

**State of Wisconsin**

**Deferred Compensation Program**

Madison, Wisconsin

**Independent Accountants' Report on Applying Agreed-Upon  
Procedures for Third-Party Administration of State of Wisconsin  
Deferred Compensation Program  
Year Ended December 31, 2017**

# State of Wisconsin Deferred Compensation Program

Independent Accountant's Report on Applying Agreed-Upon Procedures

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# State of Wisconsin Deferred Compensation Program

## Independent Accountant's Report on Applying Agreed-Upon Procedures

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### Executive Summary

Wipfli LLP performed agreed-upon procedures in relation to the Agreement for Administrative Services Including Recordkeeping and Communications (Administrative Agreement) between Great-West Life & Annuity Insurance Company (Empower Retirement) and the State of Wisconsin Deferred Compensation Board for the year ended December 31, 2017. Empower Retirement performs the administration for the State of Wisconsin Deferred Compensation Program (WDC) pursuant to the Administrative Agreement. Our procedures were designed to test for specific elements of compliance with the Administrative Agreement as specified in the Request for Proposal and through discussions with Department of Employee Trust Funds (DETF) personnel. The results of our procedures are summarized below and discussed in greater detail later in this report.

- We noted Empower Retirement to be in compliance with all significant elements of the Administrative Agreement tested, including:
  - Recordkeeping and participant account valuations
  - Administrative performance standards
  - Quarterly and annual plan reporting
  - Other reporting, including the 2017 Strategic Partnership Plan
  
- Our examination of selected transactions included the following and revealed no significant exceptions or errors:
  - Enrollment processing
  - Participant deferrals
  - Hardship withdrawals
  - Distributions
  - Domestic relations order distributions
  - Automatic rebalancing
  - Deferral redirections
  - Transfers
  
- Overall, we found the records maintained at Empower Retirement to be complete and adequately organized. We found procedures to be well documented and monitored.



## Independent Accountant's Report on Applying Agreed-Upon Procedures for Third-Party Administration of State of Wisconsin Deferred Compensation Program

Wisconsin Deferred Compensation Board  
Department of Employee Trust Funds  
State of Wisconsin  
Madison, Wisconsin

We have performed the procedures presented in the following report, which were agreed to by the State of Wisconsin Department of Employee Trust Funds (the specified party), on the Third-Party Administrator's (Empower Retirement) compliance with the WDC Administrative Agreement for the year ended December 31, 2017. Empower Retirement's management is responsible for the Third-Party Administrator's compliance with the WDC Administrative Agreement. The sufficiency of these procedures is solely the responsibility of the State of Wisconsin Department of Employee Trust Funds. Consequently, we make no representation regarding the sufficiency of the procedures described in the following report either for the purpose for which this report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not, conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Third-Party Administrator's compliance with the WDC Administrative Agreement. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Deferred Compensation Board and the Department of Employee Trust Funds, and is not intended to be and should not be used by anyone other than these specified parties.

  
Wipfli LLP

May 21, 2018  
Madison, Wisconsin

# Section 1 – Objectives and Scope

# Objectives and Scope

This section of our report is based on the agreed-upon procedures as set forth in the contract dated August 15, 2007 and reaffirmed by the response to Request for Bid submitted September 15, 2015. Certain other specific parameters, including sample sizes and acceptable error rates, were discussed with DETF personnel in advance of performance.

## A. Background

The WDC is a supplemental retirement savings program authorized under Section 457 of the Internal Revenue Code that receives and invests employee payroll deferrals and reinvests investment earnings. The WDC was created by Wisconsin Laws of 1981 Chapter 187 and established in 1982 for state employees; it has been available to local employers since 1985. The WDC is available to all active state and university employees. Active local government and school district employees may also be eligible if their employer has elected to offer this optional benefit program. The WDC is authorized under ss. 40.80, 40.81, and 40.82, Wis. Stats., and WI Administrative Code ETF Chapter 70.

The DETF and the Deferred Compensation Board (“Board”) have statutory authority for program administration and oversight. The Board contracts for administrative services through a competitive bid process. Empower Retirement’s initial contract to provide these services expired November 30, 2017, and a similar new contract commenced December 1, 2017 and runs through November 30, 2022. The Board selects the investment options offered by the WDC and contracts directly with investment providers. The Board annually reviews the performance of the investment options offered to determine if they continue to meet established performance benchmarks. Options that are determined to be no longer acceptable may be removed from the WDC and new options may be added at any time.

