

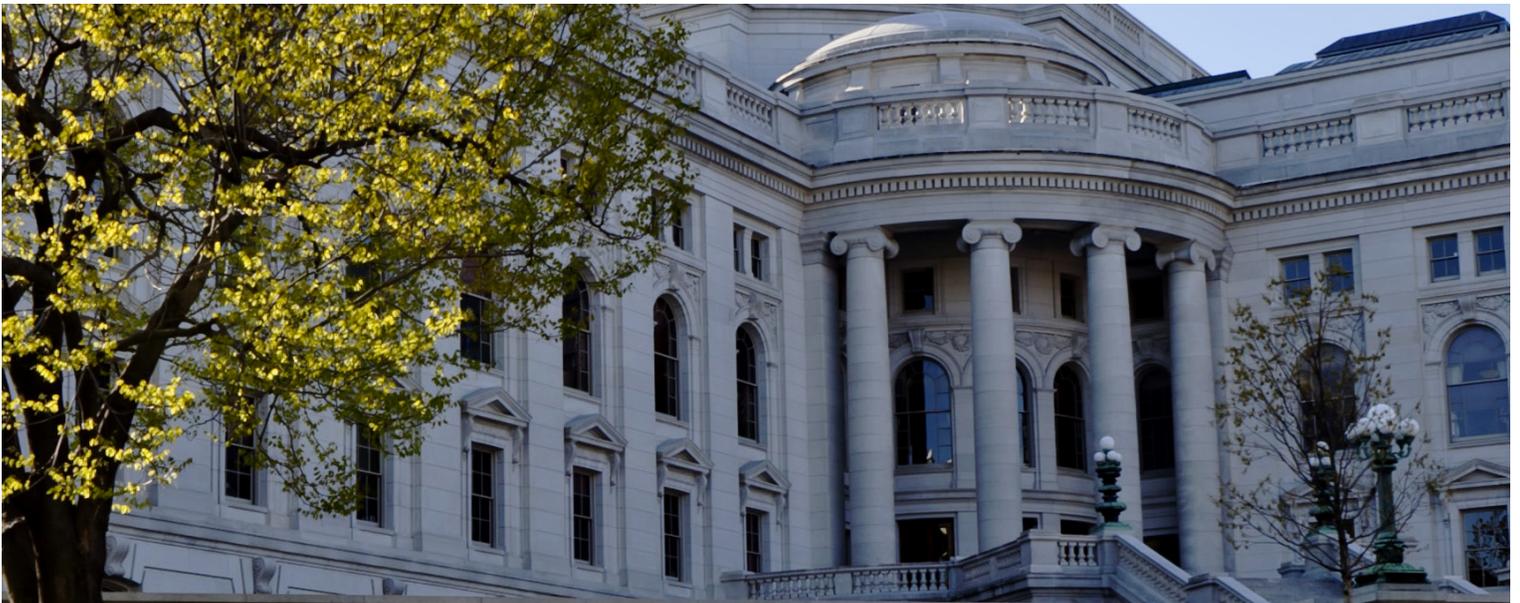


STATE OF WISCONSIN
Legislative Audit Bureau
NONPARTISAN • INDEPENDENT • ACCURATE

Report 21-1
January 2021

Biennial Report

January 1, 2019 - December 31, 2020



Biennial Report

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STATE OF WISCONSIN

Legislative Audit Bureau

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Report 21-1
January 2021

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

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

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

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



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STATE OF WISCONSIN

Legislative Audit Bureau

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January 15, 2021

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

Dear Governor Evers and Members of the Legislature:

The biennial report, which is required under s. 13.94 (1) (j), Wis. Stats., summarizes the nonpartisan Legislative Audit Bureau's statutory responsibilities and highlights noteworthy findings from January 1, 2019, through December 31, 2020.

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

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

Respectfully submitted,

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;
- 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; and
- conducts periodic “best practices” reviews of governmental service delivery by counties and municipalities.

Authority and Responsibilities

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

The authority and responsibilities of the Bureau and the State Auditor are set forth in s. 13.94, Wis. Stats., which includes a broad mandate to provide assurance that financial transactions have been made in a legal and proper manner and to review state agency performance and program accomplishments. Statutes grant the Bureau access to financial records and other documentation, including those that are confidential by law, relating to state agencies and certain other entities, and 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 2019 and 2020 requires the Bureau to:

- 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 female juveniles for the purpose of determining the amount, if any, of a net operating loss to be reimbursed by DOC (required by 2019 Wisconsin Act 8);
- review certain determinations made by the Department of Revenue (DOR) 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, 2020 (required by 2019 Wisconsin Act 10);
- conduct a financial audit if a local professional baseball park district’s board reports by January 31, 2020, that it believes it will not have sufficient revenues to meet all of its obligations by the time it will not be able to collect the tax under s. 77.707 (1), Wis. Stats., in order to evaluate when the district will have sufficient revenues to meet all of its obligations (required by 2019 Wisconsin Act 28); and

- beginning July 1, 2020, and ending June 30, 2021, use risk-based criteria to review selected programs affected by 2019 Wisconsin Act 185 and selected expenditures made with funds authorized by the Act and report the results of its reviews at least quarterly (required by 2019 Wisconsin Act 185).

Other recurring statutory audit responsibilities are described in Appendix 1.

Budget and Staffing

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

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

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

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

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 *Electronics and Information Technology Manufacturing Zone Program* (report 18-18) and the *Wisconsin Economic Development Program* (report 19-6) were recognized for "significant impact on public policy" by the National Conference of State Legislatures' National Legislative Program Evaluation Society in September 2019 and 2020, 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 held seven public hearings in 2019 and 2020.

The Audit Committee consists of its co-chairs, the co-chairs of the Joint Committee on Finance, one other majority and two minority party senators, and one other majority and two minority party representatives. During most of the 2019-2020 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 Janet Bewley	Representative Melissa Sargent
Senator Tim Carpenter	Representative Katrina Shankland

Representative John Nygren resigned on December 2, 2020, and was succeeded by Representative Mark Born.

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. An email notification service is also available by free subscription. Individuals may follow the Bureau on Twitter @WiLegAudit. For copies of our publications, please visit www.legis.wisconsin.gov/lab or call (608) 266-2818.

The Bureau's website, www.legis.wisconsin.gov/lab, lists audits in progress and numbered reports published since 2011, and the website may be searched for the full text, briefing sheets, and highlights of all published reports from 1998 through 2020. 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.



Financial Audits and Performance Evaluations

From January 2019 through December 2020, the Bureau published 60 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) 2017-18 and FY 2018-19;
- performance evaluation reports and reviews designed to measure the extent to which state agencies or programs have achieved their intended objectives;
- independent auditor's reports on the State of Wisconsin's financial statements, which were published annually in the State of Wisconsin's CAFR;
- audit reports detailing financial management issues at the University of Wisconsin (UW) System, which were published annually;
- semiannual reports describing activity on the Bureau's Fraud, Waste, and Mismanagement Hotline; and
- other audit opinions and certifications, including those published in annual reports prepared by the State of Wisconsin Investment Board (SWIB) and the Department of Employee Trust Funds (ETF).

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

Financial audits are detailed, impartial reviews that focus on:

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

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

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

In addition, our financial audits include a report on internal controls related to financial reporting and on our tests of compliance with certain laws and regulations that could have material (that is, quantitatively or qualitatively significant) effect on the determination of amounts shown in the financial statements and accompanying notes. In the report on internal controls and compliance, we include concerns we identified related to internal controls and noncompliance that may be defined as a material weakness or a significant deficiency. A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or that a material misstatement will not be detected and corrected on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance, which includes those responsible for oversight of the financial reporting process.

Performance evaluations 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.

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

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

Noteworthy Findings

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

In 2019 and 2020, we identified improvements that could be made to financial reporting by state agencies.

