

**Report 20-30  
December 2020**

# **State of Wisconsin**

## FY 2019-20 Financial Statements

STATE OF WISCONSIN



Legislative Audit Bureau ■



# **State of Wisconsin**

## FY 2019-20 Financial Statements

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**Response**

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From the Department of Administration

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**OPINIONS PUBLISHED SEPARATELY**

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The financial statements and our opinions on them are included in the State of Wisconsin's CAFR for the fiscal year ended June 30, 2020.



# STATE OF WISCONSIN | Legislative Audit Bureau

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Joe Chrisman  
State Auditor

December 22, 2020

Senator Robert Cowles and  
Representative Samantha Kerkman, Co-Chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

We have completed our financial audit of the State of Wisconsin as of and for the fiscal year ended June 30, 2020, and issued unmodified opinions dated December 21, 2020, on the State's financial statements. The financial statements were prepared by the Department of Administration (DOA) in accordance with generally accepted accounting principles and are included in the State's fiscal year (FY) 2019-20 Comprehensive Annual Financial Report (CAFR), which may be found on DOA's website.

The CAFR helps to describe the State's fiscal condition and contains information on the funds administered by the State. In our report, we discuss the financial condition of the General Fund and Transportation Fund, which are the State's two largest governmental funds; quantify the State's long-term debt; provide information on the Unemployment Reserve Fund's and the University of Wisconsin System's financial statements; report five deficiencies in internal control over financial reporting, two of which we consider to be material weaknesses; and provide information on certain other matters we identified during the course of our audit.

We appreciate the courtesy and cooperation extended to us by DOA and other state agencies during the audit. During our FY 2020-21 audit, we will follow up on the progress of state agencies in implementing our recommendations.

A response from the Secretary of DOA follows the corrective action plans.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Joe Chrisman".

Joe Chrisman  
State Auditor

JC/CS/ss





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General Fund  
Transportation Fund  
Long-Term Debt  
Unemployment Reserve Fund  
University of Wisconsin System  
Findings Related to Internal Control over Financial Reporting  
Other Findings  
Federal Funding for the Public Health Emergency  
Financial Reporting Process

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# FY 2019-20 Comprehensive Annual Financial Report (CAFR) ■

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***We provided unmodified opinions on the State's financial statements as of and for the year ended June 30, 2020.***

The Department of Administration (DOA) prepares the CAFR, which contains financial statements prepared in accordance with generally accepted accounting principles (GAAP). The CAFR helps to describe the State's fiscal condition and contains information on state funds, including the State's General Fund, the Transportation Fund, the University of Wisconsin (UW) System, the Unemployment Reserve Fund, and the Wisconsin Retirement System. In addition to the financial statements and notes, the CAFR includes the Management's Discussion and Analysis, which describes the State's financial performance for the year, and a statistical section, which provides the reader information to assist in understanding the State's economic condition. The statistical section includes information such as financial trends and debt capacity. We have completed a financial audit of the State's CAFR and have provided unmodified opinions on the State's financial statements as of and for the year ended June 30, 2020.

## General Fund

***As reported on a GAAP basis, the General Fund's total fund balance was \$1.5 million and the unassigned fund balance was a deficit of \$1.1 billion, as of June 30, 2020.***

On a GAAP basis, the total General Fund fund balance is primarily made up of both amounts restricted or committed for specific purposes, and an unassigned amount. On a GAAP basis, the General Fund's total fund balance improved by \$764.6 million from a deficit of \$763.1 million as of June 30, 2019, to a surplus of \$1.5 million as of June 30, 2020, as shown on page 46 of the CAFR. However, we note that, on a GAAP basis, the unassigned fund balance in the General Fund was a deficit of \$1.1 billion, as of

June 30, 2020, as shown on page 44 of the CAFR. This deficit in unassigned fund balance represents that more resources were spent and obligated from the General Fund for other purposes than were received or anticipated to be received in the near term.

**Total General Fund revenue increased by \$1.6 billion and totaled \$29.4 billion for FY 2019-20.**

On page 31 of the Management's Discussion and Analysis, DOA noted that total General Fund revenue increased by \$1.6 billion and totaled \$29.4 billion for fiscal year (FY) 2019-20. Increases in income taxes, sales taxes, and federal revenue were the primary contributors to the increase in General Fund revenue. As we noted in report 20-20, the Department of Revenue required that marketplace providers collect and remit sales or use tax on taxable sales delivered in Wisconsin, starting in January 2020. Federal revenue increases related partially to federal funding the state received related to the ongoing public health emergency.

Also, on page 31 of the Management's Discussion and Analysis, DOA noted that total General Fund expenditures increased by \$1.3 billion and totaled \$26.8 billion for FY 2019-20. Increases in Medical Assistance costs and school aids payments were the largest contributors to the increase in General Fund expenditures. Further, a new program called the Wisconsin Healthcare Stability Plan contributed to the increase in General Fund expenditures. The Wisconsin Healthcare Stability Plan, which was created by 2017 Wisconsin Act 138, is a state-operated reinsurance program that is intended to reduce health insurance premiums paid by individuals who purchase health insurance in the individual market by reimbursing insurers for the costs of certain claims.

## Transportation Fund

**On a GAAP basis, the balance of the Transportation Fund increased \$140.7 million from \$694.5 million as of June 30, 2019, to \$835.2 million as of June 30, 2020**

On a GAAP basis, the fund balance of the Transportation Fund increased \$140.7 million from \$694.5 million as of June 30, 2019, to \$835.2 million as of June 30, 2020, as shown on page 46 of the CAFR. On page 33 of the Management's Discussion and Analysis, DOA noted that the majority of the Transportation Fund's balance (95.6 percent) was restricted by the Wisconsin Constitution to be used for transportation purposes. Primary revenue sources in the Transportation Fund include motor fuel taxes, federal revenues, and registration fees. On page 33 of the Management's Discussion and Analysis, DOA noted that total revenues increased by \$183.3 million to a total of \$3.0 billion, primarily as a result of increases in federal revenues. Transportation Fund expenditures increased by \$129.0 million to a total of \$2.8 billion in FY 2019-20.

## Long-Term Debt

***The State's long-term debt decreased from \$13.4 billion as of June 30, 2019, to \$13.1 billion as of June 30, 2020.***

On a GAAP basis, the State's long-term debt decreased from \$13.4 billion as of June 30, 2019, to \$13.1 billion as of June 30, 2020, as shown on page 36 of the Management's Discussion and Analysis. The State repaid long-term debt in excess of new debt issuances during FY 2019-20, resulting in the decrease in overall debt. As shown on page 36 of the Management's Discussion and Analysis, \$1.5 billion in new general obligation bonds and notes were issued during FY 2019-20. Of this amount, \$630.6 million was for UW System academic facilities and \$322.0 million was for transportation projects. The amount of outstanding annual appropriation bonds increased by \$27.8 million, and revenue bonds decreased by \$207.5 million.

## Unemployment Reserve Fund

***Unemployment benefit payments of \$3.4 billion were reported for the year ended June 30, 2020, compared to \$387.0 million for the year ended June 30, 2019.***

Wisconsin's Unemployment Insurance program is accounted for in the State's CAFR in the Unemployment Reserve Fund, which is administered by the Department of Workforce Development (DWD). The Unemployment Reserve Fund collects contributions made by employers and other federal program receipts that accumulate to make payments to employees who have lost their jobs. In the Management's Discussion and Analysis on page 34, unemployment benefit payments of \$3.4 billion were reported for the year ended June 30, 2020, compared to \$387.0 million for the year ended June 30, 2019. Federal assistance under the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act contributed \$2.4 billion in aid to fund unemployment insurance benefits for individuals whose employment was affected by the public health emergency. As shown on page 52 of the CAFR, as of June 30, 2020, the Unemployment Reserve Fund's net position declined \$345.4 million, from \$2.0 billion as of June 30, 2019, to \$1.7 billion as of June 30, 2020.

## University of Wisconsin System

As required by s. 13.94 (1) (t), Wis. Stats., we performed a financial audit of UW System, which included an audit of UW System's financial statements as of and for the year ended June 30, 2020, and issued report 20-29. UW System's financial statements are also presented in the State's CAFR. As shown on page 52 of the CAFR, UW System's net position remained at \$5.4 billion as of June 30, 2019, and June 30, 2020.