The third-party administrator, Empower Retirement, is responsible for the following:

- Technical assistance
- Plan administration
- Record keeping and participant account valuation
- Account activity
- Customer services
- Processing of domestic relations orders to divide accounts
- Provision of marketing and promotional materials
- Quarterly reports to DETF and quarterly participant statements
- Annual plan review
- Approval and processing of financial emergency hardship applications

# Objectives and Scope

## A. Background (Continued)

The DETF is primarily responsible for the following:

- Assisting Empower Retirement regarding communications to participating state and local government employers and employees
- Approval of marketing and promotional materials
- Operating decisions
- Securing and monitoring the contract with the third-party administrator

## B. Previous Examinations

The WDC was last tested for contract compliance for the period January 1, 2015, through December 31, 2015.

## C. Objectives

Our engagement was designed to assist the DETF in determining whether Empower Retirement is complying with terms of the Administrative Agreement including established performance standards, and is processing account activity transactions timely and accurately, in compliance with federal and state regulations and contractual requirements.

## D. Scope

Our engagement extends to the application of the procedures enumerated in Section II of this report. We applied these procedures to the records and systems maintained by Empower Retirement and DETF. Our procedures were applied to the period January 1, 2017, through December 31, 2017.

## Section II – Procedures and Results

# Procedures and Results

## Review of Internal Controls

### Objectives

Obtain an understanding of the procedures and controls surrounding Empower Retirement's processes in the following specific areas:

- Participant enrollment
- Distributions
- Changes in beneficiaries
- Rollover contributions

### Procedures

1. Discussed with appropriate Empower Retirement personnel the flow of information within Empower Retirement.
2. Obtained and examined forms, documents, and transmittals used in the processes.
3. Obtained and examined the most recent Independent Service Auditor's Report on the Service Organization Controls Report ("SOC1") report on internal controls and effectiveness for Empower Retirement and relevant audit results.

### Results

Based on our inquiries and analysis of these processes and our evaluation of the controls thereon, we obtained an understanding of these systems. Based on this understanding and professional judgment, we made an assessment of the potential for process failures and control risks. Our tests were designed accordingly.

The SOC1 Report for Empower Retirement was dated November 1, 2017, and covered the period October 1, 2016, to September 30, 2017. That report specifies a number of controls that user organizations should have in place to achieve the control objectives contained in the SOC1 report. The following controls were found to have exceptions: 6.2, 6.6, 7.5, 10.5, 10.16, 15.3, 15.5, and 17.7. These controls do not appear to be significant to WDC. Please refer to the SOC1 report for additional information. We noted Department of Employee Trust Funds has a formal process for the review of the SOC1 report and found no significant issues.

# Procedures and Results

## Enrollment Processing

### Objectives

Determine whether enrollment applications are processed within five working days upon receipt of the signed application and deferrals began within 31 days of the first payday from the date the application was signed.

### Procedures

1. Obtained a data file containing a list of employees who began participating during 2017.
2. Selected a sample of 25 new participants.
3. Obtained enrollment forms and examined the form for proper signatures and approvals.
4. Compared the date the enrollment form was received by Empower Retirement to the date the account was established via the Empower Retirement Plan Service Center (PSC) website to verify account was established within five working days.
5. Verified deferrals began within 31 days of the first payday from the date the application was signed.

We received from Empower Retirement a data file containing all employees that began participating in 2017 and randomly selected 25 of the 2,134 employees listed.

### Results

The selected enrollment forms appeared complete including proper signatures and approvals. There were no exceptions noted with regard to compliance with processing time frames specified in the Administrative Agreement.

# Procedures and Results

## Participant Deferrals

### Objectives

Participant deferral amounts are to be credited to the participant's account and transmitted to investment providers on the date the deferral amount and all necessary information is received.

### Procedures

1. Obtained the WDC census file.
2. Selected a sample of 60 participants.
3. Corroborated the participant deferral amount and the date deferral amount was credited to the participant's account through the PSC website.
4. Confirmed in writing with participant that the deferral amount and the funds selected are in accordance with their request.

