



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:** September 1, 2016  
**To:** Audit Committee Members  
**From:** Yikchau Sze, Director  
Office of Internal Audit  
**Subject:** **Internal Audit – Benefit Calculations-Annuity**

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

Attached is the audit report of Benefit Calculations-Annuity. The results of this audit have been submitted and discussed with the Office of the Secretary, Department of Employee Trust Funds.

This audit was conducted in accordance with the biennial Audit Plan for 2015-2017.

This audit was performed to evaluate whether the monthly payments to Wisconsin Retirement System (WRS) annuitants are calculated accurately and finalized in a timely manner. There are no findings in the audit report.

This audit was conducted by Rick Onasch, Auditor – Advanced, who will be available at the Audit Committee meeting to answer any questions.

Attachment: Audit report of Benefit Calculations-Annuity

Reviewed and approved by Robert J. Conlin, Secretary

Electronically Signed: 9/15/2016

Board	Mtg Date	Item #
AUD	9.29.16	5

***Office of Internal Audit***  
***Benefit Calculations-Annuity***



June 24, 2016

## **Audit Objective**

This audit was performed to evaluate whether the monthly payments to Wisconsin Retirement System (WRS) annuitants are calculated accurately and finalized in a timely manner. The audit also reviewed how the Department of Employee Trust Funds (ETF) handled legislative changes that would affect annuitants and evaluated the effectiveness of internal controls in place.

## **Audit Scope**

The audit focused on the final calculations of annuities done on an automated basis and on a manual process by Benefit Initiation Section (BIS) staff from September 2015 through March 2016. The BIS is a part of the Division of Retirement Services (DRS).

## **Background**

The WRS is a public pension plan with multiple employers. WRS benefits and other plan provisions are established in Wis. Stat. Chapter 40. ETF administers the benefit programs of the WRS. In 2015 ETF paid \$3.975 billion in benefits, 95% of this amount to WRS member receiving monthly retirement annuities; the remaining 5% was paid to WRS members for various types of disabilities and death benefits payments.

The WRS is open to all Wisconsin public employers and is funded through employee and employer contributions and investment earnings. ETF's consulting actuary reviews the contribution percentages annually and makes recommendations to the ETF Board when change is needed. Participation is mandatory for school districts with respect to teachers, some municipalities with respect to police and firefighters and all counties with the exception of Milwaukee County. There were 605,049 WRS participants as of December 31, 2015.

The WRS is a pension plan with both defined benefit and defined contribution components. Although structured as a defined benefit plan, separate individual accounts for all members are maintained. Contributions, which are employee- and employer-required, may fluctuate annually, as determined by the WRS consulting actuary. Annual interest adjustments are made to each member's account balance, based either on the investment returns of the trust funds or on a pre-defined interest adjustment mandated in Wisconsin statutes.

An eligible member of the WRS pays into a retirement account while he/she is working for a WRS employer. These are employee-required contributions and they are credited to an individual WRS account. The contributions are calculated as a percentage of the member's WRS earnings.

The WRS employer is also required to make contributions to the WRS on behalf of the employee. The intent is for employee and employer contributions and investment earnings on those contributions to be sufficient to fund the retirement benefits when the member retires.

When a WRS member terminates employment or retires from their position with a WRS employer, they are eligible for WRS benefits. This Benefit Calculations audit focused on retirement benefits in the form of an annuity being paid to a WRS member.

Annuities are initially paid “on estimate” and eventually go to a “final” status. There are two ways for an annuity to go to “final” status: either via automated calculation or via manual calculation. Ninety-six percent of annuities go to final status via the automated calculation process.

Whether an annuity is automatically calculated or manually calculated depends on its complexity. “Finals – Automated” annuities are handled by various ETF systems, while the more complex “Finals – Manual” annuities are hand-calculated by BIS employees (see the Appendix to this Audit Report for more detail on the criteria and the process for Finals - Automated and Finals – Manual).

