

Office of Internal Audit

Interest Crediting Audit



November 7, 2022

Prepared for Audit Committee Meeting of the Department of Employee Trust Funds, 12.08.22;
prepared by Amanda Williams
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Reviewed and approved by Yikchau Sze, Director, Office of Internal Audit
Electronically Signed 11/8/22

Board	Mtg Date	Item #
AUD	12.08.22	4A

Executive Summary

We have completed an audit of the Interest Crediting process managed by the Division of Trust Finance (DTF) – Retirement Accounting Bureau (RAB), the Division of Retirement Services (DRS) and the Bureau of Information Technology Services (BITS). 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 Interest Crediting process.

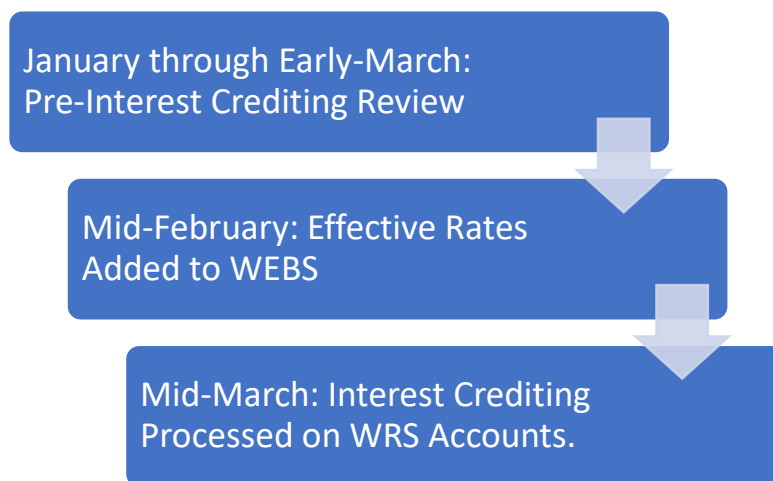
Our audit focused on the active and inactive Wisconsin Retirement System (WRS) accounts that were expected to receive interest credited to their account for calendar year 2021. A total of 437,325 accounts received interest in the Interest Crediting process for 2021. Our review resulted in no audit findings as we did not identify any concerns with the annual process for crediting interest to the WRS active and inactive accounts, and all accounts appear to have received interest appropriately. However, we provided two suggestions for management's consideration to improve the process.

Background

Interest is applied to the active and inactive WRS accounts on an annual basis using either the approved effective interest rate for the year or the five percent assumed interest rate. The rate used depends on the member's assigned rights code. The Interest Crediting process occurs during March each year, with preparatory work occurring in January and February. Each WRS member is assigned a rights code based on their WRS coverage begin date and their termination date. The Earliest Rights Code is set by the member's WRS coverage begin date and the Latest Rights Code is set by the member's most recent termination date. Rights codes are determined by the legislative laws in effect at the time of the WRS member's employment that may change how WRS interest is applied. For example, the latest change to the interest rates occurred with 1999 WIS Act 11, which replaced the five percent fixed assumed rate with the effective interest rate for WRS members with a termination date on or after December 30, 1999.

The Interest Crediting process is a coordinated effort between DTF-RAB, BITS, and a DRS Business Analyst. Staff have a process schedule that is reviewed and updated each year before and after the interest crediting process to help make the process more efficient for the next year. Throughout the Interest Crediting Process, DTF-RAB performs several checks on the system to verify the process is running appropriately. BITS schedules all of the IT processing jobs in the Wisconsin Employee Benefits System (WEBS), which updates WEBS with the interest crediting amounts and generates reports for DTF-RAB and the DRS Business Analyst to review. The DRS Business Analyst performs several reconciliations on the WEBS records during the Interest Crediting Process to ensure the system is updating as expected and assists with updating the WEBS records to ensure the right accounts are receiving the annual interest.

