



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: May 29, 2015
To: Audit Committee
From: Yikchau Sze, Director
Office of Internal Audit
Subject: 2015 – 2017 Internal Audit Plan

Staff requests that the Audit Committee approve the Audit Plan for Fiscal Years 2016 – 2017.

The Audit Plan was prepared in accordance with the Charter of the Office of Internal Audit. The Charter requires the Office of Internal Audit to prepare a flexible biennial audit plan that addresses key risk areas in cooperation with Department of Employee Trust Funds (ETF) administrators and office directors. The plan has been reviewed and approved by the Office of the Secretary of ETF.

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

Attachment: 2015 -2017 Internal Audit Plan

Reviewed and approved by Robert J. Conlin, Secretary

Electronically signed 6/5/15

Board	Mtg Date	Item #
AUD	6.25.15	5

Internal Audit Plan - Draft

2015 - 2017

Office of Internal Audit



Executive Summary

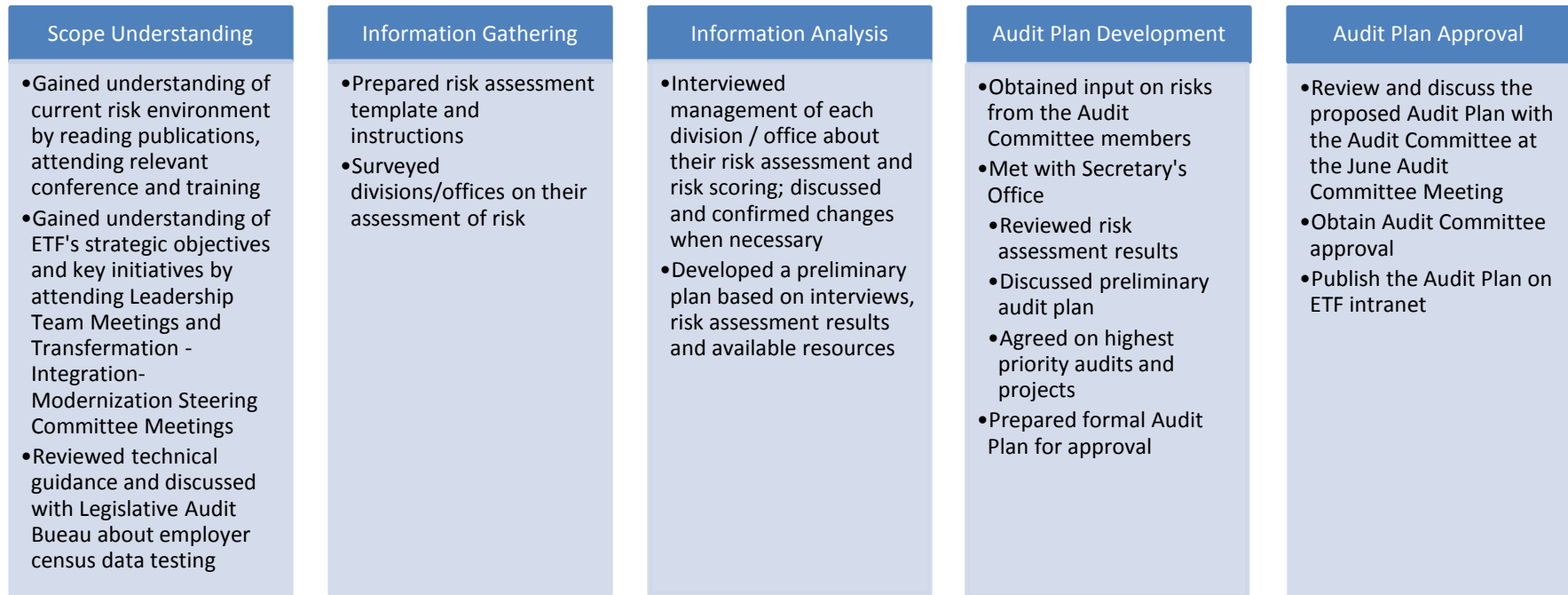
The Office of Internal Audit (OIA) is submitting this Audit Plan (Plan) for biennial period FY2016 and FY2017, as required by the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing and by the Internal Audit Charter.