In 2019 and 2020, we identified improvements that could be made to financial reporting by state agencies. For example:

- We reported a material weakness in internal control over financial reporting related to the determination of and changes to infrastructure-related capital assets at the Department of Transportation (DOT), including its consideration of relevant Governmental Accounting Standards Board (GASB) standards for financial reporting of its change in the capitalization criteria. We recommended DOT further its understanding of relevant financial reporting standards, assess the application of these standards before preparing financial information, and seek guidance from DOA. We also recommended DOT take steps to improve the process for determining the amounts to be reported for infrastructure capital assets. (For details, see report 19-3, *State of Wisconsin FY 2017-18 Single Audit*.)
- We reported a significant deficiency in internal control over financial reporting after we identified that DOA did not record FY 2017-18 Educational Telecommunications Access Program (TEACH) co-payment revenue in the Universal Service Fund (USF), and did not communicate this to the staff of the Public Service Commission (PSC) who were responsible for preparing the USF financial statements. We also reported another significant deficiency in internal control over financial reporting after we found DOA did not have documentation to support its review of the TEACH invoice process and the amounts it invoiced educational institutions. In addition, DOA did not invoice any educational institution for the period from July through December 2017, although it was statutorily required to do so. We recommended DOA take steps to ensure that it communicates to the PSC all information that is necessary for the PSC to prepare the USF financial statements. We also recommended DOA review its invoice process and correct any invoice errors, ensure it maintains adequate documentation, and

comply with statutes when invoicing for services rendered. (For details, see report 19-13, *Universal Service Fund*.)

- We reported a significant deficiency in internal control over financial reporting after we found DOT's process for preparing and reviewing FY 2018-19 financial information was not sufficient to prevent, or detect and correct in a timely manner, substantive misstatements. We recommended DOT review its procedures for preparing financial information and implement an adequate secondary review process. (For details, see report 19-30, *State of Wisconsin FY 2018-19 Financial Statements*; and report 20-3, *State of Wisconsin FY 2018-19 Single Audit*.)
- We reported a material weakness in internal control over financial reporting at the Office of the Commissioner of Insurance (OCI) related to the financial reporting process for the Injured Patients and Families Compensation Fund. We had previously identified significant deficiencies in financial reporting at OCI, as we discussed in report 19-3. We recommended OCI adequately understand and appropriately apply financial reporting requirements. (For details, see report 19-30, *State of Wisconsin FY 2018-19 Financial Statements*; and report 20-3, *State of Wisconsin FY 2018-19 Single Audit*.)
- We reported a significant deficiency in internal control over financial reporting after we found the State of Wisconsin Investment Board (SWIB) used incomplete information to prepare a note disclosure related to unfunded commitments for certain investments. The error resulted in a material misstatement of the notes to the financial statements for the year ended December 31, 2019. We recommended SWIB review its procedures and develop a process to ensure information used to prepare the notes is complete and accurate. (For details, see report 20-9, *Retirement Funds Investment Activity*.)
- We reported a material weakness in internal control over financial reporting related to the Unemployment Reserve Fund financial statements, which were materially misstated for FY 2019-20. We found the Department of Workforce Development (DWD) did not properly consider the significant backlog of claims that resulted from the public health emergency when calculating benefit payable as of June 30, 2020. We recommended DWD revise its procedures for calculating the benefit payable. (For details, see report 20-30, *State of Wisconsin FY 2019-20 Financial Statements*.)

- We reported a material weakness in internal control over financial reporting after we found the financial statements for the basic Accumulated Sick Leave Conversion Credit (ASLCC) program were materially misstated because ETF did not have a reasonable basis for estimating the probability of employees becoming eligible in the future to receive basic ASLCC program benefits. In addition, ETF did not adjust the liability balance for the accounts of deceased participants or for accounts that were closed. We recommended ETF improve its calculation of the compensated absence liability estimate; ensure when implementing changes to financial reporting that it completes its planning, review, and assessment process before the close of the affected financial reporting period; and work with DOA on areas that affect the State's CAFR. (For details, see report 20-30, *State of Wisconsin FY 2019-20 Financial Statements*.)

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

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

- We reported continuing concerns with STAR security at DOA for FY 2017-18 and FY 2018-19, and reported a significant deficiency in internal control over financial reporting each year. (For details, see report 19-3, *State of Wisconsin FY 2017-18 Single Audit*; report 19-30, *State of Wisconsin FY 2018-19 Financial Statements*; and report 20-3, *State of Wisconsin FY 2018-19 Single Audit*.)
- 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 2017-18. (For details, see report 19-3, *State of Wisconsin FY 2017-18 Single Audit*.) We also reported a significant deficiency related to weaknesses in implementation of IT procedures by DET in FY 2018-19 and FY 2019-20. (For details, see report 19-30, *State of Wisconsin FY 2018-19 Financial Statements*; report 20-3, *State of Wisconsin FY 2018-19 Single Audit*; and report 20-30, *State of Wisconsin FY 2019-20 Financial Statements*.)
- We found a continuing concern with IT controls at UW System, particularly related to its development of information security policies and procedures, and we reported a significant deficiency. (For details, see report 19-3, *State of Wisconsin FY 2017-18 Single Audit*; report 20-29, *University of Wisconsin System*; and report 20-30, *State of Wisconsin FY 2019-20 Financial Statements*.)

- We continued to report a significant deficiency related to DOA's oversight responsibilities for IT in state agencies. (For details, see report 19-30, *State of Wisconsin FY 2018-19 Financial Statements*; report 20-3, *State of Wisconsin FY 2018-19 Single Audit*, and report 20-30, *State of Wisconsin FY 2019-20 Financial Statements*.)
- We found that UW System Administration did not develop comprehensive IT security policies and procedures, and we identified 46 concerns pertaining to IT security at the five UW institutions we reviewed. (For details, see report 20-10, *IT Needs Assessment, Procurement, and Security, UW System*.)
- We found policies, standards, and procedures at the five state agencies we reviewed did not include all anticipated elements relevant to IT security, and we found 23 concerns pertaining to IT security at the five state agencies we reviewed. (For details, see report 20-11, *IT Needs Assessment, Procurement, and Security, Department of Administration*.)

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 found that DOA did not always minimize the time between when the State requested and received federal funds and when the State disbursed funds for grant purposes. We considered this finding to be a material weakness in internal control over compliance. Due to the significance of this finding to two federal programs administered by the Department of Public Instruction (DPI), we qualified our opinion on compliance for these programs. We recommended DOA take additional steps to minimize the time between when the State draws down federal funds from the federal government and when the State disburses funds for program purposes. (For details, see report 19-3, *State of Wisconsin FY 2017-18 Single Audit*.)
- We found \$69,970 in improper Medical Assistance (MA) program payments made with federal funds for claims paid to terminated providers, and \$9,235 in improper payments made with federal funds for 70 claims paid for inmate medical services that were not eligible under the State's MA Plan. We recommended the Department of Health Services (DHS) determine and recoup the improper payments to terminated providers and implement a timely process to identify and recover payments made to ineligible providers for services they provide after their termination dates. We also recommended DHS work with the federal government

and the Department of Corrections (DOC) to determine an appropriate repayment related to the improper payments for ineligible inmate medical services, implement a process to identify and deny in a timely manner ineligible inmate claims; and implement improvements in its communication of inmate eligibility for MA. (For details, see report 19-3, *State of Wisconsin FY 2017-18 Single Audit*.)

- We found that DHS had not begun to return the federal share of provider overpayments identified in provider audits that had not yet been finalized due to a court injunction. We reported a significant deficiency in internal control over compliance and recommended DHS comply with the federal regulations and return to the federal government its share of MA Program provider overpayment amounts that DHS had identified and communicated to providers. (For details, see report 19-3, *State of Wisconsin FY 2017-18 Single Audit*, and report 20-3, *State of Wisconsin FY 2018-19 Single Audit*.)
- We found the Department of Children and Families (DCF) had not begun the collection process for provider overpayments identified within its new administrative system. From January 2017 through June 2018, \$259,308 in provider overpayments were identified but DCF had not collected any portion of those amounts. We reported a significant deficiency in internal control over compliance and recommended DCF take steps to correct the identified system issues or implement alternative procedures to ensure provider overpayments were collected in a timely manner. (For details, see report 19-3, *State of Wisconsin FY 2017-18 Single Audit*.)
- We found DCF did not monitor for at least one health and safety requirement for 19 of the 25 child care providers we reviewed. We reported a significant deficiency in internal control over compliance and recommended DCF take steps to ensure all applicable health and safety requirements are monitored annually for child care providers. (For details, see report 19-3, *State of Wisconsin FY 2017-18 Single Audit*.)
- We found that DHS and DPI did not always minimize the time between when federal funds were requested and received and when the agencies distributed funds for program purposes. We considered this finding to be a significant deficiency in internal control over compliance. Due to the significance of this finding to three federal programs, we qualified our opinion on compliance for these three programs.

