



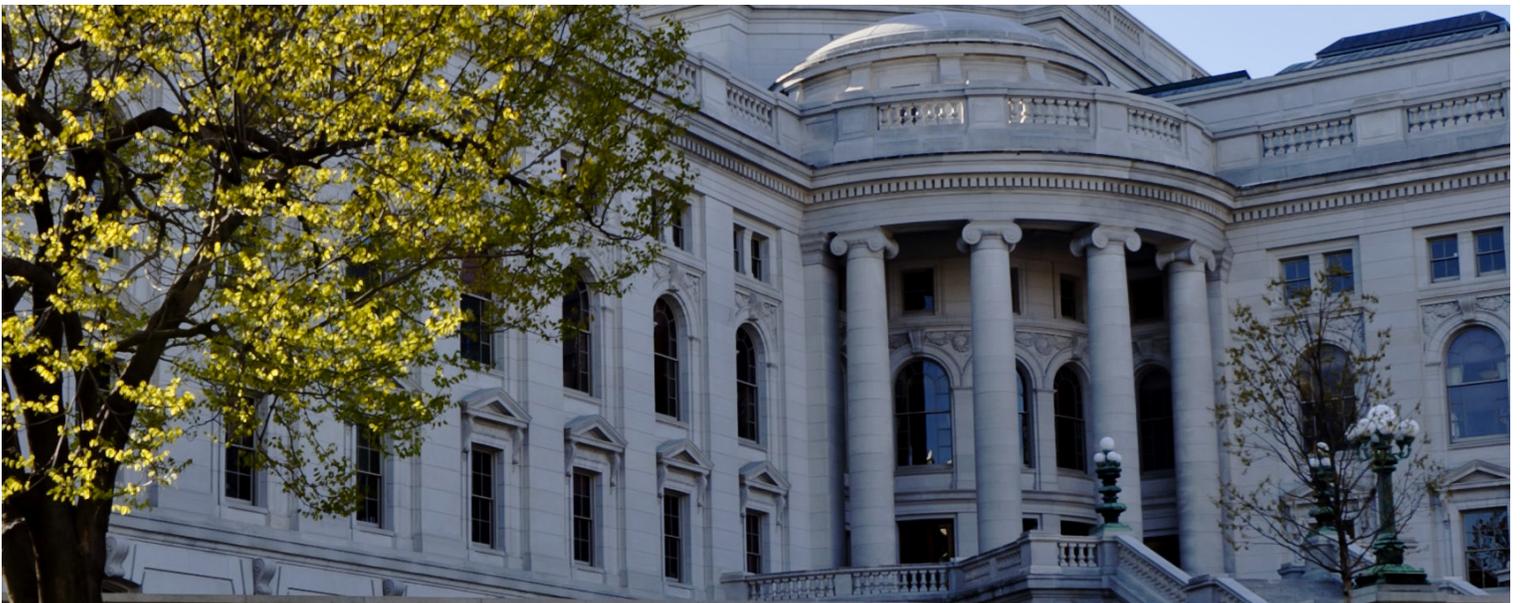
STATE OF WISCONSIN
Legislative Audit Bureau
NONPARTISAN • INDEPENDENT • ACCURATE

Report 21-20
December 2021

State Investment Fund

Fiscal Year 2020-21

State of Wisconsin Investment Board



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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

Participants in the State Investment Fund

Opinion Published Separately

The financial statements and our opinion on them are included in the State of Wisconsin Investment Board's *State Investment Fund Annual Financial Report* for the fiscal year ended June 30, 2021.



STATE OF WISCONSIN

Legislative Audit Bureau

Joe Chrisman
State Auditor

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December 7, 2021

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

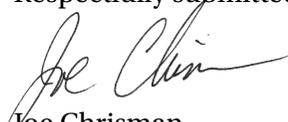
As required by ss. 13.94 (1) (df) and 25.17 (51), Wis. Stats., we have completed a financial audit of the State Investment Fund (SIF) managed by the State of Wisconsin Investment Board (SWIB) as of and for the year ended June 30, 2021. The financial statements and our unmodified opinion are included in SWIB's *State Investment Fund Annual Financial Report* for the fiscal year ended June 30, 2021, which may be found on SWIB's website.

SWIB invests the excess operating cash balances of State of Wisconsin agencies, the Wisconsin Retirement System, and the Wisconsin Local Government Investment Pool in the SIF. The net position of the SIF increased from \$16.0 billion as of June 30, 2020, to \$19.5 billion as of June 30, 2021, or by \$3.5 billion. This increase is largely attributed to federal funding received by the State of Wisconsin and certain local governments under the federal American Rescue Plan Act.

