



STATE OF WISCONSIN

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January 18, 2023

Members of the Employee Trust Funds Board and
Mr. A. John Voelker, Secretary
Department of Employee Trust Funds
4822 Madison Yards Way
Madison, Wisconsin 53705

Dear Members of the Employee Trust Funds Board and Secretary Voelker:

As required by s. 13.94, Wis. Stats., the Legislative Audit Bureau conducted a financial audit of the financial statements, which include the related notes, for employee benefit programs administered by the Department of Employee Trust Funds (ETF) as of and for the year ended December 31, 2021. We have completed our audit of these financial statements and have issued the results as report 23-3. These financial statements and related auditor's reports are included in ETF's *2021 Annual Comprehensive Financial Report*.

In performing this audit, we followed generally accepted auditing standards issued by the American Institute of Certified Public Accountants and *Government Auditing Standards*, which are issued by the Comptroller General of the United States. Our *Initial Audit Communication*, sent to you on June 30, 2022, included information that described the audit scope and objective, auditor's responsibilities, and other information about the Bureau. There was nothing that arose as part of our audit that affected those items previously communicated, and we conducted our audit consistent with the planned scope and timing. In performing our audit, we complied with all relevant ethical requirements included in the audit standards regarding independence.

Audit standards require us to communicate certain matters at the completion of our audit related to the conduct of the audit to those charged with governance, such as the ETF Board, which has responsibility for oversight of the financial reporting process.

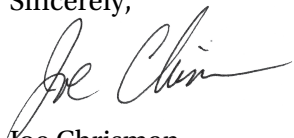
ETF chose to separately issue financial statements for certain programs it administered. We audited these financial statements as they were prepared and provided you with an *Ending Audit Communication*, dated September 30, 2022, related to our audit of ETF's separately issued financial statements and employer schedules for the Wisconsin Retirement System, Retiree Life Insurance programs, and the Supplemental Health Insurance Conversion Credit program.

We are pleased to provide you with this *Ending Audit Communication*, which provides the required auditor communications and the results of our audit of the financial statements included in ETF's *2021 Annual Comprehensive Financial Report*. Although this document is a matter of public record, it is intended solely for the information and use of ETF's management and the members of the

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ETF Board, and it is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink, appearing to read "Joe Chrisman". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Joe Chrisman
State Auditor

JC/ss

Enclosure

cc: Ms. Shirley Eckes, Deputy Secretary
Department of Employee Trust Funds

Ms. Cindy Klimke-Armatoski, Chief Trust Financial Officer
Division of Trust Finance
Department of Employee Trust Funds

Ms. Yikchau Sze, Director
Internal Audit
Department of Employee Trust Funds



State of Wisconsin Legislative Audit Bureau



Department of Employee Trust Funds Calendar Year 2021

ENDING

Audit Communication

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AUDIT RESULTS

We have issued unmodified opinions on the financial statements of the funds administered by ETF as of and for the year ended December 31, 2021.

Audit Opinions

The financial statements and related notes included in ETF's *2021 Annual Comprehensive Financial Report* (ACFR) were prepared by management in accordance with accounting principles generally accepted in the United States of America. We have audited these financial statements and have issued unmodified opinions on them as of and for the year ended December 31, 2021. In forming our opinions, generally accepted auditing standards and *Government Auditing Standards* require that we obtain reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high level of assurance but not absolute assurance. Therefore, reasonable assurance is not a guarantee that an audit conducted in accordance with these auditing standards will always detect a material misstatement when it exists.

Our opinions also include emphases of matter paragraphs related to the reporting entity, changes in financial reporting, and investments that do not have readily ascertainable market values.

We express no opinion on the management's discussion and analysis or other required supplementary information in ETF's ACFR. In addition, we express no opinion on the supplementary information included in the introductory, statistical, actuarial, investment, and the contributions paid and employer unfunded liability balances sections of ETF's ACFR.

Auditor's Report

We have also issued our independent auditor's report on ETF's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, and contracts that could have a direct and material effect on the financial statements. The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

Management Representations and Consultations

The written representations obtained from management during the audit are included with this communication.

