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CORRESPONDENCE MEMORANDUM

DATE: September 2, 2009
TO: Audit Committee Members
FROM: John Vincent, Director
Office of Internal Audit
SUBJECT: Audit Plan 2009-2011

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

In accordance with the Department of Employee Trust Funds (ETF) Internal Audit Charter, the Audit Plan for the biennial period July 1, 2009, thru June 30, 2011, is enclosed.

The content of the Audit Plan was created using the Internal Audit risk assessment model in conjunction with information obtained from ETF division and office management, and from discussions with the Secretary's Office.

I will be at the Audit Committee meeting to discuss the Audit Plan and answer any questions you may have.

Enclosure: Audit Plan 2009-2011

Reviewed and approved by Rhonda Dunn, Executive Assistant, Office of the Secretary.

Signature

Date

Board	Mtg Date	Item #
AUD	9/17/09	2

DEPARTMENT OF EMPLOYEE TRUST FUNDS

AUDIT PLAN

2009 – 2011



Department of Employee Trust Funds Audit Plan

2009-2011

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Executive Summary

This Audit Plan presents the Department of Employee Trust Funds (ETF) Office of Internal Audit's priorities for the biennial period July 1, 2009, thru June 30, 2011. The Audit Plan has been developed and submitted as required by the *ETF Internal Audit Charter*, and conforms to the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors (IIA). The IIA is recognized as the authoritative body for a program of internal auditing.

Fourteen audits have been identified in this Audit Plan (six during FY 2010, eight during FY 2011), in addition to annual reviews, projects and consulting activities. Information on these projects is presented in the attached Appendices:

- Appendix A – FY 2010 Audit Plan
- Appendix B – FY 2010 Audit Descriptions
- Appendix C – FY 2011 Audit Plan
- Appendix D – FY 2011 Audit Descriptions

Audit Planning Methodology

Projects were identified for this Audit Plan by using a risk assessment model and receiving input from ETF division and office management and discussions with the Secretary's Office. Available resources, competing priorities, capabilities of audit staff, and the preference of the respective division/office were taken into consideration in preparation of this plan. Using input from all available sources, Internal Audit staff exercised judgment in selecting projects for the Audit Plan.

The Audit Plan is a dynamic document that may change during the year and biennium as circumstances dictate. Periodic reassessment of risk, requests from management or the Audit Committee, and changes in the organization or operations may result in changes to the Audit Plan. Certain projects are described in the Audit Plan only in general terms. The specific application of audit resources will be determined when a project is initiated, based on a more detailed assessment of relative risks in that area.

Risk Assessment

Risk assessment is defined as a "systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events." This was the first time a department-wide uniform risk assessment exercise was completed by ETF.

"Risk" is the degree to which activities are exposed to the potential for financial loss, the inappropriate disclosure of data, or other creditability problems that result from the absence or inadequacy of control or effectiveness of human resources. Furthermore, risk is a measurement of the likelihood that an organization's goals and objectives will not be achieved. Since controls are anything that improve the likelihood that goals and objectives will be achieved, controls and risk are inversely related by definition. Better control means less exposure to risk.

For this exercise, each division and office identified a list of risks for their respective business area. Each then applied the following rating factors to their risks. Each risk factor was assigned a numeric value of 1-5, and was weighted based on the judgment of the internal auditors. The results were then categorized by High, Medium, and Low, and were used as one tool to help select which audits should be included in the Audit Plan.

1. Severity
2. Complexity
3. Internal Controls – Information Systems
4. Internal Controls – General
5. Change
6. Time Since Last Review

Appendix E provides a definition of each factor.

Staffing and Available Audit Hours

The Office of Internal Audit includes the Director and two internal auditors. One auditor specializes in information technology, the other in operations. Available hours are normally calculated using 2,080 hours per staff, less allowances for vacation, sick leave, holidays and training, along with the mandatory eight furlough days in each fiscal year. Additional hours are reserved for administrative duties including the attendance of Audit Committee and Board meetings, management meetings and other such activities. Because work on the FY 2010 Audit Plan will begin mid-August, the FY 2010 hours have been adjusted to 1,820. **Appendix F** presents the calculation of available audit hours.

Audit Plan

Internal Audit staff believes that ETF, the benefit programs it administers, and participating members would be best served by conducting internal audits in each of the divisions and offices, when feasible and appropriate. Thus, the Audit Plan would address the main concerns that were presented during discussions with each of the following divisions and offices.

