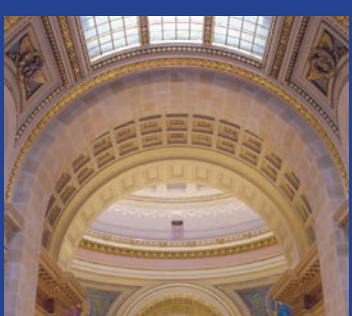
Report 17-20
December 2017

Department of Employee Trust Funds
Calendar Year 2016

State of Wisconsin



Legislative Audit Bureau

Report 17-20
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Department of Employee Trust Funds
Calendar Year 2016

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OPINIONS PUBLISHED SEPARATELY

The financial statements and our opinions on them are found in the Department of Employee Trust Funds' *2016 Comprehensive Annual Financial Report*

STATE OF WISCONSIN | Legislative Audit Bureau
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Joe Chrisman
State Auditor

December 8, 2017

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

Dear Senator Cowles and Representative Kerkman:

We have completed an audit of the Department of Employee Trust Funds (ETF), as required by s. 13.94 (1) (dd), Wis. Stats., and as requested by ETF. ETF's financial statements present 13 separate funds used to account for the financial position and activity of various benefit programs available to state and local government employees. These programs include the Wisconsin Retirement System (WRS) and health and life insurance programs for active and retired employees of the State and participating local governments. The statements, and our unmodified opinions on them, are included in ETF's *2016 Comprehensive Annual Financial Report*, which can be found on its website.

The WRS is the largest program administered by ETF. In report 17-16, we found that the WRS fiduciary net position, which represents resources available to pay pension benefits, increased from $88.5 billion as of December 31, 2015, to $92.6 billion as of December 31, 2016, or by 4.6 percent. ETF calculated a net pension liability of $0.8 billion as of December 31, 2016.

ETF contracts with third-party administrators to manage several of the benefit programs it administers. In our prior audit (report 17-7), we found ETF did not use available service organization audit reports to assess the controls employed by these administrators. ETF implemented additional processes during 2017 to require service organization audits of its third-party administrators and to review and assess controls based on the reports. In report 17-7, we also described the decline in the net position of the State Income Continuation Insurance (ICI) program, which is one of two programs that make up the ICI program. The balance for this program continued to decline, from a negative $25.6 million as of December 31, 2015, to a negative $28.4 million as of December 31, 2016. ETF has taken steps to help address the financial status of the program, including increasing 2017 premiums for the State ICI program. ETF indicates it is also currently seeking statutory changes for the State ICI program.

In report 17-7, we reported a significant deficiency related to improvements needed in ETF's financial reporting process. In our current audit, we noted certain improvements in ETF's financial reporting process. However, we continued to identify errors in the allocation of investment earnings and report this as an additional matter. The Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters begins on page 19.

We appreciate the courtesy and cooperation extended to us by ETF staff during the audit. A response from ETF follows the appendices.

Respectfully submitted,

Joe Chrisman
State Auditor

JC/CS/ss

Introduction ▪

ETF manages employee benefit programs for participating state and local government employees.

The Department of Employee Trust Funds (ETF) was created to manage employee benefit programs for participating state and local government employees. These programs include the Wisconsin Retirement System (WRS) and health and life insurance programs for active and retired employees of the State and participating local governments. ETF reports the financial activity of programs it administers in financial statements that are included in its separately issued Comprehensive Annual Financial Report (CAFR). The financial statements are prepared by ETF using generally accepted accounting principles (GAAP) prescribed by the Governmental Accounting Standards Board (GASB). Nine benefit programs are reported in ETF's CAFR:

- The WRS provides post-retirement financial benefits to participating employees, as well as disability and death benefits to participants and their beneficiaries. The WRS includes over 257,000 active members and 1,495 participating employers as of December 31, 2016, with a total membership of over 622,000, including annuitants and inactive members, which include participants who are not currently retired but are no longer employed by a participating employer and have chosen to maintain their WRS account.

