds (ETF) is responsible for managing the operations of the WRS that interact with the almost 1,500 employers and over 622,000 participants as of December 31, 2016, including collecting contributions and paying retirement benefits.

As requested by ETF, we conducted an audit of the Schedule of Employer Allocations of the WRS and the Schedule of Collective Pension Amounts of the WRS, and the related notes. We audited these two WRS employer schedules in accordance with applicable government auditing standards, issued our auditor's opinions, and reviewed internal controls.

ETF prepared the two employer schedules and related notes to provide information to assist participating WRS employers in preparing their own financial statements in accordance with generally accepted accounting principles (GAAP).

Audit Results and Key Findings

We provided unmodified opinions on the Schedule of Employer Allocations of the WRS and specified total amounts on the Schedule of Collective Pension Amounts of the WRS, and the related notes, as of December 31, 2016. An unmodified opinion means that we have obtained sufficient audit evidence to support the conclusion that the schedules are fairly stated in accordance with GAAP. Our audit report also includes the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters. We also found:

- The $0.8 billion net pension liability of the WRS reported as of December 31, 2016, represents an improvement in the net pension liability, which was $1.6 billion as of December 31, 2015.
- The net pension liability is the difference between the $92.6 billion fiduciary net position of the WRS, as reported in the WRS financial statements, and the $93.4 billion total pension liability calculated by the actuary. We include information on our audit of the WRS financial statements in report 17-16.
- Each participating WRS employer is responsible for reporting its proportionate share of the net pension liability, as well as other amounts, in its own GAAP-based financial statements.
- The proportionate share of the net pension liability for all State of Wisconsin agencies was $231.6 million, including $111.6 million related to the University of Wisconsin System.

Audit Recommendation

We identified an error in the presentation of certain amounts in the Schedule of Collective Pension Amounts of the WRS. ETF corrected the error after we brought it to its attention. We report this as a significant deficiency, and we recommend ETF annually review the accounting standards when compiling the schedule.

Report 17-18
November 2017

STATE OF WISCONSIN
Legislative Audit Bureau

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703 | State Auditor: Joe Chrisman

Read to Lead Development Fund
Fiscal Year 2016-17

Background

The Read to Lead Development Fund was created in April 2012 by 2011 Wisconsin Act 166. The Fund and a related general purpose revenue (GPR) appropriation provide grants to school districts and other entities to support literacy and early childhood development programs. The Read to Lead Development Council, which was also created by Act 166, is statutorily responsible for recommending grant awards from both the Fund and the related GPR appropriation.

The amount of grant awards the Council may recommend is limited by the amount available in the Fund and the related GPR appropriation. The Fund received $400,000 in initial funding, but subsequently received only minimal interest earnings through FY 2016-17. In FY 2011-12, and in each subsequent fiscal year, the related GPR appropriation has been appropriated $23,600 annually.

The Secretary of the Department of Children and Families chairs the Council and shares responsibility for awarding grants with the State Superintendent of Public Instruction.

Key Findings

We found:

- From the Fund's creation in April 2012 through FY 2016-17, a total of $496,959 was awarded to 17 grant recipients. Through FY 2016-17, $461,365 was expended to reimburse recipients for grant-related costs.
- After taking all outstanding grant commitments into account, the Fund's available balance was $2,219 on June 30, 2017.
- The Council did not solicit grant applications for FY 2016-17, but it did issue one award. In response to a scoring error we identified in report 16-9, the Indianhead Community Action Agency was awarded a grant for $23,600 in FY 2016-17.
- Unless additional funding is solicited or appropriated to the Fund, available grant funding will likely be limited to the related GPR appropriation for future grants.
- Under state law, 12 members of the Council constitute a quorum to conduct business. In October 2017, the Council lacked a sufficient number of members to achieve a quorum.

Key Recommendations

We make recommendations to improve grant management, encourage the Council to develop a formal position on soliciting funds to support future grant awards, recruit additional members to fill vacancies, and report to the Joint Legislative Audit Committee by June 1, 2018.

Report 17-19
November 2017

STATE OF WISCONSIN
Legislative Audit Bureau

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703 | State Auditor: Joe Chrisman

Petroleum Inspection Fee Revenue Obligations Program
Fiscal Year 2016-17

Background

The State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program is administered jointly by the Department of Natural Resources (DNR) and the Department of Administration (DOA). The program was established in January 2000 to provide financing to pay claims under the State of Wisconsin Petroleum Environmental Cleanup Fund Award (PECFA) program.

As of June 30, 2017, a total of $76.1 million in revenue bonds remained outstanding, including $62.4 million of refunding revenue bonds the State issued in October 2016 to fund outstanding commercial paper. It is expected that the outstanding revenue bonds will be repaid in fiscal year (FY) 2019-20. The revenue obligations are not general obligations of the State of Wisconsin. Instead, they are payable from, and primarily secured by, a $0.02 per gallon fee charged to suppliers of petroleum products received for sale in Wisconsin.

2015 Wisconsin Act 55, the 2015-17 Biennial Budget Act, sunset the PECFA program. As of July 20, 2015, no new sites may be accepted into the PECFA program. All claims for reimbursement of cleanup costs must be submitted before July 1, 2020.

At the request of DNR and DOA, we conducted a financial audit of the Petroleum Inspection Fee Revenue Obligations Program by auditing the program's financial statement in accordance with applicable government auditing standards, issuing our auditor's opinion, and reviewing internal controls.

Audit Results

We provided an unmodified opinion on the program's financial statement for the fiscal years ended June 30, 2017, and June 30, 2016. We provide an unmodified opinion when audit evidence supports the conclusion that the financial statement provides a fair view of an entity's financial activity. Our audit report also includes the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

Key Findings

We found that fees charged to petroleum suppliers totaled $76.6 million in FY 2016-17. Of this amount, $31.2 million was retained by the program to pay principal and interest on outstanding revenue obligations. Revenue from the remaining fees of $45.4 million was deposited in the Petroleum Inspection Fund. Of this amount, $5.2 million was used to pay PECFA claims; $29.0 million was transferred to other funds, including $27.3 million to the Transportation Fund as required by 2015 Wisconsin Act 55; and $11.2 million was used for other purposes.

