

Office of Internal Audit

Wisconsin Retirement System Account Closure Audit



January 25, 2022

Prepared for Audit Committee Meeting of the Department of Employee Trust Funds, 03.24.22;
prepared by Amanda Williams

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Reviewed and approved by Yikchau Sze, Director, Office of Internal Audit
Electronically Signed 3/9/22

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Executive Summary

We have completed an audit of the Wisconsin Retirement System (WRS) Account Closure process managed by the Division of Retirement Services (DRS) and the Division of Trust Finance (DTF). This audit was completed in accordance with the fiscal year 2022-2023 Biennial Audit Plan to evaluate the design and operating effectiveness of internal controls over the closure of WRS accounts, including the Non-Compare process.

Our audit focused on the WRS accounts closed and Non-Compare transaction controls (TCs) that were processed between January 1, 2020 and June 30, 2021. We identified a total of 43,355 WRS accounts closed and 1,211 Non-Compare TCs generated in our audit period. Non-Compare TCs are generated when a closed account has balances remaining on the account either due to an error during the closing process or a transaction processed on the closed account.

We did not identify any material concerns with the closure of the WRS accounts or the Non-Compare TCs processed. However, we identified several opportunities for improvement for these processes to obtain greater internal controls and operational efficiency. Specifically, we provided the following recommendations for management's consideration:

- Ensure the manual Bridge Closure forms are reviewed after the preparer has completed or updated the form and before the form is submitted for processing.
- Have a secondary review performed on Non-Compare TC write-offs before they are sent for processing.

We also suggested that management work with IT to adjust the Non-Compare Report to improve the efficiency of the Non-Compare review, that the Disability Program Section (DPS) have a process for reviewing pending Non-Compare TCs, and that the Benefit Initiation Section (BIS) and DPS collaborate on shared business processes.

Background

The WRS Account Closure process is initiated after a WRS member has applied for their WRS benefit and the final benefit calculation has been completed. The type of benefit determines how the account is closed. An account can be closed using the following methods:

- *RetCalcs*: Member accounts that receive retirement annuity benefits that are either automatically calculated or some manual calculations can be automatically closed through the RetCalcs system. BIS staff review a screen within the Wisconsin Employee Benefits System (WEBS) to ensure that the amounts are populated correctly and to make adjustments within WEBS as needed before the account is closed.
- *Lump-Sum Payments System (LSPS)*: Member accounts that receive lump-sum benefits are automatically closed through the LSPS system. Similar to the RetCalcs process, BIS staff review a screen within WEBS to ensure the amounts populated are correct and adjustments are made if needed to close the account.
- *Manual Closure*: For members who receive disability retirement benefits, death benefits, annuity corrections, or other manually calculated retirement benefits that cannot be processed through RetCalcs, the accounts are closed through the submission of the *WRS Retirement SCS/Annuity Benefit* (ET-8599) Bridge Closure form by BIS and DPS to the Retirement Accounting Bureau (RAB) within DTF for processing. After an initial review of the ET-8599 forms, RAB sends the forms to a third-party administrator (TPA) to convert the forms into a file that can be uploaded to WEBS. RAB reconciles the ET-8599 forms with the file created by the TPA to ensure the account information is uploaded to WEBS correctly.

During our audit coverage period, staff improved the routing of the ET-8599 Bridge Closure forms. Previously, these forms were printed and routed to RAB for processing. In June 2020, DPS started electronically saving and routing the forms to RAB. BIS started electronically routing these forms in August 2020. Staff are also working on a solution to eliminate the need for a TPA to create a file that is uploaded to WEBS for the manual account closure process. BIS is currently working with the Office of Enterprise Initiatives to start a project proposal for this solution.

Non-Compare Process

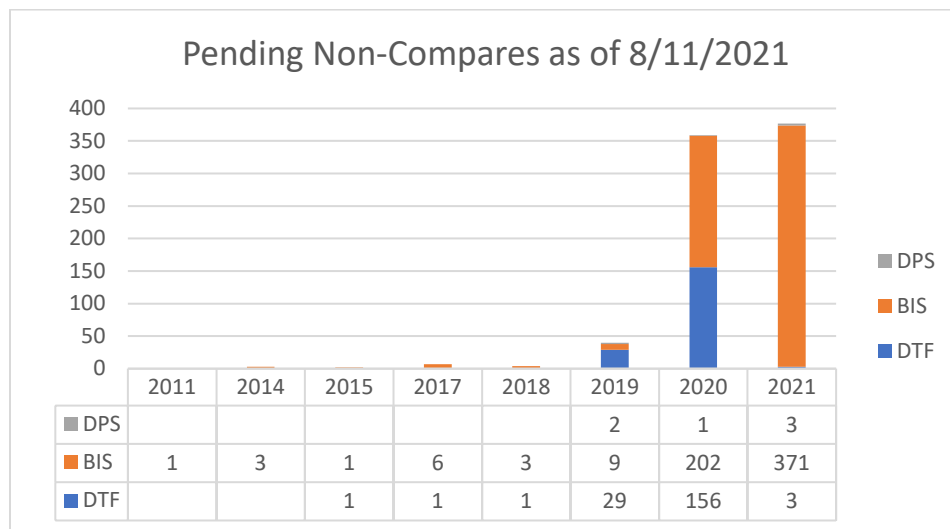
After WRS member accounts are closed, a review is performed to ensure that there are no balances remaining on a closed account. This process is called the Non-Compare process. A report is generated weekly by RAB through WEBS and this report is emailed to BIS and DPS. Each item shown on the report is called a Transaction Control (TC). TCs can be the result of transactions processed on the account after the account was closed or an error in closing the account. Transactions that are typically processed on a

