



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

801 W Badger Road
PO Box 7931
Madison WI 53707-7931

1-877-533-5020 (toll free)
Fax (608) 267-4549
<http://etf.wi.gov>

CORRESPONDENCE MEMORANDUM

DATE: May 20, 2013
TO: Audit Committee Members
FROM: John Vincent, Director
Office of Internal Audit
SUBJECT: Lump Sum Payments Audit (2013-01)

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

Attached is the Executive Summary of the Lump Sum Payments Audit, which was completed and submitted to the Secretary of the Department of Employee Trust Funds. The Executive Summary provides the review objective, scope, conclusions, and background. There were no findings from this audit.

Secretary's Office Comments

We are pleased with the results of this audit, which report that the Lump Sum Payment distributions and processes are in compliance with applicable Wisconsin Retirement System governing statutes. It is critical that our benefit systems provide accurate and timely benefits to the participating members.

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

Attachment: Executive Summary of the Lump Sum Payments Audit

Reviewed and approved by Robert J. Marchant, Deputy Secretary

Electronically Signed 6/3/13

Board	Mtg Date	Item #
AUD	6.20.13	4



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May 20, 2013

Robert Conlin, Secretary
Department of Employee Trust Funds

AUDIT REPORT

Lump Sum Payments Audit (2013-01)

The Office of Internal Audit submits the final report of the Lump Sum Payments Audit. The Department's 2011-2013 enterprise-wide risk assessment identified lump sum payments as one of the many scheduled audits for the biennium. The Office of Internal Audit reviews and audits various payments issued to Wisconsin Retirement System participants and their beneficiaries to ensure compliance with applicable federal and state statutes. The audit objectives and scopes were developed in conjunction with the Division of Retirement Services' Benefit Services Bureau.

We attach an Executive Summary that provides the conclusion, background, objective and scope, and audit results.

Also, we acknowledge the assistance and cooperation of the Division of Retirement Services' Benefit Services Bureau Director, supervisors, and staffs during this audit. 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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EXECUTIVE SUMMARY

**Lump Sum Payments Audit
(2013-01)**

May 20, 2013

DEPARTMENT OF EMPLOYEE TRUST FUNDS

Lump Sum Payments Audit (2013-01)

EXECUTIVE SUMMARY

Introduction

In 2010, the Department implemented the Lump Sum Payment System (LSPS), which automatically calculates and issues payments for the majority of lump sum benefit types such as, separations, death benefits, and minimum annuities. The LSPS system also produces duplicate and corrected 1099-R tax statements and electronically transmits year-end tax reporting data to state and federal entities.

In 2012, the Department issued 7,291 checks in lump sum distribution totaling \$108,410,950.61 in Core and Variable funds. Total lump sum Core fund distribution for the year was \$104,426,906.83 and Variable lump sum fund distribution was \$3,984,043.78. In comparison, the total lump sum payment in 2012 represented about three percent (3%) of the \$3.9B of the annual WRS annuity payment distributions.

In line with the agency's vision, ETF is exploring automated clearing house (ACH) method of payments in order to reduce the cost of check printing and to better serve the membership. The large amount of checks issued in 2012 was due to the fact that our members and their beneficiaries took advantage of splitting their distribution, where applicable, to have their tax-deferred contributions, such as investment-in-contract or additional contribution, in cash, while rolling the taxable portion into eligible individual retirement accounts. Either way, such distribution required ETF issuing two separate checks for the same account.

Objective & Scope

The audit objective is to ensure that lump sum payments were accurate and made in compliance with the Wisconsin Retirement System (WRS) statutory requirements. WRS statutes require certain participants to meet vesting or minimum retirement age in order to have employer contribution includible for distribution.

The scope for the Lump Sum Payment System audit is to verify that:

- Applications eligibility requirements were met
- Applications are signed and dated
- Payment option was selected on the application
- Recalculate the payment amounts to ensure it is consistent with the payment recorded on the Lump Sum Payments System (LSPS) reports.

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

DEPARTMENT OF EMPLOYEE TRUST FUNDS

Lump Sum Payments Audit (2013-01)

EXECUTIVE SUMMARY

Findings

None

Conclusion

The Department's Lump Sum Payment distributions and processes are in compliance with applicable WRS governing statutes, expressly, WI Stat. §40.25, *Lump Sum Payments*, and 2011 Wisconsin Act 32 eligibility requirements. Tested sample selections were signed, dated, and distributions were accurate. While the 25 tested samples may not be reasonably extrapolated to the total 7,291 checks issued in 2012, the system of internal control meets acceptable standards overall, and provides reasonable assurance that financial statements are reliable, assets are safeguarded and material errors, irregularities and deviations from applicable statutes of the Wisconsin Retirement System and erroneous calculations will be detected in the normal course of business.

Recommendations and Management Action Plan

None applicable