We recommended these agencies work with DOA to reduce the time between the draw of federal funds and the scheduled disbursement of funds for federal programs it administers by as much as administratively feasible. (For details, see report 20-3, *State of Wisconsin FY 2018-19 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 did not consistently provide adequate administration of contracts with the firms that helped administer group insurance programs, or prepare and provide the Group Insurance Board (GIB) with the results of its written analyses of key programmatic information provided by the firms. We recommended ETF improve its contract administration by compiling additional information about the performance of program administrators, program actuaries, and auditors and work with GIB and the ETF Board to determine the maximum duration of contracts. (For details, see report 19-2, *Administration and Oversight of Group Insurance Programs*.)
- We found that the Wisconsin Economic Development Corporation (WEDC) did not collect sufficiently detailed information during the underwriting process about the number of individuals employed by award applicants at the time of contract execution, collect sufficiently detailed information when closing awards to determine whether award recipients had created or retained jobs that met the contractual specifications for wages paid and hours worked, or comply with statutes by annually verifying the information in a sample of performance reports. Therefore, WEDC cannot know how many jobs were actually created or retained as a result of the awards that ended. (For details, see report 19-6, *Wisconsin Economic Development Corporation*.)
- We reviewed DWD's files for 242 program grants totaling \$57.0 million that were made through the Wisconsin Fast Forward program. We found that DWD did not consistently comply with statutes and administrative rules when awarding grants, require recipients to repay grant funds for not meeting contractually specified results, or provide sufficient management and oversight of all contracts, and we recommended that DWD do so. (For details, see report 19-24, *Wisconsin Fast Forward Program*.)

- We found that UW institutions and state agencies did not consistently follow best practices for data security when completing projects involving cloud computing services provided by firms, and we recommended that they do so. (For details, see report 20-10, *IT Needs Assessment, Procurement, and Security, University of Wisconsin System*; and report 20-11, *IT Needs Assessment, Procurement, and Security, Department of Administration*.)
- We found that DWD did not require Alorica or Beyond Vision to provide it with certain contractually required information on the effectiveness of their Unemployment Insurance (UI) call centers. DWD contractually required both entities to report on the extent to which they resolved issues after the initial telephone calls of individuals. However, DWD indicated that the entities did not collect this information, and that it did not regard this information as useful because some individuals may repeatedly telephone in order to try to obtain favorable answers. We recommended that DWD review the reported information, which will help DWD to assess the effectiveness of the two entities. (For details, see report 20-13, *Unemployment Insurance Call Centers*.)

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 largest areas of expenditure growth in adult corrections expenditures were for pharmaceuticals and medical supplies and for contracted medical services. We made recommendations to help DOC manage adult corrections expenditures, including by improving its collection and analysis of inmate health services data, increasing the use of telemedicine appointments, consolidating inmate trips to external medical appointments, and enhancing efforts to assess treatment and educational programs. (For details, see report 19-4, *Adult Corrections Expenditures*.)
- Although the Residence Life Department at UW-Oshkosh maintained a balance that accounted for as much as 52.1 percent of the annual revenue between FY 2008-09 and FY 2017-18, we found rates for student housing at UW-Oshkosh continued to increase. UW-Oshkosh officials indicated that it was not until 2018 that they clearly understood balances should be evaluated prior to setting rates. Because UW-Oshkosh reported that certain expenditures were being funded

both by the Residence Life Department program revenue balance and budgeted current year revenues, the information reported to the Board of Regents on UW-Oshkosh's program revenue balances has been inaccurate since the inception of the program revenue balances report for FY 2013-14. We recommended that UW System Administration provide guidance to UW institutions to ensure expenditures that are budgeted to be paid out of current-year revenues are not also reported as being funded from existing program revenue balances. (For details, see report 19-5, *University of Wisconsin System*.)

- In report 17-9, we reported that total resources available to WEDC exceeded total payments made by WEDC for each quarter from July 1, 2011, when WEDC became fully operational, through June 30, 2016. In report 19-6, we found total resources available to WEDC continued to exceed total payments made by WEDC for each quarter from July 1, 2016, through June 30, 2018. As a result, WEDC's cash and investments balance also increased from \$69.9 million as of June 30, 2016, to \$77.0 million as of June 30, 2018, or by \$7.1 million (10.2 percent). This increase was, in part, due to the process through which state funding was provided to WEDC quarterly. We indicated the Legislature may wish to consider specifying that funding be provided based on WEDC demonstrating its actual need for funding to cover the costs of its operations and fulfill its grant and loan commitments. (For details, see report 19-6, *Wisconsin Economic Development Corporation*.)
- We found that most of the 779 school safety plans submitted to the Wisconsin Department of Justice (DOJ) by mid-April 2019 contained information about at least six of seven types of school safety guidelines and procedures required by statutes. However, a number of plans contained relatively little information pertaining to certain guidelines and procedures. We surveyed 1,210 administrators of all school districts, private schools, independent charter schools, and tribal schools about school safety issues. We also surveyed 521 local law enforcement agencies about school safety issues. We recommended that DOJ use the results of our surveys to consider ways to provide school districts and schools with additional training and support pertaining to school safety issues. (For details, see report 19-28, *School Safety Grants and Plans*).
- DWD publicly reported that a malfunction in its IT systems resulted in it overpaying program benefits on

April 29. In addition to these reported overpayments, our review of available information indicated DWD likely overpaid program benefits on April 28. DWD may have overpaid an estimated \$21.2 million in program benefits over this two-day period, but it may have overpaid additional amounts. We recommended that DWD pay individuals the program benefits they were entitled to receive but that they may have been underpaid due to actions taken on April 30, as well as recover any overpayments made on April 28 and April 29 but that it had not attempted to recover. (For details, see report 20-5, *Overpayment of Certain Unemployment Insurance Program Benefits.*)

- We analyzed how five UW institutions assessed their IT needs and procured goods and services for 10 projects, as well as how they managed data security and other issues for 7 projects that involved cloud computing services provided by firms. These 17 projects included 13 large, high-risk projects. We found UW institutions did not consistently comply with various statutes, policies, and best practices. We also found the Board of Regents needed to improve its oversight of IT projects, and we made a number of recommendations for improvements. (For details, see report 20-10, *IT Needs Assessment, Procurement, and Security, University of Wisconsin System.*)
- We analyzed how six state agencies assessed their IT needs and procured goods and services for 12 projects, as well as how they managed data security and other issues for 6 projects that involved cloud computing services provided by firms. These 18 projects included 12 large, high-risk IT projects. We found state agencies did not consistently comply with various statutes, policies, and best practices. We also found DOA needed to improve its oversight of IT projects, and we made a number of recommendations for improvements. (For details, see report 20-11, *IT Needs Assessment, Procurement, and Security, Department of Administration.*)
- We determined that IT projects managed by DOA accounted for \$118.3 million of the \$142.1 million (83.3 percent) in total master lease program funding for IT projects. We found DOA permitted state agencies, including itself, to obtain a total of \$4.4 million more in master lease funding than the amounts it had approved for eight projects from FY 2014-15 through the first half of FY 2019-20. We also found DOA's program policies were incomplete and outdated. We made recommendations for DOA to improve its

administration of the master lease program.
(For details, see report 20-12, *Master Lease Program*.)

