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**Correspondence Memorandum**

**Date:** February 11, 2021  
**To:** Audit Committee  
**From:** Michelle Hoehne, Kim Richmond  
 Office of Internal Audit (OIA)  
**Subject:** Annual Statement of Benefits Abnormal Balance Consulting Project

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


The Office of Internal Audit (OIA) staff have completed a consulting review of Abnormal Balances on the Annual Statement of Benefits (Statements). The consulting review was completed in accordance with the fiscal year 2020-2021 Biennial Audit Plan and was performed in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the International Audit Standards Board. The results of our review are included below.

**Background Information**

The Department of Employee Trust Funds (ETF) management identified a concern about whether Statements were potentially being sent with abnormal (negative or low) balances to Wisconsin Retirement System (WRS) members. Management requested OIA to perform a review to identify the root causes of any of these balances on Statements and opportunities for process improvement.

The Statements, which are sent to active members, inactive members, and alternate payees each April, are a summary of a member’s WRS account based on year-end balances for the prior year. These Statements are provided to show the growth in the member’s retirement fund to assist in making informed decisions for retirement. In April 2020, there were 427,779 Statements generated for the 2019 contribution year.

The Statements are generated using member data from the Wisconsin Employee Benefits System (WEBS). The program used to create the Statements automatically suppresses certain members’ data, such as annuitants, members with closed accounts, and deceased members. Members on estimated payroll are manually added to a suppression list. Additionally, individuals with incorrect or missing addresses will have a Statement

Reviewed and approved by Yikchau Sze, Director, Office of Internal Audit  
  
 Electronically Signed 3/11/21

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generated but not delivered. For the April 2020 Statements, this included 29,670 individuals with address issues. These Statements are generated to ensure that if an individual not receiving a Statement due to an address issue, later requests one, it is available<sup>1</sup>. Annual testing is performed by ETF staff to verify the accuracy of the data file for the Statements. The data is then provided to the Department of Administration's Bureau of Publishing and Distribution staff, who are responsible for generating the Statements.

### **Review Performed**

We used the money purchase balance for purposes of our review, since this balance includes the total of required employee contributions, matching employer contributions, and accumulated interest on these contributions. Our review focused on members receiving a Statement with a money purchase balance of less than \$10 for the contribution year 2019. We tested a random sample of these members, analyzing data in WEBS to determine the root cause of these low balances.

Our review also included gaining a high-level understanding of the process for generating and testing the data included on the Statements.

### **Review Results**

We identified 780 members with a money purchase balance less than \$10 receiving Statements: including 57 with balances between \$0 and \$10, 722 with \$0 balances, and 1 with a negative balance.

We determined that Statements with money purchase balances between \$0 and \$10 were the result of members with limited WRS contributions due to a short time of employment. Statements with \$0 money purchase balances were primarily the result of members having a \$0 balance from their required contributions, but still having a Statement generated due to an additional contribution balance remaining. Based on our review, these low and zero balances and associated Statements appear to be reasonable.

The Statement consisting of a negative money purchase balance is the result of a late reported earnings adjustment. During our consulting project, we were originally told that Statements with negative money purchase balances were not generated. Due to this exception, we expanded our review and found that Statements with negative balances were sent to members in prior years, including two in 2017 and five in 2018. We reviewed these additional seven member accounts and determined that the negative balances for five of the Statements were the result of late reported earnings adjustments and two were the result of adjustments to interest.

We also reviewed a sample of members who had their data manually suppressed from Statement generation. These suppressions appeared reasonable and were for members on estimated payroll, as ETF staff had indicated.

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<sup>1</sup> Per Wisconsin Statutes §40.03(2)(g), the ETF secretary "Shall submit once each year to each participant currently making contributions, and to any other participant upon request or as in the secretary's judgment is desirable, a statement of the participant's account together with appropriate explanatory material."

**Process Improvement Recommendations:**

During our review, we were originally told that negative balance statements were suppressed. However, based on our review, we found this to be inaccurate. As such, we make the following process improvement recommendation:

- Statements with negative money purchase balances should be reviewed as part of the annual testing process. Management should determine as to whether these should be programmatically or manually adjusted/suppressed to alleviate sending incorrect or misleading statements to members.

Additionally, during our discussions to gain a high-level understanding of the process for generating and testing the data included on the Statements, we found that certain portions of the process were only known to one member of the project team and there was not a consistent understanding of those assigned processes across the project team. For example, we had to inquire multiple times to gain an understanding of the details of the suppression part of the process. In addition, as previously noted, there was not a clear understanding of whether negative balances were being suppressed. Therefore, to provide further clarity of the Statement processing steps, allowing for cross training of ETF staff and continuity of processing understanding, we also make the following process improvement recommendation:

- Written procedures should be produced to document the detailed Statement of Benefits processing steps, including Statement generation and testing.

**Management Response:**

Management agrees with both recommendations as a means to improve the *Annual Statement of Benefits* process.

As to Statements with negative balances, we will investigate the possibility of a programming change. Meanwhile, we will construct a query to identify negative balance statements, and then suppress these from the annual mailing of Statements. The query will be run twice per year for the purpose of catching late reported earnings on accounts that previously have been closed by a member benefit payment. The query also will be run between annual interest crediting and annual testing prior to production of statements.

As to the process for annual Statements, we will add more detail to the current project plan, and we will cross train members of the project team so that there is knowledge redundancy for every part of the process.

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