## **Findings Related to Internal Control over Financial Reporting**

***We identified five deficiencies in internal control, two of which are material weaknesses.***

We identified internal control deficiencies during our audit that are required to be reported under *Government Auditing Standards*. Specifically, we identified five reportable deficiencies in internal control, two of which are considered to be material weaknesses in internal control. A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the State's basic financial statements will not be prevented, or that a material misstatement will not be detected and corrected on a timely basis.

We consider the remaining three deficiencies to be significant deficiencies in internal control. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which begins on page 19, discusses each concern and includes the response from management of the responsible agency. The corrective action plans from management begin on page 36.

### **Department of Employee Trust Funds**

***We report a material weakness at ETF related to the financial reporting for the basic ASLCC program.***

We identified an internal control deficiency that we consider to be a material weakness at the Department of Employee Trust Funds (ETF) related to financial reporting requirements for the basic Accumulated Sick Leave Conversion Credit (basic ASLCC) program (Finding 2020-005). In January 2017, the Governmental Accounting Standards Board (GASB) issued Statement Number 84, *Fiduciary Activities*, which was anticipated to make changes in the financial reporting for several programs administered by ETF, including for the basic ASLCC program and the Supplemental Health Insurance Conversion Credit (SHICC) program. In July 2020, in consultation with DOA, ETF determined that it would report the financial information for the basic ASLCC program separate from the SHICC program. Historically, these programs were reported as one program in both the State's CAFR and ETF's separately issued financial report.

***We recommend ETF revise its policies to improve the calculation of the liability and complete planning for new standards before the close of the financial reporting period.***

ETF implemented changes for the SHICC program, which provides postemployment benefits for certain state employees. We performed an audit of the SHICC program financial statements and provided an unmodified opinion and issued report 20-24 in December 2020. In our audit of the financial statements for the basic ASLCC program, we identified material errors in the compensated absence liability. ETF prepared an adjustment to correct the errors we identified. Late planning for implementation of GASB Statement Number 84, particularly related to making a decision for the reporting for the sick leave programs, contributed to the errors for the basic ASLCC program. We recommend ETF improve its calculation of the compensated absence liability by revising its policies; ensure that it completes its planning, review, and assessment process before the close of the financial reporting period affected by a change in financial reporting; and work with DOA on areas that affect the State's CAFR.

### **Department of Workforce Development**

***We report a material weakness in financial reporting at DWD related to the Unemployment Reserve Fund.***

We identified an internal control deficiency that we consider to be a material weakness at the Department of Workforce Development (DWD) related to financial reporting for the Unemployment Reserve Fund financial statements (Finding 2020-004). We found DWD did not properly consider the significant backlog of claims that resulted from the public health emergency when assessing the potential unemployment benefits that were payable as of June 30, 2020. DWD prepared adjustments to correct the errors we identified. We recommend DWD revise its procedures for calculating the benefits payable at the end of the fiscal year to ensure the effects of changes in circumstances, such as the backlog of claims that occurred in FY 2019-20, are accurately reflected in the payable.

### **Department of Administration**

We continued to identify deficiencies in information technology (IT) controls over operations of the State's data center (Finding 2020-001) and with DOA's oversight of the implementation of IT policies and standards by executive branch agencies (Finding 2020-002). We report these concerns as significant deficiencies in internal control. We recommend DOA take steps to complete or update project plans to implement written procedures, practices, and settings to enforce its policies and standards. In addition, we recommend DOA evaluate the adequacy of its monitoring of executive branch agency compliance with its established policies and standards, establish a timeline for agency compliance, and further complete and improve its risk assessment plan. We reported similar IT security concerns in our review of IT needs assessment, procurement, and security at DOA (report 20-11).

## University of Wisconsin System

We continued to identify weaknesses in IT controls at UW System and report a significant deficiency in internal control (Finding 2020-003). Although UW System had taken some steps to address prior year concerns, it had not formally issued any new information security policies during FY 2019-20. We recommend UW System continue its development of a comprehensive information security program, develop a structure to monitor for compliance with systemwide policies, and work with UW institutions to achieve compliance in a timely manner. We also reported concerns with UW System's IT security in our review of IT needs assessment, procurement, and security (report 20-10).

## Other Findings

During our audit work, we identified other findings that did not meet requirements for reporting under *Government Auditing Standards*. These findings included noncompliance related to clearing appropriations and weaknesses in IT controls at several state agencies.

## Clearing Appropriations

***DOA is responsible for ensuring expenditures and revenues recorded in clearing appropriations are moved to the appropriate appropriation before the end of the fiscal year.***

Statutes provide DOA with the authority to create clearing appropriations, which allow an agency to record expenditures temporarily until the agency determines the correct appropriation to charge. DOA policies in the *Wisconsin Accounting Manual* also allow an agency to record revenues in a clearing appropriation temporarily until the agency determines the correct appropriation to charge. DOA is responsible for ensuring the accounting transactions are completed to move the expenditures or revenues out of the clearing appropriation before the close of the accounting records for the fiscal year.

***We recommend DOA develop a written plan and timeline to resolve existing balances in clearing appropriations and to report to the Joint Legislative Audit Committee by April 15, 2021, on the status of its efforts.***

As of June 30, 2020, seven clearing appropriations had balances of a positive or negative \$1.0 million or more, on a budgetary basis. The largest balance was a positive \$22.6 million in a clearing appropriation used by the Department of Justice to record settlement funds until it determines how the funds would be spent. The balance in this clearing appropriation was \$16.1 million as of June 30, 2019, when there was an ongoing legal dispute regarding the settlement funds. We also found that balances remained in other clearing appropriations because the clearing appropriations were being used in a manner that was noncompliant with Wisconsin Statutes or the *Wisconsin Accounting Manual*. Therefore, we recommended DOA develop a written plan and timeline for resolving existing balances in clearing appropriations, provide training to state agencies, and report

to the Joint Legislative Audit Committee by April 15, 2021, on the status of its efforts. DOA agreed with our recommendations and indicated plans to work directly with individual agencies to resolve the balances.

### **Other IT Control Weaknesses**

***We identified weaknesses in IT controls at DHS, DOT, DWD, DPI, and DOA and made recommendations for improvements.***

In addition to the significant deficiencies in IT controls identified at DOA (Finding 2020-001 and Finding 2020-002) and at UW System (Finding 2020-003), we identified other weaknesses in IT controls at several other state agencies, including the Department of Health Services (DHS), Department of Transportation (DOT), Department of Workforce Development (DWD), Department of Public Instruction (DPI), and the DOA Division of Facilities Development and Management. Because these concerns were too sensitive to communicate publicly, we communicated recommendations for improvements in IT controls to each agency, and will follow up during our FY 2020-21 audit to assess the improvements that have been implemented.

### **Federal Funding for the Public Health Emergency**

***Federal legislation to address the public health emergency provided additional federal funding to Wisconsin.***

In March 2020, the federal government declared a public health emergency in response to COVID-19. A public health emergency was also declared in Wisconsin, and the State Emergency Operations Center (SEOC) was activated to coordinate the State's response. Federal legislation to address the public health emergency, including the CARES Act, provided additional federal funding to Wisconsin, including under existing programs, such as unemployment insurance. In addition, new federal programs were created, including the Coronavirus Relief Fund (CRF) and the Education Stabilization Fund. As a condition of receiving federal funds, state agencies must meet the audit requirements of the federal Single Audit Act of 1984, as amended, and of the federal Office of Management and Budget *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). We are currently performing this audit for FY 2019-20, which is anticipated to be completed in spring 2021.

New funding to address the public health emergency affected financial reporting in the last quarter of FY 2019-20. As part of our audit of the State's CAFR, we reviewed and summarized information regarding several key areas related to the public health emergency and the State's finances, including:

- the Coronavirus Relief Fund;
- the revised federal medical assistance percentage (FMAP);
- unemployment benefits;
- the transfer of state employees between agencies to address staffing needs during the public health emergency; and
- federal donations, such as personal protective equipment (PPE).

In report 20-29, we reviewed UW System’s administration of the Higher Education Emergency Relief Fund, which is a new program funded under the federal CARES Act.