The OIA is independent of management and provides objective assurance and consulting services designed to add value and improve ETF's operations. The Plan, including eighteen projects, is designed to provide coverage of key risks, given the existing staff and available budget (Appendix A). The OIA consists of the Director and three full-time audit professional staff.

Interim changes to the Plan will occur due to changes in business risks, timing of ETF's initiatives, and staff availability. Any significant deviation from the approved Plan will be communicated to the Secretary's Office and the Audit Committee of the ETF Board through quarterly activity reports.

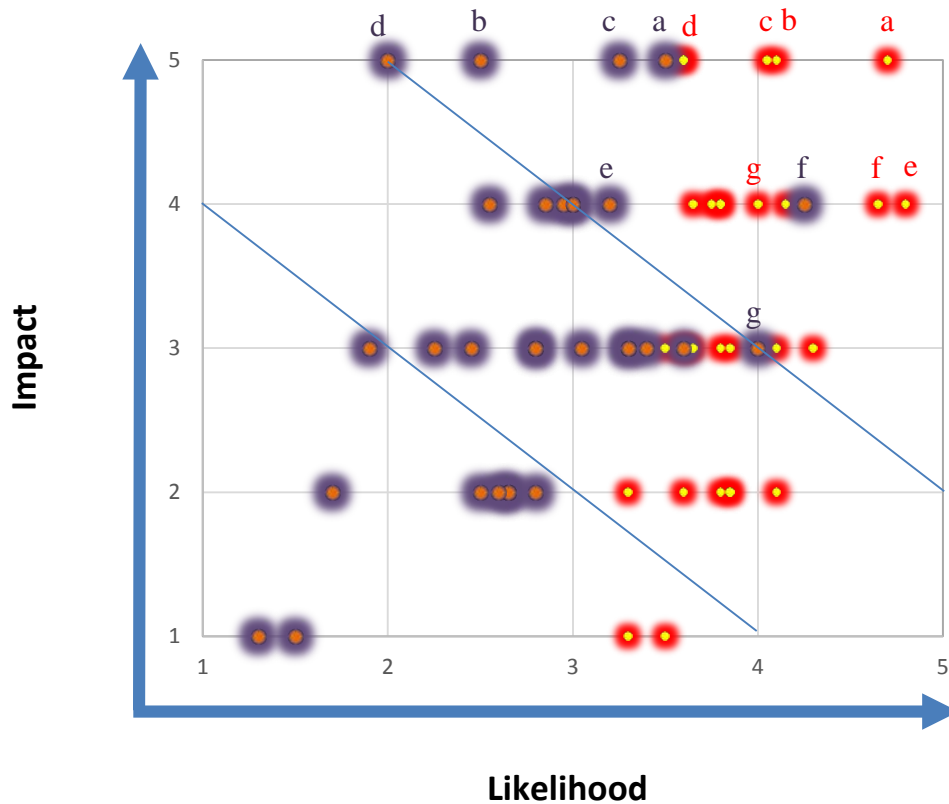
Risk Assessment & Audit Planning Approach

The Director of OIA developed a template and instructions for risk assessment (Appendix B). The results of the risk assessment were used to identify critical risk areas and potential internal audit projects. This information was combined into an overall audit plan designed to address the critical risks while taking into consideration operational requirements. The following was the approach taken in developing the Plan:



Agency Risk Profile

In developing the risk assessment, the Director of OIA surveyed and discussed with management the inherent and residual risks pertaining to their divisions / offices. The identified inherent risks with their corresponding residual risks were brought together in the form of a heat map according to the risks' corresponding scores of likelihood and impact (see below).



Residual risks found in the upper right corner of the heat map are as follows:

- a. Tax Reporting and Tax Payment
- b. Annuitants' Payroll
- c. BAS Security
- d. BAS Data Conversion
- e. Financial Reporting Knowledge Gap
- f. WRS Entity Reporting
- g. Legislative and Board Changes to Health Insurance Plans

Inherent Risk ●
Residual Risk ●

Types of Projects to Cover Risk Areas

The OIA considered the risk profile of the agency when identifying and prioritizing projects. Different functions, processes, and initiatives should receive different levels of review based on their importance and perceived risks. There are three levels of review that the OIA will rely on to cover risk areas:

