

**Report 17-1**  
**January 2017**

# **Biennial Report**

*January 1, 2015 – December 31, 2016*

STATE OF WISCONSIN



Legislative Audit Bureau ■



**Report 17-1**  
**January 2017**

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*January 1, 2015 – December 31, 2016*

## LEGISLATIVE AUDIT BUREAU

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The Bureau is a nonpartisan legislative service agency responsible for conducting financial audits and performance evaluations of state agencies. The Bureau's purpose is to provide assurance to the Legislature that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law and that state agencies carry out the policies of the Legislature and the Governor. 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).



Contact the Bureau at 22 East Mifflin Street, Suite 500, Madison, Wisconsin 53703; [leg.audit.info@legis.wisconsin.gov](mailto:leg.audit.info@legis.wisconsin.gov); or (608) 266-2818.

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# STATE OF WISCONSIN | Legislative Audit Bureau

22 East Mifflin St., Suite 500 ■ Madison, WI 53703 ■ (608) 266-2818 ■ Hotline: 1-877-FRAUD-17 ■ [www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab)

Joe Chrisman  
State Auditor

January 13, 2017

Governor Scott Walker and  
Members of the Legislature  
State Capitol  
Madison, Wisconsin 53702

Dear Governor Walker and Members of the Legislature:

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

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

In February 2016, the Wisconsin Legislature took action to adopt and concur in 2015 Senate Joint Resolution 90, which commends the Bureau on the occasion of its 50<sup>th</sup> year of service to the Legislature. We look forward to continuing to deliver accurate, useful, independent, and nonpartisan analyses to enhance accountability and assist the Legislature in its oversight of state government.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Joe Chrisman'.

Joe Chrisman  
State Auditor

JC/AS/ss





## Purpose and Organization ■

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***The Legislative Audit Bureau assists the Legislature in maintaining effective oversight.***

The Legislative Audit Bureau is a nonpartisan service agency that assists the Legislature in maintaining effective oversight of state programs and finances. The Bureau independently and systematically examines the accounting records and financial statements of entities that receive public funds, performs reviews of government operations to promote good fiscal and management practices, and evaluates programs and services that the State of Wisconsin provides to its citizens. Specifically, the Bureau:

- conducts financial audits and performance evaluations of state agencies and programs as required by statutes or as requested by the Legislature, the Joint Legislative Audit Committee, or the Joint Committee on Legislative Organization;
- issues independent auditor's reports on the State's financial statements, which are published in the State's *Comprehensive Annual Financial Report* prepared by the Department of Administration (DOA);
- verifies state agencies' compliance with laws and program regulations pertaining to federal funds received by the State of Wisconsin each year;
- performs other independent audits at the request of state agencies in order to demonstrate compliance or provide assurance of sound financial practices;

- staffs a hotline to address allegations of fraud, waste, and mismanagement in state government;
- conducts “best practices” reviews of governmental service delivery by counties and municipalities; and
- performs other financial audit and performance evaluation work initiated by the State Auditor or in response to requests by individual legislators or other units of government.

## Authority and Responsibilities

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

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

The authority to audit any county, city, village, town, or school district is described in s. 13.94 (1) (m), Wis. Stats. In addition, gaming compacts between the State of Wisconsin and 11 American Indian tribes require that audited financial statements and security audits of Indian gaming operations be made available to the Bureau.

Legislation enacted in 2015 and 2016 requires the Bureau to perform:

- beginning in 2017, and biennially thereafter, a performance evaluation audit of the opportunity schools and partnership programs (required by 2015 Wisconsin Act 55); and
- if the Department of Children and Families enters into a contract to conduct a recidivism reduction program, an audit of the program to determine whether identified benchmarks have been met (required by 2015 Wisconsin Act 55).

In addition, 2015 Wisconsin Act 2, which was introduced and approved unanimously by the Joint Legislative Audit Committee, clarifies that the Bureau shall have access to books, records, or other documents that are confidential by law and requires the Government Accountability Board (GAB), and now the Wisconsin

Ethics Commission, to provide investigatory records to the Bureau to the extent necessary for the Bureau to carry out its audit responsibilities.

Other recurring statutory audit responsibilities are described further in Appendix 1.

## Budget and Staffing

The Bureau's annual operating budget is approximately \$6.2 million in general purpose revenue (GPR) and \$2.1 million in program revenue from audit contracts with other state agencies. The Bureau has an authorized staffing level of 86.8 positions.

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

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

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

***The Bureau adheres to professional auditing standards.***

Financial audit staff adhere to professional auditing standards promulgated by the American Institute of Certified Public Accountants and the Comptroller General of the United States. These standards require auditors to:

- be free, in both fact and appearance, from impairments to independence;
- maintain professional competence through continuing education;
- have an appropriate internal quality control system in place; and

- employ peer reviews to assess compliance with auditing standards and the adequacy of the internal quality control system.

Financial auditors complete 80 hours of continuing professional education every two years, as required by government auditing standards, and both financial auditors and performance evaluators receive training in core audit skill areas. Our internal quality control system includes detailed auditing policies and procedures, documentation requirements, supervisory review of all working papers, and both senior staff and editorial reviews of report drafts.

Every three years, through the National State Auditors Association, the Bureau’s peers from other states review this system and the working papers from selected financial audits for compliance with financial auditing standards. The Bureau successfully completed its most recent peer review in September 2015. Our evaluations of *Supervised Release Placements and Expenditures* (report 13-12) and the *Government Accountability Board* (report 14-14) were recognized for “significant impact on public policy” by the National Conference of State Legislatures’ National Legislative Program Evaluation Society in September 2015 and 2016, respectively.

