



STATE OF WISCONSIN

Department of Employee Trust Funds
Internal Audit

AUDIT REPORT

REVIEW OF STALE DATED CHECKS—Phase 2

August 2004

2004-3A

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STATE OF WISCONSIN
Department of Employee Trust Funds

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SECRETARY

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August 5, 2004

Eric Stanchfield, Secretary
Department of Employee Trust Funds

Dear Eric,

Subject: Review of Stale Dated Checks—Phase 2

Attached is the Executive/Board report on our audit of stale dated checks payable to estates. We acknowledge the cooperation of staff in the Division of Trust Finance and Employer Services and the Division of Retirement Services and thank them for the time and effort they spent assisting us. The audit could not have been completed without their assistance.

Respectfully submitted by,

Robert J. Schaefer, CPA
Director of Internal Audit

Vicki A. Wickliffe
Auditor-in-Charge

REVIEW OF STALE DATED CHECKS—Phase 2

I—INTRODUCTION and AUDIT DESCRIPTION— In a prior audit we reviewed stale dated checks payable to individuals and trusts. During our preliminary risk assessment of the payee population, we determined there were different risks for payments to individuals and trusts than for payments to estates. This permitted us to limit the scope for that audit and to review stale dated checks issued to estates at a later time. Although some observations apply to both audits, we will not repeat prior observations.

II—AUDIT OBJECTIVES were to determine:

- Why checks payable to estates stale dated during the period 1997-2003.
- If payments are on the Internal Revenue Service (IRS) list of reporting errors for 2000 which ETF legal counsel recently mediated with IRS officials.
- If there are additional reporting errors in the audit population that ETF should address in order to avoid future IRS sanctions.

III—RESULTS and OPINION—The volume of stale dated checks in our population represents a fraction of the total number of lump sum payments issued as a result of annuitant deaths during the audit period. However, we believe changes can be implemented to reduce the future number of checks payable to estates that will stale date. *In our opinion this audit was valuable because it revealed problems that occur when processing payments to estates.*

IV—AUDIT OBSERVATIONS AND PLANS OF ACTION

Observation #1: *Special Investment Performance Dividend (SIPD) payments were made to estates that had been closed for as many as 12 years and checks probably stale dated because personal representatives did not reopen estates or their appointments as personal representatives were no longer valid.*

Plan of Action: The Division of Retirement Services presently advises representatives of estates to contact an attorney or the County Probate Court to reopen an estate. The Administrator will send a reminder to staff via e-mail to continue providing this information and to inform personal representatives that there may be no cost involved in reopening an estate.

Observation #2: *Refunds for insurance premiums paid in advance are currently paid to deceased annuitants rather than to their estates as IRS requested.*

Plan of Action: Division of Retirement Services staff will follow up with IRS to resolve contradictory responses received concerning refunds for insurance premiums.

Observation #3: *Establishing a minimum amount payable to estates through a statutory change could reduce the number of stale dated checks in the future.*

Plan of Action: The plan of action will depend upon the resolution for observation #2 since refunds for insurance premiums comprised the largest category of stale dated checks in the audit population.

V—SECRETARY'S OFFICE COMMENTS—

The recommendations and follow-up actions appear appropriate and reasonable. The Secretary's Office will continue to monitor the implementation of action plans created to respond the findings in this audit.

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