

State of Wisconsin
Department of Employee Trust Funds
Madison, Wisconsin

Independent Accountants' Report on Applying
Agreed-Upon Procedures for Third-Party
Administration of the Employee
Reimbursement Account Program
For the Period January 1, 2000 to December 31, 2002

State of Wisconsin
Department of Employee Trust Funds
Madison, Wisconsin

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EXECUTIVE SUMMARY

Williams Young, LLC performed agreed-upon procedures in relation to the third-party administration of the Employee Reimbursement Account (ERA) for the years 2000, 2001, and 2002. Fringe Benefits Management Company (FBMC) performs the administration of the ERA pursuant to an administrative agreement with the Department of Employee Trust Funds. Our procedures were designed to test for specific elements of compliance with the administrative agreement as specified in the Request for Proposal and through discussions with Department of Employee Trust Funds (DETF) personnel. The results of our procedures are summarized below and discussed in greater detail later in this report.

1. We noted FBMC to be in compliance with all significant elements of the administrative agreement tested, including:
 - Maintenance of affirmative action, privacy, and business continuation policies
 - Administrative performance standards
 - Annual and other periodic reporting

2. Our examination of selected transactions revealed no significant exceptions related to the following:
 - Payment or denial of reimbursement claims
 - Maintenance of individual participant accounts
 - Eligibility
 - Processing of change in status requests
 - Bank reconciliations

3. Generally, we found the records maintained by FBMC to be complete, accurate, and properly organized. However, we noted certain performance measurement documentation to be incomplete (see page 14). FBMC should consider implementing procedures to improve documentation related to reported performance criteria.

4. We found procedures to be adequately documented and monitored and also noted that FBMC undertook the step of obtaining an independent audit of controls and operating effectiveness beginning in June 2002.

**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING
AGREED-UPON PROCEDURES FOR THIRD-PARTY
ADMINISTRATION OF EMPLOYEE REIMBURSEMENT ACCOUNT PROGRAM**

Department of Employee Trust Funds
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We have performed procedures presented in the following report, which were agreed to by the State of Wisconsin, Department of Employee Trust Funds (the specified user), to assist the Department in satisfying its requirements under the Statutes. 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 the party specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in the attached either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not, perform an audit on Fringe Benefits Management Company and Subsidiaries' financial statements or any elements, accounts, or items thereof, the objective of which would be the expression of an opinion on the specified elements, accounts, or items thereof. Accordingly, we do not express such an opinion. Also, we express no opinion over financial reporting or any part thereof. 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 user specified above, and is not intended to be and should not be used by anyone other than that specified user.

Williams Young, LLC

Williams Young, LLC

Madison, Wisconsin
July 16, 2003

State of Wisconsin
Department of Employee Trust Funds
Madison, Wisconsin

SECTION I -
OBJECTIVES AND
SCOPE

State of Wisconsin
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SECTION I - OBJECTIVES AND SCOPE

This section of our report is based on the agreed-upon procedures as set forth in the Request for Proposal dated June 12, 2002 and Technical Proposal dated July 12, 2002 for Compliance Audits of Administration of Employee Benefit Programs by Third-Party Administrators. Certain other specific procedures were discussed with Department of Employee Trust Funds personnel in advance of performance.

A. BACKGROUND

The Employee Reimbursement Account (ERA) Program is authorized by Section 125 of the Internal Revenue Code, was created in 1987 by Wisconsin Act 399, and offered to employees beginning in 1990. The Program is an optional benefit that allows participants to earmark pre-tax salary, subject to IRS limitations, to pay for certain approved expenses, including: group life and health insurance premiums; dependent care expenses; and out-of-pocket medical expenses not reimbursable by insurance coverage. Utilization of this program reduces participants' gross taxable income which in turn reduces state and federal tax liabilities.

