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ETF Addresses Findings in Annual Audit Report

As required annually by State law, the Wisconsin Legislative Audit Bureau (LAB) recently completed a routine audit (Report 16-10) of the 2015 financial statements of the Wisconsin Retirement System, which is administered by the Department of Employee Trust Funds (ETF).

As noted in the audit report, the WRS is a healthy and solidly funded pension system. The WRS remains one of the best funded statewide public retirement systems in the country, while providing retirement benefits to more than 620,000 current and former public employees across the State of Wisconsin.

A recent opinion column called attention to some of the audit findings. It is important to provide more context to the story in order to understand the types of errors identified in the audit report. The opinion column implied that ETF failed to do bank reconciliations on a monthly basis for several months. Actually, the LAB reported another state agency, not ETF, failed to do the monthly bank reconciliations. In fact, the LAB wrote a separate letter, dated December 2, 2016, to the Legislative Audit Committee about this matter.

The LAB did note three errors on the part of ETF. Those errors are documented on page 26 of LAB's audit report; ETF's responses can be found on page 27. As indicated in the report, the errors were either immaterial to or did not affect the WRS fiduciary net position.

The first error noted by LAB involved a discrepancy in how a $90.9 million receipt was recorded. As the report notes, the funds were received by the bank on December 31, 2015, but another state agency did not record it in the accounting system that ETF relies on until January 4, 2016. ETF properly reconciled the deposit and identified the mismatch between the receipt date and the recording date. However, it was recorded in the "Contributions Receivable" account rather than the "Cash & Cash Equivalents" account. The deposit was accounted for, but in the wrong account. There was no loss or lack of accountability of funds and it did not impact the total assets or the fiduciary net position reported. In response, ETF has incorporated a year-end check with the other state agency into its procedures and established a communication protocol to mitigate the risk of this situation occurring in the future.

The second error involved an incorrect note disclosure to the financial statements. The note reported a balance of $19.3 billion, when it should have been $20.5 billion. Again, as this was a disclosure note, it did not impact the financial statements. ETF relies on reports generated from the state's new enterprise resource management system. This system was new to ETF for the 2015 financial reporting period. Transitions to new systems are often challenging. ETF discovered an error in the layout of a report that caused the discrepancy in the disclosure note. The layout has been corrected. Furthermore, ETF also incorporated a check against other reports, which will be performed each year going forward to minimize the risk of this sort of error happening again.

The final error involved an understatement of $6.5 million in Net Investment Income. This was due to errors made in the calculation and entries that allocate earnings from the Core Retirement Fund to the various programs that are invested in that Fund. As the LAB notes, the error was not material to the WRS – it equates to .007% of the WRS Trust Fund, but according to the LAB it was similar to one made the previous year. In response, ETF has incorporated better controls to mitigate the risk of errors, including automating the way data is pulled into the spreadsheet, allowing for updating calculations when data changes, and closer reviews of the calculations.

Additionally, the LAB recognized ETF corrected the financial statements and notes for all identified errors prior to the release of the financial statements.

ETF has devoted significant time, resources and effort in improving its accounting function and has reduced the likelihood that these sorts of errors will happen in the future.