We received a plan census for 2017 (including all participants with deferrals during 2017) and randomly selected 60 of the 37,801 participants reported who deferred during 2017.

For the 60 participants selected for deferral testing, we sent written confirmations to participants asking whether the amount and fund allocation were correct as of December 31, 2017.

### Results

There were no exceptions noted with regard to compliance with processing time frames specified in the Administrative Agreement.

Of the 60 confirmations sent, 34 (57%) participants responded positively confirming their deferral election as of December 31, 2017. One confirmation returned had an undetermined response. There were no negative confirmation responses and 25 (42%) non-replies.

# Procedures and Results

## Participant Deferrals (50+ Catch-Up and Special Catch-Up)

### Objectives

Determine whether participants electing to make Age 50+ Catch-Up and Special Catch-Up deferrals are eligible to make the deferrals and expressly elected to make the deferrals.

### Procedures

1. Obtained the WDC census file.
2. Selected a sample of 10 participants (5 participants who had Age 50+ Catch-Up deferrals during 2017, and 5 participants who had Special Catch-Up deferrals during 2017).
3. Determined if the participant was eligible for the catch-up contribution based on their age and protective employee status, if applicable.
4. Confirmed in writing with participant that they elected to make the catch-up deferrals, their deferral amount, and the funds selected are in accordance with their request.

We received a listing of all participants with deferrals during 2017 and randomly selected 10 (5 for each of the catch-up types) of the 1,575 participants reported who deferred amounts greater than \$18,000 (the limit for regular contributions to WDC) during 2017.

For the 10 participants selected for catch-up deferral testing, we sent written confirmations to participants asking whether the catch-up election, amount, and fund allocation were correct as of December 31, 2017.

### Results

There were no exceptions noted with regard to eligibility for catch-up deferrals for those participants sampled.

Of the 10 confirmations sent, 8 (80%) participants responded positively confirming their deferral election as of December 31, 2017. There were no negative confirmation responses and there were 2 (20%) non-replies.

# Procedures and Results

## Hardship Withdrawals

### Objectives

Participants who experience financial emergencies may submit a hardship application to Empower Retirement. Under the Administrative Agreement, Empower Retirement is to either approve or deny and process, without DETF's signature, all unforeseeable emergency requests received in good order and in a manner satisfactory to Empower Retirement. If approved by Empower Retirement, distributions are to be made within five working days of receipt of notification or any additional required documentation.

Objectives included:

- Determine hardship applications were submitted and distributions paid were in accordance with timeliness provisions.
- Determine hardship applications appear complete with proper signatures and required documentation.
- Determine hardship applications were approved in accordance with the Administrative Agreement.

### Procedures

1. Obtained a data file containing all emergency hardship withdrawals.
2. Selected a sample of 25 hardship withdrawals.
3. Obtained documentation supporting the request and payment of hardship withdrawal.
4. Compared results of examined transactions with requirements in the Administrative Agreement.

From the PSC website, we obtained a data file containing all distributions made during 2017. From that distribution list, we extracted all transactions identified as a hardship withdrawal and randomly selected 25 of the 203 hardship withdrawals made during 2017.

### Results

For all hardship withdrawals selected, documentation and approvals were appropriate and the distribution was paid in accordance with timeliness provisions. There were no exceptions noted with regard to compliance with processing time frames specified in the Administrative Agreement.

# Procedures and Results

## Distributions

### Objectives

Distribution requests are to be processed within three working days from receipt of a properly completed distribution request form. Distribution payments are to be made on the next first or fifteenth of the month or the date selected by the participant, if later. Objectives included:

- Determine the appropriateness of the distribution and the participant was eligible based on the Administrative Agreement.
- Determine the distribution was paid to the participant.
- Determine the distribution was paid within the timelines established in the Administrative Agreement.
- Verify the distribution was made pursuant to the participant's request.

### Procedures

1. Obtained a data file containing all distributions.
2. Selected a sample of 100 distributions.
3. Obtained documentation supporting the distribution request and the payment made.
4. Compared results of examined transactions with requirements in the Administrative Agreement.
5. Confirmed in writing with participant that the withdrawal selected is in accordance with their request.

From the PSC website, we obtained a data file containing all distributions made during 2017. From the distribution list, we randomly selected 100 of the 34,154 distributions made during 2017.

