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Correspondence Memorandum

Date: November 11, 2024

To: Deferred Compensation Board

From: Shelly Schueller
 Deferred Compensation Director

Subject: 2023 Contract Compliance Audit Findings Update

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

The Department of Employee Trust Funds (ETF) and Empower discussed the recommendations identified in the calendar year 2023 (CY2023) Wisconsin Deferred Compensation Program (WDC) contract compliance audit ([Ref. DC | 06.06.24 | 4](#)). A total of four findings and four process improvement considerations were recommended. This memo provides an update on the actions taken since the September board meeting ([Ref. DC | 09.12.24 | 9](#)). This is the last update for the CY2023 contract compliance audit. ETF is satisfied with the audit deliverables completed by Empower and considers the audit closed.

Summary of Audit Findings and Actions

1. Quarterly Service Level Agreement Reporting
 - a. Empower to:
 - i. Implement a process to ensure records can be provided to ETF to allow for timely monitoring and validation of performance standards; and
 - ii. Implement a report review process to ensure the quarterly Service Level Agreement (SLA) report is accurate.

Action:

- i. Empower completed their review of WDC SLAs/performance standards. The summary report provided to ETF indicates which SLAs/performance standards have backup data that can be shared and whether the backup data available are global or specific to the WDC.
- iii. Empower has reviewed its internal processes to ensure each quarterly Service Level Agreement report is accurate. Beginning 3Q24, the SLA report from Empower ([Ref. DC | 12.05.24 | 9E3](#)) has been revised and

Patti Epstein

Reviewed and approved by Patti Epstein, Chief Benefits Officer, Division of Benefits Administration
 Electronically Signed 11/15/2024

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improved. In addition to the summary page showing quarterly results, it now includes an appendix with available monthly backup data.

b. ETF to:

- i. Require supporting documentation be submitted with the Quarterly Service Level Agreement reports or as requested, consider a contract penalty for instances when requests for supporting documentation are not timely or accurately provided;
- ii. Perform regular reviews or sample verifications of performance standards; and
- iii. Amend the contract language to clarify the appropriate scale to be used for the Employer Survey.

Action:

- i. Empower completed and shared a summary of its SLAs/performance standards with ETF. This summary indicates that plan-specific data can be provided for seven SLAs. Global data is available for an additional four SLAs. Backup data is not available for external sharing for five SLAs
- ii. ETF reviewed the SLA/performance standards summary completed by Empower. After evaluating oversight options and staff capacity, ETF intends to implement a review of backup data for certain SLAs. Beginning in 2025, ETF will periodically seek to verify accuracy of certain random SLAs. If requested backup data is not provided or this approach is determined to be insufficient, then a future contract amendment that requires timely supporting documentation for SLAs will be pursued.
- iii. Language on the employer survey scale will be included with the next contract amendment or extension, whichever comes first.

2. Self-Directed Option (SDO) Required Minimum Balances and Participant Fees

- a. ETF to identify changes that may be warranted to ensure required minimum core investment balance is maintained for participants utilizing the SDO and participant fees are appropriately charged. Changes include an annual \$60 SDO fee, increasing the minimum balance from \$1,000 to \$3,000 to establish a SDO account, and requiring a minimum balance of \$2,500 be maintained in the core investment spectrum.

Action: In September 2024, the Board approved revising the WDC Plan and Trust to implement revisions identified by ETF that will help ensure required minimum core investment balances and accurate payment of participant fees. These changes will take effect on January 1, 2025.

- b. Empower to implement procedures and controls to ensure required minimum balances in the core investment options are maintained for participants utilizing the SDO and participant fees are appropriately charged.

Action: Empower will implement the SDO changes as authorized by the Board in September 2024, beginning January 1, 2025.

3. Equity Wash Requirements

Empower to determine the cause for the override of the transfer from the Stable Value Fund to a competing investment option and implement a process to ensure equity wash requirements are adhered to.

Action: The override of the transfer was due to a manual oversight. The manager who approved the override is no longer with Empower. The call center representative who entered the override has been provided additional coaching and training. The participant account was corrected, and the participant was notified in writing of this correction.

4. Contribution Limit Review

Empower to improve its 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.

Action: ETF and Empower discussed the WDC local office's over deferral project parameters in May 2024 and agreed on revisions to certain internal Empower procedures that should result in improvements to this process.

Summary of Audit Process Improvement Considerations and Actions Taken

The Office of Internal Audit recommended three process improvements for ETF and one for Empower, as follows:

1. ETF: Impose penalties associated with failed performance standards each quarter, rather than only if the performance standard is missed for two consecutive quarters.

Action: After discussion, ETF and Empower agree this topic should be included with any future contract amendments or contract extension negotiations.

2. ETF: Review performance standards with Empower to determine whether certain performance standards can be reported at plan-level and whether Empower can accommodate this.

Action: Empower reviewed this consideration. Empower states that their performance standards are consistent across their "book of business," and no government clients receive the additional level of performance standard reporting suggested by this contract compliance finding.

ETF agrees that this topic should be included with any future contract amendments or contract extension negotiations.

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

Action: SSN was corrected on April 18, 2024.

4. Empower: Determine the cause for managed account fees that are not charged a prorated fee at the time of full withdrawal and implement process to ensure managed account fees are appropriately collected. These fees are collected by Empower and do not impact the funds used to administer the WDC.

Action: This is a known internal issue at Empower. It does not impact the WDC as the managed account fees are paid directly to Empower.

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

Attachment A: [ETF Office of Internal Audit WDC audit tracking spreadsheet](#)