

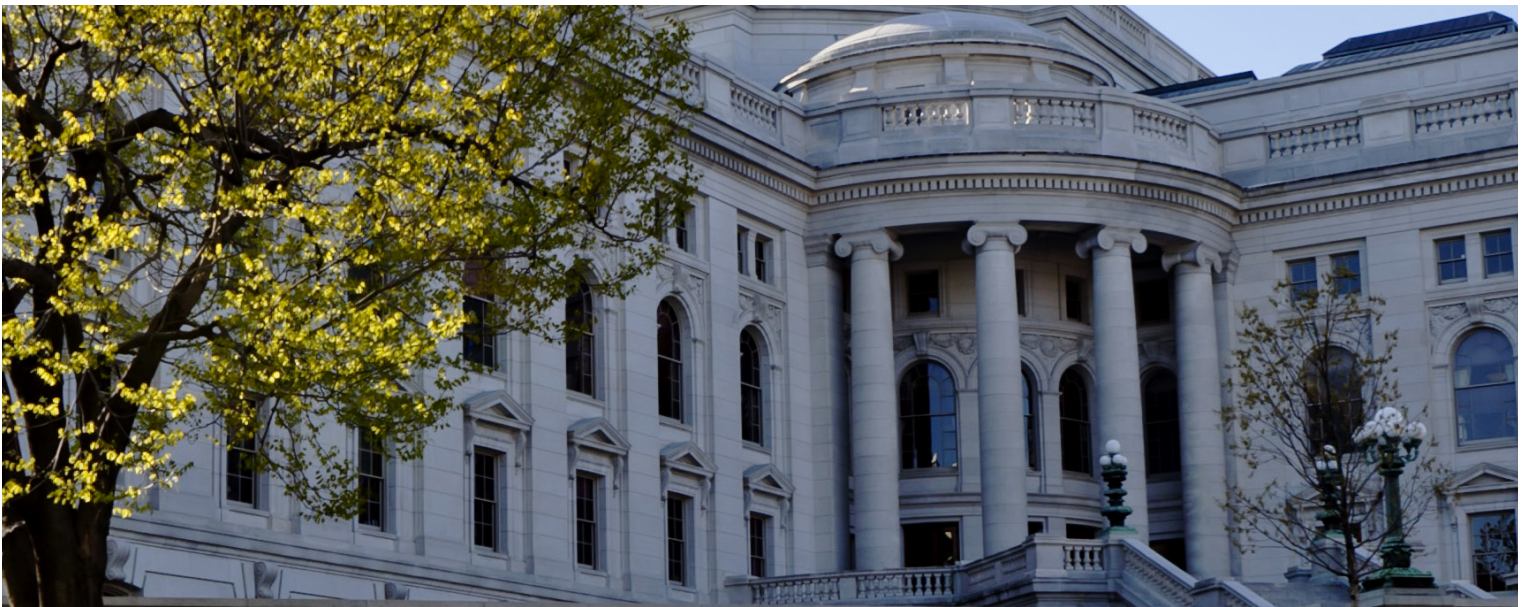


STATE OF WISCONSIN
Legislative Audit Bureau
NONPARTISAN • INDEPENDENT • ACCURATE

Report 23-26
December 2023

State of Wisconsin

FY 2022-23 Financial Statements



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State of Wisconsin

FY 2022-23 Financial Statements



STATE OF WISCONSIN

Legislative Audit Bureau

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Report 23-26
December 2023

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The Legislative Audit Bureau supports the Legislature in its oversight of Wisconsin government and its promotion of efficient and effective state operations by providing nonpartisan, independent, accurate, and timely audits and evaluations of public finances and the management of public programs. Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau.

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Appendix

Response

From the Department of Administration

Opinion Published Separately

The financial statements and our opinions on them are included in the State of Wisconsin's Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2023.



STATE OF WISCONSIN

Legislative Audit Bureau

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State Auditor

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December 21, 2023

Senator Eric Wimberger and
Representative Robert Wittke, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Wimberger and Representative Wittke:

We have completed our financial audit of the State of Wisconsin as of and for the fiscal year ended June 30, 2023, and issued unmodified opinions dated December 19, 2023, on the State's financial statements. The financial statements were prepared by the Department of Administration (DOA) in accordance with generally accepted accounting principles (GAAP) prescribed by the Governmental Accounting Standards Board (GASB) and are included in the State's fiscal year (FY) 2022-23 Annual Comprehensive Financial Report (ACFR), which may be found on DOA's website.

The ACFR 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 financial statements of the Unemployment Reserve Fund and the University of Wisconsin System; report three significant deficiencies in internal control over financial reporting; and provide information on certain other matters we identified during the course of our audit.

During our FY 2023-24 audit, we will follow up on the progress of state agencies in implementing our recommendations.

A response from DOA follows the Appendix.

Respectfully submitted,

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

Joe Chrisman
State Auditor

JC/CS/ss

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

FY 2022-23 Annual Comprehensive Financial Report

***We provided unmodified
opinions on the State's
financial statements as of
and for the year ended
June 30, 2023.***

The Department of Administration (DOA) prepares the Annual Comprehensive Financial Report (ACFR), which contains financial statements prepared in accordance with generally accepted accounting principles (GAAP) prescribed by the Governmental Accounting Standards Board (GASB). The ACFR 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 ACFR includes Management's Discussion and Analysis, which describes the State's financial performance for the year, and a statistical section, which provides the reader with 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 ACFR and have provided unmodified opinions on the State's financial statements as of and for the year ended June 30, 2023.

General Fund

***As reported on a
GAAP basis, the General
Fund total fund balance
improved from \$4.7 billion
as of June 30, 2022, to
\$6.7 billion as of
June 30, 2023.***

On a GAAP basis, the General Fund total fund balance improved from \$4.7 billion as of June 30, 2022, to \$6.7 billion as of June 30, 2023, as shown on page 44 of the ACFR. The General Fund total fund balance is primarily made up of amounts restricted or committed for specific purposes, and an unassigned amount. The largest component of total fund balance is the unassigned fund balance of \$3.8 billion. The unassigned fund balance represents that, as of June 30, 2023, more resources were available than were spent or obligated in the short term.

The State’s rainy day fund had a balance of \$1.8 billion as of June 30, 2023.

The second largest component of total fund balance is the committed fund balance, which was \$1.8 billion as of June 30, 2023, and is made up of the amount held in the statutory Budget Stabilization Fund, which is also known as the State’s rainy day fund. The balance in the Budget Stabilization Fund increased by \$66.3 million in fiscal year (FY) 2022-23, primarily from interest income. Even though tax revenues in FY 2022-23 exceeded projections in 2021 Wisconsin Act 58, the 2021-23 Biennial Budget Act, DOA did not make a transfer to the Budget Stabilization Fund for FY 2022-23 because the balance in the Budget Stabilization Fund exceeded the maximum balance allowed under Wisconsin Statutes.

Total General Fund revenue decreased by \$840.2 million and totaled \$38.6 billion for FY 2022-23.

In the Management’s Discussion and Analysis on page 29, DOA reported that total General Fund revenue decreased by \$840.2 million and totaled \$38.6 billion for FY 2022-23. This decrease was largely attributed to a decrease of \$1.2 billion in income tax revenues. The decrease in income taxes relates, in part, to the update of individual income tax withholding tables effective January 1, 2022. In addition, federal revenues decreased by \$302.6 million largely as a result of the spend down of federal revenues the State received as a result of the public health emergency. These decreases were partially offset by an increase in sales and excise taxes of \$454.1 million and an increase in investment and interest income of \$349.8 million largely related to higher interest rates throughout FY 2022-23.

Total General Fund expenditures increased by \$801.5 million and totaled \$34.4 billion for FY 2022-23.

In the Management’s Discussion and Analysis on page 29, DOA reported that total General Fund expenditures increased by \$801.5 million and totaled \$34.4 billion for FY 2022-23. This increase was attributed to grants and aid to individuals and organizations related, in part, to the public health emergency, increases in Medical Assistance expenditures, and increases in aids to schools.

