



STATE OF WISCONSIN
Department of Employee Trust Funds
Robert J. Conlin
SECRETARY

Wisconsin Department
of Employee Trust Funds
PO Box 7931
Madison WI 53707-7931
1-877-533-5020 (toll free)
Fax 608-267-4549
etf.wi.gov

Correspondence Memorandum

Date: March 2, 2020
To: Audit Committee
From: Amanda Williams
Office of Internal Audit (OIA)
Subject: Annuity Calculations Limited Review

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

This memo provides an overview of the limited review performed by OIA for the Annuity Benefit Calculations. This review is performed periodically as identified in the OIA 2019 – 2021 Biennial Audit Plan to ensure that annuity payments were calculated correctly and were distributed to the correct individuals in a timely manner.

This review was performed in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.

OIA performed sample testing of annuity payments made in December 2018 through October 2019. We randomly selected 51 Final-Automated annuities, 51 Final-Manual annuities, and 15 Special Deaths-Manual annuities. OIA was able to validate all annuity payments selected for testing. Based on the range and average of time the annuity calculations were finalized in our review, it appears that the calculations are being performed timely.

Annuity Calculations Background and Review Approach

The Benefit Initiation Section (BIS) within the Benefit Services Bureau of the Division of Retirement Services performs the final calculation of annuity retirement benefits. There are three main types of calculations performed:

- Automated Annuity: annuity calculations that are performed automatically based on employer supplied information.
- Manual Annuity: annuity calculations that are manually calculated by BIS staff due to special situations, such as rehired annuitants that are retiring again, part-time add-on service, or employer additional payments.

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- Special Death Benefit: benefit calculations for the beneficiaries of a deceased employee or annuitant. These payments may be an annuity or lump sum payment.

We conducted the review by first performing a walk through with staff of their current procedures and controls to confirm our understanding of the annuity finalization process. We then created a template based on our understanding of the benefit calculations and incorporated the formulas used in the annuity calculation process, which helped automate and increase the efficiency of our review process.

For the selected samples, we recalculated the benefit payments using the template; vouched to supporting documentation in myETF; traced to the information on Wisconsin Employee Benefits System (WEBS), the Annuity Rate Display (ARD), and the Benefit Payment System (BPS); ensured the manual calculations had a secondary review; and evaluated the timeline of the annuity finalization process.

Review Results

During our review, we noted that the WRS Fact Sheet reflected incorrect factors for certain employment categories. The WRS Fact Sheet is a public document made available to WRS members for information purpose only. It has no impact on the actual calculation. The Office of Communications corrected the WRS Fact Sheet on January 6, 2020 after the errors were identified by OIA. It appears these factors were incorrect in the WRS Fact Sheet since November 28, 2018, which was the last revision date.

We were able to validate all annuity calculations in our review. We were able to vouch the annuity calculations to the supporting documentation in myETF and trace the calculations to the information in WEBS, ARD, and BPS without exception.

Based on our samples of the Automated and Manual calculations, we noted that the range of time between the first payment to the annuitant and the calculation of the final annuity benefit was from one month to eight months and 17 days with an average of four months and eight days. According to the "WRS Guide to Retirement", ETF states that an annuitant will receive their final retirement annuity calculation between six to 12 months after retirement. Based on the range and average of time the annuity calculations were finalized in our review, it appears the calculations are being performed timely. Special Death benefits are calculated when all the required information is received from the employer and the beneficiary and no payment is made until the final calculation is completed. Therefore, we did not include the Special Death benefits in our review of timeliness.

Future Reviews

With the creation of the template used for our benefit calculation testing, we anticipate being able to test annuity benefit calculations more frequently on a quarterly basis. We also anticipate having a smaller sample size due to the increased frequency of our

testing. As we gain more understanding of the data sources used for these calculations, we hope to further automate our review in the future to allow for increased efficiency in our testing.