closed account include late reported earnings/service adjustments or termination adjustments.

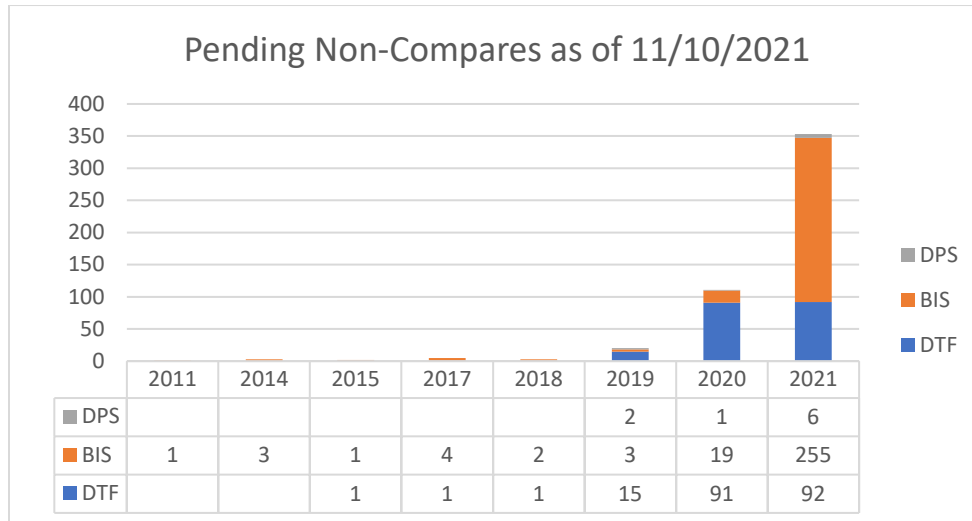
BIS and DPS review the Non-Compare report to identify the members with retirement and disability retirement benefits. Since WEBS automatically assigns the TC to BIS, the disability benefit TCs must be reassigned to DPS for processing. BIS and DPS review each TC to determine if the balances remaining on the account change the benefit calculated for the member. If the annuity benefit would change by \$2 or the lump-sum adjustment would be greater than the “Lump-Sum Over/Under Payment Write-off Amount”, then an annuity correction or supplemental benefit for lump-sum benefits is needed. If the benefit change is less than these amounts, the balances are written-off the account. The lump-sum write-off amount is set by Wis. Stat. 40.08 (7). The Lump-Sum Over/Under Payment Write-off Amounts for 2020 and 2021 were \$127 and \$131, respectively. BIS and DPS process annuity corrections and clear the TC within WEBS. BIS and DPS also initiate the write-off process and reassign the TC to RAB who processes the write-offs and clears the TC.

Pending Non-Compare TCs

At the beginning of our audit, BIS informed us of a Non-Compare TCs backlog due to the shift to working from home in 2020 and other project priorities. The graph below shows the pending Non-Compare TCs as of August 11, 2021:



BIS has been working on reducing this backlog and has made significant progress¹. The graph below shows pending Non-Compare TCs as of November 10, 2021:



Since the Non-Compare Report only shows new TCs since the last report, BIS staff review the “Benefits Transaction Pending by Worker” report to review the TCs assigned to BIS that are pending but not on the Non-Compare Report. RAB staff developed an Access query that also provides the TCs pending and assigned to DTF. DPS was not aware of the report used by BIS, however, DPS tracks each TC they review to ensure each disability TC is completed.

On average during our audit period, there were 67 Non-Compare TCs per month. Per Wis. Admin. Code ETF § 20.30, if an annuity is underpaid by \$2 or more and the underpayment is uncorrected for 12 or more months, 0.4% interest is to be applied to the annuity for every month that the benefit went uncorrected.