- The Duty Disability Insurance program offers special disability benefits to the 22,223 active protective occupation members in the WRS, such as police officers, firefighters, and correctional officers, and provided benefits to approximately 1,000 disabled members or their beneficiaries as of December 31, 2016.

- The Long-Term Disability Insurance (LTDI) program provides disability benefits to members of the WRS. Those who were members in the WRS prior to October 15, 1992, have the option to select disability benefits, at the time of disability, from the LTDI or a disability retirement benefit from the WRS. During 2016, approximately 2,400 members received benefits under the LTDI program.

- The Accumulated Sick Leave Conversion Credits program provides for the conversion of the value of unused sick leave at the time of retirement into an account to be used to pay for post-retirement health insurance for retired employees of the State, the University of Wisconsin (UW) Hospitals and Clinics Authority, and other state authorities. There were approximately 16,500 retired employees and others using these credits as of December 31, 2016.

- The Group Life Insurance program offers group life insurance coverage for active and retired employees of the State and 738 local governments participating as of December 31, 2016. The financial activity of this program is separated into three funds for financial reporting: Life Insurance, State Retiree Life Insurance, and Local Retiree Life Insurance.

- The Employee Reimbursement Accounts (ERA) and Commuter Benefits program offers employees of the State pre-tax payroll deductions that are credited to an account for the reimbursement of qualifying medical costs, dependent care costs, and transportation expenses, such as bus passes, parking, and other transit costs. In 2016, approximately 17,600 employees used the medical account, 3,300 employees used the dependent care account, and 2,300 employees used the commuter benefit account.

- The Group Health Insurance program offers health insurance coverage, including pharmacy benefits, to active and retired employees of the State, the UW Hospitals and Clinics Authority, other state authorities, and 354 local governments participating as of December 31, 2016. Approximately 81,500 active employees and 29,000 retired employees participated in the program as of December 31, 2016. The financial activity of this program is separated into three funds for financial reporting: Health Insurance, State Retiree Health Insurance, and Local Retiree Health Insurance.

- The Income Continuation Insurance (ICI) program offers short-term and long-term disability benefits for employees of the State and 219 local governments participating as of December 31, 2016. During 2016, approximately 58,400 employees participated in this program, and benefits were provided to approximately 2,680 participants.

- The Milwaukee Retirement Systems program allows other retirement systems to have funds invested with the assets of the WRS. Currently, only the Milwaukee Public Schools Supplemental Retirement Program participates in this program.

ETF Administration

The administration of the programs reported in ETF's CAFR is overseen by boards that are responsible for establishing policies and providing oversight of the programs. The programs are administered by multiple entities, including ETF staff, third-party administrators, actuaries, and the State of Wisconsin Investment Board (SWIB).

The ETF Board is responsible for the overall direction and supervision of ETF.

Under s. 40.03, Wis. Stats., the 13-member ETF Board is responsible for the overall direction and supervision of ETF. Statutes specifically identify that, among other items, the ETF Board is responsible for:

- appointing the Secretary of ETF;

- selecting and retaining an actuary to perform all necessary actuarial services for benefit programs administered by ETF; and

- approving the contribution rates and actuarial assumptions determined by the actuary.

The 2017 ETF Board members are shown in Appendix 1 and include:

- the Governor, or the Governor's designee on the Group Insurance Board;
- the Administrator of the Division of Personnel Management in the Department of Administration (DOA), or designee;
- four members of the Teachers Retirement Board;
- four members of the Wisconsin Retirement Board;
- one member nominated by the Governor and appointed with the advice and consent of the Senate, as a public representative, who is not a member of the WRS but has at least five years of actuarial, insurance, or employee benefits plan experience;
- one annuitant elected by retired WRS participants; and
- one active WRS participant who must be either a technical college or school district educational support personnel employee, elected by participating employees who meet the same employment criteria.

Although the ETF Board is the overall governing body for ETF, the 13-member Teachers Retirement Board and the 9-member Wisconsin Retirement Board each serve in an advisory role on issues related to the WRS. The members of the Teachers Retirement Board and the Wisconsin Retirement Board represent state and local government employers, employees, annuitants, and the general public.

