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Correspondence Memorandum

Date: August 24, 2018
To: Group Insurance Board
From: Jim Guidry, Director
Benefit Services Bureau
Subject: Third Party Audit Contract Compliance Audit of Aetna Life Insurance Company

This report is for informational purposes. No action is required.

The Department of Employee Trust Funds (ETF) retained Wipfli, LLC (Wipfli) to conduct a contract compliance audit of Aetna Life Insurance Company (Aetna). Aetna administers the self-insured Income Continuation Insurance (ICI) program. The compliance audit of the ICI program covers calendar years 2015, 2016, and 2017. Wipfli completed its audit and the results are provided in the attached compliance report (Attachment B). Previous compliance audits of the ICI program are available to the Board upon request.

Additionally, ETF requested that Wipfli examine Aetna's policies and procedures related to its work from home policy and Aetna's overpayment/underpayment process. The results of that review are provided in the attached consulting report (Attachment C). Wipfli's discussion around the need for two separate reports is described in their letter dated July 31, 2018 (Attachment A).

Wipfli's compliance report contained three recommendations. Two recommendations were to determine what processes, if any, can be developed to ensure that letters related to claim denials and reminders to apply for retirement benefits are prepared, delivered to ICI recipients, and imaged into ETF's systems. The third recommendation called for ETF and Aetna to determine the cause of variances that were revealed by comparing monthly claim funding reports and the data that is furnished annually to ETF's actuaries for determining program liabilities.

The consulting report prepared by Wipfli indicated that so-called "non-complex" overpayment or underpayment (OP/UP) calculations are not reviewed by a second

Reviewed and approved by Matt Stohr, Administrator, Division of Retirement Services

Electronically Signed 9/4/18

Board	Mtg Date	Item #
GIB	11.14.18	7A1

Aetna specialist. Only complex OP/UP calculations receive additional review. Wipfli did not make a recommendation related to this finding.

ETF and Aetna are working to develop possible process improvements to ensure that required letters are produced and to reconcile the differences between Aetna's funding reports and their annual data. While the monthly variances identified in this audit were less than 1% for each month examined by Wipfli, ETF believes that providing the most accurate data to ETF's actuaries is a fundamental responsibility that requires closer analysis.

ETF is also in discussions with Aetna to determine whether additional review should be performed for non-complex overpayments. ETF will review overpayment and underpayment records as part of the agreed-upon procedures for the next compliance audit cycle of the ICI program instead of a process review as was performed for this audit.

Staff will be available at the meeting to answer any questions.

Attachment A: ICI Cover Letter

Attachment B: 2015-17 Controls and Procedures Report

Attachment C: 2015-17 ICI Report



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August 21, 2018

Mr. Jim Guidry
Bureau Director, Benefit Services
Wisconsin Department of Employee Trust Funds
4822 Madison Yards way
Madison, WI 53705

RE: Income Continuation Insurance Program
Contract Compliance Engagement

Dear Mr. Guidry:

Accompanying this letter are two reports regarding our testing of the Income Continuation Insurance Program for the period 2015 through 2017: *the Independent Accountant's Report on Applying Agreed -Upon Procedures for Third-Party Administration of the Income Continuation Insurance Benefit Program* ('AUP Report') and the *Report of Selected Internal Controls, Policies and Procedures for the Income Continuation Program* ('Consulting Report').

In our planning discussions with ETF for the current testing period, ETF requested certain modifications to the nature and scope of our procedures. Some of those procedures related to internal controls do not fall within the technical requirements of an Agreed-Upon Procedures engagement as defined by the American Institute of Certified Public Accountants. Accordingly, we have summarized those procedures and results in a separate Consulting Report.

Based on the nature and scope of procedures selected by ETF for our 2012 through 2014 testing, Wipfli issued only an AUP Report.

Please contact us if you have any questions about this matter. We appreciate the opportunity to be of service to ETF.

Sincerely,

A handwritten signature in black ink that reads "Zachary D. Mayer". The signature is fluid and cursive.

Zachary D. Mayer
Partner

ZDM/sek

State of Wisconsin – Department of Employee Trust Funds

Madison, Wisconsin

Report of Selected Internal Controls, Policies and Procedures for the Income Continuation Insurance Program



Prepared by

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Executive Summary

August 21, 2018

State of Wisconsin – Department of Employee Trust Funds
Madison, Wisconsin

In accordance with the Request for Proposal dated August 24, 2009, and our proposal dated October 29, 2009, as amended from time to time through February 1, 2018, and based on discussions with the State of Wisconsin Department of Employee Trust Funds (WI ETF) management, we have completed procedures to evaluate the effectiveness of certain controls of the administration of the Income Continuation Insurance (ICI) Program by Aetna Life Insurance company (Aetna) on behalf of WI ETF. The objectives of this engagement were to perform reviews of Aetna’s Work From Home policy and the processes for identifying Overpayments and Underpayments. This engagement was not intended to be, and was not, considered an audit or fraud examination because of the restricted nature and limited scope of the procedures performed.