For the 100 distributions selected for testing, we sent written confirmations to participants asking whether the distribution was in accordance with their records.

### Results

Of the 100 distributions selected, 3 were minimum required distributions initiated before Empower Retirement became the record keeper and we could not test these. For the remaining 97 distributions selected, documentation and approvals were appropriate and the distribution was paid to the participant in accordance with their requests. We additionally tested them for compliance with the timeliness provisions noting no exceptions.

Of the 100 confirmations sent, 89 (89%) participants responded positively confirming their distribution. There were no negative confirmation responses and 11 (11%) non-replies.

# Procedures and Results

## Domestic Relations Order Distributions

### Objectives

All participants requesting Domestic Relations Order Distributions (DRO) will receive periodic notification from Empower Retirement until completed.

### Procedures

1. Obtained data file containing all DROs.
2. Selected a sample of 12 DROs.
3. Obtained documentation supporting the DROs.
4. Obtained evidence of periodic notifications from Empower Retirement.

We obtained a data file containing all DROs and haphazardly selected 12 of the 147 DROs requested during 2017.

### Results

For all DROs selected, documentation and approvals were appropriate. There were no exceptions noted with regard to compliance with providing periodic notifications as specified in the Administrative Agreement.

# Procedures and Results

## Automatic Rebalancing

### Objectives

The service to provide for automatic rebalancing of asset allocations occurs on the date selected by the participant.

### Procedures

1. Obtained a data file containing a list of participants who had automatic rebalances.
2. Selected a sample of 20 participants who had automatic rebalances.
3. Obtained documentation supporting the rebalancing frequency and investment data.
4. Confirmed in writing with participant that they have selected the automatic rebalancing provisions.
5. Compared results of examined transactions with requirements in the Administrative Agreement.

We obtained a data file containing all participants who had automatic rebalances during 2017 and randomly selected 20 of the 2,121 participants listed. For the 20 participants with automatic rebalancing provisions selected, we sent written confirmations to the participant asking whether they had selected the automatic rebalance provisions as of December 31, 2017.

### Limitation of Testing

We were not provided the frequency of rebalance transactions. The data file indicated above contained a listing of participants who had rebalances during the year but did not distinguish participants with multiple rebalances during the year.

### Results

For all participants selected, documentation of the rebalancing provisions was appropriate. There were no exceptions noted with regard to compliance with processing time frames specified in the Administrative Agreement.

Of the 20 confirmations sent, 9 (45%) participants responded positively confirming their selected automatic rebalancing provision as of December 31, 2017. There were no negative confirmation responses and 11 (55%) non-replies.

# Procedures and Results

## Deferral Redirections

### Objectives

Participants are allowed unlimited opportunities to redirect deferral amounts. Participant requests for deferral redirections are to be processed within five working days of receipt of request and are to be effective on the next pay period deferral.

### Procedures

1. Obtained a data file containing deferral redirections.
2. Selected a sample of 20 deferral redirections.
3. Obtained documentation supporting participant deferral request.
4. Confirmed in writing with participant that the amount and funds selected are in accordance with the participant's request.
5. Compared results of examined transactions with requirements in the Administrative Agreement.

We obtained a data file containing all deferral redirections and randomly selected 20 of the 22,836 deferral redirections requested during 2017.

For the 20 participants selected for deferral redirection testing, we sent written confirmations to the participant asking whether the amount and funds selected are correct as of the specified effective date.

### Results

For all deferral redirections selected, documentation of the participant request was appropriate. There were no exceptions noted with regard to compliance with processing time frames specified in the Administrative Agreement.

Of the 20 confirmations sent, 9 (45%) participants responded positively confirming their deferral redirection as of the effective date. There were no negative confirmation responses and 11 (55%) non-replies.

# Procedures and Results

## Transfers

### Objectives

Participants are allowed unlimited opportunities to transfer existing account balances. Participant requests received before 3:00 p.m. Central Time are processed on the day received. If received after 3:00 p.m., the transfer is processed on the next business day.

### Procedures

1. Obtained a data file containing transfers.
2. Selected a sample of 20 transfers.
3. Obtained documentation supporting the participant transfer request.
4. Confirmed in writing with participant that the funds selected are in accordance with the participant's request.
5. Compared results of examined transactions with requirements in the Administrative Agreement.

