



STATE OF WISCONSIN

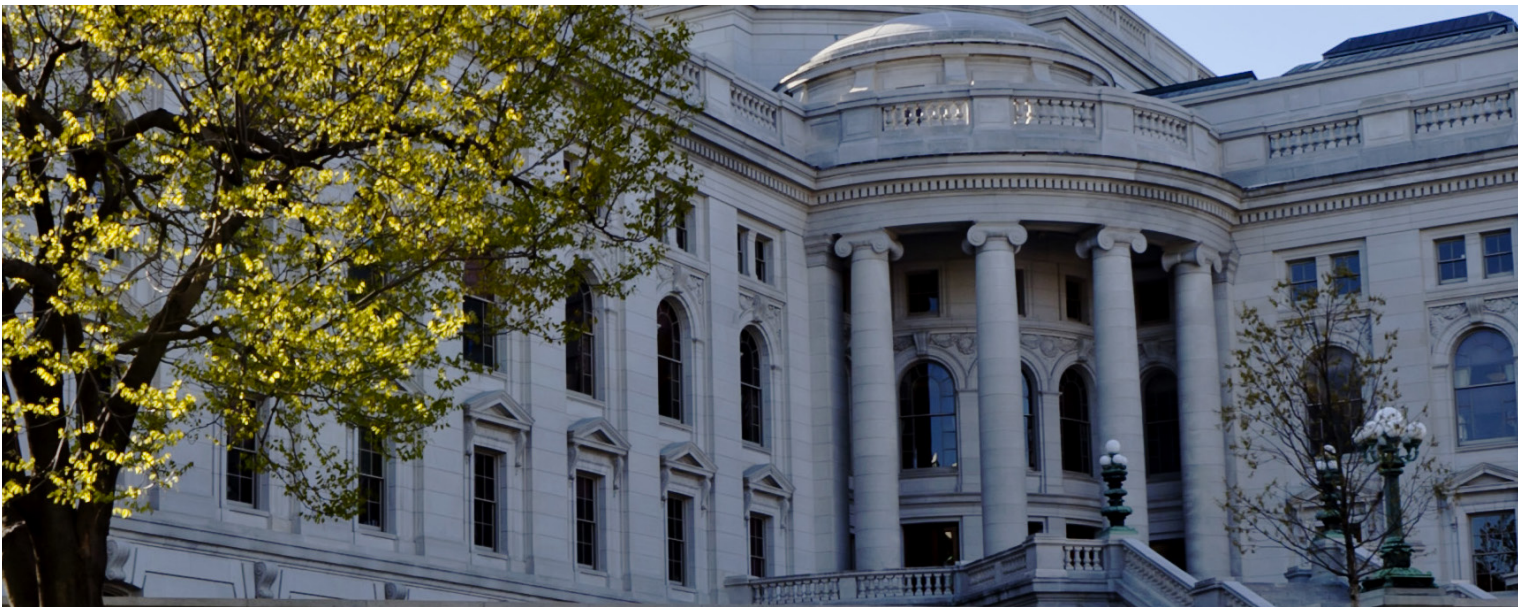
# Legislative Audit Bureau

NONPARTISAN • INDEPENDENT • ACCURATE

Report 24-17  
September 2024

## Supplemental Health Insurance Conversion Credit Program Reporting for Participating Employers

Calendar Year 2023



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**Supplemental Health Insurance  
Conversion Credit Program Reporting  
for Participating Employers**

Calendar Year 2023



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**Legislative Audit Bureau**

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

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

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

For more information, visit [www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab).

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## **Opinions Published Separately**

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





STATE OF WISCONSIN

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# Legislative Audit Bureau

Joe Chrisman  
State Auditor

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[AskLAB@legis.wisconsin.gov](mailto:AskLAB@legis.wisconsin.gov)

September 12, 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:

As requested by the Department of Employee Trust Funds (ETF), we have completed an audit of the Schedule of Employer Allocations of the Supplemental Health Insurance Conversion Credit (SHICC) program, the Schedule of Collective OPEB Amounts of the SHICC program, and the related notes to these schedules as of and for the year ended December 31, 2023. These schedules and our unmodified opinions on them may be found on ETF's website.

ETF administers two sick leave programs, which include the basic Accumulated Sick Leave Conversion Credit (basic ASLCC) program and the SHICC program. Employees may be eligible for these programs if employed by the State of Wisconsin, including the University of Wisconsin (UW) System, and certain state authorities such as UW Hospitals and Clinics Authority.