## Joint Legislative Audit Committee

***The Joint Legislative Audit Committee has advisory responsibilities for the Audit Bureau.***

The Joint Legislative Audit Committee has advisory responsibilities for the Audit Bureau. It may direct the Bureau to conduct audits and evaluations, and it receives and reviews issued reports. The Audit Committee approved five audit requests and held seven public hearings in 2015 and 2016.

The Audit Committee consists of its co-chairs, the co-chairs of the Joint Committee on Finance, one other majority and two minority party senators, and one other majority and two minority party representatives. During the 2015-2016 legislative session, its members were:

Senator Robert Cowles, Co-chairperson	Representative Samantha Kerkman, Co-chairperson
Senator Mary Lazich Senator Alberta Darling Senator Kathleen Vinehout Senator Janet Bewley	Representative John Macco Representative John Nygren Representative Melissa Sargent Representative Terese Berceau

Additional information on Audit Committee hearings—including hearing notices, live and recorded broadcasts, and presentation materials from past hearings—can be found at the Bureau’s website, [www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab).

## Requesting Our Services

Most performance evaluation work is requested by legislators through the Joint Legislative Audit Committee. State agencies may also request audit services in order to meet external audit requirements.

***Any legislator may request an evaluation or audit by writing to the Audit Committee co-chairs.***

Any legislator may request a performance evaluation or a financial audit by writing to the Audit Committee's co-chairs. Audit requests should clearly identify the topic, program, and agency in question, as well as the specific concerns that may be addressed by an audit or evaluation. Before submitting a request to the Audit Committee co-chairs, legislators may wish to discuss it with the State Auditor, who can provide information on similar topics that have been previously audited and help to assess the feasibility, size, and scope of the proposed inquiry.

Whether initiated in response to legislation or requested by individual members of the Legislature and approved by the Audit Committee, audit work remains confidential until released by the State Auditor. When the audit report is released, it is distributed electronically to all members of the Legislature, the Governor, members of the media, and other interested parties.

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

The Bureau's website lists audits in progress and numbered reports published since 2011, and the website may be searched for the full text, briefing sheets, and highlights of all published reports from 1998 through 2016. The first two digits of each document number indicate the year of publication.

Audit follow-up documents submitted by state agencies to the Audit Committee in response to recommendations contained in reports are also available on the website. Audit follow-up received since 2011 is currently available.

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





## Noteworthy Findings and Hotline Activity ■

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

- financial audit reports, including two single audits that tested compliance with federal grant requirements related to approximately \$12 billion in federal financial assistance administered annually by state agencies in fiscal year (FY) 2013-14 and FY 2014-15;
- performance evaluation reports and reviews designed to measure the extent to which state agencies or programs have achieved their intended objectives;
- an independent auditor's report on the State of Wisconsin's general financial statements, which required on-site audit work at every major state agency and was published in the State of Wisconsin's *Comprehensive Annual Financial Report*;
- an independent auditor's report on the financial statements of the University of Wisconsin (UW) System, which was published in its annual report;
- an actuarial audit of the Wisconsin Retirement System (WRS), for which the Bureau contracted with Segal Consulting after a formal request-for-proposal process;

- numerous other audit opinions and certifications, including those published in annual reports prepared by the State of Wisconsin Investment Board (SWIB) and the Department of Employee Trust Funds (ETF).

## **Financial Audits and Performance Evaluations**

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

Financial audits are detailed, impartial reviews that focus on:

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

We perform independent financial audits as required by statutes and in response to requests by some state agencies. Our financial audit reports generally include an auditor’s opinion that indicates whether financial transactions have been conducted and reported appropriately, as well as a report on internal controls and on our tests for compliance with certain laws and other regulations. Noncompliance in these tested cases could have a direct and material (that is, quantitatively or qualitatively significant) effect on the amounts shown in the financial statements and may be defined as a significant deficiency or a material weakness.

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

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



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

Performance evaluations and reviews establish performance criteria; measure existing conditions, their probable causes, and actual and potential effects; and typically include recommendations for improving agency operations or enhancing legislative oversight.

## Noteworthy Findings

Our audit and evaluation work frequently identifies opportunities for the Legislature to increase its oversight of high-profile initiatives, important policy issues, and government operations. In 2015 and 2016, we identified improvements that could be made to financial reporting by state agencies:

- We reported a material weakness in the Public Service Commission’s internal control over financial reporting for the Universal Service Fund (USF) after we identified several material or significant errors that required adjustments to the financial statements and notes. (For details, see report 15-5, *Universal Service Fund*.)
- We again reported a significant deficiency in internal control over financial reporting after we identified errors in ETF’s financial statements and related notes. (For details, see report 16-1, *Department of Employee Trust Funds*.)
- We reported a significant deficiency related to reporting errors made by ETF in preparation of the financial statements and related notes for the WRS. (For details, see report 16-10, *Wisconsin Retirement System*.)
- We identified significant deficiencies in certain financial reporting processes at the Department of Health Services (DHS) and DOA. We recommended these agencies take steps to assess and implement additional or changed processes to address the identified weaknesses. (For details, see report 16-2, *State of Wisconsin FY 2014-15 Financial Statements*.)
- We determined the lack of preparation of complete and timely monthly bank reconciliations by the State Controller’s Office in DOA to be a significant deficiency in internal controls over financial reporting. (For details, see the letter to the Joint Legislative Audit Committee, dated December 2, 2016.)