Audit	<ul style="list-style-type: none">• Provide assurance and conclusions on audit objectives• Issue audit report• Estimated effort of each audit: 320 - 640 hours
Consulting	<ul style="list-style-type: none">• Respond to requests for formal assessment with recommendations; no assurance provided• Issue consulting report or memo as deliverable; significant deficiency identified would be reported to senior management and the Audit Committee as required by professional auditing standards• Estimated effort of each consulting service: 200 - 500 hours
Advisory	<ul style="list-style-type: none">• Participate in activities in a non-voting member capacity• Provide verbal comments or a brief memo to management• Estimated effort of each advisory service: 50 - 160 hours

The OIA will explore Computer Assisted Auditing Techniques (CAAT) for continuous auditing in order to develop Agreed-upon Procedures as an additional review type in the future. The Agreed-upon Procedures are testing procedures agreed with management. It is best used for data analytics and for routine testing of specific data and transactions to provide assurance that key controls addressing key risks are working as intended.

Audit Plan

The tables on this page and the following pages summarize the audit projects to be performed in fiscal year 2016 and fiscal year 2017. Objectives and scopes will be finalized in each project's formal planning phase.

Pension Benefits

Title	Type	Residual Risk Mapping	Preliminary Objective	7/1/15 - 12/31/15	2016	1/1/2017- 6/30/2017
Benefit Calculations	Audit	Reduce	Assess the accuracy of benefit calculations, especially the accuracy of manual calculations		X	
Benefit Adjustments	Audit	Reduce	Evaluate benefit adjustments for accuracy and consistency		X	
Benefit Distributions	Audit	Reduce	Determine whether benefits are distributed timely and are to the individuals who are eligible to receive the benefits (including fraud detection testing)		X	
WRS Employer Compliance Pilot Program	Advisory	Avoid	Assist in identifying gaps in employer compliance and provide advice on risk mitigation	X		
WRS Entity Reporting	Audit	Avoid	Determine whether information reported to ETF from the major reporting entities is complete and accurate		X	

Finance

Title	Type	Residual Risk Mapping	Preliminary Objective	7/1/15 - 12/31/15	2016	1/1/2017- 6/30/2017
Annuitants' Payroll	Audit	Avoid	Assess whether the process of the annuitants' payroll is working as intended with appropriate controls and adequate procedure documentation	X		
Tax Reporting and Tax Payment	Audit	Avoid	Assess compliance, accuracy and timeliness of tax reporting and tax payment		X	
Employee Reimbursement Account Program	Advisory (The audit itself will be outsourced)	Reduce	Engage external auditor for a Third Party Administrator (TPA) audit to determine whether the transition from the previous administrator (WageWorks) to the new administrator (TASC) is working properly and the new process related to reporting and payments is effective and in compliance with IRS rules	X		
Accounts Receivable	Audit	Accept	Determine whether the overpayment recovery policy and process is being uniformly implemented throughout the agency		X	
Internal Control Plan	Consulting	Reduce	Assist management in its evaluation of key internal controls	X		

Health Care Benefits

Title	Type	Residual Risk Mapping	Preliminary Objective	7/1/15 - 12/31/15	2016	1/1/2017- 6/30/2017
Income Continuation Insurance Enrollment	Audit	Reduce	Determine whether employers are accurately reporting enrollment and premium for the Income Continuation Insurance program	X		
Health Insurance Termination Process	Audit	Reduce	Assess employers' health insurance termination process for timeliness and COBRA notification		X	
Full File Comparison	Audit	Reduce	Determine the effectiveness and impact of the full file comparison process – a reconciliation process which compares health insurance information between what ETF has in its health plan system (MEBS) and what each health plan has in its system		X	
Audit Service of Third Party Administrator (TPA)	Consulting	Accept	Assess the quality and scope of TPA audit services and provide feedback on the oversight improvement opportunities			X

Information Technology (IT) & Business Administration System

Title	Type	Residual Risk Mapping	Preliminary Objective	7/1/15 - 12/31/15	2016	1/1/2017- 6/30/2017
IT Continuity of Operations Plan (COOP)	Audit	Reduce	Assess the readiness and adequacy of IT COOP			X
BAS Authorization Rights	Audit	Reduce	Review user profile and role-based security for appropriate access security for ETF Staff, TPAs and Employers		X	
BAS Infrastructure and Application Vulnerability Assessment and Penetration Test	Advisory (The audit itself will be outsourced)	Avoid	Report the audit results to the Audit Committee and follow-up on any issues identified during the audit when applicable		X	
BAS Data Conversion	Audit	Avoid	Determine the accuracy of data conversion from legacy systems to BAS for Rollout 2			X