Net investment income decreased from \$198.0 million for the year ended June 30, 2020, to \$14.8 million for the year ended June 30, 2021. This decrease in net investment income reflects the significant decline in the federal funds rate that began during fiscal year (FY) 2019-20, due to the economic downturn. A large portion of the SIF is invested in U.S. Treasury obligations, which have investment returns closely aligned with the federal funds rate. The investment return for the SIF decreased from 1.45 percent for FY 2019-20 to 0.09 percent for FY 2020-21.

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 11. We did not identify any internal control or compliance concerns required to be reported under these standards.

Respectfully submitted,



Joe Chrisman
State Auditor

JC/CS/ss

Introduction

SWIB invests the excess operating cash balances of state and local governments in the SIF. Wisconsin Statutes enumerate the types of investments in which the SIF can invest. The investment objectives of the SIF, in order of priority, are to provide safety of principal, liquidity to fund participants, and a competitive rate of return within the parameters of its investment guidelines. The financial statements of the SIF are included in SWIB's *State Investment Fund Annual Financial Report* for the fiscal year ended June 30, 2021, which may be found on SWIB's website. These financial statements are prepared by SWIB using generally accepted accounting principles (GAAP) prescribed by the Governmental Accounting Standards Board (GASB).

Participants

The SIF invests the excess operating cash balances of State of Wisconsin agencies, the Wisconsin Retirement System, and the Wisconsin Local Government Investment Pool.

The SIF was created under s. 25.14, Wis. Stats., and invests the excess operating cash balances of State of Wisconsin agencies, the Wisconsin Retirement System, and the Wisconsin Local Government Investment Pool. The Wisconsin Local Government Investment Pool includes the assets of more than 1,300 local units of government that have chosen to invest in the SIF rather than in other options available for the investment of cash balances. Participants in the SIF hold shares in the pool of investments. These shares are valued based on amortized costs and do not include undistributed, unrealized investment gains and losses.

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State of Wisconsin agencies held 51.6 percent of the total participant shares in the SIF as of June 30, 2021.

As shown in Table 1, total participant shares held by State of Wisconsin agencies increased from \$6.9 billion as of June 30, 2020, to \$10.1 billion as of June 30, 2021, and represented 51.6 percent of the total participant shares in the SIF. The participants and participant shares in the SIF as of June 30, 2021, are shown in the Appendix.

Table 1

Participant Shares¹ by Participant Group

Participant Group	As of June 30, 2020		As of June 30, 2021	
	Participant Shares	Percentage of Total	Participant Shares	Percentage of Total
State of Wisconsin Agencies ²	\$ 6,931,324,000	43.3%	\$ 10,055,149,000	51.6%
Wisconsin Retirement System	4,369,292,000	27.3	4,055,397,000	20.8
Local Government Investment Pool ³	4,718,134,000	29.4	5,370,810,000	27.6
Total	\$16,018,750,000		\$19,481,356,000	

¹ Participant shares are valued based on amortized costs and do not include undistributed, unrealized investment gains and losses.

² As of June 30, 2021, 64 funds administered by State of Wisconsin agencies were in the SIF, as shown in the Appendix.

³ As of June 30, 2021, 1,368 local units of government had excess operating cash balances invested in the SIF.

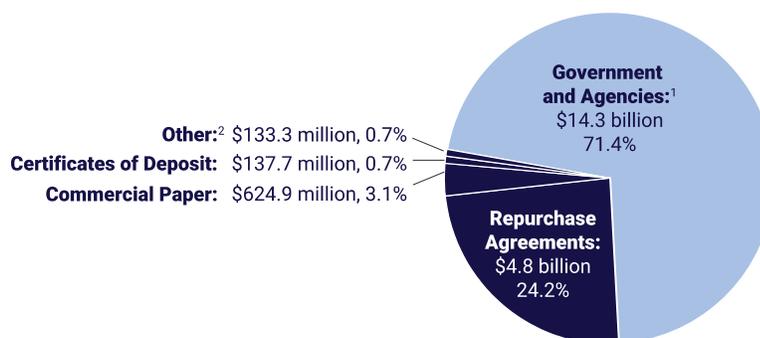
Investments

As of June 30, 2021, 71.4 percent of the investments in the SIF were in U.S. Treasury obligations and securities of federal agencies.

Wisconsin Statutes enumerate the types of investments in which the SIF can be invested, and SWIB has established investment guidelines for its investment staff to follow. The SIF is primarily invested in U.S. Treasury obligations, which are backed by the full faith and credit of the federal government, and securities of federal agencies, such as the Federal Home Loan Bank, which are backed by the federal government although not by its full faith and credit. As shown in Figure 1, 71.4 percent of the investments in the SIF were in U.S. Treasury obligations and securities of federal agencies, as of June 30, 2021.

