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CORRESPONDENCE MEMORANDUM

DATE: January 22, 2007
TO: Group Insurance Board
FROM: Marcia Blumer, Program Manager
Wisconsin Public Employers Group Life Insurance Program
SUBJECT: Wipfli LLP Audit of the Wisconsin Public Employers (WPE) Group Life Insurance Program for Plan Years 2003 through 2005

This memo is for the Board's information only. No action is required.

Attached is the audit report prepared by Wipfli LLP for the administration of the WPE Group Life Insurance Program for Plan Years 2003, 2004, and 2005. Overall, this audit was comprehensive and included inquiries, observations and/or tests regarding all of the procedures that Minnesota Life Insurance Company (MLIC) uses to administer the group life insurance program.

The audit demonstrates that MLIC administers the group life insurance program in compliance with applicable contractual, statutory and regulatory requirements and has implemented an adequate internal control system relative to its processing of group life claim payments.

Employee Trust Funds staff will be prepared to answer any questions that you may have regarding the audit at the Board meeting.

Reviewed and approved by Tom Korpady, Division of Insurance Services.

Signature

Date

Board	Mtg Date	Item #
GIB	02/13/2007	4

Group Insurance Board
State of Wisconsin
Department of Employee Trust Funds
Madison, Wisconsin

**Independent Accountants' Report on Applying Agreed-Upon Procedures
for Third-Party Administration of Group Life Insurance Program**
September 28, 2006

State of Wisconsin - Department of Employee Trust Funds

Independent Accountant's Report on Applying Agreed-Upon Procedures

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State of Wisconsin - Department of Employee Trust Funds

Independent Accountant's Report on Applying Agreed-Upon Procedures

Executive Summary

Wipfli LLP performed agreed-upon procedures in relation to third-party administration of the Group Life Insurance Program (GLIP) for the years 2003, 2004, and 2005. Minnesota Life Insurance Company (MLIC) performs the administration of the GLIP pursuant to an administrative agreement with the Wisconsin Group Insurance Board. 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.

- We noted MLIC 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
 - Policy year reporting

- Our examination of selected transactions included the following and revealed no exceptions or errors:
 - Declinations of coverage under evidence of insurability provisions
 - Payment of death benefit claims
 - Participant eligibility determination
 - Premium invoicing and collection
 - Retirement processing
 - Disability premium waiver

- Overall, we found the records maintained at MLIC to be complete and orderly. We found procedures to be well documented and monitored.



Independent Accountant's Report On Applying Agreed-Upon Procedures For Third-Party Administration Of Group Life Insurance Program

Group Insurance Board
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 user), to assist the Department in satisfying its requirements under the Statutes for the years ending December 31, 2005, 2004, and 2003. Department of Employee Trust Funds management is responsible for the accounting records of the Group Life Insurance Plan. 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 supplement 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 Minnesota Life Insurance Company's or the Group Life Insurance Plan's 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.

Wipfli LLP

Wipfli LLP

Madison, Wisconsin
September 28, 2006

Section 1 – Objectives and Scope

Objectives and Scope

This section of our report is based on the agreed-upon procedures as set forth in the engagement letter dated June 7, 2006. Certain other specific procedures, including sample sizes, confidence levels, and acceptable error rates, were discussed with Department personnel in advance of performance.

A. Background

GLIP is authorized by Wisconsin Statutes, which provide for administration and oversight by the DETF. The Program is available to state employees with at least six months participation under the Wisconsin Retirement System (WRS). The Program is funded by employer and employee premium payments as well as investment income. Benefits provided under the Program consist of death benefits, dismemberment benefits, and other health conversion features.

The Program is administered by MLIC, who also acts as insurer. Under the administrative agreement between the Group Insurance Board (GIB) and MLIC, MLIC is responsible for the provision of technical assistance, enrollment, premium reporting and billing, claims administration, provision of marketing and promotional materials, and certain periodic reporting. The DETF is responsible for communication of program provisions to employees, including the printing and distribution of manuals and forms and counseling employers and participating employer groups, maintenance of employee and employer records, and administration of the appeals process.

B. Previous Examinations

The GLIP was last tested for compliance for the period January 1, 2000, through December 31, 2002.

