



# *Internal Audit Plan*

2011-2013

*Office of Internal Audit*



# Department of Employee Trust Funds Audit Plan

2011-2013

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## Executive Summary

This Audit Plan presents the Department of Employee Trust Funds (ETF) Office of Internal Audit's priorities for the biennial period July 1, 2011 through June 30, 2013. The Audit Plan has been developed and submitted as required by the *ETF Internal Audit Charter*, and conforms to the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors (IIA). The IIA is recognized as the authoritative body for a program of internal auditing.

Eighteen audits and annual reviews have been identified in the 2011-2013 Audit Plan (ten during FY 2012, eight during FY 2013), in addition to advisory services, special requests and other projects. Information on the audits and annual reviews is presented in the attached Appendices:

- Appendix A – FY 2012 Audit Plan
- Appendix B – FY 2012 Audit Descriptions
- Appendix C – FY 2013 Audit Plan
- Appendix D – FY 2013 Audit Descriptions

The Office of Internal Audit's objectives and scope of work are aligned with the overall mission of ETF, "*To develop and deliver quality benefits and services to our customers while safeguarding the integrity of the Trust.*"

### Audit Planning Methodology

To paraphrase the IIA, *'The chief audit executive is responsible for developing a risk-based plan. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consultation with senior management and the board.'*

Risk is the degree to which activities are exposed to the potential for financial loss, the inappropriate disclosure of data, or other credibility problems that result from the absence or inadequacy of control or effectiveness of human resources. Furthermore, risk is a measurement of the likelihood that an organization's goals and objectives will not be achieved. Since controls are anything that improve the likelihood that goals and objectives will be achieved, controls and risks are inversely related by definition. Better control means less exposure to risk.

This risk-based Audit Plan combines the results of the 2009 formal department-wide risk assessment and recent and extensive consultation with ETF division/office leadership and the Secretary's Office. Available resources, competing priorities, capabilities of audit staff, and the preference of the respective division/office were taken into consideration in preparation of this plan. Using input from all available sources, the Office of Internal Audit exercised judgment in selecting projects for the Audit Plan, which were discussed and jointly agreed upon with ETF division/office leadership. The table on page two provides a breakdown of the number of audits by division/office.

<u>Division/Office</u>	<u>Number of Audits</u>
Division of Insurance Services	3
Division of Management Services	2
Division of Retirement Services	9
Office of Budget and Trust Finance	2
Office of Policy, Privacy and Compliance	1
Multiple Organizational Areas	2

The 2011-2013 Audit Plan is a dynamic document that can be amended throughout the biennium to reflect changing ETF risks and priorities. Periodic reassessment of risk, requests from management or the Audit Committee, availability of resources, and changes in ETF's organization or operations may result in changes to the Audit Plan. Certain projects are described in the Audit Plan only in general terms. The specific application of audit resources will be determined when a project is initiated, based on a more detailed assessment of relative risks in that area.

### **Alignment with ETF's Strategic Plan**

In addition, the Audit Plan was developed to align with and support ETF's 2010-2015 Strategic Plan. One important initiative in the Strategic Plan is a Data Governance Project which involves developing a disciplined process for establishing and implementing policies and procedures to ensure reliable and consistent data quality between and across systems. The Office of Internal Audit will be directly involved on the following Data Governance committees and teams, along with other related projects.

- Steering Committee
- Security Council
- Data Investigation Team
- Quality Assurance Team

In accordance with the IIA standards, auditors may participate on committees or task forces in a purely advisory capacity to advise management on issues related to the knowledge and skills of the auditors without impairing their independence. However, auditors should not make management decisions or perform management functions. Auditors can provide routine advice to management to assist in activities such as establishing internal controls or implementing audit recommendations and can answer technical questions and/or provide training. The decision to follow the auditor's advice remains with management.

### **Staffing and Available Audit Hours**

The Office of Internal Audit includes the Director and two full-time audit professional staff. One auditor specializes in information technology, the other in operations. Available hours are calculated using 2,080 hours per staff, less allowance for vacation, sick leave, holidays and training. Additional hours are reserved for administrative duties including the attendance of Audit Committee and Board meetings, management meetings and other such activities. Attachment E presents the calculation of available audit hours.