Figure 1

Types of Investments in the SIF
As of June 30, 2021



¹ Includes U.S. Treasury obligations and securities of federal agencies, such as the Federal Home Loan Bank.

² Includes corporate notes of \$58.4 million, bankers' acceptances of \$49.9 million, and time deposits of \$25.0 million.

SWIB also invested in repurchase agreements, which accounted for \$4.8 billion, or 24.2 percent of total investments in the SIF as of June 30, 2021. Repurchase agreements, which are a form of short-term lending, are used in the SIF to earn additional return while maintaining liquidity. With a repurchase agreement, SWIB enters into a contract and lends cash to another party in return for collateral typically in the form of U.S. Treasury securities. Upon settlement, SWIB returns the collateral and the other party returns the cash plus interest. As discussed in Note 5B to the financial statements, one of the repurchase agreements held by the SIF as of June 30, 2021, was a \$2.8 billion repurchase agreement with the Core Retirement Investment Trust Fund.

In June 2021, the SWIB Board of Trustees approved new investment guidelines for the SIF.

In June 2021, the SWIB Board of Trustees approved new investment guidelines for the SIF. According to SWIB staff, changes were made to streamline the investment guidelines and provide greater flexibility to investment staff while continuing to meet the investment objectives and comply with statutory requirements. One such change was to remove specific reference to the Wisconsin Certificate of Deposit (CD) Program and its requirements. However, the revised investment guidelines still allow investments in CD programs, and the guidelines do not preclude investment in Wisconsin banks. The Wisconsin CD Program was created in the late 1980's with the goal of investing in Wisconsin banks while continuing to ensure stability of principal and liquidity within the SIF. Prior to 2010, the SIF held investments up to \$500.0 million in the Wisconsin CD Program at the end of each fiscal year. The program changed in 2010 after SWIB reassessed the Federal Deposit Insurance Corporation (FDIC) coverage for participants based on a concern for the loss potential if a participating bank defaulted on a large CD.

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The Wisconsin CD Program was temporarily put on hold because of the lower interest rates on CDs in the current investment environment.

Since 2010, the Wisconsin CD Program investments have fluctuated as of each June 30th, but have not been greater than \$52.7 million since June 30, 2014. As shown in Table 2, the SIF held no CDs in the Wisconsin CD Program as of June 30, 2021. SWIB investment staff indicated that the program was temporarily put on hold because of the current investment environment.

Table 2

Investments Held in Wisconsin Certificate of Deposit Program¹
As of June 30

Year	Amount
2017	\$30,949,890
2018	42,450,000
2019	39,200,000
2020	18,445,000
2021	0

¹ As reported in the Schedule of Investments in the *State Investment Fund Annual Financial Report* each fiscal year.

Investment Income

Net investment income decreased from \$198.0 million for the year ended June 30, 2020, to \$14.8 million for the year ended June 30, 2021.

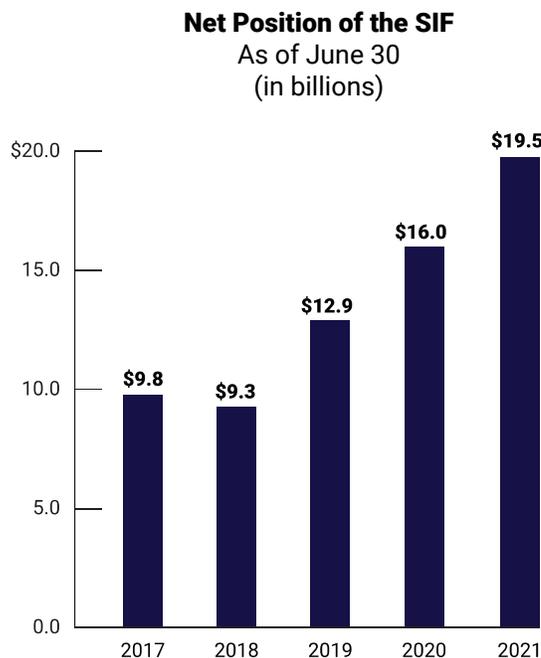
Net investment income decreased from \$198.0 million for the year ended June 30, 2020, to \$14.8 million for the year ended June 30, 2021. This decrease in net investment income reflects the significant decline in the federal funds rate that began during fiscal year (FY) 2019-20, due to the economic downturn. The federal funds rate is the target interest rate set by the Federal Open Market Committee based on prevailing economic conditions and is a reflection of the short-term investment market. A large portion of the SIF is invested in U.S. Treasury obligations, which have investment returns closely aligned with the federal funds rate. The average federal funds rate declined from 1.29 percent in FY 2019-20 to 0.08 percent in FY 2020-21. The investment return for the SIF decreased from 1.45 percent for FY 2019-20 to 0.09 percent for FY 2020-21. The SIF exceeded its one-year, five-year, and ten-year benchmarks as of June 30, 2021.