STATE OF WISCONSIN
Legislative Audit Bureau

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703

State Auditor: Joe Chrisman

Department of Employee Trust Funds
Calendar Year 2016

Background

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

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

Audit Results and Key Findings

We provided unmodified opinions on the financial statements for the separate funds presented in ETF's *2016 Comprehensive Annual Financial Report,* which can be found on its website. We provide an unmodified opinion when audit evidence supports the conclusion that the financial statements provide a fair view of an entity's financial activity in accordance with generally accepted accounting principles. Our audit report also includes the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters. We also found:

- The WRS fiduciary net position, which represents the value of the plan's assets that are currently available to make benefit payments, increased from $88.5 billion as of December 31, 2015, to $92.6 billion as of December 31, 2016, or by 4.6 percent.
- The WRS and the other benefit programs with assets invested in the Core and Variable Retirement Investment Trust funds realized investment income.
- Consistent with our recommendations in report 17-7, ETF has developed a process for obtaining and reviewing service organization audit reports of third-party administrators.
- The net position of the State Income Continuation Insurance (ICI) program continued to decline from a negative $25.6 million as of December 31, 2015, to a negative $28.4 million as of December 31, 2016.
- ETF continues to monitor the financial status of the ICI program and is currently seeking statutory changes.

Report 17-21
December 2017

STATE OF WISCONSIN
Legislative Audit Bureau

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703

State Auditor: Joe Chrisman

Emergency Detention Pilot Program

Background

Under the emergency detention process, individuals may be involuntarily detained if they are believed to be a danger to themselves or others because of suspected mental illness, drug dependence, or developmental disability. The first step of the emergency detention process generally occurs when a law enforcement officer decides to take an individual into custody for emergency detention. The individual in custody must then be assessed by a mental health professional who determines whether to hold the individual in a treatment facility.

The Emergency Detention Pilot Program created by 2013 Wisconsin Act 235 granted certain mental health professionals in Milwaukee County the authority to take individuals into custody for emergency detention. The pilot program was administered by the Behavioral Health Division (BHD) of the Milwaukee County Department of Health and Human Services and was in operation from November 10, 2014, through June 30, 2017. Too few individuals were assessed and too few emergency detentions were conducted through the pilot program in Milwaukee County to allow for meaningful comparison with those conducted before the pilot program.

Key Findings

During our audit, we found:

- The statutory process established for emergency detention is somewhat different in Milwaukee County than it is in other counties.

- In Milwaukee County, BHD operates a psychiatric hospital with an emergency room that is open 24 hours every day of the year, and an individual taken into custody by a law enforcement officer for emergency detention is typically transported to BHD's emergency room. Within 24 hours of being taken into custody, BHD must conduct an assessment to determine whether an individual meets the statutory criteria for emergency detention.

- Under the pilot program, BHD assessed 66 individuals for a potential emergency detention and initiated 7 emergency detentions, or 0.1 percent of the 11,841 emergency detentions in the county that involved assessments conducted in BHD's emergency room from November 10, 2014, through June 30, 2017. Therefore, extending the pilot program in Milwaukee County or making it permanent is unlikely to result in a significant decrease in the number of emergency detentions initiated by law enforcement officers.

- In counties other than Milwaukee County, beginning in July 2016, a mental health professional is required to conduct a crisis assessment of an individual after the individual is taken into custody. The mental health professional must agree that detention is appropriate before the individual may be held in a treatment facility. Due to the role of mental health professionals in these counties, the utility of expanding the pilot program outside of Milwaukee County is likely limited.

Report 17-22
December 2017

STATE OF WISCONSIN
Legislative Audit Bureau

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703 | State Auditor: Joe Chrisman

State Investment Fund
Fiscal Year 2016-17

State of Wisconsin Investment Board

Background

The State of Wisconsin Investment Board (SWIB) manages the State Investment Fund as authorized by s. 25.14, Wis. Stats. SWIB is governed by a nine-member Board of Trustees. Six of the trustees are appointed by the Governor, with the advice and consent of the Senate, to serve a six-year term; two of the trustees are participants in the Wisconsin Retirement System (WRS); and the Secretary of the Department of Administration or a designee also serves as a trustee.

The State Investment Fund invests the excess operating funds of State of Wisconsin agencies, the Wisconsin Retirement System, and the Local Government Investment Pool (LGIP). The LGIP is a voluntary option for local governments, such as counties, cities, villages, towns, and school districts. SWIB's investment objectives for the State Investment Fund are liquidity, safety of principal, and competitive rates of return. Although SWIB is responsible for State Investment Fund investment activities, the Department of Administration is responsible for distributing earnings to participants.

To fulfill our statutory requirements, we conducted a financial audit of the State Investment Fund by auditing the financial statements in accordance with applicable government auditing standards, issuing our auditor's opinion, and reviewing internal controls.

Audit Results

Our unmodified opinion on the State Investment Fund financial statements is included in SWIB's *State Investment Fund Annual Financial Report* for the fiscal year ended June 30, 2017. We provide an unmodified opinion when audit evidence supports the conclusion that the financial statements provide a fair view of an entity's financial activity in accordance with government accounting standards. Our report includes the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

Key Findings

On the basis of generally accepted accounting principles, the net position of the State Investment Fund increased from $9.5 billion as of June 30, 2016, to $9.8 billion as of June 30, 2017.

Net investment income earned by the State Investment Fund increased from $25.5 million in fiscal year (FY) 2015-16 to $57.1 million in FY 2016-17. The annual investment return for the State Investment Fund increased from 0.28 percent in FY 2015-16 to 0.54 percent in FY 2016-17. The higher investment income in FY 2016-17 resulted from increases in the federal funds rate during the fiscal year.

Report 18-1
January 2018

STATE OF WISCONSIN
Legislative Audit Bureau
BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703 | State Auditor: Joe Chrisman

State Fair Park

Background

State Fair Park, the State's 190-acre fairgrounds located in the cities of West Allis and Milwaukee, has operated as a separate state agency since 1990. The primary responsibility of State Fair Park is to administer the annual 11-day State Fair each August. State Fair Park's operating expenditures increased from $17.4 million in fiscal year (FY) 2012-13 to $20.8 million in FY 2016-17, or by 20.1 percent. Over this period, expenditures for capital projects increased from $0.6 million to $2.0 million. In FY 2015-16, State Fair Park was authorized 48.0 full-time equivalent positions. State Fair Park also employs limited-term employees, which in 2016 ranged from 154 in December to 1,898 in August due to the amount of work associated with operating the State Fair.

