

# Office of Internal Audit

## Variable Fund Transfer Audit



May 26, 2021

Reviewed and approved by Yikchau Sze, Director, Office of Internal Audit

Electronically Signed 6/2/21

Board	Mtg Date	Item #
AUD	9.16.21	3

## Executive Summary

We have completed an audit of the Variable Fund Transfer process managed by the Division of Retirement Services (DRS) and Division of Trust Finance (DTF). 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 transfer of WRS member Variable account to the Core account when the member elects to cancel their Variable participation.

Our audit focused on the Variable Fund Transfers that were made between January 1, 2019 and December 31, 2020. We identified a total of 3,455 Variable Transfers during our audit period (2019: 1,311 and 2020: 2,144) for members that elected to cancel their Variable participation.

We found that most controls put in place are operating as designed and provided reasonable assurance that the Variable Fund Transfers were processed correctly. However, we found the information in the Variable Participation System (VPS) was not always updated for the transfers made and there were a couple transfers that were not completed as expected. We also found that written procedures for the transfer process were either not available prior to our audit or were inadequate and there were several non-annuitant transfers missing documentation and post audit reviews. Specifically, we provided the following recommendations for management's consideration:

- Staff should ensure the information in VPS is updated and consistent with the transfer information in the Wisconsin Employee Benefits System (WEBS) and Benefit Payment System (BPS) and to ensure that the transfers occurred as expected.
- Staff should maintain detailed written procedures for the Variable Transfer process, which should be reviewed on an annual basis.
- Staff should ensure post audit reviews are completed and documented within one to two months of the transfer being processed and promptly provide the manual transfer documentation to be imaged.

In addition, we identified a couple areas where improvements could be made to update ETF's system and ensure staff are following the agency's policy. Specifically, we suggested the following for managements' consideration:

- Combine and prioritize enhancements to the VPS to improve the efficiency and effectiveness of the Variable processes, including adding the ability to look up members using their member ID and the logic to ensure duplicate cancellations are prevented.
- Management should ensure staff are aware of the retention schedules for the reports they maintain and ensure these reports are kept until their destruction date.

## Background

Each Wisconsin Retirement System (WRS) member is automatically enrolled in the Core Trust Fund (CTF) when their WRS participation begins. However, WRS members can also elect to participate in the Variable Trust Fund (VTF). If a member chooses to participate in the VTF, 50 percent of all contributions are deposited in the VTF after the election has been made. This includes employee-required, voluntary additional, and employer contributions. While the CTF applies a 5-year smoothed return to every member's account each year based on the fund's performance, the VTF applies the current year return in full to its participants' accounts. Although the VTF return is more volatile than the CTF 5-year smoothed return, the VTF participants accept this risk when they enroll in pursuit of the possibility of higher returns on their investment.

A member can elect to participate in the VTF at any point during their participation in the WRS. If the member is a new WRS participant and the election form is received within 30 calendar days after the member's WRS coverage begin date, the effective date of the Variable Participation is as of the member's first day of WRS-covered employment. For all other elections, the member's participation in the VTF is effective the January 1 of the year after ETF receives the member's election form.

### Variable Fund Cancellation

A member can cancel their participation at any time by filing the Cancelling Variable Participation (ET-2313) form. However, this cancellation does not take effect until December 31 of the year in which ETF receives the form. If an ET-2313 is received on the first business day of a new calendar year, the form is deemed to have been received in the year just ended. For example, if the first business day of the year is January 4, 2021 and ETF receives a member's Variable Fund Cancellation, the form is deemed to have been received on December 31, 2020 and the Variable participation will be cancelled as of December 31, 2020.

There are three options available to members when canceling their VTF participation:

- *Future Contributions Only*: Add future contributions to the CTF but keep the member's previous Variable contributions in the VTF.
- *Conditional Transfer*: Transfer the member's past Variable contributions to the CTF once the value equals or exceeds the Core amount as if the member had never participated in the VTF. All future contributions will be made to the member's Core account even if the transfer does not occur.
- *Unconditional Transfer*: Transfer the member's past Variable contributions to the CTF once the current year Variable investment result is applied to the member's account.

Members may rescind their Variable Fund Cancellation by notifying ETF within the same year the form was received.

The Employer Services Section (ESS) entered the Variable Cancellations into the Variable Participation System (VPS) until November 16, 2020 when this process was transferred to the Member Services Bureau (MSB). ESS still provides support to MSB and processes manual updates to VPS as part of this transition. Prior to entering the Variable Cancellation into VPS, staff verify the member's demographic information on the ET-2313 form matches the information in VPS and WEBS.

### Variable Fund Transfers

On an annual basis, the Variable Fund Transfers are processed for unconditional transfers and the conditional transfers that have met the condition of the member's Variable account value is equal to or greater than the value of the account as if it had been held in the CTF. The Benefit Initiation Section (BIS) within the Benefit Services Bureau (BSB) of DRS processes the Variable Transfers for annuitants and the Retirement Accounting Bureau (RAB) within DTF processes the Variable Transfers for the non-annuitants. The annuitant transfers are processed in VPS and BPS, while non-annuitant transfers are processed in VPS and WEBS.

