



STATE OF WISCONSIN

Legislative Audit Bureau

NONPARTISAN • INDEPENDENT • ACCURATE

Report 24-23
December 2024

State of Wisconsin FY 2023-24 Financial Statements



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State of Wisconsin

FY 2023-24 Financial Statements



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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.

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Appendix

Response

From the Department of Administration

Opinion Published Separately

The financial statements and our opinions on them are included in the State of Wisconsin's Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2024.



STATE OF WISCONSIN

Legislative Audit Bureau

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State Auditor

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December 20, 2024

Senator Eric Wimberger and
Representative Robert Wittke, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Wimberger and Representative Wittke:

We have completed our financial audit of the State of Wisconsin as of and for the fiscal year ended June 30, 2024, and issued unmodified opinions dated December 18, 2024, on the State's financial statements. The financial statements were prepared by the Department of Administration (DOA) in accordance with generally accepted accounting principles (GAAP) prescribed by the Governmental Accounting Standards Board (GASB) and are included in the State's fiscal year (FY) 2023-24 Annual Comprehensive Financial Report (ACFR), which may be found on DOA's website.

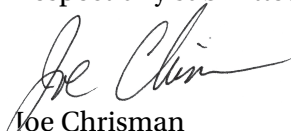
The ACFR helps to describe the State's fiscal condition and contains information on the funds administered by the State. In our report, we discuss the financial condition of the General Fund and Transportation Fund, which are the State's two largest governmental funds; quantify the State's long-term debt; provide information on the financial statements of the Unemployment Reserve Fund and the University of Wisconsin System; report six significant deficiencies in internal control over financial reporting; and provide information on certain other matters we identified during the course of our audit.

We also noted continued noncompliance with Wisconsin Statutes regarding DOA's responsibilities for monitoring state agency compliance with the State of Wisconsin *IT Security Policy Handbook* and related standards, and regarding the recording of interest earnings on Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) advanced to the State.

During our FY 2024-25 audit, we will follow up on the progress of state agencies in implementing our recommendations.

A response from DOA follows the Appendix.

Respectfully submitted,



Joe Chrisman
State Auditor

JC/CS/ss

FY 2023-24 Annual Comprehensive Financial Report

We provided unmodified opinions on the State's financial statements as of and for the year ended June 30, 2024.

The Department of Administration (DOA) prepares the Annual Comprehensive Financial Report (ACFR), which contains the State's financial statements prepared in accordance with generally accepted accounting principles (GAAP) prescribed by the Governmental Accounting Standards Board (GASB). The ACFR helps to describe the State's fiscal condition and contains information on state funds, including the State's General Fund, the Transportation Fund, the Unemployment Reserve Fund, the University of Wisconsin (UW) System, and the Wisconsin Retirement System. In addition to the financial statements and notes, the ACFR includes the Management's Discussion and Analysis, which describes the State's financial performance for the year; information comparing the budgetary balances to the financial statements; and other required supplementary information related to infrastructure and postemployment benefit programs. Finally, the ACFR includes a statistical section, which provides the reader with information to assist in understanding the State's economic condition, such as financial trends and debt capacity. We have completed a financial audit of the State's ACFR and have provided unmodified opinions on the State's financial statements as of and for the year ended June 30, 2024.

General Fund

As reported on a GAAP basis, the General Fund total fund balance decreased from \$6.6 billion as of June 30, 2023, to \$4.5 billion as of June 30, 2024.

On a GAAP basis, the General Fund total fund balance decreased by \$2.1 billion, from \$6.6 billion as of June 30, 2023, to \$4.5 billion as of June 30, 2024, as shown on page 44 of the ACFR. In accordance with standards established by GASB, the General Fund fund balance is classified into five components based on the level of constraints placed on the specific purposes for which the available funds can be spent.

These five components are:

- nonspendable, which are resources that are not in a spendable form such as inventory;
- restricted, which are resources that have constraints placed on them externally by creditors or grantors, laws and regulations of other governments, or by law through constitutional provisions or enabling legislation;
- committed, which are resources that can only be used for specific purposes, pursuant to constraints imposed by passage of state laws;
- assigned, which are resources that state officials have expressed an intent to use the resources for specific purposes; and
- unassigned, which are resources that have not been restricted, committed, or assigned.

The State's rainy day fund had a balance of \$1.9 billion as of June 30, 2024.

As shown in Table 1, the largest component of total fund balance is the committed fund balance of \$1.9 billion and is made up of the balance in the statutory Budget Stabilization Fund, which is also known as the State's rainy day fund. The balance in the Budget Stabilization Fund increased by \$99.2 million in fiscal year (FY) 2023-24, primarily from interest income. DOA did not make a transfer to the Budget Stabilization Fund for FY 2023-24 because the balance in the Budget Stabilization Fund exceeded the maximum balance allowed under Wisconsin Statutes.

Table 1
**General Fund
Fund Balance Components¹**
June 30, 2024
(in millions)

	Balance	Percentage of Total
Nonspendable	\$ 36.2	0.87%
Restricted	792.5	17.7
Committed	1,899.2	42.4
Assigned	377.5	8.4
Unassigned	1,370.4	30.6
Total Fund Balance	\$4,475.8	100.0%

¹ As reported on the General Fund Balance Sheet, June 30, 2024, as shown on page 42 of the ACFR.

The second largest component of total fund balance is the unassigned fund balance, which was \$1.4 billion as of June 30, 2024. The unassigned fund balance represents that, as of June 30, 2024, more resources were available than were spent or obligated in the short term.

Total General Fund revenue decreased by \$258.1 million and totaled \$38.4 billion for FY 2023-24.

In the Management's Discussion and Analysis on page 29, DOA reported that total General Fund revenue decreased by \$258.1 million and totaled \$38.4 billion for FY 2023-24. This decrease was largely attributed to a decrease of \$1.0 billion in federal revenues. The decline in federal revenues was largely the result of the phase out of the temporary increase to the Federal Medical Assistance Percentage (FMAP) that resulted from the public health emergency and spending other federal revenues the State received as a result of the public health emergency. This decrease was partially offset by an increase in tax revenues of \$535.1 million and an increase in investment and interest income of \$161.7 million.

Total General Fund expenditures increased by \$1.5 billion and totaled \$36.0 billion for FY 2023-24.

In the Management's Discussion and Analysis on page 29, DOA reported that total General Fund expenditures increased by \$1.5 billion and totaled \$36.0 billion for FY 2023-24. This increase was attributed to a \$525.0 million payment to the Wisconsin Housing and Economic Development Authority to establish and administer revolving loan programs, as well as to increases in payroll costs for correctional staff, increases in Medical Assistance (MA) Program expenditures and increases in aids to schools. This increase in expenditures was partially offset by decreases in benefits provided under the Supplemental Nutrition Assistance Program.

Transfers out of the General Fund to other funds increased by \$2.3 billion, and totaled \$4.6 billion for FY 2023-24. 2023 Wisconsin Act 19, the 2023-25 Biennial Budget Act, required new one-time transfers from the General Fund in FY 2023-24, including the following:

- \$1.2 billion to the Capital Improvement Fund, which accounts for the proceeds received from general obligation debt and funds acquisition, construction, repair, and maintenance for major capital facilities;
- \$555.5 million to the Transportation Fund, which accounts for the proceeds from motor fuel taxes, vehicle registrations, licensing fees, and federal and local government funds to support efficient and effective transportation; and
- \$18.0 million to the Building Trust Fund, which accounts for repair projects for capital facilities funded primarily by the General Fund and agency transfers.

Transportation Fund

On a GAAP basis, the total fund balance of the Transportation Fund increased from \$1.3 billion as of June 30, 2023, to \$2.0 billion as of June 30, 2024.

On a GAAP basis, the total fund balance of the Transportation Fund increased by \$685.6 million from \$1.3 billion as of June 30, 2023, to \$2.0 billion as of June 30, 2024, as shown on page 44 of the ACFR. The increase in total fund balance is primarily the result of a \$555.5 million one-time transfer from the General Fund under provisions of 2023 Wisconsin Act 19. In the Management's Discussion and Analysis on page 31, DOA reported that the majority of the Transportation Fund's balance (97.5 percent) was restricted by the Wisconsin Constitution to be used for transportation purposes. Primary revenue sources in the Transportation Fund include motor fuel taxes, federal revenues, and registration fees. In the Management's Discussion and Analysis on page 31, DOA reported that total revenues decreased by \$139.6 million to a total of \$3.3 billion primarily as a result of decreases in federal revenues. In addition, Transportation Fund expenditures decreased by \$222.5 million to a total of \$3.1 billion in FY 2023-24.

Long-Term Debt

The State's long-term debt decreased from \$12.3 billion as of June 30, 2023, to \$11.6 billion as of June 30, 2024.

On a GAAP basis, the State's long-term debt decreased by \$755.4 million from \$12.3 billion as of June 30, 2023, to \$11.6 billion as of June 30, 2024, as shown in the Management's Discussion and Analysis on page 34. The State repaid long-term debt in excess of new debt issuances during FY 2023-24, which resulted in the decrease in overall debt. As shown in the Management's Discussion and Analysis on page 34, \$1.1 billion in new general obligation bonds and notes were issued during FY 2023-24. This amount includes \$304.3 million for UW System academic facilities and \$203.0 million for transportation projects. The amount of outstanding annual appropriation bonds as of June 30, 2024, was \$2.2 billion, and the amount of outstanding revenue bonds as of June 30, 2024, was \$2.3 billion.

Unemployment Reserve Fund

The Unemployment Reserve Fund's net position increased from \$1.7 billion as of June 30, 2023, to \$1.9 billion as of June 30, 2024.

Wisconsin's Unemployment Insurance program is accounted for in the State's ACFR in the Unemployment Reserve Fund, which is administered by the Department of Workforce Development (DWD). The Unemployment Reserve Fund collects contributions made by employers that accumulate to make payments to certain employees who have lost their jobs. As shown on page 50 of the ACFR, the Unemployment Reserve Fund's net position increased from \$1.7 billion as of June 30, 2023, to \$1.9 billion as of June 30, 2024, or by \$257.5 million.

In the Management's Discussion and Analysis on page 32, DOA reported unemployment benefit payments increased from \$294.4 million for FY 2022-23 to \$350.1 million for FY 2023-24. DOA attributes this increase to an increase in the average unemployment rate from 2.8 percent during FY 2022-23 to 3.1 percent during FY 2023-24.

University of Wisconsin System

UW System's net position increased from \$6.4 billion as of June 30, 2023, to \$6.7 billion as of June 30, 2024, or by \$347.2 million.

As required by s. 13.94 (1) (t), Wis. Stats., we performed a financial audit of UW System, which rebranded itself as the Universities of Wisconsin, for the year ended June 30, 2024 (report 24-22). UW System's financial statements are also presented in the State's ACFR. As shown on page 50 of the ACFR, UW System's net position increased from \$6.4 billion as of June 30, 2023, to \$6.7 billion as of June 30, 2024, or by \$347.2 million.

In Management's Discussion and Analysis on page 32, DOA reported operating revenues increased \$334.4 million to a total of \$4.5 billion. This increase was largely attributed to an increase in federal revenues of \$126.7 million and an increase in student tuition and fees of \$68.8 million in FY 2023-24. DOA reported UW System's operating expenses increased \$221.7 million and totaled \$6.5 billion in FY 2023-24. Personnel costs were the largest component of UW System's operating expenses and totaled \$4.2 billion. As shown in the Management's Discussion and Analysis on page 32, DOA also reported \$1.1 billion in a general purpose revenue supplement from the General Fund during FY 2023-24.

Findings Related to Internal Control over Financial Reporting

We identified six significant deficiencies in internal control over financial reporting.