We obtained a data file containing all transfers and randomly selected 20 of the 16,049 transfers during 2017. For the 20 participants selected for transfer testing, we sent written confirmations to the participant asking whether the amount and funds transferred are correct as of the specified effective date.

### Results

For all deferral redirections selected, documentation of the participant request was appropriate. There were no exceptions noted with regard to compliance with processing time frames specified in the Administrative Agreement.

Of the 20 confirmations sent, 10 (50%) participants responded positively confirming their transfer as of the effective date. There were no negative confirmation responses and 10 (50%) non-replies.

# Procedures and Results

## Performance Standards

### Objectives

The 2017 Strategic Partnership Plan (“SPP”) provides specific goals related to initiatives in the areas of participation, asset allocation, education and learning, and retention. For 2017, the SPP goals were:

1. Increase December 31, 2017 in-force account population by 2.5%.
2. Add 12 new employers by December 31, 2017.
3. Drive \$30 million of participant rollovers into WDC.
4. Maintain high visibility statewide by holding 500 group and 4,000 individual meetings.

Based on our discussion with DETF personnel, our testing procedures regarding SPP were to verify the above goals were met.

### Procedures

Obtained SPP Scorecard and reviewed goals versus results as reported by Empower Retirement. We then received documentation supporting achievement of the SPP performance standards. We obtained supporting detail for in-force participant growth, new employer additions, rollover additions, and group and individual meetings held, as noted below.

### Results

Per our testing and corroborated by inquiry of DETF personnel, Empower Retirement has satisfied goals 1, 3, and 4 of the SPP. Goal 2 was not accomplished as only 9 employers were added during the year. Specific results are as follows:

1. For all participation related goals, we recalculated the number of participants in WDC and the number of new enrollees and employers without exception. Based on our analysis of the Certified Plan Summary Report, accounts increased by 3.0%, from 59,891 as of December 31, 2016 to 61,686 as of December 31, 2017.
2. WDC added 9 new employers in 2017, short of the goal of 12 new employers. We verified the new employers by review of the WDC census.
3. Wipfli noted rollovers into WDC as reported on the certified trust report of \$36.8 million, as also reported on the 12/31/17 scorecard results.
4. The following results were obtained through inquiry and inspection of supporting documentation.

# Procedures and Results

Ongoing Participant Communication (Per SPP Scorecard)		
Education and Learning	Goal (per year)	Results
Group seminars	500 seminars	502 group seminars were reported
Individual counseling sessions	4,000 meetings	4,841 individual appointments were conducted

# Procedures and Results

## Reporting

### Objective

Exhibit 1 of the Administrative Agreement effective December 1, 2017 (and Exhibits 4 and 5 of the Administrative Agreement ending November 30, 2017) require a range of reporting to be provided by Empower Retirement to WDC on a quarterly or annual basis. The reports listed below are reported in the Administrative Agreement effective December 1, 2017, but are substantially similar to those required under the initial agreement. The following reports are to be provided:

- Quarterly Plan Review (due within 45 days of the end of the quarter).
- Plan Summary Report (due within 45 days of the end of the quarter).
- Plan Investment Performance and Expense Ratio Review (due within 60 days of the end of the quarter and year-end final due within 90 days of the end of the year).
- Performance Standards Report (due within 45 days of the end of the quarter).
- Annual Plan Review (due within 120 days after year end).

Based on our discussion with DETF personnel, our testing procedures regarding reporting were to determine whether Empower Retirement was compliant with requirements and timeliness provisions.

### Procedures

1. Inquired of DETF personnel responsible for WDC as to Empower Retirement's compliance with requirements and within timeliness provisions.
2. Obtained copies of all reports listed above provided to DETF.
3. Observed email copies of reports being sent from Empower Retirement to WDC, noting the time stamp of the email. Only the Plan Summary Reports are sent via mail, and we inquired of Shelly Schueller as to the dates she received the reports.

### Results

Per inquiry of DETF personnel and through observation of email receipt dates, we found the following exceptions:

1. The Performance Standards Report for the 4<sup>th</sup> quarter of 2017 was received 2/15/18 (after the 2/14/18 due date).
2. The Plan Investment Performance and Expense Ratio Review for the 1<sup>st</sup> quarter of 2017 was received 5/22/17 (after the 5/15/17 due date).
3. The Plan Summary Report for the 1<sup>st</sup> quarter of 2017 was received 5/22/17 (after the 5/15/17 due date).