We also identified instances in which we questioned whether a fund administered by a state agency or that is funded by state revenue had a balance that was larger than necessary. For example:

- DOA charges the USF an administrative fee for services, such as help desk assistance, provided to users of the BadgerNet Converged Network, including an administrative services fee paid to DOA by tribes, counties, and certain other entities that also use the network. We found that in FY 2013-14, administrative services fee revenues exceeded expenditures by \$1.3 million. As of June 30, 2014, the ending cash balance in the appropriation used to account for these fees totaled \$3.7 million. We estimated that at least \$3.0 million, or 80 percent, of the cash balance could be attributed to the administrative services fee paid by the USF. After our inquiries, DOA reduced the fee charged to the USF from 10 percent to 3 percent, retroactive to the beginning of FY 2014-15. DOA estimated that the administrative services fee it charges to the USF would be reduced by as much as \$1.2 million in FY 2014-15. (For details, see report 15-5, *Universal Service Fund*.)
- We found that the Wisconsin Economic Development Corporation's (WEDC's) policy for managing its unassigned fund balance allowed it to maintain an unassigned fund balance of \$15.6 million as of June 30, 2014, which was larger than necessary because this balance need cover only its administrative expenditures. (For details, see report 15-3, *Wisconsin Economic Development Corporation*.)
- We found that the Injured Patients and Families Compensation Fund's net position increased significantly from \$445.0 million as of July 1, 2012, to \$733.9 million as of June 30, 2015. The Fund is administered by the Office of the Commissioner of Insurance. In October 2015, the Fund's actuary recommended a target range for the net position of between approximately \$86.4 million and \$376.6 million. As of September 30, 2015, the Fund's unaudited net position was \$783.0 million, which was \$406.4 million above the targeted maximum net position. We recommended that the Office of the Commissioner of Insurance

continue to work with the Fund's Board of Governors to monitor the Fund's net position and develop a plan to bring the net position within the target range established by the Board of Governors. (For details, see report 16-4, *Injured Patients and Families Compensation Fund*.)

We identified areas where improvements to program operations and effectiveness could be achieved. For example:

- We made recommendations to the Department of Workforce Development to address considerable variation among workforce development areas in annual average expenditures for services per Division of Vocational Rehabilitation participant and in participants' rehabilitation rates. (For details, see report 15-18, *Division of Vocational Rehabilitation*.)
- We found that the Department of Natural Resources (DNR) did not consistently follow its policies when issuing enforcement letters, known as notices of violation, to municipal and industrial permittees. We recommended that DNR regularly assess its performance in issuing notices of violation for municipal and industrial permittees based on its established policies and develop a strategy to increase the consistency between its enforcement policies and its actual practice of issuing notices of violation for these permittees (For details, see report 16-6, *Wastewater Permitting and Enforcement*.)
- We found that the Milwaukee County Behavioral Health Division (BHD) did not consistently include in its contracts the specific policies with which vendors providing community-based mental health services are expected to comply or the standards that BHD will use to measure performance. We recommended that BHD include performance-based standards in vendor contracts and annually review vendor performance. (For details, see report 16-14, *Milwaukee County Mental Health Board*.)

Other matters we analyzed in 2015 and 2016 are likely to be topics of ongoing legislative consideration. For example:

- We found that the net position of the Local Government Property Insurance Fund as of June 30, 2014, was a deficit of \$703,000. Enrollment in the Property Fund has declined due, in part, to the availability of other insurance options in the market and increasing Property Fund premiums. Subsequent to our audit period, the Property Fund's cash was depleted in September 2015 and it borrowed \$2.0 million from the General Fund as provided for under statute. This money was repaid. However, the Property Fund borrowed \$15.1 million from November 2015 through October 2016, and this amount was not repaid as of November 30, 2016. Statutes do not establish a limit on the extent to which the Property Fund may borrow from the General Fund for purposes of paying claims when Property Fund assets are insufficient. (For details, see report 15-16, *Local Government Property Insurance Fund*, and the letter to the Joint Legislative Audit Committee, dated December 13, 2016.)
- We found that, as of the end of FY 2015-16, the Read to Lead Development Fund is fully committed, and no additional amounts have been appropriated to the Fund for FY 2016-17. Amounts appropriated to a related GPR appropriation are also fully committed through FY 2016-17. Absent additional amounts appropriated to the Fund or the related GPR appropriation and absent funds received from private sources, amounts available to award grants to school boards and others in support of literacy and early childhood development programs in the future would be limited to unspent funds from prior-year grant awards funded by the Fund and minimal interest on unexpended balances. (For details, see report 16-9, *Read to Lead Development Fund*.)

We also identified issues related to information technology (IT). For example:

- We identified weaknesses in IT security policies, procedures, and controls related to DOA. We recommended that DOA improve its IT policies

and standards; the settings used to enforce its policies; and its oversight and monitoring of agency IT operations. (For details, see report 16-2, *State of Wisconsin FY 2014-15 Financial Statements*.)

- We identified weaknesses in IT security policies, procedures, and controls for several UW institutions. We recommended that UW System Administration assist UW institutions in implementing changes to IT controls and develop a UW System-wide IT security program. (For details, see report 16-3, *University of Wisconsin System*.)

We also questioned the appropriateness of expenditures and recommended improvements to the State's administration of federal funds. For example:

- DHS administers the Money Follows the Person (MFP) program, which helps Medical Assistance participants transition from institutions, such as nursing homes, to the community. We found DHS inappropriately charged \$920,539 of unallowable costs to federal MFP accounts because it did not have sufficient procedures in place to ensure that transactions for the MFP program were reasonable and free of material errors. We recommended DHS return the \$920,539 to the federal government and develop procedures to ensure only allowable costs are claimed for federal reimbursement. Because of the significance of the errors identified in relation to the \$9.6 million expended under the program, we qualified our opinion on compliance with federal requirements for the MFP program. (For details, see report 16-5, *State of Wisconsin FY 2014-15 Single Audit*.)
- Although state agencies generally complied with federal requirements, for FY 2013-14, we made 31 recommendations to improve the administration of federal programs, including 20 new recommendations and 11 recommendations to address concerns from the prior single audit that remained unresolved. For FY 2014-15, we made 29 recommendations, including 10 new recommendations and 19 recommendations to address concerns from the prior single audit that

remained unresolved. (For details, see report 15-2, *State of Wisconsin FY 2013-14 Single Audit*, and report 16-5, *State of Wisconsin FY 2014-15 Single Audit*.)

