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Correspondence Memorandum

Date: November 17, 2018
To: Audit Committee
From: Cindy Klimke-Armatoski, CPA
 Chief Trust Finance Officer
Subject: 2017 Annual Financial Reports

This memo is for informational purposes only. No Committee action is required.

The 2017 financial statements and related notes for the Wisconsin Retirement System (WRS) and other benefit plans have been prepared by ETF and audited by the Legislative Audit Bureau (LAB). ETF's *Comprehensive Annual Financial Report* (CAFR) as well as *Employer Schedules* for the WRS, State Retiree Life Insurance and Local Retiree Life Insurance have been published.

The WRS continues to be well funded. The funding ratio as of December 31, 2017, calculated in accordance with Governmental Accounting Standards Board (GASB) principles, is 102.9%, an increase from 99.1% reported as of December 31, 2016. The increase is primarily attributable to higher returns on investments due to strong market conditions in 2017.

Over the past two years ETF has focused on transforming its financial reporting process and increasing staff competencies. I am pleased with the progress staff have made. The results of the audit are a testament to our progress. The positive results also came in a year that included additional challenges as ETF implemented several complex accounting changes, including implementation of new GASB standards related to Other Postemployment Benefits (OPEB). The accounting changes are described in Note 2 of the CAFR. The new GASB standards also required new calculations, disclosures and additional reporting by ETF to participating employers of the State Retiree Life Insurance and Local Retiree Life Insurance plans.

In addition, this year the CAFR was published months earlier than past years. By completing the entire CAFR earlier, there is no need to issue separate financial reports for the WRS and OPEB plans to meet participating employers' financial reporting requirements. This has resulted in efficiencies for both ETF and LAB.

Reviewed and approved by Robert J. Conlin, Secretary

Electronically Signed 12/3/18

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During the audit LAB identified a deficiency in internal control related to the Wisconsin Employee Benefit System (WEBS) security. ETF staff annually reviews system security. Some security changes requested by managers during the 2017 review were not made in the system. ETF believes the risk associated with this issue was low, since other internal controls are in place. However, ETF agrees that further process changes are necessary to ensure requested access changes are completed in the system and has implemented additional controls since receiving the audit report.

Staff will be at the committee meeting to answer any questions.