- Division of Insurance Services
- Division of Management Services
- Division of Retirement Services
- Office of Budget and Trust Finance
- Office of Legislative Affairs, Communications and Quality Assurance
- Office of Policy, Privacy and Compliance

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Audit Plan - FY2010

	Division or Office (1)	FY2010 Budgeted Hours (2)	Percent of Total Hours	Description
Audit Projects				
<u>Carryover Audits From Prior Years to CY2009</u>				
* Follow-up audit of prior recommendations	OIA	160	5%	Follow-up on pre-CY2009 open Plans of Action
<u>FY2010 Audits</u>				
* Dependent eligibility audit	DIS	400	12%	Audit eligibility of dependents (Hlth Ins)
* ASLCC data maintenance and processing accuracy	DRS	480	15%	Assess integrity of processing and existing controls
* Retirement annuity adjustments	DRS/DMS	260	8%	Audit accuracy of process to perform annual annuity adjustment
* Actuarial data verification	OBTF/DMS	310	9%	Examine control over data provided to board actuary
* Department-wide system reconciliation	DMS/DRS/DIS	500	15%	Audit current standards of system reconciliation
* Pandemic planning	DMS/OPPC	265	8%	Risk assess the effectiveness of ETF's pandemic plan
Sub-total Carryover Audits and FY2010 Audits		2,375	72%	
<u>Annual Requirement</u>				
* Third party audits and SAS 70 reviews	OIA	300	9%	Review third party audits and SAS 70 reports
* Annual review of audit manual and charters	OIA	100	3%	Annual review of Audit Manual and Charters
* Annual audit plan review or development	OIA	80	2%	Annual review or development of Audit Plan
Sub-total Annual Requirement		480	14%	
<u>Other Projects/Consulting</u>				
* Feedback survey - Ret Calc audit	OIA	40	1%	Conduct feedback survey of completed audits
* Educational program development	OIA	60	2%	Establish education program regarding Internal Audit function
* Quarterly meetings with division/office leadership	OIA	50	2%	Discuss current events and potential audits
* Assessment of ETF Internal Controls report	OIA	120	4%	Annual review of controls included in report
* Employer audit program research, analysis and strategies	OIA	80	2%	Develop program objectives, process, and proposal
* Special requests, other contingency	OIA	100	3%	Allocation for special and ad hoc requests
Sub-total Other Projects/Consulting		450	14%	
Total		3,305	100%	

(1) Code

DIS = Division of Insurance Services

DMS = Division of Management Services

DRS = Division of Retirement Services

OBTF = Office of Budget and Trust Finance

OLACQA = Office of Legislative Affairs, Communications and Quality Assurance

OPPC = Office of Policy, Privacy and Compliance

(2) Projected audit hours of OIA staff

DEPARTMENT OF EMPLOYEE TRUST FUNDS

AUDIT DESCRIPTIONS

FY 2010

The following provides a brief description of the audit scope and the reason that the audit is included in this plan.

1. **Follow up audit of prior recommendations**

- **Scope:** This audit will review the 159 findings from audits that were completed prior to 2009 that have not yet been addressed. The Office of Internal Audit will collaborate with the respective division/office to develop a plan to close out or complete the plans of action during FY2010.
- **Reason for audit:** Identified by the Office of Internal Audit as an annual function of the audit plan. The Department, the Wisconsin Retirement System, and participants continue to be vulnerable to the risks that were audited and the findings that were reported prior to 2009, until corrective action has been implemented.

2. **Dependent Eligibility Audit**

- **Scope:** This audit will (1) examine procedures to control that dependents listed on benefit enrollment forms meet eligibility requirements, (2) select a statistical sample of employers to determine whether dependents listed are in compliance with eligibility requirements, and (3) research external resources to conduct employer audits regarding validity of recorded dependents.
- **Reason for audit:** Requested by the Division of Insurance Services as a priority due to concern that there are covered dependents that are ineligible for health insurance and prescription drug benefits.

3. Accumulated Sick Leave Conversion Credit (ASLCC) Data Maintenance and Processing Accuracy

- **Scope:** This audit will assess the accuracy of various ASLCC data components, integrity of manual and automated processing, and reliability of existing controls. It includes examining:
 - √ Accuracy of premium amounts being charged to sick leave credit accounts.
 - √ Integrity of demographic and other key data.
 - √ Reliability of accounting processing steps, with a focus on account depletion and change history processes.
 - √ Coordination with other systems (vendor, providers, Treasury, etc.).

