



STATE OF WISCONSIN  
Department of Employee Trust Funds  
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## CORRESPONDENCE MEMORANDUM

**DATE:** November 11, 2013  
**TO:** Audit Committee Members  
**FROM:** John Vincent, Director  
Office of Internal Audit  
**SUBJECT: Benefit Payment System Manual Transactions Audit (2013-03)**

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

Attached is the Executive Summary of the Benefit Payment System (BPS) Manual Transactions Audit, which was completed and submitted to the Secretary of the Department of Employee Trust Funds. The Executive Summary provides the background, audit objectives and scope, findings, recommendations, and management's response. There are three recommendations in the report to which the Division of Retirement Services (DRS) has provided a management response.

The audit was conducted in accordance with the biennial Audit Plan for 2011-2013, and extended into the Audit Plan for 2013-2015. The audit was to verify the accuracy of manual transactions made by the DRS staff which produced computer-based adjustments to annuitant member accounts in the BPS.

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

Attachment: Executive Summary of the Benefit Payment System Manual Transactions Audit

Reviewed and approved by Robert J. Marchant, Deputy Secretary

Electronically Signed 11/13/13

Board	Mtg Date	Item #
AUD	12.05.13	3



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## **CORRESPONDENCE MEMORANDUM**

October 31, 2013

Robert Conlin, Secretary  
Department of Employee Trust Funds

### **AUDIT REPORT**

#### **Benefit Payment System Manual Transactions Audit (2013-03)**

The Office of Internal Audit submits the final report of the Benefit Payment System Manual Transactions Audit.

The audit was conducted in accordance with the biennial Audit Plan for 2011-2013, and extended into the Audit Plan for 2013-2015. The audit was to verify the accuracy of manual transactions made by the Division of Retirement Services (DRS) staff that produce computer-based adjustments to annuitant member accounts in the Benefit Payment System (BPS).

The attached Executive Summary provides the background, audit objectives and scope, findings, recommendations, and management's response. There are three recommendations in the report to which DRS responded.

*Also, we greatly appreciate the assistance and cooperation of the Divisions of Retirement Services, Insurance Services, and Management Services, as well as the Office of Legal Services during this audit.*

Respectfully submitted,

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John Vincent  
Director, Office of Internal Audit

Cc: Rob Marchant, Deputy Secretary



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**EXECUTIVE SUMMARY**

**Benefit Payment System Manual Transactions Audit  
(2013-03)**

**October 31, 2013**

**DEPARTMENT OF EMPLOYEE TRUST FUNDS**  
**Benefit Payment System Manual Transactions Audit**  
**(2013-03)**

**EXECUTIVE SUMMARY**

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**Introduction**

In October 2008, the Benefit Payments System (BPS) replaced the Annuity System, created three decades earlier. The BPS is the application the Department of Employee Trust Funds (ETF) uses to administer all Wisconsin state and local annuity payments. Each month, over 1,500,000 automated and manual transactions take place to adjust annuitant accounts. These adjustments are for such things as: monthly annuity, death benefits, health insurance, tax withholding, personal information, legislation, etc.

**Audit Objective**

The audit was to verify the accuracy of manual transactions made by the Division of Retirement Services (DRS) staff resulting in computer-based adjustments to annuitant accounts within the BPS.

**Audit Scope**

The audit was to examine and verify manual additions, changes, and deletions which result in electronic transactions that alter BPS data. Though manually generated transactions represent about 1% of all transactions, staff involvement is necessary due to complexity and other circumstances. For these reasons, a statistically accurate sample from the 31,359 August 2012 and February 2013 manual transactions was audited.

**Summary of Findings**

1. The manual transactions completed by staff of the DRS are accurate.

Sample selections were tested for data integrity, calculation accuracy, and transaction processing controls. The degree of accuracy is commendable given ACT 10 and ACT 32 workloads and benefit processing complexity.

The sample size of 122 transactions was selected with a 90% confidence level so that results could be extrapolated to the entire population. Additionally, to assure that the small audit sample represents the actual data, August and February data was analyzed and compared to the sample.

2. Requests for state tax withholding refunds were processed by unauthorized staff.

Of the 122 manual transactions that were randomly selected for review, two were for processing state tax withholding refunds. In February 2013, the two refund transactions were found to be accurate. However, they were processed by two

## DEPARTMENT OF EMPLOYEE TRUST FUNDS

### Benefit Payment System Manual Transactions Audit (2013-03)

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Contact Management staff that did not have work instructions to use their access for these transactions.

Tax refund security was discussed with the DRS bureau directors. The DRS is reviewing the current BPS role and permissions structure to determine a more concise, flexible, and dynamic way to address both workload and individual access capabilities. In the interim, system limitations may enable some staff to retain previous authority or exceed their current access level. For this reason DRS management has notified staff to confine processing to direct assignments.