- From FY 2015-16 through FY 2018-19, we found that DNR did not comply with statutes because it spent at least \$807,400 appropriated for recycling administration on activities related to recycling but not allowed by statutes. In addition, DNR reviewed fewer recycling programs in recent years than was statutorily required, and it did not fully comply with its administrative rules, provisions of which are outdated. We made recommendations for DNR to improve its administration of the state recycling programs it administers. (For details, see report 20-21, *State Recycling Programs*.)
- SWIB is authorized to establish its own budget and to create or eliminate staff positions. From 2015 through 2019, SWIB's annual expenses increased by 48.3 percent. After considering the effect of increases in assets managed by SWIB in 2018 and 2019, we found the increases in expenses were primarily attributable to an increase in management fees paid to external investment managers. From December 2017 to December 2019, the percentage of SWIB assets managed externally increased from 36.0 percent to 46.5 percent. The Board authorized an additional 47.0 full-time equivalent (FTE) positions during 2018 and 2019. SWIB had 235.0 authorized FTE positions as of December 2019, which included 86.0 FTE positions for investment management staff, or 36.6 percent. Our evaluation of SWIB included a review of investment performance; an assessment of expenses, included external management fees and carried interest costs; and an analysis of staff compensation, including salaries and bonuses. We recommended that SWIB expand on the manner in which it reports investment returns, improve its reporting to the Board of Trustees on carried interest information, continue to assess and reduce its contracted positions, and take steps to improve its overall data management. (For details, see report 20-23, *State of Wisconsin Investment Board*.)
- We found that, as of June 30, 2020, seven clearing appropriations had balances of a positive or negative \$1.0 million or more, on a budgetary basis. We found that balances remained in clearing appropriations because the clearing appropriations were being used in a manner that was noncompliant with Wisconsin Statutes or the *Wisconsin Accounting Manual*. Therefore, we recommended DOA develop a written plan and timeline for resolving existing balances in clearing appropriations, provide training to state agencies, and report to the Joint

Legislative Audit Committee by April 15, 2021, on the status of its efforts. (For details, see report 20-30, *State of Wisconsin FY 2019-20 Financial Statements*.)

We identified best practices local governments and schools could use to improve certain operations.

We identified best practices that local governments, school districts, independent charter schools, private schools, and tribal schools could use to improve certain operations. For example:

- Our review of all 779 school safety plans submitted to DOJ by mid-April 2019 identified a number of examples of best practices pertaining to emergency prevention and mitigation, emergency preparedness, emergency response, emergency recovery, school safety assessments, school safety drills, and school building blueprints. (For details, see report 19-28, *School Safety Grants and Plans*.)
- We identified 15 best practices that local governments can use to comply with state recycling laws and improve the administration of their recycling programs. These best practices pertain to outreach and education, containers, collection, drop-off sites, and program administration and oversight. (For details, see report 20-22, *Best Practices for Local Recycling Programs*.)

Topics of Ongoing Legislative Consideration

Certain matters we analyzed in 2019 and 2020 are likely to be topics of ongoing legislative consideration. For example:

Information Technology

We completed three reports related to IT needs assessment, procurement, and security for state agencies and UW institutions. (For details, see report 20-10, *IT Needs Assessment, Procurement, and Security, University of Wisconsin System*; report 20-11, *IT Needs Assessment, Procurement, and Security, Department of Administration*; and report 20-12, *Master Lease Program*.) In these reports, we found that both the UW System Board of Regents and DOA needed to improve oversight of their respective IT projects, and we made recommendations to each entity to improve oversight. UW System and DOA will each report to the Joint Legislative Audit Committee by January 15, 2021, on their progress implementing these recommendations.

Unemployment Insurance Program

In response to the ongoing public health emergency, and under 2019 Wisconsin Act 185, we completed three reviews of aspects of the UI program. (For details, see report 20-5, *Overpayment of Certain Unemployment Insurance Program Benefits*; report 20-13, *Unemployment Insurance Call Centers*; and report 20-28, *Processing Certain Unemployment Insurance Claims*.) In each report, we made recommendations to improve DWD's administration of the UI program. DWD will report to the Joint Legislative Audit Committee by January 15, 2021, on its progress implementing these recommendations.

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. Although no tax credits have yet been awarded, we have reviewed WEDC's written procedures and made recommendations for improvements in three audit reports. (For details, see reports 18-18, 19-27, and 20-27 on the *Electronics and Information Technology Manufacturing Zone Program*.) WEDC will report to the Joint Legislative Audit Committee by March 1, 2021, on its progress implementing these recommendations.

Public Health Emergency

The State began receiving federal funding related to the ongoing public health emergency in April 2020. In report 20-30, we reviewed and summarized information regarding several key areas related to the ongoing public health emergency and the State's finances, including the Coronavirus Relief Fund; the revised federal medical assistance percentage (FMAP); unemployment insurance program benefits; the transfer of state employees between agencies to address staffing needs during the public health emergency; and federal donations, such as personal protective equipment (PPE). In addition, in report 20-29 we reviewed UW System's administration of the Higher Education Emergency Relief Fund.

As a condition of receiving federal funds, state agencies must meet the audit requirements of the federal Single Audit Act of 1984, as amended, and of the federal Office of Management and Budget *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). We are

currently performing this audit for FY 2019-20, which is anticipated to be completed in spring 2021.

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Fraud, Waste, and Mismanagement Hotline

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

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

The hotline has been in operation since April 2008 and is primarily administered by certified fraud examiners. It does not duplicate or replace other government hotlines or complaint resources. Since its inception, we have received 1,301 hotline reports alleging fraud, waste, and mismanagement. We address hotline reports by:

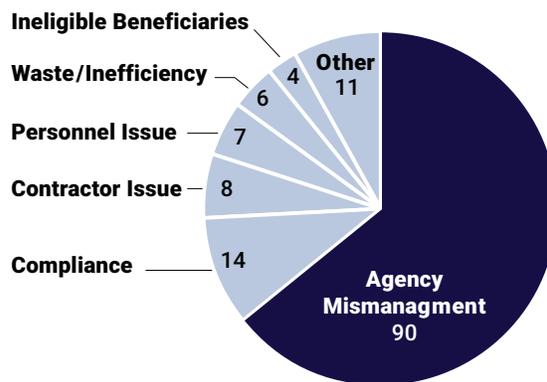
- following up during the course of ongoing audit work;
- initiating interviews and documentation reviews with other state agencies;
- conducting audits or reviews in response to substantiated allegations and reporting our findings to the Joint Legislative Audit Committee; and
- making referrals, providing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

From January 1, 2019, through December 31, 2020, 140 of the 203 concerns reported to the hotline were state-related issues.

From January 1, 2019, through December 31, 2020, 140 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, compliance with applicable laws, contractor issues, and personnel issues.

Figure 1

Reports of Fraud, Waste, and Mismanagement in State Government¹
2019 and 2020



¹ A total of 140 state-related reports were received from January 1, 2019, through December 31, 2020.

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

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

- *Biennial Report, January 1, 2017, through December 31, 2018, report 19-1;*
- *Fraud, Waste, and Mismanagement Hotline Summary Report, January through June 2019, report 19-12;*
- *Fraud, Waste, and Mismanagement Hotline Summary Report, July through December 2019, report 20-1; and*
- *Fraud, Waste, and Mismanagement Hotline Summary Report, January through June 2020, report 20-6.*

We issued two reports related to information reported to the hotline.

We also issued two other reports related to information reported to the Fraud, Waste, and Mismanagement Hotline. First, based on a report made to the hotline we completed a review of certain contracts between the Waukesha County Technical College (WCTC) and a private business. Because technical college curricula are developed using

taxpayer funding, the use of educational resources by a private business must ensure that the business pays the full cost. We estimate that WCTC did not collect at least \$121,440 from 2015 through 2017 because it did not enter into statutorily required contracts or did not receive payment from the private business. We recommended that WCTC take steps to ensure that it consistently enters into statutorily required contracts with private businesses when it provides educational services or permits its curricula to be used in awarding technical college course credits. (For details, see report 19-8, *Contracts for Technical College Course Credits*.)