The basic ASLCC program allows eligible employees to convert unused sick leave balances earned during their employment to a balance for use in paying postemployment premiums for state group health insurance coverage after they terminate state service, including through retirement, layoff, or death. Financial statements for the basic ASLCC program as of and for the year ended December 31, 2023, will be included in ETF's *2023 Annual Comprehensive Financial Report (ACFR)*, which ETF plans to issue at a later date.

Under ss. 40.95 and 230.12 (9) Wis. Stats., the SHICC program provides certain eligible employees additional sick leave hours at termination that increase the balance available to pay for health insurance premiums. The SHICC program is considered an other postemployment benefits (OPEB) plan because it provides benefits to employees only upon termination and based on meeting certain requirements at termination. OPEB refers to the benefits, other than pensions, that a state or local government employee may receive after they have left employment, generally upon retirement. An OPEB plan may include medical, prescription drug, dental, vision, and other health-related benefits, whether provided separately or through a pension plan. An OPEB plan may also include death benefits, life insurance, and long-term care coverage, when provided separately from a pension plan, or by 7.5 percent.

We also audited the financial statements and related notes of the SHICC program as of and for the year ended December 31, 2023, and provided our unmodified opinion on them, as detailed in report 24-16, which we also published today. The fiduciary net position of the SHICC program, which represents resources available to pay benefits, increased from \$1.1 billion as of December 31, 2022, to \$1.2 billion as of December 31, 2023.

Accounting standards issued by the Governmental Accounting Standards Board (GASB) require the calculation of a net OPEB liability or asset, which represents the difference between the fiduciary net

position reported in the financial statements and the total OPEB liability calculated by the actuary. As of December 31, 2023, ETF calculated a net OPEB asset for the SHICC program of \$62.7 million, which is a decrease from the net OPEB asset of \$102.8 million calculated as of December 31, 2022. This decrease is primarily attributed to the increase in the total OPEB liability related to differences between expected and actual experiences being larger than the increase in the fiduciary net position.

The State of Wisconsin's commitment to provide postemployment benefits under the SHICC program results in an obligation to make contributions into the future to ensure that sufficient resources are available to make the benefit payments. Therefore, the State of Wisconsin has responsibility for the resulting OPEB obligations and will report the net OPEB asset for the SHICC program in the financial statements in the State's ACFR for the year ended June 30, 2024. In addition, the schedules will be used by state agencies and authorities that are part of the State's financial reporting entity but that prepare separately issued financial statements. Additional information related to the OPEB accounting standards is included in report 24-16.

The Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is required by *Government Auditing Standards*, begins on page 5.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Joe Chrisman", written in a cursive style.

Joe Chrisman  
State Auditor

JC/ES/ss





# Auditor's Report







## Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Senator Eric Wimberger and  
Representative Robert Wittke, Co-chairpersons  
Joint Legislative Audit Committee

Members of the Employee Trust Funds Board and  
Mr. A. John Voelker, Secretary  
Department of Employee Trust Funds

We have audited the Supplemental Health Insurance Conversion Credit program Schedule of Employer Allocations and the related notes as of and for the year ended December 31, 2023. We have also audited the columns titled Net OPEB Liability (Asset), Total Deferred Outflows of Resources Excluding Employer Specific Amounts, Total Deferred Inflows of Resources Excluding Employer Specific Amounts, and Plan OPEB Expense (Revenue) included in the Supplemental Health Insurance Conversion Credit program Schedule of Collective OPEB Amounts and the related notes as of and for the year ended December 31, 2023. The Supplemental Health Insurance Conversion Credit program is administered by the Wisconsin Department of Employee Trust Funds (ETF). We have issued our report thereon dated September 10, 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 schedules and related auditor's opinions have been included in the *GASB 75 Employer Schedules of the Supplemental Health Insurance Conversion Credit Program* report for 2023.

### Report on Internal Control over Financial Reporting

Management of ETF is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the schedules, we considered ETF'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 schedules, but not for the purpose of expressing an opinion on the effectiveness of ETF's internal control. Accordingly, we do not express an opinion on the effectiveness of ETF'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 Supplemental Health Insurance Conversion Credit program schedules 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.

## 6 › AUDITOR'S REPORT

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

### **Report on Compliance and Other Matters**

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

We have also audited the financial statements and related notes of the Supplemental Health Insurance Conversion Credit program as of and for the year ended December 31, 2023, 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*. We expressed an unmodified opinion, dated September 10, 2024, on those financial statements. In addition, we issued the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, dated September 10, 2024, and included in report 24-16, related to the audit of the financial statements.

### **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 ETF'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 ETF's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU



September 10, 2024