Overview

To achieve the objectives of this engagement, we completed interviews and discussions with key staff at Aetna and WI ETF and reviewed existing controls and process and risk documentation.

Results of our observations and recommendations relied on, and are dependent on, the completeness and accuracy of information provided by Aetna and WI ETF without independent verification.

Reporting Results of Procedures

A summary of the results of the control procedures is included in the Objectives, Procedures and Results section of this report.

The information presented in this report is designed to identify and prioritize financial and operational risks. This engagement is not intended to be, and is not, considered an audit or fraud examination because of the restricted nature and limited scope of the procedures performed.

Distribution of this report by the specified parties to other third parties does not constitute designation of those third parties as “users” or “specified parties” with respect to this report or the matters addressed herein, nor does it permit those third parties to use or rely on this report for any purpose.

This engagement was performed in accordance with the Statement on Standards for Consulting Services as issued by the American Institute of Certified Public Accountants. This information is intended solely for the information and use of Aetna and WI ETF in relation to the results of procedures performed pursuant to the engagement letter. It is not intended to be, and should not be, reproduced, published, or distributed to anyone other than these specified parties or for any other purpose without the prior written consent of Wipfli LLP ("Wipfli").

We look forward to our continued association and appreciate the opportunity to be of service. Please do not hesitate to contact Wipfli if you have any questions or concerns regarding information contained in the accompanying report.

Wipfli LLP

WIPFLI LLP

Review of Internal Controls, Policies and Procedures

Objectives, Procedures and Results

Objectives

1. Obtain an understanding of the procedures and controls surrounding the program's processes in the following specific areas:
 - Aetna's Work from Home policy
 - Aetna's process for identifying Overpayments/Underpayments

Procedures

1. Discussed with appropriate personnel the flow of information within ETF; within Aetna; and between ETF and Aetna.
2. Obtained and examined the Independent Service Auditors' Report on Management's Description of its System and the Suitability of the Design and Operating Effectiveness of Controls reports on internal controls and effectiveness ("SOC 1") for Aetna Disability Management Services Self-Funded Operations covering April 1, 2014 through March 31, 2017.
3. Obtained and read Aetna manuals for teleworking and over/under payments.
4. Obtained and read related written policies and procedures.

Results – General

Based on our inquiries and analysis of these processes and our evaluation of the controls thereon, we obtained an understanding of these systems. Based on this understanding and our professional judgment, we made an assessment of the potential for process failures and control risks. An overview of the claim management, claim payments, recordkeeping, overpayments and administrative billing controls was provided -- See Appendix I.

Aetna engages a public accounting firm to assess the controls of its Disability Management Services' Self-Funded Operations through a Type 2 SOC 1 report. The Type 2 SOC 1 reports covering April 1, 2014 through March 31, 2017 for Aetna contained certain testing exceptions related to Logical Access Controls identified by the Service Auditor. The SOC 1 reports contained no testing exceptions related to Application Controls pertaining expressly to over/under payments or to teleworking. The reports also specified a number of controls that user organizations should have in place to achieve the control objectives contained in the SOC 1 reports. ETF maintains documentation addressing each of the user level controls in the SOC 1 reports.

Review of Internal Controls, Policies and Procedures

Results – Work from Home (Telework)

A. System Time-Out

Policy: Through the Teleworker Privacy Practices Certification, the employees certify that their workspaces are dedicated to Aetna business during working hours and is not accessible by others who may be present in the household; telephone conversations cannot be overheard, and Aetna documents/computer screens cannot be viewed by others.

Potential Risk: The policy makes employees certify that they will manually lock their screens when away from their devices. The policy, however, makes no mention if the company-owned/mobile devices are configured to require an automatic lockout screen, or if the requirement is enforced through technical controls. If an employee were to forget to manually lock their screen, and no automatic control is in place, the potential for unsecure information increases.