The Group Insurance Board oversees administration of the Group Health Insurance, Group Life Insurance, LTDI, and ICI programs.

In addition to the ETF Board, the 11-member Group Insurance Board is responsible for setting policies and overseeing administration of the Group Health Insurance, Group Life Insurance, LTDI, and ICI programs. The 2017 Group Insurance Board members are shown in Appendix 2 and include:

- the Governor, or designee;
- the Administrator of the Division of Personnel Management in DOA, or designee;

- the Attorney General, or designee;
- the Secretary of DOA, or designee;
- the Commissioner of Insurance, or designee;
- a member appointed by the Governor;
- an insured participant in the WRS who is a teacher and is appointed by the Governor;
- an insured participant in the WRS who is not a teacher and is appointed by the Governor;
- an insured participant in the WRS who is a retired employee and is appointed by the Governor;
- an insured participant who is an employee of a local unit of government and is appointed by the Governor; and
- the chief executive or member of the governing body of a local unit of government that is a participating employer in the WRS and is appointed by the Governor.

Table 1 lists the programs that ETF administers and the board that has authority over the policies and administration of each program.

Table 1

ETF Board and Group Insurance Board Authority, by Program
As of December 31, 2016

Program	ETF Board	Group Insurance Board
Wisconsin Retirement System	✓	
Duty Disability Insurance	✓	
Long-Term Disability Insurance		✓[1]
Accumulated Sick Leave Conversion Credits	✓	
Group Life Insurance[2]		✓
Employee Reimbursement Accounts and Commuter Benefits	✓[4]	
Group Health Insurance[3]		✓
Income Continuation Insurance		✓[1]
Milwaukee Retirement Systems	✓	

[1] At its February 8, 2017 meeting, the Group Insurance Board approved moving the authority of these programs to the ETF Board. Current statutes and administrative code must be modified to permit this change.

[2] Includes the Life Insurance, State Retiree Life Insurance, and Local Retiree Life Insurance funds.

[3] Includes the Health Insurance, State Retiree Health Insurance, and Local Retiree Health Insurance funds.

[4] At its September 21, 2017 meeting, the ETF Board approved moving the authority of this program to the Group Insurance Board.

ETF contracts with third-party administrators to manage several of the benefit programs.

The Secretary of ETF is charged with implementing the policies approved by each of the boards, and with managing the daily operations of ETF. Each program administered by ETF has its own unique requirements related to eligibility, contributions, benefit payment determination, and reporting. As of July 1, 2017, ETF was authorized 269.20 full-time equivalent positions. In addition, ETF has contracted with third-party administrators to manage several of the benefit programs. These third-party administrators perform administrative functions for the programs, such as determining participant eligibility, processing participant claims, and making benefit payments to participants. For instance, ETF has contracted with a third-party administrator to determine eligibility for and pay benefits to participants in the Income Continuation Insurance program.

ETF contracts with actuaries to perform actuarial calculations for several benefit programs.

ETF also uses actuaries to perform actuarial calculations for several benefit programs it administers. Although the role of the actuary for each program varies due to the different program requirements, the duties generally include performing calculations to project future benefit payments, determining a liability for costs that have been incurred but not reported, and comparing these liabilities against the projected assets that will be available. In addition, the actuaries may recommend changes to contribution rates intended to increase or decrease contribution revenues that provide future assets to fund projected liabilities.

Except group life insurance assets, which are held by the third-party administrator, the assets of all of the programs are invested by SWIB in one or more of the following funds: Core Retirement Investment Trust Fund (Core Fund), Variable Retirement Investment Trust Fund (Variable Fund), or the State Investment Fund (SIF). The Core Fund is a fully diversified fund, or balanced fund, which provides less volatile investment returns and is invested for the long term in several types of investments. The Variable Fund is an equity fund, or stock fund, which provides returns that are typically more volatile than the Core Fund. The SIF invests the excess operating funds of the State and local governments with the objective of providing liquidity, safety of principal, and competitive rates of return. For more information about the investment performance and financial condition of the Core Fund and Variable Fund as of December 31, 2016, and the SIF as of June 30, 2016, please see reports 17-12 and 17-3, respectively.

