



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

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CORRESPONDENCE MEMORANDUM

DATE: June 4, 2012
TO: Audit Committee Members
FROM: John Vincent, Director
Office of Internal Audit
SUBJECT: Annual Retirement Annuity Adjustments Audit (2011-02)

This report is for Audit Committee review and discussion. No action is required.

Attached is the Executive Summary of the Annual Retirement Annuity Adjustments Audit, which was completed and submitted to the Secretary of the Department of Employee Trust Funds. The Executive Summary provides the audit objective, background, scope, conclusion, findings, recommendations, and management's action plans.

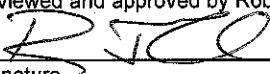
Overall, ETF's annual annuity adjustments were accurate and complete. However, we did discover a duplicate account – which may be evidence of a process control weakness concerning special payment requests with potential significant financial error if not corrected.

Secretary's Office Comments

Ensuring the financial integrity of the Wisconsin Retirement System, including the annual annuity adjustments, is a critical component of the Department's mission. While we are pleased that the audit has demonstrated that the annual annuity adjustments are completed accurately, we are concerned with the duplicate account and overpayments that were discovered. The Division of Retirement Services has already initiated a review to determine if this was an isolated incident or evidence of a process control weakness. We will continue to take necessary steps to further assess this finding and to minimize the likelihood that similar errors will occur in the future.

I will be available at the Audit Committee meeting to answer any questions you may have.

Attachment: Executive Summary of the Annual Retirement Annuity Adjustments Audit

Reviewed and approved by Robert J. Conlin, Secretary

Signature _____ Date 6/8/12

Board	Mtg Date	Item #
AUD	6.21.12	4B



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CORRESPONDENCE MEMORANDUM

May 25, 2012

Bob Conlin, Secretary
Department of Employee Trust Funds

Annual Retirement Annuity Adjustments Audit (2011-02)

The Office of Internal Audit submits the Executive Summary of the final report of the Annual Retirement Annuity Adjustments Audit.

The audit was conducted in accordance with the Office's 2011-2013 Audit Plan, and was requested by the Office to review a component of the BPS, operational since October 2008. The 2009 annuity adjustments were the first to be applied within the BPS in April 2010. Therefore, it was prudent to follow up with a review of the new system to ensure the accuracy of the process and adjustments. The audit objective, scope, and sample selection criteria were developed in conjunction with the Division of Retirement Services.

Overall, the Department's annual annuity adjustments were accurate and complete. However, we did discover a duplicate account which may be evidence of a process control weakness, regarding special payment requests with potential significant financial error if not corrected. This finding and recommendations are included in the Executive Summary.

We acknowledge the assistance and cooperation of ETF staff during this audit. Also, we acknowledge NVisia contract staff assistance. We greatly appreciate the time and effort we received during the audit.

Respectfully submitted,

John Vincent
Director, Office of Internal Audit

Cc: Rob Marchant, Deputy Secretary



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**Annual Retirement Annuity Adjustments Audit
(2011-02)
Executive Summary
May 2012**

Audit Objective

The objective of this audit was to review the process and accuracy of adjustments to annuitant accounts and annuity payments resulting from the annual annuity (dividend) adjustments.

Background

Annually, the Department of Employee Trust Funds (ETF) calculates annuity adjustments to annuitant accounts and applies the adjustment to the retirees' monthly pension payment.

In October 2008, the Benefit Payments System (BPS) replaced the Annuity System, created three decades earlier. BPS is the utility system the Department of Employee Trust Funds uses to administer all Wisconsin state and local annuity payments.

Audit Scope

The audit scope included the examination of annuity adjustments made during the 2009 audit period and all "mailers" associated with the adjustments made to 138 accounts from a population of 152,501 annuitant accounts. Specifically, the audit examined the payroll periods producing BPS checks for March 01, April 01, and May 01, 2010. A "mailer" reports the applicable adjustment along with before and after pension payments.

The audit objectives and scope, and sample selection criteria, were developed in conjunction with the Division of Retirement Services (DRS).

The audit was conducted in accordance with guidelines set forth in the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Conclusion

Working with downloaded data, available technical documentation, and pertinent computer program code we recalculated the 2009 annual annuity adjustments. Next, using Division of Retirement Services test accounts (use cases) we were able to verify the recalculated adjustments. Finally, a random sample was selected, matched to annuity mailers, and audited.

