Office of Internal Audit

WRS Contribution Payments

August 31, 2023

Executive Summary

We have completed an audit of the payment of the Wisconsin Retirement System (WRS) contributions managed by the Employer Services Bureau (ESB) - WRS Unit of the Division of Retirement Services and supported by the Retirement Accounting Bureau (RAB) of 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 WRS contribution payment process.

Our audit focused on the WRS contributions and payments made from September 2020 through September 2022. While we did not identify any issues in our testing of the processes related to the WRS Contribution payments, we did note in discussions with staff and in our observations that employer over/under contributions are not always resolved in a timely manner. Therefore, we provided the following recommendations:

- Develop training specifically for the resolution of over/under contribution balances to educate employers on how to resolve these balances and to inform the employers of the impact of the over/under contribution balances.
- Develop an alert in the ETF Web Applications for Employers when the employer submits their Monthly Contribution Remittance report to ensure employers are aware of their over/under balances when they submit their reports.
- Identify employers with large and/or significantly overdue over/under contribution balances and assist them in resolving these balances.

We also identified two process improvement suggestions for management's consideration. It should be noted that the process improvement considerations and some of the recommendations noted above would require changes to ETF systems. Due to limited IT resources, some of these changes are not expected to be resolved until the implementation of the new Pension Administration System, which is expected to be implemented after the implementation of the Insurance Administration System.

Audit Objective and Scope

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

The objective of our audit was to review the process for the payment of WRS contributions to ensure the adequacy and effectiveness of internal controls, including the process for identifying over/under contributions by employers. Our audit included contribution payments processed from September 2020 through September 2022 for the employer Monthly Contribution Remittances, Over/Under Contribution Notices, and Late Reported Earnings Invoices, as well as late interest fees applied to any invoices.

Background

Each month, employers use the Monthly Contribution Remittance process to submit a report of their WRS eligible employee earnings and the related contributions by employment category. The Monthly Contribution Remittance report is processed through the ETF Web Applications for Employers. This application ensures that the contributions entered by employers equal the earnings reported multiplied by the Board-approved contribution rate. If the contributions entered, including a $2 tolerance for rounding, do not match the calculation, an error appears at the top of the application and the employer is required to correct the contribution or earnings reported before the system accepts the Monthly Contribution Remittance report.

The ETF Web Applications for Employers system automatically displays the contribution rate for each employment category on the Monthly Contribution Remittance report. DTF-RAB works with the Bureau of Information Technology Services (BITS) each year to update the Wisconsin Employee Benefits System (WEBS) with the Board-approved contribution rates. The ETF Web Application for Employers pulls the information from WEBS to display the contribution rates on the Monthly Contribution Remittance reports.

If a Monthly Contribution Remittance report is not submitted by the deadline, the employer is charged a late interest fee of 0.04% per day. The total amount of the late fee is calculated once the report is submitted. A notice is mailed to the employer with the total amount of the late fee.

Employer Services provides employers with training on how to submit their Monthly Contribution Remittance reports. The training is available on demand for employers on ETF’s Website. ESB also provides employers with a resource guide for quick reference for submitting the remittance reports. Employers also have the WRS Employer Administration Manual that provides instructions for employers on how to submit their Monthly Contribution Remittance reports.

Local and Non-STAR Employer Payments

Once a local employer submits the Monthly Contribution Remittance report, an ACH payment is automatically sent from the employer's bank account using the banking information provided by the employer on the ET-1734 ACH form.

At the end of each year, each local employer completes the Annual Reconciliation Process to ensure their contributions reported match the contributions required for each employee. Adjustments to the contributions reported and paid are often made at this time.

State STAR Employer Payments

For State employer contribution payments, DOA transfers funds from the State employer to ETF through an interunit funds transfer in STAR, which is the State's accounting system. The amounts are determined by the actual hours and earnings from Central Payroll and STAR Human Capital Management (HCM). Once agencies finalize their payroll in STAR, DOA's State Controller's Office (SCO) transfers the withholding for the WRS to ETF. DOA provides a job aid to State agencies on how to report their earnings to ETF using STAR HCM queries.

