

**STATE OF WISCONSIN  
DEPARTMENT OF EMPLOYEE TRUST FUNDS  
801 West Badger Road  
Madison, WI 53702**

**CORRESPONDENCE MEMORANDUM**

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**DATE:** April 10, 2002

**TO:** Deferred Compensation Board Members

**FROM:** Mary Willett, Director  
Supplemental Retirement Plans

**SUBJECT:** Update on Compliance Audits and Administrative Services Contract Extension

This memo is for informational purposes to apprise the Deferred Compensation Board of contract compliance audits for monitoring administration of the Wisconsin Deferred Compensation Program (WDC) and execution of the contract extension with Nationwide Retirement Solutions (NRS) to provide administrative services for the plan through 2005.

***Contract Compliance Audits***

At the November 2001 Deferred Compensation Board meeting, members were informed that a compliance audit was in process to examine several record keeping errors that had occurred during the year. NRS, in consultation with Department staff, had contracted with an independent audit firm, KPMG, to examine the errors, corrective actions and processes put in place to ensure similar errors would not be repeated. The final audit report (Exhibit 1) was issued on November 30, 2001 and no findings were noted.

Staff has begun additional discussions with KPMG to provide the routine compliance audit of the WDC administration this summer for the contract years 2000 and 2001. Review of 1999 records will occur for any areas of administration that are identified as a problem or question from records of 2000 or 2001. At the November meeting, the Board approved expenditure of funds in the administrative expense account, up to \$35,000, to complete this audit. This audit report is expected to be presented to the Board at the November 2002 meeting.

***Contract Extension***

In consideration of the record keeping error situations that occurred in 2001, staff delayed finalizing the three-year administrative services contract extension that the Board approved at last July's meeting until the conclusion of the compliance audit. The Board was informed of the delay in November and concurred that execution of the amendment should not occur until the audit was concluded and demonstrated that errors and record keeping systems were appropriately corrected. When the final report was issued with acceptable findings, the contract extension was provided to the Board Chair for signature. A copy of this amendment is attached as Exhibit 2. *[Note: The amendment also includes provisions to modify the administration of the WDC in consideration of the Economic Growth and Tax Relief Reconciliation Act of 2001. NRS proceeded with implementation of these changes prior to execution of the amendment.]*

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## EXHIBIT 1

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### **Independent Accountants' Report on Applying Agreed-Upon Procedures**

To the Board of Directors  
Nationwide Retirement Solutions, Inc.  
State of Wisconsin Deferred Compensation Committee  
State of Wisconsin Deferred Compensation Program:

We have performed the procedures enumerated below, which were agreed to by the management of the State of Wisconsin Deferred Compensation Committee (Wisconsin) and Nationwide Retirement Solutions, Inc. (NRS), solely to assist Wisconsin in evaluating NRS's administration of the State of Wisconsin Public Employees Deferred Compensation Plan and Trust (the Plan) with regard to the corrective actions that have been taken related to a series of known processing errors that management of Wisconsin and NRS have determined occurred from March 2000 through October 2001. NRS is responsible for administering the Plan and the identification of the known processing errors. Wisconsin has a fiduciary responsibility to oversee the administration of the Plan by NRS. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The listing of known errors (as provided to KPMG LLP by Wisconsin), Wisconsin management's objectives, the procedures that we performed and our findings are as follows:

#### **Error #1**

##### ***Description of Error:***

Over applied interest related to the Vanguard Admiral Money Market Fund to participant accounts during December 2000.

##### ***Wisconsin Management's Objective Number 1:***

To determine whether the correction process included all participants affected by this interest posting error.



***Procedures:***

For a sample of 18 participants judgmentally selected from an A/S-400 query completed by NRS personnel, which lists all participants invested in the Vanguard Admiral Money Market Fund (VUSX) as of December 31, 2000, we performed the following procedure:

- We compared the participant information from the A/S-400 query to the "Participant Correction Spreadsheet".