### **Coronavirus Relief Fund**

***In April 2020, the State was advanced \$2.0 billion in funding under the CRF.***

The CARES Act created the CRF to distribute money directly to state, local, tribal, and territorial governments. The federal government advanced \$2.0 billion in CRF funds to the State of Wisconsin in April 2020 and included certain stipulations on the State, including that the funds must be used for expenses that are incurred in response to the public health emergency between March 1, 2020, and December 30, 2020. Funds received from the CRF that are not used by December 30, 2020, must be returned to the U.S. Treasury.

***During FY 2019-20, \$219.8 million in expenditures at 31 state entities were funded by the CRF.***

As shown in Table 1, \$219.8 million in expenditures at 31 state entities were funded by the CRF during FY 2019-20. The majority of the CRF activity is recorded in the General Fund. According to amounts recorded in the State’s accounting system, \$75.0 million was transferred to the Wisconsin Economic Development Corporation for the "We’re All In" Small Business Grant program. In addition, CRF funds were used to purchase \$52.0 million in test kits, \$37.3 million in PPE, and \$16.1 million for ventilators. Finally, \$31.0 million was expended by state entities to respond to the public health emergency, and \$8.4 million was expended for other miscellaneous projects.



Table 1

**Expenditures Funded by the Coronavirus Relief Fund**  
FY 2019-20

	Expenditures <sup>1</sup>	Percentage of Total
Wisconsin Economic Development Corporation <sup>2</sup>	\$75,000,000	34.1%
Department of Health Services	65,647,347	29.9
Department of Administration	57,015,556	25.9
Department of Military Affairs	6,175,393	2.8
Department of Workforce Development	4,473,562	2.0
Department of Corrections	3,492,927	1.6
State Fair Park	2,793,379	1.3
Department of Natural Resources	1,902,121	0.9
Department of Revenue	926,457	0.4
Department of Transportation	584,717	0.3
Wisconsin State Public Defender's Office	416,655	0.2
Supreme Court	299,837	0.1
Circuit Courts	294,528	0.1
Department of Justice	240,476	0.1
Department of Children and Families	226,332	0.1
Other State Agencies <sup>3</sup>	279,531	0.1
<b>Total</b>	<b>\$ 219,768,818</b>	<b>100.0%</b>

<sup>1</sup> Expenditures incurred and paid, as recorded in the State's accounting system for the fiscal year ended June 30, 2020. UW System also incurred expenditures of \$3,237,594 in FY 2019-20 that were funded by CRF, but not paid until FY 2020-21.

<sup>2</sup> Transferred for the "We're All In" Small Business Grant program.

<sup>3</sup> Includes 16 other agencies that had expenditures between \$60 and \$79,000.

**DOA anticipates that nearly the full amount of CRF funds will be expended or obligated by December 30, 2020.**

At the end of FY 2019-20, \$1.8 billion of CRF funds remained available for the State to expend. As noted, only allowable expenditures incurred by December 30, 2020, may be funded by the CRF. The \$1.8 billion in remaining CRF funds is reflected as Cash and Cash Equivalents and Unearned Revenue in the General Fund Balance Sheet as of June 30, 2020, as shown on page 44 of the CAFR. Subsequent to June 30, 2020, and as of December 15, 2020, accounting records show an additional \$504.2 million in expenditures have been funded by the CRF. On December 15, 2020, DOA indicated that additional expenditures were incurred and were awaiting payment. DOA anticipates that nearly the full amount of CRF funds will be expended or obligated by December 30, 2020.

***The State received \$370.8 million in additional federal funds for the medical assistance program as a result of an increase in Wisconsin's FMAP.***

## **Federal Medical Assistance Percentage (FMAP)**

The FMAP is the percentage of Medical Assistance expenditures the federal government will fund for the State. In March 2020, the federal Families First Coronavirus Response Act provided a temporary 6.2 percent increase in Wisconsin's FMAP for benefit payments, subject to certain requirements to maintain benefits under the provisions in place as of January 2020. 2019 Wisconsin Act 185 made necessary changes for DHS to meet the requirements to receive the additional federal funding. The increase in the FMAP is anticipated to be in place until the federal government determines the public health emergency period for COVID-19 has ended. Through June 30, 2020, the additional federal funds totaled \$370.8 million. As of September 2020, DHS reported to the Joint Committee on Finance that it projected a \$289.0 million surplus in the Medical Assistance budget for the 2019-21 biennium. The surplus is partially attributed to the increased FMAP, which DHS estimated would continue to be available through December 2020.

## **Unemployment Insurance Funding**

In March 2020, the federal CARES Act created several new types of unemployment insurance benefits, including those provided through the Federal Pandemic Unemployment Compensation program, which paid individuals an additional \$600 per week from March 29, 2020, through July 25, 2020. As noted, federal assistance under the CARES Act contributed \$2.4 billion through June 30, 2020, in aid to fund unemployment insurance benefits for individuals whose employment was affected by the public health emergency.

Under 2019 Wisconsin Act 185, we performed three evaluations of DWD's administration of the Unemployment Insurance (UI) program since the public health emergency began in March 2020, and we recommended improvements to DWD. In report 20-5, we evaluated reported overpayments of certain unemployment insurance benefits that occurred in April 2020; in report 20-13, we completed a review of DWD's management of unemployment insurance call centers; and in report 20-28, we evaluated the processing and resolution of certain UI benefit claims.

### State Employee Transfers

**2019 Wisconsin Act 185 allowed DOA to transfer employees from one state agency to another to assist during the public health emergency.**

2019 Wisconsin Act 185 allowed the Secretary of DOA to transfer any employee from one state agency to another state agency to provide services during the public health emergency. Further, Act 185 required DOA to submit a report to the Joint Committee on Finance no later than June 1, 2020, that provided information on all employee transfers.

DOA staff indicate that the term “transfer” implies a permanent transfer of a state employee from one agency to another agency. DOA indicates that because none of the employee reassignments that occurred as a result of the public health emergency were permanent, DOA was not required to file a report with the Joint Committee on Finance under 2019 Wisconsin Act 185. Instead, DOA indicated to us that it used its authority under ss. 20.901 and 230.047 Wis. Stats., to complete temporary reassignments of employees between agencies to meet the demands of the public health emergency.

**DOA indicated that, as of November 6, 2020, a total of 643 state employees from 26 state agencies have been temporarily reassigned to one of four state agencies.**

According to information compiled by DOA, a total of 643 state employees from 26 state agencies were temporarily reassigned during the public health emergency, through November 6, 2020. As shown in Table 2, the employees were reassigned to one of the following four state agencies: DHS, DWD, the Elections Commission, and the Department of Military Affairs.

Table 2

#### State Employee Reassignments <sup>1, 2</sup>

Receiving State Agency	Number of Employees Reassigned
Department of Health Services	422
Department of Workforce Development	176
Elections Commission	44
Department of Military Affairs	1
<b>Total</b>	<b>643</b>

<sup>1</sup> Based on available information, as of November 6, 2020, provided by the DOA Division of Personnel Management.

<sup>2</sup> Does not include employees temporarily reassigned to the State Emergency Operations Center (SEOC) or employee reassignments within an agency.

***Most employees were reassigned to fill positions at DHS primarily related to contact tracing, isolation site coordination, and to assist with warehousing and distribution of PPE.***

State employees were temporarily transferred to DHS primarily to fill positions as contact tracers and isolation site coordinators, and to assist in the warehousing and distribution of PPE. State employees were temporarily transferred to DWD primarily to assist with processing of unemployment insurance claims. Finally, state employees were temporarily transferred to the Elections Commission beginning in mid-September 2020 to assist with the processing of absentee ballot requests and other related support duties as assigned by the Elections Commission. Most of the employee transfers ranged from a few days to six months. Five employees had transfers that ranged from seven to nine months.

### **Donated Items**

In March 2020, as the public health emergency began, the federal government donated PPE and other supplies, as well as assistance to states to build alternative care facilities to ease the burden on hospitals in the event of a significant increase in hospitalizations.

In October 2020, the State activated an alternative care facility at State Fair Park. The facility was built with assistance from the Federal Emergency Management Agency (FEMA). As reported in Note 24 on page 156 of the CAFR, the original estimated cost of the facility was \$25.0 million and included an estimated state cost share of 25.0 percent. According to DOA, FEMA has not provided the State with any cost information or billed the State for the State's share of the costs. Therefore, DOA did not report the capital asset or expenditures in the financial statements or calculate the exact amount the State will be required to repay to FEMA.