It should be noted that a previous manual transactions audit in 2013 disclosed a deficiency in the manual benefit calculations review process by BIS staff. As a result of that audit, a significant process change was made to have a second BIS staff person audit all manual benefit calculations. The 2013 audit also addressed the need for a dedicated trainer position being established for BIS staff.

## **Conclusion**

No issues were identified during this audit.

Based on the audit performed, the Office of Internal Audit (OIA) concluded with reasonable assurance that the annuity calculations are accurate and the monthly payments are being made to WRS annuitants in a timely manner. No manual calculation and review error similar to what was identified in the 2013 audit was noted in this audit. OIA also reviewed the process for the legislative changes that can affect annuity calculations and concluded that the process appears effective.

This audit also confirmed that the controls established by BIS are functioning as designed during the course of the benefit calculations process for the months that were audited.

The current audit also noted that there is a formal training schedule that has been established for all BIS staff, especially as additional training relates to manual benefit calculations.

## Observations and Management Response

### Observation

Currently there are only three BIS / BSB employees who handle almost all Finals that need to be manually calculated. Two of the three employees are rehired annuitants and as such could leave the agency at any time. The other BSB employee has more than 40 years of public service and could also retire at any time. In addition, formal written procedures for handling complex Finals – Manual calculations is lacking.

The OIA would like to raise the concern that critical knowledge could be lost with the retirement of the three most experienced employees who are currently responsible for these very complicated retirement calculations. The OIA would like to see a succession plan in place to handle future needs relating to this important process, not only including trainings, but also providing these newly trained BIS employees timely exposure to actually performing these calculations.

### Management Response

The Division of Retirement Services (DRS) agrees that during the time frame of this audit, most of the manual finals were being processed by limited-term employees. However, four other BIS employees were trained and completed some manual final calculations during this time period. They were keeping their skills up on these calculations. There are currently five permanent staff trained in manual final calculations. In reviewing the more recent months, May 2016 for example, 30% of the manual final calculations were completed by three of the permanent BIS employees. In addition:

- BIS has been updating written procedures for various processes -- the manual finals process being one of them;
- we recently hired some new employees, who will also be trained on manual final calculations; and
- these calculations are part of our detailed staff training plan.

**The OIA has reviewed DRS's Management Response** and has determined that BIS is moving in the right direction by involving other staff in manual final calculations. OIA's review of May 2016 manual final calculation totals has noted 15% were handled by two other BIS permanent employees.

## **Audit Methodology and Testing**

**The following provides detailed information about the audit procedures and testing results.**

The OIA conducted this audit by examining BIS retirement benefit procedures, conducting discussions with responsible management and staff, performing process walkthroughs, and verifying key information captured by WEBS to the imaged WRS member source documentation in myETF (BAS). The OIA also reviewed and recalculated individual automated and manual final retirement calculations to verify accuracy and timeliness.

During the review period from September 2015 to March 2016, there were 4,892 Finals that were calculated by BIS. Of these, 4,705 were Finals – Automated and 187 were Finals – Manual. The OIA randomly selected 30 automated finals and 60 manual finals for the detailed testing.

The OIA also reviewed ETF's handling of legislative changes that would affect annuitants.

### **Finals – Automated**

#### **Testing of proper categorization, review, approval and calculation of automated Finals**

Testing samples of Final – Automated annuities were randomly selected from September 2015 through March 2016. They were identified with the use of the monthly BPS Crystal Report 32a - Finalized Annuities Paid For ACTV and PEND Status. (this Crystal Report 32a lists all Finals for a particular month, but does not specify if they are Automated or Manual). Approximately five Finals – Automated were selected from each month on a random basis.

The OIA reviewed WEBS basic information screens that list the necessary information and detail to ascertain the member's annuity account: Here is some detail on these two screens (See Exhibit A for the screen prints):

The **A06 Screen - Retirement Application – Status Update** screen lists: Member name, Member number, Social Security number, WRS information and general WRS information on the status of the Annuity on WEBS. This is the main WEBS screen and provides overall summary of the status of an annuity.