ETF retains responsibility for the preparation and fair presentation of the financial statements, including the related notes, and the required supplementary information in accordance with accounting principles generally accepted in the United States of America; the design, implementation, and maintenance of adequate internal control; and compliance with provisions of applicable laws, regulations, and contracts. Our audit of the financial statements does not relieve management of its responsibilities. At the conclusion of the audit, management provided certain representations about the aforementioned responsibilities. Included with this communication is a copy of the written representations obtained from management during the audit.

In some cases, management may decide to consult with other accountants about auditing and accounting matters. We are not aware of other consultations with other accountants regarding auditing and accounting matters.

Significant Risks

We identified the following significant risks of material misstatement as a part of our audit, which are risks that require special audit consideration:

- management could override controls;
- complexity of financial reporting;
- significant estimates, including those determined by an actuary; and
- reliance on third-party administrators to manage various benefit programs.

We addressed significant risks by planning and performing audit procedures responsive to these risks.

We addressed these risks by planning and performing audit procedures responsive to these risks. These procedures included increased testing of these areas, including testing of internal controls, and increased scrutiny and auditor skepticism in assessing transactions and reviewing estimates. For example, we obtained and reviewed reports on controls in place at third-party administrators for certain benefit programs. The audit evidence obtained through our procedures to address these risks was sufficient for our audit opinions.

Significant Unusual Transactions

In our audit work, we did not identify significant unusual transactions, which are transactions that are outside the normal course of business or that otherwise appear unusual due to their timing, size, or nature.

Qualitative Aspects of Significant Accounting Practices

Significant Accounting Policies

Beginning in 2021, the accounting and financial reporting for certain external investment management fees for externally managed assets changed.

Management has the responsibility to select and use appropriate accounting policies. The significant accounting policies used in the preparation of the financial statements are discussed in the related notes to the financial statements, including in Note 2. Beginning in 2021, the accounting and financial reporting for certain external investment management fees for externally managed assets changed. These external investment management fees are now reported in Net Increase (Decrease) in the Fair Value of Investments account on the Statement of Changes in Fiduciary Net Position. In addition, as discussed in Note 2, the prior Real Estate account and Limited Partnerships account were combined into the Private Fund Investments account on the Statement of Fiduciary Net Position.

No matters have come to our attention that would require us to communicate the effect of a significant accounting practice used by management that may not be the most appropriate to the particular circumstances of the agency.

Significant Accounting Estimates

Accounting estimates, including fair value estimates, are an integral part of each financial statement and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and required supplementary information (RSI) and because of the possibility that future events affecting them may differ from management's current judgments. Estimated values reported in the financial statements and RSI may differ from the values that would have been used had actual amounts been known. In the following paragraphs, we describe the more significant accounting estimates presented in the financial statements and note disclosures. There have been no changes made by management to either the processes used to develop

these estimates or to the significant assumptions used in developing these estimates.

The financial statements, related note disclosures, and required supplementary information include actuarially determined liabilities and other amounts that are estimated.

The financial statements, related note disclosures, and required supplementary information include actuarially determined liabilities and other amounts that are estimated, including:

- the amounts disclosed in the notes to the financial statements and in the required supplementary information as the net pension asset for the Wisconsin Retirement System (WRS), the net other postemployment benefits (OPEB) liability for the State Retiree Life Insurance program, the net OPEB liability for the Local Retiree Life Insurance program, and the net OPEB asset for the Supplemental Health Insurance Conversion Credit (SHICC) program; and
- the liabilities reported in the financial statements and required supplementary information of the Duty Disability Insurance fund, Health Insurance fund, and Income Continuation fund.

These amounts are estimated through the hiring of qualified actuaries who estimate liabilities and other amounts based on assumptions that included, but were not limited to, investment returns, salary projections, service periods, and mortality rates. We based our conclusion regarding the reasonableness of these estimates on, among other things, the qualifications and reputation of the actuaries, the accuracy of information provided to the actuary, and the consistency of information in the actuarial valuation with other available information. Additionally, we hired an independent actuarial firm to review the actuarial assumptions and methods used by management's actuary for the State Retiree Life Insurance program, the Local Retiree Life Insurance program, and the SHICC program.