For the Annual Reconciliation process, DOA reconciles the withholding balances in STAR Finance to each agency's reported contributions. DOA has access to each agency's business unit in ETF's Web Application for Employers so they can view the amounts reported. For the December Monthly Contribution Remittance report, DOA informs each agency what amounts they should report in order to balance the employer's Annual Reconciliation.

DOA's SCO provides two reports to DTF-RAB to indicate the balances transferred to ETF for each state employer every month. The first report includes contribution payments, invoice payments, and over/under payments. The second report provides the additional contribution payments. DTF-RAB uses an Excel spreadsheet to combine the line items for each report by employer and manually enter the balances into WEBS to update the employer's account balance. DTF-RAB then runs a WEBS query the next day and compares it to the spreadsheet they created to ensure the amounts were entered correctly.

Employer Adjustment Invoices

When employers submit Late Reported Earnings (LRE) transactions, an invoice is generated to cover any contributions not previously provided along with any interest for the payment being provided late. However, employers also use LRE transactions to correct errors which should not accrue interest. Typical errors that employers use LREs to correct include incorrect Employment Category, earnings reported in wrong year, and earnings reported to wrong SSN.

Interest should also not be applied to disability lump-sum payouts or ETF transaction errors. To remove this interest, ESB reviews the invoices to be adjusted and then instructs DTF-RAB which invoices require adjustment and for what amount. DTF-RAB adjusts the invoices through the WEBS and verifies the adjusted invoice totals match the invoices listed in the Open Employers Invoices Inquiry screen on the ETF Webs Applications.

Over/Under Contributions

An over- or under-contribution balance is created when there is a mismatch between the reporting of contributions and the payment of the contribution or vice versa. If an employer submits their Monthly Contribution Remittance report late, they will also receive an over/under contribution notice for the late fee. Employers are notified of these over/under contributions and fees through a mailed notice from DTF-RAB. During annual reconciliation, ESB also provides an email to employers indicating how they should resolve these balances.

The over/under contribution notices provided to the employers includes:

- the reporting month of the Monthly Contribution Remittance Report,
- the date the report was received by ETF,
- the earnings and contributions reported by employment category,
- the contributions required,
- the payment submitted, and
- the over/under contribution amount for the report submitted.

However, the current cumulative total over/under contribution balance is not included on the notice. The notice only provides the over/under amount for one transaction.

Employers can see their total over/under contributions in a report in the ETF Webs Applications for Employers and in the Informational Section of the Monthly Contribution Remittance report. Employers are instructed to apply their over/under contributions to the remittance in Line 1 of the Remittance. However, staff stated that employers do not always apply these over/under contribution balances and the balances remain outstanding. ETF currently does not apply any interest or fees to these balances. However, WIS Chapter 40.06(4) states if payments from employers are not made to ETF, DOA can withhold funds from local employers or approve payment for State agencies to reimburse ETF. This incudes late fees that are due more than 30 days. ETF has not utilized this to recover under contributions or late fees.

For local employers, over/under contribution balances are often caused by:

- late fees charged to the employer for late submission of their Monthly Contribution Remittance Report,

- year-end adjustments made by ETF on behalf of the local employer as part of the Annual Reconciliation process, and
- ACH payment returns initiated by the employer's bank.

Over/Under contribution balances for State employers are often caused by the following scenarios:

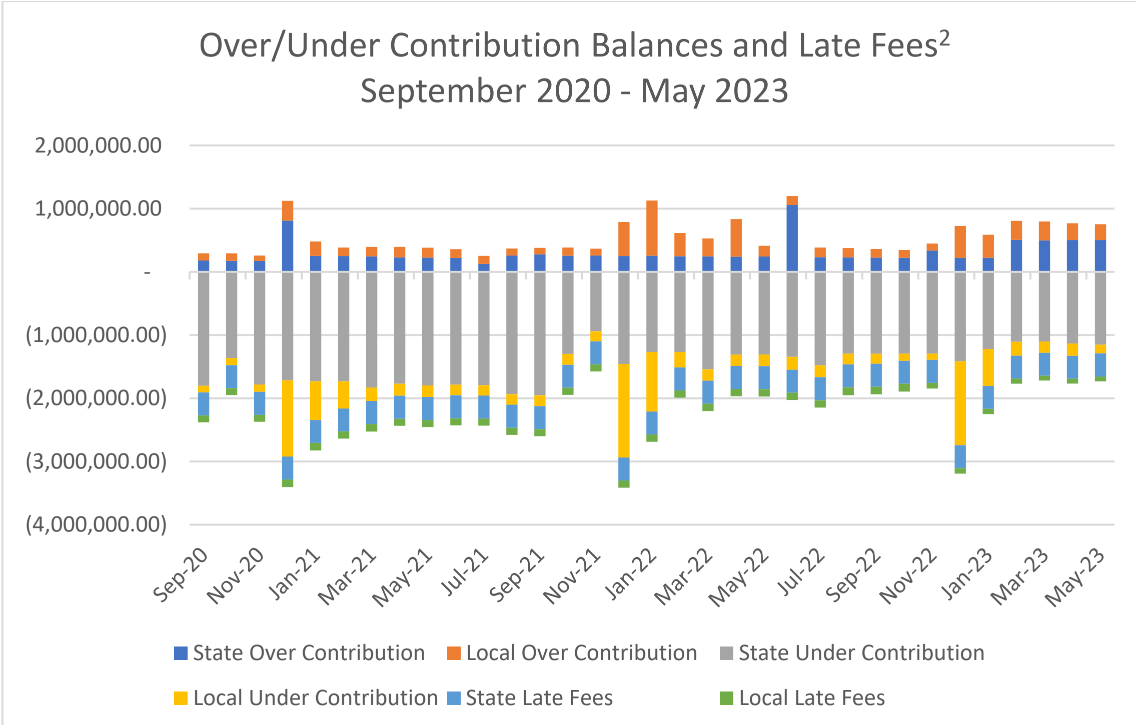
- When the payment transfers are made by DOA, an over-contribution notice is generated. When the State employer reports their contributions, an under-contribution notice is generated. Although this timing difference should be resolved at month end if the reported amount matches the payment, an over/under contribution transaction is generated each time and the state agencies always have an over/under contribution balance during the month between the reporting of the contributions and the payment of the contributions.
- When payments are applied to employer balances, the payment is applied to the balances listed in the "Invoice Detail Section" of the Monthly Contribution Remittance report first. If the employer does not submit payment for the invoices reported, this causes an under-contribution notice since the payment submitted was only for the amount of contributions reported. This often happens because of lack of communication between the different areas at the employer paying the invoices versus reporting the contributions.

ESB and DTF-RAB has been working with employers to address the outstanding balances by reviewing an Accounts Receivable Aging Report and transaction data from WEBS to determine the details of the balances. Employers have reports available to them on the ETF Web Application for Employers but may need additional assistance from ETF to understand where differences in their contributions and payments are occurring causing the over/under contribution balances.

Employers are provided some training on the over/under contribution notices, such as through the Monthly Contribution Remittance Reporting Training. However, there is not currently a training for employers specifically for resolving the over/under contribution balances and educating the employers on the impact of these balances.

Using the WEBS transaction data for over/under contribution balances, we calculated the total state and local employer over/under contribution monthly balances as of 9/30/2020 through 5/31/2023[1], which can be seen in the graph below:

[1] The balance through 5/31/2023 was the most recent data available at the time of this report.



Excluding outstanding late fees, the average under contribution balance from May 2022 through May 2023 was $1,552,830[3], which was 0.78% of the average total contributions required for this time period. If 0.04% interest was applied to the under contribution balance on a daily basis, an estimated interest of $621.13 would be applied per day or $226,713.21 per year for the average balance calculated for the last 12 months ended as of May 31, 2023. It should be noted that the exact interest would depend on each employer's payment of their under contributions and the reporting of their contributions each month.