The **A03 Screen - Retirement Application – Final Calc Data Update** screen lists: Member information, Estimated Payroll amount, Final Payroll amount, joint survivor information, and tax deduction detail. This screen gives an idea of the amounts involved in the payment of an annuity (estimated payment, final payment, age reduction factors and tax withholding.) There are a number of other screens on WEBS that are viewed or used to verify or review additional WRS member account information or details. These screens have information on

earnings history (calendar year or fiscal year), service history (by employer), WRS account balances, and other statistical information.

Then, the WRS annuity was viewed on the myETF (BAS) system so that OIA could view the various imaged documents used by BIS to review and document their calculations. This is the supporting documentation used and maintained by BIS to validate their calculations.

The OIA recalculated 30 Final – Automated annuities and no errors, issues or concerns were noted.

The random samples showed the average processing time for an automated retirement to become final was 4.53 months; the average difference between the estimated payroll and final payroll amount was \$45.35 (or an overall cumulative variance from estimate to final of about 2.0%).

Controls tested for Finals – Automated include:

- Whether Suspend Code was reviewed, and then cleared through follow up review and investigation.
- Whether sign off on A06 Screen for “Changed” and / or “Folder Review” are present as completion of work performed.
- Whether Final – Automated was properly classified.
- Whether a secondary review was done by another BIS employee.

The audit confirmed that the above controls established by BIS are functioning as designed for the months that were audited.

## **Finals – Manual**

### **Testing of proper categorization, review, approval and calculation of manual Finals**

The Finals – Manual annuities that were to be audited were identified when a query was run on the RetCalcs System to show Finals – Manual that occurred between September 2015 and March 2016. The query was able to identify which Finals were done by the manual entry of information, data and details. A total of 187 Finals – Manual were identified from the running of this query. The OIA selected 60 samples for testing by picking every third Final – Manual on the query report.

Based on the suspend codes and the main reason for each annuity that was being tested, a number of imaged documents were reviewed and analyzed by the OIA in addition to the steps discussed above for the Final-Automated. These documents were necessary to review and compare against the calculations done on the ET-4539 form (which is a required form to be completed on all Finals – Manual), since they were support and verification of the amounts

being used by the BIS employee for their calculations. (See Exhibit B for a sample of this form).

Based on the suspend codes involved and the calculations that needed to be done on the ET-4539 form, the review of other documentation was necessitated on myETF (BAS), such as those for Add-On Service, WRS Credits Reestablished, a QDRO worksheet, or Election To Pay Cost Of Actuarial Reduction.

The OIA reviewed 60 Finals - Manual and no errors, concerns or issues were noted in the calculations or the recalculations of the Finals – Manual amount. All the calculations were properly recorded and were tied back to the source documents on file for that particular WRS annuitant.

The random samples showed the average processing time for a manual retirement calculation to become Final was 4.31 months, and the average difference between the Estimated Payroll and Final Payroll amount was \$54.63 (or an overall cumulative variance from estimate to final of about 3.0%).

Controls tested for Finals – Manual include:

- Whether “Changed” and / or “Folder Review” was noted on A06 Screen by the preparer for the Initial calculations of Final – Manual.
- Whether secondary review of calculations (“Audit” noted on A06 Screen) was present.
- Whether sign off / verification stamp on forms are evident by both BIS employees who performed initial calculation and secondary review to confirm the correctness of information and calculation on the forms.
- Whether sign off in WEBS by the secondary reviewer as the confirmation of the calculation of the annuity was keyed into WEBS correctly.

The audit confirmed that the above controls established by BIS are functioning as designed for the months that were audited.

## **Annuity-Related Legislation**

### **Review of adoption of annuity-related legislation and ETF Systems implementation of statutory changes**

The OIA verified that the monitoring of and adoption of annuity-related legislation, specifically 2015 Wisconsin Acts 174 and 187, were handled and implemented in a timely and organized manner by all the relevant areas of ETF. These two acts have no direct effect on current annuitants. Rather, they relate to employer resolutions to participate in the WRS and technical changes to clarify statutes and codify ETF administrative practices. By reviewing internal



documents, such as bulletins and emails, and discussion with responsible DRS staff, the OIA confirmed that new annuity legislation was properly understood and adopted.