- **Reason for audit:** Requested by the Division of Retirement Services. The ASLCC is the program whereby State and University employees convert their unused accumulated sick leave hours to an account to cover health insurance premiums after retirement. The current system process uses minimal, 1970's technology; may not be further automated for some time; but, manages \$2.16 billion in sick leave (as of December 2008) for 17,000+ members.

4. Retirement Annuity Adjustments

- **Scope:** This audit will review the process and accuracy of adjustments to annuitant accounts and annuity payments resulting from the annual annuity (dividend) adjustments.

- **Reason for audit:** Requested by the Office of Internal Audit. The 2009 annuity adjustments were the first to be applied within the new Benefit Payment System (BPS). Therefore, it is prudent to follow up with a review of the new system to ensure the accuracy of the process and adjustments.

5. **Actuarial Data Verification**

- **Scope:** This audit will examine the control over the data extracted from the Department records to determine whether it is correctly extracted and that the integrity of the data is maintained before transmittal to the Employee Trust Funds (ETF) actuarial consultant.
- **Reason for audit:** Requested by the Office of Budget and Trust Finance. The 2009 data provided to the consulting actuary was the first to be extracted from the BPS. Therefore, it would be prudent to ensure that all relevant data is being provided.

6. **Department-wide System Reconciliation**

- **Scope:** This audit will compare the regular production reconciliation standards that are exclusive to Wisconsin Employee Benefit System (WEBS), Health Insurance and Complaint System (HICS), Benefit Payment System (BPS), and Retirement Calculation (Ret Calc) systems to determine the consistency of automated and manual reconciliation of essential financial and service data, codes for daily operations, system interfaces, and disaster recovery procedures.
- **Reason for Audit:** Requested by the Office of Internal Audit. ETF utilizes a variety of system reconciliation standards exclusive to WEBS, HICS, BPS and Ret Calc systems. Therefore, it is beneficial to determine: 1) if existing standards accurately and completely detect out of balance, system integrity, and system interface conditions; 2) prevent errors from going forward; 3) ensure reliable disaster recovery; and 4) if value can be added by applying uniform standards to all systems.

7. **Pandemic Planning**

- **Scope:** This audit will risk assess the effectiveness of ETF's pandemic plan and ability to initiate, continue, and recover. Audit would include communications, human resource issues, logistical challenges, general resiliency, etc.
- **Reason for audit:** Requested by the Office of Policy, Privacy & Compliance and the Division of Management Services. This risk was identified and the audit was recommended following the risk assessment process. The recommendation is based on the emergency-level developments of the H1N1 virus during 2009, and the projected increase in the scope and severity of the virus late in 2009 and into 2010.

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Audit Plan - FY2011

	Division or Office (1)	FY2011 Budgeted Hours (2)	Percent of Total Hours	Description
Audit Projects				
<u>FY2011 Audits</u>				
* Follow-up audit of prior recommendations	OIA	200	5%	Annual follow-up on previous audit recommendations
* Drop-filed documents	DMS	340	9%	Audit documents not imaged
* Retirement, death, disability and service purchase estimates	DRS/DMS	450	11%	Assess accuracy and integrity of estimate calculations
* Maintaining service availability	OLACQA	271	7%	Assess procedures to ensure adequate coverage
* Vulnerability project	DMS	80	2%	Research and identify system exposures
* Proprietary software inventory	DMS	330	8%	Determine if proprietary software is adequately supported
* COOP program	DMS/OPPC	440	11%	Assess ETF's COOP plan, provisions, and procedures
* Retirement system file maintenance accuracy	DRS/DMS	450	11%	Audit integrity of BPS system file maintenance transactions
Sub-total Audits		2,561	64%	
<u>Annual Requirement</u>				
* Employer audits	OIA	80	2%	Initiate employer audits
* Third party audits and SAS 70 reviews	OIA	300	8%	Review third party audits and SAS 70 reports
* Review of ETF internal controls report	OIA	80	2%	Annual review of controls included in report
* Annual review of audit manual and charters	OIA	140	4%	Annual review of Audit Manual and Charters
* Risk assessment and audit plan development	OIA	240	6%	Annual review or development of Audit Plan
Sub-total Annual Requirement		840	22%	
<u>Other Projects/Consulting</u>				
* Feedback surveys	OIA	120	3%	Conduct feedback survey of completed audits
* Quarterly meetings with division/office leadership	OIA	40	1%	Discuss current events and potential audits
#REF!	OIA	400	10%	Allocation for special and ad hoc requests
Sub-total Other Projects/Consulting		560	14%	
Total		3,961	100%	

(1) Code

- DIS = Division of Insurance Services
- DMS = Division of Management Services
- DRS = Division of Retirement Services
- OBTF = Office of Budget and Trust Finance
- OLACQA = Office of Legislative Affairs, Communications and Quality Assurance
- OPPC = Office of Policy, Privacy and Compliance

(2) Projected audit hours of OIA staff

DEPARTMENT OF EMPLOYEE TRUST FUNDS

AUDIT DESCRIPTIONS

FY 2011

The following provides a brief description of the audit scope and the reason that the audit is included in this plan.