B. Work from Home Environment

Policy: As detailed in the policy, Aetna requires that the home office workspace should be:

- Used exclusively for Aetna business during business hours and not be used as a substitute for dependent care
- Secure from unintentional access - all Aetna equipment must be secured and information must be stored out of view, in a locked cabinet, when not in use
- Free of background noise and distractions during the workday
- Large enough to accommodate furniture that meets our ergonomic standards, or furniture issued by Aetna
- In an area with access to high-speed (i.e., broadband) internet service
- Close enough (as determined by your manager) to an Aetna location to enable on-site support (e.g., attend meetings, obtain Desktop Support services)
- Accessible for visits by your manager or technology personnel
- In a building where installation of a second phone line and/or high-speed internet service is permitted
- Free of zoning ordinances that might affect the employee's ability to perform business in his/her personal residence

The policy also requires that teleworkers certify their actions taken to ensure their home work area is secure and protects Aetna property and confidential information. Aetna managers may undergo occasional inspections of home work areas.

Review of Internal Controls, Policies and Procedures

Results – Work from Home (Telework) Continued

B. Work from Home Environment (Continued)

Potential Risk: The policy mentions the possibility of home inspections, but does not provide detail into how a manager determines to perform a physical inspection or what frequency one should occur. Additionally, it is unclear if all physical sites are reviewed for compliance and environment regulations before the telework agreement is authorized. With no official inspections, there is potential Aetna would be unaware of the gap in compliance. Not meeting the requirements could increase the risk of a breach of confidential information, ineffective work setups, and inefficiency.

C. Agreement Review Levels

Policy: As detailed in the policy, Aetna requires teleworkers to complete and sign a variety of agreements depending on their work from home category. These agreements are then reviewed and signed by their respective managers.

Potential Risk: Based on the policy, there appears to only be one level of agreement review. Given the high number of requirements specified, it is possible some information could be missed. This could lead to employees improperly being granted the ability to work from home. This creates a potential risk given the large amount of confidential data dealt with daily, and could also lead to ineffective and inefficient work.

Results – Over/Underpayments

A. Overpayment Calculation

Policy: Per the Overpayment training manual, the Overpayments (OP) department receives notification of a reason for overpayment (see possible reasons below) through an overpayment referral task, which is completed by an Aetna associate. A specialist recalculates the benefit payment using a recalculation chart in excel. If the specialist considers the OP to be complex, it is then sent to a senior specialist for review. However, if the OP is not considered to be complex, then no additional review takes place.

Possible Reasons for Overpayment

- Retroactive Social Security, LTDI, or WRS
- Workers' Compensation Payment of Settlement
- Partial Earnings (Late notification)
- Return to Work (Late notification)
- Incorrect benefit calculation
- Any payments from any other sources
- Exceeded Annual Earnings Limit (LTDI only)

Review of Internal Controls, Policies and Procedures

Results – Over/Underpayments (Continued)

A. Overpayment Calculation (Continued)

Potential Risk: Given that no review takes place for non-complex OP's, there is a chance that the benefit payment recalculated could be incorrect. This could lead to over/under payments for corrections. Also, since there is no review of the initial determination of whether or not an OP is complex, there is additional risk of processing exception.