As shown in Table 2, ETF contracts with a third-party administrator to manage five of the nine benefit programs and uses actuaries for seven of the programs.

Table 2

ETF's Use of Third-Party Administrators and Actuaries, by Program
As of December 31, 2016

Program	Third-Party Administrator	Actuary
Wisconsin Retirement System		✓
Duty Disability Insurance		✓
Long-Term Disability Insurance	✓	✓
Accumulated Sick Leave Conversion Credits		✓
Group Life Insurance[1]	✓	✓
Employee Reimbursement Accounts and Commuter Benefits	✓	
Group Health Insurance[2]	✓	✓
Income Continuation Insurance	✓	✓
Milwaukee Retirement Systems	n/a	n/a

[1] Includes the Life Insurance, State Retiree Life Insurance, and Local Retiree Life Insurance funds.

[2] Includes the Health Insurance, State Retiree Health Insurance, and Local Retiree Health Insurance funds.

Monitoring Third-Party Administrators

Due to the number of programs that are administered by third-party administrators and the significance of the role these administrators have in managing the programs, monitoring the activities of third-party administrators is critical for the proper administration of ETF's programs. To provide assurance that the controls of a third-party administrator are effective, an independent audit of the entity's controls, completed under the American Institute of Certified Public Accountants' (AICPA) attestation standards may be useful.

In report 17-7, we found that ETF did not require a service organization audit, performed under these standards, for all of its third-party administrators. We also reported that ETF did not consider the impact of the results of these audits, including any identified deficiencies or recommended user controls, on the program. We recommended that ETF:

- obtain a service organization audit report from existing third-party administrators that would be considered a service organization under the AICPA's attestation standards;

- review the service organization audit reports to assess the effectiveness of the controls and the impact of identified deficiencies on ETF programs;

- assess the user controls recommended in the service organization audit reports and, as appropriate, ensure complementary controls are present at ETF; and

- ensure future contracts with third-party administrators that would be considered a service organization include provisions related to the completion of an annual service organization audit.

ETF has implemented a process for obtaining and reviewing service organization audit reports.

During our current audit, we found ETF's Office of Internal Audit facilitated the process for obtaining and reviewing the service organization audit reports for the third-party administrators. Under this process, both the Office of Internal Audit and the program area reviewed the reported deficiencies, as well as ETF's user controls and any complementary controls as identified in the report, to ensure they were appropriate. Finally, ETF stated that they have standardized non-negotiable language in their contracts that requires the completion of an annual service organization audit. We note that ETF included a provision related to the completion of an annual service organization audit in its audit contract with the pharmacy benefit manager for the group health insurance program in 2017.

Income Continuation Insurance

The ICI program provides income replacement for eligible state and local government employees affected by disabilities.

Created in 1972, the ICI program is an elective benefit program that provides income replacement for eligible State and local government employees who are unable to engage in substantial gainful activity for which they are reasonably qualified due to short-term disabilities, as well as certain disabilities that may last for extended periods. The ICI program is comprised of two programs: the State ICI program for participating state employees; and the Local ICI program, which serves local government employee participants. ETF, under direction of the ETF Secretary, is responsible for administering the ICI program with current oversight provided by the Group Insurance Board.

The ICI program is largely funded through premiums paid by state and local government employees and their employers as well as investment earnings, although local employees and their employers have not paid premiums since 2012 due to a premium holiday. ICI program expenses include benefit payments made in the current period, expenses for claims that have been incurred but not yet paid at calendar year end, and administrative expenses. In report 17-7, we described the net position for the State ICI program and Local ICI program and included recommendations to ETF related to monitoring the financial status of the program. During our current audit, we followed up on the financial status of the State ICI program and Local ICI program and ETF's monitoring of the ICI program.