## **Fraud, Waste, and Mismanagement Hotline**

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

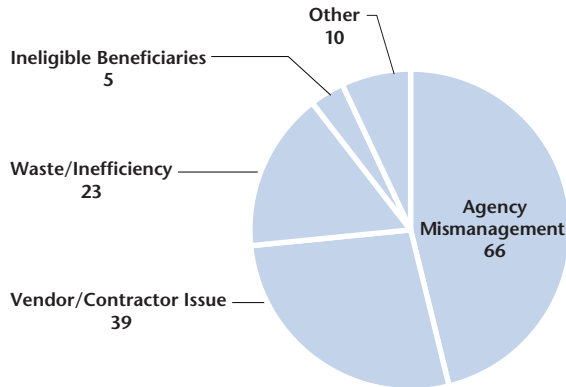
The hotline has been in operation since April 2008 and is administered by a certified fraud examiner. It does not duplicate or replace other government hotlines or complaint resources. Since its inception, we have addressed 895 hotline reports alleging fraud, waste, and mismanagement by:

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

From January 1, 2015, through December 31, 2016, 143 of the 185 concerns reported to the hotline were state-related issues. As shown in Figure 1, the majority of such reports pertained to concerns about state agency mismanagement, such as compliance with applicable laws, personnel matters, or policy issues.

Figure 1

**Reports of Fraud, Waste, and Mismanagement in State Government<sup>1</sup>**  
2015 and 2016

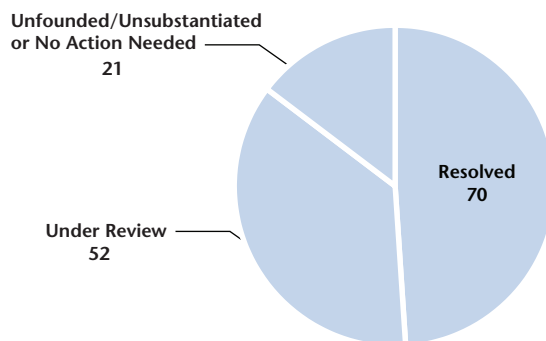


<sup>1</sup> A total of 143 state-related reports were received from January 1, 2015, through December 31, 2016.

As shown in Figure 2, we resolved 70 of the reports to the hotline either directly or by referral and determined that 21 reports were unfounded, unsubstantiated, or required no action as of December 31, 2016. Of the 52 reported concerns under review as of December 31, 2016, 30 reports relate to the Wisconsin Veterans Home at King, which is administered by the Department of Veterans Affairs (DVA). These reported concerns remain under review while we conduct fieldwork for an audit approved by the Joint Legislative Audit Committee in September 2016.

Figure 2

**Status of Reports Received in 2015 and 2016<sup>1</sup>**  
As of December 31, 2016



<sup>1</sup> A total of 143 state-related reports were received from January 1, 2015, through December 31, 2016.

During the biennium, we received 36 allegations pertaining to non-emergency medical transportation provided to Medical Assistance recipients. These services are administered by DHS and have been provided by a private vendor since 2012. The Joint Legislative Audit Committee approved an audit of non-emergency medical transportation services, and our audit report that addressed the 36 allegations was released in May 2015 (report 15-4).

The following examples illustrate the variety and breadth of other hotline issues:

- In December 2013, we received a report concerning UW System institutions' statutory compliance in awarding nonresident tuition remissions. A tuition remission is an assessable amount of tuition which is not charged to the student. Statutes permit the Board of Regents to grant tuition remissions under several circumstances. The report to the hotline included questions about how UW System institutions assessed tuition remissions for foreign and undocumented foreign students. We assessed UW System institutions' practices in awarding tuition remissions as part of our FY 2013-14 financial audit of UW System and released the results in February 2015 (report 15-1).

We found that s. 36.27 (3), Wis. Stats., provides the Board of Regents considerable discretion in awarding tuition remissions. However, we identified some inconsistencies among institutions in tuition remission practices. We recommended that UW System complete an additional review of UW System institutions' remission practices and report to the Joint Legislative Audit Committee in October 2015. In July 2016, statutory changes were made as part of 2015 Wisconsin Act 55, the 2015-17 Biennial Budget Act, to provide UW System increased flexibility for nonresident tuition remissions.

- In January 2015, we received a hotline report concerning grant awards made by DVA under the county veterans service office grant program. We identified that DVA awarded one county \$17,000 in grant awards during 2013 and 2014 that did not comply with statutory requirements. We recommended that DVA comply with statutory requirements in administering the grant program.



Subsequent statutory changes were also made as part of 2015 Wisconsin Act 55, the 2015-17 Biennial Budget Act, to improve DVA's oversight of the grant program.

- In May 2015, we received a hotline report concerning the licensure of a charter school principal. The Department of Public Instruction (DPI) reviewed the matter and corroborated that the individual had been operating as a charter school principal since 2013 without a state license. DPI staff attributed the lack of a license, in part, to DPI system changes and indicated that DPI needed additional time to develop an online application following April 2014 legislation that established new requirements specific to a charter school principal license. However, DPI also did not detect that the individual had not followed through on an application for this new licensure until we contacted DPI in July 2015. After DPI contacted the individual, the individual subsequently completed an application and DPI issued a charter school principal license in August 2015.
- In July 2015, we received a report concerning the lack of effective monitoring and follow-up activities performed by DOA's Division of Housing related to recipients of the Community Development Block Grant (CDBG) program. We assessed DOA's monitoring and follow-up activities related to CDBG recipients as part of our FY 2014-15 single audit, noting that prior single audits had raised similar concerns with DOA's oversight. Report 16-5 included recommendations for DOA to improve its monitoring of CDBG recipients by developing a monitoring plan, implementing this plan, and developing a process to track its correspondence. We will review DOA's progress in these areas during our FY 2015-16 single audit.
- In January 2016, we received a report alleging that an inappropriate relationship may have existed between a technical college and a local municipality. In March 2016, we communicated the allegation to the Wisconsin Technical College System (WTCS). In its review, WTCS found that the technical college entered into a lease with the

municipality without obtaining the required approval from the WTCS board. Recommendations were made for the invalid lease to be terminated and for the technical college to review possible violations of the employee code of conduct with parties involved in the original agreement. The technical college subsequently terminated the invalid lease.