We tested all other reports noted above and noted no other issues with communication timeliness.

Section III –

Comments and Recommendations

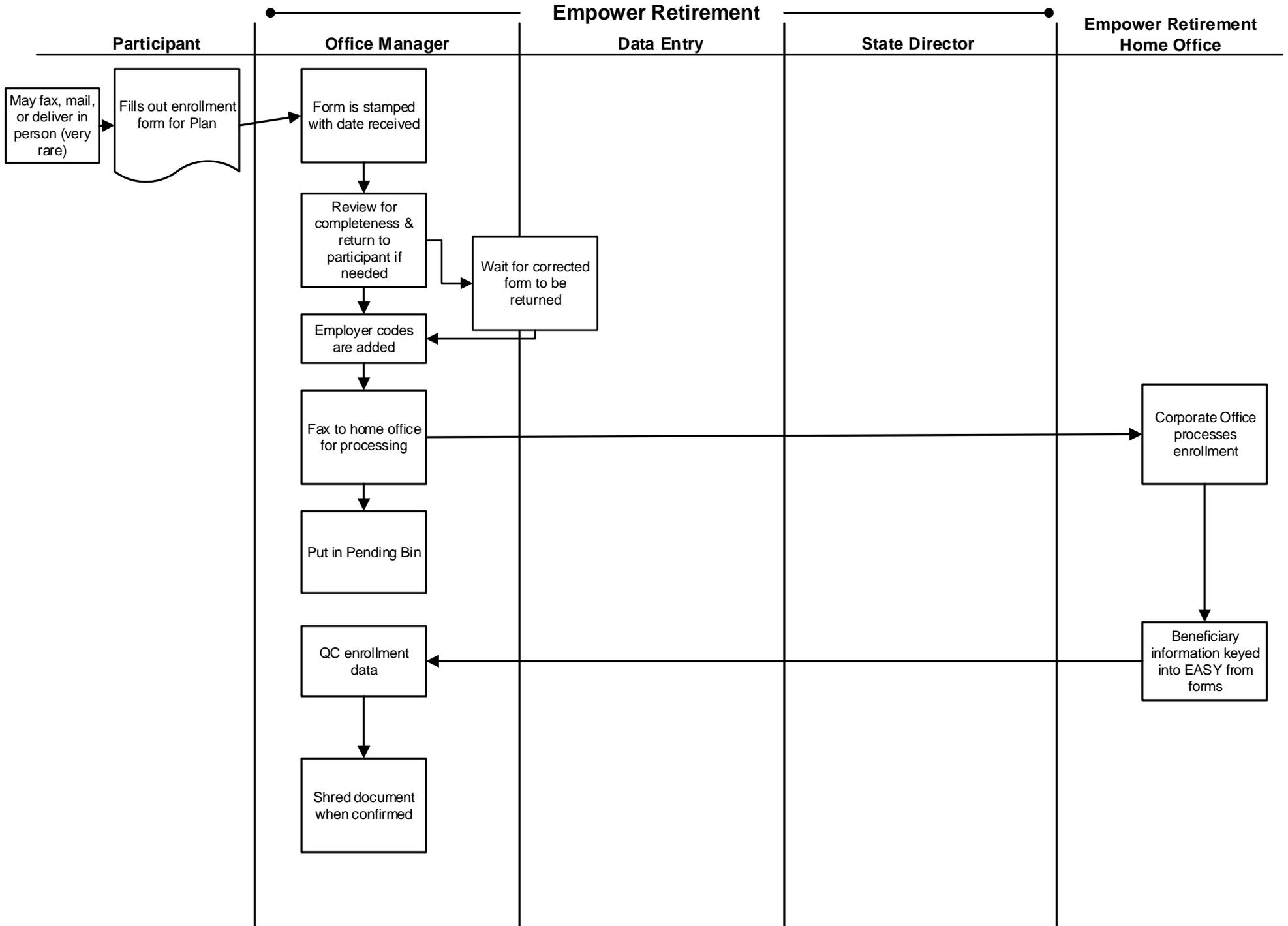
# Comments and Recommendations

NONE.