DOA also reported receiving \$11.5 million in donated PPE from FEMA. These amounts were reported in the government-wide financial statements as of June 30, 2020, and were received by DHS and the Department of Children and Families (DCF). Once informed by FEMA, the State will be responsible for repaying an undetermined amount to FEMA as its cost share for the donated PPE.

### **Financial Reporting Process**

***DOA has primary responsibility for compiling the State's CAFR.***

The DOA State Controller's Office has primary responsibility for compiling the State of Wisconsin CAFR, which reports the State's activity in financial statements prepared following GAAP. DOA provides guidance to state agencies on the preparation of financial information through the State of Wisconsin *Uniform GAAP Conversion Policies and Procedures Manual* (GAAP Manual), which is maintained by DOA. Each July, DOA establishes a timeline for state agencies to follow when preparing and submitting financial information. When state agencies do not adhere to the timeline, DOA is challenged to compile the CAFR in a timely manner.

***As an issuer of municipal debt, DOA is required to complete and file its Continuing Disclosure Annual Report within 180 days of the end of the fiscal year.***

As an issuer of municipal debt, DOA is required to complete and file its Continuing Disclosure Annual Report within 180 days of the end of the fiscal year in order to allow underwriters to meet requirements of the Securities and Exchange Commission Rule 15c2-12. This rule generally prohibits any underwriter from purchasing or selling municipal securities unless the issuer has completed its continuing disclosure requirements, which include the submission of audited financial statements. Failure to meet these requirements may negatively affect an entity’s standing in the bond market.

In a December 23, 2019 letter to DOA related to our FY 2018-19 CAFR audit, we noted the importance of DOA communicating with state agency staff regarding proposed timelines for financial reporting and steps that can be taken to ensure timelines are met. We also noted that, although DOA had started to consider how GASB Statement Number 84 would affect the CAFR, DOA needed to continue to work proactively with other state agencies in assessing the changes resulting from this new standard and developing policies for financial reporting for the State.

***DOA did not take enough steps to work with state agencies in the development of established timelines for agency submission of financial information to DOA.***

In response to our letter DOA took some action, including developing and holding two training sessions with agency GAAP accountants. However, DOA did not take enough steps to work with state agencies in the development of timelines for agency submission of financial information to DOA. We note that the timelines for the FY 2019-20 CAFR as included in the GAAP Manual, generally followed the same timelines as prior years, and certain agencies did not meet these timelines. For example:

- UW System was responsible for submitting its financial statements to DOA by November 4, 2020. UW System submitted incomplete financial statements to DOA on November 9, 2020, and provided more complete financial statements on November 23, 2020. These financial statements continued to be revised through mid-December 2020.
- DOT was responsible for submitting financial statements for the Transportation Fund to DOA by October 16, 2020. DOT submitted draft financial statements on October 28, 2020. These financial statements continued to be revised through late November 2020.

As noted, in planning for the implementation of GASB Statement Number 84, which was issued in January 2017, DOA and ETF determined in July 2020, that the calendar year 2019 financial information for the basic ASLCC program would be reported separate from the SHICC program. This change was made by DOA and ETF late in the financial reporting process and contributed to

delays in financial reporting, including in the compilation of the State's CAFR for FY 2019-20. For example, DOA's timeline indicated ETF's submission was due on September 18, 2020. However, because of the change in financial reporting, ETF did not submit final financial statements for the SHICC program until November 2, 2020, and did not submit final financial statements for the basic ASLCC program until December 4, 2020.

***DOA should take additional steps to make the financial reporting more timely while still ensuring the accuracy of the CAFR.***

Delays such as these increase pressure on DOA and its CAFR compilation process, which can introduce errors into the financial statements. Further, when delays occur, DOA is at risk of not meeting all of its continuing disclosure requirements within 180 days of the end of the fiscal year, which is December 27 of each year. The FY 2019-20 CAFR was published on December 22, 2020, and the FY 2018-19 CAFR was published on December 20, 2019. Although it may be difficult for DOA to enforce financial reporting submission timelines with state agencies, DOA should take additional steps to make the financial reporting more timely while still ensuring the accuracy of the CAFR.

#### **Recommendation**

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*We recommend the Department of Administration:*

- *continue developing and providing training to assist state agencies in understanding their responsibilities for preparing financial information for inclusion in the CAFR;*
- *determine which state agencies consistently have delays in meeting established timelines, work with those agencies to address areas that cause delays in reporting, and identify solutions to improve the efficiency and timeliness of the process for preparing the financial statements;*
- *work with state agencies to plan for the implementation of new accounting standards and ensure DOA completes all planning, review, and assessment processes before the close of the affected financial reporting period; and*
- *report to the Joint Legislative Audit Committee by August 16, 2021, on the status of its efforts to implement these recommendations.*

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## **Auditor's Report ■**

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## Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Honorable Members of the Legislature      The Honorable Tony Evers, Governor

We have audited the financial statements and the related notes of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Wisconsin, which collectively comprise the State’s basic financial statements, as of and for the year ended June 30, 2020, and have issued our report thereon dated December 21, 2020.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States. The basic financial statements and related auditor’s opinions have been included in the State of Wisconsin’s Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2020.

Our report includes a reference to other auditors who audited the financial statements of the Environmental Improvement Fund, the Deferred Compensation Fund, the Wisconsin Housing and Economic Development Authority, the University of Wisconsin (UW) Hospitals and Clinics Authority, and the UW Foundation, as described in our report on the State of Wisconsin’s basic financial statements. The financial statements of the Environmental Improvement Fund and the Wisconsin Housing and Economic Development Authority were audited in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that were reported on separately by those auditors. Although the financial statements of the Deferred Compensation Fund, the UW Hospitals and Clinics Authority, and the UW Foundation were audited in accordance with auditing standards generally accepted in the United States of America, they were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Deferred Compensation Fund, the UW Hospitals and Clinics Authority, or the UW Foundation.

### Internal Control over Financial Reporting

Management of the State of Wisconsin is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the State’s internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of

expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent misstatements, or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the State's basic financial statements will not be prevented, or that a material misstatement will not be detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.

We consider the deficiencies in internal control, described in the accompanying Findings and Responses Schedule as Findings 2020-004 and 2020-005, to be material weaknesses. We consider the deficiencies in internal control, described in the accompanying Findings and Responses Schedule as Findings 2020-001 through 2020-003, to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State's basic financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Responses to Findings**


Agency-specific responses to the findings identified in our audit are described in the accompanying Findings and Responses Schedule. The corrective action plans begin on page 36. The responses and corrective action plans were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of This Report**

This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering the State's internal control and compliance. The

purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the State's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU

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

Joe Chrisman  
State Auditor

December 21, 2020



## FINDINGS AND RESPONSES SCHEDULE

This schedule includes two deficiencies in internal control over financial reporting that we consider to be material weaknesses and three deficiencies in internal control over financial reporting that we consider to be significant deficiencies. These deficiencies in internal control over financial reporting are required to be reported by auditing standards generally accepted in the United States of America and *Government Auditing Standards*. Findings 2019-001, 2019-004, and 2019-005 from the prior year (report 19-30) are no longer reportable. Repeat findings from report 19-30 are indicated with an asterisk (\*).

### **Finding 2020-001: Implementation of IT Procedures by the Department of Administration Division of Enterprise Technology\***

#### *Background:*

Under s. 16.97, Wis. Stats., the Department of Administration (DOA) is responsible for the State's information technology (IT) services, including ensuring that all state data processing facilities develop proper privacy and security procedures and safeguards. As a part of DOA, the Division of Enterprise Technology (DET) operates data centers to provide a variety of services to state agencies, including managing the mainframe for all agencies; managing servers for DOA and other executive branch agencies; and maintaining DOA-related systems. In addition, DET performs programming and security functions, including maintaining the infrastructure for STAR, which is the State's enterprise resource planning system that includes accounting, payroll, and purchasing systems used by most state agencies.