***Wisconsin Management's Objective Number 2:***

To determine that corrected interest income allocations were subsequently posted to the respective participant accounts completely and accurately, with the exception of accounts that were not corrected. Accounts not corrected included participant accounts that were deemed by Wisconsin as too small to correct – i.e., less than \$5.00, and participants who subsequently transferred out of VUSX and therefore had a zero balance in the VUSX account when the adjustments were applied.

***Procedures:***

For a sample of 18 participants judgmentally selected from the "Participant Correction Spreadsheet", including 3 participants that transferred out of VUSX but still maintained a positive balance, we performed the following procedures:

- We tested the mathematical accuracy of the "Participant Correction Spreadsheet" by recalculating the interest adjustment amount that was applied to the selected participant accounts.
- We compared the participant number and adjustment amount from the "Participant Correction Spreadsheet" to each selected participant's transaction history on the A/S-400 system.

***Findings:***

No exceptions noted.

**Error #2**

***Description of Error:***

Dividends for the Fidelity Contrafund were erroneously calculated on December 29, 2000 rather than the actual record date, which was December 28, 2000.

***Wisconsin Management's Objective Number 1:***

To determine whether the correction process included all participants affected by this dividend processing error.

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***Procedure:***

For a sample of 15 participants judgmentally selected from an A/S-400 query completed by NRS personnel, which lists all participant transactions involving the Fidelity Contrafund with an effective date of December 29, 2000, we performed the following procedure:

- We compared the participant name and social security number from an A/S-400 query to the "Fidelity Contrafund Adjustment Log".

***Wisconsin Management's Objective Number 2:***

To determine that dividend corrections were posted to the respective participant accounts completely and accurately.

***Procedures:***

For a sample of 15 participants judgmentally selected from the "Fidelity Contrafund Adjustment Log", we performed the following procedures:

- We tested the mathematical accuracy of the "Fidelity Contrafund Adjustment Log" by recalculating the dividend adjustment amount that was applied to the selected participant accounts.
- We compared the participant number and the dividend adjustment amount from the "Fidelity Contrafund Adjustment Log" to each selected participant's transaction history on the A/S-400 system.

***Wisconsin Management's Objective Number 3:***

To determine that dividend corrections were posted to the respective participants accounts completely and accurately for the participants who transferred or collected 100% of their Fidelity Contrafund balance subsequent to the processing error but prior to the application of the dividend correction.

***Procedures:***

For a sample of 3 participants judgmentally selected from the "Exchange Masterfile Summary" provided by NRS, which lists all exchanges out and payouts involving the Fidelity Contrafund from December 29, 2000 (date error occurred) to April 2, 2001 (date of correction) that left participants with a zero balance in their respective Fidelity Contrafund accounts, we performed the following procedures:

- We tested the mathematical accuracy of the "Exchange Masterfile Summary" by recalculating the dividend adjustment amount that was applied to the selected participant's accounts.
- We compared the participant number and the dividend adjustment amount from the "Exchange Masterfile Summary" to each selected participant's transaction history on the A/S-400 system.

***Findings:***

No exceptions noted.

### **Error #3**

#### ***Description of Error:***

Quarterly and annual dividends were not posted to participant accounts during 2000 for months in which an exchange occurred into or out of the self-directed brokerage option in the same month a dividend was paid and the transfer occurred prior to the dividend payment date.

#### ***Wisconsin Management's Objective Number 1:***

To determine whether the correction process included all participants affected by this dividend posting error.

#### ***Procedure:***

For a sample of 15 participants judgmentally selected from an A/S-400 query completed by NRS personnel, which lists all transfers in or transfers out of the self-directed brokerage option where the transfer occurred in the same month a dividend was paid and the transfer occurred prior to the dividend payment date, we performed the following procedure:

- We compared the participant name and social security number from the A/S-400 query to the "Personal Choice Retirement Account (PCRA) Correction Log" maintained by NRS.

#### ***Wisconsin Management's Objective Number 2:***

To determine that dividends were subsequently posted to the respective participant accounts completely and accurately.