1. Follow up audit on prior recommendations

- **Scope:** This audit will determine if entities audited in the prior year have successfully addressed the findings noted during the audit as indicated in their responses.
- **Reason for audit:** Annual function of the Office of Internal Audit as part of the audit plan. The Department, the Wisconsin Retirement System, and participants will continue to be vulnerable to the risks that were audited and the findings that were reported until corrective action has been implemented.

2. Drop-filed Documents

- **Scope:** This audit will review the current imaging process to assess risk and determine the consequences of not immediately imaging documents when coming into Employee Trust Funds (ETF). (For example, life and health insurance forms, participant correspondence qualified or separated service applications, sick leave re-enrollment applications, military service certifications, etc.)
- **Reason for audit:** Requested by the Division of Management Services (DMS). DMS has requested consulting services of Office of Internal Audit to review the current process and recommend changes to make the process more effective and efficient.

3. **Retirement, death, disability and service purchase estimates**

- **Scope:** This audit will sample, recalculate, and verify the accuracy of retirement, death, disability and service purchase estimates.
- **Reason for audit:** This audit was requested by the Division of Retirement Services so that an independent review can be completed to verify the accuracy of estimates and to consult leadership on process improvements.

4. **Maintaining Service Availability**

- **Scope:** This consulting request will identify important functions that rely heavily on the expertise of staff members based on a survey of employees and to consult leadership on the plans or procedures in place for possible enhancement.
- **Reason for audit:** Requested by the Office of Legislative Affairs, Communications, and Quality Assurance. To determine if adequate plans and procedures are in place for continuing the performance of departmental communications, ombudsman, complaint resolution, forms management, media site management, and legislative analysis if staff become unavailable.

5. **Vulnerability Project – Identify Top Hardware and Software Exposures**

- **Scope:** In anticipation of a hardware and software vulnerability study, the Division of Management Services (Information Technology bureaus) and the Office of Internal Audit will initiate a project to research and identify the exposures most frequently identified by a vulnerability study (for example, weak passwords). The goal is two-fold: 1) Specific tests will be identified for the contract service to perform, and 2) Information Technology will attempt to address each exposure, so that the vulnerability study could focus on higher level exposures.
- **Reason for audit:** Requested by the Division of Management Services. Vulnerability of ETF Local Area Network and mainframe, hardware and software to viruses, hackers, etc., has not been fully determined because funding was not available for contract services. In the 2009 risk assessment, several data vulnerability risks were identified.

6. Proprietary Software Inventory

- **Scope:** This audit will determine if the inventory of the Local Area Network (LAN) and mainframe proprietary software are supported, will assess vendor financial status, the cost to maintain the product, and future Division of Management Services software concerns.
- **Reason for audit:** Requested by the Division of Management Services because of concern with the risk of ETF using proprietary software that has limited to no support in the future.

7. Continuity of Operations Program (COOP)

- **Scope:** This audit is an independent assessment of the COOP plan, provisions, and procedures to ensure that ETF can initiate, continue, and recover critical and normal operations after a catastrophic event.
- **Reason for audit:** Requested by the Office of Policy, Privacy & Compliance and the Division of Management Services. This risk was identified and the audit was recommended following the risk assessment process. Audit would be to assure ETF's plan, procedures, testing and training exercises conform to State guidelines.

8. Retirement System File Maintenance (F/M) Accuracy

- **Scope:** This audit will sample/recalculate/verify the accuracy of various F/M transactions in the Benefit Payment System (BPS) by volume, dollar amount, and type. In addition, the audit would review electronic transactions back to each involved staff. F/M is used to change one or more member records. F/M may include routine changes, updates, copying, moving and/or deleting of one or more data elements in a computer system.
- **Reason for audit:** Requested by the Office of Internal Audit. Best practice is to perform audits on new systems shortly after implementation. This audit is to perform a targeted audit on the new BPS that was implemented in October 2008.