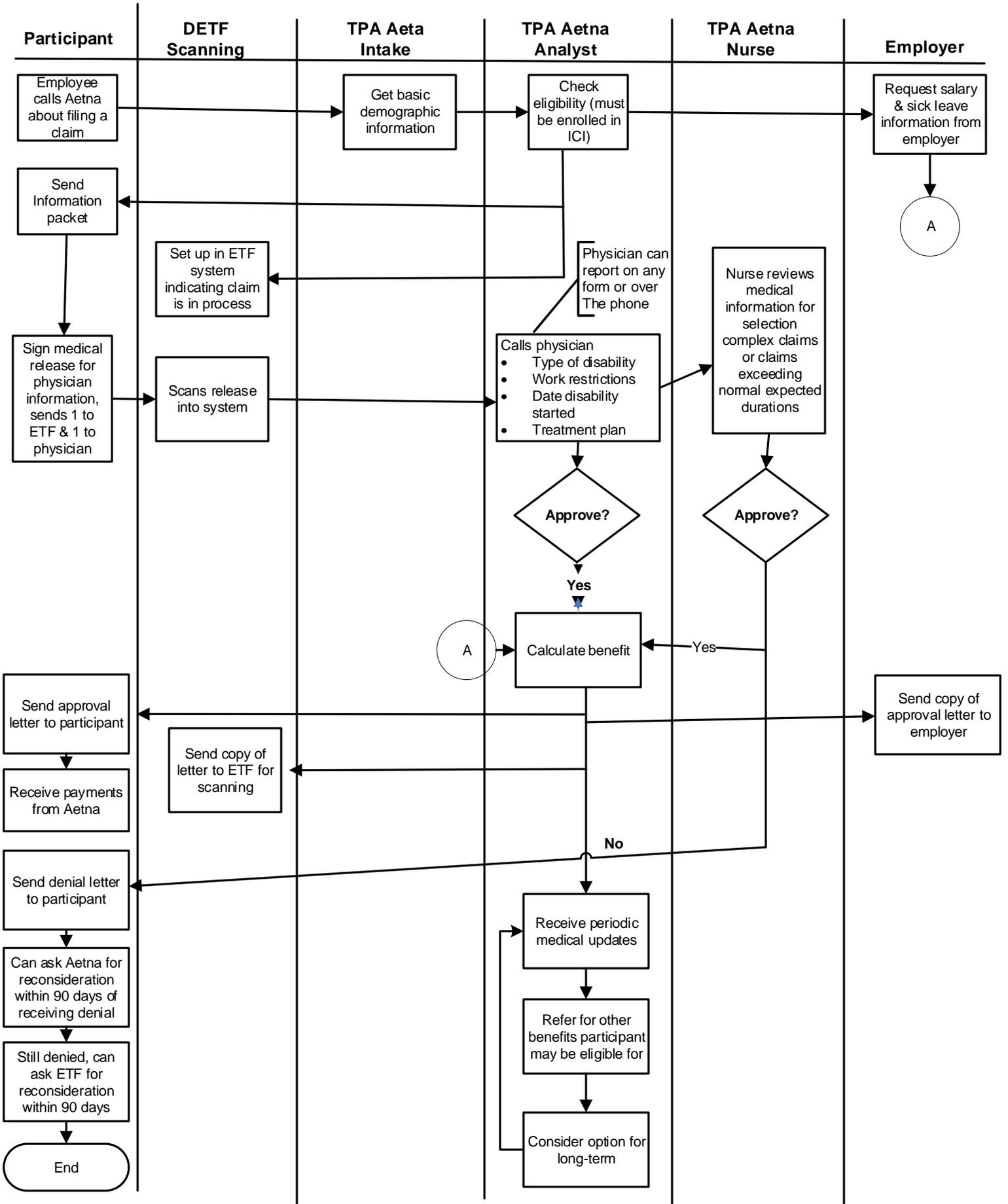
B. Policy Revision Date

Policy: The Overpayment training manual provided had a last revision date of June 2014. There were no recent updates, amendments, or changes to the manual provided.

Potential Risk: Through discussions, it was noted that the use of social security numbers for various reporting procedures changed during 2015 and 2016, but there was no revision to the manual. Given the ever-changing nature of policies, personnel, and technology, an outdated manual can lead to inefficiencies in processes and overall confusion. It was also apparent that the majority of overpayments are manually calculated based on a pre-existing formula outlined in the policy. Creating a more automated process could result in fewer errors and higher efficiencies.

Appendix I – Process Flow Analysis

WI DETF Income Continuation Insurance



State of Wisconsin - Department of Employee Trust Funds

Madison, Wisconsin

Independent Accountant's Report on Applying Agreed-Upon
Procedures for Third-Party Administration of the Income Continuation
Insurance Benefit Program

Years ended December 31, 2015, 2016 and 2017

State of Wisconsin – Department of Employee Trust Funds

Independent Accountant’s Report on Applying Agreed-Upon Procedures

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Independent Accountant's Report on Applying Agreed-Upon Procedures for Third-Party Administration of the Income Continuation Insurance Benefits Program

Department of Employee Trust Funds
State of Wisconsin
Madison, Wisconsin

We have performed the procedures presented in the following report, which were agreed to by the State of Wisconsin - Department of Employee Trust Funds (the specified party), on the Third-Party Administrator's (Aetna Life Insurance Company) compliance with the Income Continuation Insurance Program (ICI) Administrative Agreement for the years ended December 31, 2015, 2016, and 2017. Aetna management is responsible for the Third-Party Administrator's compliance with the ICI Program Administrative Agreement. The sufficiency of these procedures is solely the responsibility of the State of Wisconsin - Department of Employee Trust Funds. Consequently, we make no representation regarding the sufficiency of the procedures described in the following report, either for the purpose for which this report has been requested, or for any other purpose.