We first reported concerns regarding a lack of policies, standards, and procedures over the operations of DET's data centers during our fiscal year (FY) 2014-15 audit. As defined by DET, IT policies are formal, brief, high-level statements or plans that reflect an agency's general beliefs, goals, rules, and objectives for a specific subject area. Standards are mandatory actions or rules designed to support policies. Procedures are a documented series of steps that align with policies and standards. DET's policies and standards are set forth in the State of Wisconsin *IT Security Policy Handbook*, which became effective in October 2018 and includes the related standards by reference. During our FY 2018-19 audit, we made recommendations for DET to complete or update and implement the written procedures, practices, and settings to enforce the established policies and standards, and to address specific concerns we identified in IT procedures and settings.

#### *Criteria:*

It is important that DET manage and maintain a secure environment because the mainframe and servers contain financial data and confidential information. Managing a secure environment involves developing, approving, and following appropriate policies, standards, and procedures. DET is responsible for establishing procedures to support conformance with its policies and standards, and to establish settings that enforce its policies, standards, and procedures. Settings are technical configurations that enforce controls for a computer or group of computers. For instance, password settings can enforce password length, which is prescribed by DET's policies and standards. Implementation of settings enforces the controls that are in place and, therefore, helps to ensure that approved standards are being followed.

***Condition:***

During our FY 2019-20 audit, we found DET had taken some additional steps to address recommendations we made during our prior audits, including implementation of a password management system. However, corrective actions have not been fully implemented and, therefore, weaknesses continue to exist in IT security over the operations of DET's data centers.

Specifically, DET did not complete all corrective actions to address our prior audit recommendations related to completing written procedures, reviewing settings and practices, and completing projects initiated in response to specific concerns we identified. In some areas, the corrective action plan indicated that a project request would be submitted by February 2020. Many of these projects are still in the initialization phase and were not completed by June 30, 2020. For example, a procedures project planned to remediate several prior audit concerns was initiated but was not completed as of June 30, 2020.

We determined that the detailed results of our review were too sensitive to communicate publicly. Therefore, we communicated the results in a separate confidential communication to the Chief Information Officer at DOA.

***Context:***

We reviewed the State of Wisconsin *IT Security Policy Handbook* and related standards, reviewed DET Service Offering Definitions and related Roles and Responsibilities, interviewed key DET management and staff, and evaluated the design or operation of certain procedures, settings, and practices.

Most state agencies use computer systems that are located on the mainframe or on servers maintained in the DET data centers. Therefore, risks at the data centers can affect the computing resources and data of state agencies.

***Questioned Costs:***

None.

***Effect:***

Procedures and settings that do not align with approved policies and standards weaken the level of security provided by DET. For example, failure to properly manage and maintain a secure environment at the DET data centers could result in inappropriate access, which could result in the issuance of erroneous or fraudulent checks through inappropriate changes to financial systems.

Further, because DET hosts and supports a significant number of executive branch agencies and systems at its data centers, if a data center or the state network is compromised, there is an increased risk that any of the systems or data of the agencies that use the data center or network could be vulnerable to the threat.

***Cause:***

DET has initialized several projects to address the recommendations we made during our prior audits. However, DET indicated that other priorities, including responding to the public health emergency, caused delays in its efforts to meet all timelines for implementing corrective actions. DET also indicated that some projects are ongoing and are anticipated to be completed after

June 30, 2020. Although DET had to reprioritize its resources due to the public health emergency, it is important DET address these weaknesses in IT security.

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**☑ Recommendation**

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*We recommend the Department of Administration take steps to fully complete projects or update project plans to implement the written procedures, practices, and settings of the Division of Enterprise Technology to enforce policies and standards.*

**Type of Finding:** Significant Deficiency

**Response from the Wisconsin Department of Administration:** The Department of Administration agrees with the finding and recommendation.

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**Finding 2020-002: Department of Administration Information Technology Oversight Responsibilities\***

*Background:*

DOA is responsible for the State's IT services, including providing oversight and monitoring of executive branch agency IT operations. We first made recommendations to DOA to develop and implement executive branch agency IT policies and standards and to provide oversight and monitoring of executive branch agencies' IT operations during our FY 2014-15 audit. During subsequent audits, we recommended DOA take steps to identify, assess, and address risks for the State's IT environment. These steps were to include completion of vulnerability assessments, penetration testing, and a comprehensive risk assessment. During our FY 2018-19 audit, we found DOA had worked with executive branch agencies and implemented the State of Wisconsin *IT Security Policy Handbook*, which includes policies for IT security, and the related standards. Executive branch agencies are expected to comply with these policies and standards.

*Criteria:*

Wisconsin Statutes give DOA responsibility for the State's IT services. Under s. 16.971 (2), Wis. Stats., DOA shall:

- in cooperation with executive branch agencies, establish policies, procedures, and planning processes for the administration of IT services, which executive branch agencies must follow;
- ensure the policies, procedures, and processes address the needs of agencies, other than the Board of Regents of the University of Wisconsin System, to carry out their functions; and
- monitor adherence to these policies, procedures, and processes.

Further, s. 16.971 (2), Wis. Stats., requires DOA to provide oversight and monitoring of state agency IT operations, including the responsibility for ensuring:

- management reviews of IT organizations are conducted;
- all executive branch agencies develop and operate with clear guidelines and standards in the areas of IT systems development and employ good management practices and cost-benefit justifications; and
- all state data-processing facilities develop proper privacy and security procedures and safeguards.

Finally, s. 16.973 (3), Wis. Stats., states that DOA shall facilitate the implementation of statewide initiatives, including development and maintenance of policies and programs to protect the privacy of individuals who are the subjects of information contained in the databases of the agencies.

**Condition:**

During the FY 2018-19 audit, we found DOA had not taken sufficient steps to provide guidance to executive branch agencies on the implementation of the State of Wisconsin *IT Security Policy Handbook*, or to monitor to ensure agency compliance with the policies and standards. In response to our recommendations, DOA indicated that it would:

- develop and implement a plan and dashboard by March 31, 2020, for use by the executive branch agencies to track compliance with the State of Wisconsin *IT Security Policy Handbook* and related standards;
- complete its remediation plans from its June 2019 audit follow-up communication to the Bureau to fully address prior recommendations within various timelines provided; and
- develop and implement, in conjunction with executive branch agencies, a long-term process to regularly review penetration testing, monitoring, vulnerability management, and risk assessments by June 30, 2020.

During our FY 2019-20 audit, we found DOA initiated efforts to implement a dashboard to collaborate and share information with agencies. However, the effort was not completed at the time of our fieldwork in spring 2020 and, therefore, was not available for DOA to use to monitor executive branch agencies throughout FY 2019-20. We also found DOA made some progress in addressing remediation plans in response to our prior audit recommendations. However, DOA did not address all concerns or meet its established timelines. In addition, we found DOA developed a risk assessment plan, which documented a plan for improving vulnerability management and completing penetration testing. However, the plan was a multi-year plan with unspecified completion dates and no specific plans for ongoing assessments.

**Context:**

We interviewed DOA staff to gain an understanding of DOA's plans for monitoring the progress of executive branch agency implementation of the State of Wisconsin *IT Security Policy Handbook*, and the related standards, as well as the steps that were taken to monitor and provide oversight of executive branch agency IT operations.

Because DOA has responsibility to monitor and provide oversight over IT operations for all executive branch agencies, and because there are connections among agencies in the State's network, IT weaknesses at one agency can affect IT security for other agencies.



**Questioned Costs:**

None.

**Effect:**

Failure to monitor agency environments and practices can lead to vulnerabilities in the State's network, known or unknown, because there is no assurance that all systems are meeting the minimum level of security for the State's IT environment, as established in the State of Wisconsin *IT Security Policy Handbook* and related standards. Weaknesses in the security of the network can lead to inappropriate access to confidential or sensitive data, unauthorized changes to the data within the system, or a failure of the system.

**Cause:**

DOA indicated that other priorities, including responding to the public health emergency, caused delays in its efforts to meet all timelines for implementing corrective actions. DOA also indicated that some corrective actions are ongoing and are anticipated to be completed after June 30, 2020. Although DOA had to reprioritize its resources due to the public health emergency, it is important that DOA address these IT security weaknesses.

