



STATE OF WISCONSIN

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**Department of Employee Trust Funds**  
Internal Audit

AUDIT REPORT

REVIEW OF STALE DATED CHECKS—  
Follow-up to Phase 1

November 2004  
2004-5A

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STATE OF WISCONSIN  
Department of Employee Trust Funds  
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November 12, 2004

Eric Stanchfield, Secretary  
Department of Employee Trust Funds

Dear Eric,

Subject: Review of Stale Dated Checks—Follow-up to Phase 1

This report covers our follow-up of one annuity record identified in phase 1. We felt that the uniqueness of the situation and the dollars involved warranted additional review.

Respectfully submitted by,

Robert J. Schaefer, CPA  
Director of Internal Audit

Vicki A. Wickliffe  
Auditor-in-Charge

## REVIEW OF STALE DATED CHECKS— Follow-up to Phase 1

**I—INTRODUCTION**— During Phase 1 of the Audit of Stale Dated Checks we identified 33 annuitants who had five or more reissued checks during the period reviewed. We paid special attention to one annuitant receiving an automatic distribution of approximately \$5,000 per month. Both Internal Audit and the Benefit Services Bureau Director contacted the annuitant by phone and letter to encourage electronic deposits to avoid future stale dated checks. We decided to complete additional audit work on this annuitant’s record because:

- Annuitant did not cash a check for \$44,158 for retroactive annuity payments and 23 monthly checks ranging between \$4,651 and \$9,753 each.
- Annuitant did not file an annuity application but started receiving benefits as an automatic distribution under s. 40.23(4), Wis. Stats.
- ETF automatically reissued eight stale dated checks, including the one for \$44,158.
- U.S. Postal Service tried three times to deliver a certified letter/restricted delivery from Internal Audit but the letter was returned as “unclaimed.”
- Annuitant declined assistance from ETF and abruptly ended telephone conversations with Internal Audit and Benefit Services Bureau Director.
- Annuitant agreed by phone that electronic deposits were a good idea but did not file the required form.
- Annuitant paid federal and state taxes on gross annuity benefits but did not have use of all funds because many checks stale dated.

**II—AUDIT OBJECTIVE**— The audit objective was to determine what risk, if any, remains on this annuitant’s account.

**III—RESULTS AND OPINION**— Annuity checks are still being sent to the annuitant’s home address. Although the annuitant recently cashed most checks issued since the prior audit, *it is our opinion that a risk remains for internal or external misappropriation of prior stale dated checks totaling over \$144,000.*

### **IV—AUDIT OBSERVATIONS AND PLANS OF ACTION**

**Observation #1:** *Developing policies and procedures for monitoring checks payable on automatic distributions that have not been cashed within 90-120 days of issue and identifying problems timely could reduce future stale dated checks in similar situations.* **Plan of Action:** The Benefit Services Bureau Director supports the concept of monitoring outstanding checks for automatic distributions. It may not be possible to implement monitoring until after the Benefit Payment System is implemented due to demands on staff for developing and testing the new system. However, the Benefit Services Bureau Director will explore the possibility of follow-up by Retirement Services staff who initiate automatic distributions.

**Observation #2:** *It would be good customer service to continue attempts to encourage this annuitant to authorize electronic deposit of future original and reissued annuity payments and to advise the annuitant of the dollar value of stale dated checks that could be reissued.* **Plan of Action:** The Benefit Services Bureau Director will send this annuitant a direct deposit authorization form with an explanatory letter. The Director will complete the form as much as possible and ask the annuitant to sign the authorization form and return it with a voided check in the prepaid return envelope provided. The Bureau Director will take similar action for other annuitants identified in the original audit who had a large number of stale dated checks and will establish a tickler date to send an annual mailing to those who continue to allow paper checks to stale date.

**V—SECRETARY’S OFFICE COMMENTS**—The Secretary’s Office will discuss the Plans of Action with the Division of Retirement Services Deputy Administrator to explore options for enhanced monitoring of outstanding checks by the Benefit Services Bureau. Efforts will continue to

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encourage the annuitant identified in this audit to file an ACH request with the Department. Other options to provide monitoring mechanisms will also be explored in the design of the Benefit Payment System.