The Program is administered by Fringe Benefits Management Company (FBMC). Under the administrative agreement between the Department of Employee Trust Funds (DETF) and FBMC, FBMC is responsible for the provision of marketing, recordkeeping, payment processing, and daily administration activities. The DETF is responsible for program administration and oversight.

B. PREVIOUS EXAMINATIONS

The ERA Program was last tested for compliance for the period January 1, 1997 through December 31, 1998. The Program was not subjected to testing by us or by other accountants for the year ended December 31, 1999.

C. OBJECTIVES

Our engagement was designed to assist the DETF in determining whether FBMC is complying with the terms of the administrative agreement, conducting enrollments in accordance with policy, and processing claims and maintaining employee records timely, accurately, and within regulatory requirements.

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D. SCOPE

Our engagement extends to the application of the procedures enumerated in Section II of this report. We applied these procedures to the records and systems maintained by FBMC and DETF. Our procedures were applied to the 2000, 2001, and 2002 plan years.

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SECTION II -
PROCEDURES AND
RESULTS

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REVIEW OF INTERNAL CONTROLS

OBJECTIVES

1. Obtain an understanding of the procedures and controls surrounding the program's processes in the following specific areas:
 - Enrollment and eligibility
 - Employee recordkeeping
 - Change in status
 - Claims reimbursement
2. Obtain an understanding of the periodic reports produced by FBMC and determine how they are utilized as part of the monitoring and reporting processes.

PROCEDURES

1. Discuss with appropriate personnel the flow of information within the DETF, between the DETF and FBMC, and within FBMC.
2. Obtain and examine SAS 70 report on internal controls and effectiveness for FBMC Common Remitter application within relevant audit areas.
3. Obtain and examine related written policies and procedures.
4. Obtain and examine forms, documents, and transmittals used in the processes.

RESULTS

Based on our inquiry and analysis of these processes and our evaluation of the controls thereon, we obtained an understanding of these systems. Based on the understanding, we made an assessment of the potential for process failures and control risks. Our tests of the enrollment, participant recordkeeping, status change, and claims/reimbursement processes were designed accordingly.

The SAS 70 report for the FBMC Common Remitter application contained no relevant testing exceptions of control weaknesses.

We noted that the Voice Response and internet-based enrollment systems were not FBMC systems, but instead belonged to a third-party, TALX Corporation. The data collection and import from these enrollment systems is not performed by FBMC.

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**REVIEW OF SPECIFIED
FBMC POLICIES**

OBJECTIVES

Obtain an understanding of the policies in place at FBMC in the following specific areas:

- Affirmative action
- Privacy/HIPAA
- Disaster recovery

PROCEDURES

1. Discuss the policies with appropriate personnel.
2. Obtain and examine SAS 70 report for descriptions of policies.
3. Compare policies in place with requirements of the state contract.
 - a. Section 12.1 requires an affirmative action policy to be in place.
 - b. Section 8.4 requires confidentiality of participant information and maintenance of an effective disaster recover plan.

RESULTS

We discussed FBMC's affirmative action policies with Ms. Debra Tougas, Corporate Controller and Affirmative Action Officer. Ms. Tougas is responsible for the administration and monitoring of the affirmative action policy. The policy utilizes surrounding demographic data to identify and target areas with underrepresented women and minority employment. The plan is reviewed on an annual basis, led by the manager of HR, VP of Accounting, and the Cultural Diversity Team Leader. The policy is widely distributed to management and is made available to all employees within the employment handbook. Quarterly EEO statistical performance is disseminated to company officers to communicate progress toward established goals.

We discussed FBMC's confidentiality policies and HIPAA compliance with Ms. Trish Neely, VP, Compliance Officer, and Chief Privacy Officer. We examined various elements of the policies. FBMC requires all employees to undergo training for and complete testing of their knowledge of HIPAA requirements. Each department is required to develop and maintain implementation procedures for complying with company-wide directives and principles pertaining to confidentiality. Systems and procedures are designed such that employees have access to participant data only when a business purpose exists. FBMC also requires business associate agreements to be maintained for all third parties who have access to participant data.