Second, based on a report made to the hotline we initiated an audit of state-owned residential properties. As of December 2018, the Department of Natural Resources (DNR) managed 32 state-owned residential properties occupied by 32 employees, and the UW System managed a total of 114 properties occupied by 171 employees. We found DOA did not comply with all statutory requirements, did not track all state-owned residential properties for which it is statutorily responsible, and did not monitor state agency compliance with its policies, which had not been revised since 1975. DOA last conducted statutorily required appraisals of state-owned residential properties in 1995 and did not conduct them following either the 2000 census or the 2010 census. During 2019, DNR undercharged an estimated \$38,900 and UW institutions undercharged an estimated \$24,000 for rental payments because they did not implement all rental payment adjustments determined by DOA since 1998. DNR also incorrectly provided a 50.0 percent rental payment discount in some lease agreements it executed with state employees. We recommended that DOA comply with statutory requirements, reassess practices surrounding state-owned residential properties, and increase its monitoring and oversight of these properties. We also recommended that DNR and UW System comply with DOA policies and improve the management of lease agreements each executes with state employees. (For details, see report 19-26, *State-Owned Residential Properties*.)

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Report Summaries

A chronological summation of reports published in 2019 and 2020 follows. As noted, the full text of each document is available at www.legis.wisconsin.gov/lab. Appendix 3 is an index of reports by audit topic and Appendix 4 is an index of reports by audited entity.

Reports Published in 2019

Report 19-1: Biennial Report

The Biennial Report summarizes the work of the nonpartisan Legislative Audit Bureau from January 1, 2017, through December 31, 2018. During this period, the Bureau published more than 40 reports, including financial audits and performance evaluations. The Biennial Report lists the Bureau's noteworthy findings for 2017 and 2018. The report also summarizes the activity of the Bureau's Fraud, Waste, and Mismanagement Hotline (1-877-FRAUD-17). In 2017 and 2018, the Fraud, Waste, and Mismanagement Hotline received 203 reports, 125 of which were specific to state agencies or programs.

Report 19-2: Administration and Oversight of Group Insurance Programs

Department of Employee Trust Funds

GIB oversees group insurance programs that are administered by ETF. The programs are funded primarily by premiums paid by employers and participants and by investment income earned on program reserves. Expenditures for these programs totaled \$1.7 billion in 2017. Most state agencies and local governments responding to our survey indicated satisfaction with the Group Health Insurance program and the assistance provided by ETF. We found that ETF did not consistently provide adequate administration of contracts with program administrators, program actuaries, and auditors and did not consistently prepare and provide GIB with its written analyses of

key programmatic information. ETF took steps to improve its administration of the programs, and we made recommendations for further improvements.

Report 19-3: State of Wisconsin FY 2017-18 Single Audit

In FY 2017-18, state agencies administered \$11.9 billion in federal financial assistance. Our audit focused on 16 federal programs that accounted for 73.0 percent of the federal financial assistance administered by state agencies in FY 2017-18. We found that state agencies generally complied with federal requirements, and we provided an unmodified opinion on compliance with federal requirements for 14 of the programs we reviewed. We qualified our opinion on compliance related to cash management requirements for the other 2 federal programs. We made recommendations to six state agencies—DOA, DCF, DHS, DPI, UW System, and the Wisconsin Technical College System—to improve the administration of federal programs. The federal government will work with state agencies to resolve the concerns we identified.

Report 19-4: Adult Corrections Expenditures

DOC operates 36 adult institutions. From FY 2013-14 through FY 2017-18, operating expenditures increased from an estimated \$909.3 million to \$933.9 million (2.7 percent). Over this period, the total number of paid overtime hours increased from 1.2 million to 1.9 million (50.7 percent) and the vacancy rate for security positions more than doubled, growing from 6.7 percent to 14.0 percent. We made recommendations to help DOC manage adult corrections expenditures, including by improving its collection and analysis of inmate health services data, increasing use of telemedicine appointments, consolidating inmate trips to external medical appointments, and enhancing efforts to assess treatment and educational programs.

Report 19-5: University of Wisconsin System FY 2017-18

We assessed selected aspects of UW System's financial management and financial operations. In addition, we followed up on the status of recommendations we made in report 18-4, *Relationships between the University of Wisconsin and Certain Affiliated Organizations*. We made recommendations for UW System to improve administration of program revenue balances, develop or revise policies and guidelines for its new personnel systems, and improve oversight and monitoring of its relationships with all affiliated organizations.

Report 19-6: Wisconsin Economic Development Corporation

In FY 2017-18, WEDC administered 30 programs through which it allocated \$3.1 billion in tax credits; awarded \$25.6 million in grants and \$4.5 million in loans; and authorized local governments to issue \$65.7 million in bonds. We reviewed available information for 128 awards WEDC made and found that WEDC improved a number of aspects of its program administration since our last audit (report 17-9) and had complied with most of our recommendations related to program administration. We also found that WEDC awarded tax credits to recipients that created or retained jobs filled by individuals who did not perform services in Wisconsin or were non-Wisconsin residents. WEDC's information indicated that recipients of 68 tax credit and loan awards that ended through FY 2017-18 created 2,084 of 5,970 contractually required jobs (34.9 percent).

Report 19-7: Unemployment Reserve Fund FY 2016-17 and FY 2017-18*Department of Workforce Development*

We provided an unmodified opinion on the Fund's financial statements for FY 2017-18 and FY 2016-17. The Fund's net position was \$1.8 billion as of June 30, 2018, which was an increase of \$549.5 million since June 30, 2016. The net position of the Fund continues to increase because employer taxes and other revenues continue to exceed benefit payments and transfers. Based on the cash balance of the Fund as of June 30, 2018, employers continued to pay the lowest state unemployment tax rate schedule in calendar year 2019.

Report 19-8: Contracts for Technical College Course Credits*Waukesha County Technical College*

Based on a report made to our Fraud, Waste, and Mismanagement Hotline, we completed a review of certain contracts between WCTC and a private business for technical college course credits granted to high school students. From 2015 through 2017, we estimated that WCTC did not collect at least \$121,440 because it did not enter into statutorily required contracts or did not receive payment from the private business.

Report 19-9: Injured Patients and Families Compensation Fund FY 2015-16, FY 2016-17, and FY 2017-18*Office of the Commissioner of Insurance*

We provided an unmodified opinion on the Fund's financial statements as of and for the fiscal years ended June 30, 2018, June 30, 2017, and June 30, 2016. The Fund's net position increased in each fiscal year and was \$1.0 billion as of June 30, 2018. This amount exceeded the maximum of the target range for the Fund's net position. Although assessment rates were reduced in each year of our audit period, the increase in the Fund's net position was driven primarily by positive investment income and decreasing estimated loss liabilities. We recommended that OCI work with the Fund's Board of Governors to develop a formal written plan to re-evaluate the target range for the Fund's net position. We also recommended OCI take steps to improve its financial reporting process.

Report 19-10: Wisconsin Lottery FY 2017-18

We provided an unmodified audit opinion on the Wisconsin Lottery's financial statements for FY 2017-18 and FY 2016-17. Lottery ticket sales increased from \$602.8 million in FY 2016-17 to \$667.4 million in FY 2017-18, or by 10.7 percent. Operating expenses increased from \$440.3 million in FY 2016-17 to \$487.2 million in FY 2017-18, or by 10.7 percent. During FY 2017-18, lottery proceeds used for property tax relief totaled \$170.3 million.

Report 19-11: 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 had been transferred into the program, and no schools will be transferred into the program for the 2019-20 school year. Milwaukee Public Schools could have schools eligible for transfer into the program for the 2020-21 school year, and the Madison Metropolitan and Racine Unified school districts could have schools eligible for transfer into the program for the 2021-22 school year.

Report 19-12: Fraud, Waste, and Mismanagement Hotline

January 1, 2019, through June 30, 2019

In this semiannual report, we summarized the 35 reports we received through our Fraud, Waste, and Mismanagement Hotline from January 1, 2019, through June 30, 2019. We also highlighted three selected reports we resolved during this time period.

Report 19-13: Universal Service Fund FY 2017-18 and FY 2016-17

We provided an unmodified opinion on the financial statements for FY 2017-18 and FY 2016-17. The USF is funded by assessments on telecommunications providers that providers typically recover from consumers. In FY 2017-18, the USF expended \$37.2 million to support 13 programs operated by four state agencies. The Public Service Commission (PSC) is responsible for establishing policies and procedures and for financial reporting for the USF. We recommended DOA ensure it communicates to PSC all information necessary for financial statement preparation. We also recommend DOA review its invoice process for the Educational Telecommunications Access Program (TEACH).