#### ***Procedures:***

For a sample of 15 participants judgmentally selected from the "PCRA Correction Log", we performed the following procedures:

- We tested the mathematical accuracy of the "PCRA Correction Log" by recalculating the dividend adjustment amount that was applied to the selected participant's accounts.
- We compared the participant number and the dividend adjustment amount from the "PCRA Correction Log" to each selected participant's transaction history on the A/S-400 system.

#### ***Wisconsin Management's Objective Number 3:***

To determine that dividend adjustments were posted to the respective participant accounts completely and accurately for the participants who transferred or collected 100% of their fund balance subsequent to the processing error but prior to the application of the dividend adjustment.

***Procedures:***

For a sample of 3 participants judgmentally selected from the "Exchange Masterfile Summary", which lists all exchanges out and payouts involving participants who were subjected to Error #3 noted above but were no longer invested in the fund that paid the 2000 quarterly or annual dividend, we performed the following procedures:

- We tested the mathematical accuracy of the "Exchange Masterfile Summary" by recalculating the dividend adjustment amount that was applied to the selected participant's accounts.
- We compared the participant number and the dividend adjustment amount from the "Exchange Masterfile Summary" to each selected participant's transaction history on the A/S-400 system.

***Findings:***

No exceptions noted.

**Error #4**

***Description of Error:***

Failure to assess the participant fee to the Stable Value Fund accounts in May 2001.

***Wisconsin Management's Objective Number 1:***

To determine that the participant fees to the Stable Value Fund accounts were assessed completely and accurately for all months in 2001, other than May 2001.

***Procedure:***

For a sample of 3 participants judgmentally selected from the "Wisconsin Employee Listing" maintained by NRS, we performed the following procedure:

- We recalculated the Stable Value Fee for April 2001, June 2001 and September 2001 based on the "Tiered Asset Fee Schedule" for Wisconsin's deferred compensation program and compared our recalculated monthly Stable Value Fees, within \$.02, to the charges on the monthly statements for the selected participants located on the A/S-400 system.

***Findings:***

No exceptions noted.

**Error #5**

***Description of Error:***

Failure to timely apply five separate payroll deferrals (November 21, 2000, November 22, 2000, February 23, 2001, March 9, 2001 and April 13, 2001) to participant accounts.

***Wisconsin Management's Objective Number 1:***

To determine whether the "Error Correction Spreadsheets" included all participants affected by the processing error.

***Procedure:***

For all unapplied payroll deferrals for the five dates noted above, we performed the following procedure:

- We compared total unapplied deferral amounts pertaining to the aforementioned payroll dates from the "Summary Schedule of Wisconsin Incoming Payroll Deposits" to the "Error Correction Spreadsheets".

***Wisconsin Management's Objective Number 2:***

To determine that payroll deferrals were subsequently applied to participant accounts completely and accurately.

***Procedures:***

For a sample of 30 participants judgmentally selected from the "Error Correction Spreadsheets", we performed the following procedures.

- We tested the mathematical accuracy of the "Error Correction Spreadsheets" by recalculating the number of mutual fund shares that could be purchased with the selected participant's unapplied payroll deferral using current fund values on the date the error was corrected (September 6, 2001, September 10, 2001 or September 17, 2001) and the number of fund shares that could be purchased using historical fund values on the date the error occurred (November 21, 2000, November 22, 2000, February 23, 2001, March 9, 2001 or April 13, 2001).
- With respect to the April 13, 2001 payroll deferral only, we tested the mathematical accuracy of the "Error Correction Spreadsheets" by recalculating the number of mutual fund shares that could be purchased with the selected participant's unapplied payroll deferral using fund values from August 20, 2001, which is the date that the April 13, 2001 missed payroll was discovered and subsequently backdated without taking into consideration the Plan's established error resolution procedures.
- We compared the current and historical fund values (including the August 20, 2001 fund values) used in the "Error Correction Spreadsheets" to the unit values determined by NRS's "Valu" system for each of the aforementioned dates.
- We compared the maximum number of shares calculated by NRS and included on the "Error Correction Spreadsheets" to the selected participant's transaction history on the A/S-400 system.

