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Correspondence Memorandum

Date: May 15, 2024

To: Deferred Compensation Board

From: Shelly Schueller, Deferred Compensation Director
 Wisconsin Deferred Compensation Program

Subject: 2023 Contract Compliance Audit Results

This memo is for informational purposes only. No Board action is required.

Previously, Wisconsin Deferred Compensation Program (WDC) third-party administrator contract compliance audits and agreed upon procedures reports were completed via certified public accountant firms hired by the Board via the Request for Proposal (RFP) process. As discussed at the Board meeting on September 7, 2023, ETF staff from the Office of Internal Audit (OIA) are now completing third-party administrator contract compliance audits to better provide assurances and improve the effectiveness of the audits ([Ref. DC | 09.07.23 | 3](#)). Calendar year 2023 is the first WDC contract compliance audit to be completed by OIA.

Third-Party Administrator Background

In 2005, the Board contracted with Great-West Retirement Services, now known as Empower Retirement, to provide administrative services for the WDC. In late 2020, the Board discussed the expiration of that contract and authorized ETF to release an RFP soliciting proposals for administration of the WDC ([Ref. DC | 11.19.20 | 10B](#)). This resulted in the release of [RFP ETJ0061](#), and Empower was the successful proposer. The Board approved a new five-year administrative services contract with Empower that began December 1, 2022, and ends on November 30, 2027, with options to extend the contract for two additional three-year periods ([Ref. DC | 3.31.22 | 2C](#)).

Empower has been a valued and proactive partner, providing recordkeeping services and financial education for Wisconsin public employees seeking to supplement their retirement savings via the WDC. ETF and Empower staff meet frequently to discuss plan issues including education and targeted communications, customer service, and process improvement opportunities. Regular communication between ETF and Empower has been an important key to the success and growth of the WDC.

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Calendar Year 2023 Contract Compliance Audit Results

OIA's contract compliance audit reviewed Empower's administration of the WDC for calendar year 2023 (see Attachment A). The audit evaluated the design and operating effectiveness of internal controls over Empower's compliance with the WDC contract in several key areas, including eligibility, contribution limits, rollover account segregation, distributions, reporting requirements, equity wash requirements, and fees related to participant accounts, managed accounts, and Empower's administrative fee. Overall, OIA determined that Empower was compliant with most of the administrative services contract requirements for the WDC included in the scope of the audit.

Recommendations

The OIA review resulted in low-to-medium rated risk findings with recommendations for ETF and Empower to improve administration of the WDC and several process improvement considerations.

The audit report recommendations for ETF are related mainly to quarterly service level agreement reporting. OIA recommends that ETF:

- a) Require supporting documentation for the Quarterly Service Level Agreement Reports and consider a contract penalty for instances when requests for supporting documentation are not timely or accurately provided.
- b) Perform regular reviews or sample verifications of performance standards.
- c) Amend contract language to clarify the appropriate scale to be used for the Employer Survey performance measure.

OIA also recommended review and changes related to how required minimum balances are maintained in the core WDC investment options for participants using the self-directed brokerage (SDB) option to ensure participant fees can be collected from these participants and ensure program materials for participants reflect this information.

The audit report recommendations for Empower are:

1. Quarterly Service Level Agreement Reporting: Implement a process to ensure records can be provided to ETF to allow for timely monitoring and validation of performance standards and implement a report review process to ensure the Quarterly Service Level Agreement Report is accurate.
2. Self-Directed Brokerage Accounts: Implement procedures and controls to ensure required minimum balances in the core investment options are maintained for participants using the SDB option and participant fees are appropriately charged.
3. Equity Wash Requirements: Determine the cause for an override of a transfer from the Stable Value Fund to a competing investment option and implement a process to ensure equity wash requirements are adhered to.

4. Contribution Limits: Improve its [Empower's] calculation of over-deferral projections to accurately identify participants that are at or near exceeding the maximum contribution limit and provide notification to those participants.

As a result of the OIA recommendations, ETF expects to:

- a) review performance standards and available documentation with Empower, with a goal of adjusting standards as appropriate and feasible. This may involve seeking a contract amendment that includes a provision requiring that Empower submit supporting documentation upon ETF's request, and/or the potential addition of a contract penalty for instances when requests for documentation are not timely or accurately fulfilled.
- b) review options to enhance its oversight of performance standards, likely including periodic sampling to verify accuracy. The goal of this review will be to add processes that ensure contract performance standard accountability.
- c) clarify the scale to be used for the Employer Survey performance measure and propose a contract amendment if appropriate.
- d) undertake an operational review of SDB option policies and procedures, including:
 - i. drafting proposed language for the Board's approval related to necessary changes to the Plan and Trust,
 - ii. collaborating with Empower on a potential contract amendment related to administration of the SDB option,
 - iii. pursuing necessary changes to WDC participant materials,
 - iv. providing guidance to Empower to ensure participants using the SDB option understand the minimum balance that must be maintained in their core WDC investment options and consequences of falling below the minimum; and
 - v. verifying that participants using the SDB option are charged correct participant fees.

Process Improvement Considerations

In addition to the recommendations above, OIA's audit yielded process improvement considerations for ETF and Empower. ETF considerations include:

- 1) imposing penalties associated with failed performance standards each quarter, rather than only if the performance standard is missed for two consecutive quarters, to promote timely corrective action to meet future performance standards.
- 2) reviewing performance standards with Empower to determine whether certain performance standards add value to the program to be reported at plan-level versus globally and whether Empower can accommodate this.

- 3) working with Empower to correct a participant's Social Security Number identified as incorrect for the WDC participant based on ETF data.

OIA had one process consideration for Empower, which is related to the managed account service. Empower should determine why managed accounts are not charged a prorated fee at the time of full withdrawal and implement a process to ensure managed account fees are appropriately collected. Note: Managed account fees are collected by Empower and do not impact the funds used to administer the WDC.

Next Steps

The contract compliance audit completed by OIA revealed generally positive results. ETF will continue to monitor Empower's administration of the WDC, particularly in the areas cited in this audit. ETF will seek to jointly address audit recommendations and process improvement considerations with Empower, including potentially adjusting performance standards and contract amendments.

The Board can expect to receive a progress report at the December 2024 Board meeting summarizing ETF and Empower's activities related to these audit findings.

Staff will be at the Board meeting to answer any questions.