The OIA also reviewed the adoption of 2015 Wisconsin Act 55 (the 2015-2017 state budget), which will directly affect retirement calculations for newly Elected Officials and Appointed State Executives, once it goes into effect on January 1, 2017.

An internal committee was formed to work on the monitoring, design and implementation necessary by the deadline or effective date of the law. This is an ongoing project and the OIA was unable to audit the final implementation on ETF's systems at the end of this audit. However, we verified that DRS was monitoring and planning necessary modifications for the changes on the WEBS, RetCalcs, BPS and myETF (BAS) systems. A follow-up review will be performed by the OIA during the time period of early 2017 to verify that changes related to Act 55 are reflected correctly in all relevant ETF systems.

## Appendix

### Process Understanding of Benefit Calculations - Retirement

When a member attains minimum retirement age, decides to retire and knows the final WRS employment/separation date or termination date, he or she can proceed with retirement plans. To be eligible for a benefit payment, a member must terminate all employment covered by the WRS.

If a member is currently working for a WRS employer: The member may apply up to 90 days before the termination date. If the member is not currently working for a WRS employer: The issue of when to apply is based on the member's age.

The member goes through a process to initiate his or her request for a monthly annuity payment from ETF (some members may be eligible for a lump sum payment option).

No WRS benefits are payable unless ETF receives the appropriate completed application forms. Therefore, a member must initiate the retirement process by contacting ETF. Most requests are done by telephone with the Employer & Contact Services Bureau (ECSB) or with a personal visit to the Member Services Bureau (MSB). Among other things, staff in these bureaus provide individual member education on WRS retirement benefits and annuity options in general. Members can request a formal retirement estimate in writing, over the phone, or by using an automated feature on ETF's Website.

When a request for estimate is received, the MSB generates a *Retirement Benefit Estimates and Application* (ET-4301) form. (See Exhibit C for a blank and Exhibit D for a completed ET-4301). This form is computer-generated and populated with member data pulled from the Wisconsin Employee Benefits System (WEBS), including available retirement annuity options and estimated amounts.

WRS benefits are calculated using two separate methods:

- The formula method, and
- The money purchase method.

ETF calculates the member's benefit using both methods and automatically pays the higher amount. Under both methods, any gain or loss from Variable Trust Fund participation and any additional contributions the member have are reflected in the benefit computation.

A formula monthly retirement benefit is calculated using:

- The member's final average monthly earnings,

- The member's total years of creditable service (including military service credits, if applicable),
- The formula multiplier(s) for the member's service and employment categories, and
- Any age reduction factor(s) based on the member's age at retirement.

A money purchase monthly retirement benefit is calculated by multiplying the member's current total contributions (employee and employer required contributions, plus accrued interest) by an actuarial factor based on the member's age when the annuity begins.

All formula and money purchase retirement annuities are paid for the member's lifetime. Lifetime annuities can be paid in a number of optional forms that provide varying amounts of benefit protection for WRS beneficiaries. The greater the death benefit protection an annuity option provides, the more the annuity is reduced to pay for that option.

Only upon receipt of a properly completed, executed, signed and dated ET-4301, in which the member indicates the annuity option chosen as well as survivor information, it is entered into the WEBS by staff in BIS. Staff also enters member-provided direct deposit authorization and income tax withholding amounts. All information is cross-checked for accuracy.

Once this information is verified and entered into WEBS, the newly-entered annuity is uploaded into the RetCalcs and then finally to the BPS to start the monthly payment process.

This new annuity is being paid as "on estimate" and is based on the data contained on the WEBS-generated ET-4301 form.

Once a BIS employee keys a new annuity to be paid "on estimate" into the WEBS, the employee then moves that new annuity to a work basket for eventual review as a Final. This work basket, on the myETF (BAS) System, contains all annuities ready for eventual review of Final status. It usually takes six to nine months for BIS to do the final calculations of an annuity. Once the annuity goes to Final status, a review by BIS is no longer needed.

