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
etf.wi.gov

CORRESPONDENCE MEMORANDUM

DATE: June 2, 2014

TO: Audit Committee Members

FROM: Anne Boudreau, Deputy Administrator
Division of Retirement Services

SUBJECT: BPS Manual Transaction Audit Follow Up (2013-03)

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

This is an update on progress made to address the findings of the BPS Manual Transaction Audit, which was completed on October 31, 2013.

There were three key findings:

1. The manual transactions completed by Division of Retirement Services (DRS) staff are accurate.

2. Two requests for state tax withholding refunds were processed by unauthorized staff, although the refunds were processed correctly.

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.

The last item remains outstanding -- remedial measures to prevent repetition of this error are still in process.

Managing Manual Calculations

This error involved the manual calculation of an annuity correction. The business unit processes approximately 30 annuity corrections per month. An error might happen in the entry of data (as in this case) or in the calculation.

Ideally, both data entry and calculation would be automated. The department's Benefit Payments System (BPS) automates most calculations, but not all. Due to complexity

Reviewed and approved by Matt Stohr, Administrator, Div. of Retirement Services

Matt Stohr   Electronically Signed 6/12/14

Board	Mtg Date	Item #
AUD	6.26.14	3

and low volume, some calculations are still performed manually. They are not significant enough to justify the expenditure of resources that would be required in BPS.

In addition, to automate the annuity correction calculation now—prior to implementation of the Benefits Administration System (BAS)—would be extremely costly, divert resources and would be discarded when BAS replaced it in the next couple of years. The long-term solution is to automate both data entry and calculation pieces in BAS.

Reducing the Risk of Errors

Division management discussed this issue at length. The audit report suggested additional information be added to the work papers, such as "actual work performed, involved staff, evidence of a second review, dates, etc." While the annuity calculation worksheet showed a date and the initials of the staff who prepared the manual calculation, the only evidence that the review audit had taken place were "tick marks".

The business area has now implemented a process change so that both staff (the person who does the calculation and the person who audits it) initial and date the annuity correction form to indicate the task each has performed. This change has been implemented for annuity correction calculations and audits. A similar documentation process is already in place for most other manual calculations. This change will aid in any follow up reviews, and the identification of possible additional training.

The business unit identified and has implemented a short-term solution to minimize errors and avoid using extra IT resources by creating an Excel workbook to automate the calculation of annuity corrections. The workbook does not prevent a data entry error of the type identified in the audit but will minimize the possibility of an error in calculation. In addition, the unit is developing business rules to flag unusual benefit calculation results. We have a multi-phase plan in place.

- First, the BPS already generates exception reports. It flags cases where a change to termination date or salary or service has an effect on the benefit amount.

- Second, the work unit has added a process step to check the new "corrected" annuity amount against the dollar amount prior to the annuity correction calculation. If the two differ by more than $100 per month, staff will perform a third calculation to verify or refute the results of the annuity correction calculation.

- Finally, the business unit will develop detailed business rules so that BAS can identify those situations that produce unusual calculation results. The broader goal for BAS will be to automate both data entry and calculations like an annuity correction.

In summary, we believe these solutions will decrease the likelihood of future errors.

I will attend the June 26 meeting to answer any questions.