Report 19-14: Wisconsin Veterans Home at King: Investigations of Incident Reports and Complaints

Conducted by the Department of Health Services from 2012 through 2016

In March 2017, we submitted a Freedom of Information Act request to the federal Centers for Medicare & Medicaid Services for information related to certain investigations involving the Wisconsin Veterans Home at King (King). According to the information we were provided in 2019, the Department of Health Services (DHS) conducted a total of 90 investigations based on incident reports and complaints that it received from 2012 through 2016 involving the four skilled nursing facilities at King. DHS substantiated allegations in 40 of these 90 investigations (44.4 percent). It issued 22 citations to address deficient King practices or policies that it identified in 11 investigations.

Report 19-15: Retirement Funds Investment Activity Calendar Year 2018

State of Wisconsin Investment Board

SWIB invests assets for the Wisconsin Retirement System (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, 2018. The financial statements and our auditor's opinions are published separately in SWIB's *2018 Retirement Funds Annual Report*.

Report 19-16: State Life Insurance Fund Calendar Years 2018, 2017, and 2016

Office of the Commissioner of Insurance

The State Life Insurance Fund, which is self-funded through insurance premiums and investment earnings, provides low-cost life insurance to Wisconsin residents. Its financial statements for the years ended December 31, 2018, December 31, 2017, and December 31, 2016, were fairly presented in accordance with financial reporting requirements prescribed by the Wisconsin Commissioner of Insurance. The surplus-to-assets ratio has been within the statutorily specified range since 2014 and was 7.6 percent as of December 31, 2018.

Report 19-17: Department of Employee Trust Funds Calendar Year 2018

We provided unmodified opinions on the financial statements for the separate funds presented in ETF's *2018 Comprehensive Annual Financial Report*, which can be found on its website. ETF's financial statements presented 11 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 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 ETF's *2018 Comprehensive Annual Financial Report*.

Report 19-18: Wisconsin Retirement System Reporting for Participating Employers Calendar Year 2018**Report 19-19: State Retiree Life Insurance Reporting for the State of Wisconsin** Calendar Year 2018**Report 19-20: Local Retiree Life Insurance Reporting for Participating Employers** Calendar Year 2018

We provided unmodified opinions on the employer schedules prepared by ETF for the WRS, the State Retiree Life Insurance program, and the Local Retiree Life Insurance program as of and for the year ended December 31, 2018. The schedules reported a net pension liability for the WRS and an other postemployment benefits (OPEB) liability for both the State Retiree Life Insurance program and the Local Retiree Life Insurance program. These schedules were prepared to assist participating employers, including the State of Wisconsin, in preparing their own financial statements in accordance with GAAP. The schedules and our opinions on them are available on the Department of Employee Trust Funds' website.

Report 19-21: State Retiree Health Insurance Reporting for the State of Wisconsin June 30, 2018

We provided unmodified opinions on the employer schedules prepared by DOA for the State Retiree Health Insurance program as of and for the year ended June 30, 2018. The schedules reported an OPEB liability for the program. These schedules were prepared to assist participating employers, including the State of Wisconsin, in preparing their own financial statements in accordance with GAAP. The schedules and our opinions on them are found on DOA's website.

Report 19-22: Local Government Property Insurance Fund

FY 2014-15 through FY 2018-19

Office of the Commissioner of Insurance

As required by 2017 Wisconsin Act 355, we performed a final audit of the Local Government Property Insurance Fund (Fund), which is administered by OCI. Coverage for policyholders was terminated by December 31, 2018, and no claims were filed after July 1, 2019, as required by statutes. From FY 2015-16 through FY 2018-19, a total of \$29.9 million was transferred from the State's General Fund to the Fund, and the Fund repaid \$15.1 million. As of June 30, 2019, approximately \$2.2 million was available in the Fund to make final claim payments and pay administrative costs. Therefore, it is unlikely that the Fund will acquire sufficient assets to either fully repay the General Fund or make a distribution to policyholders. We recommended that OCI report to the Joint

Legislative Audit Committee on certain items that were not fully resolved as of late October 2019.

Report 19-23: Estimate of Additional Sales and Use Tax Revenue and Determination of Certain Individual Income Tax Rates

Wisconsin Department of Revenue

As required by statutes, we reviewed DOR's estimate of additional reported sales and use tax revenue resulting from the U.S. Supreme Court decision on South Dakota v. Wayfair, Inc., as well as DOR's determination of certain individual income tax rates for tax year 2019. After performing our review, we found that DOR's estimate and tax rate determination, as rounded to the hundredth decimal place, appeared reasonable.

Report 19-24: Wisconsin Fast Forward Program

Department of Workforce Development

Wisconsin Fast Forward program expenditures totaled \$62.7 million from FY 2012-13 through FY 2018-19. As a result of 209 standard program grants that ended through December 2018, 9,451 individuals completed program training, were counted as program successes, and received an average wage increase of \$1.85 per hour. We found DWD's December 2018 report on program results contained inaccurate information. We also found DWD did not consistently comply with statutes and administrative rules when awarding grants, require recipients to repay grant funds for not meeting contractually specified results, or provide sufficient management and oversight of all contracts. We made recommendations for DWD to improve how it assesses program results and administers the program.

Report 19-25: Petroleum Inspection Fee Revenue Obligations Program FY 2018-19

We provided an unmodified opinion on the Petroleum Inspection Fee Revenue Obligations Program's financial statement for FY 2018-19 and FY 2017-18. 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, 2019, a total of \$27.2 million in obligations remained outstanding. These obligations were paid off on July 1, 2019, using a \$0.02 per gallon fee charged for petroleum products received for sale in Wisconsin. The Petroleum Inspection Fee Revenue Obligations Program was terminated on November 4, 2019.

Report 19-26: State-Owned Residential Properties

Statutes require DOA to administer state-owned residential properties leased to state employees. We found DOA did not comply with all statutory requirements. We also found DNR and UW institutions did not accurately execute lease agreements for all state employees who resided in the properties as of December 2018. We recommended that DOA comply with statutory requirements, reassess policies, and increase its monitoring of rental payments charged to state employees to ensure they reflect fair value. We also recommended that DNR and UW institutions execute lease agreements that comply with DOA policies.

Report 19-27: 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. In 2019, WEDC did not award any program tax credits because Foxconn did not create the contractually specified minimum number of jobs in 2018. Statutes and WEDC's contract require WEDC to award Foxconn program tax credits for the wages paid to employees for services performed in Wisconsin. We recommended that WEDC modify its written procedures to explicitly require it to award program tax credits for only the wages paid to employees for services performed in Wisconsin. We also recommended that WEDC comply with its contract when calculating the amount of wages that are eligible for program tax credits, not award program tax credits unless the certified public accountant hired and paid for by Foxconn uses procedures that WEDC approves in writing, and award program tax credits for only capital investments made in the zone.

Report 19-28: School Safety Grants and Plans

2017 Wisconsin Act 143 appropriated \$100.0 million to DOJ in FY 2018-19 for awarding school safety grants to school districts, private schools, independent charter schools, and tribal schools. In 2018, DOJ awarded \$94.5 million in 1,325 school safety grants. We reviewed all 779 school safety plans submitted to DOJ as of mid-April 2019 and found that most contained information about at least six of seven types of statutorily required guidelines and procedures. However, a number of plans contained relatively little information pertaining to certain guidelines and procedures. The 779 plans contained a number of examples of best practices, which we described in our report. We also surveyed 1,210 school administrators and 521 local law enforcement agencies about school safety issues. We recommended that DOJ use the results of our surveys to consider ways to provide school districts and schools with additional training and support pertaining to school safety issues.

Report 19-29: State Investment Fund FY 2018-19

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, 2019. On a GAAP basis, the net position of the State Investment Fund increased from \$9.3 billion as of June 30, 2018, to \$12.9 billion as of June 30, 2019. The financial statements and our opinion on them are found in the State of Wisconsin Investment Board's *State Investment Fund Annual Financial Report* for the fiscal year ended June 30, 2019.