DEPARTMENT OF EMPLOYEE TRUST FUNDS

Audit Plan - FY2012

	Division or Office (1)	FY2012 Budgeted Hours (2)	Percent of Total Hours	Description
<b>FY2012 Audits</b>				
* Dependent eligibility audit	OIA/DIS	160	4%	Audit eligibility of dependents (Hlth Ins)
* Benefit Payment System (BPS) reconciliation	DRS	224	6%	Review of monthly BPS reconciliation process and controls
* Retirement, death, disability and service purchase estimates	DRS	144	4%	Assess accuracy and integrity of estimate calculations
* myETF Benefits	DIS	464	12%	Audit of system process and controls
* Accumulated Sick Leave Conversion Credit (ASLCC) data maintenance and processing accuracy	DRS	424	11%	Assess accuracy of data components, integrity of manual and automated processing and reliability of existing controls
* Retirement system file maintenance accuracy	DRS/DMS	424	11%	Audit integrity of BPS system file maintenance transactions
<b>Sub-total: Audits</b>		<b>1,840</b>	<b>47%</b>	
<b>Annual Required Monitoring</b>				
* Follow-up on prior recommendations	Multiple	160	4%	Annual follow-up on previous audit recommendations
* Actuarial file testing - Active Lives	OBTF	124	3%	Verification of data sent to ETF Board consulting actuary
* Internal Control Plan review	OBTF	96	2%	Annual review of risks and controls included in report
* Third party audits, SAS 70 and SSAE16 reports	OIA	56	1%	Review third party audits and SAS 70 and SSAE 16 reports
<b>Sub-total: Annual Required Monitoring</b>		<b>436</b>	<b>11%</b>	
<b>Other Projects/Consulting</b>				
* Data Governance Project	OIA	764	19%	Direct involvement on Data Governance committees and teams, along with other related projects.
* Feedback surveys	OIA	40	1%	Conduct feedback survey of completed audits
* Quarterly meetings with division/office leadership	OIA	24	1%	Discuss current events and potential audits/advisory assistance
* Development of continuous monitoring application	OIA	140	4%	Development of automated system monitoring
* Review ETF Board Governance and Reference manuals	OIA	80	2%	Review and develop revisions to Secretary's Office
* Review/update Internal Audit procedures	OIA	80	2%	Update to ensure currency of procedures
* Develop Office of Internal Audit (OIA) home page	OIA	80	2%	To provide a greater awareness to ETF staff regarding the responsibilities and duties of OIA, the audit process and links to other related resources
* Formalize Whistleblower policies and procedures	OIA	40	1%	Establish information accessible to ETF staff
* Special requests and other contingency	OIA	400	10%	
<b>Sub-total: Other Projects/Consulting</b>		<b>1,648</b>	<b>42%</b>	
<b>Total</b>		<b>3,924</b>	<b>100%</b>	

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(1) Code

DIS = Division of Insurance Services

DMS = Division of Management Services

DRS = Division of Retirement Services

OBTF = Office of Budget and Trust Finance

OIA = Office of Internal Audit

OLC = Office of Communications and Legislation

OPPC = Office of Policy, Privacy & Compliance

(2) Projected audit hours of OIA staff

DEPARTMENT OF EMPLOYEE TRUST FUNDS  
AUDIT DESCRIPTIONS  
2011-2013

Appendix B

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FY 2012 Audits

1. **Dependent Eligibility Verification Review** *(Note: Completion November 2011)*
  - Complete random sample review
  - Placeholder for partial or full-scale review of the 134,000 dependents in the state and local health insurance programs. Final decision on whether the audit(s) will be conducted during FY2012 will be determined before the Group Insurance Board's November 8, 2011, meeting.
  
2. **Benefit Payment System Reconciliation** *(Note: Audit underway)*

This audit will review the monthly Benefit Payment System reconciliation processes and controls. Specifically, the audit will determine if monthly reconciliation, for \$270 million in pension payments, is complete, accurate, and timely.
  