In order for the annuitants to be processed automatically, the member's retirement benefit calculation must be finalized before April 1. This is due to the annuitant transfers being processed in April of every year. If the member's retirement benefit calculation is still in estimate when the automated annuitant transfer occurs, the transfer will need to be processed manually. For all annuitant transfers, the Annuity Reserves are corrected for the Variable payments made since January 1 by either a journal entry for automatic transfers or an adjustment to the retroactive payment fields for the member's Core and Variable accounts when a manual transfer occurs.

All non-annuitant Variable Fund transfers are processed by RAB in late-March once the annual interest is credited to the member's account. The interest is credited to the member's account based on their January 1 balance. The Variable Transfers occur after the annual interest crediting since this is the last adjustment made to the member's account for the year that is transferred. If there is an error in the processing of a non-annuitant Variable Transfer or if the member has additional contributions, RAB performs a manual transfer.

For both the annuitant and non-annuitant manual transfers, a secondary review is performed by another staff member. After the Variable Transfers have processed, BIS and RAB verify that all of the Variable Cancellations were transferred as expected. BIS performs spot checks of the annuitant transfers to ensure they processed correctly and reviews the Data Quality Checkpoints (DQCP) Instance Report for BPS transfer dates

not found in VPS. RAB performs a reconciliation between VPS and BPS for annuitant transfers and another reconciliation between VPS and WEBS for non-annuitant transfers. In these reconciliations, RAB compares the total number and dollar amount of transfers expected from VPS to the actual totals transferred in WEB or BPS. Any exceptions are investigated and resolved as necessary.

## 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 process for transferring the Variable account to the Core account for WRS members who cancel their Variable participation to ensure the adequacy and effectiveness of internal controls. The scope of this audit included all Variable Transfers that were processed from January 1, 2019 – December 31, 2020.

## Results and Recommendations

### *Positive Results*

Overall, we found that most of the controls in place are operating as designed and provided reasonable assurance that the Variable Fund transfers were processed appropriately. We found no exceptions in our testing of the setup of the Variable Fund Cancellation elections.

### *Findings, Recommendations and Management Responses*

<b><u>Finding</u></b>	<b><u>Risk/Effect</u></b>
<p><b>1. Processing Transfer and Updating VPS with Transfer Information</b>            During our review, we found a couple transfers that did not process as expected and several Variable Cancellations in VPS that did not have a corresponding transfer transaction even though the transfer was processed in BPS or WEBS.</p>	<p>The member's Variable account is not updated for the transfer that should have occurred which affects the interest credited to the member's account in the following years and their annuity benefit payment will be affected when they retire. VPS is not consistent with the transfer information in BPS/WEBS.</p>
<p><b><u>Recommendation</u></b>            We recommend that staff test and update the reports currently used to identify differences between VPS and BPS/WEBS to ensure that every Variable Cancellation in VPS has a corresponding Variable Transfer transaction if the transfer was processed in BPS or WEBS. The reports should also be improved to capture transfers that did not occur.</p>	

<p><b>Management Response</b>          Management agrees with the finding and recommendation.</p> <p>ETF's current environment of multiple, disparate systems and processes result in additional manual effort and increased operational risk of mismatched data. ETF is evaluating a long-term strategic solution, referred to as Modernization, to ensure data quality exists between and within systems. In the short term, BSB staff will update the Data Quality Check Point that was created to identify and compare annuitant variable cancellation information between the Variable Payment System and the Benefit Payment System that will identify and correct any identified mismatched data between systems.</p> <p>DTF staff will review the process, reports, and reconciliation of non-annuitant transfers and improve or implement controls to mitigate the risk of mismatched data between the Variable Payment System and the Wisconsin Employee Benefit System.</p> <p><b>Responsible Staff:</b>          Nadine Lacy, Benefits Specialist, BSB          Jim Guidry, Bureau Director, BSB          Andrew Lacy, Accountant – Leadworker, RAB, DTF          Marie Ruetten, Bureau Director, RAB, DTF</p> <p><b>Completion Dates:</b>          BSB: September 30, 2021          DTF: December 31, 2021</p>
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<b>Finding</b>	<b>Risk/Effect</b>
<p><b>2. Written Procedures</b>            During our review, we found that the BIS and RAB units either did not have written procedures or had inadequate written procedures prior to our audit for the Variable Fund Transfer process. However, staff were able to provide draft or updated procedures during our audit.</p>	<p>The process may not be consistently or correctly followed and the transfer of knowledge on the process is more difficult without written or updated procedures.</p>
<p><b>Recommendation</b>            We recommend staff maintain detailed written procedures for the Variable Transfer process, which should be reviewed on an annual basis. This should also be considered for other processes that currently do not have written procedures.</p>	
<p><b>Management Response</b>            Management agrees with the finding and recommendation.</p> <p>BSB has recently started working with OEI-Business Process Mapping staff and key BIS staff to document BIS's most complex procedures including the Variable Transfer process. As a result of this review, the Variable Transfer process mapping will be prioritized to occur at the beginning of this effort. DTF staff will participate in the process mapping for variable transfers and will also refine and maintain DTF detailed variable transfer procedures.</p> <p><b>Responsible Staff:</b>            Nadine Lacy, Benefits Specialist, BSB            Jim Guidry, Bureau Director, BSB            Andrew Lacy, Accountant – Leadworker, RAB, DTF</p>	