The Interest Crediting Process occurs in three main phases:



Pre-Interest Crediting Review

During the Pre-Interest Crediting Review phase, several checks are made by DTF-RAB and the DRS Business Analyst to determine if changes need to be made to the WRS accounts in WEBS to ensure the annual interest is credited appropriately.

Prior to performing any interest crediting procedures, the DRS Business Analyst completes reconciliations of the records in WEBS to ensure all records have been processed in the system correctly. These reconciliations are performed throughout the Interest Crediting process after any adjustments have been made to ensure the WEBS system is processing the records appropriately.

To ensure the WRS accounts are ready for the Interest Crediting process, DTF-RAB receives pre-interest crediting files from BITS to review to ensure any mismatches between participant status and benefit status are corrected. DTF-RAB also checks to see if any account has a negative beginning balance or if the account is on estimate for a retirement benefit. These accounts are reviewed to determine if any adjustments are needed for the accounts in order for interest to be processed. Interest is only applied to accounts with a positive balance and the member has not already taken a benefit.

DTF-RAB also performs a review on rehired annuitants that were hired during the year, since these individuals would not receive interest in the Interest Crediting process. A Beginning Balance Adjustment transaction is processed on the member's account to remove the beginning balance from the account using the "Corrections" column and then the beginning balance is reapplied to the "Adjustments" column. This process is used because WEBS does not have the functionality to flag an account that should not receive interest. When the Interest Crediting Process is run, the system uses the "Beginning Balance" and the "Corrections" column to determine the balance to use to apply the interest. The Beginning Balance Adjustment transaction makes it appear as if there is not a balance on the account to ensure only eligible members receive interest on their account.

During the Annual Report Process in January of every year, employers enter enrollments and report annual earnings and service to ETF. During this process, the enrollment entered may be loaded in the current Index Year, but the actual enrollment date was in the prior year. In order for the Interest Crediting program to recognize these accounts as eligible for interest, the Index Year of the enrollment must be updated in the system to reflect the correct Index Year. The DRS Business Analyst maintains a list of members who need the Index Year adjustment and works with BITS to ensure the enrollment transactions for the members included in the list are updated in WEBS. The DRS Business Analyst uses reports generated from WEBS to verify the records were updated appropriately and also reviews the enrollment transactions to ensure the Index Year was updated correctly.

Effective Rates Added to WEBS

In mid-February, DTF-RAB works with BITS to update WEBS with the approved annual effective interest rate. When BITS has updated the system, DTF-RAB staff review WEBS to verify that the effective rate was added to the system correctly.

Interest Crediting Processed on WRS Accounts

In mid-March, all ETF staff are notified that the Interest Crediting Process will be run. The Interest Crediting Process begins with the creation of the PH_1231 WEBS table, which is used to apply the interest to the accounts. This table provides the member's participation status, rights codes, and benefit status as of December 31 of the calendar year being credited. Once this table is created, no account closures can be processed until interest crediting is completed because the account closure process could impact the balances used for crediting the interest. After this table is made, BITS runs the interest crediting edit check reports. DTF-RAB reviews these reports to ensure that the Earliest and Latest Rights Codes match with their corresponding WRS Coverage Begin Dates and Termination Dates. If any errors are found, DTF-RAB works with BITS to correct the account. The DRS Business Analyst also performs a reconciliation on the PH_1231 table to ensure the table includes the total number of records expected.

After the WEBS table is created for the Interest Crediting process, a program is run to identify the accounts that were terminated as of 12/29/1999 but were rehired in the year that interest is being applied, which for our audit was 2021. This program is called the QUAD EEEE program. These accounts previously were receiving assumed interest but will now need the effective interest rate applied instead. This is due to the change in their rights code that is assigned to their account based on their WRS coverage begin date and termination date. The QUAD EEEE program sets the beginning balance of the accounts Separation Value to equal the Employee Required Beginning Balance to ensure that the interest is calculated correctly. DTF-RAB and the DRS Business Analyst perform checks on the results of this program to ensure it ran correctly. After the QUAD EEEE program is run, the Interest Crediting Edit Reports are reviewed, and the WEBS reconciliations are performed to ensure there are not any new errors to be corrected.