Our procedures and findings are described in the following report.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not, conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Third-Party Administrator's compliance with the ICI Program Administrative Agreement. Accordingly, we do not express such an opinion or conclusion. 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 State of Wisconsin - Department of Employee Trust Funds and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Wipfli LLP".

WIPFLI LLP

Madison, Wisconsin
August 21, 2018

Section I – Objectives and Scope

Objectives and Scope

This section of our report is based on the agreed-upon procedures as set forth in the Request for Proposal dated August 24, 2009 and Wipfli proposal dated October 29, 2009, as amended from time to time through February 1, 2018. Certain other specific procedures including the desired sample size were discussed with ETF personnel in advance of performance.

A. Background - Income Continuation Insurance Program

The ICI Program was authorized by Wisconsin Statute Section 40.62 and is an optional benefit that replaces up to 75% of a participant's salary if the participant is unable to work because of a disability. The plan is available to all State of Wisconsin employees and all local government employees whose employers have elected to participate in the program. Depending on the participant's age at the time of the disability, benefits may continue until age 70, but normally end at age 65.

The Program is administered by Aetna Life Insurance Company (Aetna), who is under contract to provide such services through December 31, 2018. Under the administrative agreement between ETF and Aetna, Aetna is responsible for recordkeeping, payment processing, and daily administrative services. ETF is responsible for program administration and oversight.

C. Previous Examinations

The ICI Program was last tested for contract compliance for the period January 1, 2012 through December 31, 2014.

D. Objectives

Our engagement was designed to assist ETF in determining Aetna's compliance with specified terms of the administrative agreement, adherence to established performance standards and maintenance of participant records and processing claims timely, accurately, and in accordance with regulatory and contractual requirements, as established by ETF, who is responsible for the sufficiency of the procedures for their purposes. In addition, we were engaged to issue a written report that describes the procedures applied and the related findings.

E. Scope

Our engagement extends to the application of the procedures enumerated in Sections II and III of this report. We applied these procedures to the records and systems maintained by Aetna and ETF. Our procedures were applied to the years ended December 31, 2015, 2016, and 2017.

Section II – Income Continuation Insurance Procedures and Results

Income Continuation Insurance

Procedures and Results

Approved Claims Testing

Objectives

Aetna is responsible for the approval and denial of all claims received, and is responsible for reporting approvals and denials to ETF on a periodic basis. The objective is to ensure that claims are approved in accordance with plan provisions, properly communicated to the participant and adequately documented.

Procedures

1. Obtained a report of all approved ICI claims for 2015, 2016 and 2017.
2. Randomly selected 70 approved claims per year (80% State ICI and 20% Local ICI) for the years 2015, 2016, and 2017. Sample size was determined based on our discussions with ETF personnel.
3. For selected claims:
 - a. Observed introductory packets were sent to participants and sent timely.
 - b. Observed that the participant was properly enrolled as a Program participant.
 - c. Observed that the claim was filed within 12 months of the date of disability.
 - d. Inspected the Employer Statement to ensure it was complete and justified the approval of the claim.
 - e. Mathematically checked the benefit calculation for accuracy and observed that it had been reviewed by an analyst.
 - f. Observed that approval letters were sent to participants and sent timely in accordance with the administrative agreement.
 - g. Observed that copies of approval letters and other participant correspondence were scanned into the ETF system.
 - h. Inspected claim file for medical information, system notes, and other correspondence to determine that approval was valid and made in accordance with the plan requirements.
 - i. Observed that ongoing claims included ongoing case documentation, such as medical record updates, to document that the disability is ongoing and that the participant should not return to work.

Income Continuation Insurance Procedures and Results

Results

Of the 210 approved claims selected for testing, 207 had no exceptions. For three claims selected, form DTPA-1200 was not scanned into the MyETF system (item g above), and thus there is no record of it being sent to the participants which is considered an exception. Form DTPA-1200 communicates that benefits under short-term disability will be terminating in the near future (short term benefits last for 12 months) and is sent approximately 9 months after a participant begins receiving short-term disability benefits (initiation of benefits is communicated on form DTPA-100). The letter is an important communication helping participants understand their current benefit and allows participants to consider applying for long-term benefits after their short-term benefits terminate.

See Comment 1 in Appendix I.

Income Continuation Insurance Procedures and Results

Denied Claims Testing

Objectives

Under the administrative agreement, Aetna is responsible for the approval, denial, or cancellation of all claims received, and is responsible for reporting approvals, denials, or cancellations to ETF on a periodic basis. The objective is to ensure that claims are denied or cancelled for valid reasons, properly communicated to the participant and adequately documented.