Office of Internal Audit Activities

Title	Preliminary Objective	7/1/15- 12/31/15	2016	1/1/2017- 6/30/2017
Internal Audit Manual	Develop and implement audit manual	X		
Audit Management Software	Install and configure TeamMate, an audit management software, for use by audit staff	X		
Audit Software	Leverage the existing auditing tool (Audit Command Language) to develop continuous monitoring/auditing approaches			
Fraud Hot Line	Investigate the feasibility and administration of fraud hot line	X		
Anti-Fraud	Develop anti-fraud auditing strategy to detect and prevent fraud	X		
Audit Universe	Identify and confirm audit universe for better assessment and mitigation of key risks		X	
Internal Quality Assurance Review	Conduct self-assessment of the OIA's compliance with professional auditing standards		X	
TPA Audit Related Activities	Perform activities related to external auditors engaged by ETF to audit TPAs (See the Appendix C for the list of TPA audits)			
Internal Audit Strategic Plan	Implement and evaluate results of internal audit strategic plan initiative			
Quarterly Audit Recommendation Follow-up	Follow-up and report on the status of outstanding audit recommendations			
Biennial Audit Plan	Perform risk assessment and plan audit activities for the next plan years			X
Conference & Training	Participate in professional conferences and job related trainings			

Appendix A

Budget

Working Hours – Available vs. Planned

	<u>Average Project Hours</u>	<u>Staff</u>	<u>Director</u>	<u>Biennial Total</u>	
				<u>Staff</u>	<u>Director</u>
Project Hours - Available					
Available Working Hours		1,670	1,879	10,022	3,758
Less:					
Continuing Education		40	40	240	80
Administration		20	400	120	800
OIA Activities		760	1,360	2,280	1,360
<u>Available Hours</u>				<u>7,382</u>	<u>1,518</u>
Project Hours - Planned					
Number of Audits	500	13		6,500	1,040 *
Number of Consulting Services	350	2		700	280 ^
Number of Advisory Services	100	1	2	100	200
<u>Planned Hours</u>				<u>7,300</u>	<u>1,520</u>

* Based on 80 review hours per project

^ Reviews hours plus field work hours

Appendix B

Risk Assessment and Audit Planning

Risk Assessment and Audit Planning

1.0 Risk Definition

Risk is defined as “the possibility that an event will occur and adversely affect the achievement of objectives.”

2.0 Risk Identification

While all employees are encouraged to make possible risks known to the Office of Internal Audit (OIA) at any time, the OIA’s formal method for identifying new risks will be a biennial survey of key business staff across the agency. In addition, the risk survey will ask survey recipients to review and update existing risks that were previously identified.

3.0 Risk Assessment (*Likelihood and Impact*)

In the survey, ETF management will provide an assessment of the identified risks related to their business area. Risks are assessed based on the likelihood of occurrence and the significance of their impact on the objectives. In general, the assessment of risks takes two steps: First, one must evaluate the risks on an inherent basis – that is, without consideration of existing controls and risk responses in place; second, one must evaluate the risks on a residual basis – that is, after consideration of the adequacy and effectiveness of existing controls, mitigating controls and risk responses, how likely the adverse events will occur and how significant their impact will be.

3.1 Risk Factors and Risk Score

The survey document will use the factors entered by staff to automatically calculate total inherent and residual risk scores. Staff will use a numerical scale of 1 to 5 in assessing the significance of impact and the likelihood of occurrence. “1” is considered the lowest and “5” is considered the highest.

3.11 Impact can be both quantitative and/or qualitative, such as financial impact and/or reputation/political impact.

3.12 Likelihood of occurrence is measured by aggregating the weighted scores of the following risk factors:

Complexity (15%) – degree of difficulty, number of steps, training required, interaction with other agencies/divisions, federal and state laws, rules and regulations governing a particular program.

External Changes (20%) – federal and state laws, rules and regulations governing a particular program, accounting standard changes affecting financial reporting and disclosure.