We identified six internal control deficiencies during our audit that are required to be reported under *Government Auditing Standards*. Specifically, we identified five significant deficiencies in internal control at DOA and one significant deficiency in internal control at the Department of Transportation (DOT). 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. In comparison, a material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the State's basic financial statements will not be prevented or will not be detected and corrected on a timely basis. We did not report any material weaknesses. The Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which begins on page 21, discusses each concern and includes the response from management of the responsible agency. The corrective action plans from agency management begin on page 42.

Department of Administration

We report significant deficiencies in DOA's IT security related to insufficient reviews of access and insufficient IT policy exception procedures.

Wisconsin Statutes assign DOA responsibility for the State's information technology (IT) services. Under s. 16.971 (2), Wis. Stats., DOA is required to work with executive branch agencies to establish IT policies, procedures, and planning processes. In addition, DOA is required to monitor adherence to these policies, procedures, and processes. We first made recommendations to DOA regarding the establishment of IT policies during our FY 2014-15 audit, nine years ago. In subsequent audits, we have recommended that DOA take steps to identify, assess, and address risks for the State's IT environment. Although DOA took some steps by June 30, 2024, to address our prior findings, we continued to identify significant deficiencies in DOA's IT security over the operations of the State's data center, including insufficient reviews of access (Finding 2024-001) and insufficient IT policy exception procedures (Finding 2024-002). We recommend DOA take steps to address the deficiencies with access reviews and insufficient IT policy exception procedures.

DOA continued to be in noncompliance with Wisconsin Statutes that require it to provide oversight and monitoring of executive branch agency IT operations.

In addition, during FY 2023-24, DOA continued to be in noncompliance with s. 16.971 (2), Wis. Stats., which requires DOA to provide oversight and monitoring of executive branch agency IT operations and adherence to the State of Wisconsin *IT Security Policy Handbook* and related standards (Finding 2024-003). For a second year, DOA completed an analysis of self-reported information by executive branch agencies to determine if agencies had approved written policies, standards, and procedures that aligned to the State of Wisconsin *IT Security Policy Handbook* and related standards. However, for a second year DOA did not take sufficient steps to assess the accuracy of the agency-reported information. In June 2024, DOA developed and communicated a plan to monitor executive branch agency adherence to the Wisconsin *IT Security Policy Handbook* and related standards. This plan outlines monitoring steps and the process for collecting information to support agency-reported information, which DOA is expected to begin collecting in FY 2024-25.

We recommend DOA report quarterly in 2025 to the Joint Legislative Audit Committee on the status of its efforts to provide oversight and monitoring of State agency IT operations in compliance with statutes.

Given the connections among agencies in the State's network, IT weaknesses at one agency can affect IT security for other agencies. Therefore, it is important that DOA perform sufficient monitoring of executive branch agency adherence to the State of Wisconsin *IT Security Policy Handbook* and related standards. Because these audit concerns have not been fully resolved, there continues to be an increased risk that the State's IT systems are not being properly controlled. Given that these overall concerns have continued for several years, DOA should take proactive corrective actions to implement the recommendations we made to provide oversight and monitoring of State agency IT operations in compliance with statutes and report quarterly in 2025 to the Joint Legislative Audit Committee on the status of its efforts to do so.

☑ Recommendation

We recommend the Wisconsin Department of Administration report to the Joint Legislative Audit Committee by March 31, 2025; June 30, 2025; September 30, 2025; and December 30, 2025, on the status of its efforts to monitor agency compliance with the State of Wisconsin IT Security Policy Handbook and related standards.

We report a significant deficiency in internal control over financial reporting at DOA related to bank reconciliation procedures.

We also identified an internal control deficiency related to DOA's bank reconciliation processes (Finding 2024-004). We found that DOA did not complete sufficient bank reconciliation procedures to identify in a timely manner that an automated process used to record bank deposits in the accounting records in STAR duplicated recording certain deposits and missed recording other deposits. Through November 13, 2024, DOA identified that cash in STAR had been overstated by \$81.9 million for certain funds. We recommend DOA improve its bank reconciliation procedures and resolve the overstatements in cash in the accounting records and in financial and other reporting.

We report a significant deficiency in internal control over financial reporting at DOA related to the reporting of interest earned on advanced CSLFRF funding.

Finally, we identified a significant deficiency related to DOA's reporting of interest earned on advanced federal funding. DOA did not correctly report the interest earnings on federal funding advanced to the State under the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) grant program. After we identified the error, DOA adjusted the financial statements to reflect the interest earnings as earned revenue, but in doing so misstated both unassigned and restricted fund balance. We recommend DOA correct the reporting of the interest earnings as unassigned fund balance and review its existing procedures for financial reporting to ensure amounts are properly classified in fund balance (Finding 2024-006). DOA disagreed with the finding that DOA did not adjust the financial information it provided to the State Controller's Office to correctly report the interest earnings on CSLFRF funding advanced to the State. Accordingly, DOA does not agree with the recommendations and does not intend to make an adjustment to change the presentation of the General Fund fund balance as of June 30, 2024. DOA's corrective action plan, and our rebuttal, can be found beginning on page 51.

Department of Transportation

We report a significant deficiency in internal control over financial reporting at DOT.

We identified an internal control deficiency related to financial reporting for the Transportation Fund at DOT (Finding 2024-005). We found that DOT staff did not use complete data to prepare adjusting journal entries related to infrastructure projects. We also found that DOT staff incorrectly accrued mass transit operating assistance payments in the Transportation Fund, although these payments were paid out of the State's General Fund. We recommend that DOT update its infrastructure analysis procedures to ensure that data used in its analysis of infrastructure projects is complete, and update its procedures for preparing adjusting journal entries for accruing mass transit operating assistance payments.

Federal Funding for the Public Health Emergency

Federal legislation to address the public health emergency provided additional federal funding to Wisconsin.

In March 2020, the federal government and the State declared a public health emergency in response to COVID-19. In response to the public health emergency, the federal government enacted several pieces of legislation, including the American Rescue Plan Act (ARPA) of 2021. Under these federal laws, the State received additional federal funding for certain existing programs, including the MA Program, as well as funding under new programs, including the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF). 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 2023-24 and anticipate its issuance in spring 2025.

Although the public health emergency expired on May 11, 2023, which was prior to the beginning of FY 2023-24, state agencies continued to spend federal funding provided to address the public health emergency, and this funding affected financial reporting in FY 2023-24. As part of our audit of the State's ACFR, we reviewed and summarized information regarding the CSLFRF and the MA Program.

Coronavirus State and Local Fiscal Recovery Funds

The State was advanced a total of \$3.0 billion in funding under the CSLFRF during FY 2020-21 and FY 2021-22.

ARPA created the CSLFRF to distribute money directly to state, local, tribal, and territorial governments. The State was advanced \$1.5 billion in May 2021, including \$205.8 million to be distributed to local governments; \$1.3 billion in May 2022; and \$205.8 million in June 2022 to be distributed to local governments. The CSLFRF funding included certain stipulations, including that the funds must be used to:

- respond to the public health emergency or its negative economic impacts;
- respond to the needs of workers performing essential work during the public health emergency;
- provide government services to the extent revenue losses due to the public health emergency reduced revenues; and
- make necessary investments in water, sewer, or broadband infrastructure.

In December 2022, the Consolidated Appropriations Act, 2023, expanded the existing eligible uses of CSLFRF funding to allow funding to be used to:

- provide emergency relief from natural disasters or the negative economic impacts of natural disasters;
- invest in community development in line with the U.S. Department of Housing and Urban Development (HUD) community development block grant; and
- invest in surface transportation infrastructure in line with certain U.S. Department of Transportation (U.S. DOT) programs.

Further, federal regulations stipulate that eligible expenditures must be “incurred” between March 3, 2021, and December 31, 2024, and be expended by September 30, 2026, for the investments in HUD and U.S. DOT programs, and through December 31, 2026, for all other eligible uses.

In November 2023, an interim final rule from the U.S. Department of the Treasury (U.S. Treasury) was published to amend the definition of obligation with respect to the CSLFRF program. The new interim final rule did not change requirements related to “obligation” periods. However, the new interim final rule provided that an obligation exists as of December 31, 2024, for requirements under federal law or regulation that a recipient is subject to as a result of receiving or expending CSLFRF funding. For example, the U.S. Treasury interim final rule allows the State to use CSLFRF funds to pay for its costs to prepare quarterly reporting to the U.S. Treasury and to meet other federal requirements with respect to administration of the funding.

***During FY 2023-24,
\$533.7 million in
expenditures at 20 state
entities was incurred
and paid by the CSLFRF.***

As shown in Table 2, DOA reported that \$533.7 million in expenditures at 20 state entities was incurred and paid by the CSLFRF during FY 2023-24. The majority of the CSLFRF activity was recorded in the General Fund. According to amounts reported by DOA in the State’s accounting system, the largest total expenditures were incurred by DOA, DWD, Department of Children and Families (DCF), and Department of Health Services (DHS).

Table 2

**Expenditures Incurred and Paid by the
Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)¹**
FY 2023-24

	Expenditures	Percentage of Total
Department of Administration	\$ 259,123,469	48.6%
Department of Workforce Development	84,488,860	15.8
Department of Children and Families	51,140,284	9.6
Department of Health Services	49,035,866	9.2
Public Service Commission	28,611,746	5.4
Department of Justice	14,517,047	2.7
Department of Agriculture, Trade and Consumer Protection	13,856,387	2.6
Department of Natural Resources	5,467,080	1.0
State Public Defender	5,390,463	1.0
Department of Veterans Affairs	4,445,060	0.8
Department of Safety and Professional Services	4,381,873	0.8
Other Agencies ²	13,194,565	2.5
Total	\$533,652,701	100.0%

¹ As reported by DOA in the State's accounting system for the fiscal year ended June 30, 2024.

² Includes nine other state entities that had expenditures between \$336,443 and \$3.6 million.

***In FY 2023-24, DOA
expended \$259.1 million
in CSLFRF funds.***

DOA expended a total of \$259.1 million in CSLFRF funds in FY 2023-24 to administer a number of grant programs to assist local governments, and businesses negatively affected by the public health emergency. DOA provided:

- \$82.3 million in grants to 27 local and tribal governments under the Neighborhood Investment Fund program to help neighborhoods disproportionately affected by the public health emergency to recover from its negative effects;
- \$44.1 million in grants to 15 local and tribal governments and nonprofit organizations to invest in capital projects to support access to health care for low income, uninsured, and underserved communities;
- \$24.2 million in funding for seven community development projects, including Northridge Mall demolition and redevelopment in the City of Milwaukee;

- \$21.1 million in grants to 34 chamber of commerce and nonprofit organizations to assist small businesses owned by individuals that have experienced barriers to capital and have been disproportionately impacted by the public health emergency;
- \$20.0 million to Milwaukee County for the construction of a forensic science and protective medicine facility; and
- \$14.9 million allocated to tribal and local law enforcement organizations, and UW System campuses law enforcement to hire, train, and equip local law enforcement, and for updating technologies.

In FY 2023-24, DWD reported \$84.5 million in expenditures funded by the CSLFRF.

According to DOA’s records in the State’s accounting system, DWD reported \$84.5 million in expenditures funded by the CSLFRF, including:

- \$45.2 million under the Workforce Innovation Program, which provided funding designed to allow local and tribal governments and nonprofit organizations to develop solutions to workforce challenges;
- \$18.7 million for the project to modernize the State’s Unemployment Insurance IT systems; and
- \$7.1 million for the Worker Advancement Program, which provides funds to local workforce development boards to provide subsidized employment and skill training for those whose employment was affected by the public health emergency.

In FY 2023-24, DCF reported \$51.1 million in expenditures funded by the CSLFRF.

According to DOA’s records in the State’s accounting system, DCF reported \$51.1 million in expenditures funded by the CSLFRF. This included \$36.2 million under the Child Care Counts program to provide funding to assist child care centers in increasing access and funding for workforce recruitment and retention.

In FY 2023-24, DHS reported \$49.0 million in expenditures funded by the CSLFRF.