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## Report Summaries ■

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A chronological summation of reports published in 2015 and 2016 follows. As noted, the full text of each document is available at [www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab). Appendix 3 is an index of reports by audit topic and Appendix 4 is an index of reports by audited entity.

### Reports Published in 2015

#### Report 15-1: University of Wisconsin System (February 2015)

We provided an unmodified opinion on UW System's FY 2013-14 and FY 2012-13 financial statements. As of June 30, 2014, UW System's net position, which provides a measure of its overall financial condition, was \$6.3 billion. We analyzed aspects of UW System's budget and made recommendations related to its reporting on program revenue balances and its consistency in awarding tuition remissions.

#### Report 15-2: State of Wisconsin FY 2013-14 Single Audit (March 2015)

State agencies administered \$12.1 billion in federal financial assistance in FY 2013-14. We provided an unmodified opinion on federal compliance and included 31 recommendations related to the administration of federal programs. We also questioned more than \$224,000 in costs charged to federal programs.

#### Report 15-3: Wisconsin Economic Development Corporation (May 2015)

In FY 2013-14, WEDC administered 29 programs through which it provided \$88.7 million in tax credits, authorized local governments to issue \$28.4 million in bonds, and awarded \$19.4 million in loans and \$17.2 million in grants. WEDC did not consistently follow statutes or its policies when making grant, loan, and tax credit awards, and it did not comply with all statutory requirements related to

program oversight. Although WEDC had improved its financial management practices in FY 2013-14, we included recommendations for WEDC to revise its fund balance policy and to improve its administration and oversight of its programs.

**Report 15-4: Non-emergency Medical Transportation (May 2015)**

*Department of Health Services*

DHS administers the State's Medical Assistance program, which includes non-emergency medical transportation services for individuals with low and moderate incomes. From August 2013 through June 2014, Medical Transportation Management (MTM), Inc., a transportation broker with which DHS has contracted, provided 2.3 million trips to approximately 69,300 Medical Assistance recipients. We analyzed concerns with the transportation provided by MTM, including no-shows and late arrivals, and we made recommendations to improve non-emergency medical transportation services and enhance oversight by DHS.

**Report 15-5: Universal Service Fund (June 2015)**

We provided an unmodified opinion on the USF's financial statements for FY 2013-14 and FY 2012-13, and we reported a material weakness in the Public Service Commission's internal control over financial reporting. The USF is funded by assessments on telecommunications providers that are typically recovered from consumers. In FY 2013-14, the USF provided \$39.6 million for 13 programs operated by four state agencies, including all state aid to public library systems.

**Report 15-6: Retirement Funds Investment Activity (June 2015)**

*State of Wisconsin Investment Board*

We provided unmodified opinions on the financial statements for the Retirement Funds investment activity for the year ended December 31, 2014, and for the six-month period from July 1, 2013, through December 31, 2013.

*The financial statements and our auditor's opinions on them are published separately in SWIB's 2014 Retirement Funds Annual Report.*

**Report 15-7: Health Insurance Risk-Sharing Plan (June 2015)**

We completed a final financial audit of the Health Insurance Risk-Sharing Plan (HIRSP) and provided an unmodified opinion on the HIRSP Authority's financial statements for the two-month period ended February 28, 2014. We also reviewed the close out of the financial activity of the HIRSP plans through May 2015. As of May 31, 2015, a cash balance of \$1.4 million remained. We recommended that the Office of the Commissioner of Insurance return any required funds to the federal government and work with the HIRSP Advisory Committee to determine the appropriate actions related to the remaining cash balance.

**Report 15-8: Unemployment Reserve Fund (July 2015)**

*Department of Workforce Development*

We provided an unmodified opinion on the Unemployment Reserve Fund's financial statements for FY 2013-14 and FY 2012-13. During FY 2013-14, the Fund's net position increased to \$329.4 million. We recommended the Department of

Workforce Development continue to work with the Unemployment Insurance Advisory Council and take steps to further improve the net position of the Fund.

**Report 15-9: Wisconsin Lottery (July 2015)**

*Department of Revenue*

We provided an unmodified opinion on the Wisconsin Lottery's financial statements for FY 2013-14 and FY 2012-13. Lottery ticket sales increased from \$566.1 million in FY 2012-13 to \$568.8 million in FY 2013-14, or by 0.5 percent. During FY 2013-14, lottery proceeds used for property tax relief totaled \$168.4 million. We found that the Wisconsin Lottery was in compliance with statutory spending limitations related to prizes, product information, administrative expenses, and retailer compensation.

**Report 15-10: Medical Education, Research, and Public Health Grants (August 2015)**

*Medical College of Wisconsin  
UW School of Medicine and Public Health*

In 2004 and 2007, the Medical College of Wisconsin (MCW) and UW School of Medicine and Public Health received endowment funds to provide grants for medical education and research programs and public health programs. From 2009 through 2013, MCW spent \$67.5 million and UW spent \$67.8 million for medical education and research projects, public health projects, and associated administration. Although we found that both schools generally complied with requirements they had established, we made recommendations to improve each school's oversight and administration of grant funds.