Procedures

1. Obtained a report of all denied ICI claims for 2015, 2016 and 2017.
2. Randomly selected 10 denied claims per year (80% State ICI, 20% Local ICI). Sample size was determined based on our discussions with ETF personnel and was evenly divided among the three testing years.
3. For selected claims, inspected claim file for medical information, system notes, participant correspondence, etc. to confirm that the denial was valid, made in accordance with the plan requirements, and was communicated to the participant.

Results

For all but one denied claims selected, the reason for the denial was valid, adequately documented and communicated to the participant, and processed timely. For one claim selected, form DTPA-900 and DTPA-600 were not sent to the participant. Forms DTPA-900 and DTPA-600 communicate the denial status of the claim and the reason for the denial.

See Comment 2 in Appendix I.

Income Continuation Insurance Procedures and Results

Enrollment Testing

Objectives

There are several routes that potential participants can take to enroll in the ICI Program or elect to decline coverage. The objective is to ensure that participants are being enrolled, denied, or declining coverage via the appropriate method and that enrollment and eligibility are supported by adequate documentation. The Employers of the Plan are responsible for processing enrollments and eligibility matters properly.

Procedures

1. Obtained reports of open enrollment elections, initial offerings, new hire enrollments, and Evidence of Insurability (EOI) enrollments for the years 2015, 2016, and 2017.
2. Randomly selected 20 enrollment elections per year, allocated approximately evenly between State ICI and Local ICI as well as between method of enrollment (open enrollment, new employer initial offering, new hire, EOI). Sample size was determined based on our discussions with ETF personnel.
3. For selected enrollments, observed MyETF system profiles to verify participant eligibility and inspected necessary documentation confirming enrollment or denial of enrollment.

Results

For all enrollments or declines/denial of coverage selected, the ETF system documentation demonstrated the enrollment or declines of coverage were valid, adequately documented, communicated to the participant, and processed timely.

Section III – Review of Periodic Reporting

Review of Periodic Reporting

Periodic Reporting – Claim Funding Reports

Objectives

The administrative agreements require Aetna to provide monthly Claim Funding Reports. These reports include information on the amount ETF owes Aetna for claims paid during the given month, adjusted for certain minor transactions. Objectives included:

1. Determine whether Claim Funding Reports are supported by Aetna’s system data.

Procedures

1. Obtained a sample of 2015, 2016, and 2017 monthly Claim Funding Reports (we tested one quarter per year).
2. Obtained supporting Aetna claim payment data for the selected quarters from Aetna’s annual Open/Closed Claim File.
3. Compared and obtained reconciliations of items 1 and 2 above.

Results

We found variances ranging between approximately (\$52,500) to \$29,500 when comparing the claim funding reports to Aetna’s system payment data.

Month/Year	Claim Funding Report	Open/Closed File Payment Data	Variance (\$)	Variance (%)
January 2015	\$4,667,139	\$4,637,738	\$29,401	0.63%
February 2015	4,746,981	4,730,155	16,826	0.36%
March 2015	4,853,737	4,834,456	19,281	0.40%
October 2016	5,210,648	5,202,962	7,686	0.15%
November 2016	5,286,223	5,258,105	28,118	0.53%
December 2016	5,318,856	5,371,376	(52,520)	(0.98%)
July 2017	5,116,883	5,115,533	1,350	0.03%
August 2017	5,178,559	5,191,899	(13,340)	(0.26%)
September 2017	5,136,052	5,127,511	8,541	0.17%

See Comment 3 in Appendix I.

Appendix I – Comments and Recommendations

Comments and Recommendations

Comment 1

It was noted that for some of the approved ICI claims, certain letters that should be sent 9 months into a claim, such as the form DTPA-1200, were not being scanned into the system due to analyst error. We recommend that ETF work with Aetna to determine whether additional steps can be implemented to ensure that these forms are being sent and scanned into the system for proper claim documentation and compliance with the agreements.

Comment 2

It was noted that for one of the denied ICI claims, the required DTPA-600 or DTPA-900 letter was not sent to the participant to notify them of their claim denial due to case owner error. We recommend that ETF work with Aetna to determine whether additional steps can be implemented to ensure these forms are being sent to participants in a timely manner.

Comment 3

It was noted that there were variances when reconciling between Aetna's monthly Claim Funding reports and their annual Open/Closed Claim File. These variances may indicate discrepancies regarding what ETF owes Aetna for claims paid. We would recommend that ETF work with Aetna to determine the cause of the variances and to ensure ETF is not over/under paying for claims.