Those participants included in our judgmentally selected sample who were credited mutual fund shares based on historical fund values were also credited with any dividends applied to the respective mutual funds between December 31, 2000 and June 30, 2001. For those participants we performed the following procedure:

- We recalculated the dividend payments from quarterly dividend information derived from NRS's "Valu" system and agreed the dividend payments to the selected participant's data screen on the A/S-400 system.

***Findings:***

No exceptions noted.

## **Error #6**

### ***Description of Error:***

Dollar-based exchange transactions executed on the voice response unit (VRU) and web site between August 21, 2001 and August 29, 2001 were not timely processed on the A/S-400 record keeping system.

### ***Wisconsin Management's Objective Number 1:***

To determine whether "Error Correction Spreadsheets" included all participants affected by the processing error.

### ***Procedures:***

For all unapplied exchange transactions as queried by NRS that were executed on the VRU and web site between August 21, 2001 and August 29, 2001, we performed the following procedures:

- We obtained a listing of all dollar-based exchanges requested over the VRU and web site that occurred between August 21, 2001 and August 29, 2001 from Imedia and compared the listing to an NRS query of all VRU and web site dollar based-exchange transactions that were entered onto A/S-400 between August 21, 2001 and August 29, 2001.
- For all participants included on the listing of dollar-based exchanges provided by Imedia that were not on the NRS A/S-400 query, we compared the participant number, transaction date, and transaction amount to the "Error Correction Spreadsheet".
- For all participants included on the listing of dollar-based exchanges provided by Imedia that were not on either the A/S-400 query or the "Error Correction Spreadsheet", we obtained the related participant correspondence documenting the selected participant's correction request and compared the requested action to the selected participant's transaction history on the A/S-400 system.

### ***Wisconsin Management's Objective Number 2:***

To determine that dollar-based exchange transactions were subsequently applied to participant accounts completely and accurately.

### ***Procedures:***

For a sample of 3 participants judgmentally selected from the "Error Correction Spreadsheet", we performed the following procedures:

- We tested the mathematical accuracy of the "Error Correction Spreadsheet" by recalculating the number of mutual fund shares that could be purchased with the respective participants unapplied dollar-based exchange requests using current fund values on the date the error was corrected (September 6, 2001) and the number of mutual fund shares that could be purchased by the selected participants using historical fund values on the date the error occurred (August 21, 2001, August 23, 2001 or August 24, 2001).

- We compared the current and historical fund values used in the “Error Correction Spreadsheet” to the unit values determined by NRS’s “Valu” system for each of the aforementioned dates.
- We compared the maximum number of shares calculated on the “Error Correction Spreadsheet” to the selected participant’s transaction history on the A/S-400 system.

***Findings:***

No exceptions noted.

**Error #7**

***Description of Error:***

Transfers to and from the self-directed brokerage option were not reconciled on a timely basis between Schwab and NRS. As a result, errors occurred on participant account records where balances were either under or over-stated.

***Wisconsin Management’s Objective Number 1:***

To determine whether the “Schwab-Wisconsin Reconciliation” included all participants whose balances were either under or over-stated.

***Procedure:***

For all unreconciled transfers to and from the self-directed brokerage option, we performed the following procedure:

- We compared the participant number, the date the transaction was initiated and the amount of the disparity from the “Schwab-Wisconsin Reconciliation” to the “Wisconsin Schwab Differences” report, which is an NRS report that summarized all participant accounts that were out of balance since the inception of the Schwab-Wisconsin program.

***Wisconsin Management’s Objective Number 2:***

To determine that the affected participant accounts were corrected completely and accurately.

***Procedures:***

For a sample of 4 participants judgmentally selected from the “Schwab-Wisconsin Reconciliation”, we performed the following procedures:

- We compared the participant number, the transaction date and the transaction amount from the “Schwab-Wisconsin Reconciliation” to the participant notification letters that were previously mailed and currently maintained by NRS.
- We compared the participants’ corrective action requests to the action indicated on the selected participant’s transaction history on the A/S-400 system or the Schwab institutional account history summary.