**Report 15-11: Wisconsin Retirement System (August 2015)**

We provided an unmodified opinion on the financial statements and related notes of the WRS for calendar year 2014. The fiduciary net position of the WRS increased from \$89.9 billion as of December 31, 2013, to \$92.2 billion as of December 31, 2014, or by 2.5 percent. We included information in our report regarding the application of the new pension accounting standards to the WRS, including the calculation of a \$2.5 billion net pension asset for the WRS as of December 31, 2014. In addition, we included a recommendation for ETF to improve its financial reporting process.

**Report 15-12: Wisconsin Retirement System Reporting for Participating Employers (August 2015)**

We provided unmodified opinions on the Schedule of Employer Allocations for the WRS and the specified total amounts on the Schedule of Pension Amounts by Employer for the WRS, and the related notes, for calendar year 2014. ETF prepared the schedules to assist participating WRS employers in reporting their proportionate share of the \$2.5 billion net pension asset, as well as other amounts, in their own financial statements.

*The schedules and our auditor's opinions on them are included in the report on the schedules that ETF published separately.*

**Report 15-13: Complaints Considered by the Government Accountability Board (August 2015)**

We completed certain audit work that we could not finish in report 14-14 because our scope was limited by a July 2014 opinion from the Attorney General. From FY 2010-11 through FY 2012-13, an estimated 1,894 complaints were filed with GAB's Elections Division, an estimated 204 inquiries were initiated by GAB's Ethics and Accountability Division, and 21 investigations were initiated by GAB. We recommend GAB's staff consistently provide GAB with the names of three qualified individuals who may be retained as a special investigator, and consistently resolve complaints in a timely manner.

**Report 15-14: Petroleum Inspection Fee Revenue Obligations Program (October 2015)**

We provided an unmodified opinion on the FY 2014-15 and FY 2013-14 financial statement of the program, which issued revenue bonds and other debt to fund claims under the Wisconsin Petroleum Environmental Cleanup Fund Award (PECFA) program. As of June 30, 2015, outstanding revenue obligations totaled \$139.2 million, which is to be repaid using a \$0.02 per gallon fee imposed on suppliers of petroleum products sold in Wisconsin.

**Report 15-15: Read to Lead Development Fund (October 2015)**

From the creation of the Fund in April 2012 through FY 2014-15, 13 grant recipients were awarded a total of \$336,926 in support of literacy and early childhood development programs. As of the end of FY 2014-15, \$109,408 was available in the Fund for future grant awards. We recommended that the next annual report to the Legislature include additional information on plans for awarding grants in the future and for raising private funds.

**Report 15-16: Local Government Property Insurance Fund (November 2015)**

We provided an unmodified opinion on the Property Fund's financial statements for the fiscal years ended June 30, 2014, June 30, 2013, and June 30, 2012. As of June 30, 2014, the Property Fund insured \$51.9 billion in property owned by 983 units of local government. The Property Fund's net position as of June 30, 2014, was a deficit of \$703,000. We recommended that the Office of the Commissioner of Insurance report certain information to the Joint Legislative Audit Committee by July 8, 2016.

**Report 15-17: Wisconsin Retirement System Actuarial Audit (December 2015)**

As required by statute, we contracted for an actuarial audit of the WRS. The limited-scope audit was conducted by Segal Consulting and included verification of actuarial assumptions and valuation methods used for the WRS by ETF and its consulting actuary for the actuarial valuation as of December 31, 2013. Segal Consulting reported that its audit validated the 2013 WRS actuarial valuation, and it made several recommendations to improve the consulting actuary's annual actuarial valuations.

**Report 15-18: Division of Vocational Rehabilitation (December 2015)***Department of Workforce Development*

We found that annual average expenditures for services per participant, as well as rehabilitation rates of participants, varied considerably among the Division of Vocational Rehabilitation's 11 workforce development areas. Our review of 100 closed cases indicated that the Division of Vocational Rehabilitation generally served these participants appropriately, but we identified some concerns. We recommended the Department of Workforce Development improve its program management, including by examining and assessing the variations in annual average expenditures per participant and rehabilitation rates.

**Report 15-19: State Investment Fund (December 2015)***State of Wisconsin Investment Board*

We provided an unmodified opinion on the financial statements of the State Investment Fund for the fiscal year ended June 30, 2015. The State Investment Fund invests the excess operating funds of state agencies, the WRS, and the Local Government Investment Pool.

*The financial statements and our auditor's opinion on them are published separately in SWIB's State Investment Fund Annual Financial Report for the fiscal year ended June 30, 2015.*

## Reports Published in 2016

### Report 16-1: Department of Employee Trust Funds (January 2016)

We provided unmodified opinions on the financial statements of ETF for 2014. ETF's financial statements present 14 separate funds used to account for the financial position and activity of the various benefit programs available to state and local public employees. These programs include the WRS and health and life insurance programs for active and retired employees of the State and participating local governments.

*The financial statements and our auditor's opinions on them are published separately in ETF's 2014 Comprehensive Annual Financial Report.*

### Report 16-2: State of Wisconsin Fiscal Year 2014-15 Financial Statements (February 2016)

We provided unmodified opinions on the State of Wisconsin's FY 2014-15 financial statements. We recommended DOA improve its IT policies and standards; the settings used to enforce its policies; and its oversight and monitoring of agency IT operations. We recommended UW System Administration assist UW institutions in implementing changes to IT controls and develop a UW System-wide IT security program.