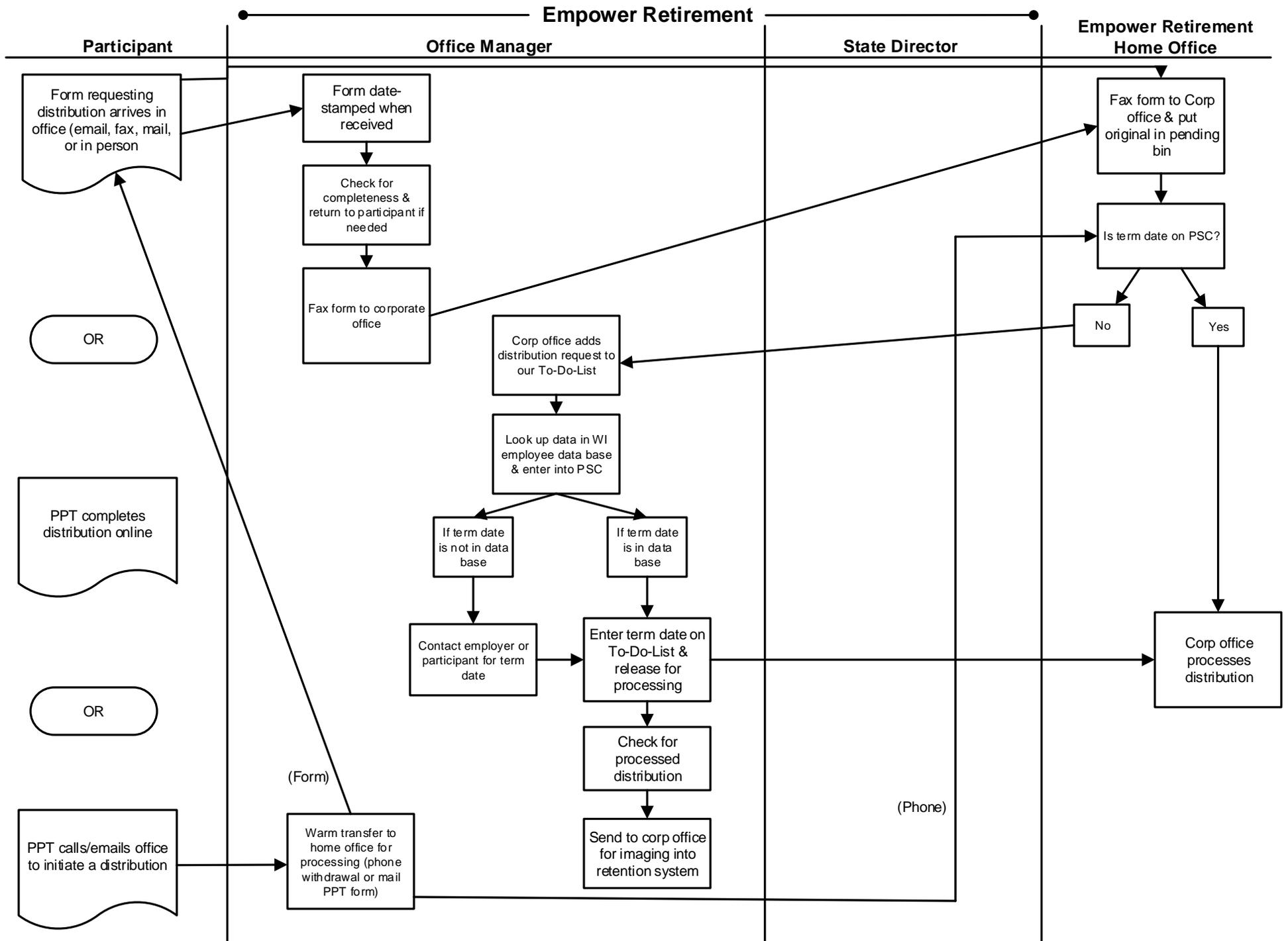
## Section IV - Appendices

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# Empower Retirement Wisconsin Deferred Compensation Program Participant Enrollment

