



STATE OF WISCONSIN

# Legislative Audit Bureau

Joe Chrisman  
State Auditor

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January 24, 2025

Members of the Employee Trust Funds Board and  
Mr. A. John Voelker, Secretary  
Department of Employee Trust Funds  
4822 Madison Yards Way  
Madison, Wisconsin 53703

Dear Members of the Employee Trust Funds Board and Mr. Voelker:

As required by s. 13.94 (1) (dd), Wis. Stats., the Legislative Audit Bureau conducted a financial audit of the financial statements, including 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, 2023. We have completed our audit of these financial statements and have issued the results as report 25-02. These financial statements and related auditor's reports are included in ETF's 2023 Annual Comprehensive Financial Report (ACFR).

In performing this audit, we followed generally accepted auditing standards issued by the American Institute of Certified Public Accountants and *Government Auditing Standards*, which is issued by the Comptroller General of the United States. Our *Initial Audit Communication*, sent to you on May 31, 2024, 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.

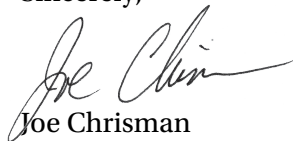
Audit standards require us to communicate certain matters at the completion of our audit related to the conduct of the audit to those charged with governance such as the ETF Board, which has responsibility for oversight of the financial reporting process.

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 12, 2024, related to our audit of ETF's separately issued financial statements and related employer schedules for the Wisconsin Retirement System, Retiree Life Insurance programs, and the Supplemental Health Insurance Conversion Credit program.

We now provide you with this *Ending Audit Communication*, which summarizes required auditor communications and the results of our audit. 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 ETF Board, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the courtesy and cooperation extended to us by ETF staff during the audit.

Sincerely,

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

Joe Chrisman  
State Auditor

JC/tl

Enclosure

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

Ms. Cindy Klimke-Armatoski, Chief Trust Finance 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 2023

### ENDING

### Audit Communication

#### AUDIT RESULTS

Page 2

Audit Opinions

Auditor's Report

Management  
Representations  
and Consultations

Page 3

Significant Risks

Significant Unusual  
Transactions

Page 4

Qualitative Aspects of  
Significant Accounting  
Practices

Page 6

Significant Difficulties  
Encountered During  
the Audit

Uncorrected and  
Corrected Misstatements

Disagreements with  
Management

Significant Issues  
Discussed or Subject  
to Correspondence  
with Management

Looking Ahead

## AUDIT RESULTS

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### Audit Opinions

The financial statements and related notes included in the Department of Employee Trust Funds' (ETF's) 2023 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, 2023. 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 is 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 and investments that do not have readily ascertainable market values. We express no opinion on management's discussion and analysis or other required supplementary information contained in ETF's ACFR. In addition, we express no opinion on the other information included in the introductory, statistical, actuarial, investment, and the contributions paid and employer unfunded liability balances sections of ETF's ACFR.

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### 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.

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### Management Representations and Consultations

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 preparation and fair

presentation of other information contained in the report; 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. During

the audit, ETF identified that it consulted with another audit firm in regards to changes in ETF's methodology to allocate program specific capital assets as part of ETF's implementation of a new accounting standard. ETF management informed us that there were no other consultations with other accountants regarding auditing and accounting matters.

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## Significant Risks

A significant risk is a risk that increases the likelihood and magnitude of a potential misstatement and requires special audit consideration. We identified the following significant risks of material misstatement as a part of our audit:

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

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

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## 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.

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## Qualitative Aspects of Significant Accounting Practices

### *Significant Accounting Policies*

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. There have been no initial selection of accounting policies and no significant changes in these policies as of and for the year ended December 31, 2023. Further, 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.

We noted ETF implemented Governmental Accounting Standards Board (GASB) Statement Number 96, *Subscription-Based Information Technology Arrangements*.

Although not significant, this standard resulted in a change to ETF's reporting of certain information technology software subscriptions. As part of ETF's implementation of GASB 96, ETF changed its methodology to allocate program specific capital assets. These changes are described in Note 2 of the financial statements.

### *Significant Accounting Estimates*

Accounting estimates, including fair value estimates, are an integral part of the financial statements 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 because of the possibility that future events affecting them may differ from management's current judgments. Estimated values reported in the financial statements 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, note disclosures, and required supplementary information. 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, including:

- the amounts disclosed in the notes to the financial statements and the required supplementary information as the net pension liability 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 Insurance 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 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.