According to DOA’s records in the State’s accounting system, DHS reported \$49.0 million in expenditures funded by the CSLFRF. This included \$15.1 million to assist local governments with response and recovery, \$8.9 million for telehealth services, and \$7.8 million for DHS’ COVID response operations.

As of June 30, 2024, \$843.2 million in CSLFRF funds remained to be expended.

The \$843.2 million in remaining CSLFRF funds is reflected in Cash and Cash Equivalents and Unearned Revenue in the General Fund Balance Sheet as of June 30, 2024. As of December 6, 2024, and according to DOA’s records in the State’s accounting system, an additional

\$79.2 million in expenditures was funded by the CSLFRF. This leaves a remaining balance of \$764.0 million as of December 6, 2024.

Medical Assistance Program

From July 1, 2023 through December 31, 2023, the State received \$86.1 million in additional funds for the MA Program as a result of an increase in Wisconsin's FMAP.

The FMAP is the percentage of MA Program expenditures the federal government will fund for the State. In March 2020, the federal Families First Coronavirus Response Act provided a temporary 6.2 percent increase in Wisconsin's FMAP for benefit payments. The Consolidated Appropriations Act, 2023, which was enacted in December 2022, provided that the temporary increase would be phased out during the period from March 2023 through December 2023. For the period July 1, 2023, through September 30, 2023, the temporary increase to Wisconsin's FMAP was reduced to 2.5 percent and for the period October 1, 2023, through December 31, 2023, the temporary increase was further reduced to 1.5 percent. From July 1, 2023, through December 31, 2023, the State received \$86.1 million in additional funding as a result of the increased FMAP.

From FY 2021-22 through FY 2023-24, DHS received an additional \$405.1 million in federal funds under the MA Program, as allowed under ARPA.

From FY 2021-22 through the end of FY 2023-24, DHS claimed and received an additional \$405.1 million in federal funds, under the MA Program, as allowed by Section 9817 of ARPA. These claims were calculated based upon an increase in the FMAP by 10.0 percent for certain home and community-based services provided to participants during the period April 1, 2021, through March 31, 2022. Federal regulations require that the funds derived from the increased FMAP be reinvested in the MA Program and be used to implement or supplement home and community-based services to participants. As reported in the General Fund financial statements, DHS reinvested \$196.3 million through June 30, 2024, and reinvestment of the remaining \$208.8 million will need to occur prior to June 30, 2025. At that time, any unexpended balance is required to be returned to the federal government. Because of the reinvestment requirement, the receipt of these funds does not result in general purpose revenue savings.

As of September 2024, DHS reported to the Joint Committee on Finance that it projected a \$29.4 million surplus in the Medical Assistance budget for the 2023-25 biennium.

Other Matters of Interest

During our audit work, we identified certain other matters of interest related to the State's FY 2023-24 activities. These matters include interest earnings on advanced CSLFRF funds, opioid settlement funds, the Unemployment interest and penalty account, fringe benefit variance accounts, and the annual appropriation certifications. We will follow up on the status of these matters, as appropriate, during our FY 2024-25 audit.

CSLFRF Interest Earnings

As of June 30, 2024, the State has reported \$135.4 million in interest earnings on the CSLFRF funding advanced to the State.

As noted, the State was advanced a total of \$3.0 billion in CSLFRF funds. Because funding was advanced to the State, it remains invested in the State Investment Fund, the State's short-term pool to invest excess cash balances, until such time as it is needed for expenditure. Through June 30, 2024, the State earned \$135.4 million in interest earnings. In FY 2024-25 and through November 30, 2024, the State earned an additional \$20.0 million in interest earnings for a total of \$155.4 million in interest earnings since the CSLFRF funding was advanced to the State.

According to U.S. Treasury guidance, the interest earned on CSLFRF funding is not subject to federal regulations regarding cash management and is not subject to any program restrictions. The U.S. Treasury's Office of the Inspector General staff indicated that the interest earnings may be expended on CSLFRF activities, non-CSLFRF activities, or both.

Under s. 20.906 (1), Wis. Stats., all moneys paid into the treasury are to be credited to the general purpose revenues of the General Fund unless otherwise specifically provided by law.

Under s. 20.906 (1), Wis. Stats., all moneys paid into the treasury are to be credited to the general purpose revenues of the General Fund unless otherwise specifically provided by law. Under s. 20.001 (2) (a), Wis. Stats., general purpose revenues consist of general taxes, miscellaneous receipts, and revenue collected by state agencies that are paid into a specific fund, lose their identity, and are then available for appropriation by the Legislature. DOA recorded the interest earnings in DOA's federal aid program revenue appropriation established under s. 20.505 (1) (mb), Wis. Stats. This appropriation was established to record all moneys received from the federal government to carry out the purposes for which the moneys were received. However, the interest earnings on the CSLFRF funding were not received from the federal government, and there are no program restrictions on its use. Therefore, these receipts should be reported as general purpose revenues in compliance with s. 20.906 (1), Wis. Stats.

During our FY 2022-23 audit, we reported that DOA had recorded the interest earnings in its federal aid program revenue appropriation, and we recommended DOA record the interest earnings as general purpose revenue subject to appropriation.

During our FY 2022-23 audit (report 23-26), we reported that DOA had recorded interest earnings on CSLFRF funds in its federal aid program revenue appropriation, and we recommended DOA record the interest earnings on the CSLFRF funding as general purpose revenues subject to future appropriation. In addition, we recommended DOA review how it records interest earnings for other federal programs with advanced funding and record the interest earnings as general purpose revenues subject to appropriation when there are no federal cash management requirements or program restrictions on the funding; document procedures for evaluating interest earnings on advanced federal funding to ensure it is recorded in compliance with s. 20.906 (1), Wis. Stats.; and work with the State Controller's Office to update the *Wisconsin Accounting Manual* to provide guidance regarding how to record interest earnings on federal grant programs.

DOA disagreed with our recommendation in report 23-26 and did not record the interest earnings as general purpose revenue subject to appropriation.

DOA disagreed with the finding concerning the recording of the interest earnings. In December 2023, DOA indicated that it had requested that the U.S. Treasury provide further guidance regarding this issue and would reevaluate its position upon receiving that guidance. During audit fieldwork in December 2024, DOA indicated that it did not receive a response from the U.S. Treasury to DOA's inquiry and it is no longer seeking guidance from the U.S. Treasury.

In November 2024, DOA also indicated that it evaluated how it records interest earnings for other federal programs with advanced funding; documented its procedures for evaluating interest earnings on advanced federal funding; and worked with the State Controller's Office to update guidance in the *Wisconsin Accounting Manual* regarding how to record interest earnings on federal grant programs.

As of June 30, 2024, DOA had not recorded interest earnings on the CSLFRF funding as general purpose revenues as required by s. 20.906 (1), Wis. Stats. and these funds remained in DOA's federal aid program revenue appropriation.

☑ Recommendation

We again recommend the Wisconsin Department of Administration:

- *record the interest earnings on CSLFRF funding as general purpose revenues subject to future appropriation; and*
- *continue to work with the State Controller's Office to complete the updates to the Wisconsin Accounting Manual to provide guidance regarding how to record interest earnings on federal grant programs.*

DOA disagreed with the finding that interest earnings on CSLFRF funding have not been recorded in compliance with state statutes and, accordingly, with the recommendation that it record the interest earnings on the CSLFRF funding as general purpose revenues earned. In DOA's corrective action plan, DOA references its January 23, 2024 letter to the Joint Legislative Audit Committee. DOA's corrective action plan, the January 23, 2024 letter, and our rebuttal can be found in the Appendix.

DOA agreed with the recommendation to continue its work with the State Controller's Office to update the *Wisconsin Accounting Manual* to provide guidance regarding how to record interest earnings on federal grant programs.

Opioid Settlements

In an effort to recoup state and local funds that have been used in combating the national opioid epidemic, there have been nationwide lawsuits against manufacturers, distributors, and other relevant

corporations for their role in the epidemic. Wisconsin is one of many states that took part in these lawsuits.

***Wisconsin has signed
11 opioid settlement
agreements.***

As of June 30, 2024, Wisconsin has signed 11 settlement agreements related to the national opioid lawsuits. Additional settlement agreements may be finalized in future years. In exchange for the settlement funds, Wisconsin has released these companies from further litigation. In accordance with 2021 Wisconsin Act 57, DHS will be paid 30.0 percent of all opioid settlement funds awarded to Wisconsin and the remaining 70.0 percent will be paid to the local governments in Wisconsin that participated in the litigation.

***During FY 2023-24, DHS
received \$41.7 million from
opioid settlement agreements
and expended \$9.6 million.***

During FY 2023-24, DHS received \$41.7 million from these opioid settlement agreements and expended \$9.6 million of these funds. Although each settlement agreement has its own timeline, these payments generally occur on an annual basis over many years. DHS recorded a receivable of \$173.5 million for expected future payments from the settled cases.

As of June 30, 2024, a total of \$83.1 million has been received and \$12.4 million has been expended by DHS. The amounts received from the settlement agreements are restricted for use on programs that will provide support across the continuum of prevention, harm reduction, treatment, and recovery. In accordance with 2021 Wisconsin Act 57, DHS annually submits a proposed plan to the Joint Finance Committee for the expenditure of the funds received under the settlement agreements. For FY 2024-25, DHS's plan includes programs for the expenditure of \$36.0 million in settlement revenues. This plan was submitted in April 2024, and a final plan was approved after modifications by the Joint Finance Committee in May 2024.

Unemployment Interest and Penalty Account

***There is a deficit balance
of \$42.4 million in the
Unemployment interest
and penalty account in
the General Fund as of
June 30, 2024.***

During FY 2021-22, the Unemployment Reserve Fund received reimbursement totaling \$69.8 million from the interest and penalty account in the General Fund, which is a program revenue appropriation established under s. 20.445 (1) (gd), Wis. Stats. As allowed under 2019 Wisconsin Act 185, this amount was received for a portion of benefit payments made during the public health emergency to former employees of reimbursable employers, which are employers such as the State of Wisconsin that reimburse benefits paid by the Unemployment Reserve Fund for its former employees. As of June 30, 2024, the interest and penalty account in the General Fund was in a deficit, or overdraft, position of \$42.4 million. In a plan submitted to DOA, DWD reported that, based upon a review of the annual historical net revenues received into this account, it will take approximately 14 years before the overdraft will be eliminated.

Fringe Benefit Variance Accounts

In processing payroll, DOA is responsible for deducting amounts from employee's paychecks for health insurance benefits. The Department

of Employee Trust Funds (ETF) bills DOA for these amounts and for the employer share of health insurance premiums. When certain changes in benefits occur, such as a new hire, a termination, or a change in benefit type, there can be a timing difference between the amount deducted from an employee's paycheck and the employer's share of those benefits, and what ETF bills the agency for these amounts. In these cases, DOA pays the amount billed by ETF and charges the fringe benefit variance account for the amount billed for the employee.

DOA is responsible for reviewing the balance in variance accounts and working with state agencies to research and resolve the variances. Although it would not be unexpected to have a balance in the health insurance fringe benefit variance account, the balance would be expected to be resolved in a timely manner. However, as we first reported in our FY 2020-21 audit (report 21-23), balances in the health insurance fringe benefit variance account had been steadily increasing since 2016, when the State implemented STAR HCM, which is the State's payroll system.

The balance in the health insurance fringe benefit variance account decreased from \$21.2 million as of June 30, 2023, to \$10.6 million as of June 30, 2024.

We reported in our FY 2022-23 audit (report 23-26) that the balances in the health insurance fringe benefit variance account had decreased to \$21.2 million as of June 30, 2023. We noted that the balance in the health insurance fringe benefit variance account decreased to a balance of \$10.6 million as of June 30, 2024. DOA indicated that there are ongoing efforts to resolve the variance. The current timeline for resolution is at the end of FY 2024-25 when a new system to administer benefits is implemented by ETF. It is important that DOA address the variance as it will become increasingly more difficult to resolve over time. We note that a similar fringe benefit variance account exists for life insurance, which had a balance of \$2.5 million as of June 30, 2024.