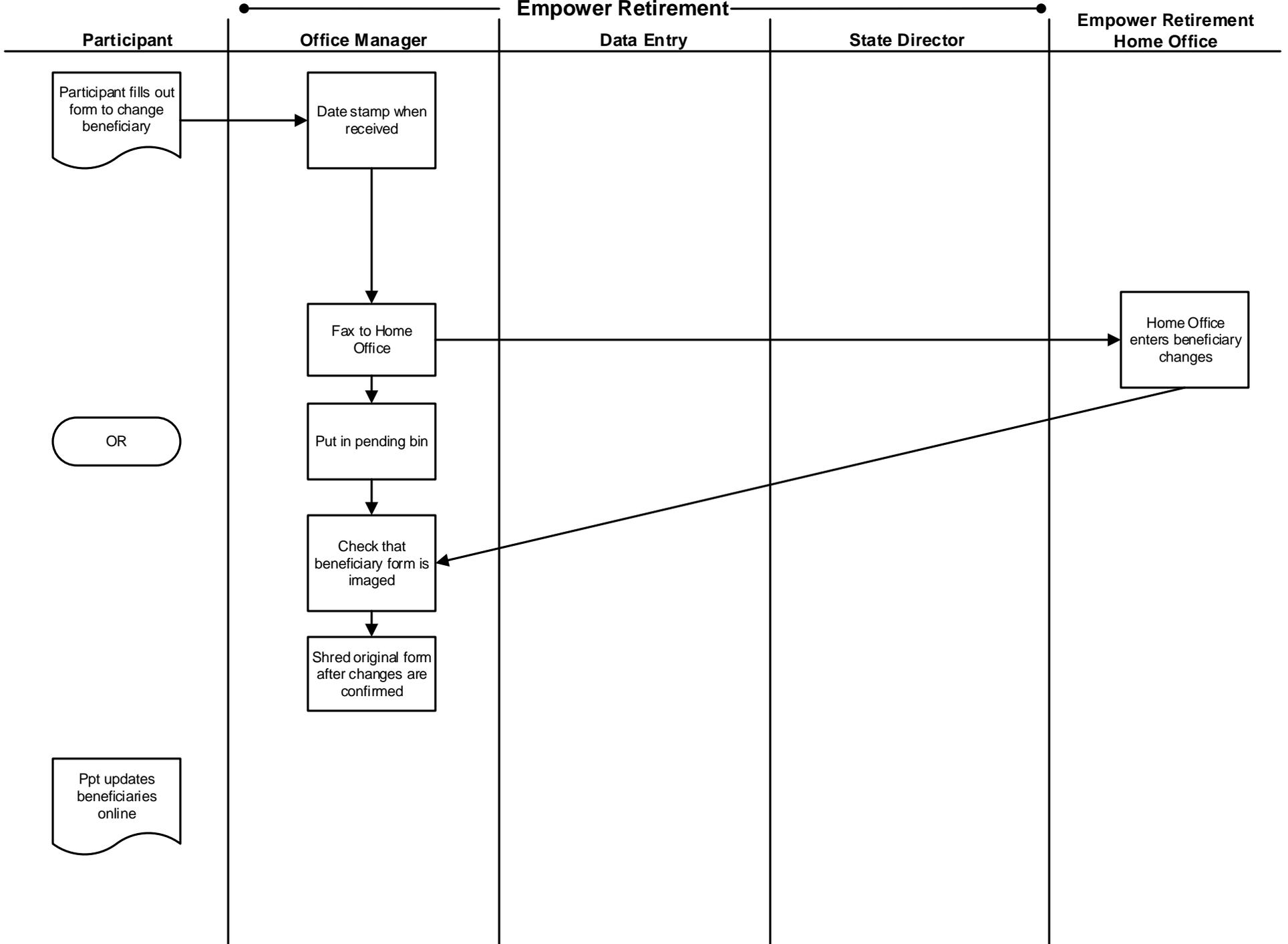


# Empower Retirement Wisconsin Deferred Compensation Program Distributions



# Empower Retirement Wisconsin Deferred Compensation Program Change in Beneficiaries

Empower Retirement



Participant

Office Manager

Data Entry

State Director

Empower Retirement  
Home Office

Participant fills out  
form to change  
beneficiary

Date stamp when  
received

Fax to Home  
Office

Home Office  
enters beneficiary  
changes

OR

Put in pending bin

Check that  
beneficiary form is  
imaged

Shred original form  
after changes are  
confirmed

Ppt updates  
beneficiaries  
online

# Empower Retirement Wisconsin Deferred Compensation Program Rollover Contributions

