

Office of Internal Audit

Member Account Adjustment Audit



July 6, 2020

Prepared for Audit Committee Meeting of the Department of Employee Trust Funds, 9.16.20; prepared by Amanda Williams

Reviewed and approved by Yikchau Sze, OIA Director

Electronically Signed 8/28/20

Board	Mtg Date	Item #
AUD	9.16.20	4A

Executive Summary

We have completed an audit of the Member Account Adjustment process managed by the Employer Services Section (ESS) of the Division of Retirement Services (DRS). This audit was completed in accordance with the fiscal year 2020-2021 Biennial Audit Plan to evaluate the design and operating effectiveness of internal controls over the late reported earnings (LRE) adjustments process.

The LRE adjustments process allows employers to adjust Wisconsin Retirement System members' hours, earnings, and contributions for any calendar or fiscal year. These adjustments may affect a member's annuity calculation when they retire. If the LRE adjustments are processed after retirement benefits began, the LRE adjustment may adjust the previously calculated annuity or lump sum payment, or a write-off may be made if the adjustment is less than \$2.

Our audit focused on LRE transactions from January 1, 2018 to December 31, 2019. Of the total 29,275 LRE transactions made during this period, 8,462 (28.9%) were submitted to correct hours and earnings reported more than five years since the year the adjustment was made. Of these adjustments, 935 corrected years that were 10 years prior or more, with the oldest adjustment made for hours and earnings reported in 1986.

Although we did not identify material errors or inappropriate adjustments in our sample testing, we believe the design of the internal control for the LRE adjustments process could be improved to ensure the accuracy of adjustments posted to the WRS members' accounts in the future. Specifically, we recommend that:

- ESS should develop additional procedures to either prevent or detect possible errors in the late reported earnings adjustments submitted by employers. Employer Services staff should also work with employers to identify the reasons for the adjustments and request documentation, as necessary, in order to review the adjustments to ensure the reported hours and earnings are compliant with the Wisconsin Retirement System Administration Manual.

Background

Employers are able to adjust the hours, earnings, and contributions reported to ETF for their employees who are Wisconsin Retirement System (WRS) members through the WRS Account Update Application in the ETF Web Applications for Employers¹ or by submitting a Transaction Report to ESS. These adjustments are referred to as late reported earnings adjustments and are made primarily due to clerical errors, which have no limitations on when they can be made per Wis. Stat. §40.08 (10). ETF provides employers with instructions on how to make LRE adjustments in the *Wisconsin Retirement System Administration Manual* (ET-1127), which is available on ETF's website. This manual also instructs the employers on what hours and earnings are reportable to the WRS.

The adjustments submitted by employers are automatically made to the WRS members' account unless the transaction triggers a suspension code. A suspension can either occur when the demographic information doesn't agree with the information currently in ETF's system, the contribution amount is too high based on the rates for that year, or if there is a new employment category used for the WRS member. ESS case managers are assigned to certain employers, and they work with the employers to resolve any suspended transactions.

Once member account adjustments are processed, employers are invoiced for any contributions that are owed or are credited for overpayments. If the employer owes ETF for WRS contributions, interest is applied for the number of days the payment was late. While the transactions that the employer submits are only to adjust for the employee's member account amounts, the invoice will include the total employer and employee amounts due or credited. For example, if the earnings are increased in the member account, the member account would be increased for the earnings amount, but the employer would be invoiced for the employee and employer contribution amounts that weren't previously paid to ETF.

Late reported earnings adjustments can occur for various reasons. A common reason for LRE adjustments is due to an audit of the employer either by ETF or by the employer's auditors who have identified errors in the hours and earnings originally reported to ETF. Some of the common errors found are the reporting of hours related to retroactively paid earnings and the reporting of teacher's earnings in the summer months when they were paid, not in the months when they were earned (January – June). The employer compliance reviews performed by ETF's Employer and Contact Services Bureau include a review of the hours, earnings, and contributions of a small sample of WRS members reported by the employers selected for testing for the prior

¹ The ETF Web Applications for Employers replaced the Online Network for Employers (ONE) in June 2019 along with the redesign of the ETF external website.

year reporting as well as a review of other compliance areas for the employers. These reviews ensure that the employer is reporting their employees' hours and earnings to ETF appropriately and in accordance with the Wisconsin Retirement System Administration Manual.

Manual Entry

Prior to May 2019, ESS staff would receive the *Employee Transaction Report* (ET-2533) form from employers if the adjustments were greater than six years old. If the adjustments are for the current year or prior six years, employers could make those adjustments in the WRS Account Update Application themselves by entering the adjustments directly into the application. When ESS case managers received the ET-2533, they would manually enter the member account adjustments into the Adjustment Processor's system, which would then post to the ETF tables and update the Wisconsin Employee Benefits System (WEBS) and other relevant ETF systems.

