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CORRESPONDENCE MEMORANDUM

DATE: September 3, 2010

TO: Audit Committee Members

FROM: John Vincent, Director
Office of Internal Audit

SUBJECT: 2009-2011 Audit Plan Status

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

Attached is an updated report reflecting the status of the audit engagements included in the 2009-2011 Internal Audit Plan. Below is a summary of other Audit Plan activities Internal Audit was involved with through August 31, 2010.

Audit Plan Activities:

1. ***Third Party Audits and SAS 70 Reviews*** – Contract Compliance Audit Update:

   - ✓ Standard Plan Health
   - ✓ Pharmacy Benefits Manager
   - ✓ Life Insurance
   - ✓ Employee Reimbursement Account and Commuter Benefits
   - ✓ Income Continuation Insurance

2. ***Employer Audit Program Research Project*** – During Fiscal Year (FY) 2010, initial research on an employer audit program was conducted. I have discussed such a program with a number of other retirement systems. Those systems feel their programs have been effective at addressing issues with rehired annuitants, salary spiking, and the enrollment of part-time employees. They use the audits as an opportunity to educate the employers on requirements and procedures. In addition, I had internal meetings with the Divisions of Retirement Services (DRS) and Insurance Services to assess the feasibility of a program like this. Neither division has sufficient evidence or concerns that suggest implementing an audit program at this time. However, DRS will survey employers regarding rehiring of annuitants, in order to gain an understanding of their practices.

Reviewed and approved by Rhonda Dunn, Executive Assistant,
Rhonda Dunn 9-3-10
Signature Date

Board	Mtg Date	Item #
AUD	9.16.10	4A

In addition, a Department Customer Service and Outreach initiative has received funding through the 13.10 process. It is now being developed, staffed, and put into action. As it evolves, it is expected to have a positive impact on employer education and compliance efforts.

Therefore, further discussions on the development of an employer audit program are on hold until results are known from the initiative. My plan is to follow-up with the Divisions and the Secretary's Office in late 2011 or early 2012 to assess whether further consideration of a program like this would be beneficial to the Department.

It is worth noting that the Legislative Audit Bureau (LAB) periodically suggests that we do more "spot checking" of employer calculations, such as ICI, sick leave, etc. The Department will consider a more aggressive audit stance if the employer education initiative is not as effective as is anticipated.

3. ***Feedback Survey*** – Survey was completed on the Follow-up Audit of Prior Recommendations, with an excellent overall rating of 4.5 out of 5.0.

4. ***Educational Program*** – Published an article on Internal Audit's role and responsibilities for the internal employee newsletter, *Trusty News* (copy attached).

This summer Internal Audit was fortunate to have an intern, Andrea High, through the State's TOPJobs Summer Internship Program. Andrea completed field work and drafted the report on the Drop-File Document Audit, in addition to assisting the Division of Management Services with the development of records disposal schedules. Andrea will be continuing her course of study in the Master of Business Administration at the University of Wisconsin - Whitewater.

I will be available to answer questions.

Attachments: Audit Plan Status Report
Trusty News Article

DEPARTMENT OF EMPLOYEE TRUST FUNDS
2009-2011 Audit Plan
Status Report – August 26, 2010

Fiscal Year (FY) 2010 Audits

1. **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.

   - ***Status: Completed - Audit Report reviewed by Audit Committee March 2010***

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2. **Follow up Audit of Prior Observations (pre-2009 audits)**
   - **Scope:** This audit will review 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.

   - ***Status: Completed -***
     - ***257 Open Plans of Action reviewed***
     - ***196 Plans of Actions closed following review***
     - ***61 Plans of Actions that remain "open" with revised Plans of Action being developed***

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3. **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.

   - ***Status: The Group Insurance Board was advised of this audit initiative, at the August 2010 meeting, to include the random sample audit to start in 2011, and the communications campaign underway to raise awareness of who are eligible dependents. The campaign will include articles in the "It's Your Choice" booklet, "It's Your Benefit" newsletter, and information on the ETF website.***

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4. **Department-wide System Reconciliation** ***[Change in focus and name]***
   - **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.
   - ***Status: Fieldwork for this audit has started. Following discussions with the Division of Retirement Services and the Division of Management Services this review of system reconciliation will focus on the Benefit Payment System (BPS). Therefore, the title of this audit will be "BPS Reconciliation." This modified and targeted audit scope will allow us to use limited business and Internal Audit resources in the most effective manner.***

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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.
   - ***Status: Report is included in the September 2010 Audit Committee materials***

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6. **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.
   - ***Status: Fieldwork for this audit has started***

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7. **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.).
   - ***Status: Audit is scheduled for later in FY2011***

Fiscal Year (FY) 2011 Audits

8. **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.)
   - ***Status: Completed - Report will be presented at the September 2010 Audit Committee meeting***

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9. **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.
   - ***Status: Audit is scheduled for later in FY2011***

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10. Maintaining Service Availability [Remove from Audit Plan]

- **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.

- ***Status*: *Following a review with Matt Stohr, Director – Office of Communications and Legislation, of the purpose of this audit we have concluded that it is no longer a high priority for his Office, or needed. Therefore, this audit will be removed from the Audit Plan for FY2011. The basis for this change is due to reduced risk and improved service as a result of staff changes, the acquisition of important skill sets, and various back-up training that has occurred since the audit was identified early in 2009. Matt feels that they have a handle on maintaining general service availability. His Office will now focus on the remaining vulnerability (gaining additional subject matter expertise with Mediasite, related equipment and procedures).***

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11. Vulnerability Project – Identify Top Hardware and Software Exposures

- **Scope**: In anticipation of a hardware and software vulnerability study, the Division of Management Services (DMS) (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.

- ***Status*: *ETF's current engagement with the Department of Administration/Division of Electronic Technology (DOA/DET) is to perform a scan of ETF's devices looking for known vulnerabilities. For instance, making certain ETF is up to date on OS patches, browser, Java, Adobe, Office and other application patches. DOA/DET's scan is looking at the device seeing what is currently installed and determining whether it is outdated or problematic.***

  The next steps will involve having DOA/DET analyze samples of code to see if ETF is using good coding practices and test the perimeter of ETF's network, including firewalls.

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12. 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.

- ***Status: Audit is scheduled for later in FY2011***

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13. 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.

- ***Status: Audit is scheduled for later in FY2011***

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14. 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.

- ***Status: Audit is scheduled for later in FY2011***