Internal Changes (15%) – changes of process, people and/or information technology in ETF.

Internal Control (40%) – existing controls/mitigating controls in place that reduce Impact and/or Likelihood; the highest score of 5 is automatically assigned when evaluating inherent risk.

Prior Audit Results (10%) – for audits conducted by Internal Audit, Legislative Audit Bureau, or auditor of third party administrator, apply the following scores

1 = audit performed within three years without reportable findings

2 = audit performed within three years with minor findings that require minimum follow-up by management

3 = audit performed within three years with moderate findings that require follow-up by management

4 = audit performed within three years with significant findings that require follow-up by management

5 = no audit coverage in prior three years or very significant findings that require changes of policy, process and/or personnel to correct the problem

(The highest score of 5 is automatically assigned when evaluating inherent risk)

Please refer to Figure 2 (page 17) risk assessment matrix illustration for definitions and examples.

4.0 Risk Mapping

The survey document will map risks according to the risks' corresponding scores of likelihood (X Axis) and impact (Y Axis). Comparison must be made between inherent risks and residual risks on the map, as illustrated by Figure 1 below. Internal controls/mitigating controls/risk responses must be documented by the business owner when high/medium inherent risks are avoided/reduced to medium/low residual risks.

5.0 Audit Planning and Risk Monitoring

The Office of Internal Audit will conduct a risk survey and risk assessment biennially and re-evaluate the risk assessment results annually. When using the risk assessment results to plan audit activities, the Office of Internal Audit will focus on risks that are at the “Avoid” and “Reduce” sections of the risk map (illustrated by Figure 1 below) and evaluate controls and risk responses identified by management that brought down risks from “Avoid/Reduce” to “Reduce/Accept.” Business owners must review and monitor risk status on an on-going basis to ensure risk exposures are managed at an acceptable level. The Office of Internal Audit will exercise judgment in planning audit activities.

Figure 1. Risk Map Illustration

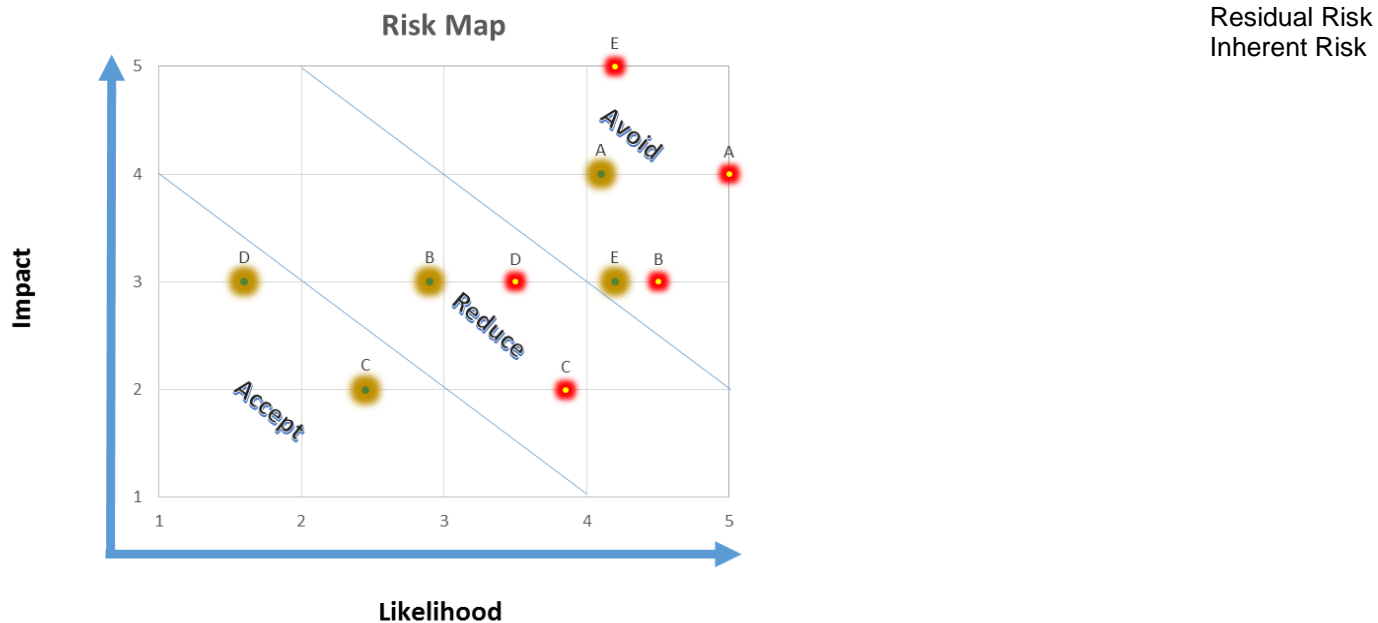
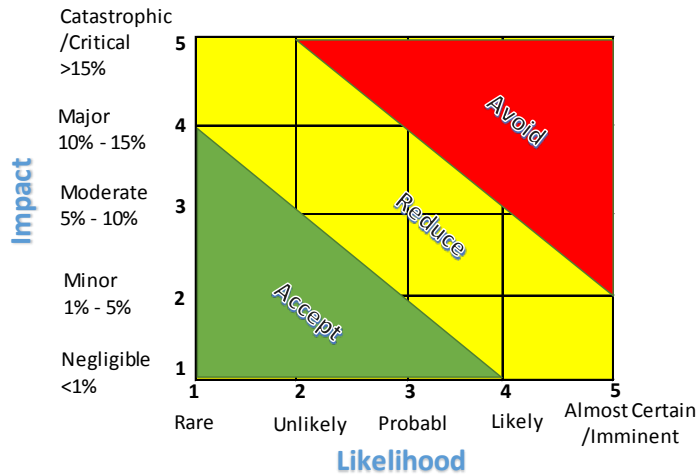