Net Position Restricted for Benefits

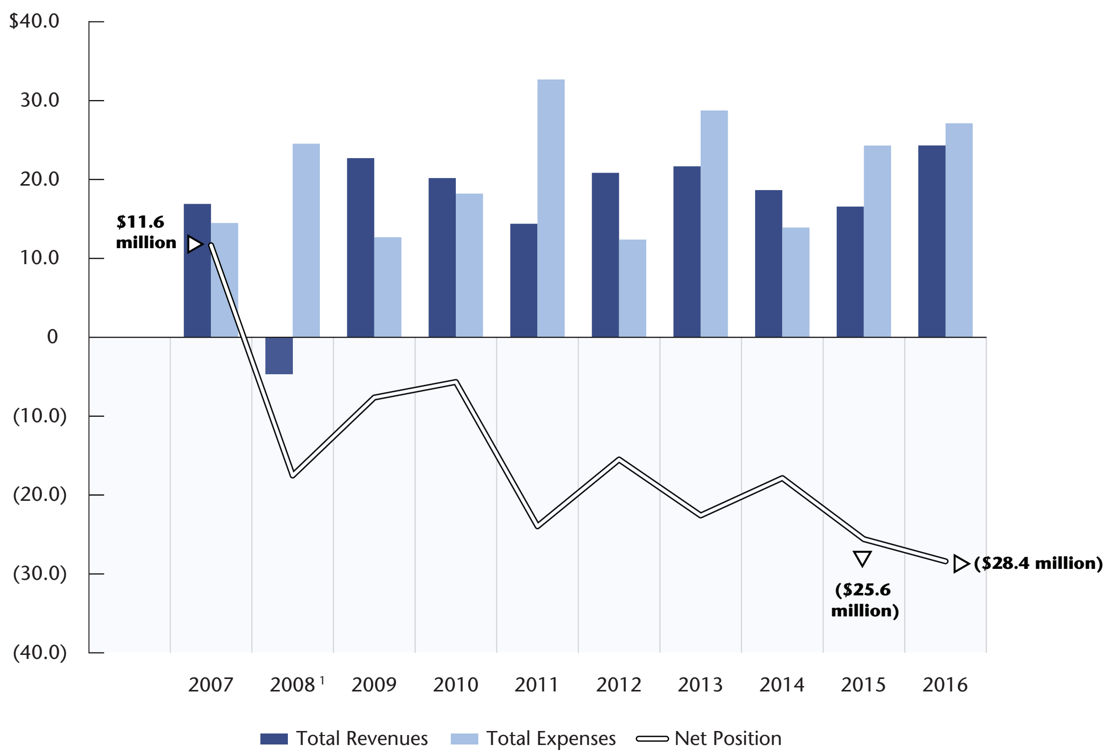
The Net Position Restricted for Benefits (net position) represents the excess of assets over liabilities and, therefore, the overall financial status of the program. When revenues exceed expenses, the net position increases. When expenses exceed revenues, the net position decreases. The net position reported for the overall ICI program was $2.8 million as of December 31, 2016. However, as we indicated in report 17-7, a separate evaluation of the net position of the State ICI program and the Local ICI program raises some concerns with the financial status of each program.

The net position of the State ICI program continued to decline from 2015 to 2016.

When separated, the State ICI program ended 2016 with a deficit balance, while the Local ICI program ended 2016 with a positive balance. As shown in Figure 1, because expenses exceeded revenues in calendar year 2016, the net position of the State ICI program continued to decline from a negative $25.6 million as of December 31, 2015, to a negative $28.4 million as of December 31, 2016, or by 11.0 percent.