2023 Wisconsin Act 19 reduced individual income tax rates effective January 1, 2023. However, as the individual income tax withholding tables have not been updated, the estimated tax refunds liability increased from \$1.5 billion as of June 30, 2022, to \$1.8 billion as of June 30, 2023, or by \$315.2 million. This estimate relates primarily to amounts collected from individuals through payroll withholdings and tax filings that will be refunded when individuals file income tax returns in 2024.

Transportation Fund

On a GAAP basis, the total fund balance of the Transportation Fund increased from \$1.3 billion as of June 30, 2022, to \$1.4 billion as of June 30, 2023.

On a GAAP basis, the total fund balance of the Transportation Fund increased from \$1.3 billion as of June 30, 2022, to \$1.4 billion as of June 30, 2023, as shown on page 44 of the ACFR. In the Management’s Discussion and Analysis on page 31, DOA reported that the majority of the Transportation Fund’s balance (97.4 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. In the Management’s Discussion and Analysis on page 31, DOA reported that total revenues increased by \$346.6 million to a total of \$3.4 billion primarily as a result

of increases in federal revenues. In addition, Transportation Fund expenditures increased by \$449.6 million to a total of \$3.3 billion in FY 2022-23.

Long-Term Debt

The State's long-term debt decreased from \$12.5 billion as of June 30, 2022, to \$12.3 billion as of June 30, 2023.

On a GAAP basis, the State's long-term debt decreased from \$12.5 billion as of June 30, 2022, to \$12.3 billion as of June 30, 2023, as shown in the Management's Discussion and Analysis on page 34. The State repaid long-term debt in excess of new debt issuances during FY 2022-23, which resulted in the decrease in overall debt. As shown in the Management's Discussion and Analysis on page 34, \$1.4 billion in new general obligation bonds and notes were issued during FY 2022-23. This amount includes \$645.3 million for UW System academic facilities and \$222.9 million for transportation projects. The amount of outstanding annual appropriation bonds as of June 30, 2023, was \$2.9 billion, and the amount of outstanding revenue bonds as of June 30, 2023, was \$2.3 billion.

Unemployment Reserve Fund

The Unemployment Reserve Fund's net position increased from \$1.4 billion as of June 30, 2022, to \$1.7 billion as of June 30, 2023.

Wisconsin's Unemployment Insurance (UI) program is accounted for in the State's ACFR 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. As shown on page 50 of the ACFR, the Unemployment Reserve Fund's net position increased from \$1.4 billion as of June 30, 2022, to \$1.7 billion as of June 30, 2023, or by \$332.6 million.

In Management's Discussion and Analysis on page 32, DOA reported unemployment benefit payments decreased from \$683.0 million for FY 2021-22 to \$294.4 million for FY 2022-23. This decrease reflects the improvement in the unemployment rate from FY 2021-22 to FY 2022-23 and the end in FY 2021-22 of federal programs related to the public health emergency.

2021 Wisconsin Act 58, the 2021-23 Biennial Budget Act, required a transfer of \$120.0 million from the General Fund to the Unemployment Reserve Fund in the 2021-23 biennium. During FY 2021-22, a \$60.0 million transfer was completed, and during FY 2022-23 an additional \$60.0 million transfer was completed, which was reported as a Transfer In on the Unemployment Reserve Fund financial statements.

University of Wisconsin System

As required by s. 13.94 (1) (t), Wis. Stats., we performed a financial audit of UW System, which is rebranding itself as the Universities of Wisconsin, for the year ended June 30, 2023 (report 23-25). UW System's financial statements are also presented in the State's ACFR. As shown on page 50 of the ACFR, UW System's net position was

\$6.4 billion as of June 30, 2023, a decrease of \$58.9 million compared to FY 2021-22. In Management’s Discussion and Analysis on page 32, DOA reported \$1.5 billion in student tuition and fees, and \$1.0 billion in federal grants and contracts in FY 2022-23. UW System’s operating expenses totaled \$6.2 billion in FY 2022-23, including \$4.1 billion for personnel costs. As shown in the Management’s Discussion and Analysis on page 32, DOA also reported \$1.0 billion in a general purpose revenue supplement and \$205.5 million in bonds and notes proceeds related to ongoing capital projects during FY 2022-23.

Findings Related to Internal Control over Financial Reporting

We identified three significant deficiencies in internal control over financial reporting.

We identified internal control deficiencies during our audit that are required to be reported under *Government Auditing Standards*. Specifically, we identified three significant deficiencies in internal control at the Department of Administration. 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. In comparison, a material weakness is a deficiency or 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 will not be detected and corrected, on a timely basis. We did not report any material weaknesses. 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 agency management begin on page 32.

Department of Administration

We report significant deficiencies in DOA’s IT security, including insufficient reviews of access and insufficient IT policy exception procedures.

Wisconsin Statutes assign DOA responsibility for the State’s information technology (IT) services. Under s. 16.971 (2), Wis. Stats., DOA is required to work with executive branch agencies to establish IT policies, procedures, and planning processes. In addition, DOA is required to monitor adherence to these policies, procedures, and processes. We first made recommendations to DOA regarding the establishment of IT policies during our FY 2014-15 audit, eight years ago. In subsequent audits, we have recommended that DOA take steps to identify, assess, and address risks for the State’s IT environment. In addition, in report 23-22, we identified 35 concerns with IT controls at nine state agencies and we recommended that DOA take steps to address these concerns. Although DOA has taken steps, we continued to identify significant deficiencies in DOA’s IT security over the operations of the State’s data center, including insufficient reviews of access in certain areas (Finding 2023-001) and insufficient IT policy exception procedures (Finding 2023-002).

DOA continued to be in noncompliance with Wisconsin Statutes that require it to provide oversight and monitoring of executive branch agency IT operations.

In addition, DOA continued to be in noncompliance with s. 16.971 (2), Wis. Stats., which requires DOA to provide oversight and monitoring of executive branch agency IT operations and adherence to the State of Wisconsin *IT Security Policy Handbook* and related standards (Finding 2023-003). DOA completed an analysis of self-reported information by executive branch agencies to determine if agencies had approved written policies, standards, and procedures that aligned to the State of Wisconsin *IT Security Policy Handbook*. However, DOA did not take sufficient steps to assess the accuracy of the agency-reported information. Given the connections among agencies in the State's network, IT weaknesses at one agency can affect IT security for other agencies. Therefore, it is important that DOA and the other state agencies work in cooperation when seeking to resolve deviations from the State of Wisconsin *IT Security Policy Handbook* and related standards.

We recommend DOA report to the Joint Legislative Audit Committee on the status of its efforts to implement our recommendations.

Because these audit concerns have not been fully resolved, there continues to be increased risk that the State's IT systems are not being properly controlled. Given that these concerns have continued for several years, DOA should take corrective actions to implement the recommendations we made and report to the Joint Legislative Audit Committee on the status of its efforts to do so.

Recommendation

We recommend the Wisconsin Department of Administration report to the Joint Legislative Audit Committee by March 1, 2024, on the status of its efforts to:

- *complete access reviews (Finding 2023-001);*
- *take steps to develop a plan and begin to identify and document exceptions to controls listed in the State of Wisconsin IT Security Policy Handbook and related standards by April 30, 2024 (Finding 2023-002); and*
- *develop its monitoring plan for reviewing the effectiveness of agency-reported information, and progress made in updating its risk management program (Finding 2023-003).*

In addition, during our FY 2021-22 audit we made a recommendation to DHS regarding its internal controls over financial reporting and the importance of taking steps to make improvements (report 22-26). Although DHS made some improvements, during our current audit we identified a concern with its assessment of the reporting for opioid settlements and made a recommendation. This internal control deficiency did not meet the threshold for reporting under *Government Auditing Standards*.

Department of Health Services—Opioid Settlements

In an effort to recoup state and local funds that have been used in combating the national opioid epidemic, there have been nationwide lawsuits against manufacturers, distributors, and other relevant corporations for their role in the epidemic. Wisconsin is one of many states that took part in these lawsuits.

As of June 30, 2023, Wisconsin signed four settlement agreements related to the national opioid lawsuits.