3. **Retirement, Death, Disability and Service Purchase Estimates** *(Note: Audit underway)*

This audit will sample, recalculate, and verify the accuracy of retirement, death, disability and service purchase estimates.
  
4. **myETF Benefits** *(new ETF health insurance application)*

The scope of this audit will be established following a risk assessment that will be performed by managers and supervisors within the Division of Insurance Services and facilitated by the Office of Internal Audit.
  
5. **Accumulated Sick Leave Conversion Credit (ASLCC) Data Maintenance and Processing Accuracy**

This audit will assess the accuracy of various ASLCC data components, integrity of manual and automated processing, and reliability of existing controls.
  
6. **Retirement System File Maintenance (F/M) Accuracy**

This audit will sample/recalculate/verify the accuracy of various F/M transactions in the Benefit Payment System by volume, dollar amount, and type. In addition, the audit will review the audit trail of electronic transactions to originating staff. F/M is used to change one or more member records. F/M may include routine changes, updates, copying, moving and/or deleting of one or more data elements in a computer system.

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Appendix B

The following are annual monitoring projects:

1. **Follow-up on Prior Recommendations**

Generally accepted government auditing standards require auditors to follow-up on all significant findings and recommendations to determine whether the areas audited have taken timely and appropriate corrective actions. Continued attention to significant findings and recommendations is necessary to ensure that the organization realizes the full benefits of the audit process.

2. **Actuarial File Testing** (Active Lives data)

Annual performance of reasonableness checks and sample verification of data sent to the ETF Board consulting actuary.

3. **Internal Control Plan Review**

This review will assess and evaluate identified risks and ensure that stated controls are in place, effective, and will mitigate known risks and deficiencies within the agency's operations. The review is essential in order for the Office of Internal Audit to be able to provide management a reasonable assurance that ETF's internal controls are functioning as designed. The review is conducted annually, so that all controls will be reviewed over a three-year period.

4. **Review U.S. Statement on Standards for Attestation Engagements (SSAE 16) Reports**

This is the annual review of the SSAE 16 reports provided by the Wisconsin Deferred Compensation third-party administrator.

DEPARTMENT OF EMPLOYEE TRUST FUNDS

Audit Plan - FY2013

	Division or Office (1)	FY2013 Budgeted Hours (2)	Percent of Total Hours	Description
<b>FY2013 Audits</b>				
* Life rate changes to member accounts	DRS	424	12%	Assess effectiveness and accuracy of adjustments to member accounts following life insurance rate changes
* Lump Sum Payment System	DRS	464	13%	Audit of system process and controls
* Continuity of Operations review	DMS/OPPC	424	12%	Assess plan, provisions, and procedures
<b>Sub-total: Audits</b>		1,312	36%	
<b>Annual Required Monitoring</b>				
* Follow-up on prior recommendations	Multiple	140	4%	Annual follow-up on previous audit recommendations
* Actuarial file testing - Retired Lives	OBTF	164	4%	Verification of data sent to ETF Board consulting actuary
* Internal Control Plan review	OBTF	96	3%	Annual review of risks and controls included in report
* Third party audits, SAS 70 and SSAE16 reports	OIA	56	2%	Review third party audits and SAS 70 and SSAE 16 reports
* 1099-R procedures	DRS	264	7%	Test accuracy of data provided to Internal Revenue Service
<b>Sub-total: Annual Required Monitoring</b>		720	20%	
<b>Other Projects/Consulting</b>				
* Data Governance Project	OIA	764	21%	Direct involvement on Data Governance committees and teams, along with other related projects.
* Feedback surveys	OIA	40	1%	Conduct feedback survey of completed audits
* Quarterly meetings with division/office leadership	OIA	24	1%	Discuss current events and potential audits/advisory assistance
* Development of continuous monitoring application	OIA	140	4%	Development of automated system monitoring
* Review ETF Board Governance and Reference manuals	OIA	20	1%	Review and develop revisions to Secretary's Office
* Review/update Internal Audit procedures	OIA	40	1%	Update to ensure currency of procedures
* Update Office of Internal Audit (OIA) home page	OIA	20	1%	To provide a greater awareness to ETF staff regarding the responsibilities and duties of OIA, the audit process and links to other related resources
* Development of 2013-2015 Audit Plan	OIA	180	5%	Risk assessment and development of risk-based audit plan
* Special requests and other contingency	OIA	400	11%	
<b>Sub-total: Other Projects/Consulting</b>		1,628	44%	
<b>Total</b>		<u>3,660</u>	<u>100%</u>	