Annual Appropriation Certifications

All appropriation balances were certified for FY 2023-24.

Statutes provide DOA with the authority for maintaining the accounting records for the State. Under s. 16.52 (5) (b), Wis. Stats., state agencies are required to completely reconcile their records by a date specified by DOA and certify the results to DOA. The annual appropriation certification process is the basis by which closure of the accounting records in STAR occurs. Once closed, financial reporting in the Annual Fiscal Report (AFR) and the State's ACFR occurs. During our FY 2022-23 audit, we identified that three agency appropriations were not certified for FY 2022-23 as a result of issues with the appropriations that were not resolved by the appropriation certification deadline. We recommended DOA comply with Wisconsin Statutes and enforce its own policies by working with agencies in a timely manner to resolve issues with appropriations. During our FY 2023-24 audit, we found that all appropriations were certified.

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Auditor's Report



Legislative Audit Bureau

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AskLAB@legis.wisconsin.gov**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters**

Honorable Members of the Legislature

The Honorable Tony Evers, Governor

We have audited the financial statements and the related notes of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Wisconsin, which collectively comprise the State's basic financial statements, as of and for the year ended June 30, 2024, and have issued our report thereon dated December 18, 2024.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States. The basic financial statements and related auditor's opinions have been included in the State of Wisconsin's Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2024.

Our report includes a reference to other auditors who audited the financial statements of the Environmental Improvement Fund, the Deferred Compensation Fund, the Wisconsin Housing and Economic Development Authority, the University of Wisconsin (UW) Hospitals and Clinics Authority, and the UW Foundation, as described in our report on the State of Wisconsin's basic financial statements. The financial statements of the Environmental Improvement Fund and the Wisconsin Housing and Economic Development Authority were audited in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that were reported on separately by those auditors. Although the financial statements of the Deferred Compensation Fund, the UW Hospitals and Clinics Authority, and the UW Foundation were audited in accordance with auditing standards generally accepted in the United States of America, they were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance and other matters associated with the Deferred Compensation Fund, the UW Hospitals and Clinics Authority, or the UW Foundation.

Report on Internal Control over Financial Reporting

Management of the State of Wisconsin is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the State's internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Wisconsin's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Wisconsin's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent misstatements or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the State's basic 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Findings and Responses Schedule as Findings 2024-001 through 2024-006 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

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

Responses to Findings

Government Auditing Standards require the auditor to perform limited procedures on the agency-specific written response to the findings identified in the audit and described in the accompanying Findings and Responses Schedule. The corrective action plans begin on page 42. The responses and corrective action plans were not subjected to other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

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

LEGISLATIVE AUDIT BUREAU



December 18, 2024

FINDINGS AND RESPONSES SCHEDULE

This schedule includes six deficiencies in internal control over financial reporting that we consider to be significant deficiencies. These deficiencies in internal control over financial reporting are required to be reported by auditing standards generally accepted in the United States of America and *Government Auditing Standards*. Repeat findings from report 23-26 are indicated with an asterisk (*).

Finding 2024-001: Department of Administration/Division of Enterprise Technology Information Security Access Review Process*

Background:

Under s. 16.971 (2), Wis. Stats., the Department of Administration (DOA) is responsible for the State's information technology (IT) services, including ensuring that all state data-processing facilities develop proper privacy and security procedures and safeguards. As a part of DOA, the Division of Enterprise Technology (DET) operates data centers to provide a variety of services to state agencies, including managing the mainframe for all executive branch agencies, managing servers for DOA and other executive branch agencies, and maintaining DOA-related systems. DET also performs programming and security functions, including maintaining the infrastructure for STAR, which is the State's enterprise resource planning system that includes accounting, payroll, and purchasing systems used by most state agencies.

We have reported concerns related to access reviews of DET accounts since our fiscal year (FY) 2015-16 audit and have made recommendations to DET to review and update access and retain documentation of such reviews. In FY 2021-22, we reported a significant deficiency in internal control over financial reporting related to lack of access reviews and recommended that DET develop and complete a process to perform access reviews in accordance with the State of Wisconsin *IT Security Policy Handbook* by June 30, 2023 (report 22-26). DET agreed with our recommendation and timeline for implementing corrective action, including completing access reviews by June 30, 2023. In FY 2022-23, we again reported a significant deficiency in internal control over financial reporting and recommended that DET complete access reviews by June 30, 2024 (report 23-26). DET agreed with our recommendations and timeline for implementing corrective action, including completing access reviews by June 30, 2024.

Criteria:

The Wisconsin Access Control Standard states that the privileges assigned to roles or classes of users must be reviewed to validate the need for such privileges. Further, the DOA Access Review Process states that individual accounts are required to be reviewed at least annually and at least semiannually for all other accounts, such as privileged accounts. The review determines whether the account is still required and access remains appropriate.

An effective access review process contains the following key elements:

- identification of all user accounts, both standard and privileged, that should be reviewed;
- a timeline to review identified user accounts within appropriate time frames;

- approval of each user account's access by staff at an appropriate level within the entity who understand the user's access requirements; and
- a process to validate that access changes resulting from the review were completed.

In addition, it is important that access review documentation is maintained and that responsibilities for the access review process are communicated to the appropriate entity staff.

Condition:

During FY 2023-24, DET defined the requirements needed for a tool to perform access reviews for active directory accounts in accordance with the State of Wisconsin *IT Security Policy Handbook*. After the requirements were defined, DET identified an existing tool that could assist with the access review of active directory accounts. Although DET completed one access review of DOA active directory privileged accounts in June 2024, the DOA Access Review Process requires privileged accounts to be reviewed at least semiannually. During FY 2023-24, DET did not complete any access reviews for DOA non-privileged active directory accounts nor did DET do so for any agency privileged or non-privileged accounts it manages.

For mainframe accounts, DET completed one semiannual access review for privileged accounts in October 2023. However, DET did not complete a second access review during FY 2023-24. Although DET indicated an access review for the non-privileged mainframe accounts was completed in February 2024, DET did not provide us with evidence of this review until after completion of our fieldwork.

Finally, DET has not completed access reviews in some areas, such as local accounts, since we first made a recommendation to do so as part of our FY 2015-16 audit.

Context:

We reviewed the State of Wisconsin *IT Security Policy Handbook* and related standards, and we made inquiries of senior DET management to gain an understanding of the process for reviewing access and to assess progress DET made in addressing our FY 2022-23 recommendations.

As noted, the areas of insufficient access reviews are pervasive across several types of accounts. Because DET hosts and supports a significant number of executive branch agency systems at its data centers, users with inappropriate access have the ability to affect the computing resources and data of all state agencies with resources connected to the DET network.

Questioned Costs:

None.

Effect:

Access reviews are important to ensure access remains appropriate based on user responsibilities and the principle of least privilege. During our FY 2023-24 audit, we found that an intern was inappropriately granted privileged access for one system for which access reviews were not completed by DET.

Cause:

For active directory accounts, DET staff indicated that the time needed to develop and produce valid access reports delayed completion of access reviews for privileged and non-privileged accounts.

For mainframe accounts, DET staff indicated that there was not sufficient staff to produce access review reports for privileged accounts. Further, DET did not have an effective process to manage access reviews for non-privileged accounts, including a process to escalate when supervisors did not complete the reviews in a timely manner.

For all other types of accounts, such as local accounts, DET determined clarification was needed in the access review process published in May 2024, such as clarification of roles and responsibilities. DET staff indicated that some DOA application owners were not aware of their responsibility to perform an access review for their application.

☑ Recommendation

We recommend the Department of Administration, Division of Enterprise Technology:

- *complete access reviews for DOA and DOA-managed active directory accounts by December 30, 2024, in accordance with DOA procedures, including updating access based on the review and retaining documentation of the review and the updates made to access;*
- *complete access reviews for mainframe accounts by June 30, 2025, in accordance with DOA procedures, including updating access based on the review and retaining documentation of the review and the updates made to access;*
- *establish a detailed plan by December 30, 2024, on how it will complete access reviews for all other types of accounts in accordance with DOA procedures, including updating access based on the review and retaining documentation of the review and the updates made to access; and*
- *update existing access review procedures by December 30, 2024, to include a process for managing the intake of access reviews and an escalation process.*

Type of Finding: Significant Deficiency

Response from the Wisconsin Department of Administration, Division of Enterprise Technology:

The Wisconsin Department of Administration agrees with the audit finding and recommendations. However, DOA indicated that it would require additional time to establish a detailed plan on how it will complete access reviews for other types of accounts. DOA's timeline is included in its corrective action plan.

Finding 2024-002: Department of Administration/Division of Enterprise Technology Information Security Policy Exception Process*

Background:

Under s. 16.971 (2), Wis. Stats., DOA is responsible for the State's IT services, including ensuring that all state data-processing facilities develop proper privacy and security procedures and safeguards. Statutes also require DOA to provide oversight and monitoring of state agency IT operations. As a part of DOA, DET operates data centers to provide a variety of services to state agencies, including managing the mainframe for all executive branch agencies, managing servers for DOA and other executive branch agencies, and maintaining DOA-related systems.

In FY 2018-19, DOA implemented the State of Wisconsin *IT Security Policy Handbook*, which includes policies for IT security and the related standards. Executive branch agencies are expected to comply with these policies and standards or obtain an approved exception to a policy or standard if compliance cannot be achieved. An exception is a known deviation from policies in the *IT Security Policy Handbook* and related standards. For example, DOA may approve an exception to allow an agency to deviate from an established IT security policy, such as a password policy.

During our FY 2018-19 audit, we first reported concerns with the process for requesting an exception, and we made recommendations to DET to improve its process (report 19-30). In FY 2021-22, we first reported a significant deficiency in internal control over financial reporting directly related to the exception process, and we again recommended that DET improve its process (report 22-26). DET agreed with our recommendations, including the timeline for implementing corrective action: completing a review of its existing IT security exception process and developing an exception process training program by January 31, 2023, and completing a review and approval of exceptions by March 31, 2023. In FY 2022-23, we again reported a significant deficiency in internal control over financial reporting and recommended that DET develop a plan and begin to identify and document exceptions by April 30, 2024 (report 23-26). DET agreed with our recommendation, including the timeline for implementing corrective action: developing a plan and beginning to identify and document exceptions where agencies are noncompliant or partially compliant with controls listed in the State of Wisconsin *IT Security Policy Handbook* and related standards by April 30, 2024.

Criteria:

The compliance section of the State of Wisconsin *IT Security Policy Handbook* states that if compliance with particular policies or related standards is not feasible or technically possible, or if a deviation from a policy or standard is justifiable to support a business function, agency representatives can request an exception through the exception procedures established by the DET Bureau of Security. Further, the Security Policy and Standards Review and Maintenance section of the *IT Security Policy Handbook* indicates that the DET Bureau of Security is responsible for coordinating the review and tracking of exception requests to executive branch agency IT security policies and standards.

An effective exception process contains the following key elements:

- identification of situations where established processes or configurations do not comply with established policies;
- a process to report exceptions to these policies by agency staff at an appropriate level within the agency;

- an assessment of the requested exception, including consideration of the risks to the agency of authorizing the exception and of the potential to implement compensating controls;
- approval of exceptions by staff at an appropriate level within the agency that understand the policies and risks; and
- regular review of approved exceptions, such as annually, to ensure risks remain acceptable and to consider if changes can be made to alleviate the need for an exception.

In addition, it is important that documentation of exception requests and approvals be maintained and that the responsibilities for the exception process are appropriately communicated.

Condition:

In response to the recommendation from our FY 2022-23 audit, DET took steps to improve the exception process, such as by dedicating a staff member to manage the exception process with agencies and establishing due dates for agencies to respond to DET follow-up questions before an exception request was canceled.

