



STATE OF WISCONSIN
Department of Employee Trust Funds
Robert J. Conlin
SECRETARY

Wisconsin Department
of Employee Trust Funds
PO Box 7931
Madison WI 53707-7931
1-877-533-5020 (toll free)
Fax 608-267-4549
etf.wi.gov

Correspondence Memorandum

Date: May 23, 2018
To: Deferred Compensation Board
From: Yikchau Sze, Director, Office of Internal Audit
Shelly Schueller, Director, Wisconsin Deferred Compensation Program
Subject: Scope Discussion of Wisconsin Deferred Compensation Program
Self-Audit

ETF requests the Board's input on the scope of a Wisconsin Deferred Compensation Program (WDC) self-audit. No formal Board action is required.

The Board has expressed interest in an internal department review or self-audit of the WDC Program. The goal is to ensure that the WDC continues to comply with applicable laws and regulations and to identify potential plan operation issues or areas needing improvement.

The Board regularly contracts independent CPA firms to conduct recurring specific audits of the WDC, and ETF has recently leveraged internal resources to perform two additional focused reviews.

Recurring Audits:

1. Annual Financial Statements Audit

An annual audit of the WDC's financial statements is done to provide independent assurance that the presentation of the plan's investments and financial position is true and fair.

The 2017 annual financial statements audit, conducted by Coleman & Williams, included performance of analytical reviews, inspection of accounting records, and other audit procedures necessary to enable Coleman & Williams to express an audit opinion. For example, Coleman & Williams inspected supporting documents of a sample of WDC participants to ensure the accuracy and proper recording of deferral redirections, withdrawals and other selected transactions. Any plan

Reviewed and approved by Robert J. Conlin, Secretary

Electronically Signed 5/29/18

Board	Mtg Date	Item #
DC	6.14.18	5

amendments executed in 2017 and enrollment packages provided to employees during the year were also examined for compliance. Coleman & Williams expressed the following opinion on the WDC's 2017 financial statements: "In our opinion, the financial statements...present fairly, in all material respects, the financial status of the Plan as of December 31, 2017, and the changes in its financial status for the year then ended, in accordance with accounting principles generally accepted in the United States of America."

2. Biannual Contract Compliance Audit.

A contract compliance audit is done to provide the Board with reasonable assurance that the WDC Program's plan administrator is meeting the objectives and requirements of the specific contract while in conformance with applicable laws and regulations.

Wipfli CPAs and Consultants is currently under contract with the Board to provide contract compliance audits of the WDC's third-party administrator, Empower Retirement. The 2017 WDC contract compliance audit included sample testing in the areas of enrollment, deferrals, hardships, withdrawals, domestic relations orders, catch-up, rebalancing, deferral redirections, transfers and performance standards. There are no audit findings from this compliance audit.

ETF Reviews:

1. Empower Retirement Service Organization Controls (SOC) Report

An SOC report is a report on controls at a service organization that are relevant to the user entity's financial reporting. SOC reports are issued by independent auditors to provide reasonable assurance of the controls at the service organization and to help user entities to assess potential impact on user entities' internal controls over financial reporting.

ETF recently completed a review of the most current Empower Retirement SOC report, issued by Deloitte for the period from July 1, 2016 through June 30, 2017. The independent auditor expressed a clean opinion on the fairness of Empower Retirements' description of controls, the suitability of control design, and the operating effectiveness of controls. User entity controls and testing exceptions discussed in the SOC report were also evaluated as part of the review process.

2. Information Security

The Board's 2017 administrative services contract extension with Empower Retirement included revisions to privacy and cybersecurity provisions and an expanded information security agreement. Consequently, Empower Retirement will annually provide ETF with reports or certifications results from the audits or assessments of Empower Retirement's management, operational and technical information security controls against an industry control framework. Reports and

certifications received from Empower Retirement will be reviewed by ETF's Bureau of Information Security Management.

In identifying the potential scope of a self-audit, ETF became aware that in 2016 IRS audits of s. 457(b) plans focused on the following areas: appropriate signatures on plan and trust documents, timely deposits of deferrals, appropriate use of catch-up provisions, deferral change timing (first day of the month), financial emergency withdrawals, tracking of Roth contributions, distributions, and account roll overs.

As shown in the table below, many of the IRS recent audit focus items have been reviewed as part of the WDC's current audits.

IRS Audit Items			
	Financial Stmt. Audit	Contract Compliance. Audit	Note/Other
Signatures on documents			Yes - ETF
Timely Deposits		X	
Catch-Up Provisions		x	
Deferral Changes	x	x	
Financial Emergencies		x	
Distributions	x	x	
Roll Overs		x	
Roth Contributions	x (although not specific to Roth)	x (although not specific to Roth)	

Staff are seeking the Board's input on a proposed scope of work for the self-audit, which should cover areas not already addressed by existing audits.

Staff will be at the Board meeting to discuss ideas and scope for a self-audit.