Figure 1

State ICI Net Position
As of December 31
(in millions)



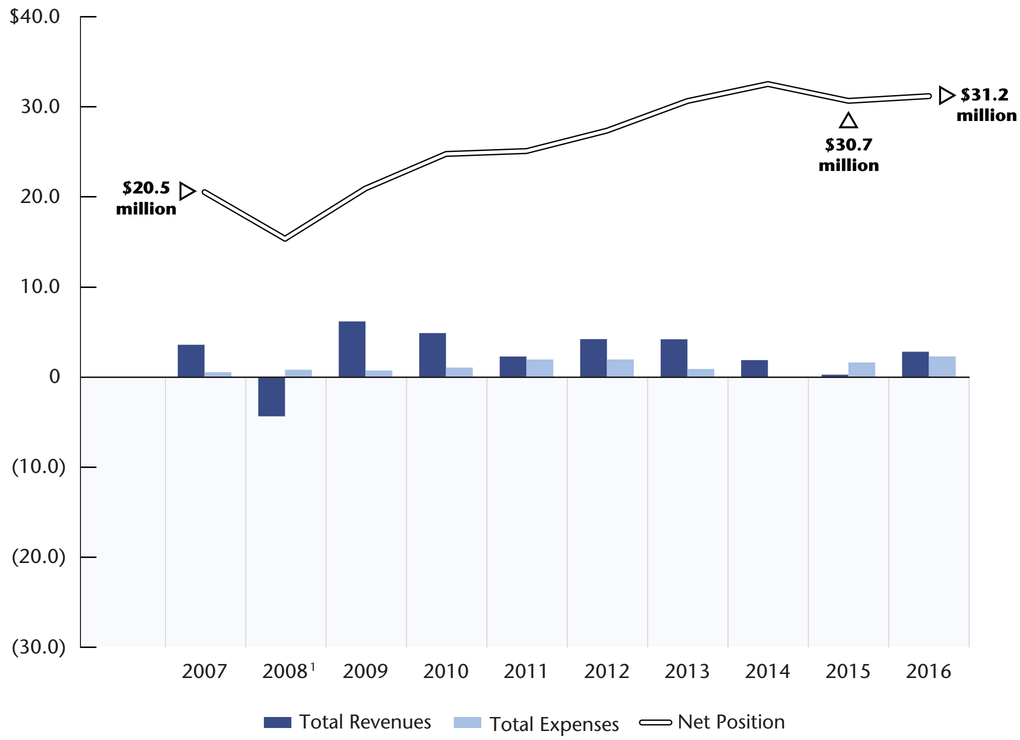
[1] Total revenue is negative due to the reporting of investment losses.

The net position of the Local ICI program increased from 2015 to 2016.

Conversely, the net position of the Local ICI program, as shown in Figure 2, increased from $30.7 million as of December 31, 2015, to $31.2 million as of December 31, 2016, or by 1.7 percent.

Figure 2

Local ICI Net Position
As of December 31
(in millions)



[1] Total revenue is negative due to the reporting of investment losses.

Prior Audit Recommendations

The assets of the State ICI program continued to be below the recommended balance.

To evaluate the financial status of the ICI program and to set premium rates, ICI actuaries compare assets to liabilities. ETF indicated that, based on past actuary recommendations, assets should equal or exceed liabilities by 15 to 25 percent for the State ICI program. For the Local ICI program, which has fewer participants and more volatility, ETF indicated that, based on past actuary recommendations, assets should equal or exceed liabilities by up to 100 percent. In report 17-7 we indicated that the assets of the State ICI program were below the minimum recommended, while the assets of the Local ICI program were above the maximum recommended for 2015. Because ETF's proposed changes to the State ICI program that are expected to bring the balance closer to the recommended balances have not been fully implemented, it was not unexpected that assets of the State ICI program continue to be below the minimum for 2016. Assets of the Local ICI program, which is currently on a premium holiday intended to bring the balance closer to the recommended balance, continues to be above the maximum recommended for 2016.

ETF has taken a variety of actions intended to improve the balance in the State ICI program.

ETF has taken a variety of actions intended to ensure that each program maintains the appropriate level of assets. Some of the actions include increasing premiums for the State ICI program and implementing a premium holiday for the Local ICI program. In addition, ETF, in collaboration with the actuary, worked to propose a redesign to the State ICI program, including changing the benefit structure and capping the number of months benefits can be paid, to ensure there are sufficient assets in the program to pay benefits. The redesign was approved by the Group Insurance Board in February 2017.