Marie Ruetten, Bureau Director, RAB, DTF	
<b>Completion Dates:</b> September 30, 2021	
<b>Finding</b>	<b>Risk/Effect</b>
<p><b>3. Missing Documentation and Post Audit Reviews</b>          During our review, we identified several manual transfers that were not supported by the documentation required by the RAB transfer process procedures. Staff found that this documentation for the transfers processed in March 2020 was not sent for imaging until late-March 2021. We also found that this recently imaged documentation was missing the post audit review sign-off. The post audit review ensures that the transfer was entered correctly into VPS.</p>	<p>If reviews are not performed timely, errors could be unresolved for an extended period of time. The documentation of the transfer is not readily available in the member's file after the transfer is processed.</p>
<p><b>Recommendation</b>          We recommend staff complete and document the post audit reviews within one to two months of the transfer being processed and promptly provide the manual transfer documentation to be imaged to ensure all documentation of a Variable Transfer is maintained in the member's file.</p>	
<p><b>Management Response</b>          Management agrees with the finding and recommendation.</p> <p>Management believes this is an isolated situation and the post audit reviews were completed but the traditional supporting documentation was not properly maintained according to our documented procedures. These transfers occurred primarily in late March 2020 during which time ETF focused on the safety and well-being of our staff and mandated that staff quickly transition to working remotely. During this time, physical documentation, some of which demonstrates that post audit reviews were conducted, was left unattended at the office causing a delay in imaging it to member accounts. Overall, the transition to working remotely went smoothly and moved ETF further into a digital environment, including a recent change of digitally capturing the requisite information to reflect the work completed. RAB will update procedures accordingly.</p> <p><b>Responsible Staff:</b>          Andrew Lacy, Accountant – Leadworker, RAB, DTF          Marie Ruetten, Bureau Director, RAB, DTF</p> <p><b>Completion Dates:</b> June 30, 2021</p>	

**Process Improvement Considerations:**

During our audit, we identified a couple areas where improvements could be made to enhance the process and the controls in place. We provided these suggestions for management to take into consideration. Our observations and suggestions are as follows:

- VPS Improvements: During our audit, we found a WRS member that submitted a duplicate ET-2313 that was processed in VPS. The system did not prevent the duplicate entry of this cancellation election and the entry screen in VPS would

not have alerted staff that the transfer already occurred in the prior year. In addition, we became aware that VPS currently only allows the look up of members by using the member's social security number whereas most of ETF's systems have the capability to use either the member's SSN or member ID to lookup a member. The use of the member ID is the preferred method since this reduces the use of personally identifiable information (PII). In 2018, ESS submitted an IT ticket to allow VPS to lookup members using the member ID. We suggest expanding the existing IT project to add logic to the system to identify members who have already transferred their Variable account and no longer participate in the VTF to prevent duplicate cancellations from being entered.

- *Retention of Reports*: Although we were able to obtain the reports applicable to our audit review period, we became aware of staff not retaining reports according to the record retention schedules for prior year reports. We suggest management ensure staff are aware of the retention schedules for the reports they maintain and ensure these reports are kept until their destruction date.

## **Audit Methodology**

The OIA conducted this audit by performing the following testing procedures:

- Analytics – We used ACL analytics to determine if all variable cancellations that we expected to transfer had a matching variable transfer transaction. We investigated all exceptions with staff to determine the cause of any differences.
- Variable Cancellation Election Setup – We reviewed a random sample of Variable Fund cancellation elections to ensure that the information was setup in VPS correctly and that the demographic information was consistent with the WEBS demographic information.
- Conditional Transfers – We tested a random sample of conditional transfers to ensure the transfer occurred only when the Variable account value was equal to or greater than the account value if the funds had been in the CTF.
- RAB Check-Out Procedures – We reperformed the RAB check-out procedures for the 2019 and 2020 Variable Transfers by using the data from the tables directly from the VPS system to ensure the reports used by RAB were complete and all exceptions were reviewed by RAB.
- Manual Transfers – We reviewed a random sample of manual non-annuitant transfers and annuitant transfers performed during our audit period to ensure that the transfers were processed correctly in VPS and either WEBS or BPS as applicable. We also ensured there was a secondary review for all manual transfers and the required documentation was maintained in the member's file.