[2] Large reporting errors were removed from the contribution balances in November 2021 and October 2022 since these balances were resolved the following month.
[3] The reporting error from October 2022 was removed from the under contribution data to determine this amount.

Results and Recommendations

Positive Results

We noted no exceptions in our testing of the WRS contribution processes. Specifically, we identified the following:

- We verified:
  - all of the WRS contribution rates used in WEBS in our audit period were the rates approved by the ETF Board.
  - all write-offs performed during our audit period were appropriate and approved by a supervisor.
  - the DOA payment transfers were correctly applied to the employer accounts for their contribution and invoice payments.
  - all over/under contribution amounts in our audit period were reported to the employer accurately.
- We recalculated the following amounts without exception:
  - WRS contributions,
  - interest charged to employers for late payment of contributions, and
  - over/under contribution amounts.

Findings, Recommendations and Management Responses

Although we did not identify any issues in our testing, we noted in discussions with staff and our observations of the WRS contribution transactions that employers have had over/under contribution balances outstanding for an extended period of time. Specifically, 303 employers in our audit period had an over/under contribution balance greater than $2 throughout the two-year audit period. In addition, 123 of these employers had the same over/under contribution balance at the beginning and end of our audit period.

While ETF staff have been working with some employers to resolve these balances, employers do not seem to be resolving these balances timely. One of these factors may include employers not knowing they have an over/under contribution balance or how to resolve these balances. Employers must report the over/under contribution balance in Line 1 of their Monthly Contribution Remittance report in order to resolve the balance. ETF staff often have to provide detailed research for these balances to help the employers reconcile the amounts to their records before they resolve the over/under balance. This research can take a significant amount of time. Therefore, only a few of the employers with larger and/or older over/under contribution balances have been contacted about their balances and ETF staff have been working with them to resolve these balances.

To help employers become more aware of their over/under contribution balances and how to resolve these balances, we provided the recommendations listed below. It should be noted that some of these recommendations would require changes to ETF systems. Due to limited IT resources, some of these changes are not expected to be resolved until the implementation of the new Pension Administration System, which is expected to be implemented after the implementation of the Insurance Administration System.

1. **<u>Over/Under Contributions</u>**

Finding

We found 303 employers had over/under contribution balances throughout our audit period. 123 of these employers had the same balance throughout our audit period. Therefore, it appears these employers are not resolving the over/under contribution balances timely.

Risk/Effect

The WRS is shorted the amount owed in contributions and the employer is owed their over contributions. In addition, staff require time to research the employer over/under contribution balances while balancing daily tasks and other projects.

Recommendation 1

We recommend Employer Services develop training specifically for the resolution of over/under contribution balances to educate employers on how to resolve these balances and to inform the employers of the impact of the over/under contribution balances. While this training should be offered to all employers, Employer Services should consider requiring this training for employers with larger and/or older over/under contribution balances.

Significance: Medium

<u>ETF Management Response</u>
ESB currently provides training to employers regarding the over/under balance, how to resolve the balance, and the impact of the balance. ESB will create a resource guide for employers highlighting this information. We will then conduct outreach by distributing the resource guide directly to employers with outstanding over/under balances.

Responsible Staff: Andy Kirchner, Supervisor
Alene Kleczek, Bureau Director

Completion Date: January 1, 2024

Recommendation 2

To make employers aware of their outstanding over/under contribution balances, Employer Services should work with IT to develop an alert in the ETF Web Applications for Employers when the employer submits their Monthly Contribution Remittance report if the over/under contribution balance is not applied or partially applied to Line 1 of the report. While the employer may still submit their report without applying the balance, this will ensure the employer is prompted prior to submitting their report.

Significance: Medium

<u>ETF Management Response</u>
We concur. Senior leadership is aware of operational improvement opportunities, such as the one identified. We will open a ticket in RAMS to request IT to provide the suggested update. It is difficult to say how long this enhancement will take given existing processes, limited IT resources and management's decision to focus attention and resources on future state modernized systems. ESB will open the ticket by 9/1/2023 and update the Office of Internal Audit on expected timeline for implementation of the enhancement. We will also consider this recommendation when evaluating the new pension administration system.