As of the end of FY 2022-23, Wisconsin had signed four settlement agreements that require the payment of amounts to Wisconsin. Additional settlement agreements may be finalized in future years. Although each settlement agreement has its own timeline, these payments generally occur on an annual basis over many years. In exchange for the settlement funds, Wisconsin has released these companies from further litigation. In accordance with 2021 Wisconsin Act 57, the Department of Health Services (DHS) will be paid 30.0 percent of all opioid settlement funds awarded to Wisconsin and the remaining 70.0 percent will be paid to the local governments in Wisconsin that participated in the litigation. During FY 2022-23, DHS received \$31.8 million from these opioid settlement agreements and expended \$2.8 million of these funds.

DHS did not adequately assess whether revenues expected to be received from the opioid settlements were reported in the financial statements.

DHS is responsible for preparing financial information that is used by DOA to prepare the financial statements of the State's General Fund. We found DHS did not adequately assess whether the amounts expected to be received from the opioid settlements required the recognition in the financial statements of a receivable for the future revenues. At our request, DHS analyzed information we identified and, based on its analysis, DHS prepared adjustments to reflect a \$101.2 million receivable related to expected future opioid settlement funds for those agreements in place as of June 30, 2023.

Recommendation

We recommend the Wisconsin Department of Health Services develop enhanced procedures to evaluate and research the proper accounting for new activities that may require adjustments for financial reporting purposes.

DHS agreed with our recommendation and reported that it will continue to work with division staff to identify new activities that require financial reporting. DHS reported that it will continue to look for possible financial reporting resources, including other states, if applicable; perform internal research; and expand its network of external contacts.

Federal Funding for the Public Health Emergency

In March 2020, the federal government and the State declared a public health emergency in response to COVID-19. In response to the public health emergency, the federal government enacted several pieces of legislation, including the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the American Rescue Plan Act (ARPA) of 2021.

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

Under these federal laws, the State received additional federal funding for certain existing programs, including Medical Assistance, as well as funding under new programs, including the Coronavirus Relief Fund (CRF), the Education Stabilization Fund, and the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF). 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 2022-23 and anticipate its issuance in spring 2024.

Funding to address the public health emergency affected financial reporting in FY 2022-23. As part of our audit of the State's ACFR, we reviewed and summarized information regarding the CRF, the CSLFRF, and the increased FMAP.

In report 23-25, we discussed UW System's funding from the Higher Education Emergency Relief Fund (HEERF), which is a program funded under the federal CARES Act, the Coronavirus Response and Relief Supplemental Appropriations Act, and ARPA.

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, 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. Subsequent federal legislation extended the deadline for use of the funds to December 31, 2021. The federal guidelines allowed expenditures to be recorded through September 30, 2022.

The CRF program ended in FY 2022-23.

According to amounts reported by DOA in the State's accounting system during FY 2022-23, DOA transferred \$39.7 million in expenditures for the Wisconsin Tomorrow Small Business program to be funded by the CRF. The CRF program ended in FY 2022-23.

Coronavirus State and Local Fiscal Recovery Funds

The State was advanced a total of \$3.0 billion in funding under the CSLFRF during FY 2020-21 and FY 2021-22.

ARPA created the CSLFRF to distribute money directly to state, local, tribal, and territorial governments. The State was advanced \$1.5 billion in May 2021, including \$205.8 million to be distributed to local governments; \$1.3 billion in May 2022; and \$205.8 million in June 2022 to be distributed to local governments. The CSLFRF funding included certain stipulations, including that the funds must be used to:

- respond to the public health emergency or its negative economic impacts;
- respond to the needs of workers performing essential work during the public health emergency;
- provide government services to the extent revenue losses due to the public health emergency reduced revenues; and
- make necessary investments in water, sewer, or broadband infrastructure.

In December 2022, the Consolidated Appropriations Act, 2023, expanded the existing eligible uses of CSLFRF funding to allow funding to be used to:

- provide emergency relief from natural disasters or the negative economic impacts of natural disasters;
- invest in community development in line with the U.S. Department of Housing and Urban Development (HUD) community development block grant; and
- invest in surface transportation infrastructure in line with certain U.S. Department of Transportation (DOT) programs.

Further, federal regulations stipulate that eligible expenditures must be incurred between March 3, 2021, and December 31, 2024, and expended by September 30, 2026, for the investments in U.S. HUD and U.S. DOT programs, and through December 31, 2026, for all other eligible uses.

During FY 2022-23, \$744.9 million in expenditures at 22 state entities was incurred and paid by the CSLFRF.

As shown in Table 1, DOA reported that \$744.9 million in expenditures at 22 state entities was incurred and paid by the CSLFRF during FY 2022-23. The majority of the CSLFRF activity was recorded in the General Fund. According to amounts reported by DOA in the State's accounting system, the largest total expenditures were incurred by DOA, DHS, and DWD.

Table 1
**Expenditures Incurred and Paid by the
 Coronavirus State and Local Fiscal Recovery Funds (CSLFRF)¹**
 FY 2022-23

	Expenditures	Percentage of Total
Department of Administration	\$ 364,274,823	48.9%
Department of Health Services	127,247,624	17.1
Department of Workforce Development	65,911,038	8.8
Public Service Commission	34,500,660	4.6
University of Wisconsin System	33,282,344	4.5
Department of Agriculture, Trade and Consumer Protection	33,041,806	4.4
Wisconsin Economic Development Corporation	29,550,226	4.0
Wisconsin Housing and Economic Development Authority	26,000,000	3.5
Department of Safety and Professional Services	5,982,250	0.8
Department of Justice	5,875,802	0.8
Other Agencies ²	19,272,143	2.6
Total	\$744,938,716	100.0%

¹ As reported by DOA in the State’s accounting system for the fiscal year ended June 30, 2023.

² Includes 12 other state agencies that had expenditures between \$18,579 and \$4.1 million.

In FY 2022-23, DOA expended \$364.3 million in CSLFRF funds to provide grants to school districts, local governments, and businesses in Wisconsin.

DOA expended a total of \$364.3 million in CSLFRF funds in FY 2022-23 to administer a number of grant programs to assist school districts, local governments, and businesses negatively affected by the public health emergency. DOA provided:

- \$90.5 million to public school districts and charter schools for financial assistance under the Back to School Supplemental Aid program and to improve mental health services under the Get Kids Ahead Initiative;
- \$69.8 million in grants to 28 local and tribal governments under the Neighborhood Investment Fund grants to help neighborhoods disproportionately affected by the public health emergency to recover from its negative effects;
- \$29.2 million in grants to 23 local and tribal governments and nonprofit organizations to invest in capital projects to support access to health care for low income, uninsured, and underserved communities;

- \$26.5 million in grants to 11 community development financial institutions to support grants and forgivable loans to diverse businesses; and
- \$26.0 million to 103 out-of-school and child care organizations to increase enrollment capacity, provide learning opportunities, or increase mental health support.

In FY 2022-23, DHS reported \$127.2 million in expenditures funded by the CSLFRF.

According to DOA’s records in the State’s accounting system, DHS reported \$127.2 million in expenditures funded by the CSLFRF, including \$35.6 million to support emergency medical response services; \$17.6 million for DHS’s COVID response operations; and \$10.4 million to assist local and tribal government response and recovery.

In FY 2022-23, DWD reported \$65.9 million in expenditures funded by the CSLFRF.

According to DOA’s records in the State’s accounting system, DWD reported \$65.9 million in expenditures funded by the CSLFRF, including:

- \$33.6 million under the Workforce Innovation Program, which provided funding designed to allow local and tribal governments and nonprofit organizations to develop solutions to workforce challenges;
- \$15.4 million for the project to modernize the State’s Unemployment Insurance IT systems; and
- \$9.6 million for the Worker Advancement Program, which provides funds to local workforce development boards to provide subsidized employment and skill training for those whose employment was affected by the public health emergency.

As of June 30, 2023, \$1.3 billion in CSLFRF funds remained to be expended.

The \$1.3 billion in remaining CSLFRF funds is reflected in Cash and Cash Equivalents and Unearned Revenue in the General Fund Balance Sheet as of June 30, 2023. As of December 10, 2023, accounting records show an additional \$110.0 million in expenditures was funded by the CSLFRF. This leaves a remaining balance of \$1.2 billion.