Net Position

The net position of the SIF increased from \$16.0 billion as of June 30, 2020, to \$19.5 billion as of June 30, 2021, or by \$3.5 billion.

Net position, which is the investments and other assets less liabilities, is a measure of overall financial condition. The net position is made up of the state and local government participant shares in the SIF and the undistributed, unrealized investments gains and losses, which are the increases and decreases in the value of an investment that has not been sold. Net position will fluctuate depending on the excess operating cash invested in the SIF by participants. As shown in Figure 2, the net position of the SIF increased from \$16.0 billion as of June 30, 2020, to \$19.5 billion as of June 30, 2021, or by \$3.5 billion.

Figure 2



The increase in net position is primarily related to federal funding received by the State of Wisconsin agencies and certain local governments under the federal American Rescue Plan Act.

This increase is largely attributed to federal funding received by the State of Wisconsin agencies and certain local governments under the federal American Rescue Plan Act (ARPA). For example, the State of Wisconsin was advanced \$1.3 billion in federal funding under ARPA to aid the state in addressing the effects of the public health emergency. A large portion of this funding was advanced to the State in May 2021, and balances that were not yet spent as of June 30, 2021, were invested in the SIF. Local governments were also advanced federal funding under ARPA. The increase in net position from June 30, 2019, to June 30, 2020, also was related to federal funding received by the state and local governments to address needs related to the public health emergency. From June 30, 2017, through June 30, 2021, the net position of the SIF increased by \$9.6 billion, or by 98.0 percent.

Audit Results

We provided an unmodified opinion on the financial statements of the SIF as of and for the year ended June 30, 2021.

As required by Wisconsin Statutes, we have completed an audit of the financial statements and related notes of the SIF as of and for the year ended June 30, 2021. The financial statements include information on the financial activity of the SIF, including disclosures, such as those related to deposit and investment risk, and fair value measurements as of June 30, 2021. To complete our audit of the financial statements, we reviewed SWIB's internal control over financial reporting, tested financial transactions, and reviewed the financial statements, notes, and required supplementary information, which were prepared by SWIB management. We provided an unmodified opinion on the financial statements and related notes as of and for the year ended June 30, 2021.

We also issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is required by *Government Auditing Standards*, and begins on page 11. We did not identify any internal control or compliance concerns that were required to be reported under these standards.

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Auditor's Report



STATE OF WISCONSIN
Legislative Audit Bureau

Report 21-20

Joe Chrisman
State Auditor

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

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee

Members of the Board of Trustees, and
Mr. Edwin Denson, Executive Director/Chief Investment Officer
State of Wisconsin Investment Board

We have audited the financial statements and the related notes of the SIF managed by the State of Wisconsin Investment Board (SWIB) as of and for the year ended June 30, 2021, and have issued our report thereon dated December 2, 2021. 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 financial statements and related auditor's opinion have been included in the *State Investment Fund Annual Financial Report* for the fiscal year ended June 30, 2021.

Internal Control over Financial Reporting

Management of SWIB 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 SWIB's internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SWIB's internal control. Accordingly, we do not express an opinion on the effectiveness of SWIB'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 SIF's 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. 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SIF's financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a 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*.