Risk Assessment Factor Definitions

1. **Severity:**

Significance of event on ability to meet strategic and/or organizational goals and objectives at the unit, bureau, division/office or department level. Amount of impact the audit area has on the system's constituents. Includes concern for public perception. Concern about adverse publicity; laws and regulations; customer demands; and political exposure.

2. **Complexity:**

Complexity includes amount of time, number of steps, techniques or procedures, degree of difficulty, training necessary, and interaction with other agencies/divisions necessary to complete a work task or process a transaction. Complexity can increase both the probability of error and the effort required to monitor the system. Includes complexity of federal and state laws, rules and regulations governing a particular program.

3. **Internal Controls – General:**

The extent that controls are in place to address internal control factors and Employee Trust Funds internal control standards. Degree of integrity and reliability of management functions of planning, organizing, staffing, directing, controlling, documented policies and procedures, audit trails, compensating controls when policy and procedures are overridden, segregation of duties and responsibilities, supervision and training, planning for business resumption and contingency, and reconciliation controls, make exposures for this audit. The internal control structure takes into consideration the adequacy of written procedures and whether or not controls have been previously tested.

4. **Information Technology Controls:**

Computer applications affect the accuracy and timeliness of completed work tasks, as well as the productivities of the staff. Information systems should process information in a secure, reliable and accurate manner.

Age, condition, efficiency and effectiveness of the data processing system specific to this audit area, and the perceived impact of general information technology controls related to: consistent use of an acceptable systems development methodology (including programmer and user documentation and testing procedures), consistent use of an acceptable project management system, effective computer maintenance change controls (to assure application program changes are properly authorized, managed, and recorded), and effective logical access security to guard against unwarranted access and unauthorized changes to computer programs and/or data.

5. Change:

Changes in operations can impact the efficiency and effectiveness of the organization's performance. Criteria include changes in staff size, processing changes (manual to computerized), systems (input and/or output), as well as staff turnover. This area includes concerns of rapid growth, which includes rapid growth of personnel size and of additional programs added to an operational area.

Changes in operation to meet statutory, regulatory, and legal requirements, and/or to address organizational restructuring including modifications to manual or automated procedures such as increased use of technology.

Changes in operations since this area was last audited may have a significant impact on accuracy and timeliness of work completed, efficiency and effectiveness of operation, and the reliability of work products and records.

6. Time Since Last Review:

The duration of time that has passed since an area has last been audited by internal audit, Legislative Audit Bureau, or auditor of third party administrator

(1= Reviewed covered 2008, 2= Reviewed covered 2007, 3= Reviewed covered 2006, 4= Reviewed covered 2005, 5= Reviewed covered 2004 or before, or not at all).

DEPARTMENT OF EMPLOYEE TRUST FUNDS

Calculation of Available Audit Hours - FY 2010

	Internal Auditors					Detail
	Audit Director	Information Technology	Operations	Summary	%	
Total Hours (1)	1,820	1,820	1,820	5,460	100%	Three FTE's
Less:						
General Administration	376	80	80	536	10%	Administration; board, committee, and management meetings
Job Training	160	80	45	285	5%	Webinars/Workshops/Training
Holidays & Personal	92	92	92	276	5%	Holiday and personal hours
Vacation & Sick Leave	284	294	288	866	16%	Annual sick and vacation time
Furlough	64	64	64	192	4%	Executive Order: 8 furlough days per fiscal year (fy10, fy11)
Total Annual Audit Hours	<u>844</u>	<u>1,210</u>	<u>1,251</u>	<u>3,305</u>	61%	

(1) Represents a prorated number of hours due to the Mid-August 2009 Audit Plan implementation.

Calculation of Available Audit Hours - FY 2011

	Internal Auditors					Detail
	Audit Director	Information Technology	Operations	Summary	%	
Total Hours	2,080	2,080	2,080	6,240	100%	Three FTE's
Less:						
General Administration	376	80	80	536	10%	Administration; board, committee, and management meetings
Job Training	160	80	45	285	5%	Webinars/Workshops/Training
Holidays & Personal	100	100	100	300	5%	Holiday and personal hours
Vacation & Sick Leave	330	330	306	966	18%	Annual sick and vacation time
Furlough	64	64	64	192	4%	Executive Order: 8 furlough days per fiscal year (fy10, fy11)
Total Annual Audit Hours	<u>1,050</u>	<u>1,426</u>	<u>1,485</u>	<u>3,961</u>	63%	