Report 19-30: State of Wisconsin FY 2018-19 Financial Statements

We provided unmodified audit opinions on the State of Wisconsin's FY 2018-19 financial statements. We reported a material weakness in internal control over financial reporting at OCI. In addition, we reported significant deficiencies related to IT security at DOA and financial reporting at DOT. We made recommendations to these agencies to address the deficiencies we identified. The financial statements and our opinion on them are included in the State of Wisconsin's CAFR for the fiscal year ended June 30, 2019, which is found on DOA's website.

Reports Published in 2020

Report 20-1: Fraud, Waste, and Mismanagement Hotline

July 1, 2019, through December 31, 2019

In this semiannual report, we summarized 31 reports we received through the Bureau's Fraud, Waste, and Mismanagement Hotline from July 1, 2019, through December 31, 2019. We also highlighted findings related to selected reports that we resolved since the publication of our last semiannual report (report 19-12).

Report 20-2: Wisconsin Retirement System Actuarial Audit

As required by statute, we contracted for an actuarial audit of the WRS. This actuarial audit replicated the December 31, 2018 actuarial valuation and assessed the reasonableness of the actuarial assumptions used by ETF and its consulting actuary. The actuarial audit, which was performed in accordance with the actuarial standards of practice prescribed by the Actuarial Standards Board, concluded that ETF's consulting actuary had a sound valuation process for the December 31, 2018 actuarial valuation. The actuarial audit also included several comments and recommendations for improvement to be considered by ETF and its consulting actuary.

Report 20-3: State of Wisconsin FY 2018-19 Single Audit

In FY 2018-19, state agencies administered \$12.4 billion in federal financial assistance. Our audit focused on 16 federal programs that accounted for 51.2 percent of the federal financial assistance administered by state agencies in FY 2018-19. We found that state agencies generally complied with federal requirements, and we provided an unmodified opinion on federal compliance for 13 of the programs we reviewed. We qualified our opinion on compliance related to cash management requirements for the other 3 federal programs. We made recommendations to four state agencies—DOA, DHS, DPI, and the Department of Military Affairs—to improve the administration of federal programs. The federal government will work with state agencies to resolve the concerns we identified.

Report 20-4: Wisconsin Lottery FY 2018-19

We provided an unmodified audit opinion on the Wisconsin Lottery's financial statements for FY 2018-19 and FY 2017-18. Lottery ticket sales increased from \$667.4 million in FY 2017-18 to \$713.1 million in FY 2018-19, or by 6.9 percent. Operating expenses increased from \$487.2 million in FY 2017-18 to \$520.8 million in FY 2018-19, or by 6.9 percent. During FY 2018-19, lottery proceeds used for property tax relief totaled \$234.9 million.

Report 20-5: Overpayment of Certain Unemployment Insurance Program Benefits

Department of Workforce Development

In addition to the reported overpayment of Unemployment Insurance program benefits on April 29, 2020, DWD likely overpaid program benefits on April 28. Although DWD provided us information indicating that it recovered \$19.6 million in duplicate payments it made on April 29, it had not attempted to recover all overpayments it likely made on April 28 and April 29. Actions taken by DWD on April 30 may have also resulted in DWD overpaying and underpaying unknown numbers of individuals. We made recommendations to increase the accuracy of program payments.

Report 20-6: Fraud, Waste, and Mismanagement Hotline

January 1, 2020, through June 30, 2020

In this semiannual report, we summarized 62 reports we received through the Bureau's Fraud, Waste, and Mismanagement Hotline from January 1, 2020, through June 30, 2020. We also highlighted findings related to selected reports that we resolved since the publication of our last semiannual report (report 20-1).

Report 20-7: University of Wisconsin System

We conducted a financial audit of UW System and reviewed the status of recommendations we made in prior audits related to financial management of auxiliary operations, affiliated organizations, personnel systems, and IT. We continued to make recommendations related to financial management of auxiliary operations and affiliated organizations. We found UW System Administration and UW-Madison implemented our recommendations related to personnel system policies. UW System Administration partially implemented recommendations we made related to IT policies and procedures.

Report 20-8: Best Practices for Transitioning from Virtual Instruction to In-Person Instruction

Department of Public Instruction

As required by 2019 Wisconsin Act 185, DPI posted on its website guidance for school districts and schools to transition from virtual instruction to in-person instruction. We found that DPI's guidance included almost all of the best practices that we had independently identified, but it did not include two best practices. In addition, DPI's guidance relied on information that the Wisconsin Interscholastic Athletic Association (WIAA) had developed for extracurricular activities, but this information did not address certain types of extracurricular activities not overseen by WIAA. We recommended that DPI update its guidance and make its guidance easier to use.

Report 20-9: Retirement Funds Investment Activity Calendar Year 2019

State of Wisconsin Investment Board

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, 2019. We reported a significant deficiency in internal control over financial reporting related to errors in the reporting of unfunded commitments in the notes to the financial statements. The financial statements and our auditor's opinions are published separately in SWIB's *2019 Retirement Funds Annual Report*, which is found on its website.

Report 20-10: IT Needs Assessment, Procurement, and Security

University of Wisconsin System

Report 20-11: IT Needs Assessment, Procurement, and Security

Department of Administration

Report 20-12: Master Lease Program

Department of Administration

The Board of Regents of UW System is statutorily responsible for overseeing IT projects in UW System. DOA is statutorily responsible for ensuring that executive branch

agencies, other than UW System, make effective and efficient use of IT resources. We found that UW institutions, including UW System Administration, and state agencies, including DOA, did not consistently comply with various statutes, policies, and best practices and we made recommendations for improvements. DOA also administers the master lease program, through which state agencies may fund their purchases of IT systems. We found concerns with DOA's program policies, consideration of applications for master lease funding, program oversight, and statutorily required reporting, and we made recommendations for improvements.

Report 20-13: Unemployment Insurance Call Centers

Department of Workforce Development

Some individuals file initial claims for unemployment benefits through the program's call centers, including one call center operated by DWD and two call centers operated by two entities under contract with DWD. From March 15, 2020, through June 30, 2020, 38.3 million of the 41.1 million total telephone calls (93.3 percent) to the call centers were blocked or received busy signals and, therefore, did not reach the call centers. DWD contractually required one entity to provide at least 500 full-time equivalent staff positions in that entity's call center, which began answering calls on May 20, 2020. However, not until the week of July 19 were that many positions working in that call center.

Report 20-14: Wisconsin Retirement System Calendar Year 2019

Report 20-15: Wisconsin Retirement System Reporting for Participating Employers Calendar Year 2019

Report 20-16: Retiree Life Insurance Programs Calendar Year 2019

Report 20-17: State Retiree Life Insurance Reporting for the State of Wisconsin Calendar Year 2019

Report 20-18: Local Retiree Life Insurance Reporting for Participating Employers Calendar Year 2019

We provided unmodified opinions on the financial statements for the WRS, the State Retiree Life Insurance program, and the Local Retiree Life Insurance program, as of and for the year ended December 31, 2019. The financial statements, and our auditor's reports, are included in separate reports issued by ETF and are available on its website.

We also provided unmodified opinions on the employer schedules prepared by ETF for the WRS, the State Retiree Life Insurance program, and the Local Retiree Life Insurance program. In these schedules, which are available on ETF's website, ETF reports a net pension asset for the WRS and a net OPEB liability for both the State Retiree Life Insurance program and the Local Retiree Life Insurance program. These schedules were prepared to assist participating employers, including the State of Wisconsin, in preparing their financial statements in accordance with GAAP.

Report 20-19: State Retiree Health Insurance Reporting for the State of Wisconsin June 30, 2019

We provided unmodified opinions on the employer schedules prepared by DOA for the State Retiree Health Insurance program as of and for the year ended June 30, 2019. The schedules report an OPEB liability for the program. These schedules were prepared to

assist participating employers, including the State of Wisconsin, in preparing their financial statements in accordance with GAAP.