 **Recommendation**

*We recommend the Department of Administration:*

- *evaluate, by December 18, 2020, the adequacy of executive branch agency monitoring provided through the dashboard in assessing the progress of executive branch agency compliance with the State of Wisconsin IT Security Policy Handbook and related standards and implement additional methods for monitoring as needed;*
- *establish a timeline for anticipated agency compliance with the State of Wisconsin IT Security Policy Handbook and related standards, assess agency progress in achieving compliance, and take action to assist agencies not achieving compliance in a timely manner;*
- *set specific completion dates for the actions identified in its Division of Enterprise Technology's risk assessment plan related to vulnerability management and penetration testing, complete the actions by the dates established, and update the plan to specify the frequency of and processes for ongoing or periodic assessments and related actions; and*
- *identify, by December 18, 2020, areas not included within the scope of the current risk assessment plan or other methods of assessing risks that would assist in the overall management of risk, and update the risk assessment plan for consideration of these areas or methods.*

**Type of Finding:** Significant Deficiency

**Response from the Wisconsin Department of Administration:** The Department of Administration agrees with the finding and recommendations.

## **Finding 2020-003: Information Security Controls at the University of Wisconsin System**

### *Background:*

UW institutions operate in a highly computerized environment and are responsible for maintaining confidential and sensitive information, such as student data. UW System Administration maintains the Shared Financial System (SFS), which is UW System's accounting system, and the Human Resource System (HRS), which is UW System's payroll and personnel system. Both SFS and HRS data are stored on infrastructure managed by UW-Madison's Division of Information Technology (DoIT). These systems are used by all UW institutions. In addition, each institution maintains its own student information system to administer federal student financial assistance programs under the Student Financial Assistance Cluster, as well as other computer applications.

Under s. 36.09, Wis. Stats., the Board of Regents is responsible for the governance of UW System, including protecting institutional and research data. Board of Regents Policy 25-5, which was adopted in February 2016, delegates authority to the UW System President to implement and maintain an information security program. The policy specifies that this program be comprehensive to encompass all aspects of information security, including system access and authentication; system and data integrity; data access, privacy, and confidentiality; and incident response. The UW System *Information Security Program* document was first published in April 2018 and provides a structure for developing and maintaining systemwide security policies and standards. The document includes five policies that were issued in 2016 and an additional nine proposed security policies and twelve proposed security standards in areas such as asset management, IT disaster recovery, secure software development, and security monitoring.

We reported concerns with UW System Administration's information security policies, procedures, and controls in our financial audits of UW System for FY 2014-15 (report 16-3), FY 2015-16 (report 17-6), and FY 2016-17 (report 18-2), and in our *State of Wisconsin FY 2017-18 Single Audit* (report 19-3). As part of our FY 2018-19 single audit (report 20-3), we followed up on these concerns and found that UW System Administration had partially implemented our recommendations. We also reported similar concerns in our evaluation of IT needs assessment, procurement, and security (report 20-10).

### *Criteria:*

It is important that UW System Administration manage and maintain a secure environment because of the financial, confidential, and sensitive data that it maintains. Managing a secure environment includes the development and maintenance of a comprehensive information security program. This involves developing, approving, and following appropriate policies, standards and procedures, as well as monitoring UW institutions for compliance.

UW System Administration is responsible for developing systemwide policies that are approved by the UW System President and that form the basis for the information security program. Board of Regents Policy 25-5 requires that National Institute of Standards and Technology (NIST) standards be used as a guide in developing systemwide policies. Chancellors and chief information officers at each UW institution are responsible for monitoring compliance with the policies, but UW System Administration retains overall oversight authority and responsibility for ensuring implementation and adherence to the information security program. In accordance

with UW System's *Information Security Program*, each quarter the UW System Associate Vice President of Information Security requires each institution to report its status with respect to implementing and complying with the systemwide information security policies and standards.

***Condition:***

During our FY 2019-20 audit, we found that UW System Administration had taken some steps to address our prior audit recommendations. For example, UW System Administration developed an additional information security policy and revised three of the five policies that were established in September 2016, including policies on authentication, data classification and protection, and incident response. However, as of June 30, 2020, UW System Administration had not formally issued any new information security policies. Since June 30, 2020, UW System Administration has issued four information security policies on IT asset management, risk management, privacy, and information security definitions.

***Context:***

We reviewed UW System Administration information security policies and related standards and procedures, interviewed key UW System Administration and UW-Madison DoIT staff, and evaluated the design of IT general controls, including those for SFS and HRS. The IT general controls consist of access, program change management, and computer operations. We did not audit all information security policies and procedures at all UW institutions or the IT controls over all computer applications used by the institutions.

***Questioned Costs:***

None.

***Effect:***

Weaknesses in information security policies, standards, and procedures weaken the level of security provided by UW System Administration. For example, failure to provide guidance for the handling, protection, and privacy of an individual's personal data increases the risk that personally identifiable information could be accidentally or intentionally exposed.

Failure to monitor UW institution environments can lead to vulnerabilities in the UW System's network, known or unknown, because there is no assurance that all systems are meeting the minimum level of security for UW System's IT environment, as established by systemwide policies and related standards and procedures. Weaknesses in the security of the network can lead to inappropriate access to confidential or sensitive data, unauthorized changes to the data within the system, or a failure of the system.

Although it can be difficult to determine how information security concerns affect the financial statements and material compliance areas, ineffective information security controls may permit controls over individual systems to operate improperly and may allow financial statement misstatements and noncompliance to occur and not be detected.

***Cause:***

UW System Administration indicated that other priorities, including responding to the public health emergency, caused delays in its timeline for issuing policies that support a comprehensive information security program and monitoring compliance with existing

systemwide information security policies. Nevertheless, it is important that UW System Administration continue to address these information security weaknesses.

**Recommendation**

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*We recommend University of Wisconsin System Administration:*

- *continue development and maintenance of a comprehensive information security program, including developing systemwide information security policies, standards, and procedures across the remaining critical information security areas, as recommended by National Institute of Standards and Technology publications;*
- *develop a structure to effectively monitor compliance with systemwide policies; and*
- *work with UW institutions to achieve compliance in a timely manner when noncompliance is identified.*

**Type of Finding:** Significant Deficiency

**Response from University of Wisconsin System Administration:** University of Wisconsin System Administration agrees with the finding and recommendations.

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## **Finding 2020-004: Unemployment Insurance Benefits Payable**

**Background:**

The Department of Workforce Development (DWD) administers the Unemployment Insurance program, which pays monetary benefits to certain individuals who have lost their jobs. Unemployed individuals file initial benefit claim applications and subsequent weekly benefit claims. DWD verifies the information provided in order to establish the statutory eligibility of individuals and the amount of weekly benefits to pay. DWD then processes the weekly benefit claim payments to eligible individuals. DWD is responsible for preparing financial statements for the program's activity that are reported as the Unemployment Reserve Fund in the State's CAFR.

In March 2020, the public health emergency resulted in a significant increase in unemployment claims being filed. In addition, DWD began making payments through several new federal programs that were aimed at providing monetary benefits to unemployed individuals. DWD experienced a significant backlog of claims that needed to be processed, including claims that had issues that needed resolution. As of September 1, 2020, DWD reported a backlog of over 685,000 weekly claims.

**Criteria:**

DWD is responsible for preparing financial statements in accordance with Governmental Accounting Standards Board (GASB) standards. The State of Wisconsin *Uniform GAAP Conversion Policies and Procedures Manual* (GAAP Manual), which is published by the

Department of Administration, State Controller's Office (DOA-SCO) provides guidance to state agencies in preparing financial statements for inclusion in the State's CAFR. To assess whether payments relate to the prior year and then to report those expenses and a related accounts payable in the financial statements, the GAAP Manual requires agencies to review payments that occurred within a reasonable period of time after the end of the fiscal year (after June 30), typically July and August. In addition, the GAAP Manual requires agencies to identify other payables that meet the criteria for reporting. In following these standards, DWD should calculate a payable representing benefits that will be paid to claimants after the end of the fiscal year, but relate to benefit weeks that occurred within the fiscal year.

***Condition:***

In preparing the financial statements for the Unemployment Reserve Fund for FY 2019-20, DWD identified benefit payments that had been processed in July and August 2020. DWD calculated that \$546.8 million of those benefit payments related to weekly claims for periods prior to June 30, 2020, and prepared an adjusting entry to report this benefit payable amount. However, DWD did not identify whether other payables existed as of June 30, 2020, related to its backlog of claims. On September 1, 2020, DWD reported that there was a backlog of 685,447 weekly claims, with 79,086 that related to the period March 15 through May 2, 2020. DWD did not identify these backlogged claims, nor other claims for weeks prior to June 30, 2020, when it calculated the payable that existed as of June 30, 2020.