Starting in May 2019, employers can adjust any earnings, hours, or contributions reported to ETF for their employees for any year through the WRS Account Update Application through 1990. Any adjustments prior to 1990 still require manual entry by ESS case managers.

Write-Offs

When a final annuity benefit is calculated, a "Bridge Closure" form is filled out and submitted to clear out the balances on the member's account and move the dollar amounts to the annuity reserve. When this process is completed, the member's account is closed out. If an LRE transaction is processed on the member's account that increases any of the earnings, hours, or other balances after the member account is closed out, this will trigger the member account to be reported on the "Benefit Accounts Non-Compare Report." This report is generated monthly by the Retirement Accounting Bureau in the Division of Trust Finance and is provided to the Benefit Initiation Section (BIS) in DRS to review.

BIS staff review the "Benefit Accounts Non-Compare Report" to determine which accounts need a recalculation for the member's annuity and which amounts need to be written off. If the adjustments made to the member's account would change the member's annuity benefit more than \$2 per month, then the annuity benefit is adjusted. If the adjustments would cause a change in the annuity benefit less than \$2 per month, the adjustments to the member's account are written off. These annuity benefit changes and write-offs are consistent with Wis. Stat. 40.08(7)(a).

Audit Objective and Scope

Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.

The audit objective was to review the late reported earnings adjustments made by WRS employers through the WRS Account Update Application and manual member account adjustments made by ESS staff on behalf of employers to ensure that the adjustments were accurate and supported by appropriate documentation.

The scope of this audit included all adjustments submitted by employers through the WRS Account Update Application and manual adjustments made by ESS case managers on behalf of employers from January 1, 2018 – December 31, 2019.

Results and Recommendations

Positive Results

We found that all of the manual adjustments made by ESS case managers on behalf of the employers that were included in our testing were accurate and appropriate. The majority (98.5%) of the adjustments made by employers in our testing were also accurate and appropriate. The three errors we identified in our testing were either not material or had no material impact on the member's retirement benefits.

Findings, Recommendations and Management Responses

Finding	Risk/Effect
1. Review of Prior Year Adjustments When employers make adjustments to WRS member accounts, they are not required to submit documentation to support the adjustment. Although the employer is responsible for reporting accurate hours, earnings, and contributions to ETF, there is no review or validation performed at ETF on those adjustments.	Employers may be adjusting WRS member hours and earnings inaccurately or inappropriately since no review or approval is required before the adjustments are posted to the WRS member's account.
Recommendation We recommend that ESS develop additional procedures to either prevent or detect possible errors in the late reported earnings adjustments submitted by employers. ESS should also work with employers to identify the reasons for the adjustments and request documentation, as necessary, in order to review the adjustments to ensure the reported hours and earnings are compliant with the Wisconsin Retirement System Administration Manual.	

Management Response

ESS plans to implement a review by case managers of prior year adjustments and to ask employers for verification in adjustments that are high risk. We will review on a monthly basis the daily prior year adjustment report to identify any deviations from the norm. We will reevaluate this procedure in a year to ensure that it provides the needed control and to ensure it aids in discovering incorrect reporting. We also annually run a query to identify notable increases and decreases in every active member's rate of earnings, and staff contact the applicable employer(s) to obtain documentation to support the changes or work with the employers to make accurate prior year adjustments.

Responsible Staff: Andy Kirchner, Supervisor WRS Unit; Alene Kleczek Bolin, Deputy Director ECSB.

Completion Dates: July 2020

Audit Methodology

The OIA conducted this audit by:

- Obtaining an understanding of the procedures used by ESS to manage the LRE process by conducting interviews and walkthroughs with key staff and reviewing the Wisconsin Retirement System Administration Manual.
- Testing a random sample² of 515 LRE adjustments performed in 2018 – 2019 for 142 employees from 36 employers to determine the cause of the LRE adjustments and ensure that the resulting hours and earnings balances corresponded with the employer's payroll records and determine if the hours and earnings were reportable to the WRS based on the information provided by the employers in response to our audit. We also reviewed any documentation submitted to ETF for the manual adjustments made by ESS case managers.
- Testing a random sample of write-off adjustments to ensure that the balances written off as a result of LRE adjustments were appropriate by recalculating the change in the annuity benefit and ensuring the write-off followed the guidelines provided in Wisconsin Statutes and ETF policies.

² Due to the COVID-19 pandemic and the related social distancing requirements, some employers were unable to provide the documentation we requested for our audit during our audit testing. Therefore, we were unable to test 43 LRE adjustments for 15 employees at 5 employers, in addition to the adjustments noted above. However, we were able to test a significant portion of our sample to reach our audit conclusions.