C. Objectives

Our engagement was designed to assist the DETF in determining whether MLIC is complying with terms of the administrative agreement, conducting enrollments in accordance with policy and requirements, and processing premiums and claims timely and accurately.

D. Scope

Our engagement extends to the application of the certain procedures enumerated in Section II of this report. We applied these procedures to the records and systems maintained by MLIC and DETF. Our procedures were applied to the 2003, 2004, and 2005 calendar years.

Section II – Procedures and Results

Procedures and Results

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
 - Premium billing and collection
 - Retirement
 - Claims
2. Obtain an understanding of the periodic reports produced by MLIC and determine how they are utilized as part of the monitoring and reporting processes.

Procedures

1. Discussed with appropriate personnel the flow of information within the DETF, between the DETF and MLIC, and within MLIC.
2. Obtained and examined related written policies and procedures.
3. Obtained and examined forms, documents, and transmittals used in the processes.
4. Obtained and examined SAS 70 report on internal controls and effectiveness for MLIC Group Insurance Business Unit and relevant audit results.

Results

The appendices at Section IV summarize the process flow for each area of interest.

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 professional judgment, we made an assessment of the potential for process failures and control risks. Our tests of the enrollment, retirement, premium collection, and claims processes were designed accordingly.

Procedures and Results

Review of Internal Controls (Continued)

The SAS 70 Report for the MLIC Group Insurance Business Unit contained no relevant testing exceptions or control weaknesses. That report specifies a number of controls that user organizations should have in place to achieve the control objectives contained in the SAS 70 report. See Comment 2 in Section III.

Review of Specified MLIC Policies

Objectives

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

- Affirmative action
- Privacy
- Disaster recovery and business continuation.

Procedures

1. Discussed the policies with appropriate personnel.
2. Compared policies in place with requirements of the state contract.

Results

We discussed MLIC's affirmative action policies with Jim Fenton, Senior Employee Relations Specialist. MLIC maintains an affirmative action policy containing a rolling five year plan which is updated annually. The policy stresses accountability at all levels of the company and includes internal quarterly, semiannual, and annual reporting at various levels of management. The policy is reviewed and certified by the State of Minnesota Human Rights Department (HRD) every two years. We observed the HRD certifications effective for the two years beginning August 1, 2003, and July 15, 2005.

Procedures and Results

Review of Specified MLIC Policies (Continued)

We discussed MLIC's privacy policies with Alfrieda Baldwin, Senior Counsel. MLIC discloses information regarding customers only when a business need exists, subject to applicable oversight and conditions. MLIC further safeguards information through building security measures, computer access passwords, employee training, and background checks. Employee training is documented in the MLIC's Human Resources Information System, however tracking of compliance with training requirements is not presently conducted. See Comment 3 in Section III. MLIC is constantly updating its policies to incorporate current trends and prospective threats. In addition, we reviewed reports of MLIC's internal audit department related to the Madison Branch Office's compliance with corporate privacy practices. Exceptions identified as part of those tests were satisfactorily resolved in December 2005 or April 2006.

We discussed MLIC's business continuation planning with Linda Goeppinger, Business Continuation Planning Coordinator and John Regal, Manager – Risk Management and Business Continuity Planning. We examined MLIC's Business Continuation Plan (BCP) program summary. It identifies internal teams and contacts and extends to the MLIC's business partners and the BCP's of service providers. The plan contains a framework for interim and recovery contingencies. Each business unit's plan is reviewed and exercised at least once per year. Our examination of the SAS 70 report revealed that controls relevant to data access, back-up, recovery, and protection of physical assets were tested and revealed no weaknesses. We reviewed summaries of testing results for May, July, and August 2006, which reported no material flaws.

Evidence of Insurability Coverage Declinations

Objectives

Employees who do not enroll during the open enrollment period, or who wish to increase their spouse and dependent coverage, may obtain coverage by providing the insurer satisfactory evidence of insurability. As the insurer, MLIC has the discretion to extend or decline coverage. Objectives included:

1. Obtain documentation of the enrollment process under the evidence of insurability provisions.
2. Detail inspection, on a sample basis, of declined enrollments under the evidence of insurability provisions.