In addition, DET developed the IT Security Control Exception Plan, which became effective May 1, 2024. In developing the plan, DET assessed the IT security risk associated with each control identified in the State of Wisconsin *IT Security Policy Handbook* and related standards by assigning a risk score to each control. DET identified 73 controls that posed the highest risk if the controls were not implemented. In phase one of the plan, DET used agency self-reported information to identify for which of these 73 controls an agency should have an exception documented. DET indicated it met with each agency to develop an agency-specific plan and timeline for submitting exception documentation for these controls.

In Finding 2024-003, we again made recommendations for DOA to improve agency oversight and monitoring processes, which includes an effective exception process.

Context:

We reviewed the State of Wisconsin *IT Security Policy Handbook* and related standards, reviewed the IT Security Control Exception Plan, made inquiries of DET staff, reviewed requested and approved exceptions, and evaluated the design of the updated exception process.

Because DET hosts and supports a significant number of executive branch agency systems at its data centers, IT weaknesses at one agency can affect IT security for other agencies.

Questioned Costs:

None.

Effect:

Without a strong information security policy in place for the exception process, DET does not have an appropriate awareness of which policies are not being followed and by which agencies. As a result, weaknesses in the overall security in the state network may not be identified or corrected.

Cause:

DET staff indicated a lack of access to a governance, risk, and compliance tool for tracking exception requests made it difficult to effectively and efficiently track exceptions.

The IT Security Control Exception Plan was not implemented until May 2024, or two months before the end of FY 2023-24. DET indicated agencies were expected to submit their phase one control exceptions plan and timeline to DET by September 30, 2024.

☑ Recommendation

We recommend the Wisconsin Department of Administration, Division of Enterprise Technology:

- *obtain and document by December 30, 2024, its review of the agency-specific exception documentation plans for the 73 controls that pose the highest risk if not implemented; and*
- *develop and execute a strategy for identifying and reviewing agency-specific exception documentation for other controls.*

Type of Finding: Significant Deficiency

Response from the Wisconsin Department of Administration, Division of Enterprise Technology:

The Wisconsin Department of Administration agrees with the audit finding and recommendations.

Finding 2024-003: Department of Administration Information Technology Oversight and Monitoring Responsibilities*

Background:

DOA is responsible for the State's IT services, including providing oversight and monitoring of executive branch agency IT operations. Nine years ago, and during our FY 2014-15 audit, we first recommended that DOA develop and implement executive branch agency IT policies and standards and provide oversight and monitoring of executive branch agencies' IT operations. During subsequent audits, we recommended that DOA take steps to identify, assess, and address risks to the State's IT environment. These steps were to include completion of a comprehensive risk management program across all executive branch agencies. DOA has taken steps to address our recommendations, such as implementing the State of Wisconsin *IT Security Policy Handbook*, which includes policies for IT security and the related standards with which executive branch agencies are expected to comply; implementing and configuring a vulnerability management tool; and performing vulnerability scans.

In FY 2021-22, we reported a significant deficiency in internal control over financial reporting because DOA did not establish a plan for important monitoring steps, such as analyzing the effectiveness of the procedures established by executive branch agencies. We recommended that DOA improve its monitoring programs and update its risk assessment program (report 22-26). DOA agreed with our recommendations, including the timeline for implementing corrective action. In FY 2022-23, we again reported a significant deficiency in internal control over financial reporting related to DOA's oversight and monitoring, and we recommended that DOA improve its monitoring program and update its risk assessment program (report 23-26). DOA agreed with our recommendations, including the timeline for corrective action: updating by December 31, 2023, its risk management program and developing by May 31, 2024, a monitoring plan to review the effectiveness of all agency-reported compliance with controls in the State of Wisconsin *IT Security Policy Handbook* and related standards.

Criteria:

Wisconsin Statutes assign DOA responsibility for the State's IT services. Under s. 16.971 (2), Wis. Stats., DOA is required to work with executive branch agencies to establish IT policies, procedures, and planning processes. Statutes also require DOA to monitor adherence to these policies, procedures, and processes. In addition, statutes require DOA to provide oversight and monitoring of executive branch agency IT operations, which includes ensuring:

- management reviews of IT organizations are conducted;
- all executive branch agencies develop and operate with clear guidelines and standards in the areas of IT systems development and employ good management practices and cost-benefit justifications; and
- all state data-processing facilities develop proper privacy and security procedures and safeguards.

Further, s. 16.973 (3), Wis. Stats., states that DOA shall facilitate the implementation of statewide initiatives, including the development and maintenance of policies and programs to protect the privacy of individuals who are the subjects of information contained in the agency databases.

National Institute of Standards and Technology (NIST) Special Publication 800-137, *Information Security Continuous Monitoring (ISCM) for Federal Information Systems and Organizations*, indicates that ongoing monitoring is a critical part of an organization's risk management process. In addition, an organization's overall IT security architecture and accompanying security program

should be monitored to ensure that organization-wide operations remain within an acceptable level of risk despite any changes that occur. Key steps in effective monitoring include:

- developing and communicating the policies, procedures, and standards that form the security framework;
- collecting information on the effectiveness of the policies, standards, and procedures;
- analyzing the information collected;
- responding to the results of the analyses; and
- reviewing and updating the monitoring program.

Condition:

During our FY 2023-24 audit, we again found that DOA did not have sufficient oversight and monitoring in place to ensure executive branch agency adherence to the State of Wisconsin *IT Security Policy Handbook* and related standards. For the second year, DOA completed and published a dashboard of agency compliance with the *IT Security Policy Handbook* and related standards based on information self-reported by executive branch agencies. However, for the second year, DOA did not take steps during FY 2023-24 to assess the accuracy of the agency-reported information as it related to compliance with controls in the *IT Security Policy Handbook* and related standards. Given its statutory responsibilities, it would be expected that DOA would assess the accuracy of the self-reported information in the dashboard and determine the effectiveness of the policies, standards, and/or procedures established by the executive branch agencies.

In June 2024, DOA developed and communicated to executive branch agencies an ISCM Plan to monitor executive branch agency adherence with the State of Wisconsin *IT Security Policy Handbook* and related standards. The ISCM Plan outlines the key steps for continuous monitoring, the processes for collecting information to support agency-reported information, and the process for monitoring plan communication and information sharing. By September 30, 2024, DET was expected to begin collecting information to support agency-reported information for controls that pose a higher risk if not implemented.

In June 2024, DET published a risk assessment plan, which included consideration of the risks related to known deviations from policies in the State of Wisconsin *IT Security Policy Handbook* and related standards, as well as risks related to vulnerability assessments and penetration tests. In Finding 2024-002, we again recommend DOA improve the information security policy exception process.

Context:

State agencies rely on computer systems to complete critical functions, including processing checks, accounting for cash receipts, preparing financial statements, and administering federal grant programs. DOA is responsible for ensuring these computer systems are properly secured. We interviewed key DOA staff to gain an understanding of the steps taken by June 30, 2024, to provide oversight and monitoring of executive branch agency IT operations and ensure executive branch agency adherence to the State of Wisconsin *IT Security Policy Handbook* and related standards.

DOA has responsibility to provide oversight and monitoring of IT operations for executive branch agencies. Because DET hosts and supports a significant number of executive branch agency systems at its data centers, IT weaknesses at one agency can affect IT security for other agencies.

Questioned Costs:

None.

Effect:

For FY 2023-24, DOA did not comply with s. 16.971 (2), Wis. Stats., which requires DOA to provide oversight and monitoring of executive branch agency IT operations and adherence to the State of Wisconsin *IT Security Policy Handbook* and related standards. Insufficient monitoring of agency IT environments can lead to vulnerabilities in the State's network, known or unknown, because there is no assurance that all systems are meeting the minimum level of security for the State's IT environment, as established in the *IT Security Policy Handbook* and related standards. Weaknesses in the security of the network can lead to inappropriate access to confidential or sensitive data, unauthorized changes to the data within the system, or a failure of the system. Further, agencies can face financial penalties and reputational damage when their confidential or sensitive data is compromised.

Cause:

The ISCM Plan and risk assessment plan were not implemented until June 2024, which was the last month of FY 2023-24. However, DET did not expect to begin until FY 2024-25 the analysis of the accuracy of the agency-reported information, the consideration of the risks related to known deviations from policies in the State of Wisconsin *IT Security Policy Handbook* and related standards, and the vulnerability assessments and penetration tests.

☑ Recommendation

We recommend the Wisconsin Department of Administration, Division of Enterprise Technology comply with its statutory responsibilities to provide oversight and monitoring of executive branch agency adherence to the State's IT policies by:

- *documenting its assessment of agency-reported information by February 28, 2025, for controls that pose a higher risk if not implemented; and*
- *documenting by April 30, 2025, its evaluation of the risks related to approved policy exceptions, vulnerability assessments, and penetration tests.*

Type of Finding: Significant Deficiency

Response from the Wisconsin Department of Administration, Division of Enterprise Technology:

The Wisconsin Department of Administration agrees with the audit finding and recommendations. However, DOA indicated that it would require additional time to implement corrective actions. DOA's timeline is included in its corrective action plan.

Finding 2024-004: Bank Account Reconciliation at the Department of Administration

Background:

The DOA State Controller's Office is the custodian of the State's cash and is responsible for a complex and broad set of responsibilities, including implementing proper internal controls to ensure cash assets are properly managed. The DOA State Controller's Office established a banking process using depository bank accounts in order to allow agencies to more efficiently track revenues deposited into the State's accounts. Balances in these depository bank accounts are transferred into a central DOA bank account on a daily basis and then moved into the State's general control bank account the next day.

The DOA State Controller's Office is responsible for reconciling the State's general control bank account with the accounting records maintained in STAR, which is the State's accounting system. The bank account reconciliation is a complex process that involves detailed spreadsheets summarizing bank data and transactions in STAR. Staff in the DOA STAR Office worked with the State Controller's Office to configure STAR to automate the recording of receipts for certain transactions based on banking activity.

The State Investment Fund (SIF) is used by state agencies and some local governments to invest excess operating cash balances held in statutory funds. Participants in the SIF hold shares in the pool of investments. The DOA State Controller's Office is responsible for preparing both the Monthly Statement of Receipts and Disbursements by Fund, which presents the cash balances of each fund invested in the SIF, and for distributing interest earnings of the SIF to each participating fund based on each fund's average daily balance. The Monthly Statement of Receipts and Disbursements by Fund is used by agency management and other stakeholders for internal and external reporting and to understand the balances for each statutory fund invested in the SIF.

Criteria:

To prevent fraud or errors, and for financial reporting purposes, proper reconciliation of a bank account is a standard internal control procedure used for ensuring the accuracy of cash balances in the accounting records and bank records. A bank account reconciliation identifies the difference between the cash balance reported by the bank and the cash balance in an entity's own accounting records at a particular point in time. To minimize the amount of work involved, it is a good practice to carry out such reconciliations at reasonably frequent intervals, such as monthly. Further, to ensure consistency in the preparation and review of bank account reconciliations, an entity should have written policies and procedures that document the process of preparing and reviewing the bank reconciliation.

Condition:

In completing a review of the reconciliation of the State's general control bank account for the month of June 2024, we identified an amount in the reconciliation that was not supported by appropriate documentation. After inquiring of staff in the DOA State Controller's Office, we learned that the automated process used to record bank deposits in the accounting records in STAR duplicated recording certain deposits and missed recording certain other deposits in the accounting records. Through November 13, 2024, DOA identified that these issues with the automated process caused a \$81.9 million overstatement to the cash account in STAR for certain funds.

Context:

To complete our review of the bank account reconciliation, we inquired of DOA State Controller's Office staff to understand how cash activity flows through the various bank accounts, how cash is recorded in the accounting records in STAR, and how DOA completes the bank account reconciliation. We obtained and reviewed the June 2024 bank account reconciliation documentation to ensure the reconciliation was appropriately supported and demonstrated that the bank and accounting records were correctly reconciled.