***Findings:***

No exceptions noted.

## **Error #8**

### ***Description of Error:***

Exchange transactions initiated through the VRU or Web site on Friday August 31, 2001, after 4:00 PM Eastern Standard Time, through Monday, September 3, 2001 were not timely processed on the A/S-400 record keeping system.

### ***Wisconsin Management's Objective Number 1:***

To determine whether the "Error Correction Spreadsheets" included all participants affected by the processing error.

### ***Procedures:***

For all exchange transactions initiated through the VRU or Website during the aforementioned dates, we performed the following procedures:

- We obtained a listing of all VRU and web site exchange transactions initiated between the dates of August 31, 2001, after 4:00 PM Eastern Standard Time, and September 3, 2001 from Imedia and compared the participant number, transaction date and transaction amount to the "Error Correction Spreadsheet".
- For all participants included on the listing of VRU and web site exchange transactions provided by Imedia that were not on the "Error Correction Spreadsheet" we obtained the related participant correspondence documenting the selected participant's correction request and compared the requested action to the selected participant's transaction history on the A/S-400 System.

### ***Wisconsin Management's Objective Number 2:***

To determine that all exchange transactions were subsequently applied to participant accounts completely and accurately.

### ***Procedures:***

For a sample of 5 participants judgmentally selected from the "Error Correction Spreadsheet", we performed the following procedures:

- We tested the mathematical accuracy of the "Error Correction Spreadsheet" by recalculating the number of mutual fund shares that could be processed with the respective participant's unapplied exchange request using current fund values on the date the error was corrected (September 7, 2001) and the number of mutual fund shares using historical fund values on the date the transaction should have been processed (September 4, 2001).
- We compared the current and historical fund values used in the "Error Correction Spreadsheet" to the unit values determined by NRS's "Valu" system for each of the aforementioned dates.
- We compared, within one-tenth of a share, the maximum number of shares calculated on the "Error Correction Spreadsheet" to the selected participant's transaction history on the A/S-400 system.

### ***Findings:***

No exceptions noted.

## **Error #9**

### ***Description of Error:***

Interest for the month of August 2001 was erroneously posted to, and subsequently reversed from, the daily interest account for the Vanguard Admiral Treasury Money Market Fund, Vanguard Long Term Corporate Fund and the Federated U.S. Government Securities Fund instead of the monthly interest account. Accordingly, several exchange and payout transactions during the month of September 2001 were incomplete as participants had more money in their account than was either distributed or transferred.

### ***Wisconsin Management's Objective Number 1:***

To determine whether the "Error Correction Spreadsheet" included all participants affected by this processing error.

### ***Procedure:***

For a sample of 10 participants judgmentally selected from a query of all participants' exchanges and payouts involving the Vanguard Admiral Treasury Money Market Fund, the Vanguard Long Term Corporate Fund and the Federated U.S. Government Securities Fund for the month of September 2001 completed by NRS personnel, we performed the following:

- We compared the participant number, the transaction date, the mutual funds involved and the transfer percentage from a query of all participants' exchanges and payouts involving the Vanguard Admiral Treasury Money Market Fund, the Vanguard Long Term Corporate Fund and the Federated U.S. Government Securities Fund for the month of September 2001 completed by NRS personnel to the "Error Correction Spreadsheet".

### ***Wisconsin Management's Objective Number 2:***

To determine that the transactions were subsequently applied to participant accounts completely and accurately.