Procedures and Results

Evidence of Insurability Coverage Declinations (Continued)

Procedures

1. Discussed the policies with appropriate personnel.
2. Obtained a data file containing coverage declinations from MLIC.
3. Selected a sample of declinations and inspected documentation and basis for coverage decision.
4. Compared policies and results of examined transactions with requirements of the state contract.

Results

We documented the process for enrollments under the evidence of insurability provisions of the plan. We obtained a data file containing all persons declined coverage under evidence of insurability and randomly selected 28 of the 697 declined during the 2003 through 2005 period. The statistical sample provides 95% confidence that the error rate is 10% or less, provided that there are no errors in the items tested. We inspected the files, recalculated the underwriting build rating, examined the medical questionnaire (as applicable), examined the physician's statement (as applicable), and recalculated the number of days required to process the applications. The files for all items selected contained appropriate documentation. Denial status appeared adequately substantiated based on the documentation obtained and appeared consistent with underwriting policies developed by MLIC. There were no exceptions noted with regard to noncompliance with processing time frames specified in the Administrative Agreement.

Claim Testing

Objectives

Generally, DETF is contacted at the time of an insured member's death. DETF notifies MLIC and the appropriate forms are forwarded to the beneficiaries. Upon submission of the claim request form and supporting documentation, MLIC pays the claim according to the plan and the beneficiaries' requests. Objectives included:

1. Document procedures for processing death and other claims.
2. Detail examination, on a sample basis, of claims paid.

Procedures and Results

Claim Testing (Continued)

Procedures

1. Discussed the policies with appropriate personnel.
2. Obtained a data file containing claims paid from MLIC.
3. Selected a sample of claims paid and inspected documentation and payment details.
4. Compared policies and results of examined transactions with requirements of the state contract.

Results

We documented the process for claims payment under the plan at Appendix 1 in Section IV. We obtained a data file containing all claims paid and randomly selected 58 of the 6,461 claims paid during the 2003 through 2005 period. The statistical sample provides 95% confidence that the error rate is 5% or less, provided that there are no errors in the items tested. The claims paid data file was compared to the amount reported on the Policy Year Reports and no differences were noted. The files of all items selected contained appropriate documentation including initial application, distribution request, and certificate of death, as applicable. The amount of each claim payment was recomputed based on coverage elected and earnings base. Where possible, the participant was also compared to the active Wisconsin Retirement System database to ensure eligibility was appropriately determined. All payment amounts selected were properly calculated as was the interest paid on each claim. For certain claims, the payment was traced to a copy of the check issued. For these claims, there were no exceptions either in amount or payee. There were no exceptions noted with regard to noncompliance with processing time frames specified in the Administrative Agreement.

Eligibility and Premium Testing

Objectives

All employees of the State of Wisconsin and participating local governments with at least six months of participation in the WRS are eligible to participate in the plan. Certain legislative, judicial, and other employees are immediately eligible. Coverage and premiums are based on the previous year's annual earnings as reported to WRS, or expected current earnings in the year of hire. Participants may elect additional, supplemental, and spouse and dependent coverage subject to certain criteria. Premiums may be adjusted annually by DETF. Objectives included:

Procedures and Results

Eligibility and Premium Testing (Continued)

Objectives (Continued)

1. Document procedures for processing initial enrollments, determining premium amounts, and collecting premiums.
2. Detail examination, on a sample basis, of new enrollments.
3. Detail examination, on a sample basis, of actual receipt of individual premiums.
4. Trace premium amounts received to amounts reported in the policy year report.

Procedures

1. Discussed the policies with appropriate personnel.
2. Obtained a data file containing new participants during the 2003 through 2005 period.
3. Selected a sample of participants and inspected eligibility documentation and premium determination.
4. Compared policies and results of examined transactions with requirements of the state contract.

Results

We documented the process for eligibility and premium determination and remittance under the plan in Section IV.

We obtained a data file containing all new enrollments and randomly selected 59 of the 12,401 local and 8,131 state applicants enrolled during the 2003 through 2005 period. The statistical sample provides 95% confidence that the error rate is 5% or less, provided that there are no errors in the items tested. For each participant, we examined the participant's application, noting approvals by the on-site payroll office, and recalculated the premium amount according to age and rates specified in the Administrative Agreement. We verified that premium payments began in the same month as the coverage effective date.