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ANNUAL REPORT
DATA ANALYSIS

OBJECTIVES

1. Obtain an understanding of the methodology for compiling and preparing data for the Annual Report to the State of Wisconsin.
2. Agree or reconcile key Annual Report data to underlying ledgers and records.

PROCEDURES

1. Obtain 2000, 2001, and 2002 Annual Report.
2. Discuss process for preparation of Annual Report with FBMC personnel.
3. Trace selected components of the annual report to underlying records, including:
 - a. Dependent claims paid.
 - b. Medical claims paid.

RESULTS

We discussed Annual Report preparation with Ms. Debra Tougas and Mr. Craig Hill. We noted no unusual elements in the process for preparation of the Annual Report. From the data downloads of claims paid provided by FBMC, we recalculated the actual amount of claims paid for each year and for each account category. We reconciled total claims per the data downloads to the annual report. Variances between actual and reported amounts were insignificant. Reported claim payments appeared accurately reported.

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TESTING OF REIMBURSEMENT FUNDING

OBJECTIVES

FBMC maintains an amount on deposit from DETF to pay current claims. Periodically, FBMC provides DETF a summary of claims paid so that DETF may reimburse FBMC to maintain a stable balance on deposit.

Testing was conducted to determine whether these requests represent valid claims actually paid by FBMC to ensure the balance maintained with FBMC is not excessive.

PROCEDURES

1. Discuss remittance procedures with DETF personnel.
2. Judgmentally selected ten reimbursement payments from DETF records during 2000-2002 (three each from 2000 and 2001, four from 2002).
3. Agreed amounts on reimbursement requests as paid by the DETF to underlying check registers maintained by FBMC.
4. Examine check registers to ensure coding indicated the payment related to the State of Wisconsin plan, individual reimbursement amounts did not exceed IRS maximums, and payees were individuals (not entities ineligible for participation in such a plan).

RESULTS

We discussed remittance procedures with Ms. Marcia Blumer at DETF. All paid reimbursement requests were agreed to check registers maintained by FBMC. All items on the selected check registers were coded to the State of Wisconsin plan, were below IRS thresholds, and were to individuals rather than entities not eligible for participation. No exceptions were noted.

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**PAID CLAIM,
REIMBURSEMENT, AND
ELIGIBILITY TESTING**

OBJECTIVES

1. Obtain an understanding of the eligibility and claim payment processes.
2. Discuss procedures and controls with appropriate personnel.
3. Examine a sample of paid claims for accuracy, timeliness, and eligibility from employee participation and expense qualification perspective.

PROCEDURES

1. Obtain and examine SAS 70 report for discussion of controls over these areas and relevant exceptions.
2. From a claims paid data file, randomly selected 20 claims from each of 2000, 2001, and 2002 for examination (total 60 claims). With the population size of 132,647, the sample size provides 95% confidence that the error rate is 5% or less.
3. Inspect imaged enrollment forms or on-line/on-phone enrollment records from TALX Corporation database file.
4. Examine selected claims for adequate documentation, qualification with IRS standards, and adequacy of FBMC approvals and timeliness of processing.
5. For a sample of claims paid, examine actual disbursement for accuracy and consistency with claim request.
6. Inspect selected participant account detail for:
 - a. Accuracy of salary reduction amount.
 - b. Potential payment of duplicate claims.
 - c. Sufficiency of balance to cover requested claim.

RESULTS

With one exception, we inspected either paper enrollment forms or evidence of enrollment via the on-line or phone-based enrollment system for each participant. We noted one instance where FBMC was unable to provide evidence of enrollment for a selected participant. FBMC indicated that the enrollment was manually processed by a team leader in 2000 but FBMC could not locate the enrollment form. For all claims selected, claims were adequately documented and paid accurately, timely, and with proper approvals to State of Wisconsin participants. For each disbursement examined, we agreed the amount per the direct deposit to the claim form, or the amount and payee per the cancelled check to the claim form. For all participants examined, the salary deferral amount posted to the individual account agreed to the amount requested in the enrollment form. There were no instances of the payment amount exceeding the available balance based on amount contributed. No duplicate claim payments were noted for the participants selected.