Key Findings

During our audit, we found that:

- State Fair Park procures its own goods and services valued at more than $50,000, but it was not officially delegated this authority by the Department of Administration.
- State Fair Park lacks complete and accurate management information needed to effectively oversee its contracting processes, and it has not consistently followed proper procurement procedures.
- Since 2012, State Fair Park has independently managed midway operations during the State Fair, but it has not maintained adequate information needed to assess the financial effects of continuing to independently manage the midway.
- The operations of State Fair Park are consistent with several best practices in the industry, including routinely reviewing whether adjustments are needed to the price of admission, measuring the effects of its promotional efforts, developing a safety inspection program for its rides, and reviewing historical sales information for those vendors not using cash registers.
- State Fair Park does not have a comprehensive, long-term plan for assessing the condition of its primary grounds and facilities or a formal plan for the future use of the Milwaukee Mile racetrack.

Key Recommendations

We make recommendations for State Fair Park to improve its procurement practices, improve the amount and type of management information it maintains, ensure its limited-term employees do not exceed the 1,039-hour yearly limit, undertake a comprehensive review of its grounds and facilities, improve contract oversight and cash management procedures, enter into a statutorily required memorandum of understanding with the Department of Tourism, and consider whether it is appropriate to enter into contracts in which it forgoes revenue and instead directs payments be made to the State Fair Park Foundation. We also recommend that State Fair Park report to the Joint Legislative Audit Committee by June 1, 2018, on its progress in addressing our recommendations.

View Report 18-1 Highlights

STATE OF WISCONSIN
Legislative Audit Bureau
BRIEFING SHEET
Report 18-2
February 2018
www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703
State Auditor: Joe Chrisman

University of Wisconsin System
Fiscal Year 2016-17

Background

The University of Wisconsin (UW) System provides postsecondary academic education for approximately 176,000 students and consists of 13 four-year universities, 13 two-year colleges, UW-Extension, and UW System Administration, which consists of the UW System President's staff. UW System is governed by an 18-member Board of Regents.

To fulfill our statutory requirement, we conducted a financial audit of UW System by auditing its financial statements in accordance with applicable government auditing standards, issuing our auditor's opinion, reviewing internal controls, and reviewing certain financial management topics.

Audit Results and Key Findings

Our unmodified opinion on UW System's financial statements for fiscal year (FY) 2016-17 and FY 2015-16 is included in its *2017 Annual Financial Report*. We provide an unmodified audit opinion when audit evidence supports the conclusion that the financial statements provide a fair view of an entity's financial activity in accordance with generally accepted accounting principles (GAAP).

We have reported concerns related to information technology (IT) security policies, procedures, and controls at UW System since the early 1990s. Such weaknesses increase the risk that unauthorized or erroneous transactions could be processed or changes could be made to accounting, payroll, and student data. We continued to identify weaknesses and reported these weaknesses as a significant deficiency in internal control in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

We also found:

- On a GAAP basis, UW System's net position, which provides a measure of its overall financial condition, was $6.6 billion as of both June 30, 2016, and June 30, 2017.
- On a budgetary basis, UW System's unrestricted program revenue balances decreased from $883.3 million as of June 30, 2016, to $851.6 million as of June 30, 2017, or by $31.7 million.
- At its November 2017 meeting, the Board of Regents approved the negotiation of a contract with the State of Wisconsin Investment Board for investment management services.
- UW System Administration has developed five systemwide IT policies, but it has not developed a comprehensive IT security program in order to comply with our prior audit recommendations and Board of Regents policy.

Audit Recommendations

We recommend UW System Administration continue the development and maintenance of a comprehensive IT security program and report the status of its efforts to the Joint Legislative Audit Committee by August 31, 2018.

STATE OF WISCONSIN
Legislative Audit Bureau
BRIEFING SHEET
www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703 | State Auditor: Joe Chrisman

State of Wisconsin
Fiscal Year 2016-17 Financial Statements

Background

The Department of Administration (DOA) prepares the State of Wisconsin's Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting principles (GAAP). The report includes the State's financial statements for the past fiscal year and other information that describes the State's fiscal condition. To prepare the statements, DOA uses information from a variety of sources, including information provided by other agencies and the State's accounting system, which is part of the State's enterprise resource planning system (STAR). STAR implementation for the Department of Transportation (DOT) occurred on July 1, 2016, and affected the timing of financial reporting for fiscal year (FY) 2016-17.

We conducted a financial audit of the State by auditing its financial statements in accordance with applicable government auditing standards, issuing our auditor's opinions, reviewing internal controls, and making recommendations for improvements.

Audit Results and Key Findings

We provided unmodified opinions on the State's FY 2016-17 financial statements presented in the CAFR, which can be found on DOA's website. We provide an unmodified opinion when audit evidence supports the conclusion that the financial statements provide a fair view of an entity's financial activity in accordance with GAAP. Our audit report includes the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

We also found:

- The General Fund's fund balance was a deficit of $1.6 billion as of June 30, 2017.
- The balance of the Transportation Fund decreased from $717.3 million as of June 30, 2016, to $582.4 million as of June 30, 2017.
- The State's long-term debt decreased from $13.7 billion as of June 30, 2016, to $13.6 billion as of June 30, 2017.
- During FY 2016-17, the State issued $1.3 billion in new general obligation bonds and notes, of which $484.4 million was for transportation projects.
- The State disclosed a reduction of $78.2 million in tax revenues in FY 2016-17 resulting from tax abatement agreements under five programs administered by the Wisconsin Economic Development Corporation and one program administered by the Wisconsin Historical Society.

Audit Recommendations

We identified one material weakness and eight significant deficiencies in internal control over financial reporting. The material weakness and several significant deficiencies related to the weakness in information technology (IT) security policies and procedures and in IT controls, including those related to STAR. We include specific recommendations in our report for DOA, the Department of Revenue, and the University of Wisconsin System to make improvements related to these concerns. We also identified significant deficiencies in certain financial reporting processes at DOA and DOT, and recommend each agency take steps to address the identified control deficiencies.

STATE OF WISCONSIN
Legislative Audit Bureau

Report 18-4
March 2018

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703

State Auditor: Joe Chrisman

Relationships between the University of Wisconsin and Certain Affiliated Organizations

Background

University of Wisconsin (UW) institutions have relationships with a variety of affiliated organizations, including primary fundraising foundations that support the mission of individual UW institutions, real estate foundations, alumni associations, and other organizations.