Federal Medical Assistance Percentage (FMAP)

In FY 2022-23, the State received \$665.8 million in additional funds for the MA Program as a result of an increase in Wisconsin’s FMAP.

The FMAP is the percentage of Medical Assistance (MA) Program 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. The Consolidated Appropriations Act, 2023, which was enacted in December 2022, provided that the temporary increase would be phased out through December 2023. For the period April 1, 2023 through June 30, 2023, the temporary increase to Wisconsin’s FMAP was reduced to 5.0 percent. In FY 2022-23, the State received \$665.8 million in additional funding as a result of the increased FMAP.

DHS lapsed \$917.3 million in general purpose revenue spending authority from the MA benefits budget for the 2021-23 biennium. The lapse was partially attributed to the increased FMAP and the assumption during budget development that this rate would have ended in December 2021.

In FY 2022-23, DHS claimed and received an additional \$75.5 million in federal funds under the MA Program, as allowed under ARPA.

During FY 2021-22 and FY 2022-23, DHS claimed and received an additional \$329.2 million and \$75.5 million in federal funds, respectively, under the MA Program, as allowed by Section 9817 of ARPA. These claims were calculated based upon an increase in the FMAP by 10 percent for certain home and community-based services provided to participants during the period April 1, 2021, through March 31, 2022. Federal regulations require that the funds derived from the increased FMAP be reinvested in the MA Program and be used to implement or supplement home and community-based services to participants. DHS reinvested \$88.7 million of these funds during FY 2021-22 and FY 2022-23 and reinvestment of the remaining \$316.0 million will need to occur prior to March 31, 2025. At that time, any unexpended balance is required to be returned to the federal government. Because of the reinvestment requirement, the receipt of these funds does not result in general purpose revenue savings.

Other Matters of Interest

During our audit work, we identified other issues that did not meet the requirements for reporting under *Government Auditing Standards*, but are matters of interest. These issues include interest earnings on advanced CSLFRF funds, maximizing federal funding under the MA Program, the Unemployment interest and penalty account, fringe benefit variance accounts, and the annual appropriation certifications. We will follow up on the status of these issues during our FY 2023-24 audit.

CSLFRF Interest Earnings

As of June 30, 2023, the State has reported \$68.3 million in interest earnings on the CSLFRF funding advanced to the State.

As noted, the State was advanced a total of \$3.0 billion in CSLFRF funds. Because funding was advanced to the State, it remains invested in the State Investment Fund, the State's short term pool to invest excess cash balances, until such time as it is needed for expenditure. Through June 30, 2023, the State earned \$68.3 million in interest earnings. In FY 2023-24 and through November 30, 2023, the State earned an additional \$28.9 million in interest earnings for a total of \$97.2 million in interest earnings since the CSLFRF funding was advanced to the State.

According to U.S. Treasury guidance, the interest earned on CSLFRF funding is not subject to federal regulations regarding cash management and is not subject to any program restrictions. U.S. Treasury Office of the Inspector General staff indicated that the interest earnings may be expended on CSLFRF activities, non-CSLFRF activities, or both.

Under s. 20.906 (1), Wis. Stats., all moneys paid into the treasury are to be credited to the general purpose revenues of the General Fund unless otherwise specifically provided by law.

Under s. 20.906 (1), Wis. Stats., all moneys paid into the treasury are to be credited to the general purpose revenues of the General Fund unless otherwise specifically provided by law. Under s. 20.001 (2) (a), Wis. Stats., general purpose revenues consist of general taxes, miscellaneous receipts, and revenue collected by state agencies that are paid into a specific fund, lose their identity, and are then available for appropriation by the Legislature.

DOA recorded the interest earnings in DOA's federal aid program revenue appropriation established under s. 20.505 (1) (mb), Wis. Stats. This appropriation was established to record all moneys received from the federal government to carry out the purposes for which the moneys were received. However, the interest earnings on the CSLFRF funding were not received from the federal government and there are no program restrictions on its use. Therefore, these receipts should be reported as general purpose revenues in compliance with s. 20.906 (1) Wis. Stats.

☑ Recommendation

We recommend the Wisconsin Department of Administration:

- *record the interest earnings on the CSLFRF funding as general purpose revenues subject to future appropriation;*
- *review how it records interest earnings for other federal programs with advanced funding and record the interest earnings as general purpose revenues subject to appropriation when there are no program restrictions;*
- *document procedures for evaluating interest earnings on advanced federal funding to ensure it is recorded in compliance with s. 20.906 (1), Wis. Stats.; and*
- *work with the State Controller's Office to update the Wisconsin Accounting Manual to provide guidance regarding how to record interest earnings on federal grant programs.*

DOA disagrees with the finding that interest earnings on CSLFRF funding have not been recorded in compliance with state statutes and, accordingly, with the recommendation that it record the interest earnings on the CSLFRF funding as general purpose revenues earned. DOA agrees with the other recommendations. DOA's corrective action plan, and our rebuttal, can be found in the Appendix.

Maximizing Federal Revenues

As reported in report 23-4, DHS both paid Medicare premiums and received a \$43.0 million MA Program award reduction in 2021.

The U.S. Department of Health and Human Services provides funding to DHS for the MA Program. Participants in the MA Program may also be eligible for Medicare, and the State helps to pay for the Medicare premiums due from these participants. On a monthly basis, DHS receives invoices from the Centers for Medicare & Medicaid Services (CMS) that represent the State's share of participant premiums.

Premium payments are due on the first of the month following receipt of the invoice and if amounts are not paid within the allowed grace period, CMS can issue a grant award notice to the State that reduces the State's MA Program award for the required payment amount. In report 23-4, we reported that DHS both paid the Medicare premiums and received an award reduction of \$43.0 million. However, DHS was not aware of this until we informed them in March 2023. We made recommendations for DHS to work with CMS to recover the award reduction and implement procedures to review future award notices.

As noted in its testimony at the August 22, 2023 Joint Legislative Audit Committee hearing, DHS has worked with CMS to recover the \$43.0 million. DHS continues to work to properly record the \$43.0 million in the accounting records. DHS also indicated that additional procedures were implemented to prevent this type of circumstance in the future.

Unemployment Interest and Penalty Account

There is a deficit balance of \$45.7 million in the Unemployment interest and penalty account in the General Fund as of June 30, 2023.

During FY 2021-22, the Unemployment Reserve Fund received reimbursement totaling \$69.8 million from the interest and penalty account in the General Fund, which is a program revenue appropriation established under s. 20.445 (1) (gd), Wis. Stats. As allowed under 2019 Wisconsin Act 185, this amount was received for a portion of benefit payments made during the public health emergency to former employees of reimbursable employers, which are employers such as the State of Wisconsin that reimburse benefits paid by the Unemployment Reserve Fund for its former employees. As of June 30, 2023, the interest and penalty account in the General Fund was in a deficit, or overdraft, position of \$45.7 million. In a plan submitted to DOA, DWD reported that, based upon a review of the annual historical net revenues received into this account, it will take approximately 16 years before the overdraft would be eliminated.

Fringe Benefit Variance Accounts

In processing payroll, DOA is responsible for deducting amounts from employee's paychecks for health insurance benefits. The Department of Employee Trust Funds (ETF) bills DOA for these amounts and for the employer share of health insurance premiums. When certain changes in benefits occur, such as a new hire, a termination, or a change in benefit type, there can be a timing difference between what is being deducted from an employee's paycheck and the employer's share of those benefits, and what ETF bills the agency for these amounts. In these cases, DOA pays the amount billed by ETF and charges the fringe benefit variance account for the amount billed for the employee.

DOA is responsible for reviewing the balance in variance accounts and working with state agencies to research and resolve the variances. Although it would not be unexpected to have a balance in the health insurance fringe benefit variance account, the balance would be expected to be resolved in a timely manner. However, as we reported in our FY 2020-21 audit (report 21-23), and our FY 2021-22 audit (report 22-26), balances in the health insurance fringe benefit variance

account had been steadily increasing since the implementation of STAR HCM, which is the State’s payroll system, in 2016.

The balance in the health insurance fringe benefit variance account decreased from \$23.4 million as of June 30, 2022, to \$21.2 million as of June 30, 2023.