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UNPAID CLAIMS TESTING

OBJECTIVES

Determine that unpaid claims are appropriately rejected or denied based on lack of evidence, insufficient balances remaining, or ineligible service.

PROCEDURES

1. Obtain a data download from FBMC of all fully- and partially-denied claims during each year 2000-2002.
2. Randomly select 30 items for inspection. With the population size of 26,120, the sample size provides 95% confidence that the error rate is 10% or less.
3. Examine claim request and related documentation, participant account activity, and FBMC disposition of claim
4. Recomputed processing time for all claims selected.

RESULTS

All items selected were denied, or partially denied, for appropriate reasons, depending upon the specifics of the cases selected. No duplicate authorization codes were noted. Account activity for each participant properly omitted the claim. Two items were noted that exceeded the maximum five-day processing time. These items were not agreed to inclusion in the quarterly exception reporting from FBMC to DETF. See Comment 2 in Section III.

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C H A N G E I N S T A T U S T E S T I N G

OBJECTIVES

Determine whether participants granted changes to their deferral amounts are permissible in accordance with IRS criteria, whether the changes are requested by the employee and approved by the employer, and whether their accounts are accurately and timely affected by the change in status requests.

PROCEDURES

1. Obtain data download of all changes in status processed by FBMC for the State of Wisconsin plan during 2000-2002.
2. Randomly selected 30 changes for inspection. With the population size of 605, the sample size provides 95% confidence that the error rate is 10% or less.
3. Examine change in status form, including signatures, reason, and new amount.
4. Examine participant account history.

RESULTS

The 30 change in status transactions selected were processed in accordance with authorized and approved change in status forms. All changes in status were due to qualifying events according to IRS criteria. All status changes were accurately and timely reflected in the participants' account histories. No relevant exceptions noted.

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BANK RECONCILIATION TESTING

OBJECTIVES

Determine whether FBMC conducts timely and accurate reconciliations of deposit account maintained on behalf of the State of Wisconsin plan.

PROCEDURES

1. Discuss process with appropriate FBMC personnel.
2. Obtain and examine SAS 70 report for process and control descriptions and testing results.
3. Judgmentally select three months from each year and obtain bank reconciliations.
4. Inspect selected bank reconciliations for clerical accuracy, unusual items, and timely completion and review.

RESULTS

The SAS 70 report and our discussions with Ms. Debra Tougas described a reasonable and appropriate reconciliation process and adequate segregation of duties. The SAS 70 report contained no relevant exceptions to their testing of the reconciliation process. For the nine selected months during 2000-2002, all reconciliations were completed and approved timely, were clerically accurate, and contained no obvious errors or unusual items. No relevant exceptions noted.

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ADMINISTRATIVE PERFORMANCE REVIEW AND ANALYSIS

OBJECTIVES

Review FBMC's process for reporting quarterly and annual compliance with performance requirements. Determine that such reporting is based on supporting documentation.

PROCEDURES

Discuss quarterly and annual reporting of performance standards with FBMC personnel. Examine certain underlying documentation.

RESULTS

Certain performance standards were noted to be easily verified by the State of Wisconsin, such as the receipt of the various annual and quarterly reports and meeting attendance. Our examination focused on certain quantitative measurements that are not verifiable by the State of Wisconsin, including enrollment processing, customer service, and reimbursement processing. For selected quarters, we obtained and inspected FBMC system reports that were used to populate the quarterly performance report. These reports appeared accurate and properly supported the reported values, except that we noted that underlying documentation of claim adjudication did not directly support the compliance rate reported to the state (see Comment 1 in Section III). Our examination of specific claim payments, denials, enrollments, and processing time further support the level of compliance reported by FBMC. No relevant exceptions noted.