At our request, DWD prepared the benefit payment report detailing benefit payments that occurred in September through November 2020. This report identified an additional \$214.8 million in benefit payments that related to weekly claims prior to June 30, 2020, but that DWD had not identified for inclusion in the payable for benefit payments.

***Context:***

We interviewed DWD staff to gain an understanding of the process used to develop the benefit payable as of June 30, 2020. We also reviewed the adjusting entry prepared by DWD for benefit claims paid after June 30, 2020, that related to weekly claims for weeks prior to June 30, 2020.

***Questioned Costs:***

None.

***Effect:***

The financial statements for the Unemployment Reserve Fund were materially misstated. Benefit Expense and Accounts Payable in the Unemployment Reserve Fund were understated by at least \$214.8 million. In addition, because federal revenue will be received for a significant portion of these claims, Due From Other Governments and Miscellaneous Revenue were each understated by at least \$185.1 million. After we brought these concerns to its attention, DWD adjusted the financial statements for these amounts.

***Cause:***

DWD followed its procedures from prior years and used payment information from July and August to calculate the amount of the payable to report for benefit payments for FY 2019-20. DWD indicated that it took the steps it could in the time it had to meet the reporting deadlines provided by DOA-SCO. DWD staff stated that data was not readily available to allow them to calculate an additional payable amount for the backlog of claims that existed. However, DWD

did not discuss additional payable amounts with DOA-SCO or the Legislative Audit Bureau, or suggest a note disclosure to disclose the potential for additional outstanding payables that could not easily be determined.

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**Recommendation**

*We recommend the Department of Workforce Development revise its procedures for calculating benefit payables as of the end of the fiscal year to ensure the effect of changes in circumstances, such as the backlog of claims that occurred for FY 2019-20 claims, is reflected in the payable.*

**Type of Finding:** Material Weakness

**Response from the Wisconsin Department of Workforce Development:** The Department of Workforce Development agrees with the finding and recommendation.

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### **Finding 2020-005: Accumulated Sick Leave Conversion Credit Program Liability**

*Background:*

The Department of Employee Trust Funds (ETF) administers employee benefit programs for participating state employees, including two sick leave programs: the basic Accumulated Sick Leave Conversion Credit (basic ASLCC) program and the Supplemental Health Insurance Conversion Credit (SHICC) program. The State of Wisconsin, including UW System, and certain state authorities such as the UW Hospital and Clinics Authority, participate in the sick leave programs. In implementing GASB Statement Number 84, *Fiduciary Activities*, ETF, in consultation with the DOA State Controller's Office, determined that the sick leave programs would not be reported in ETF's calendar year 2019 financial statements or in the State of Wisconsin's CAFR for FY 2019-20 as a fiduciary activity as they had historically been reported. In July 2020, ETF determined that it would report the financial information for the basic ASLCC program separate from the SHICC program. Historically, these two programs were reported together as one fiduciary fund.

The basic ASLCC program allows eligible employees to convert earned but unused sick leave balances for use in paying postemployment premiums for state group health insurance coverage. Because basic ASLCC program benefits are based on sick leave earned during an employee's years of service and are available to the employee during their employment, ETF determined that the activity for this program would be presented in ETF's financial statements as an internal service fund and that the liability for the benefits to be provided would be considered a compensated absence.

*Criteria:*

GASB Statement Number 16, *Accounting for Compensated Absences*, establishes the requirements for calculating a compensated absence liability for activity such as ETF's basic ASLCC program. Under GASB Statement Number 16, a liability should be calculated based on the sick leave accumulated as of the end of the reporting period by those employees who were currently eligible to receive benefits. In addition, a liability should also be calculated for employees who were expected to become eligible in the future based on policies established to estimate the

probability that employees will become eligible in the future. Although the liability calculated using the methodology in GASB Statement 16 is an estimate, this estimate should provide a reasonable basis for determining the State's liability.

***Condition:***

ETF calculated a compensated absence liability estimate of \$2.7 billion for the basic ASLCC program. However, in performing this calculation ETF did not have a reasonable basis for estimating the probability of employees becoming eligible in the future to receive basic ASLCC program benefits. In addition, ETF did not adjust the liability balance for the accounts of deceased participants or for accounts that were closed.

***Context:***

We reviewed ETF's methodology for calculating the compensated absence liability estimate for the basic ASLCC program. We also interviewed ETF staff about its methodology, the assumptions used to estimate the probability of future benefits, and the calculation of the liability. Finally, we analyzed available data for employees who were determined to be eligible or who may be eligible to receive benefits in the future under the basic ASLCC program.

***Questioned Costs:***

None.

***Effect:***

The financial statements related to the basic ASLCC program were materially misstated. In the State of Wisconsin's CAFR for the year ended June 30, 2020, Noncurrent Long-Term Liabilities for Governmental Activities on the Statement of Net Position were overstated by \$425.4 million and the Compensated Absences liability in the ASLCC internal service fund was overstated by \$425.4 million. ETF prepared adjustments to correct the errors we identified.

***Cause:***

ETF's policies were inadequate to provide a reasonable basis for accurately calculating the basic ASLCC compensated absence liability estimate. For example, ETF did not use available data on employees participating in the basic ASLCC program to reasonably estimate the probability that employees who were not currently eligible for the basic ASLCC program benefit will become eligible to receive benefits in the future.

Further, ETF's policies were inadequate to provide a reasonable basis for accurately calculating the liability estimate because ETF did not sufficiently plan for its implementation of GASB Statement Number 84, which was issued in January 2017. On October 5, 2018, we wrote to ETF to foreshadow the important effects GASB Statement Number 84 would have on ETF's calendar year 2019 financial report. On February 14, 2019, we met with ETF and DOA to discuss the status of efforts to implement the financial reporting changes resulting from GASB Statement Number 84. On September 27, 2019, we wrote to ETF to reiterate the need for it to work collaboratively with DOA to ensure consistent reporting of the fiduciary activities administered by ETF in differing financial reports, including the State's CAFR for the year ended June 30, 2020. As noted, ETF did not determine that it would separate the financial information for the two sick leave programs until July 2020, which was subsequent to the date on which ETF had planned to provide draft financial statements for the sick leave programs to the Legislative Audit Bureau for audit purposes.

**Recommendation**

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*We recommend the Department of Employee Trust Funds:*

- *improve its calculation of the compensated absence liability estimate for the basic Accumulated Sick Leave Conversion Credit program by revising its policies by April 30, 2021, and implementing them for the 2020 financial statements; and*
- *ensure when implementing changes to financial reporting that it completes its planning, review, and assessment process before the close of the affected financial reporting period, and works with the Department of Administration, State Controller's Office on areas that affect the State's CAFR.*

**Type of Finding:** Material Weakness

**Response from the Wisconsin Department of Employee Trust Funds:** The Department of Employee Trust Funds (ETF) agrees that the initial calculation of the ASLCC liability resulted in overstating the Noncurrent Long-Term portion of the liability and agrees with the importance of planning and assessing changes to financial reporting, including working with the Department of Administration, State Controller's Office (SCO). However, ETF respectfully disagrees with the characterization of its efforts undertaken to accurately report the financial activities of the programs, in compliance with accounting standards, and believes the finding lacks important context to the actions it took.

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## **Corrective Action Plans as Prepared by Agency Management ■**

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STATE OF WISCONSIN  
DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor  
Joel Brennan, Secretary  
Trina Zanow, Division Administrator

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**Corrective Action Plan**

**Finding 2020-001:** Implementation of IT Procedures by the Department of Administration Division of Enterprise Technology

**Planned Corrective Action:**

The Department will take steps to fully complete projects or update project plans to implement written procedures, practices, and settings of the Division of Enterprise Technology to enforce policies and standards.

**Anticipated Completion Date:** On or before June 30<sup>th</sup>, 2021, except as otherwise identified by the Department in a separate, confidential communication to the auditors.