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 include, but are 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 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, the results of previous estimates used to develop these estimates, and the significant assumptions used in developing these 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 users. The most sensitive disclosures affecting the financial statements are those that relate to the significant accounting estimates already discussed.

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## Significant Difficulties Encountered During the Audit

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

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## 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 our thresholds for reporting.

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## 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 report.

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## Significant Issues Discussed or Subject to Correspondence with Management

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 timelines for issuing the financial statements.

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## Looking Ahead

ETF will be implementing GASB Statement Number 101, *Compensated Absences*, for its 2024 ACFR. This new standard updates the recognition and measurement guidance for reporting compensated absences. It will be important for ETF to proactively assess the affect this standard will have on its financial reporting.

consider the impact the implementation of this system may have on financial reporting for its 2024 ACFR, either directly or indirectly through potential resource constraints.

In addition, ETF is in the process of implementing the Insurance Administration System. It will be important for ETF to



## 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 2024 and resulted in the Bureau earning the highest rating possible.

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### 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.





**STATE OF WISCONSIN**  
**Department of Employee Trust Funds**  
A. John Voelker  
SECRETARY

Wisconsin Department  
of Employee Trust Funds  
PO Box 7931  
Madison WI 53707-7931  
1-877-533-5020 (toll free)  
Fax 608-267-4549  
etf.wi.gov

January 22, 2025

Ms. Erin Scharlau, Audit Director  
Legislative Audit Bureau  
22 East Mifflin Street, Suite 500  
Madison, Wisconsin 53703

Dear Ms. Scharlau:

This representation letter is provided in connection with your audit of the financial statements for each of the programs administered by the Department of Employee Trust Funds and presented in its *2023 Annual Comprehensive Financial Report*, for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. The financial statements are comprised of:

- Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, and the related notes for the following fiduciary funds as of and for the year ended December 31, 2023—Wisconsin Retirement System, Supplemental Health Insurance Conversion Credit, Employee Reimbursement Accounts/Commuter Benefits, State Retiree Life Insurance, Local Retiree Life Insurance, Milwaukee Retirement Systems, and Local Retiree Health Insurance; and
- Statement of Net Position, Statement of Revenues, Expenses, and Changes in Fund Net Position, Statement of Cash Flows, and the related notes for the following proprietary funds as of and for the year ended December 31, 2023—Duty Disability Insurance, Health Insurance, Income Continuation Insurance, State Retiree Health Insurance, and Accumulated Sick Leave Conversion Credit.

Certain representations in this letter are described as being limited to matters that are material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of January 22, 2025:

*Financial Statements and Internal Controls*

1. We have acknowledged and fulfilled our responsibilities, as set out in the terms of the contract dated June 28, 2024, for the preparation and fair presentation of the financial

statements including related notes, and required supplementary information, in accordance with accounting principles generally accepted in the United States of America and other supplementary information included in the report.

2. We have accurately incorporated investment related information received from the State of Wisconsin Investment Board into the financial statements and note disclosures.
3. We have fulfilled our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. We are responsible for compliance with laws, regulations, and provisions of contracts applicable to the agency.
6. The financial statements properly classify all funds and activities.
7. The financial statements include all fiduciary activities required by GASB Statement No. 84, Fiduciary Activities, as amended.
8. There were no material omissions from the participants' data or other information provided to the actuaries for the purposes of determining the actuarial present value of accumulated plan benefits, the liability for claims incurred but not reported, and other actuarially determined amounts in the financial statements.
9. We agree with the findings of the actuaries in evaluating the Wisconsin Retirement System and other postemployment benefits (OPEB) and have adequately considered the qualifications of the actuaries in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to the actuaries with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the actuaries.
10. We agree with the actuarial assumptions and methods used to measure pension, OPEB, and insurance programs' liabilities and costs for financial accounting and funding purposes and believe they are appropriate in the circumstances.
11. There have been no:
  - a. Changes in the actuarial methods or assumptions used in calculating amounts presented in the financial statements, other than those disclosed in the notes to the financial statements, for the pension, OPEB, and insurance programs.