In report 17-7, we recommended that ETF continue to closely monitor the fund balance of both the State and Local ICI programs, work with the ICI program actuary to bring the actual fund balance closer to the fund balance recommended for each program, and report to the Joint Legislative Audit Committee by September 30, 2017, on the status of its fund balances and its efforts to redesign the ICI program. In its follow-up report submitted to the Joint Legislative Audit Committee in September 2017, ETF reported that it was working with the Legislative Reference Bureau on needed statutory changes and was continuing to closely monitor the financial status and funding levels of the State and Local ICI programs. ETF currently anticipates that statutory changes would become effective on January 1, 2020.

ETF's reported fund balance in its September 2017 follow-up report did not provide complete information.

We further note that in its September 2017 follow-up report ETF reported a positive fund balance as of December 31, 2016, of $52.0 million for the State ICI program and $37.4 million for the Local ICI program. The fund balances reported by ETF were based upon the total assets of each program and did not reflect the net position of negative $28.4 million for the State ICI program and a positive $31.2 million for the Local ICI program as shown in the calendar year 2016 financial statements. These differences are primarily due to $88.0 million in liabilities for the State ICI program and $5.4 million in liabilities for the Local ICI program. These liabilities reflect expected future claim payments for both current and future claimants and were not considered in the fund balance reported by ETF. Because these liabilities significantly decrease the available assets, ETF's reported fund balance in its September 2017 follow-up report did not provide complete information necessary to assess the financial status of the program.

Audit Results

The financial statements included in ETF's separately issued CAFR include information related to the contributions, benefits paid, and investment income of each program. The contribution and benefit requirements differ between the programs and are established by statute, administrative code, and board decisions. In addition, various tax laws may impact the administration of a program and the amount of contributions that may be collected or the benefits that may be provided. As required by statutes, we have completed an audit of the financial statements and related notes of the 13 funds reported in ETF's CAFR as of and for the year ended December 31, 2016. To complete our audit of the financial statements, we reviewed ETF's internal controls over financial reporting, tested financial transactions, and reviewed the financial statements, notes, and required supplementary information that were prepared by ETF management.

We provided an unmodified opinion on the financial statements of programs administered by ETF for the year ended December 31, 2016.

In addition to providing an unmodified opinion on the financial statements and related notes as of and for the year ended December 31, 2016, we have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which begins on page 19.

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Auditor's Report ■

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Joe Chrisman
State Auditor

Report 17-20

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 Employee Trust Funds Board and
Mr. Robert J. Conlin, Secretary
Department of Employee Trust Funds

We have audited the financial statements and related notes of the following fiduciary funds administered by the State of Wisconsin Department of Employee Trust Funds (ETF) as of and for the year ended December 31, 2016: the Wisconsin Retirement System, Duty Disability Insurance, Accumulated Sick Leave Conversion Credits, State Retiree Life Insurance, Local Retiree Life Insurance, Employee Reimbursement Accounts and Commuter Benefits, Milwaukee Retirement Systems, State Retiree Health Insurance, and Local Retiree Health Insurance. In addition, we have audited the following proprietary funds administered by ETF as of and for the year ended December 31, 2016: Long-Term Disability Insurance, Health Insurance, Income Continuation Insurance, and Life Insurance. We have issued our report thereon dated December 6, 2017. 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 report have been included in ETF's *2016 Comprehensive Annual Financial Report.*

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 financial statements, we considered ETF's internal control to determine the 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 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 ETF'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 the 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 direct and material effect on the determination of financial statement amounts. 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 reported a significant deficiency in the prior audit (report 17-7) related to improvements needed to ETF's financial reporting process. In our current audit, we noted certain improvements in the financial reporting process. However, we continued to identify errors in the allocation of investment earnings. We reported this concern to ETF.

