



STATE OF WISCONSIN
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CORRESPONDENCE MEMORANDUM

DATE: June 5, 2014
TO: Audit Committee Members
FROM: John Vincent, Director
Office of Internal Audit
SUBJECT: 2011 Internal Control Plan Review (2013-04)

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

Attached is the Executive Summary of the 2011 Internal Control Plan Review. The audit was conducted in accordance with the biennial Audit Plan for 2013-2015 and has been discussed with the Office of the Secretary of the Department of Employee Trust Funds. The Executive Summary provides the introduction, review objective, scope, summary of findings and recommendations. There is one three-part recommendation to which the Office of Trust Finance has provided a management response.

The review was conducted by Jackie Van Marter, Auditor-Advanced, who will be available at the Audit Committee meeting to answer any questions.

Attachment: 2011 Internal Control Plan Review – Executive Summary

Reviewed and approved by Robert J. Conlin, Secretary

Electronically Signed 6/9/14

Board	Mtg Date	Item #
AUD	6.26.14	4A



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CORRESPONDENCE MEMORANDUM

June 3, 2014

Robert Conlin, Secretary
Department of Employee Trust Funds

AUDIT REPORT

2011 Internal Control Plan Review (2013-04)

The Office of Internal Audit submits the final report of the 2011 Internal Control Plan Review.

The review was conducted by Jackie Van Marter, Auditor-Advanced, in accordance with the 2013-2015 biennial Audit Plan. The review was performed to provide the department a reasonable assurance that the department's systems of controls are functioning as designed or have mitigating controls in place, if required.

The attached Executive Summary provides the background, audit objectives and scope, findings and recommendations. The primary recommendation in this report is the need to re-educate managers and supervisors about the process for updating information contained in the *Internal Control Objectives and Activities* table, as well as improved oversight of the overall process.

We would like to thank all of the ETF employees who contributed to this review by providing information to the improvement of the ETF's internal controls.

Respectfully submitted,

John Vincent
Director, Office of Internal Audit



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EXECUTIVE SUMMARY

**2011 Internal Control Plan Review
(2013-04)**

June 3, 2014

DEPARTMENT OF EMPLOYEE TRUST FUNDS

2011 Internal Controls Plan Review (2013-04)

EXECUTIVE SUMMARY

Introduction

The Cooperative Agreement (Agreement) between the Department of Employee Trust Funds and the Department of Administration requires the annual review of the agency's systems of internal controls. The Agreement also requires the agency head (or deputy) and the chief financial officer to certify that the internal controls have been reviewed and any material weaknesses are reported to the Department of Administration. This review was conducted by the Office of Internal Audit (OIA) as part of the biennial audit plan. It is fundamental to providing management with reasonable assurance that ETF's internal controls are functioning as designed and have no material weaknesses.

Audit Objective

The objectives of this review:

- Verify that the systems of internal controls, as reported in the department's 2011 Internal Controls Plan, work as designed;
- Verify there are no material weaknesses in the department's internal controls.

Audit Scope

The scope of this review included the assessment of the internal controls identified in the department's 2011 Internal Control Plan, the identification of important risks and their controls for verification and testing, and verifying whether material weaknesses exist in the department's internal controls.

Summary of Findings

Our review and testing of 20 selected primary controls provided reasonable assurance that the controls and processes in place are functioning effectively, with the absence of material weaknesses.

What was most noticeable during the review, however, was that the annual review process is not functioning as effectively and efficiently as it should. Therefore, the department's annual report is not as accurate and current as it should be. Changes that the OIA had identified during the review of the 2009 report had not been submitted to the Office of Trust Finance (OTF) for inclusion in the report, and changes that OIA had identified during this review had not been identified by the respective division/office during their review. With the TIM initiative, and all related process and control changes, it is increasingly important that the annual review be completed thoroughly and accurately, and the department's annual Internal Control Plan is accurate and current.

DEPARTMENT OF EMPLOYEE TRUST FUNDS

2011 Internal Controls Plan Review (2013-04)

EXECUTIVE SUMMARY

Findings, Recommendations and Management's Responses

1. Systems of internal controls work as designed, and contain no material weaknesses.

It is creditable to report that there were no control weaknesses identified in all 20 primary controls in the department's 2011 Internal Control Plan that were tested. This is very commendable for the department's three divisions and the Office of Trust Finance.

Recommendations – None

2. Annual Plan review and reporting process is not functioning as effectively and efficiently as it should be.

Overall, it appears the annual process to review the controls that were included in the department's prior year report is not functioning as effectively and efficiently as it should. As a result, the department's annual Internal Control Plan submitted to Department of Administration, Office of the Controller, is not accurate and representative of the controls and processes, and is not submitted by the prescribed due date of the fourth Friday of January following the period being reported.

During the testing of the 20 primary controls in the 2011 report, a number of revisions to improve control and process accuracy were identified. OIA noted a number of changes that had previously been identified during OIA's review of the 2009 report were not reflected in the 2011 Internal Control Plan. In addition, changes identified by OIA in the 2011 Plan, and discussed with the respective division/office, had not been identified by the division/office during their review of the 2012 report, and thus would not have been reflected in the 2013 report.

To-date, OIA has provided the Office of Trust Finance with the changes for the 2013 report that have been approved by the respective division/office. The only pending changes being reviewed involve the Division of Retirement Services.

Relative to meeting the prescribed due date of the fourth Friday of January, the following illustrates the recent history of when the department's reports have been submitted.

1. 2009 – submitted 07/08/2010
2. 2010 – submitted 08/22/2011
3. 2011 – submitted 03/01/2012
4. 2012 – submitted 03/25/2013
5. 2013 – yet to be submitted

DEPARTMENT OF EMPLOYEE TRUST FUNDS

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Therefore, OIA believes the understanding of the importance of the report, the review process and oversight is not as robust as it should be to ensure the review is thoroughly conducted, involves the appropriate staff level and is submitted in a timely manner.

Recommendations –

- a. The OTF should establish a process and timeline that will lead to the department's annual Internal Controls Report being submitted to the Department of Administration controller's office accurately and by the fourth Friday of January following the period being reported.
- b. The OTF and the OIA should develop an educational and communication initiative to discuss with the Leadership Team, Bureau of Managers and the Bureau of Supervisors the purpose, process and timeline of the annual review. This initiative would be completed before the 2013 Internal Control Plan is disseminated for review and updating.
- c. The OTF should ensure that the 2013 Internal Control Plan reflects all submitted changes.

Management's Response -

- a. *Agree. A process will be established by the OTF no later than September 30, 2014, to submit the Internal Control Plan by the date established by the Department of Administration.*
- b. *A plan will be developed to provide the necessary education and communication to managers to facilitate a successful review of controls. This will take place before the January 2015 update to the Internal Control Plan as provided in the plan/timeline developed under a., above.*
- c. *Agree. The plan to update the Internal Control Plan will ensure that all submitted changes are reflected. The department's final draft Internal Control Plan report will be completed by June 30, 2014, for internal review and submitting to the Department of Administration Controller's Office.*