**Person responsible for corrective action:**

Bill Nash, CISO  
Division of Enterprise Technology  
[Bill.Nash@wisconsin.gov](mailto:Bill.Nash@wisconsin.gov)



**STATE OF WISCONSIN**  
**DEPARTMENT OF ADMINISTRATION**

Tony Evers, Governor  
Joel Brennan, Secretary  
Trina Zanow, Division Administrator

**Corrective Action Plan**

**Finding 2020-002:** Department of Administration Information Technology Oversight Responsibilities

<b>LAB Recommendation:</b>	<b>Planned Corrective Action:</b>	<b>Anticipated Completion Date:</b>
1. Evaluate, by December 18, 2020, the adequacy of executive branch agency monitoring provided through the dashboard in assessing the progress of executive branch agency compliance with the State of Wisconsin IT Security Policy Handbook and related standards and implement additional methods for monitoring as needed.	The Division of Enterprise Technology (DET) will evaluate the adequacy of utilizing the dashboard for monitoring agency progress in attaining compliance for executive branch agency policy and standards. If additional methods for monitoring are needed, we will develop a plan for how to address.	December 18, 2020
2. Establish a timeline for anticipated agency compliance with the State of Wisconsin IT Security Policy Handbook and related standards, assess agency progress in achieving compliance, and take actions to assist agencies not achieving compliance in a timely manner.	DET will work with the executive branch agencies to establish goals and timeline for anticipated agency compliance with the Executive Branch Agency IT Security Policy Handbook and related standards. Besides outlining actions to assist those not achieving compliance, we will also need to account for annual changes of the handbook and standards.	June 30, 2021
3. Set specific completion dates for the actions identified in its Division of Enterprise Technology's risk assessment plan related to vulnerability management and penetration testing, complete the actions by the dates established, and update the plan to specify the frequency of and processes for ongoing or periodic assessments and related actions.	DET will continue to work with the executive branch agencies to establish a long-term process with milestones to address Vulnerability Management, Penetration Testing, and Risk Assessments.	June 30, 2021
4. Identify, by December 18, 2020, areas not included within the scope of the current risk assessment plan or other methods of assessing risks that would assist in the overall management of risk, and update the risk assessment plan for consideration of these areas or methods.	DET will work with executive branch agencies to evaluate the areas not included within the scope of the current risk assessment plan or other possible methods of assessing risks that would assist in the overall management of risk, and update the risk assessment plan for consideration of these areas or methods as needed.	December 18, 2020

**Person responsible for corrective action:**

Bill Nash, CISO  
Division of Enterprise Technology  
[Bill.Nash@wisconsin.gov](mailto:Bill.Nash@wisconsin.gov)

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 780 Regent Street  
 Suite 305  
 Madison, Wisconsin 53715  
 608-262-1605  
[kmayer@uwsa.edu](mailto:kmayer@uwsa.edu)  
[www.wisconsin.edu](http://www.wisconsin.edu)

## University of Wisconsin (UW) System – Corrective Action Plan

### Finding 2020-003: Information Security Controls at the University of Wisconsin System

#### LAB Recommendation:

*Continue development and maintenance of a comprehensive information security program, including developing systemwide information security policies, standards and procedures across the remaining critical information security areas, as recommended by National Institute of Standards and Technology (NIST) publications.*

#### Planned Corrective Action:

Four new IT security policies and four new procedures have been published since the closing date of this report. Additionally, four new policies and associated procedures are in development. This work will require systemwide engagement with key stakeholders and will leverage the existing UW System policy development process. These new documents, coupled with existing IT security policies and procedures are expected to sufficiently cover the five core areas of the NIST Cyber Security Framework (CSF).

#### Anticipated Completion Date:

Policy development in the remaining critical areas of the NIST CSF is expected by **June 30, 2021**.

#### LAB Recommendation:

*Develop a structure to effectively monitor compliance with systemwide policies; and work with UW institutions to achieve compliance in a timely manner when non-compliance is identified.*

#### Planned Corrective Action:

Critical initiatives, such as IT as a Service (ITaaS) and the Administrative Transformation Project (ATP), to upgrade and modernize UW's IT infrastructure and holistically improve our IT security posture will provide the foundation for UW System compliance efforts. Additional actions include: developing a regular reporting structure for UW institutions to report compliance efforts to leadership; tracking compliance with applicable regulations and policies by leveraging the UW System Office of Compliance and Integrity's compliance matrix; engaging UW System's Internal Audit expertise to perform targeted progress audits at the institutional level; and holding UW institutions accountable for non-compliance associated with IT security policies.

#### Anticipated Completion Date:

Structure and process will be in place by **June 30, 2021**.

#### Person responsible for corrective action(s):

Katherine A. Mayer  
 Associate Vice President for Information Security  
 University of Wisconsin System Administration  
[kmayer@uwsa.edu](mailto:kmayer@uwsa.edu)

Department of Workforce Development  
Unemployment Insurance Division  
Bureau of Tax and Accounting  
201 E. Washington Avenue  
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**Tony Evers**, Governor  
**Robert Cherry**, Deputy Secretary

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Corrective Action Plan

Finding 2020-004: Unemployment Insurance Benefits Payable  
Planned Corrective Action: The department will revise its procedures for calculating benefit payables as of the end of the fiscal year.

Anticipated Completion Date: September 30, 2021

Person responsible for corrective action:  
Rachel Shikoski, Accountant  
Bureau of Tax and Accounting  
[rachel.shikoski@dwd.wisconsin.gov](mailto:rachel.shikoski@dwd.wisconsin.gov)



**STATE OF WISCONSIN**  
**Department of Employee Trust Funds**  
 Robert J. Conlin  
 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

**Corrective Action Plan**

**Finding 2020-005: Accumulated Sick Leave Conversion Credit Program Liability**

**Planned Corrective Action:**

<b>LAB Recommendation</b>	<b>ETF Planned Corrective Action</b>	<b>Anticipated Completion Date</b>
Improve its calculation of the compensated absence liability estimate for the basic Accumulated Sick Leave Conversion Credit program by revising its policies by April 30, 2021, and implementing them for the 2020 financial statements.	We have updated our procedures based on the approach and assumptions used to calculate the final liability amount as of December 31, 2019. Each year we will review the process, including assumptions, to calculate the estimated ASLCC liability as of the reporting date. In addition, our actuary will be conducting an experience study next year. This study may allow us to further refine the assumptions that we will use in calculating the ASLCC liability as of December 31, 2021.	Completed
Ensure when implementing changes to financial reporting that it completes its planning, review, and assessment process before the close of the affected financial reporting period, and works with the Department of Administration, State Controller's Office on areas that affect the State's CAFR.	In performing the research and making related changes for the 2019 reporting period, ETF and the SCO staff worked together. We started reviewing GASB Statement Number 84 in 2019 and intended to complete before year end but encountered unforeseen challenges. We continually strive to plan, review, and assess changes before the close of the affected period but that may not always be realistic depending on the complexity of the matter. We do not believe there is specific corrective action we need to take as a result of this recommendation.	Completed

Person responsible for corrective action:  
 Cindy Klimke-Armatoski, Chief Trust Financial Officer  
 Division of Trust Finance  
 cindy.klimke@etf.wi.gov





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## **Response ■**

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STATE OF WISCONSIN  
DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor  
Joel Brennan, Secretary

December 21, 2020

Joe Chrisman, State Auditor  
Legislative Audit Bureau  
22 East Mifflin Street, Suite 500  
Madison, Wisconsin 53703

Dear Mr. Chrisman:

I am writing in response to the Fiscal Year 2019-20 financial audit that the Legislative Audit Bureau recently completed and want to extend our appreciation to you and your staff for your diligent work related to this annual audit. Under the most challenging of circumstances, staff from both the LAB and the State Budget and Controller's Office were able to complete this project in a collaborative and productive way.

The Department of Administration (DOA) takes very seriously all issues related to information technology across state government. Thus, I want to reiterate our concurrence with the LAB recommendations related to Information Technology (IT) procedures in the Division of Enterprise Technology and IT oversight as noted in the audit.

Further, we will continue to work with state agencies in a collaborative manner to ensure compliance with policies and identify ways to improve the timeliness of the financial reporting process.

Again, thank you for your timely and important work.

Sincerely,

Joel Brennan, Secretary  
Department of Administration