Key Findings

We found:

- In fiscal year (FY) 2016-17, information provided by UW System Administration indicated that UW institutions had relationships with 90 affiliated organizations, two-thirds of which were not primary fundraising foundations.
- From FY 2007-08 through FY 2016-17, UW institutions paid an estimated $257.9 million to affiliated organizations, including an estimated $168.0 million to affiliated organizations that were not primary fundraising foundations or real estate foundations. The amount of payments to affiliated organizations cannot be accurately determined because UW System Administration had not assigned a unique vendor identification number in its accounting system to each affiliated organization.
- In December 2017, the Board of Regents established a specific written policy governing the relationships between UW institutions and primary fundraising and real estate foundations. Using this policy as a framework, we examined the relationships between UW institutions and 25 primary fundraising foundations, prior to the establishment of the policy, and found that the operations of many UW institutions and foundations were not fully separate and independent from FY 2007-08 through FY 2016-17.
- As of June 30, 2017, UW employees also worked as the executive directors of most foundations affiliated with four-year universities. UW institutions indicated that nine foundations reimbursed them for some or all of the salary and fringe benefits costs of 50 employees who also worked for the foundations as of that date. Because UW employees did not track the amount of time they worked for foundations, it was not possible to determine whether foundations fully reimbursed UW institutions.
- In 2017, UW institutions and foundations executed operational agreements that did not consistently comply with the Board of Regents policy established in December 2017.
- Four affiliated organizations that were not primary fundraising foundations were not fully separate and independent from their UW institutions, in part, because UW employees were voting members of the boards of directors. In particular, we found concerns with the relationship between UW-Oshkosh and the Business Success Center, which was dissolved as an independent entity in April 2017.
- The Board of Regents has not established a policy governing the relationships between UW institutions and affiliated organizations that are not primary fundraising or real estate foundations.

Recommendations

To help ensure the UW System President maintains fiscal control over UW System, as is statutorily required, we make a number of recommendations for UW System Administration to increase monitoring of the relationships between UW institutions and all affiliated organizations.

View Report 18-4 Highlights

Report 18-5
March 2018

STATE OF WISCONSIN
Legislative Audit Bureau
BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703 | State Auditor: Joe Chrisman

State of Wisconsin
FY 2016-17 Single Audit

Background

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's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Single Audit Act requires there to be one audit of federal grant programs. This audit also incorporates our annual audit of the State's financial statements, which were included in the Comprehensive Annual Financial Report (CAFR) issued by the Department of Administration (DOA). We performed the single audit for fiscal year (FY) 2016-17 at the request of state agencies that administered federal financial assistance. This audit also assists us in fulfilling our audit responsibilities under s. 13.94, Wis. Stats.

During FY 2016-17, state agencies administered $11.6 billion in federal financial assistance, including $10.4 billion in cash assistance; $983.2 million in noncash assistance, such as food commodities; and $196.6 million in outstanding federal loan balances. We audited 15 federal programs that accounted for 58.2 percent of the federal financial assistance administered by state agencies in FY 2016-17. We evaluated internal controls, tested for compliance with federal requirements, and followed up on findings from the FY 2015-16 single audit (report 17-5).

Audit Results and Key Findings

We provided an unmodified opinion on federal compliance for the federal programs we reviewed. Although state agencies generally complied with federal requirements, we made 12 recommendations to improve the administration of federal programs, including at DOA, the Department of Children and Families (DCF), the Department of Health Services (DHS), and the Department of Transportation (DOT).

We found:

- concerns related to compliance with requirements for monitoring subrecipients of federal funding (e.g. local governments) at DOA, DCF, DHS, and DOT; and

- at DHS, 410 participants of the Children's Health Insurance Program (CHIP) who were older than the age limit of 19, including 12 participants who were ages 20 to 59.

In addition, we found that DCF resolved a finding first reported in our FY 2009-10 single audit (report 11-4) related to reimbursement of unallowable costs. DCF returned $40.2 million to the federal government as a result of this finding. In anticipation of this repayment, DCF accumulated a cash balance in a program revenue appropriation of $55.9 million as of June 30, 2016.

Audit Recommendations

In addition to the 12 recommendations we made to improve the administration of federal programs, we made 9 recommendations related to internal controls over financial reporting from our audit of the State's FY 2016-17 financial statements (report 18-3). One of these internal control concerns also related to federal program administration. Agency responses and corrective action plans are included in the report, and the federal government will work with state agencies to resolve the concerns we identified.

View Report 18-5 Highlights

Report 18-6
July 2018

STATE OF WISCONSIN
Legislative Audit Bureau

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703 | State Auditor: Joe Chrisman

Special Needs Scholarship Program

Department of Public Instruction

Background

The Special Needs Scholarship Program began in the 2016-17 school year and provides scholarships for students with disabilities in kindergarten through 12th grade who attend participating private schools. The scholarship amount was $12,207 per full-time equivalent participating student in the 2017-18 school year. The Department of Public Instruction (DPI) administers the program.

From the 2016-17 school year through the 2017-18 school year, the numbers of participating students and participating private schools increased. In the 2017-18 school year, participating students attended 26 participating private schools and were from 25 resident school districts. In the 2018-19 school year, 84 private schools intend to participate.

Key Findings

We found:

- Approximately one-fourth of the 306 students who participated at some point during the 2016-17 or the 2017-18 school year had attended a public school in the school year before participating. Most of the remaining students had attended private schools.
- Approximately three-fourths of participating students lived in the boundaries of Milwaukee Public Schools.
- The 26 participating private schools received a total of $5.6 million in program scholarships during the 2016-17 and 2017-18 school years.
- The 25 resident school districts of participating students received an estimated total of $4.1 million less in state aid because of the program during the 2016-17 and 2017-18 school years.
- The 398 school districts other than the resident school districts experienced an estimated $3,400 reduction in equalization aid, on average, because of the program in the 2017-18 school year.
- DPI did not reduce equalization aid by $147,000 to five resident school districts in the 2016-17 school year, although it was statutorily required to do so.
- We surveyed the parents of all 306 participating students. Survey respondents indicated increased levels of satisfaction, as well as decreased levels of behavioral problems and negative experiences, when their children attended participating private schools, compared to when their children had previously attended public schools.

Recommendation

We recommend that DPI seek a statutory change that allows all funding provisions for the program to be followed. Under current statutes, the requirement to decrease a resident school district's equalization aid by the amount paid to participating private schools and the requirement to increase a resident school district's revenue limit by this amount cannot both be followed because the equalization aid reductions and revenue limit determinations are not performed simultaneously.