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ANALYSIS OF INVOICES

OBJECTIVES

Determine compliance with administrative agreement and accuracy for monthly invoicing from FBMC.

PROCEDURES

1. Obtain and examine all invoices during 2000, 2001, and 2002.
2. Compare selected invoices for unusual fluctuations and inspect for obvious clerical errors.
3. Recalculate selected invoices for use of appropriate per participant fee.
4. Select specific months to agree participant counts to FBMC supporting documentation.

RESULTS

We noted no unusual fluctuations in selected invoices. Selected invoices were calculated accurately and according to the fee structure specified in the administrative agreement. Participation levels to which the per-participant fee is applied were unable to be agreed to FBMC documentation. This information is produced internal to the FBMC processing system and is not able to be recreated. See Comment 1 in Section III.

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SECTION III -
COMMENTS AND
RECOMMENDATIONS

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C O M M E N T 1

Because invoicing by FBMC is based on system-generated participant counts that are not able to be reproduced, we encourage the Department of Employee Trust Funds to implement certain monitoring controls that could identify unusual fluctuations in billed populations. DETF should monitor participant counts monthly and develop an expectation for increases and decreases based on monthly hiring and termination activity. Invoices with participation outside of these parameters could be questioned. Annually, DETF could also request FBMC to furnish a participant listing by unit/department. DETF could request employer units to verify the accuracy of the participation. Any differences between billed participants and those verified by employer units should be investigated.

C O M M E N T 2

During our examination of unpaid claims, we identified two transactions that appeared to be outside of the five-day processing time window. These instances did not appear on any exception reports provided by FBMC. We encourage FBMC to formalize its procedures for documenting and reporting exceptions to processing standards. Values for total transactions processed and exceptions as reflected on quarterly reports submitted to the State of Wisconsin should be supported by underlying reports that should be maintained for at least the next subsequent audit.

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**SECTION IV -
RESPONSE BY FRINGE
BENEFITS MANAGEMENT
COMPANY**

FBMC

Fringe Benefits Management Company

Corporate Accounting
(850) 425-6200 • FAX (850) 425-6220

December 4, 2003

DEC 11 2003

Mr. Eric Stanchfield, Secretary
Employee Trust Funds Board
c/o Department of Employee Trust Funds
801 Westbadger Road
Madison, WI 53702RECEIVED
EMPLOYEE TRUST FUNDS

Dear Mr. Stanchfield and Employee Trust Funds Board:

It was a pleasure to have Williams Young, LLC (WY) perform the agreed-upon procedures audit regarding the administration of the Employee Reimbursement Account by Fringe Benefits Management Company (FBMC). Given that the audit covered three years, 2000 – 2002, we were pleased with the overall results.

I appreciate the comments of the auditors and view this as an opportunity to improve our services. The two comments for improvement, which were made as a result of this audit, are listed below as well as the actions we are taking to address these findings:

- (1) WY was concerned that we were unable to reproduce the information used for the monthly bill. This is correct. For example, after the July invoice is created, if there are adjustments (terminations or new hires effective prior to July 1) the information will change. Beginning with the December 2003 invoice, we will print and maintain the report used to generate the invoice.
- (2) WY indicated that during their examination they identified two claims, which were not reported to Wisconsin as an exception to their 5-day processing requirement. In both instances, the claim receipt date was not updated in our system. Both claims had been rejected and resubmitted. When the claim was resubmitted, the claims examiner did not update the system to reflect the date the resubmitted claim was received. In the future, the claims processor will document the exceptions report in a formal manner, which will clearly indicate why the claim is not being reported as an exception to Department of Employee Trust Funds.

I believe the overall positive comments, or absence of negative comments; speak highly of our administrative services during this three-year period. We look forward to a lasting and mutually beneficial relationship in years to come.

Sincerely,

Fringe Benefits Management Company


Debra Tougas
Chief Financial Officer