After the Interest Crediting Process is completed, DTF-RAB and the DRS Business Analyst perform several checks on the WEBS system to ensure the interest was credited to the WRS accounts as expected. DTF-RAB notify all staff that the Interest Crediting process has been completed so that other business activities can resume in WEBS.

Audit Objective and Scope

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

The audit objective was to review the annual interest crediting process for the Wisconsin Retirement System accounts to ensure the adequacy and effectiveness of internal controls. The scope of the audit included all active and inactive WRS accounts credited with interest for the calendar year 2021.

Results and Recommendations

Positive Results

All active and inactive WRS accounts received interest as expected in calendar year 2021 with either the effective or assumed interest rate based on the member's assigned rights codes. We were able to reperform all of the DTF-RAB and DRS Business Analyst procedures that were performed prior to, during, and after the Interest Crediting Process, including the QUAD EEEE program verification procedures, WEBS reconciliations, Index Year adjustments, and Interest Crediting Checkout procedures. We were able to recalculate the 2021 interest for each active and inactive WRS member without exception.

Process Improvement Considerations:

Although we did not identify any concerns with the Interest Crediting process, we identified a couple of areas where the process could be further improved. We provided the following process improvement suggestions for management's consideration:

- *Rights Codes*: For the members who received interest in 2021, we reviewed the rights codes for these WRS members and found 10 accounts that did not have the correct rights code. ETF has data quality reports that are designed to detect these errors, but these accounts were not identified. However, the interest rate applied was correct, since the effective rate is used for both the correct and incorrect rights code. To ensure the correct information is associated with the WRS accounts and to avoid any potential impact on the member's WRS formula benefit calculations, we suggest that DTF-RAB update the Latest Rights Codes on the 10 accounts identified to the correct Rights Code. In addition, we suggest DTF-RAB work with the WRS Account Data Steward to update the Data Quality Report used to identify all mismatches in the Rights Codes assigned to WRS members. It should be noted that RAB is not responsible for the Data Quality Report or updating the Rights Codes for member accounts. We assigned these suggestions to RAB, since these findings are related to the Interest Crediting

process, and RAB possesses the knowledge on why these errors may have occurred.

- *DTF-RAB Interest Crediting Check-out Process*: In our review of DTF-RAB's procedures for the Interest Crediting Check-out Process, we found one of the written procedures did not reflect the actual process performed. We also found that the results of DTF-RAB's Access queries were not documented to support the verification of the procedures. However, we were able to reperform DTF-RAB's procedures without exception. Therefore, we suggest DTF-RAB update its Interest Crediting Checkout procedures each year to ensure that the procedures reflect the current process for verifying the Interest Crediting process results. We also suggest that the results of queries used to perform the Checkout procedures be documented to support the procedure results.

Audit Methodology

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

- *QUAD EEEE Program* – We reviewed and reperformed the DTF-RAB and DRS Business Analyst procedures for verifying the results of the QUAD EEEE program.
- *WEB Reconciliations* – We reviewed and reperformed the WEBS reconciliations performed by the DRS Business Analyst.
- *Index Year Adjustments* – We verified that the WRS members that required an Index Year adjustment were made prior to the Interest Crediting process.
- *Interest Rates Used* – We verified that WEBS was updated with the correct WRS effective and assumed interest rates prior to the Interest Crediting process.
- *Rights Codes* – We reviewed the rights codes of the WRS members that received interest to ensure that the correct rights code was assigned to the member. This rights code determines whether the effective or assumed interest rate is used to calculate the member's interest.
- *Interest Recalculation* – We recalculated the interest applied to the WRS member accounts to determine if interest was applied as we expected.
- *Interest Crediting Checkout Procedures* – We reviewed and reperformed the DTF-RAB and DRS Business Analyst checkout procedures to verify the results of the Interest Crediting Process.