Questioned Costs:

None.

Effect:

Due to the errors in the reporting of certain deposits in STAR, the June 30, 2024 cash balances in STAR and the balances on the June 2024 Monthly Statement of Receipts and Disbursements by Fund were misstated as follows:

- overstated by \$62.9 million in the State's General Fund;
- overstated by \$835,325 in the Conservation Fund; and
- understated by \$401,400 in the Medical Assistance (MA) Trust Fund.

In addition, SIF interest earnings distributed to the General Fund and Conservation Fund were overstated and SIF interest earnings allocated to the MA Trust Fund were understated for at least the month of June 2024.

DOA corrected the overstatements in the STAR accounting records and indicated it planned to correct the Monthly Statement of Receipts and Disbursements by Fund and the interest earnings distribution.

Cause:

The DOA State Controller's Office has been working on changes to the bank account reconciliation process to streamline procedures. In June 2024, DOA made configuration changes to the automated process that is used to record certain bank deposits in the accounting records in STAR. The review of these configuration changes was insufficient to identify that some deposits were not being recorded correctly in STAR. DOA indicated that responsibility for these configuration changes has since been transitioned to the STAR Office. STAR Office staff noted they continue to work to improve checklists and procedures to document configuration changes to these automated processes.

The DOA State Controller's Office did not perform a bank account reconciliation of the central DOA bank account. If this bank account reconciliation had been performed, and had it been done in a timely manner, then the errors resulting from the automated process likely would have been identified in a more timely manner.

Although DOA indicated that a supervisory review of the bank account reconciliation for the State's general control account was performed, this review was not documented. Further, the review was not sufficient to identify the errors in the reconciliation process or to determine if a reconciliation of the central DOA bank account was not completed.

☑ Recommendation

We recommend the Wisconsin Department of Administration:

- *ensure the errors noted are fully identified and corrected in STAR;*
- *correct the errors on the Monthly Statement of Receipts and Disbursements by Fund, and communicate with affected participants in the State Investment Fund;*
- *evaluate the effect of the error on the distribution of interest earnings of the State Investment Fund, correct the distribution of interest earnings to each statutory fund, and communicate with affected participants in the State Investment Fund;*
- *assess the revised procedures for review of STAR configuration changes to ensure they will adequately address the risks with potential configuration errors;*
- *update current procedures for the preparation of the monthly reconciliation of cash balances between the bank records and the State's accounting records to ensure all bank accounts for which the Department of Administration is responsible are reconciled and that reconciliations are documented; and*
- *update and document the process for supervisory review of the monthly reconciliation of cash balances between the bank records and the State's accounting records, including a supervisory sign off and review date.*

Type of Finding: Significant Deficiency

Response from the Wisconsin Department of Administration: The Wisconsin Department of Administration agrees with the audit finding and recommendations.

Finding 2024-005: Transportation Fund Financial Reporting Errors

Background:

The Department of Transportation (DOT) is responsible for administering transportation infrastructure projects throughout the State, including developing and maintaining roads and bridges. DOT also provides assistance to local units of government under a variety of programs, including for transit systems. Most DOT financial activity is accounted for in the Transportation Fund, a governmental fund that is reported in the State's ACFR. Some DOT financial activity is also accounted for in the State's General Fund.

Criteria:

DOT is responsible for preparing and submitting accurate financial statements and required supplementary information to the Department of Administration (DOA) State Controller's Office (SCO) for inclusion in the State's ACFR. In addition, DOT is responsible for maintaining effective internal controls to ensure that financial information submitted to SCO is fairly presented and that misstatements are prevented or detected and corrected in a timely manner.

Condition:

During our FY 2023-24 audit, we identified that the infrastructure data used by DOT staff to prepare adjusting journal entries related to infrastructure projects were not complete and did not include data for 13 projects that were reported as work-in-progress during our FY 2022-23 audit. When we asked DOT staff about these projects, they identified that data for an additional 220 infrastructure structure projects were also missing from the data used to prepare the adjusting journal entries.

In addition, we found DOT staff incorrectly prepared an adjusting journal entry to accrue mass transit operating assistance payments in the Transportation Fund. These assistance payments were paid out of the State's General Fund.

Context:

We reviewed the FY 2023-24 Transportation Fund financial statements submitted to SCO for inclusion in the State's ACFR as well as adjusting journal entries submitted to SCO to assist SCO in preparing the State's government-wide financial statements. We discussed with DOT staff the process to prepare the Transportation Fund financial statements and adjusting journal entries. We reviewed financial information used to prepare the financial statements and examined supporting documentation.

Questioned Costs:

None.

Effect:

As a result of the error in the infrastructure data, Transportation Expenditures was overstated by \$26.1 million and Capital Outlay was understated by \$26.1 million in the Transportation Fund financial statements. The calculation of infrastructure assets, including work-in-progress, was understated by \$31.0 million in the State's government-wide financial statements.

As a result of the error in the adjusting journal entry to accrue mass transit operating assistance, Transportation Expenditures and Due to Other Governments in the Transportation Fund financial statements were each overstated by \$28.8 million. These accounts were each understated by the same amount in the General Fund financial statements.

After we communicated our concerns, DOT staff corrected these errors.

Cause:

DOT staff responsible for completing the analysis of infrastructure for financial reporting purposes did not copy certain data into the file used to complete the analysis. DOT staff did not have a process in place to ensure that all data from the original file were copied to the analysis file.

In FY 2023-24, mass transit operating assistance payments were made from new DOT appropriations in the General Fund, which were created by 2023 Wisconsin Act 19, the 2023-2025 Biennial Budget Act. DOT staff indicated this change was not considered when the Transportation Fund financial statements were prepared.

☑ Recommendation

We recommend the Wisconsin Department of Transportation:

- *update its infrastructure analysis procedures to ensure that data used in its analysis of infrastructure projects are complete; and*
- *update its procedures for preparing adjusting journal entries to accrue mass transit operating assistance payments.*

Type of Finding: Significant Deficiency

Response from the Wisconsin Department of Transportation: The Wisconsin Department of Transportation agrees with the audit finding and recommendations.

Finding 2024-006: General Fund Financial Reporting Errors

Background:

The DOA Bureau of Financial Management is responsible for preparing information related to DOA's financial activities and providing it to the DOA State Controller's Office to compile the General Fund financial statements, which are presented in the State's ACFR. This responsibility includes ensuring financial activity is accurately reflected in the financial statements in accordance with generally accepted accounting principles issued by the Governmental Accounting Standards Board (GASB).

The State was advanced \$3.0 billion in funding under the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) grant and has earned interest on the cash balances since funding was first advanced in May 2021. Through June 30, 2024, the State earned \$135.4 million in interest on the advanced federal funding.

Criteria:

In the General Fund Statement of Revenues, Expenses, and Changes in Fund Balance, the difference between revenues and expenditures is reported as Fund Balance, which is a measure of available resources. In accordance with standards established by GASB, the fund balance reported in the General Fund Balance Sheet is classified based on the level of constraints placed on the specific purposes for which the available funds can be spent. These five classifications are:

- nonspendable, which are resources that are not in a spendable form such as inventory;
- restricted, which are resources that have constraints placed on them externally by creditors or grantors, laws and regulations of other governments, or by law through constitutional provisions or enabling legislation;
- committed, which are resources that can only be used for specific purposes pursuant to constraints imposed by passage of state laws;
- assigned, which are resources for which state officials have indicated an intention to use them for specific purposes; and
- unassigned, which are resources that have not been restricted, committed, or assigned.

Through the GAAP Manual, the DOA State Controller's Office provides guidance to agencies on making these classifications for preparation of the financial statements presented in the ACFR.

GASB Codification Section 1800.743-2 provides clarification on how a government should consider interest earned on the investment of federal grant money. The guidance indicates that if the grant agreement requires the interest earned on invested grant proceeds to be used only for the same purpose as the grant award, the interest should be considered restricted. However, if the grant agreement does not include such a provision, then the interest earned should not be reported as restricted.

Condition:

The DOA Bureau of Financial Management did not adjust the financial information it provided to the DOA State Controller's Office to correctly report the interest earnings on funding advanced to the State under the CSLFRF grant. We found that DOA initially reported the interest earnings as unearned revenue, which resulted in an overstatement in the Unearned Revenue account and an understatement in the Intergovernmental revenues account. After we identified this error, DOA made adjustments and in doing so incorrectly reported the interest earnings as Fund Balance—Restricted. However, because there are no restrictions from the federal government on the use of these interest earnings, and the funds have not been committed to a specific purpose pursuant to law or assigned by state officials to a specific purpose, the interest earnings should be reported in the Fund Balance—Unassigned.

Context:

We considered how the interest earnings were being reported in the General Fund, evaluated GASB requirements for reporting interest earnings and fund balance, and reviewed the DOA GAAP Manual policies and procedures related to reporting of the fund balance. We evaluated the financial activity for the General Fund, including the presentation of the components of fund balance. We further considered whether there were any restrictions on the State's ability to expend the \$135.4 million in CSLFRF interest earnings.

Questioned Costs:

None.

Effect:

As a result of the errors in the recording of CSLFRF interest earnings, DOA understated Intergovernmental revenues by \$68.3 million in prior fiscal years, and by \$67.1 million in FY 2023-24 in the Statement of Revenues, Expenses, and Changes in Fund Balance. Further, DOA overstated the Unearned Revenue account in the General Fund Balance Sheet. DOA made corrections to properly reflect Intergovernmental revenues and Unearned Revenue. However, DOA's adjustments resulted in the misstatement of fund balance. Fund Balance—Restricted is overstated by \$135.4 million and Fund Balance—Unassigned is understated by \$135.4 million. This error further results in an overstatement of \$135.4 million in the Government-wide Statement of Net Position, Net Position—Restricted and an understatement of \$135.4 million in the Net Position—Unrestricted.

Cause:

The DOA Bureau of Financial Management incorrectly recorded the interest earnings on advanced CSLFRF funding in its federal appropriation. The DOA GAAP Manual indicates that cash balances in federal appropriations default automatically to restricted funds, and an adjustment is made to report Unearned Revenue, which is a liability account on the financial statements, to reflect that the federal revenue is not yet earned.

☒ Recommendation

We recommend the Department of Administration:

- *correct the presentation of General Fund fund balance as of June 30, 2024, to reflect the \$135.4 million of CSLFRF interest earnings as Fund Balance—Unassigned; and*
- *review its existing procedures for financial reporting to ensure amounts are appropriately classified within fund balance.*

Type of Finding: Significant Deficiency

Response from the Wisconsin Department of Administration: The Wisconsin Department of Administration disagrees with the audit finding and recommendations. DOA's corrective action plan, and our rebuttal, can be found beginning on page 51.