We noted that the balance in the health insurance fringe benefit variance account decreased in FY 2022-23, from a balance of \$23.4 million as of June 30, 2022, to a balance of \$21.2 million, as of June 30, 2023. DOA indicated that there are ongoing efforts to resolve the variance, with the current timeline for resolution being the end of calendar year 2023. It is important that DOA address the variance, as it will become increasingly more difficult to resolve over time. We note that a similar fringe benefit variance account exists for life insurance.

Annual Appropriation Certifications

As of June 30, 2023, three appropriations remained uncertified by two agencies.

Statutes provide DOA with the authority for maintaining the accounting records for the State. Under s. 16.52 (5) (b), Wis. Stats., state agencies are required to completely reconcile their records by a date specified by DOA and certify the results to DOA. The annual appropriation certification process is the basis by which closure of the accounting records in STAR occurs. Once closed, financial reporting in the Annual Fiscal Report (AFR) and the State’s Annual Comprehensive Financial Report (ACFR) occurs. Three agency appropriations were not certified for FY 2022-23, as a result of issues with the appropriations that were not resolved by the appropriation certification deadline. Two of the uncertified appropriations for FY 2022-23 pertained to the Department of Justice and related to a dispute with billings between DOA and DOJ. The other uncertified appropriation for FY 2022-23 pertained to the Department of Natural Resources and related to unresolved issues from the conversion to STAR, the State’s accounting system, in FY 2015-16.

Recommendation

We recommend the Wisconsin Department of Administration comply with Wisconsin Statutes and enforce its own policies by working with agencies in a timely manner to resolve issues with appropriations to ensure agencies comply with s. 16.52 (5) (b), Wis. Stats., and certify all of their appropriations.

DOA agreed with the recommendation and indicated that it will continue its efforts to work with agencies in a timely manner to resolve issues with appropriations to ensure agencies comply with s. 16.52 (5) (b), Wis. Stats., and certify all of their appropriations.

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Auditor's Report



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, 2023, and have issued our report thereon dated December 19, 2023.

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 Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2023.

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, the UW Hospitals and Clinics Authority, 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 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 and other matters associated with the Deferred Compensation Fund or the UW Foundation.

Report on 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. Therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Findings and Responses Schedule as Findings 2023-001 through 2023-003 that we consider to be significant deficiencies.

Report on 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 direct and 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

Government Auditing Standards require the auditor to perform limited procedures on the agency-specific written response to the findings identified in the audit and described in the accompanying Findings and Responses Schedule. The corrective action plans begin on page 32. The responses and corrective action plans were not subjected to other 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



December 19, 2023

FINDINGS AND RESPONSES SCHEDULE

This schedule includes 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 2022-001, 2022-005, 2022-006, and 2022-007 from the prior year (report 22-26) are no longer reportable. Repeat findings from report 22-26 are indicated with an asterisk (*).

Finding 2023-001: Department of Administration/Division of Enterprise Technology Information Security Access Review Process*

Background:

Under s. 16.971 (2), 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 executive branch 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 have reported access review concerns related to DET accounts since our fiscal year (FY) 2015-16 audit and have made recommendations to DET to review and update access and retain documentation of such reviews. In prior audits, DET indicated that it attempted to complete user access reviews. However, it was unable to internally develop an effective and efficient access review process. In FY 2021-22, we reported a significant deficiency related to lack of access reviews and recommended that DET develop and complete a process to perform access reviews in accordance with the State of Wisconsin *IT Security Policy Handbook* by June 30, 2023 (report 22-26). DET agreed with our recommendation and timeline for implementation of corrective action, including completing access reviews by June 30, 2023.

Criteria:

The Wisconsin Access Control Standard states that the privileges assigned to roles or classes of users must be reviewed annually to validate the need for such privileges. Further, the Standard states that access to privileged accounts must be reviewed at least every six months to determine whether the account is still required and access remains appropriate.

An effective access review process contains the following key elements:

- identification of all active user accounts, both standard and privileged, that should be reviewed;
- a timeline to review identified user accounts within appropriate time frames;
- approval of each user account's access by entity staff at an appropriate level within the entity that understand the user's access requirements; and
- a process to validate that access changes resulting from the review were completed.

In addition, it is important that access review documentation is maintained and that responsibilities for the access review process are communicated to the appropriate entity staff.

Condition:

During FY 2022-23, DET developed access review procedures. However, DET did not complete access reviews in accordance with the policy and standards for all DOA and DOA-managed user accounts. DET has not completed access reviews in some areas since we first made a recommendation as part of our FY 2015-16 audit.

Context:

We reviewed the State of Wisconsin *IT Security Policy Handbook* and related standards, and we made inquiries of senior management to gain an understanding of the process for reviewing access and to assess progress DET made in addressing our FY 2021-22 recommendations.

As noted, the areas of insufficient access reviews are pervasive across several different types of accounts. Further, these accounts have access to various hardware and software located in the DET data centers, which could affect all executive branch agencies with resources connected to the DET network.

Questioned Costs:

None.

Effect:

Access reviews are important to ensure access remains appropriate based on user responsibilities and the principle of least privilege. Because DET hosts and supports a significant number of executive branch agency systems at its data centers, users with inappropriate access have the ability to affect the computing resources and data of all state agencies with resources connected to the DET network.

Cause:

In August 2022, DET began to work with a vendor to implement an access management tool for certain types of accounts. However, DET did not define the requirements needed for the tool to perform access reviews in accordance with the State of Wisconsin *IT Security Policy Handbook*. In May 2023, DET determined that it could not implement the tool because it could not meet DET needs.

DET did not perform effective access reviews for other types of accounts because the access review procedures had not yet been developed. The procedures were published on March 31, 2023.

Recommendation

We recommend the Department of Administration, Division of Enterprise Technology:

- *for certain types of accounts, develop access review requirements by December 29, 2023;*
- *for certain types of accounts, work with a vendor to obtain an automated tool to perform access review in accordance with the State of Wisconsin IT Security Policy Handbook, including updating access based on the review and retaining documentation of the review and the updates made to access by June 30, 2024; and*

- *for other types of accounts, perform access reviews in accordance with the State of Wisconsin IT Security Policy Handbook, including by updating access based on the review and retaining documentation of the review and the updates made to access, by December 29, 2023.*

Type of Finding: Significant Deficiency

Response from the Wisconsin Department of Administration, Division of Enterprise Technology:
The Wisconsin Department of Administration agrees with the audit finding and recommendations.

Finding 2023-002: Department of Administration/Division of Enterprise Technology Information Security Policy Exception Process*

Background:

Under s. 16.971 (2), Wis. Stats., DOA is responsible for the State's IT services, including ensuring that all state data processing facilities develop proper privacy and security procedures and safeguards. Further, statutes require DOA to provide oversight and monitoring of state agency IT operations. As a part of DOA, 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 FY 2018-19, DOA 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 or obtain an approved exception to a policy or standard if compliance cannot be achieved. An exception is a known deviation from policies in the State of Wisconsin *IT Security Policy Handbook* and related standards. For example, DOA may approve an exception to allow an agency to deviate from an established IT security policy, such as a password policy.

We first reported concerns with the process for requesting an exception during our FY 2018-19 audit and made recommendations to DET to improve its process. In FY 2021-22, we reported a significant deficiency related to the exception process and again recommended that DET improve its process (report 22-26). DET agreed with our recommendations and timelines for implementation of corrective action.

Criteria:

The compliance section of the State of Wisconsin *IT Security Policy Handbook* and related standards states that if compliance with particular policies or related standards is not feasible or technically possible, or if a deviation from a policy or standard is justifiable to support a business function, executive branch agencies can request an exception through the exception procedures established by the DOA/DET Bureau of Security. Further, the Security Policy and Standards Review and Maintenance section of the State of Wisconsin *IT Security Policy Handbook* and related standards states that the DOA/DET Bureau of Security is responsible for coordinating the review and tracking of exception requests to the IT security policies and standards.