Report 20-20: Estimate of Additional Sales and Use Tax Revenue and Determination of Certain Individual Income Tax Rates

Wisconsin Department of Revenue

As required by statutes, we reviewed DOR's estimate of additional reported sales and use tax revenue resulting from the U.S. Supreme Court decision on South Dakota v. Wayfair, Inc., and sales and use tax revenue resulting from marketplace providers as required by 2019 Wisconsin Act 10. We also reviewed DOR's determination of certain individual income tax rates beginning for tax year 2020. After performing our review, we found that DOR's estimate and tax rate determination, as rounded to the hundredth decimal place, appeared reasonable.

Report 20-21: State Recycling Programs

Report 20-22: Best Practices for Local Recycling Programs

DNR administers three recycling programs, including two programs for awarding grants to local governments to help cover the costs of administering their recycling programs, and one electronics recycling program for manufacturers. The Department of Agriculture, Trade and Consumer Protection (DATCP) administers the Clean Sweep program. In report 20-21, we provided recommendations for DNR and DATCP to improve the administration of state recycling programs. In report 20-22, we identified 15 best practices that local governments can use to comply with state recycling laws and improve the administration of their recycling programs.

Report 20-23: State of Wisconsin Investment Board

We completed an evaluation of SWIB by analyzing investment performance, assessing expenses, and examining staffing and staff compensation for 2018 and 2019. As of December 2019, SWIB managed \$128.8 billion in assets, 90.5 percent of which were assets of the WRS. We recommended SWIB expand the manner in which it reports investment returns, improve its reporting of carried interest amounts, continue to assess and convert its contracted positions, and improve its overall data management. The Legislature could consider creating a statutory requirement for SWIB related to performing and reporting the results of stress tests of the WRS.

Report 20-24: Supplemental Health Insurance Conversion Credit Program

Calendar Year 2019

Report 20-25: Supplemental Health Insurance Conversion Credit Program Reporting for Participating Employers Calendar Year 2019

We provided an unmodified opinion on the financial statements for the Supplemental Health Insurance Conversion Credit (SHICC) program as of and for the year ended December 31, 2019. The financial statements, and our auditor's report, are included in a separate ETF report, which is available on the ETF website.

We also provided unmodified opinions on the employer schedules prepared by ETF for the SHICC program. In these schedules, which are included in report 20-25, ETF reported a net OPEB asset for the SHICC program. These schedules were prepared to

assist participating employers, including the State of Wisconsin, in preparing their financial statements in accordance with GAAP.

Report 20-26: State Investment Fund FY 2019-20

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, 2020. On a GAAP basis, the net position of the State Investment Fund increased from \$12.9 billion as of June 30, 2019, to \$16.0 billion as of June 30, 2020, or by \$3.1 billion. The increase is largely attributed to funding received by the State of Wisconsin and certain local governments under the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act. The financial statements and our audit opinion are published separately in SWIB's *State Investment Fund Annual Financial Report* for the fiscal year ended June 30, 2020.

Report 20-27: 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 established written procedures that allowed it to award program tax credits for the wages paid to employees who did not perform services in Wisconsin. These procedures also indicated that WEDC will not award program tax credits for the wages paid to employees who performed services in Wisconsin but are the residents of certain other states. In these ways, these procedures did not comply with statutes. We recommended that WEDC modify these procedures to comply with statutes.

Report 20-28: Processing Certain Unemployment Insurance Claims

Department of Workforce Development

As of October 10, 2020, DWD had paid 493,504 of the 662,731 individuals (74.5 percent) who had filed initial claims for regular program benefits since March 15, 2020. DWD paid 53.2 percent of these claims in two calendar weeks or less, but it took more than five weeks to pay 24.7 percent of them. To determine how DWD processed initial claims, we selected a statistically significant random sample of 268 individuals who filed initial claims for regular program benefits from March 15, 2020, through April 11, 2020, but had not been paid them as of June 20, 2020. We found DWD was responsible for 11.0 of the 13.0 weeks it took, on average, to resolve the initial claims of 250 of the 268 individuals.

Report 20-29: University of Wisconsin System

We provided unmodified audit opinions on UW System's FY 2019-20 financial statements, including its aggregate discretely presented component units. As of June 30, 2020, UW System's net position was \$5.4 billion. On a budgetary basis, UW System's total program revenue balance was \$1.2 billion as of June 30, 2020, and included \$773.2 million from unrestricted sources. We recommended that UW System Administration continue development of a comprehensive information security program and develop a structure to monitor for compliance with systemwide policies. We also recommended that UW System Administration work with UW institutions to achieve compliance in a timely manner. The financial statements and our audit

opinions are published separately in UW System's *Annual Financial Report* for the fiscal year ended June 30, 2020, which is available on UW System's website.

Report 20-30: State of Wisconsin FY 2019-20 Financial Statements

We provided unmodified audit opinions on the State of Wisconsin's FY 2019-20 financial statements. These statements are included in the State's CAFR, which is prepared by DOA. We reported material weaknesses in internal control at DWD and ETF. In addition, we reported significant deficiencies related to IT security at DOA and UW System. We made recommendations to these agencies to address the deficiencies we identified. The financial statements and our opinion on them are included in the State of Wisconsin's CAFR for the fiscal year ended June 30, 2020, which is found on DOA's website.

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Appendices

Appendix 1

Recurring Audit Responsibilities

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

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

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

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

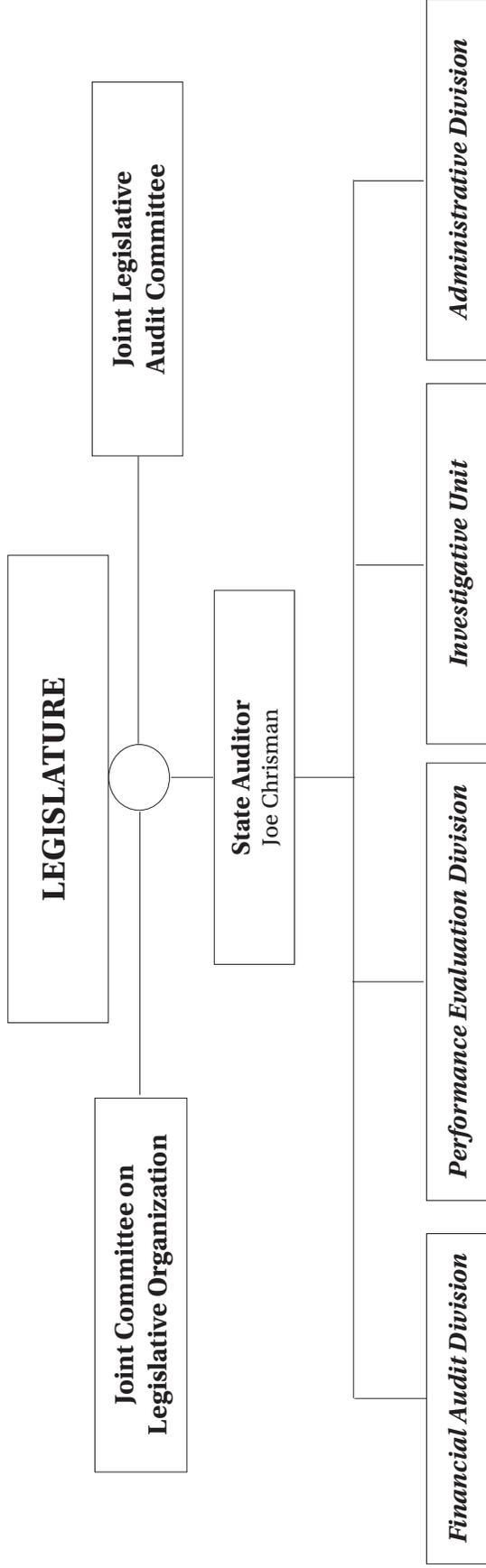
At least once every three years, we are required by statutes to audit the State Life Insurance Fund and the Injured Patients and Families Compensation Fund. In recent years, we have performed these audits every three years and have performed interim work each year for purposes of our annual audit of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

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Wisconsin Legislative Audit Bureau

December 2020



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