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Corrective Action Plans



STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor
Kathy Blumenfeld, Secretary
Trina Zanow, Division Administrator

Corrective Action Plan

Finding 2024-001: Department of Administration/Division of Enterprise Technology Information Security
Access Review Process

Planned Corrective Action:

LAB Recommendation	DOA/DET Planned Corrective Action	Anticipated Completion Date
We recommend the Department of Administration, Division of Enterprise Technology: <ul style="list-style-type: none">complete access reviews for DOA and DOA-managed active directory accounts by December 30, 2024, in accordance with DOA procedures, including updating access based on the review and retaining documentation of the review and the updates made to access;	Privileged Accounts: DOA/DET completed the privileged active directory access review for DOA and DOA-supported agencies in accordance with DOA procedures including updating access based on the review and retaining documentation of the review and the updates made to access.	Completed – June 30, 2024
	Privileged active directory account access reviews will occur every six months during a calendar year. The next review of privileged active directory accounts for DOA and DOA-supported agencies will occur in January 2025 with all changes and documentation per DOA procedures completed by the end of February.	February 28, 2025
	Non-Privileged Accounts: DOA/DET is in the process of completing non-privileged active directory account access reviews for DOA and DOA-supported agencies in accordance with DOA procedures including updating access based on the review and retaining documentation of the review and the updates made to access.	November 22, 2024
<ul style="list-style-type: none">complete access reviews for mainframe accounts by June 30, 2025, in accordance with DOA	DOA/DET will complete privileged and non-privileged access reviews for mainframe accounts in accordance with DOA	June 30, 2025

Enterprise Technology, PO Box 7844, Madison, WI 53707-7844
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procedures, including updating access based on the review and retaining documentation of the review and the updates made to access;	<p>procedures, including updating access based on the review and retaining documentation of the review and updates made to access.</p> <p>Privileged Accounts:</p> <p>Mainframe privileged account access reviews are performed every six months in a calendar year. The next review of privileged mainframe accounts for DOA and DOA-supported agencies began in November 2024.</p> <p>Non-Privileged Accounts:</p> <p>Mainframe non-privileged account access reviews are performed annually in a calendar year. The next review of non-privileged mainframe accounts for DOA and DOA Supported agencies will begin in February 2025.</p>	
<ul style="list-style-type: none"> establish a detailed plan by December 30, 2024, on how it will complete access reviews for all other types of accounts in accordance with DOA procedures, including updating access based on the review and retaining documentation of the review and the updates made to access; and 	DOA/DET will establish a detailed plan on how it will complete access reviews for all other internal types of accounts in accordance with DOA procedures, including updating access based on the review and retaining documentation of the review and updates made to access.	February 28, 2025
<ul style="list-style-type: none"> update existing access review procedures by December 30, 2024, to include a process for managing the intake of access reviews and an escalation process 	DOA/DET has updated its existing access review procedures to include a process for managing the intake of access reviews and an escalation process.	November 15, 2024

Person responsible for corrective action:
Troy Stairwalt, Chief Information Security Officer (CISO)
Division of Enterprise Technology

Troy.Stairwalt@wisconsin.gov



CORRECTIVE ACTION PLANS ◀ 45

STATE OF WISCONSIN

DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor
Kathy Blumenfeld, Secretary
Trina Zanow, Division Administrator

Corrective Action Plan

Finding 2024-002: Department of Administration/Division of Enterprise Technology Information Security Policy Exception Process

Planned Corrective Action:

LAB Recommendation	DOA/DET Planned Corrective Action	Anticipated Completion Date
We recommend the Department of Administration, Division of Enterprise Technology <ul style="list-style-type: none">obtain and document by December 30, 2024, its review of the agency-specific exception documentation plans for the 73 controls that pose the highest risk if not implemented; and	DOA/DET has obtained agency-specific exception documentation plans for the 73 controls that pose the highest risk, and will document its review of those plans.	December 30, 2024
<ul style="list-style-type: none">develop and execute a strategy for identifying and reviewing agency-specific exception documentation for other controls.	DOA/DET will develop and execute a strategy for identifying and reviewing agency-specific exception documentation for other controls.	

Person responsible for corrective action:
Troy Stairwalt, Chief Information Security Officer (CISO)
Division of Enterprise Technology
Troy.Stairwalt@wisconsin.gov



STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor
Kathy Blumenfeld, Secretary
Trina Zanow, Division Administrator

Corrective Action Plan

Finding 2024-003: Department of Administration Information Technology Oversight and Monitoring Responsibilities

Planned Corrective Action:

LAB Recommendation	DOA Planned Corrective Action	Anticipated Completion Date
We recommend the Wisconsin Department of Administration, Division of Enterprise Technology comply with its statutory responsibilities to provide oversight and monitoring of executive branch agency adherence to the State's IT policies by:	DOA/DET will comply with its statutory responsibilities to provide oversight and monitoring of executive branch agencies by implementing the below recommendations.	N/A
<ul style="list-style-type: none">documenting its assessment of agency-reported information by February 28, 2025, for controls that pose a higher risk if not implemented; and	DOA/DET will begin to document its assessment of agency-reported information by February 28, 2025, for controls that pose a higher risk if not implemented. Based upon the latest agency reported control information, DOA/DET will need to manually assess over 670 agency controls to ensure agency compliance with these controls.	June 30, 2025
<ul style="list-style-type: none">documenting by April 30, 2025, its evaluation of the risks related to approved policy exceptions, vulnerability assessments, and penetration tests.	DOA/DET will document its evaluation of the risks related to approved policy exceptions, vulnerability assessments, and penetration tests performed in CY 2024. DOA/DET is in the planning stage of performing additional penetration tests for CY 2025 and will include these results in the evaluation.	June 30, 2025

Person responsible for corrective action:
Troy Stairwalt, Chief Information Security Officer (CISO)
Division of Enterprise Technology
Troy.Stairwalt@wisconsin.gov



STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor
Kathy Blumenfeld, Secretary
Brian Pahnke, Administrator

Date: November 25, 2024

To: Carolyn Stittleburg,
Deputy State Auditor for Financial Audit
Legislative Audit Bureau

From: Angela C. Thomas, CPA
State Controller
Department of Administration

Subject: Bank Account Reconciliation at the Department of Administration

Thank you for the opportunity to respond to the Legislative Audit Bureau's (LAB) interim audit memorandum dated November 18, 2024. In that memorandum, LAB identified the following finding and recommendations:

Finding 2024-004: Bank Account Reconciliation at the Department of Administration

LAB Recommendations:

We recommend the Department of Administration:

- Ensure the errors noted are fully identified and corrected in STAR.
- Correct the errors on the Monthly Statement of Receipts and Disbursements by Fund, and communicate with affected participants in the State Investment Fund.
- Evaluate the effect of the error on the distribution of interest earnings of the State Investment Fund, correct the distribution of interest earnings to each statutory fund, and communicate with affected participants in the State Investment Fund.
- Access the revised procedures for review of STAR configuration changes to ensure they will adequately address the risks with potential configuration errors.
- Update current procedures for the preparation of the monthly reconciliation of cash balances between the bank records and the State's accounting records to ensure all bank accounts for which the Department of Administration is responsible are reconciled and that reconciliations are documented.
- Update and document the process for supervisory review of the monthly reconciliation of cash balances between the bank records and the State's accounting records, including a supervisory sign off and review date.

Response from the State Controller's Office:

The State Controller's Office agrees with the finding and recommendations.

Attached is the corrective action plan associated with this finding and recommendations.

cc: Brian Pahnke, Administrator
Kirsten Grinde, Deputy Administrator



STATE OF WISCONSIN DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor
Kathy Blumenfeld, Secretary
Brian Pahnke, Administrator

Corrective Action Plan

Finding 2024-004: Bank Account Reconciliation at the Department of Administration

Auditor Recommendation:

Ensure the errors noted are fully identified and corrected in STAR.

Planned Corrective Action:

To date, the configuration error has been addressed and the duplicate treasury journal errors are identified and are corrected in STAR.

Anticipated Completion Date:

Completed.

Auditor Recommendation:

Correct the errors on the Monthly Statement of Receipts and Disbursements by Fund, and communicate with affected participants in the State Investment Fund.

Planned Corrective Action:

The errors on the Monthly Statement of Receipts and Disbursements by Fund caused by the configuration error have been identified and corrected. The errors will be communicated with affected participants, and the Monthly Statements will continue to be posted on DOA's internet.

Anticipated Completion Date:

Communication to participants will occur by January 31, 2025.

Auditor Recommendation:

Evaluate the effect of the error on the distribution of interest earnings of the State Investment Fund, correct the distribution of interest earnings to each statutory fund, and communicate with affected participants in the State Investment Fund.

Planned Corrective Action:

The effect of the identified errors on the distribution of interest earnings of the State Investment Fund has been evaluated and is under final review.

Anticipated Completion Date:

The correction in STAR will occur during the next month end close period after final review. The effect of the error will be communicated to affected participants by January 31, 2025.

Auditor Recommendation:

Assess the revised procedures for review of STAR configuration changes to ensure they will adequately address the risks with potential configuration errors.

Planned Corrective Action:

STAR staff revised the procedures, and SCO will assess them with respect to the risks of potential configuration errors.

Anticipated Completion Date:

The assessment is expected to be completed by January 31, 2025.

Auditor Recommendation:

Update current procedures for the preparation of the monthly reconciliation of cash balances between the bank records and the State's accounting records to ensure all bank accounts for which the Department of Administration is responsible are reconciled and that reconciliations are documented.

Planned Corrective Action: The current procedures for reconciliation are already being updated.

Anticipated Completion Date:

A new draft of the reconciliation procedures is expected to be completed by January 31, 2025.

Auditor Recommendation:

Update and document the process for supervisory review of the monthly reconciliation of cash balances between the bank records and the State's accounting records, including a supervisory sign off and review date.

Planned Corrective Action: The supervisory review and sign off will be reflected in the updated reconciliation procedures.

Anticipated Completion Date:

A new draft of the updated reconciliation procedures is expected to be completed by January 31, 2025.

Person responsible for corrective action:

Angela C. Thomas, State Controller
 Department of Administration
 Division of Executive Budget & Finance
 Angela.Thomas@wisconsin.gov



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Office of the Secretary
4822 Madison Yards Way, S903
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Governor Tony Evers
Secretary Kristina Boardman
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Corrective Action Plan

Finding 2024-005: Transportation Fund Financial Reporting Errors

Planned Corrective Action: The Bureau of Financial Management, Financial Management Section is going to review all processes relating to Infrastructure data to ensure the data analysis is accurate and procedures are complete and updated to current practice.

Secondly, the Bureau of Financial Management, Financial Management Section will update its procedures when preparing adjusting journal entries to accrue mass transit operating assistance payments from the Transportation Fund to the new DOT appropriations in the General Fund as created in 2023 Wisconsin Act 19, from the 2023-2025 Biennial Budget Act.

Anticipated Completion Date:

Person responsible for corrective action:
Cody Castillo, Controller
Division of Business Management, Bureau of Financial Management
Cody.Castillo@dot.wi.gov



STATE OF WISCONSIN DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor
Kathy Blumenfeld, Secretary

Corrective Action Plan

Finding 2024-006: General Fund Financial Reporting Errors

Planned Corrective Action:

The Wisconsin Department of Administration (Department) disagrees with the auditor's finding that it did not adjust the financial information it provided to the State Controller's Office to correctly report the interest earnings on funding advanced to the state under the American Rescue Plan Act (ARPA) Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) program. The auditor's finding is premised on its assertion that the interest earnings are incorrectly recorded in the Department's federal appropriation.

The Department believes that interest earnings on advanced CSLFRF funds are properly recorded in its federal appropriation for the reasons outlined in its January 23, 2024, letter to the Joint Legislative Audit Committee and, further, that those amounts are appropriately classified within fund balance as restricted funds, consistent with the policies and procedures of the *DOA GAAP Manual* related to reporting of the fund balance. Therefore, the Department does not intend to make an adjustment to change the presentation of the General Fund fund balance as of June 30, 2024, as recommended by the auditor.

Anticipated Completion Date: Not applicable

Person responsible for corrective action:

Colleen Holtan, Director
Bureau of Financial Management
Division of Enterprise Operations
colleen.holtan@wisconsin.gov



STATE OF WISCONSIN

Legislative Audit Bureau

Joe Chrisman
State Auditor

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AskLAB@legis.wisconsin.gov

Rebuttal from the Wisconsin Legislative Audit Bureau:

In its corrective action plan, DOA states that it provided the State Controller's Office with the information to correctly report the interest earnings on funding advanced to the state under the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) program. DOA also states that the interest earnings on advanced CSLFRF funding are appropriately classified as restricted. We disagree that the interest earnings on advanced CSLFRF funding are appropriately classified in the General Fund as Fund Balance—Restricted.

