

DRAFT

MINUTES

March 23, 2023

Audit Committee

Employee Trust Funds Board
State of Wisconsin



Location:

Hill Farms State Office Building – Room N107
4822 Madison Yards Way, Madison, WI 53705

COMMITTEE MEMBERS PRESENT:

Leilani Paul, Chair
Amy Mizialko, Vice Chair *
Katy Lounsbury, Secretary *

PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

Office of Internal Audit (OIA):	Office of the Secretary:
Yikchau Sze, Director	John Voelker, Secretary
Shellee Bauknecht, Auditor-Advanced	
Michelle Hoehne, Auditor-Advanced	
Kurt Petrie, Auditor-Advanced	

OTHERS PRESENT:

ETF Division of Retirement Services:	ETF Office of Strategic Health Policy:
Jim Guidry, Gene Janke	Jessica Rossner*, Xiong Vang*
ETF Division of Trust Finance:	ETF Office of the Secretary:
Cindy Klimke, Marie Ruetten, Amelia Slaney	Kathryn Young*
ETF Office of Enterprise Initiatives:	ETF Division of Management Services:
Michelle Baxter	Victor Dupuy*
ETF Office of Legal Services:	Legislative Audit Bureau (LAB):
Diana Felsmann	Erin Scharlau, Lauren Gingell*

* Attended via teleconference

Ms. Paul called the Audit Committee (Committee) to order at 7:45 a.m.

Announcements

Ms. Sze announced that ETF's OIA and the State of Wisconsin Investment Board's Internal Audit will be co-hosting the Association of Public Pension Fund Auditors (APPFA) conference in Madison in June. Ms. Sze also congratulated Amanda Williams

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from the OIA on obtaining the designation of Certified Internal Auditor (CIA). Certifications possessed by the OIA now include three CIAs, four Certified Public Accountants, and one Certified Information Systems Auditor.

Consideration of Minutes of Previous Meeting

MOTION: Ms. Lounsbury moved to accept the Open and Closed minutes of the December 8, 2022, Committee meeting, as submitted by the Board Liaison. Ms. Paul seconded the motion, which passed on a voice vote.

Election of Officers

As suggested by the ETF Board Chair, Ms. Paul requested the election of officers be deferred to the June meeting because there will be membership changes to the Board announced during the ETF Board meeting that may impact eligible and interested members to be considered for the Audit Committee (Ref. AUD | 3.23.23 | 3).

MOTION: Ms. Lounsbury moved to defer the election of officers until the June Committee meeting. Ms. Mizialko seconded the motion, which passed on a voice vote.

Calendar Year 2021 Financial Audit by Legislative Audit Bureau (LAB)

Ms. Scharlau, of the LAB, discussed the results of the audit of ETF's 2021 Annual Comprehensive Financial Report (Ref. AUD | 3.23.23 | 4). The LAB audit resulted in an unmodified opinion and did not identify any material weaknesses or significant deficiencies in internal controls nor any compliance issues.

Resource Management Using Eclipse

Mr. Petrie discussed the results of a consulting review of ETF's Resource Management, completed in accordance with the fiscal year (FY) 2022-2023 Internal Audit Plan (Ref. AUD | 3.23.23 | 5). The review focused on how ETF's project management tool, Eclipse, is used to manage project resources. The review included several suggestions for management's consideration including assessing Eclipse' ability to meet ETF project forecasting needs, changing how time allocations are reviewed and adjusted, and potentially adjusting how tasks are allocated within projects.

Third-Party (TPA) Contract Compliance Audit – Pre-Tax Savings Account Programs

Ms. Bauknecht discussed the results of the TPA Contract Compliance Audit for the Pre-Tax Savings Account Programs (Ref. AUD | 3.23.23 | 6) completed in accordance with the FY2022-2023 Internal Audit Plan. The audit was completed by OIA with an estimated savings

of \$22,000 as compared to the price of the previous outsourced audit completed for these programs. The audit evaluated the design and operating effectiveness of internal controls over Optum Financial's program administration and compliance with the programs' contracts for program years 2020-2021. The audit contained findings and recommendations pertaining to reporting concerns, the claims substantiation process, adherence to program contribution limits and eligibility requirements, quarterly performance standards reporting and penalties, and Optum Financial's Secure File Transfer Protocol access.

Ms. Bauknecht indicated that the audit results were presented to the Group Insurance Board (GIB) at its February 2023 meeting, as it has oversight of the programs. The GIB requested a status update on the recommendations be provided by program management at the May 2023 GIB meeting.

Ms. Lounsbury inquired about Optum Financial's overall performance in light of the number of issues identified. Mr. Vang, the ETF pre-tax savings account program manager, indicated that Optum Financial is actively working to improve on these issues and while there are issues to be addressed, the contract performance has seen significant improvement from the prior TPA. Mr. Voelker commented, with the insourced audit being more comprehensive and due to the risk-based approach taken by OIA during the audit, it was not surprising there were more issues identified than in some of the other TPA audit reports. Ms. Paul inquired about the timing of the next audit. Ms. Sze responded that this is typically a biennial audit.

Annuity Calculation Limited Review

Ms. Sze discussed the results of the Annuity Calculation Limited Review (Ref. AUD | 3.23.23 | 7). This review determines whether retirement and disability annuity payments are being calculated and distributed correctly and timely. This is included in the FY2022--2023 Internal Audit Plan to be conducted on a periodic basis.

The provided report includes the results from two different review periods (November 2021 – April 2022 and May 2022 – November 2022). The risk-based review identified two calculation errors in the first review period and one in the second. For the first review period, neither error was above the \$2 threshold requiring an annuity adjustment. The calculation error in the second review period related to the maximum annuity calculation, for which the member's benefit was below, thus there was no effect on the annuity.

External Quality Assessment

Ms. Sze discussed the International Standards for the Professional Practice of Internal Auditing's requirement for completing an external quality assessment every five years. The OIA will meet this requirement by performing a self-assessment with independent external validation. The external validation will be completed by Virginia Retirement System (VRS) staff this summer, with presentation of the completed assessment at the

September 2023 Committee meeting. VRS is a fellow APPFA member who volunteered to perform this validation at no cost to ETF (Ref. AUD | 3.23.23 | 8).

FY 2022-2023 Audit Plan Status

Ms. Sze provided the status of audit engagements and reported on other OIA activities for the period from November 11, 2022, through February 24, 2023. Ms. Sze also provided an update on open audit issues (Ref. AUD | 3.23.23 | 9)

TPA Audit – Life Insurance

Ms. Hoehne indicated that the recently completed TPA contract compliance engagement for the administration of the Group Life Insurance Program for plan years 2020-2021 was included in the Committee materials (Ref. AUD | 3.23.23 | 10). ETF contracted with Wipfli for this engagement. Based on the limited exceptions identified and the explanations provided by the TPA, ETF program staff are satisfied with the TPA's overall achievement of contract performance standards. This audit was presented to the GIB, who has program oversight, at its February 2023 meeting.

Future Items for Discussion

This will be the final Committee meeting for Ms. Paul, whose term on the ETF Board is ending. Ms. Paul thanked the Committee members and the OIA for their service throughout her time on the Committee. A new Committee chair will be elected at the June Committee meeting, as part of the deferred election of officers approved during this meeting.

Adjournment

MOTION: Ms. Lounsbury moved to adjourn the meeting. Ms. Mizialko seconded the motion, which passed on a voice vote.

The Committee adjourned at 8:51 a.m.

Date Approved: _____

Signed: _____
Katy Lounsbury, Secretary
Audit Committee