When the final calculation is completed, BIS sends the member a *Notice Of Final Retirement Annuity Calculation* letter (ET-4820), which provides the total service, earnings, and account balance information on which the final calculation was based. Any retroactive adjustments due for under-or over-payments are made to the member at that time. It should be noted that the following occur:

- Final – Automated – The ET-4820 is created by the WEBS, RetCalcs and BPS automatically when going to Final.
- Final – Manual – The ET-4820 is manually typed and created by the BIS employee who did the Final – Manual calculations.

The format of these ET-4820 forms is different. See Exhibit E for a sample ET-4820 Notice Of *Final Retirement Annuity Calculation for Final – Automated Annuities* and Exhibit F for a sample ET-4820 *Notice Of Final Retirement Annuity Calculation for Final – Manual Annuities*.

Factors that affect how long an annuitant is paid “on estimate” before going into a “final status” include the time it takes the WRS employer to provide ETF with necessary, correct and updated information. This information includes the WRS member’s:

- Final earnings
- Final service details
- Correct WRS termination date

Once this information is received electronically, ETF finalizes the annuity – there are two ways that an annuity can go into Final status:

- Final – Automated; and
- Final – Manual

### **FINALS – Automated**

If a BIS employee can finalize an annuity with little review or minor verification, the status of the annuity will be identified as Final – Automated. Based on the information in WEBS, the system will identify issues or suspend codes that may pertain or have to be verified (or “cleared”), by the BIS employee handling the Final – Automated.

The presence of any suspend codes listed on the WEBS A06 screen- *Retirement Status – Status Update* determines the nature of the next steps in the review and verification process. A06 is the WEBS screen BIS employees review first to determine how to proceed on a Final – Automated. All relevant suspend codes are displayed on this screen for review. Other information, such as Estimated Payroll and Final Payroll amounts on the WEBS A03 Screen – *Retirement Application – Final Calc Data Update* must also need to be reviewed in order to process the Final – Automated annuity.

In the case of a Final – Automated, the following are the most frequent suspend codes that could appear:

S0007	Add-On Part-Time SVC (.75=1 YR)
S0009	Salary / Service Progression
S0014	Over Age 74 Tax Exclusion
S0019	Mix of CY / FY
S0071	MPS Notice Req If Manual Calc
S0093	Variable Cancellation
S0147	Adjustment in Current Year

Usually, in the review of a Final – Automated annuity, there will be either no suspend codes or possibly just only one or two. The nature of the suspend code is something that can be easily checked, verified, and cleared by the BIS employee. This would allow the Final to be processed or completed by WEBS in its normal processing course. 96% of all annuities that go into Final status are done by this Final – Automated method.

See Exhibit A for a sample of WEBS A06 and A03 Screens, which are a Final – Automated. The only suspend code is S0019 – Mix of CY / FY. This annuity was able to be reviewed by the BIS employee, resolved and kept as a Final – Automated on WEBS. On the A06 Screen under “Folder Rev” is the BIS employee who “Finalized” the matter on 7/27/2015.

As part of the supporting documentation WEBS generates an ET-4538 *Retirement Final – Calculation Worksheet* form for all Finals – Automated. This three-page worksheet contains all the WEBS information used to arrive at the Final – Automated calculated amount. See Exhibit G for a sample of an ET-4538.

It should also be noted that per BIS procedures, the BIS employee who sets up an annuity on WEBS cannot be the employee who reviews and places that annuity into the status of Final. The A06 Screen on WEBS indicates who set up the annuity and the date it was entered into the system. If any information is changed during the review, it will be noted on the A06 Screen under “Changed.” Once the Final – Automated review is completed, the sign off by the BIS employee is indicated on the A06 Screen, under: “Folder Rev.”

## **FINALS – Manual**

When an annuity is moving toward Final status, whether Automated or Manual, it moves into a workbasket on the myETF (BAS) System for selection and review by the BIS employee. If the BIS employee determines the annuity Final can be automated, the employee will select that annuity and handle the Final - Automated processing on WEBS (as outlined above).