An effective exception process contains the following key elements:

- identification of situations where established processes or configurations do not comply with established policies;
- a process to report exceptions to these policies by agency staff at an appropriate level within the agency;
- an assessment of the requested exception that includes consideration of the risks to the agency of authorizing the exception and of the potential to implement compensating controls;
- approval of exceptions by staff at an appropriate level within the agency that understand the policies and risks; and
- regular review of approved exceptions, such as annually, to ensure risks remain acceptable and to consider if changes can be made to alleviate the need for an exception.

In addition, it is important that documentation of exception requests and approvals be maintained and that the responsibilities for the exception process are appropriately communicated.

Condition:

In response to recommendations from our FY 2021-22 audit, DET completed its review of the existing IT security exception process and revised the process, including by developing a procedure for escalating noncompliance. Further, DET also developed an exception process training program and provided training to agency security officers and IT directors during FY 2022-23.

In response to recommendations from our FY 2021-22 audit, DET indicated that by March 31, 2023, it would complete a review of all processes and configuration that do not comply with the State of Wisconsin *IT Security Policy Handbook* and related standards and have all exceptions approved. The Policy, Standards and Procedures dashboard is a tool developed by DOA that identifies exceptions to the State of Wisconsin *IT Security Policy Handbook* and related standards, as self-reported by executive branch agencies. DET used the dashboard results to complete a preliminary analysis to determine whether each agency had approved written policies, standards, and/or procedures in place that align with the State of Wisconsin *IT Security Policy Handbook* and related standards, and held quarterly meetings to discuss exceptions self-reported by executive branch agencies and provide guidance on submitting exceptions when an agency did not have approved written policies, standards, and/or procedures. A majority of agencies that did not have written policies, standards, and/or procedures submitted an exception request; however the requests were not fully approved before the end of FY 2022-23. We found that only 1 of 19 agencies that did not have written policies, standards, and/or procedures had an exception request approved before the end of FY 2022-23.

However, DET did not require exceptions when an agency did not fully implement specific controls based on the dashboard. In addition, based on our review of four executive branch agencies, we identified 27 controls that were partially or not implemented, but we found no exceptions documented for these control deficiencies. Some of these control deficiencies were communicated by us to DET during our FY 2021-22 audit.

Context:

We reviewed the State of Wisconsin *IT Security Policy Handbook* and related standards, made inquiries of DET staff, reviewed requested and approved exceptions, and evaluated the design of the updated exception process.

We evaluated the Policy Standards and Procedures dashboard for agency compliance with the State of Wisconsin *IT Security Policy Handbook* and related standards. We compared the dashboard results against the spreadsheet of approved and in progress exceptions. We identified concerns with the exception process across seven policy areas in the State of Wisconsin *IT Security Policy Handbook* and related standards.

Most state agencies use computer systems that are located on the mainframe or on servers maintained in the DET data centers. Therefore, IT weaknesses at one agency can affect IT security for other agencies.

Questioned Costs:

None.

Effect:

Without a strong information security policy exception process in place, DET does not have an appropriate awareness of areas where policies are not being followed. As a result, weaknesses in the overall security in the state network may not be identified or corrected.

Cause:

DET staff indicated that other priorities, including reviewing and updating the State of Wisconsin *IT Security Policy Handbook* and related standards, prevented them from meeting the date in their corrective action plan. In addition, DET granted extensions to the due date for the exception request to some agencies. Further, the DET employee responsible for reviewing and approving exceptions left employment in spring 2023.

DET did not obtain exceptions from executive branch agencies for specific controls because it chose to focus on requiring exceptions when executive branch agencies did not have approved written policies, standards, and/or procedures in place that align with the State of Wisconsin *IT Security Policy Handbook* and related standards before requiring exceptions for specific controls.

 Recommendation

*We recommend the Department of Administration, Division of Enterprise Technology develop a plan and begin to identify and document exceptions where agencies are noncompliant or partially compliant with controls listed in the State of Wisconsin *IT Security Policy Handbook* and related standards by April 30, 2024.*

Type of Finding: Significant Deficiency

Response from the Wisconsin Department of Administration, Division of Enterprise Technology:
The Wisconsin Department of Administration agrees with the audit finding and recommendations.

Finding 2023-003: Department of Administration Information Technology Oversight and Monitoring Responsibilities*

Background:

DOA is responsible for the State's IT services, including providing oversight and monitoring of executive branch agency IT operations. We first recommended that DOA develop and implement executive branch agency IT policies and standards and provide oversight and monitoring of executive branch agencies' IT operations eight years ago during our FY 2014-15 audit. During subsequent audits, we recommended that DOA take steps to identify, assess, and address risks to the State's IT environment. These steps were to include completion of a comprehensive risk management program across all executive branch agencies. DOA has taken steps including:

- implementing in FY 2018-19 the State of Wisconsin *IT Security Policy Handbook*, which includes policies for IT security and the related standards with which executive branch agencies are expected to comply;
- developing in FY 2019-20 a risk assessment plan, which contained a plan for improving vulnerability management and completing penetration testing;
- initiating efforts in FY 2020-21 to develop a baseline understanding of agency compliance with the State of Wisconsin *IT Security Policy Handbook* and related standards;
- implementing and configuring in FY 2021-22 a new vulnerability management tool; and
- performing vulnerability scans in FY 2022-23.

During our FY 2021-22 audit (report 22-26), we found that DOA did not establish a plan for important monitoring steps, such as analyzing the effectiveness of the procedures established by executive branch agencies. We reported a significant deficiency related to DOA's oversight and monitoring and recommended that DOA improve its monitoring program and update its risk assessment program. DET agreed with our recommendations and timeline for implementation of corrective action.

Criteria:

Wisconsin Statutes give DOA responsibility for the State's IT services. Under s. 16.971 (2), Wis. Stats., DOA is required to work with executive branch agencies to establish IT policies, procedures, and planning processes. In addition, statutes require DOA to monitor adherence to these policies, procedures, and processes. Further, statutes require DOA to provide oversight and monitoring of executive branch agency IT operations, which includes 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 the development and maintenance of policies and programs to protect the privacy of individuals who are the subjects of information contained in the agency databases.

National Institute of Standards and Technology (NIST) Special Publication 800-137, *Information Security Continuous Monitoring (ISCM) for Federal Information Systems and Organizations*, indicates that ongoing monitoring is a critical part of an organization's risk management process. In addition, an organization's overall IT security architecture and accompanying security program should be monitored to ensure that organization-wide operations remain within an acceptable level of risk despite any changes that occur. Key steps in effective monitoring include:

- developing and communicating the policies, procedures, and standards that form the security framework;
- collecting information on the effectiveness of the policies, standards, and procedures;
- analyzing the information collected;
- responding to the results of the analyses; and
- reviewing and updating the monitoring program.

Condition:

During our FY 2022-23 audit, we again found that DOA did not have sufficient oversight and monitoring in place to ensure executive branch agency adherence to the State of Wisconsin *IT Security Policy Handbook* and related standards. DOA completed and published a dashboard of agency compliance with the *IT Security Policy Handbook* and related standards based on information self-reported by executive branch agencies. DOA used the dashboard results to complete a preliminary analysis of whether each agency had approved written policies, standards, and/or procedures in place that aligned with the State of Wisconsin *IT Security Policy Handbook* and related standards. DOA held quarterly meetings with agency staff to assist agencies in developing written policies, standards, and/or procedures. However, DOA did not take steps to assess the accuracy of the agency-reported information as it related to compliance with controls in the *IT Security Policy Handbook* and related standards.

Given its statutory responsibilities, it would be expected that DOA would assess the accuracy of the self-reported information in the dashboard and determine the effectiveness of the policies, standards, and/or procedures established by the executive branch agencies. In our review of agency compliance with the State of Wisconsin *IT Security Policy Handbook* and related standards, we found that 10 controls reported as being compliant by four agencies were not compliant based on our audit work and discussions with agencies. For example, one agency assessed five controls as implemented, and after our analysis and follow up with the agency, we determined the agency should have assessed the controls as partially implemented.

During our FY 2022-23 audit, DOA continued to work with executive branch agencies to implement a new vulnerability management tool for use at 13 agencies. As of June 30, 2023, 12 of 13 agencies had implemented the new tool. The remaining agency did not purchase the correct vulnerability scanning tool license. DOA developed processes to perform and review the vulnerability scans. However, DOA did not establish detailed plans for how ongoing vulnerability assessments would be performed or how DOA would respond to those assessments and make changes to the State's IT environment.