DOA states that "The auditor's finding is premised on its assertion that the interest earnings are incorrectly recorded in the Department's federal appropriation." We disagree with DOA's statement that the finding is premised on where the interest earnings are recorded. Regardless of where DOA recorded the interest earnings in the accounting records, there are no restrictions on use, and the amounts should not be reported as Fund Balance—Restricted. As reported in Finding 2024-006, the finding is supported by standards established by the Governmental Accounting Standards Board (GASB) and the fact that the interest earnings are not subject to program restrictions.

GASB standards indicate that Fund Balance—Restricted are resources that have constraints placed on them externally by creditors or grantors, laws and regulations of other governments, or by law through constitutional provisions or enabling legislation. As reported in Finding 2024-006, the GASB Codification provides additional clarification through an example indicating that if a grant agreement does not include a provision requiring interest earned on advanced federal funds to be used for grant purposes, the interest earned should not be reported as restricted. DOA has not sufficiently demonstrated that the constraints specified in the GASB standards exist and, therefore, that the requirements of the restricted classification have been satisfied.

In addition, the U.S. Department of the Treasury (U.S. Treasury) frequently asked questions guidance indicates that the interest earnings are not subject to program restrictions. The U.S. Treasury's Office of Inspector General indicated to us in a November 2023 email that "Wisconsin may use SLFRF interest earned for SLFRF purposes and/or non-SLFRF purposes."

Therefore, these amounts should be reported as Fund Balance—Unassigned.

Appendix



STATE OF WISCONSIN

DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor
Kathy Blumenfeld, Secretary

Corrective Action Plan

Interest Earnings – Coronavirus State and Local Fiscal Recovery Funds

Planned Corrective Action:

The Wisconsin Department of Administration (Department) continues to disagree with the auditor's finding that interest earnings on Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) funding have not been recorded in compliance with state statutes and, accordingly, with the recommendation that it record the interest earnings on the CSLFRF funding as general purpose revenues earned, for the reasons outlined in the Department's January 23, 2024, letter to the Joint Legislative Audit Committee.

The Department will continue to work with the State Controller's Office to complete the updates to the *Wisconsin Accounting Manual* to provide guidance to agencies regarding how to record interest earnings on federal grant programs.

Anticipated Completion Date: January 31, 2025, as related to updates to the *Wisconsin Accounting Manual*

Person responsible for corrective action:

Colleen Holtan, Director
Bureau of Financial Management
Division of Enterprise Operations
colleen.holtan@wisconsin.gov



STATE OF WISCONSIN

DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor
Kathy Blumenfeld, Secretary
Paul Hammer, Deputy Secretary

VIA EMAIL

January 23, 2024

State Senator Eric Wimberger
Co-chair, Joint Legislative Audit Committee
104 South, State Capitol
P.O. Box 7882
Madison, WI 53707-7882

State Representative Robert Wittke
Co-chair, Joint Legislative Audit Committee
18 West, State Capitol
P.O. Box 8953
Madison, Wisconsin 53708-8953

RE: Recording of Interest Earnings

Dear Co-Chairs Wimberger and Wittke:

I am writing to supplement the Department of Administration's (DOA) ongoing dialog with the Joint Legislative Audit Committee (Committee) and the Legislative Audit Bureau (LAB) regarding the recording of interest earned on Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) funds received from the federal government.

In my January 12 letter to the Committee, I described both DOA's concern that the U.S. Department of Treasury (Treasury) intends to exercise oversight on the use of the interest earnings and DOA's ongoing efforts to obtain clarification from Treasury on that issue after learning the Legislative Audit Bureau's position in December. Given the importance of resolving this matter, DOA's legal analysis has continued since that letter and, thus far, confirms DOA's position. To facilitate a productive discussion at the Committee's upcoming hearing, I will explain DOA's position in light of that additional analysis.

Section 20.505(1)(mb), Wis. Stats., dictates what funds must be recorded in DOA's federal aid appropriation. The statute provides:

There is appropriated to the department of administration for the following programs: . . . *Federal aid*. All moneys received from the federal

government not otherwise appropriated under this section, as authorized by the governor under s. 16.54, to carry out the purposes for which received.

In Report 23-26, LAB asserts that interest earned on CSLFRF funds does not meet the requirements of s. 20.505(1)(mb) because “the CSLFRF funding was not received from the federal government and there are no program restrictions on its use.” (Report at 14.) DOA believes federal and state law supports a contrary position.

First, the interest earnings were “received from the federal government” because, as a matter of law, those interest earnings were originally the property of the federal government and could only be used by the state after receiving permission from the federal government. Federal law exclusively controls whether states may retain interest earned on federal grant award funds. The federal Cash Management Improvement Act (CMIA), 31 U.S.C. § 6503(c)(1), requires states to pay the federal government interest earned on funds advanced to them. The CMIA requires Treasury to issue regulations implementing the statute and permits Treasury to waive the interest payment requirement where it would be “inconsistent with program purposes.” The Treasury regulations implementing the CMIA’s interest earnings provisions are at 31 C.F.R. Part 205. The regulations provide: “State interest liability accrues from the day Federal funds are credited to a State account to the day the State pays out the Federal funds for Federal assistance program purposes.” 31 C.F.R. § 205.15(a).

Taken together, the CMIA and the Treasury regulation make clear that it is the federal government, not the state, that has sole control over whether and how states may use interest earned on advances of federal funds. In this case, Treasury decided to waive the interest remittance requirement of 31 C.F.R. Part 205, but the state had no right to use those funds until that waiver occurred, after which those funds were, as a legal matter, “received” by the state from the federal government.

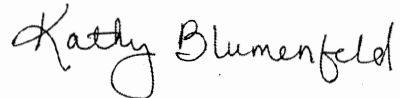
Second, DOA has been unable to identify the basis for LAB’s assumption that the federal government must place some form of “program restrictions” on the state’s use of interest earnings for them to be recorded in DOA’s federal aid appropriation. The phrase “program restrictions” does not appear in s. 20.505(1)(mb). Instead, the statute uses the phrase “to carry out the purposes for which received,” which is plainly a limitation on DOA’s use of those funds, and not a precondition to the funds being recorded in the federal aid appropriation. For example, LAB appears to assume that Treasury’s purpose is to allow states to use the earned interest in whatever manner the states deem most helpful to their residents. While that might be a very broad purpose, it is still a purpose, and DOA would be required to use the funds consistent with that purpose. Nothing in the plain language of s. 20.505(1)(mb) suggests the federal government must provide some narrower form of “purpose.”

DOA’s reading of the “purpose” portion of s. 20.505(1)(mb) is consistent with the structure and plain meaning of other DOA appropriation statutes. For example, s. 20.505(1)(n) dictates which funds must be recorded in DOA’s “Federal aid; local assistance” appropriation. It states: “All moneys received from the federal government for local assistance related to s. 16.27, as authorized by the governor under s. 16.54, *for the purposes of providing local assistance.*” (Emphasis added.) Hypothetically, if DOA were to

use funds in this appropriation to provide support for small businesses instead of local assistance, LAB would likely contend that DOA violated the statute because it misused the federal funds, but it would not argue that the federal funds should have been placed in a different appropriation. DOA does not see a legal basis for a different result here.

I hope this information is helpful to your consideration of this issue. I look forward to discussing this matter further with the Committee at Wednesday's hearing.

Sincerely,

A handwritten signature in cursive script that reads "Kathy Blumenfeld". The signature is written in dark ink and is positioned above the typed name.

Kathy Blumenfeld
Secretary



STATE OF WISCONSIN

Legislative Audit Bureau

Joe Chrisman
State Auditor

22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703

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Rebuttal from the Wisconsin Legislative Audit Bureau:

In its corrective action plan, DOA indicated its disagreement with our finding related to the recording of interest earnings on advanced Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) advanced to the State. DOA referenced a January 23, 2024 letter to the Joint Legislative Audit Committee in which it made several assertions. This letter is included in the Appendix.

We note that the U.S. Department of the Treasury (U.S. Treasury) interim final rule, dated May 17, 2021, states that the Cash Management Improvement Act requirements to remit interest earned on federal funds to the U.S. Treasury are not applicable to the CSLFRF grant. According to the State's accounting records in STAR, the State deposited the first tranche of CSLFRF funding on May 18, 2021, and recorded the funding in STAR on May 19, 2021. Therefore, the interest remittance requirements of the Cash Management Improvement Act were not applicable to the CSLFRF grant before the CSLFRF funding was deposited and before the State started to accrue interest earnings on those funds. As a result, the State does not need permission from the federal government to spend these interest earnings.

The April 2022 U.S. Treasury frequently asked questions guidance indicates that the interest earnings are not subject to program restrictions. The U.S. Treasury's Office of Inspector General indicated to us in a November 2023 email that "Wisconsin may use SLFRF interest earned for SLFRF purposes and/or non-SLFRF purposes." The interest earnings do not have federal restrictions placed upon them, and the funding may be used for purposes outside of the CSLFRF grant. This indicates that no federal restrictions on specific purposes apply to the interest earnings. Therefore, DOA is required to follow s. 20.906 (1), Wis. Stats., which requires that all moneys paid into the state treasury are to be credited to the general purpose revenues of the General Fund unless otherwise specifically provided by law.

Response



STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor
Kathy Blumenfeld, Secretary

December 19, 2024

Mr. Joe Chrisman, State Auditor
Legislative Audit Bureau
22 East Mifflin Street, Suite 500
Madison, WI 53703

Dear Mr. Chrisman:

I am writing in response to the Legislative Audit Bureau's (LAB) recently completed audit of the State of Wisconsin's fiscal year 2023-24 Annual Comprehensive Financial Report. I want to extend the Department of Administration's (DOA) appreciation to LAB of its work on this audit and to acknowledge the diligence of and cooperation between the staff at LAB and DOA necessary to complete this effort.

As evidenced by this audit report, the State of Wisconsin is in a strong financial position, as are the systems of controls by which state agencies, under the leadership and guidance of the State Controller's Office, manage the state's finances.

With respect to the auditor's recommendations related to information technology (IT), as the Audit Committee has previously voiced concerns about LAB's repeated findings, I would like to take this opportunity to provide in writing the additional context we have discussed with you and your team. First, I would like to note that DOA appreciates the auditor's review of these complex controls and agrees with LAB's findings and recommendations.

Second, although LAB's findings have been repeated, I wish to clarify for other readers of the report that DOA has implemented corrective actions as recommended by the auditors. As you know, the breadth and scope of some of the findings do not lend themselves to resolution within a year and are necessarily long-term projects within DOA. Additionally, the scope of work under each of these findings has grown as DET's responsibilities have grown since the original findings were made by LAB in the context of DET's recently gained authority over other agencies' IT.

All that said, DOA will work to implement the new corrective action plans included in this report and will update the Audit Committee as recommended. Next year, we look forward to continuing to work with LAB to better articulate the status of these findings and improve the state's cybersecurity and IT operations.

With respect to the auditor's recommendations related to interest earnings received on advanced Coronavirus State and Local Fiscal Recovery Funds (CSLFRF), DOA continues to believe the amounts have been properly recorded in its federal appropriation for the reasons outlined in its January 23, 2024 letter to the Joint Legislative Audit Committee. DOA's accounting treatment is consistent with that interpretation. Specifically, the DOA believes the amounts are appropriately classified within the fund balance as restricted funds, consistent with state law and the policies and procedures of the DOA GAAP Manual as related to federal funds.

With respect to the auditor's recommendations related to bank account reconciliation, as indicated in DOA's corrective action plan, the State Controller's Office has already completed a number of the recommendations and is well on its way to completing all the recommended work by January 31, 2025.

Again, thank you for your work on this audit, and for your recommendations to help DOA continuously improve its IT operations and accounting procedures.

Sincerely,

A handwritten signature in black ink that reads "Kathy Blumenfeld". The signature is written in a cursive, flowing style.

Kathy Blumenfeld
Secretary