### ***Procedures:***

For a sample of 10 participants judgmentally selected from the "Error Correction Spreadsheet", we performed the following

- We tested the mathematical accuracy of the "Error Correction Spreadsheet" by recalculating the number of mutual fund shares that could be exchanged or paid-out with the un-posted dividends using current fund values on the date the error was corrected (September 24, 2001) and the number of shares using historical fund values on the date the error occurred (September 5, 2001, September 7, 2001, September 10, 2001, September 17, 2001, September 18, 2001, September 19, 2001 and September 20, 2001).
- We compared the current and historical mutual fund prices used in the "Error Correction Spreadsheet" to the unit values determined by NRS's "Valu" system for each of the aforementioned dates.

- We compared, within one-half of a share, the maximum number of shares calculated on the "Error Correction Spreadsheet" to the selected participant's transaction history on the A/S-400 system.

***Findings:***

No exceptions noted.

**Error #10**

***Description of Error:***

Participant quarterly statements for the third quarter of 2001 excluded the transaction page. Quarterly statements that included the transaction page were later re-sent for the third quarter of 2001.

***Wisconsin Management's Objective Number 1:***

To determine that the third quarter of 2001 statements were corrected to include the transaction page.

***Procedures:***

For a sample of 10 participants judgmentally selected from the third quarter 2001 payroll register maintained by NRS, we performed the following:

- We obtained and reviewed photocopies of the respective quarterly statements noting that all selected photocopied statements included the third quarter of 2001 transaction detail.
- We compared the participant name and the third quarter of 2001 transaction information from the participant quarterly statements produced by Open First, third-party processor of participant statements, to the transaction activity on the A/S-400 system.

***Findings:***

No exceptions noted.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on the specified elements, accounts or items. Accordingly, we do not express such an opinion. 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 managements of Wisconsin and NRS and the board of directors of NRS, and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

November 30, 2001

**EXTENSION OF THE  
STATE OF WISCONSIN DEFERRED COMPENSATION PLAN  
ADMINISTRATIVE SERVICE CONTRACT**

This Extension of the State of Wisconsin Deferred Compensation Plan Administrative Service Contract (hereinafter "EXTENSION") made and entered into this 13<sup>th</sup> day of Feb, 2002, between the State of Wisconsin Deferred Compensation Board ("BOARD") and the Department of Employee Trust Funds ("DEPARTMENT") on behalf of the State of Wisconsin Deferred Compensation Plan ("PLAN") and Nationwide Retirement Solutions, Inc. ("NRS"), successor-in-interest to National Deferred Compensation, Inc. ("NDC"), pursuant to Articles 2.3 and 11.4 of the Administrative Service Agreement to extend and further amend the Agreement between the parties dated January 1, 1998, as amended February 11, 1999, May 18, 1999, November 16, 2000, and May 15, 2001 (the Administrative Service Agreement and amendments thereto collectively referred to as the "AGREEMENT").

WHEREAS, the BOARD and NRS desire to extend the AGREEMENT for three successive one-year periods beginning January 1, 2003 and ending December 31, 2005; and

WHEREAS, the BOARD and NRS desire to further amend their respective rights and responsibilities under the AGREEMENT;

NOW, THEREFORE, the parties hereby agree to extend and further amend the terms and conditions of the AGREEMENT in consideration of the mutual covenants stated herein, as follows:

- I. The BOARD and NRS hereby extend the AGREEMENT, pursuant to Article 2.3, for three successive one-year periods beginning January 1, 2003 and ending December 31, 2005. All conditions and provisions of the AGREEMENT shall remain in full force and effect during the extended term, unless otherwise amended, modified, or supplemented in writing and mutually agreed to by the BOARD and NRS.

For contract years 2003, 2004, and 2005, NRS' annual compensation for performing services required under the AGREEMENT shall be as follows:

- A. The fee paid to NRS under Articles 4.3 and 4.3A of the AGREEMENT for the prior contract year, plus the lesser of (i) the increase in the Consumer Price Index (CPI) from the prior 1-year period, January through December, or (ii) \$100,000 per year; and
- B. An administrative expense recovery fee payment of \$25,000 provided that the total number of participants in the PLAN (active, inactive, or in payout) during the particular contract year exceeds the total number of participants in the PLAN during the previous contract year by an increase of at least 7%, a payment of \$50,000 if the increase should exceed 9%, or a payment of \$75,000

if the increase should exceed 11%. The amount of any administrative expense recovery fee paid to NRS shall be added to the base fee for the contract year in which it is paid and which base fee will be subject to the fee increase formula set forth in the preceding subparagraph for all subsequent contract years. Any payment to NRS of an administrative expense recovery fee under this section shall be contingent upon NRS furnishing to the BOARD within thirty (30) days from the end of the particular contract year a written report itemizing actual administrative expenses (either percentage of total or actual dollar amounts) incurred by NRS for marketing, processing transaction costs, forms/printing costs, etc., for participants in the PLAN that exceed the 7% level. If applicable, NRS shall receive its payment of any administrative expense recovery fee on the first business day of the month following the month in which NRS submits its written report to the BOARD and is hereby authorized to deduct such payment from the PLAN's bank account pursuant to the procedures set forth in Articles 4.3 and 4.4 of the AGREEMENT.

- II. Effective upon the execution by the parties of this EXTENSION, Paragraph C of Article 5.4 of the AGREEMENT entitled "Marketing and Enrollment Services" is deleted in its entirety and restated as follows:

NRS will conduct three (3) different types of informational presentations, in a format approved by the DEPARTMENT, to explain to eligible employees the tax consequences and restrictions of Sec. 457 of the Internal Revenue Code, advantages and disadvantages of participating in the PLAN, participant fees and charges, and answer questions regarding the PLAN. NRS will offer to each participating employer an informational presentation at least annually. NRS annually will contact each eligible employer not participating in the PLAN to offer such employer an informational presentation. NRS agrees to fulfill all reasonable requests from eligible employers for multiple service visits.

- III. Effective upon conformance of Wisconsin state income tax statutes with the Internal Revenue Code ("IRC"), as amended by the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA"), Paragraph C of Article 5.7 of the AGREEMENT entitled "Payout Services" is deleted in its entirety and restated as follows:

Participants electing a payment of a lump sum amount will receive distribution of their account within three (3) working days of receipt of properly completed forms.

- IV. Effective upon execution by the parties of this EXTENSION, Paragraph D of Article 5.7 of the AGREEMENT entitled "Payout Services" is deleted in its entirety.

- V. Effective upon conformance of Wisconsin state income tax statutes with the IRC, as amended by EGTRRA, Paragraph H of Article 5.7 of the AGREEMENT entitled "Payout Services" is deleted in its entirety and restated as follows:

Participants selecting any of the options in Paragraphs E, F, or G of Article 5.7 shall be subject to the same fees and charges, and permitted the same transfer opportunities, as an active or inactive participant as defined by the PLAN. Processing of these options will be completed by NRS within three (3) working days of receipt of the properly completed application or in a time frame necessary to effectuate the payment begin date requested by the participant (of the 1<sup>st</sup>, 8<sup>th</sup>, 15<sup>th</sup>, or 22<sup>nd</sup>).

- VI. Effective upon conformance of Wisconsin state income tax statutes with the IRC, as amended by EGTRRA, Paragraph K is added to Article 5.7 of the AGREEMENT entitled "Payout Services" as follows:

Participants who have chosen any of the options in Paragraphs E, F, or G of Article 5.7 shall have the ability to change their payment option one time at no cost during each calendar year to any of the other options in Paragraphs E, F, or G of Article 5.7. Participants who have chosen the option in Paragraphs E or F of Article 5.7 shall have the ability to change the amount of their payment amount and/or designated payment period one time at no cost during each calendar year. Any additional changes per calendar year may be subject to an administrative charge in an amount agreeable by the Board and NRS. NRS will complete processing of changes under this Paragraph within three (3) working days of receipt of properly completed paperwork.