Figure 2. Risk Assessment Matrix Illustration - Definitions and Examples



Likelihood	Definition	Description	Example
		Within the time horizon contemplated by the objective:	Objective: Adequate training is provided to all users before the deployment of the new IT system
1	Rare	The risk is seen as very rare to occur	Current resource is almost certain to be able to provide required training
2	Unlikely	The risk is seen as unlikely to occur	Current resource can be re-arranged to provide required training
3	Probable	The risk is seen as probable to occur	Additional resource needs to be brought in to provide required training
4	Likely	The risk is seen as likely to occur	Resource is very limited to provide required training
5	Almost Certain /Imminent	The risk is expected to occur	No resource is attainable to provide required training

When analyzing **financial impact**, please use the following guidance:

Impact	Definition	Description	Example
1	Negligible	The risk will not substantively impede the achievement of the objective	Adequate training will be provided to all users before the deployment of the new system
2	Minor	The risk will cause some minor elements of objective to be delayed	Adequate training will be provided to the majority of users before the deployment of the new system
3	Moderate	The risk will cause some elements of objectives to be delayed or not be achieved	Adequate training will be provided to critical users before the deployment of the new system
4	Major	The risk will cause major elements of objectives to be delayed or not be achieved	Limited training will be provided to some users before the deployment of the new system
5	Catastrophic /Critical	The risk will cause the objective to not be achieved	No training can be provided to users before the deployment of the new system

Negligible: <1% of operating budget or program assets

Minor: greater than 1%, less than 5% of operating budget or program assets

Moderate: greater than 5%, less than 10% of operating budget or program assets

Major: greater than 10%, less than 15% of operating budget or program assets

Catastrophic/Critical: greater than 15% of operating budget or program assets

Appendix C

Third Party Administrator Audits

Third Party Administrator Audit

Description	Administrator / Vendor	Type	Audit Firm
Deferred Compensation Program	Empower Retirement	Contract Compliance Audit Financial Audit	Wipfli TBD
Income Continuation Insurance & Long Term Disability Insurance	Aetna	Contract Compliance Audit	Wipfli
Standard Health Plan	WPS	Contract Compliance Audit	CTI
Pharmacy Benefit Manager	Navitus	Contract Compliance Audit	TriCast
Employee Reimbursement Accounts / Commuter Benefits	TASC	Contract Compliance Audit	Wipfli
Life Insurance	Minnesota Life	Contract Compliance Audit	Wipfli
Wisconsin Retirement System Actuarial Valuation	Gabriel Roeder Smith	Actuary Audit*	Segal

* Statutory requirement; engaged by Legislative Audit Bureau