Finally, DOA did not make further progress in updating its risk assessment plan to include consideration of the risks related to known deviations from policies in the State of Wisconsin *IT Security Policy Handbook* and related standards, as well as risks related to vulnerability assessments. For example, DOA may approve an exception to allow an agency to deviate from an established IT security policy, such as a password policy. Although deviations from the policies have been approved, the deviations may bring additional risk that DOA should consider in its oversight and monitoring of the State's IT environment. In Finding 2023-002, we continued to make recommendations for DOA to improve the information security policy exception process.

Context:

State agencies rely on computer systems to complete critical functions, including processing checks, accounting for cash receipts, preparing financial statements, and administering federal grant programs. DOA is responsible for ensuring these computer systems are properly secured. We interviewed key DOA staff to gain an understanding of the steps that were taken by June 30, 2023, to provide oversight and monitoring of executive branch agency IT operations and adherence to the State of Wisconsin *IT Security Policy Handbook* and related standards. We also interviewed key DOA staff to gain an understanding of DOA's plans for utilizing the enterprise vulnerability management tool to identify vulnerabilities with security patch, configuration, and regulatory compliance issues. We evaluated the dashboard of executive branch agency compliance with the State of Wisconsin *IT Security Policy Handbook* and related standards. We compared the dashboard results against our review of agency compliance with certain IT policies and standards for four executive branch agencies.

Because DOA has responsibility to provide oversight and monitoring of IT operations for 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:

For FY 2022-23, DOA did not comply with s. 16.971 (2), Wis. Stats., which requires DOA to provide oversight and monitoring of executive branch agency IT operations and adherence to the State of Wisconsin *IT Security Policy Handbook* and related standards. Insufficient monitoring of agency IT environments 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. Further, agencies can face financial penalties and reputational damage when their confidential or sensitive data is compromised.

Cause:

DOA did not establish a sufficient monitoring process to analyze the accuracy of the agency-reported information. DOA should develop a plan for the review of agency reported compliance with controls in the State of Wisconsin *IT Security Policy Handbook* and related standards. This plan could include different levels of review based on an assessment of risk to the State's IT environment and could be cycled to smooth the effort over a period of time.

Finally, DOA indicated it delayed updates to the risk assessment program, which is expected to address known vulnerabilities, until the State of Wisconsin *IT Security Policy Handbook* and related standards updates were published, which was in August 2023.

☑ Recommendation

We recommend the Wisconsin Department of Administration, Division of Enterprise Technology comply with its statutory responsibilities to provide oversight and monitoring of executive branch agency adherence to the State's IT policies by:

- *developing and communicating to executive branch agencies by May 31, 2024, a monitoring plan to review the effectiveness of all agency-reported compliance with controls in the State of Wisconsin IT Security Policy Handbook and related standards; and*
- *updating its risk management program by December 29, 2023, including by considering the risks related to approved policy exceptions and remediating known vulnerabilities.*

Type of Finding: Significant Deficiency

Response from the Wisconsin Department of Administration, Division of Enterprise Technology:

The Wisconsin Department of Administration agrees with the audit finding and recommendations.

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Corrective Action Plans



STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor
Kathy Blumenfeld, Secretary
Trina Zanow, Division Administrator

Corrective Action Plan

Finding 2023-001: Department of Administration/Division of Enterprise Technology Information Security Access Review Process

Planned Corrective Action:

LAB Recommendation	DOA/DET Planned Corrective Action	Anticipated Completion Date
<p>We recommend the Department of Administration, Division of Enterprise Technology:</p> <ul style="list-style-type: none"> for certain types of accounts, develop access review requirements by December 29, 2023; 	<p>DOA/DET has developed access review requirements for active directory accounts that were shared with a vendor specializing in access review automation.</p>	<p>Completed – November 6, 2023</p>
<p>We recommend the Department of Administration, Division of Enterprise Technology:</p> <ul style="list-style-type: none"> for certain types of accounts, work with a vendor to obtain an automated tool to perform access review in accordance with the State of Wisconsin IT Security Policy Handbook, including updating access based on the review and retaining documentation of the review and the updates made to access by June 30, 2024; and 	<p>DOA/DET is working with a vendor to obtain an automated tool to perform access reviews of active directory privileged and non-privileged accounts in accordance with the State of Wisconsin IT Security Policy Handbook. The access reviews performed will include updating access based on the review and retaining documentation of the review and the updates made to access.</p>	<p>June 30, 2024</p>
<p>We recommend the Department of Administration, Division of Enterprise Technology:</p> <ul style="list-style-type: none"> for other types of accounts, perform access reviews in accordance with the State of Wisconsin IT Security Policy Handbook, including by updating access based on the review and retaining documentation of the review and the updates made to access, by December 29, 2023. 	<p>DOA/DET will perform access reviews of other types of privileged and non-privileged accounts (e.g. local accounts, mainframe accounts) in accordance with the State of Wisconsin IT Security Policy Handbook. The access reviews performed will include updating access based on the review and retaining documentation of the review and the updates made to access.</p>	<p>December 29, 2023</p>

Person responsible for corrective action:
Troy Stairwalt, Chief Information Security Officer (CISO)
Division of Enterprise Technology
Troy.Stairwalt@wisconsin.gov



STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor
Kathy Blumenfeld, Secretary
Trina Zanow, Division Administrator

Corrective Action Plan

Finding 2023-002: Department of Administration/Division of Enterprise Technology Information Security Policy Exception Process

Planned Corrective Action:

LAB Recommendation	DOA/DET Planned Corrective Action	Anticipated Completion Date
We recommend the Department of Administration, Division of Enterprise Technology develop a plan and begin to identify and document exceptions where agencies are noncompliant or partially compliant with controls listed in the State of Wisconsin IT Security Policy Handbook and related standards by April 30, 2024.	DOA/DET will develop a plan and begin to identify and document exceptions where agencies are noncompliant or partially compliant with controls listed in the State of Wisconsin IT Security Policy Handbook and related standards. DOA/DET will communicate the plan with agency security officers and IT directors.	April 30, 2024

Person responsible for corrective action:
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STATE OF WISCONSIN DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor
Kathy Blumenfeld, Secretary
Trina Zanow, Division Administrator

Corrective Action Plan

Finding 2023-003: Department of Administration Information Technology Oversight and Monitoring Responsibilities

Planned Corrective Action:

LAB Recommendation	DOA Planned Corrective Action	Anticipated Completion Date
We recommend the Wisconsin Department of Administration, Division of Enterprise Technology comply with its statutory responsibilities to provide oversight and monitoring of executive branch agency adherence to the State's IT policies by:	DOA/DET will comply with its statutory responsibilities to provide oversight and monitoring of executive branch agencies by implementing the below recommendations.	N/A
Developing and communicating to executive branch agencies by May 31, 2024, a monitoring plan to review the effectiveness of all agency-reported compliance with controls in the State of Wisconsin IT Security Policy Handbook and related standards; and	DOA/DET will develop a monitoring plan to review the effectiveness of all agency-reported compliance with controls in the State of Wisconsin IT Security Policy Handbook and related standards. The plan will be communicated to executive branch agencies.	May 31, 2024
Updating its risk management program by December 29, 2023, including by considering the risks related to approved policy exceptions and remediating known vulnerabilities.	DOA/DET will update its risk management program and plan to include risks related to approved policy exceptions and remediating known vulnerabilities.	December 29, 2023

Person responsible for corrective action:
Troy Stairwalt, Chief Information Security Officer (CISO)
Division of Enterprise Technology
Troy.Stairwalt@wisconsin.gov

Appendix



STATE OF WISCONSIN DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor
Kathy Blumenfeld, Secretary
Jana Steinmetz, Administrator

Corrective Action Plan

Finding: Recording of Interest Earnings

Auditor Recommendation:

Record the interest earnings on the CSLFRF funding as general purpose revenues subject to future appropriation.