Report 18-7
August 2018

STATE OF WISCONSIN
Legislative Audit Bureau

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703

State Auditor: Joe Chrisman

Wisconsin Lottery

Fiscal Year 2016-17

Background

The Wisconsin Lottery, which began operations in September 1988, is administered by the Department of Revenue (DOR). The Wisconsin Lottery sells instant tickets and lotto tickets, and participates in the national Powerball and Mega Millions lotto games. The Wisconsin Constitution and state statutes impose certain limitations on lottery expenses. The Wisconsin Constitution also requires that net proceeds from the Wisconsin Lottery be used exclusively for property tax relief for Wisconsin residents.

To fulfill our statutory requirement, we conducted a financial audit of the Wisconsin Lottery by auditing its financial statements in accordance with applicable government auditing standards, providing an auditor's opinion, reviewing internal controls, and assessing compliance with certain statutory spending limitations.

Audit Results and Key Findings

We provided an unmodified opinion on the Wisconsin Lottery's financial statements for fiscal year (FY) 2016-17 and FY 2015-16. We provide an unmodified opinion when audit evidence supports the conclusion that the financial statements provide a fair view of an entity's financial activity in accordance with generally accepted accounting principles. Our audit report also includes the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

Net proceeds from the Wisconsin Lottery are largely distributed to owners of primary residences in Wisconsin through the Lottery and Gaming Tax Credit. Since its inception, the Wisconsin Lottery has provided $4.2 billion in property tax relief, including $183.3 million distributed in FY 2016-17.

We also found:

- Wisconsin Lottery ticket sales decreased from $627.1 million in FY 2015-16 to $602.8 million in FY 2016-17, or by 3.9 percent;
- operating expenses decreased from $451.9 million in FY 2015-16 to $439.6 million in FY 2016-17, or by 2.7 percent; and
- in September 2017, the Department of Administration and the Legislature's Joint Committee on Finance authorized the use of $172.1 million in Wisconsin Lottery net proceeds for property tax relief in FY 2017-18.

In the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, we report a concern related to DOR's process for removing terminated employee access from STAR Finance, the component of the State's employee resource planning system that provides accounting functions. This issues was first identified in report 18-3. Because the Wisconsin Lottery is a part of DOR, this significant deficiency is also reported to users of the Wisconsin Lottery's financial statements.

Report 18-8
August 2018

STATE OF WISCONSIN
Legislative Audit Bureau
www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703
State Auditor: Joe Chrisman

BRIEFING SHEET

Forestry Account

Background

The Department of Natural Resources (DNR) administers the Forestry Account, which funds DNR's forestry program and related administrative activities. In fiscal year (FY) 2016-17, DNR and five other state agencies spent an estimated $121.6 million in state and federal funds from the Forestry Account. The forestry mill tax was the largest source of revenue for the Forestry Account and represented 69.7 percent of total Forestry Account revenues in FY 2016-17. 2017 Wisconsin Act 59, the 2017-19 Biennial Budget Act, eliminated the forestry mill tax beginning with property tax assessments as of January 1, 2017, and it directed a transfer of general purpose revenue (GPR) to the Forestry Account in an amount equal to what the mill tax would have been.

Key Findings

During our audit, we found that:

- Forestry Account revenues increased from $108.2 million in FY 2012-13 to an estimated $123.3 million in FY 2016-17, or by 14.0 percent.
- Forestry Account expenditures increased from $106.9 million in FY 2012-13 to an estimated $121.6 million in FY 2016-17, or by 13.8 percent.
- In FY 2016-17, we estimate 53.5 percent of Forestry Account expenditures was for activities primarily related to forestry, 40.5 percent was for activities that support forestry in addition to other programs, and 6.0 percent was for activities not directly related to forestry.
- DNR's administrative expenditures funded by the Forestry Account totaled an estimated $25.9 million in FY 2016-17 and represented 21.9 percent of all Forestry Account expenditures made by DNR.
- The total number of authorized full-time equivalent (FTE) positions in DNR funded by the Forestry Account declined from 641.3 FTE positions in FY 2012-13 to 615.8 FTE positions in FY 2016-17.
- DNR was not in compliance with a statutory provision requiring that 4.0 percent of annual forestry mill tax revenue be used to purchase forests in the specified 16-county region located in southeastern Wisconsin.
- The University of Wisconsin System did not comply with statutory requirements to limit to $78,000 annually the amount of Forestry Account funds spent on a paper science program and to limit to 5.0 percent the amount of Forestry Account funds spent annually on administration.

Key Recommendations

We recommend DNR comply with s. 25.29 (7) (b), Wis. Stats., by spending 4.0 percent of annual funds transferred to the Forestry Account in lieu of the mill tax to purchase forests in the 16-county region specified by statutes. We also recommend the University of Wisconsin System comply with statutory requirements to limit to $78,000 annually the amount of Forestry Account funds spent on a paper science program and to limit to 5.0 percent the amount of Forestry Account funds spent annually on administrative expenses.

View Report 18-8 Highlights

Report 18-9
August 2018

STATE OF WISCONSIN
Legislative Audit Bureau
www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703
State Auditor: Joe Chrisman

BRIEFING SHEET

Retirement Funds Investment Activity
Calendar Year 2017

State of Wisconsin Investment Board

Background

The State of Wisconsin Investment Board (SWIB) 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. SWIB also manages the State Investment Fund, and six other state insurance and trust funds. SWIB is governed by a nine-member Board of Trustees. Six of the trustees are appointed by the Governor, with the advice and consent of the Senate, and two of the trustees are WRS participants who are appointed by retirement boards. In addition, the Secretary of the Department of Administration or a designee also serves as a trustee.

To fulfill our statutory requirements, we conducted a financial audit of SWIB by auditing the financial statements for the Retirement Funds in accordance with applicable government auditing standards, issuing our auditor's opinions, and reviewing internal controls. These financial statements report the investment activity of the WRS.

Audit Results

We provided unmodified opinions on the Core Fund and the Variable Fund financial statements for the year ended December 31, 2017. We provide an unmodified opinion when audit evidence supports the conclusion that the financial statements provide a fair view of an entity's financial activity in accordance with governmental accounting standards. Our unmodified opinions are included in SWIB's *2017 Retirement Funds Annual Report*.