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

Joe Chrisman
State Auditor

December 6, 2017

Appendices ■

Appendix 1

Employee Trust Funds Board Membership

2017

Name	Affiliation	Board Member Since
Wayne Koessl, Chair	Appointed by Wisconsin Retirement Board	1996
John David, Vice Chair	Appointed by Wisconsin Retirement Board	2008
Robert Niendorf, Secretary	Appointed by Teachers Retirement Board	1992
William Ford	Elected by retired WRS participants, and is a WRS annuitant	2011
Michael Langyel	Appointed by Teachers Retirement Board	2009
Leilani Paul	Elected by participating employees of either technical college or school district educational support personnel, and is an active WRS participant	2015
Roberta Rasmus	Appointed by Teachers Retirement Board	2012
Stacey Rolston	Designee of the Administrator, Division of Personnel Management, Department of Administration	2015
Victor Shier	Appointee of the Governor, with advice and consent of Senate, representing the public	2013
Mary Von Ruden	Appointed by Wisconsin Retirement Board	2009
David Wiltgen	Appointed by Teachers Retirement Board	2011
Bob Ziegelbauer	Designee of the Governor	2016
Vacant	Appointed by Wisconsin Retirement Board	

Appendix 2

Group Insurance Board Membership

2017

Name	Affiliation	Board Member Since
Michael Farrell, Chair	Appointee of the Governor	2012
Stacey Rolston, Vice Chair	Designee of the Administrator, Division of Personnel Management, Department of Administration	2015
Herschel Day, Secretary	Appointee of the Governor, insured participant in WRS who is a teacher	2013
Charles Grapentine	Appointee of the Governor, insured participant in WRS who is a retiree	2012
Waylon Hurlburt	Designee of the Secretary, Department of Administration	2017
Theodore Neitzke	Appointee of the Governor, insured participant in WRS who is an employee of a local unit of government	2014
Jennifer Stegall	Appointee of the Governor, insured participant in WRS who is not a teacher	2017
Francis Sullivan	Designee of the Attorney General	2017
Nancy Thompson	Appointee of the Governor, chief executive or member of the governing body of a local unit of government that participates in the WRS	2012
J.P. Wieske	Designee of the Commissioner of Insurance	2016
Bob Ziegelbauer	Designee of the Governor	2016

Response ■

State of Wisconsin
Department of Employee Trust Funds
Robert J. Conlin
SECRETARY

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December 6, 2017

JOE CHRISMAN, STATE AUDITOR
LEGISLATIVE AUDIT BUREAU
22 E MIFFLIN ST SUITE 500
MADISON WI 53703

Dear Mr. Chrisman,

Thank you for the opportunity to review and comment on the 2016 audit of the Department of Employee Trust Funds (ETF). As your report confirms, the Wisconsin Retirement System (WRS) continues to be in a strong financial position. The funding ratio of nearly 100% under the funding methodology demonstrates this. The funding ratio calculated under the Governmental Accounting Standards Board (GASB) financial reporting methodology of 99.1% is the highest funded ratio among the WRS peer group and increased from 98.2% the prior year.

ETF has made improvements to its financial reporting process this year and I am pleased LAB staff have recognized this. The issue related to the investment earnings allocation was a staff error and was communicated to one staff during the prior audit. After ETF management became aware of the issue during the 2016 audit, a complete review of the process was undertaken, the cause was identified and the correction was made. We also initiated a communication protocol with LAB staff to bring issues to management's attention.

I am also pleased the report recognized improvements in ETF's monitoring of third party administrators that ETF staff initiated back in June of 2015. ETF staff will continue to require service organization audit reports from third party administrators and will review them.

Regarding the Income Continuation Insurance program, as the report documents, ETF initiated various actions to address the funding status of the state program. ETF staff and its consulting actuary continue to monitor the financial status of the program. Complete information and a review of the liabilities, including the effect on fund balance, is included in the annual actuarial valuation which is provided to the Group Insurance Board in May of each year.

In closing, we appreciate the time and effort provided by the audit team as well as the professional working relationship.

Sincerely,

Robert J. Conlin
Secretary