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

LEGISLATIVE AUDIT BUREAU



Joe Chrisman
State Auditor

December 2, 2021

Appendix

Appendix

Participants in the State Investment Fund¹

As of June 30, 2021

Fund	Agency or Department	Participant Shares
STATE OF WISCONSIN AGENCIES		
General Fund	Administration	\$ 6,509,076,000
Transportation Fund	Transportation	799,251,000
Budget Stabilization Fund	Administration	762,411,000
Capital Improvement Fund	Building Commission	307,332,000
Building Trust Fund	Building Commission	257,024,000
Conservation Fund	Natural Resources	185,794,000
Hospital Assessment Fund	Health Services	171,687,000
University Trust—Income Fund	University of Wisconsin System	140,337,000
Medical Assistance Trust Fund	Health Services	130,283,000
Permanent Endowment Fund	Administration	126,084,000
Common School Fund	Board of Commissioners of Public Lands	94,117,000
Lottery Fund	Revenue	91,092,000
Injured Patients and Families Compensation Fund	Commissioner of Insurance	72,168,000
Universal Service Fund	Public Service Commission	50,832,000
Work Injury Supplemental Benefit Fund	Workforce Development	34,604,000
Environmental Fund	Natural Resources	33,883,000
Uninsured Employer Fund	Workforce Development	32,026,000
Support Collections Trust Fund	Children and Families	24,859,000
Petroleum Inspection Fund	Natural Resources	24,012,000
Waste Management Fund	Natural Resources	23,608,000
Common School Income Fund	Board of Commissioners of Public Lands	22,836,000
College Savings Program Trust Fund	Financial Institutions	19,889,000
Utility Public Benefits Fund	Administration	18,803,000
Unemployment Program Integrity Fund	Workforce Development	18,120,000
Agrichemical Management Fund	Agriculture, Trade and Consumer Protection	14,976,000
Public Employee Trust Fund	Employee Trust Funds	14,774,000
Agricultural Producer Security Fund	Agriculture, Trade and Consumer Protection	12,485,000
Election Administration Fund	Wisconsin Elections Commission	10,507,000
Environmental Improvement Fund	Natural Resources	7,699,000
University Trust—Principal Fund	University of Wisconsin System	6,969,000

Fund	Agency or Department	Participant Shares
STATE OF WISCONSIN AGENCIES		
<i>(continued)</i>		
Economic Development Fund	Wisconsin Economic Development Corporation	\$ 5,712,000
Land Information Fund	Administration	4,689,000
Agricultural Chemical Cleanup Fund	Agriculture, Trade and Consumer Protection	4,536,000
Bond Security and Redemption Fund	Building Commission	4,002,000
State Life Insurance Fund	Commissioner of Insurance	3,434,000
Normal School Fund	Board of Commissioners of Public Lands	3,387,000
Workers Compensation Benefit Fund	Workforce Development	3,345,000
Critical Access Hospital Assessment Fund	Health Services	2,508,000
Heritage State Parks and Forests Trust Fund	Natural Resources	1,424,000
Tuition Trust Fund	Financial Institutions	1,008,000
History Preservation Partnership Trust Fund	Wisconsin Historical Society	849,000
Transportation Infrastructure Loan Fund	Transportation	556,000
Military Family Relief Fund	Revenue	360,000
Dry Cleaner Environmental Response Fund	Revenue	354,000
Historical Society Trust Fund	Wisconsin Historical Society	266,000
Local Government Property Insurance Fund	Commissioner of Insurance	264,000
Mediation Fund	Director of State Courts	260,000
Self-Insured Employers Liability Fund	Workforce Development	257,000
State Capitol Restoration Fund	State Capitol and Executive Residence Board	195,000
Working Lands Fund	Agriculture, Trade and Consumer Protection	110,000
Investment and Local Impact Fund	Investment and Local Impact Fund Board	82,000
Historical Legacy Trust Fund	Wisconsin Sesquicentennial Commission	77,000
University Fund	Board of Commissioners of Public Lands	76,000
Unemployment Interest Payment Fund	Workforce Development	42,000
Agricultural College Fund	Natural Resources	35,000
Governor's Read To Lead Development Fund	Governor's Office	27,000
Children's Trust Fund	Child Abuse and Neglect Prevention Board	14,000
Benevolent Fund	Administration	14,000
Recycling and Renewable Energy Fund	Natural Resources	-
Farms for the Future Fund	Agriculture, Trade and Consumer Protection	-
Vendornet Fund	Administration	-
Industrial Building Construction Loan Fund ²	Wisconsin Economic Development Corporation	(1,000)

Fund	Agency or Department	Participant Shares
STATE OF WISCONSIN AGENCIES		
<i>(continued)</i>		
Veterans Trust Fund ²	Veterans Affairs	\$ (41,000)
Police and Fire Protection Fund ²	Public Service Commission	(230,000)
STATE OF WISCONSIN AGENCIES SUBTOTAL		\$ 10,055,149,000
WISCONSIN RETIREMENT SYSTEM		
Core Retirement Investment Trust		\$ 3,921,457,000
Variable Retirement Invest Trust		133,940,000
WISCONSIN RETIREMENT SYSTEM SUBTOTAL		\$ 4,055,397,000
LOCAL GOVERNMENT INVESTMENT POOL		\$ 5,370,810,000
TOTAL		\$19,481,356,000

¹ Includes fund names and participant shares, as reported by the Department of Administration in the June 2021 *Monthly Statement of Receipts and Disbursements by Fund* report.

² As discussed in Note 5A to the financial statements, these negative balances reflect interfund loans allowed under s. 20.002 (11), Wis. Stats.