For a number of the State and State Agency employees in our sample, we reviewed the MLIC exception report which identifies instances in which the premiums collected differed from the premiums billed. None of the reports reviewed contained exceptions, indicating that the premiums billed for these participants were collected.

Procedures and Results

Eligibility and Premium Testing (Continued)

Results (Continued)

For a number of Local Government unit employees in our sample, we inspected the microfiche copy of the invoice MLIC prepared for their respective units and verified the accuracy of the premium for the participant selected. The total invoice amount for each unit selected was agreed to receipt documentation at the Madison office.

In all cases, premium amounts were properly determined, billed, and collected. There were no exceptions noted with regard to noncompliance with processing time frames specified in the Administrative Agreement.

Retirement Processing

Objectives

Participants who retire prior to age 65 may continue their coverage by remitting premiums directly to MLIC or as a deduction from their retirement annuity until age 65. Once participants reach age 65, their basic life insurance is continued at a reduced coverage level with no further premiums due. With regard to testing of retirement processing, objectives include:

1. Documentation of participant status change process and premium calculation.
2. Examining, on a sample basis, retirement processing.
3. Examining, on a sample basis, premium determination for retirees.

Procedures

1. Discussed the policies with appropriate personnel.
2. Obtained a data file containing retirements processed during the 2003 through 2005 period.
3. Selected a sample of newly retired participants and inspected retirement documentation and premium determination.
4. Compared policies and results of examined transactions with requirements of the state contract.

Procedures and Results

Retirement Processing (Continued)

Results

We documented the process for retirement processing under the plan in Section IV. We obtained a data file containing all new retirements and randomly selected 29 of the 7,739 newly retired during the 2003 through 2005 period. The statistical sample provides 95% confidence that the error rate is 10% or less, provided that there are no errors in the items tested. For each participant, we inspected the participant's certification of coverage form, noting approvals by the on-site payroll office, and recalculated post-retirement premiums. For all items selected, documentation and approvals were appropriate and the premium was calculated properly based on age consistent with the Administrative Agreement. There were no exceptions noted with regard to noncompliance with processing time frames specified in the Administrative Agreement.

Disability Premium Waivers

Objectives

Participants who are actively employed and become totally disabled may receive continued coverage that requires no premiums, subject to periodic documentation requirements. Objectives include:

1. Documentation of procedures for processing and approving disability premium waiver applications.
2. Examining, on a sample basis, participant requests for disability premium waivers and related documentation.

Procedures

1. Discussed the policies with appropriate personnel.
2. Obtained a data file containing disability premium waivers granted during the 2003 through 2005 period.
3. Selected a sample of participants and inspected documentation and premium waiver determination.
4. Compared policies and results of examined transactions with requirements of the state contract.

Procedures and Results

Disability Premium Waivers (Continued)

Results

We documented the process for disability premium waiver approval under the plan at Appendix 1 in Section IV. We obtained a data file containing all new premium waivers approved and randomly selected 29 of the 3,026 waivers approved during the 2003 through 2005 period. The statistical sample provides 95% confidence that the error rate is 10% or less, provided that there are no errors in the items tested. For each participant, we examined the participant's application, noting approvals by the on-site payroll office, age, physician statements, and determination of disability under Statute 40.63 (where appropriate). For all items selected, documentation and approvals were appropriate and determination was consistent with policies developed by MLIC. There were no exceptions noted with regard to noncompliance with processing time frames specified in the Administrative Agreement.

Administrative Performance Standards

Objectives

The Administrative Agreement between the DETF and MLIC requires MLIC to report quarterly on a variety of performance standards. The standards generally relate to timely processing of claims, applications, and underwriting determinations. Objectives include:

1. Documentation of MLIC's process for summarizing and reporting performance data.
2. Examine, on a sample basis, the underlying records that are used in producing the quarterly performance reporting.

Procedures

1. Discussed the process with appropriate personnel.
2. Obtained detail supporting quarterly performance reporting furnished to the DETF during 2003 through 2005.
3. Selected a sample of reported data and traced to underlying detail.
4. Compared process, reports, and results of examined detail with requirements of the state contract.