*The financial statements and our auditor's opinions on them are published separately in the State of Wisconsin's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015.*

### Report 16-3: University of Wisconsin System (February 2016)

We provided an unmodified opinion on UW System's FY 2014-15 and FY 2013-14 financial statements. As of June 30, 2015, UW System's net position, which provides a measure of its overall financial condition, was \$6.7 billion. We recommended UW System Administration review institution reserves policies and improve its oversight and administration of investments. We also recommended UW System Administration assist UW institutions in implementing changes to IT controls and develop a UW System-wide IT security program. Because UW System's financial activity is included in the State of Wisconsin's *Comprehensive Annual Financial Report*, we also included this recommendation in report 16-2.

*The financial statements and our auditor's opinion on them are published separately in UW System's 2015 Annual Financial Report.*

### Report 16-4: Injured Patients and Families Compensation Fund (March 2016)

We provided an unmodified opinion on the Fund's financial statements as of and for the fiscal years ended June 30, 2015, June 30, 2014, and June 30, 2013. The Fund's net position increased significantly during our audit period from \$445.0 million as of July 1, 2012, to \$733.9 million as of June 30, 2015, because of reductions in the actuarial estimates for loss liabilities and improvements in the investment markets. We recommended the Office of the Commissioner of Insurance continue to work



with the Fund's Board of Governors to monitor the net position of the Fund and develop a plan to bring the net position within the target range established by the Board of Governors. We further recommended the Office of the Commissioner of Insurance comply with the Board of Governors policy to have an actuarial audit completed every three years.

**Report 16-5: State of Wisconsin FY 2014-15 Single Audit (March 2016)**

We completed the FY 2014-15 single audit of the State of Wisconsin, including UW System. State agencies administered \$12.0 billion in federal financial assistance in FY 2014-15. Although state agencies generally complied with federal requirements, we qualified our opinion on compliance with federal compliance for 1 of the 24 programs we reviewed. We also questioned nearly \$2.0 million in costs charged to federal programs.

**Report 16-6: Wastewater Permitting and Enforcement (June 2016)**

*Department of Natural Resources*

In FY 2014-15, DNR spent \$10.4 million to regulate approximately 1,250 municipal and industrial wastewater treatment facilities and large livestock farms. We found that DNR did not consistently meet its goals for issuing timely permits or for the frequency of permittee inspections and did not consistently follow its policies when issuing enforcement letters for certain violations. We made recommendations for DNR to improve program administration, better align its enforcement practices with its policies, and increase regulatory consistency among its regions.

**Report 16-7: Wisconsin Lottery (July 2016)**

We provided an unmodified opinion on the Wisconsin Lottery's financial statements for FY 2014-15 and FY 2013-14. Lottery ticket sales increased from \$568.8 million in FY 2013-14 to \$574.6 million in FY 2014-15, or by 1.0 percent. Operating expenses increased from \$408.7 million in FY 2013-14 to \$415.4 million in FY 2014-15, or by 1.6 percent. During FY 2014-15, lottery proceeds used for property tax relief totaled \$166.4 million.

**Report 16-8: Petroleum Inspection Fee Revenue Obligations Program (November 2016)**

We provided an unmodified opinion on the Petroleum Inspection Fee Revenue Obligations Program's financial statement for FY 2015-16 and FY 2014-15. The program was established to provide financing to pay claims under the State of Wisconsin Petroleum Environmental Cleanup Fund Award (PECFA) program. A \$0.02 per gallon fee charged for petroleum products received for sale in Wisconsin will be used to repay the \$112.6 million in revenue obligations outstanding as of June 30, 2016. 2015 Wisconsin Act 55 sunsets the PECFA program, but debt will remain outstanding until fully repaid.

**Report 16-9: Read to Lead Development Fund (November 2016)**

From the creation of the Fund in April 2012 through FY 2015-16, 17 grant recipients were awarded a total of \$513,359 in support of literacy and early childhood

development programs. As of the end of FY 2015-16, the Fund is fully committed. A related GPR appropriation that, with the Fund, supports these grants, is also fully committed through FY 2016-17. We made recommendations to improve the process for awarding grants and to address the future of the grant program.

#### **Report 16-10: Wisconsin Retirement System (December 2016)**

We provided an unmodified opinion on the financial statements and related notes of the WRS for calendar year 2015. The fiduciary net position of the WRS decreased from \$92.1 billion as of December 31, 2014, to \$88.5 billion as of December 31, 2015, or by 4.0 percent, primarily as a result of a decrease in investment income. In addition, we again reported a significant deficiency in financial reporting and included a recommendation for ETF to improve its processes.

*The WRS financial statements and our auditor's opinion on them are published separately in ETF's report on the financial statements.*

#### **Report 16-11: Wisconsin Retirement System Reporting for Participating Employers (December 2016)**

We provided unmodified opinions on the Schedule of Employer Allocations for the WRS and the specified total amounts on the Schedule of Pension Amounts by Employer for the WRS, and the related notes, for calendar year 2015. ETF prepared the schedules to assist participating WRS employers in reporting their proportionate share of the \$1.6 billion net pension liability, as well as other amounts, in their own financial statements.

*The employer schedules and our auditor's opinions on them are published separately in ETF's report on the schedules.*

#### **Report 16-12: State Life Insurance Fund (December 2016)**

*Office of the Commissioner of Insurance*

The State Life Insurance Fund, which is self-funded through insurance premiums and investment earnings, provides low-cost life insurance to Wisconsin residents. Its financial statements for the years ended December 31, 2015, December 31, 2014, and December 31, 2013, were fairly presented on a regulatory basis in accordance with financial reporting requirements prescribed by the Commissioner of Insurance. The surplus-to-assets ratio, which had exceeded the statutorily specified range, decreased to be within range by the end of 2014.

#### **Report 16-13: Retirement Funds Investment Activity (December 2016)**

*State of Wisconsin Investment Board*

We provided unmodified opinions on the financial statements of the Retirement Funds for the year ended December 31, 2015. SWIB invests assets for the WRS that are held in the Core Fund and the Variable Fund. Together, these funds are known as the Retirement Funds.