Key Findings

Net investment position provides a measure of overall financial condition. On the basis of generally accepted accounting principles (GAAP), the net investment position of the Core Fund increased from $89.4 billion as of December 31, 2016, to $100.3 billion as of December 31, 2017. The Core Fund reported a net investment gain of $6.9 billion in 2016 and $13.8 billion in 2017. The one-year investment return for the Core Fund increased from 8.6 percent in 2016 to 16.2 percent in 2017. The Core Fund investment return in 2017 is primarily attributed to strong investment returns from public equity, private equity, and real estate investments.

The net investment position of the Variable Fund increased from $7.0 billion as of December 31, 2016, to $8.2 billion as of December 31, 2017. The Variable Fund reported a net investment gain of $0.7 billion in 2016 and $1.6 billion in 2017. The one-year investment return for the Variable Fund increased from 10.6 percent in 2016 to 23.2 percent in 2017. The Variable Fund investment return in 2017 is attributed to strong investment returns from public equity investments.

Our report includes the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters. We did not identify any control or compliance concerns that were required to be reported under *Government Auditing Standards.*

Report 18-10
October 2018

STATE OF WISCONSIN
Legislative Audit Bureau

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703
State Auditor: Joe Chrisman

Department of Employee Trust Funds
Calendar Year 2017

Background

The Department of Employee Trust Funds (ETF) is responsible for managing the operations of 12 separate funds that account for the financial position and activity of various benefit programs available to state and local government employees. These programs include the Wisconsin Retirement System (WRS) as well as life and health insurance programs for active and retired employees of the State and participating local governments. As required by statutes, we conducted a financial audit of ETF by auditing its financial statements in accordance with applicable government auditing standards, issuing our auditor's opinion, and reviewing internal controls.

Audit Results and Key Findings

We provided unmodified opinions on the financial statements of the separate funds presented in ETF's *2017 Comprehensive Annual Financial Report*, which can be found on its website. We provide an unmodified opinion when audit evidence supports the conclusion that the financial statements provide a fair view of an entity's financial activity in accordance with generally accepted accounting principles. Our audit report also includes the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in which we report a significant deficiency in internal control related to user access to a critical ETF information technology system.

We found:

- The WRS fiduciary net position, which represents the value of the assets that are currently available to make benefit payments, increased from $92.6 billion as of December 31, 2016, to $104.4 billion as of December 31, 2017, or by 12.8 percent. This increase is primarily attributable to an increase of net investment income from $7.3 billion in 2016 to $14.9 billion in 2017, or by 104.5 percent.

- ETF calculated a net pension asset for the WRS of $3.0 billion as of December 31, 2017. As of December 31, 2016, it had calculated a net pension liability for the WRS of $0.8 billion.

- The Governmental Accounting Standards Board (GASB) has issued new accounting standards applicable to other postemployment benefit (OPEB) plans, which ETF adopted for its 2017 financial statements. OPEB refers to the benefits, other than pensions, that a state or local government employee may receive after they have left employment, generally upon retirement.

- ETF administers four separate OPEB plans for retired individuals: the State Retiree Life Insurance program, the Local Retiree Life Insurance program, the State Retiree Health Insurance program, and the Local Retiree Health Insurance program.

Recommendation

We recommend ETF review its procedures for tracking requested access changes to a critical information technology system to ensure that access changes are made as requested.

Reports 18-11, 18-12, 18-13, and 18-14
October 2018

STATE OF WISCONSIN
Legislative Audit Bureau

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703 | State Auditor: Joe Chrisman

Employer Reporting for Certain Benefit Programs

(Reports 18-11, 18-12, 18-13, and 18-14)

Background

The Department of Employee Trust Funds (ETF) is responsible for administering various benefit programs available to state and local government employees. These programs include the Wisconsin Retirement System (WRS) as well as life and health insurance. Our financial audit of these programs is report 18-10. In 2015, the Governmental Accounting Standards Board issued new accounting standards for other postemployment benefits (OPEB). OPEB refers to the benefits, other than pensions, that a state or local government employee may receive after they have left employment, generally upon retirement.

Employers, including the State of Wisconsin, that participate in the WRS and OPEB programs administered by ETF must meet specific financial reporting requirements in preparing their own financial statements using generally accepted accounting principles (GAAP). To assist participating employers, employer schedules and related notes were prepared.

Audit Results and Key Findings

We audited the employer schedules and related notes, issued our unmodified auditor's opinions, and reviewed internal controls in accordance with applicable government auditing standards. An unmodified opinion indicates the auditor has concluded that the schedules provide a fair view of the allocations and total amounts related to the benefit program. Each audit report also includes the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters. We published our findings in the following reports: WRS Reporting for Participating Employers (report 18-11); Local Retiree Life Insurance Reporting for Participating Employers (report 18-12); State Retiree Life Insurance Reporting for the State of Wisconsin (report 18-13); and State Retiree Health Insurance Reporting for the State of Wisconsin (report 18-14).

For the Local Retiree Life Insurance program and the State Retiree Life Insurance program, which are both OPEB plans, ETF calculated a net OPEB liability of $300.9 million and $493.5 million, respectively, as of December 31, 2017. A net OPEB liability indicates the projected liability for benefit payments to employees exceeded the assets of these funds. The Group Insurance Board, which oversees these programs, plans to review program funding policies at its November 2018 meeting.

The State Retiree Health Insurance program offers retirees who are not yet eligible for Medicare the option to participate in the State's Group Health Insurance program. The Department of Administration (DOA), which prepared the schedules for the State Retiree Health Insurance program, calculated a total OPEB liability of $719.3 million for the program as of June 30, 2017. Premiums are established and collected based on the current needs of the program, and assets are not accumulated to pay future benefits. The total liability will be reported in the State's Comprehensive Annual Financial Report for fiscal year 2017-18.

Recommendation

We recommend DOA work with the actuary for the State Retiree Health Insurance program to more thoroughly evaluate and support the assumed participation rate upon which the total OPEB liability will be calculated as of June 30, 2018, and used for financial reporting for the fiscal year ended June 30, 2019.

STATE OF WISCONSIN
Legislative Audit Bureau
www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703
State Auditor: Joe Chrisman

BRIEFING SHEET

Petroleum Inspection Fee Revenue Obligations Program
Fiscal Year 2017-18

Background

The State of Wisconsin Petroleum Inspection Fee Revenue Obligations Program is administered jointly by the Department of Natural Resources and the Department of Administration. The program was established in January 2000 to provide financing to pay claims under the State of Wisconsin Petroleum Environmental Cleanup Fund Award (PECFA) program.

