



STATE OF WISCONSIN  
Department of Employee Trust Funds  
David A. Stella  
SECRETARY

801 W Badger Road  
PO Box 7931  
Madison WI 53707-7931  
1-877-533-5020 (toll free)  
Fax (608) 267-4549  
<http://etf.wi.gov>

**CORRESPONDENCE MEMORANDUM**

**DATE:** April 22, 2008  
**TO:** Wisconsin Deferred Compensation Board  
**FROM:** Shelly Schueller, Director  
Wisconsin Deferred Compensation Program  
**SUBJECT:** Contract Compliance and Financial Statements Audit Reports

**For information purposes only. No action required.**

In 2006, the Board authorized Department staff to issue two Requests for Proposals (RFP): one for an administrative services contract compliance audit and a second for annual financial statements audits. This memo summarizes the findings of the most recent audit reports, which are attached.

**2007 Contract Compliance Audit**

Contract compliance audits are used to evaluate and report on a third party administrator's management of the Wisconsin Deferred Compensation Program (WDC), and examine compliance with contract terms and conditions as well as applicable State and federal statutes, rules and regulations. Contract compliance audits are performed to assure the Board, the Department, employers and participants that the WDC is administered effectively, efficiently and economically.

Wipfli has completed the contract compliance audit for the year 2007 and submitted the attached report. It summarizes Wipfli's audit findings regarding Great-West Retirement Services' (GWRS) compliance with the administrative services agreement. The executive summary indicates that GWRS is in compliance with the administrative services agreement. Wipfli found no errors or exceptions during its examination of selected transactions, and the records maintained by GWRS are complete and orderly.

Wipfli provided two comments in the report. First, Wipfli recommended that the Department and GWRS develop a mutually agreeable deadline for completion and submission of the annual plan status and demographic report. Wipfli also noted that the most recent *GWRS SAS 70* report suggested that controls should be in place on any client's systems to ensure that information provided to GWRS is accurate and authorized. Wipfli recommended that the Department review its own controls to ensure that this is the case.

The Department believes it is prudent to follow both recommendations and will determine a deadline for the annual plan status and demographic reports with GWRS, and review internal Department controls to make sure data transfers are accurate and secure.

Reviewed and approved by Robert J. Conlin, Deputy Secretary.  
\_\_\_\_\_  
Signature Date

Board	Mtg Date	Item #
DC	05/06/2008	9

### **2007 Financial Statements Audit**

The Board's administrative services contract with GWRS requires annual financial statements audits. The purpose of these audits is to have an independent public accounting firm opine whether the financial statements accurately reflect the financial position of the WDC. The audit should demonstrate that all participant accounts and contributions have been properly balanced, records accurately kept, and that all WDC assets are balanced. Financial statements audits may also reveal any misstatements due to errors, fraud or other reasons that would cause the financial statements to inaccurately reflect the financial position of the WDC.

Pursuant to its contract with the Board, Clifton Gunderson has completed the WDC's comprehensive financial statements audit for the year ending December 31, 2007. As the attached report indicates, the financial statements fairly present the net assets available for plan benefits as of December 31, 2007, and for the thirteen-month period ending December 31, 2006. For the year ending December 31, 2007, financial highlights from this audit include:

- Net assets were \$2.29 billion.
- Mutual fund investment income provided a \$167.3 million gain.
- Employee contributions totaled \$140.7 million.
- Distributions to participants were \$88.8 million.

In its cover letter, Clifton Gunderson noted that, for the second consecutive year, one WDC disbursement was incorrectly processed as a hardship when it should have been a separation from service. As in 2006, the error occurred because the participant inadvertently indicated on the distribution form the funds were needed due to financial hardship. GWRS staff determined that the participant had, in fact, separated from service. The distribution form should have been returned to the participant for correction. In the end, the participant was able to access the funds in her account and the distribution was eventually processed correctly. The Department and GWRS have discussed how and why these disbursements were improperly categorized as hardship distributions. GWRS will be closely reviewing distribution requests in an attempt to prevent this from occurring in the future.

### **Conclusion**

The results from both audits demonstrate that the WDC is in good shape. GWRS is meeting the substantive requirements of the administrative services contract and the financial statements audit report shows that the WDC continues to grow. Participant deferrals, investment income and expenses are all accounted for in the financial statements report.

Staff from the Department will be available at the meeting to discuss the results of both audits with the Board.

attachments