Results

For each year we selected one quarter (4th Quarter 2003, 2nd Quarter 2004, 3rd Quarter 2005) and traced the reported statistics to the underlying summary of data compiled by MLIC at the Madison office.

Procedures and Results

Administrative Performance Standards (Continued)

Results (Continued)

Exceptions noted were of the magnitude of one to two transactions, which had no bearing on the attainment of the goals established in the Administrative Agreement. However, the underlying documentation supporting some of the performance measures, including claim processing and payment, is not maintained by MLIC for a period of time sufficient to permit examination by the State of Wisconsin or its designees under the agreement. Furthermore, certain other performance measures including application processing are accumulated via manual counts of data at the time and are not able to be verified after the fact. See Comment 1 in Section III.

Policy Year Report

Objectives

The Administrative Agreement between the DETF and MLIC requires MLIC to report annually on program assets, liabilities, cash receipts, cash disbursements, and other data in a Policy Year Report, the format of which is prescribed by the agreement. Objectives include:

1. Determine MLIC's process for preparing the Policy Year Report is consistent with the Administrative Agreement.
2. Determine the Policy Year Report is supported by underlying records and documentation.

Procedures

1. Discussed the process with appropriate personnel.
2. Obtained detail supporting the Policy Year Report for 2003, 2004, and 2005.
3. Selected a sample of reported data and traced to underlying detail.
4. Compared policies and results of examined records with requirements of the state contract.

Results

We discussed the process for compiling the Policy Year Report with Beth Voermans, Kathy Clark, and Hans Larsen. For each year, we selected the following data and traced to underlying documentation:

Procedures and Results

Policy Year Report (Continued)

Results (Continued)

- Employee premium contributions
- State premium contributions
- Employee claims (pre- and post-retirement)
- MLIC expense charge
- State premium and federal income taxes
- Plan assets
- Interest on premium deposit fund
- Stabilization reserve changes

Paid claims and premiums collected data was further validated by relating reported amounts to detail examinations conducted of these areas. Paid claims data provided was reconciled to the value reported in the Policy Year Report. Premiums collected data was compared to the detail rollup performed on individual premiums without exception. All other selected financial and actuarial documentation was compared to prior years and current year supporting detail for reasonableness without exception. The system of compiling and reporting performance statistics appears to function as designed and produces accurate results.

Section III –

Comments and Recommendations

Comments and Recommendations

Comment 1

The contract between the State of Wisconsin and MLIC requires MLIC to process a certain percentage of transactions within specified time periods or be subject to potential penalties. In the case of application processing, we noted that the documentation was accumulated manually and not verifiable. In the case of claims processing and payment, we noted that documentation was system-generated, but not retained by MLIC for the period under examination. MLIC indicated that it began to maintain copies of these system reports in 2006. We recommend MLIC and the DETF work together to determine if enhanced documentation is desirable, to develop a more automated performance statistic reporting process, and to extend data retention time frames where appropriate.

Comment 2

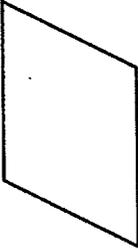
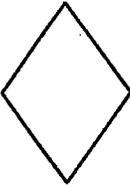
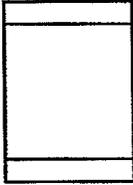
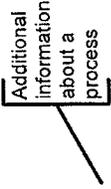
When an organization uses the services of another to process transactions on its behalf, certain controls must be in place at the primary entity to ensure information provided to the service organization is accurate, that transactions are authorized, and output is reviewed and monitored, among others. In its SAS 70 report, MLIC identified such client controls that should be in place to ensure achievement of control objectives at MLIC. We recommend that the DETF review these client controls and ensure they exist within the Department.