Responsible Staff: Andy Kirchner, Supervisor
Alene Kleczek, Bureau Director

Completion Date: September 1, 2023

Recommendation 3

We recommend DTF-RAB provide the monthly Accounts Receivable Aging Report to Employer Services to help Case Managers identify employers with large and/or significantly overdue over/under contribution balances.

We recommend Employer Services identify employers with large and/or significantly overdue contribution balances and assist these employers with resolving the over/under contribution balances. To identify employers with over/under contribution balances, Employer Services should either use the Accounts Receivable Aging Report provided by DTF or an existing report that provides both the over/under contribution balances and the aging of the balances. If an Employer Services report is used, ESB should verify the balances in the existing report correspond with the Accounts Receivable Aging Report balances before using it to ensure consistency between financial reporting and employer communications.

Significance: Medium

ETF Management Response

DTF-RAB Response: If research determines the automated Accounts Receivable Aging Report is not being received by ESS, RAB will assist in having ESS added to the primary delivery process so ESS is not dependent on secondary level delivery of the report.

ESB Response: ESB currently has a report that provides remittance and over/under balance information. ESB will review this report and set up a process to work with employers on a yearly basis that have a large over/under balance or a balance that is long overdue. This process will identify what is considered a large over/under balance and define long overdue based on existing data. This process will be completed and implemented within the next six months.

Responsible Staff:

DTF-RAB: Marie Ruetten, Deputy Administrator
Kim Bartz, Accountant
ESB: Andy Kirchner, Supervisor
Alene Kleczek, Bureau Director

Completion Dates:

DTF-RAB: September 1, 2023
ESB: February 1, 2024

Process Improvement Considerations and Other Items to Note

In addition to the recommendations provided above, we provided the following process improvement suggestions for management's consideration:

- We recommend that the timing of when the over/under contribution notices are generated be changed to accommodate timing differences between when contributions are reported and when they are paid for State employers. Instead of being generated immediately after the report or payment of contributions, the notices could be generated monthly after the deadline for the contributions. Additional information on the notices could be beneficial as well, such as the current over/under contribution balance and the month's transactions that contributed the over/under contribution balance. Due to the extensive IT resources that would be needed to make this change in WEBS, we suggest that

this change be made in the development of the new Pension Administration System.
- ETF should consider applying interest to under contribution balances that are outstanding for an extended period of time to ensure employers resolve these balances timely and the WRS receives all required contributions. In addition, ETF should consider utilizing the withholding of employer funds by DOA which is authorized by State Statutes.

Audit Methodology

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

- *Contribution Rates* – We reviewed all of the WRS contribution rates used in WEBS in our audit period to ensure the rates were approved by the ETF Board.
- *Contribution Recalculation* – We recalculated the WRS contributions calculated by the WEBS system using the Board approved rates to ensure the employers contributions were calculated correctly.
- *Interest Recalculation* – We recalculated the interest charged to employers for late payment of contributions to ensure interest was calculated correctly.
- *Write-off Review* – We reviewed the write-offs performed during our audit period to verify the reason for the write-off and ensure the write-off was approved by a supervisor.
- *DOA Payment Transfers* – We reviewed a sample of DOA payment transfers to ETF that provided payment for State agency contributions and invoices and ensured the amounts paid were correctly applied to the employer's balance.
- *Over/Under Contribution Recalculation* – We recalculated the over/under contribution amounts charged to employers during our audit period and verified the amounts were reported to the employer accurately.

In addition to the tests performed above, we also attempted to test the STAR HCM queries used by employers to report their monthly contributions to ETF to verify the contributions reported by employers matched the WRS contribution withholding amounts in STAR HCM. Since we were not able to obtain access to run these queries ourselves, we requested the queries from DOA staff who had these queries available. DOA had agreed to provide these queries to us for our audit, however, we did not receive the queries and were not able to perform this testing. We were able to receive the STAR HCM queries used by ETF HR staff to report ETF's WRS contributions and we did not find any issues in our review of ETF's contributions.