The amount reported as the liability for the basic Accumulated Sick Leave Conversion Credit program is calculated based upon the method prescribed by the Governmental Accounting Standards Board (GASB) Statement Number 16, *Accounting for Compensated Absences*. Management's process to calculate this liability is based upon an employee's sick leave balance at the end of the year, the employee's current rate of pay, and an estimate of the probability that current active employees will receive an amount, upon termination, to pay for health insurance

premiums. In estimating the probability, management used information that was developed by the actuary. We based our conclusion regarding the reasonableness of this estimate on, among other things, the qualifications and reputation of the actuary, the accuracy of the data used in the calculation, and the consistency of information with other available information.

The investments held by the WRS are generally reported at fair value based on various sources of pricing information.

As disclosed in Note 3 to the financial statements, the investments held by the WRS are generally reported at fair value based on various sources of pricing information. Depending on the type of investment, management has to make assumptions regarding the accuracy of the pricing information. The types of pricing information included, but were not limited to, quoted market prices on a publicly traded exchange; third-party pricing methods, such as independent appraisals; reports from asset managers and custodial banks; independent auditors' reports; a pricing matrix system that estimates discounted cash flows; and historical cost, if no other reliable information is available. We based our conclusion regarding the reasonableness of these estimates on, among other things, the quality and independence of the source of information, the qualifications and reputation of any specialists who provided pricing information, the effectiveness of controls in place at the State of Wisconsin Investment Board to obtain and review pricing information, the ability of management to override such controls, the effectiveness of controls in place at the external managers or custodial banks to generate and provide pricing information, general market conditions during and subsequent to our audit period, and the results of previous estimates.

Financial Statement Disclosures

Overall, the financial statement disclosures prepared by management provide information about the financial statements and are neutral, consistent, and clear. Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements are those that relate to the significant accounting estimates previously discussed.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in completing our audit or in working with management.

Uncorrected and Corrected Misstatements

For purposes of this communication, auditing standards define an audit adjustment as a proposed correction of the financial statements and note disclosures that, in our judgment, may not have been detected except through our auditing procedures. Our thresholds for reporting were developed in accordance with generally accepted auditing standards. There were no adjustments that met thresholds for reporting.

Disagreements with Management

We did not have any disagreements with management during the audit concerning matters that, individually or in the aggregate, could be significant to financial accounting, reporting, or auditing matters significant to the financial statements or auditor's reports.

Significant Issues Discussed or Subject to Correspondence with Management

We had significant discussions about ETF's decision to delay completion of its 2021 Annual Comprehensive Financial Report.

We had significant discussions or identified significant issues that were the subject of correspondence with management. The issues discussed with management during the audit included ETF's decision to delay completion of its *2021 Annual Comprehensive Financial Report* and separately issue financial statements for the WRS; retiree life insurance programs, which include the State Retiree Life Insurance program and the Local Retiree Life Insurance program; and the SHICC program.

Auditor Concerns

We communicated areas for improvement to ETF related to certain information technology system controls. These concerns did not rise to the level of reporting in our report on internal control and compliance, but are important for ETF to address.

ABOUT THE BUREAU

Mission Statement

The Bureau supports the Legislature in its oversight of Wisconsin government and its promotion of efficient and effective state operations by providing nonpartisan, independent, accurate, and timely audits and evaluations of public finances and the management of public programs. The Bureau is a legislative service agency and reports the audit results, including recommendations for improvements in agency operations, to the Legislature.

Access to Information

Statutes grant the Bureau access to any books, records, or other documents maintained by the auditee, including those that are confidential by law.

The auditee shall provide any information of which it is aware of being relevant to the audit and fulfill Bureau requests for additional audit information as well as access to auditee staff from whom the Bureau wishes to obtain audit evidence. The auditee will provide information in a timely manner.

Peer Review

The Bureau participates in a peer review program that subjects our system of quality control to an examination by a peer review team once every three years. As part of the process, the peer review team will review a sample of our work, some of which may include confidential information. Our latest peer review was completed in August 2021 and resulted in the Bureau earning the highest rating possible.

Confidentiality

Although generally accepted auditing standards and *Government Auditing Standards* require that we communicate certain matters to management and those charged with governance, we are statutorily required to keep an audit confidential until it is released. In accordance, we will complete certain audit procedures, such as draft audit-related communications, only through interactions with management.

Audit workpapers pertaining to a particular opinion or auditor's report will remain confidential during the audit process.