As noted above, tax refunds are to be processed by the Retiree Services Section. This approach: assures better financial accounting, advances better segregation of duties, and promotes consistent customer service.

3. Current controls were not effective in flagging a data entry error that created an \$8,538 overpayment that was reported by the member after receiving an additional \$1,423 monthly for 6 months.

Among the selected transactions were adjustments to an account as a result of an \$8,538 overpayment. The overpayment had been made without notice until it was brought to the Department's attention by the member. The member had received an annuity for six months (September 2012 through February 2013) that included \$1,423 more than they should have received.

Two errors occurred at the time the information was entered into the BPS, and at the time the account was audited. First, instead of keying \$4,120.47 as the lifetime amount, \$5,543.47 was entered. Then, when the BPS added the lifetime amount of \$5,543.47 to the Social Security accelerated benefit of \$1,423.00, the new amount paid became \$6,696.47, thus, generating the monthly overpayment of \$1,423.00.

Second, when auditing the account other staff also picked-up the \$5,543.57 instead of \$4,120.47. Therefore, the Benefit Payment System "human" control failed to catch the processing error as well.

When the member brought this to the Department's attention, adjustments were made to the member's account and annuity. Arrangements were made for a one month annuity reduction of \$49.68, as an overpayment present value offset. Thereafter, a \$707.36 monthly reduction in the annuity will occur for a period of 12 months.

Entry errors are not apparent from the imaged file or from change history. However, our review of these transactions indicates that had the payment summary been reviewed, after payroll processing, the error may have been caught internally.

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Overall, internal controls should be improved for the complexity of preparing, verifying, and entering ET-4902 (Annuity Correction Notice) data.

**Conclusion**

The most complex transactions require staff of the Division of Retirement Services to personally process transactions to adjust member accounts. Because of complicated processing requirements these transactions have the greatest risk for accurate, complete, compliant, and reliable results. In spite of this, the audit concluded with general assurance that the manual transactions are being accurately processed.

However, the audit also revealed that there is some uncertainty about the authority of staff to process tax withholding refunds and the effectiveness of controls for account reviews. Additionally, a process improvement is suggested that would improve the quality of the transaction work papers.

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**Recommendations and Management Response**

**Recommendation 1** -- None, as the manual transactions completed by DRS staff were determined to be accurate.

**Recommendation 2** -- The Division of Retirement Services should review the role and permissions of staff to ensure only authorized staff can process Wisconsin state tax withholding refunds.

*Management's Response* -- Agree, with a clarification. In the past, DRS provided instruction and reminders to staff about this security role issue. The staff in Contact Management has been told that while they have the access to effectuate tax refunds, they are not to use this access. We will again provide instruction and a reminder about this issue to all staff, at a staff meeting and with an email follow up. The notification of staff will be sufficient until electronic security system monitoring of staff activity is available in the new benefit administration system.

**Note:** This recommendation has been satisfied with small group meetings with call center staff completed on October 30, 2013. All staff, except for one on medical leave, attended a meeting.

**Recommendation 3** -- The Division of Retirement Services should review the internal controls and auditing procedures in connection with the processing of account and payroll adjustments to ensure accuracy.

*Management's Response* - We acknowledge the data entry error in Finding 3. This audit focused on BPS manual transactions and manual processes that are subject to human error. The mistake was made by a very experienced staff. Another experienced staff audited the calculation and did not identify the data entry error.

Division of Retirement Services will review the internal controls and auditing procedures in connection with the processing of account and payroll adjustments, and meet with internal audit to discuss possible procedural alternatives.

**Improvements for Transaction Processing**

The following are suggested improvements, identified during the audit, which will promote consistency, understanding, and ease of auditing by staff. Management response is not required.

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**Informational Item -- Process documentation.**

During the field work phase of the audit account work papers were reviewed to understand the work that was performed, the conclusions reached, and the supporting evidence trail. However, it became evident that the work papers were not complete or easily understood.

More than 30 inquiries were made to clarify the calculations and other transaction processing. Management and staff promptly responded, however some transactions did require further clarification. The most commonly occurring questions had to do with: following transaction trails, determining who verified the data, determining when data was verified, and arriving at the same numerical result.

We encourage DRS to continue to develop this information going forward as the quality and integrity of a calculation depends on existence of: processing standards, work papers, conclusions reached, and the evidence that supports those conclusions.

**Suggested Process Improvement: To improve the quality of work papers more process documentation is needed for: each numerical result, the corresponding record of actual work performed, involved staff, and evidence of a second review.**

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