- b. Changes in plan or program provisions between the actuarial valuation date and the date of this letter, other than those disclosed in the notes.
- 12. Revenues and expenses have been appropriately classified and, as applicable for expenses, are appropriately allocated to functions and programs, and allocations have been made on a reasonable basis.
- 13. Interfund, internal, and intra-agency activity and balances, if any, are appropriately classified and reported in the financial statements.
- 14. The methods, data, and significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement, or disclosure that is reasonable in the context of the financial reporting framework.
- 15. Leases have been properly identified, recorded, and disclosed in accordance with GASB Statement No. 87, Leases.
- 16. Subscription-based information technology arrangements (SBITAs) have been properly identified, recorded, and disclosed in accordance with GASB Statement No 96, Subscription-Based Information Technology Arrangements.
- 17. We represent, when based on information provided by the State of Wisconsin Investment Board, when using third-party pricing services for fair value information, we are responsible for:
  - a. Complying with the applicable financial reporting framework, including disclosure requirements;
  - b. Maintaining appropriate internal controls to prevent or detect material misstatements related to fair value measurements and disclosures; and
  - c. Maintaining accurate books and records even when using a vendor.
- 18. Based on information provided by the State of Wisconsin Investment Board, the methods and significant inputs and assumptions used to determine fair values of financial instruments result in a measure of fair value appropriate for financial statement recognition, measurement, and disclosure purposes and are in accordance with the provisions of GASB Statement No. 72, Fair Value Measurement and Application, as amended.
- 19. Provisions for uncollectible receivables, if any, have been properly identified and recorded.

January 22, 2025

20. Risk disclosures associated with deposit and investment securities and derivative transactions are presented in accordance with GASB requirements, as provided by the State of Wisconsin Investment Board.
21. The capital assets, including any intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
22. Special and extraordinary items, if any, are appropriately classified and reported in the financial statements.
23. Components of net position are properly classified and, if applicable, approved.
24. Based on information provided by the State of Wisconsin Investment Board, investments, derivative transactions, and land and other real estate held by endowments, if any, are properly valued.
25. Related party relationships and transactions, if any, have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.
26. The effects of uncorrected misstatements, if any, are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit.
27. All events subsequent to the date of the financial statements, and through the date of this letter have been evaluated and classified as recognized or non-recognized.
28. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed.
29. Required supplementary information is measured and presented within prescribed guidelines or applicable criteria.
30. We have informed the auditor of all the documents that we expect to issue that may be other information, if any, and believe the financial statements and any other information obtained by the auditor prior to the date of the auditor's report are consistent with one another, and that the other information does not contain any material misstatements.
31. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

Information and Disclosures Provided

32. We have provided the auditors with:
  - a. access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
  - b. additional information that the auditors have requested from us for the purpose of the audit; and
  - c. unrestricted access to persons within the agency from whom the auditors determined it necessary to obtain audit evidence.
33. All transactions have been recorded in the accounting records and are reflected in the financial statements.
34. We have disclosed to the auditors any significant assumptions, interpretations, or changes in the methods of measurement or presentation of required supplementary information, and the reasons for such changes.
35. We have disclosed to the auditors the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
36. We have no knowledge of any fraud or suspected fraud that affects the agency and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
37. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the agency's financial statements communicated by employees, former employees, analysts, regulators, or others.
38. We have taken timely and appropriate steps to remedy identified or suspected fraud, noncompliance with laws, regulations, and provisions of contracts that the auditor reports.
39. We have followed applicable laws and regulations in adopting, approving, and amending budgets.

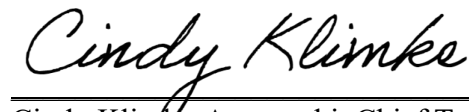
January 22, 2025

40. We have identified and disclosed to the auditors all laws, regulations, and provisions of contracts that could have a material effect on the financial statements, including legal and contractual provisions for reporting specific activities in separate funds.
41. We have identified and disclosed to the auditors all known or suspected instances of noncompliance with laws, regulations, and provisions of contracts or grant agreements whose effects should be considered when preparing the financial statements.
42. We have disclosed to the auditors all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
43. We are responsible for providing a response to findings reported by the auditors and for ensuring that timely and appropriate corrective actions are taken to address these findings.
44. We have identified for the auditor previous audits, attestation engagements, and other studies related to the objectives of the audit and whether related recommendations have been implemented.
45. We have disclosed to the auditors the identity of the agency's related parties and all the related party relationships and transactions of which we are aware.
46. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.



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A. John Voelker, Secretary  
Department of Employee Trust Funds



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Cindy Klinke-Armatoski, Chief Trust Finance Officer  
Division of Trust Finance  
Department of Employee Trust Funds