As of June 30, 2018, revenue obligations outstanding included $55.1 million of the 2016 Series 1 Petroleum Inspection Fee Revenue Refunding Bonds. These bonds are scheduled to be paid off on July 1, 2019. The revenue obligations are not general obligations of the State of Wisconsin. Instead, they are payable from, and primarily secured by, a $0.02 per gallon fee charged to suppliers of petroleum products received for sale in Wisconsin.

2015 Wisconsin Act 55, the 2015-17 Biennial Budget Act, sunset the PECFA program. All claims for reimbursement of cleanup costs must be submitted before July 1, 2020. As of June 30, 2018, all submitted claims had been reviewed and approved.

At the request of the Department of Natural Resources and the Department of Administration, we conducted a financial audit of the Petroleum Inspection Fee Revenue Obligations Program by auditing the program's financial statement in accordance with applicable government auditing standards, issuing our auditor's opinion, and reviewing internal controls.

Audit Results

We provided an unmodified opinion on the program's financial statement for the fiscal years ended June 30, 2018, and June 30, 2017. We provide an unmodified opinion when audit evidence supports the conclusion that the financial statement provides a fair view of an entity's financial activity. Our audit report also includes the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

Key Findings

We found that fees charged to petroleum suppliers totaled $79.7 million in fiscal year 2017-18. Of this amount, $28.6 million was retained by the program to pay principal and interest on outstanding revenue obligations. Revenue from the remaining fees, which totaled $51.1 million, was deposited in the Petroleum Inspection Fund. Of this amount, $6.1 million was used to pay PECFA claims; $32.0 million was transferred to other funds, including $30.3 million to the Transportation Fund as required by 2017 Wisconsin Act 59; and $13.0 million was used for other purposes.

Report 18-16
November 2018

STATE OF WISCONSIN
Legislative Audit Bureau

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703 | **State Auditor:** Joe Chrisman

UW-Extension Student Financial Aid Attestation
Fiscal Year 2017-18

Background

The University of Wisconsin (UW) Flexible Option program allows enrolled students to earn a degree or certificate through a self-paced, competency-based education format. In fiscal year (FY) 2017-18, UW-Extension was the third-party servicer that administered federal student financial aid for certain students who participated in the UW Flexible Option program. As a third-party servicer, UW-Extension is required to have an examination of its administration of federal student financial aid. Our examination included obtaining assertions from UW-Extension related to its compliance with applicable requirements, testing internal controls, and determining whether UW-Extension complied with applicable requirements for the administration of federal student financial aid.

Examination Results

We provided an unmodified opinion on UW-Extension's compliance with applicable requirements described in the 2016 edition of the U.S. Department of Education's *Guide for Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs* for the year ended June 30, 2018. We provide an unmodified opinion when evidence supports the conclusion that the entity complied with applicable requirements.

Key Findings

During our examination, we found:

- For FY 2017-18, UW-Extension entered into contracts with UW Colleges and UW-Milwaukee to administer federal student financial aid for students participating in the UW Flexible Option program.

- During FY 2017-18, UW Flexible Option degrees and certificates were offered at UW Colleges, UW-Extension, UW-Madison, UW-Milwaukee, and UW-Parkside. However, federal student financial aid was only available for degrees offered at UW Colleges and UW-Milwaukee.

- During FY 2017-18, UW-Extension disbursed nearly $1.4 million in federal student financial assistance to 41 students from UW Colleges and 269 students from UW-Milwaukee who participated in the UW Flexible Option program.

Report 18-17
December 2018

STATE OF WISCONSIN
Legislative Audit Bureau
www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703
State Auditor: Joe Chrisman

BRIEFING SHEET

State Investment Fund
Fiscal Year 2017-18

State of Wisconsin Investment Board

Background

The State of Wisconsin Investment Board (SWIB) manages the State Investment Fund as authorized by s. 25.14, Wis. Stats. SWIB is governed by a nine-member Board of Trustees. Six of the trustees are appointed by the Governor with the advice and consent of the Senate to serve a six-year term; two of the trustees are participants in the Wisconsin Retirement System; and the Secretary of the Department of Administration or a designee also serves as a trustee.

The State Investment Fund invests the excess operating funds of State of Wisconsin agencies, the Wisconsin Retirement System, and the Local Government Investment Pool (LGIP). The LGIP is a voluntary option for local governments, such as counties, cities, villages, towns, and school districts. SWIB's investment objectives for the State Investment Fund are liquidity, safety of principal, and competitive rates of return. Although SWIB is responsible for State Investment Fund investment activities, the Department of Administration is responsible for distributing earnings to participants.

To fulfill our statutory requirements, we conducted a financial audit of the State Investment Fund by auditing the financial statements in accordance with applicable government auditing standards, issuing our auditor's opinion, and reviewing internal controls.

Audit Results

Our unmodified opinion on the State Investment Fund financial statements is included in SWIB's *State Investment Fund Annual Financial Report* for the fiscal year ended June 30, 2018. We provide an unmodified opinion when audit evidence supports the conclusion that the financial statements provide a fair view of an entity's financial activity in accordance with government accounting standards. Our report includes the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

Key Findings

On the basis of generally accepted accounting principles, the net position of the State Investment Fund decreased from $9.8 billion as of June 30, 2017, to $9.3 billion as of June 30, 2018.

Net investment income earned by the State Investment Fund increased from $57.1 million in fiscal year (FY) 2016-17 to $128.8 million in FY 2017-18. The annual investment return for the State Investment Fund increased from 0.54 percent in FY 2016-17 to 1.34 percent in FY 2017-18. The higher investment income in FY 2017-18 resulted from increases in the federal funds rate during the fiscal year.

Report 18-18
December 2018

STATE OF WISCONSIN
Legislative Audit Bureau

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703 | State Auditor: Joe Chrisman

Electronics and Information Technology Manufacturing Zone Program

Wisconsin Economic Development Corporation

Background

2017 Wisconsin Act 58 created the Electronics and Information Technology Manufacturing Zone program, which the Wisconsin Economic Development Corporation (WEDC) administers. In November 2017, WEDC executed a $2.85 billion contract with three corporations that are collectively referred to as "Foxconn." If Foxconn creates contractually specified jobs and makes contractually specified capital investments, WEDC will award Foxconn $2.85 billion in program tax credits over the 15-year period of the contract.

Beginning in 2018, statutes require us to annually evaluate for five years WEDC's process for verifying certain information submitted by recipients of program tax credits. Beginning in 2019, we will evaluate whether WEDC adhered to statutory and contractual requirements when it verified the amount of program tax credits to award recipients as a result of their efforts to create jobs and make capital investments.