However, if the annuity Final cannot be handled as Automated (for example, there are three more suspend codes that are on the A06 Screen on WEBS), the BIS employee will place it back in the workbasket on myETF (BAS). A BIS employee who handles the complicated manual calculations will then review the annuity for Final status. Approximately 4% of all annuities that go into Final status are done by this Final – Manual method.

For the Final – Manual, the following are the most common suspend codes that appeared in a recent review; in most cases there were multiple suspend codes:

R0009	Participation in > 4 Empl Cat
S0004	Alternate Payee
S0007	Add-On Part Time Svc (.75=1YR)

S0009	Salary / Service Progression
S0013	Reptd Term Varied from Expect
S0014	Over 74 Tax Exclusion Aud
S0019	Mix of CY / FY
S0022	Manual Estimates
S0056	Category With No Service
S0069	Estimate Overpayment – PVO
S0070	Reestablis Acct
S0075	Empr Pay For Age Reduct
S0077	QDRO E/ 3HI In Eff Yr
S0093	Variable Cancellation
S0145	QDRO Received P800
S0147	Adj In Current Year

Based on the review of the suspend codes, the BIS employee will determine the forms, additional calculations and investigation to be completed for the Final – Manual.

See Exhibit H for samples of the WEBS A06 and A03 Screens, which is a Final – Manual. There are two suspend codes listed on the A06 Screen: S0022 – Manual Estimates, and S0070 – Reestablished Account. These are reviewed by the BIS employee, who handles Final – Manual annuities; the employee must investigate and act upon each suspend code listed. These two suspend codes will make this annuity a Final – Manual due to the complexity or nature of both codes.

After reviewing the suspend codes, the BIS employee would then print the *Retirement Suspend Worksheet* (ET-4539) form from WEBS. (See Exhibit B for a sample of this form.) This multiple-page form provides the information currently on the WEBS System. The suspend codes are warnings that this information is in need of review and recalculation to arrive at the proper Final – Manual amount. This is the form where the BIS employee will recalculate and hand-write out the various changes needed in order to take this annuity to the Final – Manual completed stage. The employee will also have to review other documentation and other screens on WEBS to arrive at the Final – Manual amount.

Other forms may have to be used or printed, however, this would depend on the suspend codes noted and what else has been identified for review and investigation. These additional forms would also be included as supporting documentation for the Final – Manual amount / calculations and imaged and retained by BIS in the myETF (BAS) System.

A Final – Manual will eventually have all the new information and the new calculations manually keyed into WEBS by the BIS employee handling the annuity. The annuity will then run through RetCalcs the following month after the secondary review confirms the new manual calculations.

Tasks that might have to be completed by the BIS employee include:

- Review and recalculate the three highest wage years on WEBS
- Recalculate CY versus FY amounts
- Review and recalculate FAE (Final Average Earnings)
- Review and recalculate years of service (potential add-on of service time)
- Add on service for non-teaching
- Recalculate Age Reduction factors or Employer paid additional for age reduction
- Recalculate benefit based on employer paying additional amount for LTDI
- Review Pre-2000 and Post-1999 Employment / Categories
- Recalculate benefits based on Money Purchase versus Formula options
- Recalculate due to QDRO (split) or Alternate Payee on account
- Rehired annuitant issues
- Re-established account / retired / then rehired

This process will involve the BIS employee hand-writing on the ET-4539 form the results of the area(s) that were redone or recalculated. These recalculations will establish the Manual – Final amount that is payable to the annuitant.

The BIS employee who does the review of the annuity to Final – Manual will have his or her name shown on the A06 Screen of WEBS as: “Changed”, “Folder Rev”, and “Man Calc.” Once the calculations have been completed for the Final – Manual, all the calculations and recalculations will be reviewed by a different BIS employee, who also handles the more complex Final – Manual annuity matters. This BIS employee will be shown on the A06 Screen as: “Audit”, to indicate that an audit of the entire Final – Manual Annuity has been performed.