Overall, the Department's annual annuity adjustments were accurate and complete. However, we did discover a duplicate account which may be evidence of a process control weakness, regarding special payment requests with potential significant financial error if not corrected.

Findings

One erroneous duplicate account resulted in a total of \$41,328 in overpayments.

The Office of Internal Audit test results showed one (1) of the 138 randomly sampled accounts with 14 duplicate payments. The duplicate account, established due to human error while processing a special check request, resulted in duplicate payments totaling \$41,328 in 2009. This error had a potential overpayment impact of \$32,424 annually in adjusted annuity payment, if left uncorrected.

Since this discovery, the duplicate account has been cancelled. In addition, the Department has entered into an agreement with the annuitant to recover the overpayment.

Between November 2008 (when BPS went live) and September 2011 a total of 189 special payment requests were generated. The following are examples of when special payments would be issued.

1. Hardship – Hardship situations account for the vast majority of special checks.
 - An annuity application effective the current month is received just after the monthly payroll is processed. As a result, the applicant may not be able to wait 4-6 weeks to receive their first annuity payment.
 - An annuitant cancels their health insurance coverage, however, the monthly annuity deduction was already processed.
2. Generate a payment used to offset a payment recovered in error or an accounts receivable set up in error.
 - Wrong Date of Death was reported to ETF which resulted in the Department recovering payments that the annuitant was eligible to receive. A special check would be generated to the annuitant to “repay” that money.

Recommendations and Management Action Plans

1. **Recommendation:** The Division of Retirement Services(DRS) should complete a Benefit Payment System query to check for duplicate accounts.

Management Action Plan:

DRS has requested, received, and begun to review the results of a query to identify special checks paid through BPS. Results thus far have not identified other duplicate accounts or payments. When completed, DRS intends to use these results as a pilot to determine whether such a query may be a useful tool in identifying duplicate accounts and payments. We will develop a more specific action plan after our review of the initial query results is complete.

Division/Office Responding: Division of Retirement Services
Agree/Disagree: Agree
Target Completion Date: June 29, 2012
Assigned To: Chris Lindeman

2. **Recommendation:** DRS should complete a review of special payment procedures determine and correct the internal control weakness that resulted in establishing a duplicate account and payments.

Management Action Plan:

DRS is comfortable assessing the degree of risk as low and does not feel a process review is needed at this time. However, a review will be conducted if the results of from the review, under Recommendation 1, reveals duplicate accounts.

Basis for this decision is DRS has a special check procedure and review process in place that includes a review and audit by staff after the payment is initially processed. In addition, we routinely review accounts with special checks as part of our year-end 1099-R testing. Staff are trained on the process and not “cleared” to independently complete either the review or audit portion until they have repeatedly demonstrated the ability to successfully complete these tasks. Typically, it is only our most tenured and experienced staff who have received sufficient training to be cleared to handle these functions. Unfortunately, in this situation, both the initial processor and the auditor missed the error. We do not take the situation lightly. Both staff are well-versed on the process and experienced with these tasks. This was an unfortunate human error, not an internal control weakness. DRS is comfortable with the current review process because we do ensure that staff are well-trained on the process, and we incorporate an audit step as a double-check of the initial work completed.

Division/Office Responding: Division of Retirement Services
Agree/Disagree: Disagree
Target Completion Date: May be established if additional duplicate accounts are identified
Assigned To: Chris Lindeman

3. Recommendation: DRS should institute a periodic Benefit Payment System query to check for duplicate accounts and payments.

Management Action Plan:

DRS has requested, received, and begun to review the results of a query to identify special checks paid through BPS. However, due to workload and other priorities, the review is not yet completed. Nevertheless, results thus far are not identifying other duplicate accounts or payments.

DRS intends to use these results as a pilot to determine whether such a query may be a useful tool in identifying duplicate accounts and payments. We will develop a more specific action plan after our review of the initial query results is complete.

Division/Office Responding: Division of Retirement Services
Agree/Disagree: Agree
Target Completion Date: June 29, 2012
Assigned To: Chris Lindeman