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(2) Projected audit hours of OIA staff

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Appendix D

FY 2013 Audits

1. **Effect of Life Rate Changes to Wisconsin Employee Benefit System, Benefit Payment System, etc.**  
This audit will assess the effectiveness and accuracy of adjustments to member accounts residing in different systems to reflect life insurance rate changes.
2. **Lump Sum Payment System (LSPS)** *(new ETF retirement application)*  
The scope of this audit of the new LSPS application will be established following a risk assessment that will be completed by managers and supervisors within the Division of Retirement Services and facilitated by the Office of Internal Audit.
3. **Continuity of Operations Program (COOP)**  
This audit is an independent assessment of the COOP plan, provisions, and procedures to ensure that ETF can initiate, continue, and recover critical and normal operations after a catastrophic event.

The following are annual monitoring projects:

1. **Follow-up on Prior Recommendations**  
Generally accepted government auditing standards require auditors to follow-up on all significant findings and recommendations to determine whether the areas audited have taken timely and appropriate corrective actions. Continued attention to significant findings and recommendations is necessary to ensure that the organization realizes the full benefits of the audit process.
2. **Actuarial File Testing** (Retired Lives data)  
Annual performance of reasonableness checks and sample verification of data sent to the ETF Board consulting actuary.
3. **Internal Control Plan Review**  
This review will assess and evaluate identified risks and ensure that stated controls are in place, effective, and will mitigate known risks and deficiencies within the agency's operations. The review is essential in order for the Office of Internal Audit to be able to provide management a reasonable assurance that ETF's internal controls are functioning as designed. The review is conducted annually, so that all controls will be reviewed over a three-year period.

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4. **Review U.S. Statement on Standards for Attestation Engagements (SSAE 16) Reports**

This is annual review of the SSAE 16 reports provided by the Wisconsin Deferred Compensation third-party administrator.

5. **1099-R Data Review**

Initial annual test of data provided to the Internal Revenue Service (IRS) for accuracy of information, compliance with IRS regulations, and to review the efficiency and effectiveness of the procedures.

DEPARTMENT OF EMPLOYEE TRUST FUNDS

Calculation of Available Audit Hours - FY 2012

	Internal Auditors					Detail
	Audit Director	Information Technology	Operations	Summary	%	
Total Hours (1)	2,080	2,080	2,080	6,240	100%	Three FTE's
Less:						
* Vacation/Sick Leave	284	294	288	866	14%	Annual accrued vacation and sick leave
* Holidays & Personal Holidays	92	92	92	276	4%	Holiday and personal hours
* Continuing Education	45	45	45	135	2%	Webinars/Workshops/Training
* General Administration	376	80	80	536	9%	Administration; board, committee, and management meetings
Total Annual Audit Hours	<u>1,283</u>	<u>1,569</u>	<u>1,575</u>	<u>4,427</u>	71%	

Calculation of Available Audit Hours - FY 2013

	Internal Auditors					Detail
	Audit Director	Information Technology	Operations	Summary	%	
Total Hours	2,080	2,080	2,080	6,240	100%	Three FTE's
Less:						
* Vacation/Sick Leave	330	330	330	990	16%	Annual accrued vacation and sick leave
* Holidays & Personal Holidays	100	100	100	300	5%	Holiday and personal hours
* Continuing Education	45	45	45	135	2%	Webinars/Workshops/Training
* General Administration	376	80	80	536	9%	Administration; board, committee, and management meetings
Total Annual Audit Hours	<u>1,229</u>	<u>1,525</u>	<u>1,525</u>	<u>4,279</u>	69%	