

DRAFT

# MINUTES

September 21, 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  
7:45 a.m. – 8:53 a.m.

### COMMITTEE MEMBERS PRESENT:

Angela Miller, Chair  
Katy Lounsbury, Vice Chair  
Amy Mizialko, Secretary\*

### PARTICIPATING EMPLOYEE TRUST FUNDS (ETF) STAFF:

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

### OTHERS PRESENT:

**ETF Staff:**  
Laura Brauer, Victor Dupuy\*, Diana Felsmann, Jim Guidry, Gene Janke, Alene Kleczek, Kadi Mbanefo\*, Marie Ruetten, Amelia Slaney\*, Kathryn Young  
**Virginia Retirement System:**  
Jennifer Schreck\*

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

### CONSIDERATION OF OPEN AND CLOSED MINUTES OF JUNE 22, 2023, MEETING

**MOTION:** Ms. Miller moved to approve the open and closed minutes of the June 22, 2023, meeting as submitted by the Board Liaison. Ms. Lounsbury seconded the motion, which passed unanimously on a voice vote.

\* Attended via teleconference.

Board	Mtg Date	Item #
AUD	12.14.23	2

## **QUALITY ASSURANCE PEER REVIEW**

Ms. Schreck from Virginia Retirement System provided an overview of the Quality Assurance Peer Review report to the Committee (Ref. AUD | 09.21.23 | 3). She discussed the requirement for, and the external validation performed of, the OIA internal quality assessment. While some recommendations were made, based on the OIA and external validator's review, OIA received the highest assessment rating of general conformity to the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing and Code of Ethics*.

## **INTERNAL AUDIT REPORTS**

### Required Minimum Distribution Audit

Ms. Hoehne referred the Committee to the report for the Required Minimum Distribution (RMD) Audit (Ref. AUD | 09.21.23 | 4A) completed in accordance with the fiscal year (FY) 2022 - FY 2023 Biennial Audit Plan. The audit looked at ETF's process in place to ensure compliance with the Internal Revenue Service RMD requirements for retirement benefits, focusing on the RMD cycle in calendar year 2022. The audit concluded that when inactive members identified as requiring an RMD responded timely to ETF's mailed communications, benefits were distributed timely to meet RMD requirements.

However, the audit found process design issues that affected compliance in certain instances, such as for active members retiring at or past the required age and for those not responding timely to ETF's mailed communications. Audit recommendations were provided in three areas to address these process design issues. The recommendations included improved communication and monitoring of active employees at or over the RMD age, a cycle-end review to address process gaps, and improving documentation, understanding, and training of the entire process for the cross-functional areas involved. Additionally, several other process improvements were included to increase the efficiency and the effectiveness of the RMD process.

### Public Records Request

Mr. Petrie referred the Committee to the Public Records Request audit report (Ref. AUD | 09.21.23 | 4B). The audit was completed in accordance with the FY 2022-2023 Biennial Audit Plan to evaluate the internal controls in the process for public records requests, focusing on requests processed between January 1, 2021, and March 31, 2023.

The audit found all record requests were fulfilled as soon as practicable and without delay. However, the audit made recommendations to modify fee information on ETF's website, update portions of its internal procedures for current information, and to ensure access to ETF network folders storing public records requests was appropriately restricted. Additional process improvement suggestions were provided to management

pertaining to incorporating the records request policy and procedure documentation into annual public records training and further review of access to the Microsoft tool Information Technology uses to fulfill requests.

Ms. Lounsbury asked about the exclusion of reviewing record retention policies from the scope of the audit and whether this is something that could be looked at in the future. Mr. Petrie and Ms. Sze indicated that this was not included due to the expansive effect it would have on the scope of this audit, but that it could be considered for a separate review in the future.

### Wisconsin Retirement System (WRS) Contribution Payments

Ms. Williams referred the Committee to the WRS Contribution Payments audit report (Ref. AUD | 09.21.23 | 4C). The audit was completed in accordance with the FY 2022-2023 Biennial Audit Plan to evaluate the internal controls over the WRS contribution payment process, focusing on contributions and payments made from September 2020 through September 2022.

Overall, the audit did not identify issues with the processes related to WRS contribution payments. However, the audit provided recommendations pertaining to timely resolution of employer over/under contributions. This included enhancing employer training on the impact of these balances and how to resolve them, creating an alert for these balances within the system used by employers to submit their reporting, and identifying employers with large or longstanding balances for ETF to provide further assistance on resolution. Additional process improvement recommendations were made pertaining to the timing of system generated over/under contribution notices and the potential application of interest on outstanding balances.

Ms. Lounsbury asked about the breakdown of over/under balances, whether a few employers accounted for a significant portion of the balances, and about the authority to bill interest on outstanding balances. Ms. Williams indicated that a few employers did account for a large portion of the balances and that a new policy would need to be created for billing of interest. She also indicated that limited employer staffing is a contributing factor in non-resolution of balances. Mr. Voelker stated that consideration would need to be given to the ETF-employer relationship to prevent erosion of employer cooperation in the future if ETF begins charging interest on these balances. Ms. Miller asked about the history of these balances and the ability to fix them going forward. Mr. Voelker indicated that ongoing efforts, as well as modernization efforts, could be used to address these balances.

### **THIRD-PARTY ADMINISTRATOR (TPA) SYSTEM AND ORGANIZATION CONTROLS (SOC) 1 REPORT ANNUAL REVIEW FOR CY 2022**

Ms. Bauknecht provided an overview of the TPA SOC 1 report review for CY 2022, which is a component of ETF's TPA oversight procedures (Ref. AUD | 09.21.23 | 5).

Ongoing consulting for TPA oversight, including the SOC 1 report review, was included on the FY 2022-2023 Internal Audit Plan. Ms. Bauknecht explained the purpose for reviewing SOC reports, the roles of ETF program managers, OIA, and the Bureau of Information Security Management in the review process and the results of the CY 2022 SOC 1 report review completed in June 2023. Overall, the review concluded that any control exceptions noted in the TPA SOC 1 reports did not have a significant effect on ETF programs. Improvements made to the review process this year included expanding communication of certain user controls to payroll centers.

## **DISCUSSION AND CONSIDERATION**

### Audit Committee Charter Review

Ms. Sze referred the Committee to the Audit Committee Charter Review memo and current Audit Committee Charter (Ref. AUD | 09.21.23 | 6A). ETF staff did not have any proposed changes to the Charter.

***MOTION: Ms. Lounsbury moved to approve the attached Audit Committee Charter and submit it to the Employee Trust Funds Board (ETF Board) for approval as recommended by ETF. Ms. Miller seconded the motion, which passed on the following roll call vote:***

***Members Voting Aye: Lounsbury, Miller, Mizialko***

## **FY 2024–FY 2025 BIENNIAL AUDIT PLAN UPDATE**

Ms. Sze provided the status of audit engagements and reported on other OIA activities for the period from May 31, 2023, through August 31, 2023. She also provided an update on open audit issues (Ref. AUD | 09.21.23 | 7).

## **ADJOURNMENT**

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

The Committee adjourned at 8:53 a.m.

Date Approved: \_\_\_\_\_

Signed: \_\_\_\_\_

Amy Mizialko, Secretary  
Audit Committee