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CORRESPONDENCE MEMORANDUM

DATE: October 25, 2006
TO: Wisconsin Deferred Compensation Board
FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program
SUBJECT: Audits: Annual Financial Statements and Contract Compliance

This memo provides background information for a Board discussion on managing the process for future Wisconsin Deferred Compensation Program (WDC) financial statements audits and contract compliance audits.

Based on a review of the auditing procedures used by other benefit programs administered by the Department and other section 457 deferred compensation plans, staff recommend the Board consider implementing the following actions:

- Authorize Department staff to develop and release a financial statements audit Request for Proposals (RFP) to cover financial statements audits for five calendar years (2007 through 2011).
- Delegate review and approval of the financial statements audit RFP to the Board Chair.
- Authorize Department staff to develop and release a contract compliance audit RFP. This RFP would cover compliance audits proposed for calendar years 2007 and 2009.
- Delegate review and approval of the contract compliance audit RFP and subsequent contract to the Board Chair.

Financial Statements Audits

The Board's administrative services contract with the WDC's third party administrator requires annual financial statements audits. The purpose of these audits is to have an independent public accounting firm express its opinion as to whether the financial statements accurately reflect the financial position of the WDC. The audit should demonstrate that all participant accounts and contributions are being properly balanced and records are being kept accurately, and that all WDC assets are balanced. Financial statements audits would also reveal any misstatements due to errors, fraud or other reasons that would cause the financial statements to inaccurately reflect the financial position of the WDC.

Reviewed and approved by Dave Stella, Deputy Secretary

Signature Date

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In the past, various independent public accounting firms completed these audits for the WDC through the Board's administrative services contract with its previous WDC third party administrator, Nationwide Retirement Solutions (NRS). Clifton Gunderson has conducted these audits for the past several years.

Now that Great-West Retirement Services (Great-West) is the WDC third party administrator, the selection of the financial statements auditing firm requires review. Under the terms of the Board's contract with Great-West, the Board is to select, monitor and retain the auditing firm. Great-West will remit \$15,000 annually to the Board for the cost of the independent financial statements audit.

At the May 2006 Board meeting, the Board extended the existing arrangement regarding the financial statements audit with Clifton Gunderson to include completion of a thirteen month financial statements audit for the period December 1, 2005, through December 31, 2006. The Board also authorized the Chair to review, approve and sign contracts with audit firms for future routine WDC financial statements audits.

Department staff recommends that the Board consider issuing an RFP for financial statements audits to cover a five year period, beginning with calendar year 2007 through 2011. This would ensure that the Board receives competitive bids for annual financial statement audits and the five year time frame would permit the selected auditing firm to develop a working knowledge of the WDC.

Contract Compliance Audits

Contract compliance audits are used to evaluate and report on a third party administrator's (TPA) management of the WDC; the TPA's compliance with contract terms and conditions; and the TPA's compliance with applicable State and federal statutes, rules and regulations. Contract compliance audits are done to assure the Board, the Department, employers and participants that the WDC is being administered effectively, efficiently and economically.

The Department has been responsible for selecting the auditor and establishing the scope of contract compliance audits. The previous administrative services contract with NRS contained a provision requiring NRS to contract with an independent public accounting firm to assist the Department's Internal Audit staff with contract compliance audits. KPMG LLP completed the contract compliance audit for the years 2000 and 2001. In May 2006, the Board authorized a final contract compliance audit of NRS' services. This audit covers the period of the Board's last administrative services contract with NRS, from January 1, 2003 through December 31, 2005.

The Department recommends that the Board consider authorizing an RFP for contract compliance audits. The RFP should request bids for biennial contract compliance audits, beginning with calendar year 2007. Staff recommends a minimum of two contract compliance audits during the initial term of the administrative services contract with Great-West. Data from compliance audits for calendar years 2007 and 2009 will provide information to the Board regarding the services provided by Great-West, prior to any potential contract extension discussions.

Staff will be available at the meeting to discuss this memo and answer any questions you may have regarding the proposed process for managing future financial statements audits and contract compliance audits.