- VII. Effective January 1, 2002, Paragraph L is added to Article 5.7 of the AGREEMENT entitled "Payout Services" as follows:

For distributions made after December 31, 2001, excluding Hardship Withdrawals under Article 5.6, NRS will provide participants with a written explanation of distributions eligible for rollover treatment as required by Code Section 402(f). In the event that the U.S. Department of Labor adopts final regulations implementing the default option in Code Section 401(a)(31)(A) for involuntary distributions that exceed \$1,000 to be rolled automatically to a designated individual retirement account or annuity, said written explanation will include notice that an automatic rollover will be made unless the participant elects otherwise.

- VIII. Effective upon the execution by the parties of this EXTENSION, Paragraph B of Article 5.8 of the AGREEMENT entitled "Services Provided to the Department" is deleted in its entirety and restated as follows:

NRS will provide technical and legal expertise to: (1) advise the DEPARTMENT and the BOARD on Internal Revenue Code and SEC regulations relating to Sec. 457 plans; (2) develop and revise the plan document as required to comply with

changes in federal or state law or regulations; (3) incorporate program changes allowed by federal or state law or regulations including, but not limited to, those program changes permitted by the Economic Growth and Tax Relief Reconciliation Act of 2001; and (4) respond to all technical and legal questions that relate to the PLAN.

- IX. Effective upon the execution by the parties of this EXTENSION, Paragraph E of Article 5.11 of the AGREEMENT entitled "Bank Accounts and Performance Bond" is deleted in its entirety and restated as follows:

In the event this AGREEMENT is terminated for cause prior to its expiration, including the expiration of any extended terms, and the BOARD incurs conversion costs to secure new services to replace NRS, the BOARD shall be entitled to reimbursement for such demonstrated conversion costs from such advanced deposit in the amount of such actual conversion costs, but in any event such reimbursement costs shall not exceed \$200,000. If this AGREEMENT is not renewed beyond its expiration, including the expiration of any extended terms, the original deposit and earnings will be returned to NRS upon NRS' receipt of written notification from the DEPARTMENT that NRS has fulfilled all responsibilities at termination as defined in Article 3.8.

- X. Effective upon the conformance of Wisconsin state income tax statutes with the IRC, as amended by EGTRRA, Article 5.16 entitled "Eligible Rollover Distributions" is added to the AGREEMENT as follows:

NRS will maintain a record keeping system with sufficient capacity and procedures to properly receive into the PLAN eligible rollover distributions from an "eligible retirement plan" as defined in Code Section 402(c)(8)(B) and for eligible rollover distributions to a surviving spouse pursuant to Code Section 402(c)(9), separately account for said amounts, and treat distributions of said amounts as a distribution from a qualified retirement plan described in Code Section 4974(c).

- XI. Effective upon conformance of Wisconsin state income tax statutes with the IRC, as amended by EGTRRA, Article 5.17 entitled "Deemed IRAs" is added to the AGREEMENT as follows:

Effective for plan years beginning after December 31, 2002, NRS will maintain a record keeping system with sufficient capacity and procedures to maintain separate accounts or annuities, pursuant to Code Sections 408 and 408A, into which participants may make voluntary contributions.

- XII. Effective upon conformance of Wisconsin state income tax statutes with the IRC, as amended by EGTRRA, Article 5.18 entitled "Service Credit Purchase" is added to the AGREEMENT as follows:

Provided that state law permits, NRS will maintain a record keeping system with sufficient capacity and procedures to permit participants to make a direct trustee-to-trustee transfer of all or a part of their account balances to a defined benefit governmental plan as defined in Code Section 414(d) if such transfer is either for the purchase of permissive service credit as defined in Code Section 415(n)(3)(A) under such plan or a repayment permissible by Code Section 415(k)(3).

In all other respects, the AGREEMENT shall remain the same.

IN WITNESS WHEREOF, the parties have caused this EXTENSION to be executed by their authorized representatives on the day and year first written above.

ATTEST:

By: Mary Willett

STATE OF WISCONSIN

By: Edward Main  
Edward Main, Chairman

ATTEST:

By: Kerry L. Robinson

NATIONWIDE RETIREMENT SOLUTIONS, INC.

By: Duane C. Meek  
Duane C. Meek  
President