Comment 3

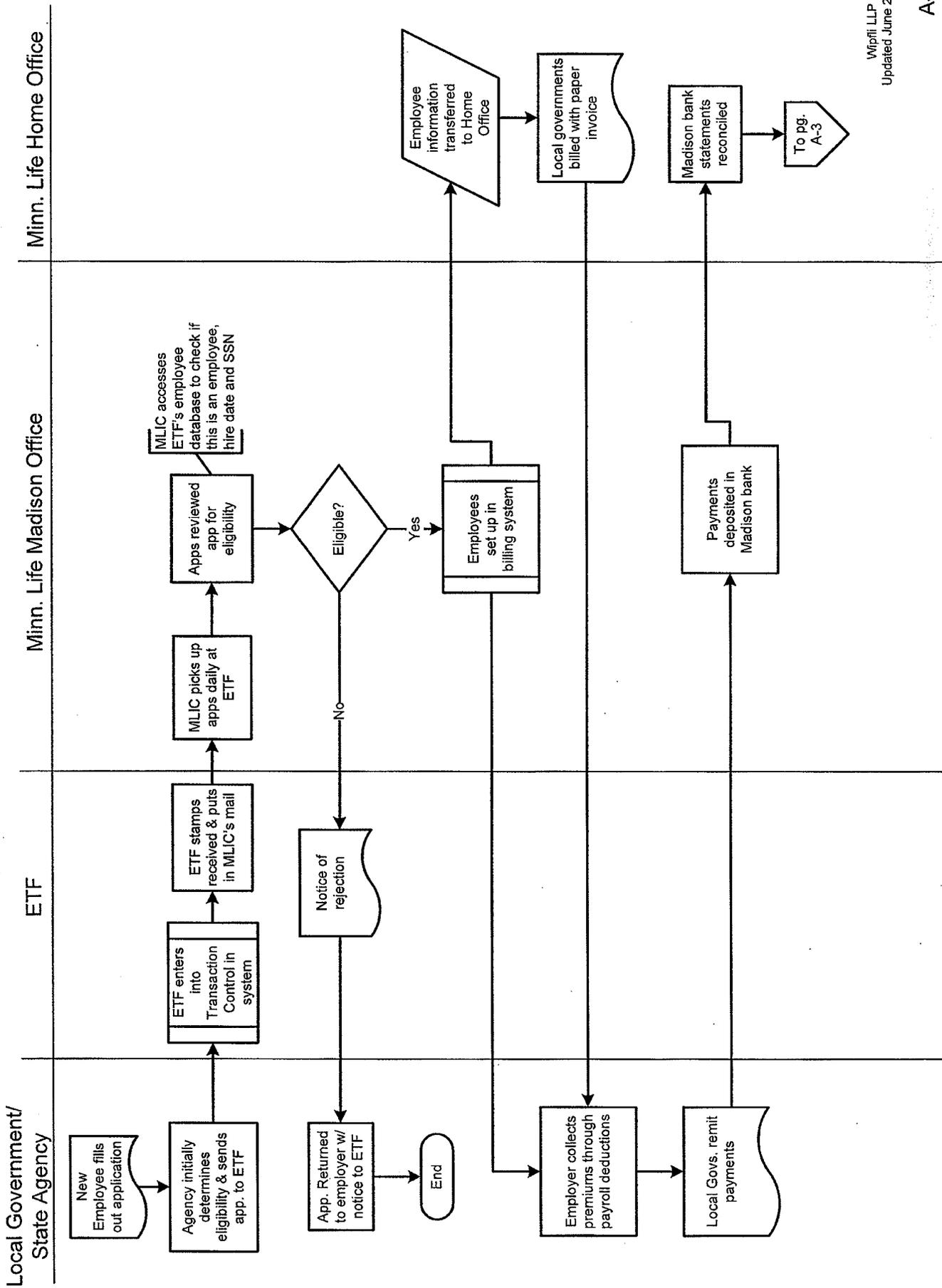
MLIC requires its employees to attend training regarding its privacy policies. When an employee participates in a training course, it is documented in the Company's Human Resources Information System (HRIS). It was noted, however, that the Company does not query the HRIS data to identify employees who have either not attended a privacy training, or are due for an update. We recommend MLIC periodically analyze HRIS data to identify employees who have not participated in privacy training to enhance compliance with internal policies.