*The financial statements and our auditor's opinions on them are published separately in SWIB's 2015 Retirement Funds Annual Report.*

**Report 16-14: Milwaukee County Mental Health Board (December 2016)**

Since July 2014, the Board has overseen the Behavioral Health Division of Milwaukee County. We found that BHD has not consistently delineated the specific programs it administers or the services it provides, budgeted on a program-level basis, developed performance indicators for each of the community-based programs it administers, or included in its vendor contracts the specific policies with which vendors are expected to comply or the standards that BHD will use to measure performance. We made recommendations to address these issues.

**Report 16-15: State of Wisconsin Investment Board (December 2016)**

As of December 2015, SWIB had \$99.1 billion in assets under management, and investment returns for the two funds of the WRS exceeded five-year benchmarks. Although it is too soon to evaluate several of SWIB's new investment strategies, we found that SWIB has not performed well compared to other large pension plans as of December 2015. We included recommendations for SWIB to work with the Board of Trustees to increase expense reporting, develop guidelines for an employee bonus deferral policy, and consider whether to make changes to board committees.

## **Statutorily Required Certifications**

**Certification of the State's Net Indebtedness as of January 1, 2015****Certification of the State's Net Indebtedness as of January 1, 2016**

These certifications are used to determine compliance with annual debt limits and were completed during the course of each annual audit of the State's financial statements.

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## **Appendices ■**

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## Appendix 1

### **Recurring Audit Responsibilities**

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

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

Statutes require us to conduct biennial performance evaluations of the State of Wisconsin Investment Board, the Wisconsin Economic Development Corporation, the Milwaukee County Mental Health Board, and the Opportunity Schools and Partnership Programs.

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

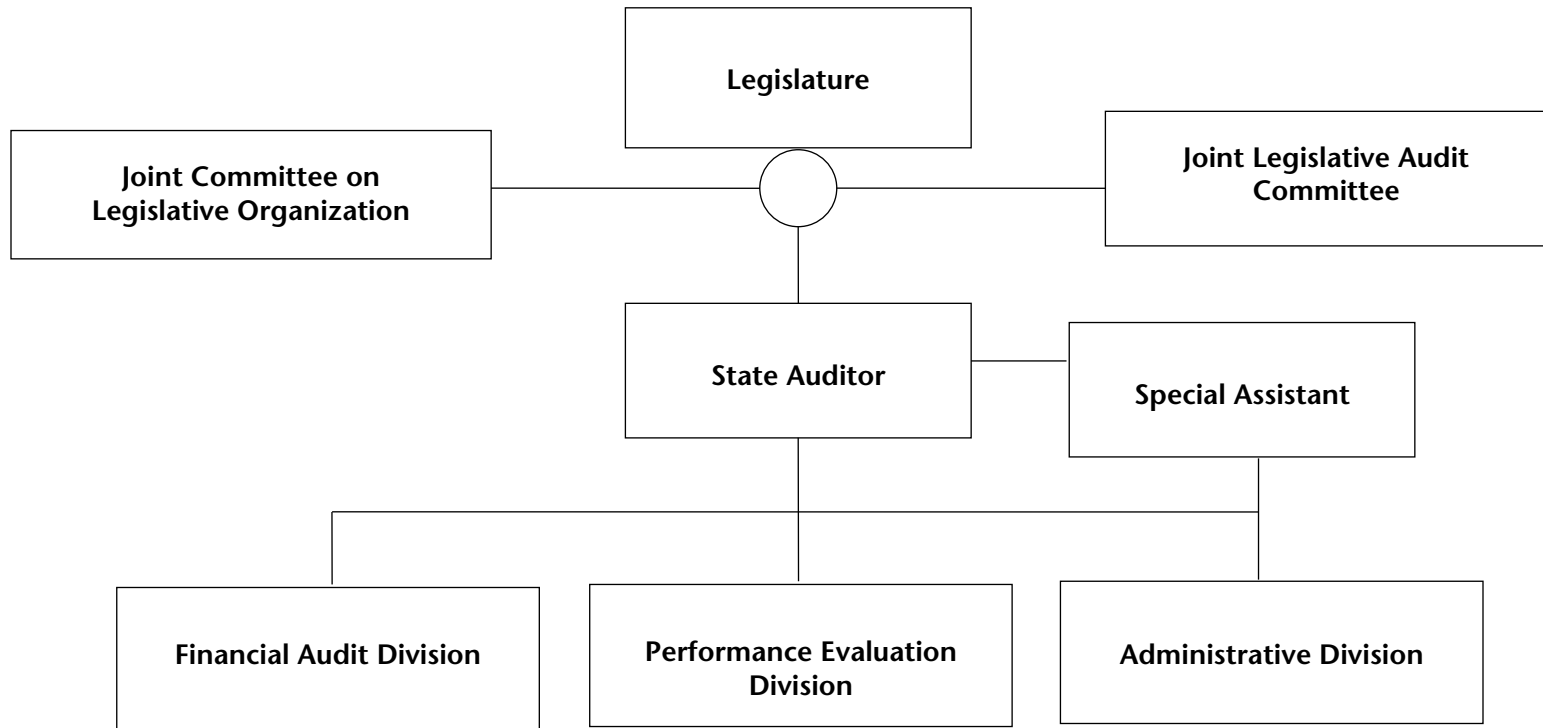
Statutes require us to periodically contract for an actuarial audit of the Wisconsin Retirement System and to conduct county and municipal best practices reviews. We are also required to review the quarterly statements of economic interest and reports of economic transactions that members and employees of the State of Wisconsin Investment Board file with the Wisconsin Ethics Commission, and we are responsible for conducting special examinations of the accounts and financial transactions of any department or office as the Legislature, the Joint Legislative Audit Committee, or the Joint Committee on Legislative Organization directs.





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