Planned Corrective Action:

Pending further guidance from the U.S. Department of Treasury (Treasury), the Wisconsin Department of Administration (Department) will continue to record interest earnings in the same appropriation in which the advanced CSLFRF funds were received, as is consistent with its understanding of the Treasury's direction that recipients may use earned income to defray the administrative expenses of the program and a Treasury Office of the Inspector General (OIG) statement that it would exercise oversight over "what conditions and limitations apply to such use" of earned interest. DOA has requested that Treasury provide further guidance regarding this issue and will re-evaluate its position upon receiving that guidance.

As the auditors noted, the Interim Final Rule (IFR) on CSLFRF published by the U.S. Treasury on May 17, 2021, provided that interest earned on advanced CSLFRF funding is not subject to cash management requirements. It stated:

¹⁷⁶With respect to Federal financial assistance more generally, States are subject to the requirements of the Cash Management Improvement Act (CMIA), under which Federal funds are drawn upon only on an as needed basis and States are required to remit interest on unused balances to Treasury. Given the statutory requirement for Treasury to make payments to States within a certain period, these requirements of the CMIA and Treasury's implementing regulations at 31 CFR part 205 will not apply to payments from the Fiscal Recovery Funds . . ."

Treasury further provided in concurrently issued IFR Frequently Asked Questions (FAQs) that "SLFRF payments made by Treasury to states . . . are not subject to the requirement . . . to remit interest to Treasury". Based upon the Department's evaluation of Treasury's guidance, consistent with its historic practice, it established the necessary chartfield structure to have interest earnings on advanced CSLFRF funds recorded in the same federal appropriation in which the funds were received.

The IFR guidance was subsequently updated to indicate that interest earned on advanced CSLFRF funds not subject to "program restrictions," an undefined term, and that recipients may use the amounts to defray the administrative expenses of the program, the latter of which was advanced by Treasury as a method to provide necessary personnel resources for administration of the program following its December 31, 2024, obligation deadline. This guidance therefore did not require the Department to deviate from its historic practice.

Finally, consistent with previously provided guidance, Treasury codified in the IFR on CSLFRF published September 20, 2023, that “recipients may use earned income on SLFRF payments to defray administrative expenses of the program.”

In addition to the preceding, in an October 2022 letter to U.S. Senators, Treasury OIG stated it was exercising oversight over interest earnings derived from SLFRF by investigating whether the State of Florida had improperly used such funds. In particular, OIG stated it would review whether Florida used “interest earned on SLFRF funds” for immigration activities, and if so, “what conditions and limitations apply to such use.” This statement from Treasury OIG indicates that while the FAQ indicates that interest earnings have been exempted from some subset of restrictions, the Department must continue to record the interest earnings in the same appropriation in which the advanced CSLFRF funds were received in order to ensure their use can be evaluated for consistency with ARPA and associated Treasury guidance.

Anticipated Completion Date: June 30, 2024, or following the receipt of additional U.S. Treasury guidance, if sooner provided.

Auditor Recommendation:

Review how it records interest earnings for other federal programs with advanced funding and record the interest earnings as general purpose revenues subject to appropriation when there are no federal cash management requirements or program restrictions on the funding.

Planned Corrective Action:

The Department evaluates the requirements of federal programs, inclusive of cash management and other restrictions for programs with advanced funding, concurrent with program implementation and following the provision by federal grantor agencies of additional federal guidance. The evaluation informs the establishment of the chartfield structure within the State’s accounting system, including as is related to the recording of interest earnings. The Department will continue to conduct these evaluations and to record interest earnings for other federal programs as general purpose revenues subject to appropriation when there are no federal cash management requirements or other federal restrictions on the funding, consistent with the requirements of s. 20.906 (1), Wis. Stats., and Wisconsin Accounting Manual Section 07-04.

Anticipated Completion Date: June 30, 2024

Auditor Recommendation:

Document procedures for evaluating interest earnings on advanced federal funding to ensure it is recorded in compliance with s. 20.906 (1), Wis. Stats.

Planned Corrective Action:

As previously noted, the Department evaluates the requirements of federal programs, inclusive of cash management and other federal restrictions for programs with advanced funding, concurrent with program implementation and following the provision by federal grantor agencies of additional federal guidance. The Department will document the evaluation procedures and determinations as related to the requirements of s. 20.906 (1), Wis. Stats., and Wisconsin Accounting Manual Section 07-04.

Anticipated Completion Date: June 30, 2024

Auditor Recommendation:

Work with the State Controller's Office to update the Wisconsin Accounting Manual to provide guidance regarding how to record interest earnings on federal grant programs.

Planned Corrective Action:

The Wisconsin Accounting Manual (WAM) is published by the State Controller's Office (SCO), and revisions to the policies and procedures set forth therein must be authorized by the State Controller. The Department will work with the SCO to assist in its update of provisions of WAM Section 07-04 regarding interest earnings on bank accounts relative to requirements associated with federal grant programs.

Anticipated Completion Date: June 30, 2024

Person responsible for corrective action:

Colleen Holtan, Director
Bureau of Financial Management
Division of Enterprise Operations
colleen.holtan@wisconsin.gov



STATE OF WISCONSIN

Legislative Audit Bureau

Joe Chrisman
State Auditor

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Rebuttal from the Wisconsin Legislative Audit Bureau:

In its corrective action plan, the Department of Administration (DOA) acknowledged its understanding of the U.S. Treasury regulations and the guidance that has been in place since 2021. DOA also stated that these documents indicate that interest earnings on Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) funding are not subject to federal cash management requirements, CSLFRF payments to states are not subject to requirements to submit interest earned to the Treasury, and recipients may use the interest earnings to defray administrative expenses of the program. We agree with these statements. However, we disagree with DOA's assessment of how to record the interest earnings in the State's accounting records.

DOA referenced an October 2022 letter to members of Congress from the Treasury Office of Inspector General. This letter responds to an inquiry related to a question about the use of CSLFRF funding and interest earnings by another state for a specific purpose. In the letter, Treasury officials indicate plans to review the specific use of funding. However, DOA stated that this letter requires DOA to "continue to record the interest earnings in the same appropriation in which the advanced CSLFRF funds were received in order to ensure their use can be evaluated for consistency with ARPA and associated Treasury guidance." We disagree with this statement as the letter does not address how a recipient would record the interest earnings in its accounting records.

In a November 2023 email, we confirmed with officials from the Treasury Office of Inspector General that the interest earned on CSLFRF funding may be used "for SLFRF purposes and/or non-SLFRF purposes." This statement is consistent with the Treasury guidance that has been in place since 2021. As the interest earnings are not required to be used for CSLFRF purposes, and there are no requirements on how the funds should be recorded in the State's accounting records, DOA should record these interest earnings as general purpose revenues as required by s. 20.906 (1), Wis. Stats.

Response



STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor
Kathy Blumenfeld, Secretary

December 19, 2023

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

Dear Mr. Chrisman:

I am writing in response to the Legislative Audit Bureau's (LAB) recently completed audit of the State of Wisconsin's fiscal year 2022-2023 Annual Comprehensive Financial Report. I again want to extend the Department of Administration's (DOA) appreciation to LAB for its work on this audit and to acknowledge the diligence of and cooperation between the staff at the LAB and DOA's State Controller's Office necessary to accomplish this significant effort.

As evidenced by the audit report, the State of Wisconsin is in a strong financial position, as are the systems of controls by which the State Controller's Office manages the state's finances.

With respect to the auditor's recommendations related to information technology (IT), DOA is continually working to assess and address risks for the State's IT environment. This includes implementing processes and procedures to monitor executive branch agency compliance with the State of Wisconsin IT Security Policy Handbook and related standards. However, there is more work to be done related to information technology oversight and monitoring responsibilities, and we agree with auditor's findings and recommendations in this area. DOA's Division of Enterprise Technology will update the Joint Legislative Audit Committee by March 1, 2024 on the status of its efforts to respond to the information technology related findings outlined in this report.

With respect to the other matters of interest identified by the auditors, DOA will continue to work to timely resolve matters to ensure compliance with policies, procedures, and state statutes.

Again, thank you for your timely and important work.

Sincerely,

Kathy Blumenfeld
Secretary