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 WRS account closing process and the Non-Compare process to determine the extent to which these processes are working as intended and to ensure the internal controls are operating effectively. The scope of this audit included all WRS accounts that were closed and Non-Compare transactions processed between January 1, 2020 – June 30, 2021.

¹ The Non-Compare TCs in the years prior to our audit period (2011 – 2019) are mainly supplemental benefits for members that need to be located and write-offs to be processed.

Results and Recommendations

Positive Results

All monthly closures reconciled between the ET-8599 forms submitted and the amounts uploaded into WEBS. We found no errors with the disability account closures and Non-Compare TCs. Out of the 145 Non-Compare TCs we reviewed, all but one TC was completed as expected. In addition, all of the Non-Compare TCs reviewed did not require the ETF Chapter 20.30 interest since the annuity corrections were completed within 12 months of the original benefit calculation. We did not identify any annuity corrections within the pending Non-Compares generated prior to our audit period.

Findings, Recommendations and Management Responses

Finding	Risk/Effect
<p>1. BIS Review of ET-8599 Forms 11 out of the 65 ET-8599 forms we reviewed had an audit date before the prepared date. Staff noted that these forms likely had corrections made but the auditor did not sign off on the form again after their review. However, we found errors in 4 of these forms that were later addressed through the Non-Compare process.</p>	<p>ET-8599 forms that are not reviewed prior to processing may result in errors in the account closure.</p>
<p>Recommendation We recommend that BIS ensure the ET-8599 forms are reviewed after the preparer has completed or updated the form and before the ET-8599 is submitted for processing.</p> <p><i>Significance: Low-Medium</i></p>	
<p>Management Response ETF agrees with this recommendation. BIS Unit 1 has altered its procedures to ensure that a final review will take place after every correction to an ET-8599 occurs and prior to their submission to DTF. ETF is evaluating a long-term strategic solution, referred to as Modernization, to ensure that system validations will identify such date discrepancies during the account closure process.</p> <p>Responsible Staff: Jim Guidry Erich Haak</p> <p>Completion Dates: January 1, 2022</p>	

Finding	Risk/Effect
<p>2. Non-Compare Review BIS currently has one person performing the Non-Compare review for retirement benefits. While Non-Compare TCs that result in an annuity correction have a secondary review for the</p>	<p>Without a secondary review, a write-off could be sent to be processed when the account should have received an annuity correction.</p>

calculation process, the write-offs do not have a secondary review before they are sent to RAB for processing.	
<p><u>Recommendation</u> We recommend that BIS ensure that a secondary review is performed on Non-Compare TC write-offs before they are sent for processing.</p> <p><i>Significance: Low-Medium</i></p>	
<p><u>Management Response</u> ETF agrees with this recommendation. BIS Unit 1 is updating its procedures to include a secondary review for write offs of Non-Compare TCs. In 2021, Unit 1 started training additional staff to handle Non-Compare transactions and expects to have multiple staff with the capability to perform and review the Non-Compare process by the end of the fiscal year.</p> <p>Responsible Staff: Jim Guidry Erich Haak</p> <p>Completion Dates: February 1, 2022 for procedure updates with training on-going throughout the year.</p>	

Process Improvement Considerations:

We provided the following process improvement suggestions for management’s consideration:

- Staff should work with IT to adjust the Non-Compare Report to include the benefit type and have the disability benefit TCs assigned to the DPS team when the TC is generated. Staff should also collaborate with other users of this report to determine if other information should be included to improve the review of the Non-Compare TCs.
- DPS should request the “Benefits Transaction Pending by Worker” report to review pending Non-Compare TCs or develop a query to review these pending Non-Compares on a regular basis. BIS and DPS should also ensure they are collaborating on any process improvements and business practices since these business areas share similar responsibilities.

Audit Methodology

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

- Review of ET-8599 – We reviewed a random sample of ET-8599 forms to ensure that the balances on the account were correct on the forms and that a secondary review was completed before the form was submitted for processing.
- RAB Reconciliations - We reviewed a random sample of the monthly account closure reconciliations completed by RAB to ensure that the accounts closed using the ET-8599 forms submitted by BIS and DPS were entered correctly into WEBS using the file provided by the TPA.

- Non-Compare TCs – We reviewed a random sample of Non-Compare TCs to determine the cause of the TCs and recalculated the benefit using the new balances on the account to determine if the TCs were appropriately resolved through either an annuity correction or write-off. We also reviewed the TCs to determine if there were any annuity corrections that went unpaid for 12 months or more.
- Pending Non-Compare TCs – We reviewed a random sample of pending Non-Compare TCs that were generated either before or during our audit period to determine if an annuity correction or write-off would be expected based on the cause of the TC and the balances remaining on the account. We also reviewed the TCs to determine if it would result in an underpaid annuity that would go unpaid for 12 months or more.