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Correspondence Memorandum

Date: May 12, 2022

To: Deferred Compensation Board

From: Shelly Schueller, Director
 Wisconsin Deferred Compensation Program

Joanne Klaas, Contracts Specialist
 Budget, Contract Administration and Procurement

Subject: ETI0035 Financial Statements Report Audit Contract Extension Option


The Department of Employee Trust Funds (ETF) recommends the Board approve extending the contract with Wipfli for Wisconsin Deferred Compensation (WDC) Program financial statements report audits of calendar years 2022 and 2023.

As part of its fiduciary responsibilities, the Board requires an audit of the annual WDC financial statements report created by ETF. The purpose of this audit is to have an independent public accounting firm render an opinion, in accordance with the United States Generally Accepted Accounting Principles (US GAAP), as to whether the financial statements report accurately reflects the financial position of the WDC. Ideally, this audit demonstrates that all participant account records, including contributions, transfers and distributions are accurate, and that all assets with the WDC's investment options are balanced. Financial statements report audits may also reveal any misstatements due to errors, fraud or other reasons that would cause the annual financial statements report to inaccurately reflect the financial position of the WDC.

The current contract for financial statements report audits is held by Wipfli. Wipfli was awarded the contract as a result of Request for Proposal (RFP) ETI0035, which was released on February 13, 2019. This RFP invited proposals from vendors to complete audits of the WDC's financial statements reports for three consecutive calendar years, 2019 through 2021. Language in the contract permits the Board, by mutual agreement of the Board and vendor, to extend the contract for two additional two-year periods.

As a result of ETI0035, the costs and expected hours to complete each year's financial statements report audit were as shown in Table 1.

Reviewed and approved by Matt Stohr, Administrator, Division of Retirement Services
 Electronically Signed 05/19/2022



Board	Mtg Date	Item #
DC	06.09.22	5

Table 1: ETI0035 Financial Statements Report Audits

Year	\$ Cost	\$ Change	% Change	Hours
2019	23,825	---	---	154
2020	24,645	820	3.44	154
2021	25,490	845	3.43	154

Wipfli has delivered comprehensive, on-time financial statements report audit results. In addition to completing the audit of the WDC's annual financial statements report, Wipfli provides the Board with biennial contract compliance (agreed-upon procedures) audits of the WDC's third-party administrator. Between these audits, Wipfli has developed a solid working knowledge of the WDC. Consequently, ETF contacted Wipfli regarding the firm's interest in executing the first of two possible contract extensions under ETI0035.

Wipfli submitted a proposal to ETF on April 5, 2022. Table 2 contains Wipfli's proposed cost and hours for the 2022 and 2023 financial statements report audits.

Table 2: ETI0035 Extension 1 Proposal

Year	\$ Cost	\$ Change	% Change	Hours
2022	26,750	1,260	4.94	132.5
2023	27,675	925	3.46	132.5

The cost for the 2022 audit reflects a 4.94% increase over the cost for the same audit in 2021 and a further 3.46% increase for the 2023 audit. When asked about this, Wipfli noted that the higher costs were a direct result of increased personnel costs (wages) due to inflation. Wipfli also stated that the cost they proposed remains at a discounted rate, similar to what they have proposed in the past. Also of note, ETF reviewed past costs for these audits. For the fourteen years between 2009 and 2021, the average cost for these audits was \$27,533.

The hours to complete the audits also decreased by 21.5 hours in the Wipfli extension proposal. In discussing this with ETF, Wipfli noted that with the experience the firm has gained by completing several WDC audits, they have developed some expertise and efficiencies, resulting in a reduction in estimated hours to complete an annual audit. Wipfli is willing to bear the risk and additional costs if they exceed the estimated hours in the extension proposal. There would not be an additional cost to the WDC.

ETF recommends the Board extend the contract with Wipfli under ETI0035 for audits of calendar year 2022 and 2023 WDC financial statements reports. Alternatively, the Board could direct ETF to issue an RFP that could request pricing over a longer term or cap renewal increases. However, ETF believes this would be a poor use of time and resources since it seems very unlikely that during the current inflationary period, vendors would propose any cheaper pricing.

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