Key Findings

We found:

- Statutes and WEDC's contract require WEDC to award program tax credits for the wages of employees who perform services in Wisconsin.
- WEDC established written procedures that allow it to award program tax credits for certain employees who do not live in Wisconsin, as long as these employees are paid in the zone. In this way, these written procedures do not comply with statutes or WEDC's contract. WEDC's written procedures are not approved by its governing board.
- WEDC indicated that it intends to award Foxconn program tax credits for the wages of employees who are directed from and paid in the zone. However, employees who are directed from and paid in the zone may not necessarily perform services in Wisconsin.
- WEDC's contract with Foxconn stipulates that WEDC may first award program tax credits in 2019, based on the jobs Foxconn created in 2018.
- Our second evaluation, which we will publish in 2019, will include our first analysis of WEDC's compliance with statutory and contractual requirements for awarding program tax credits.

Recommendations

We recommend WEDC ensure that it will comply with statutes and its contract, which require that program tax credits be awarded for the wages of employees who perform services in Wisconsin. We also recommend WEDC modify its written procedures to require it to award program tax credits only for the wages of employees who perform services in Wisconsin and provide these modified written procedures to its governing board. We further recommend WEDC report to the Joint Legislative Audit Committee by January 31, 2019, on the status of its efforts to implement these recommendations.

State of Wisconsin Investment Board

Background

The State of Wisconsin Investment Board (SWIB) invests assets for the Wisconsin Retirement System (WRS). SWIB also managed the State Investment Fund and five other funds, as of December 2017. SWIB is governed by a nine-member Board of Trustees.

To fulfill our statutory requirements, we conducted a management audit of SWIB by analyzing investment returns, assessing expenses, examining staffing levels, assessing staff retention, and reviewing the investment of assets in Wisconsin. We also responded to concerns reported to our Fraud, Waste, and Mismanagement Hotline about hiring practices.

Key Findings

As of December 2017, SWIB managed $117.0 billion in assets for the State. The WRS Core Fund and Variable Fund exceeded five-year benchmarks with average annual investment returns of 8.6 percent and 13.3 percent, respectively. However, the Core Fund's investment return did not meet the long-term expected rate-of-return assumption of 7.2 percent on a 20-year basis in 2016 or 2017. The Core Fund's five-year investment return ranked ninth among ten large public pension plans.

We also found:

- SWIB projects that it may earn investment returns between 6.2 percent and 6.8 percent annually for the next five to seven years. Although the asset allocation SWIB established for the Core Fund is intended to protect WRS participants from a large market downturn, we recommend that SWIB conduct additional "stress tests" that focus on the effect of sustained market downturns and certain other conditions.
- From 2013 through 2017, SWIB's annual expenses increased by 21.7 percent. After considering the effect of increases in assets managed by SWIB, we found the increase in annual expenses was attributable to higher management fees paid to external investment managers for more-complex investment strategies, an information systems implementation, and the hiring of additional staff.
- As of December 2017, SWIB had 188.0 authorized full-time equivalent (FTE) positions and also had 40 contracted staff positions. The Board authorized an additional 15.0 FTE positions in June 2018 to begin converting contracted staff positions to FTE positions.
- Board policies do not require SWIB to seek additional approval when actual expenses are projected to exceed the approved total budget amount.
- For 2017 performance, SWIB staff received $29.4 million in salaries and fringe benefits and $11.5 million in bonuses.

Recommendations

We recommend the State of Wisconsin Investment Board work with the Board of Trustees, as appropriate, to conduct additional stress tests of the WRS and report the test results; track future technology project expenses through a centralized process; develop policies to require Board approval for expenses that exceed the total budget; identify in reports whether investment returns include management fees and other investment expenses; report investment returns that include management fees and investment expenses to the Board; and revise its hiring policy to ensure it equally considers all qualified applicants.

View Report 18-19 Highlights

STATE OF WISCONSIN
Legislative Audit Bureau

Report 18-20
December 2018

BRIEFING SHEET

www.legis.wisconsin.gov/lab ▪ (608) 266-2818 ▪ 22 East Mifflin, Suite 500, Madison, WI 53703 | State Auditor: Joe Chrisman

State of Wisconsin
FY 2017-18 Financial Statements

Background

The Department of Administration (DOA) prepares the State of Wisconsin's Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting principles (GAAP). The report includes the State's financial statements for the past fiscal year and other information that describes the State's fiscal condition. To prepare the statements, DOA uses information from a variety of sources, including information provided by other agencies and the State's accounting system.

We conducted a financial audit of the State by auditing its financial statements in accordance with applicable government auditing standards, issuing our auditor's opinions, reviewing internal controls, and making recommendations for improvements.

Audit Results and Key Findings

We provided unmodified opinions on the State's fiscal year (FY) 2017-18 financial statements presented in the CAFR, which can be found on DOA's website. We provide an unmodified opinion when audit evidence supports the conclusion that the financial statements provide a fair view of an entity's financial activity in accordance with GAAP. Our audit report includes the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

We also found:

- The General Fund's balance improved from a deficit of $1.6 billion as of June 30, 2017, to a deficit of $1.3 billion as of June 30, 2018.
- The balance of the Transportation Fund increased from $582.4 million as of June 30, 2017, to $655.9 million as of June 30, 2018.
- The State's long-term debt increased from $13.6 billion as of June 30, 2017, to $13.9 billion as of June 30, 2018. Part of this increase relates to the issuance of refunding bonds that were required to be reported on June 30, 2018, as liabilities to the State.
- During FY 2017-18, the State issued $1.9 billion in new general obligation bonds and notes, of which $647.2 million was for University of Wisconsin System academic facilities and $472.0 million was for transportation projects.

We identified ten reportable deficiencies in internal control, two of which, when combined, we consider to be a material weakness in internal control, and eight which we consider to be significant deficiencies in internal control. The material weakness relates to reporting of infrastructure capital assets and other nondepreciable capital assets by the Department of Transportation.

Audit Recommendations

Several significant deficiencies relate to information technology security policies, procedures, and controls. We include specific recommendations for DOA to report to the Joint Legislative Audit Committee by March 29, 2019, and for the Department of Employee Trust Funds to make improvements related to these concerns. We also identified significant deficiencies in certain financial reporting processes at DOA, the Office of the Commissioner of Insurance, and the Department of Health Services, and recommend each agency take steps to address the identified control deficiencies.