Section IV - Appendices

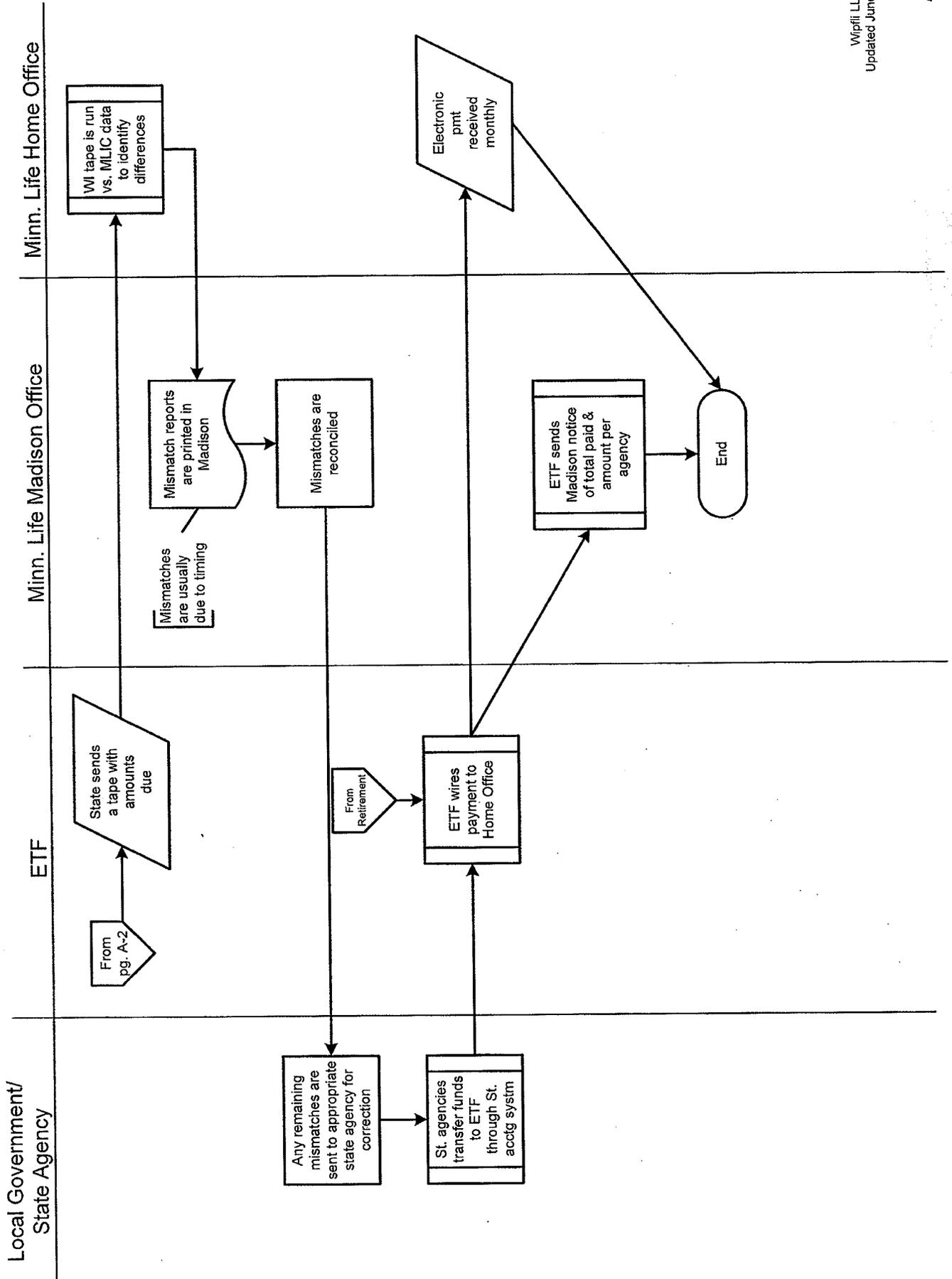
Wisconsin Department of Employee Trust Funds
 Group Life Insurance Program
 Flow Chart Symbols

	Manual Process		Electronic Data
	Decision Point		Cross reference to form attached to flowcharts
	Electronic Process		Connector to other chart
	Paper Document		End of Process
	Process Annotation		Indicates steps performed by Minn. Life employee located at ETF's offices

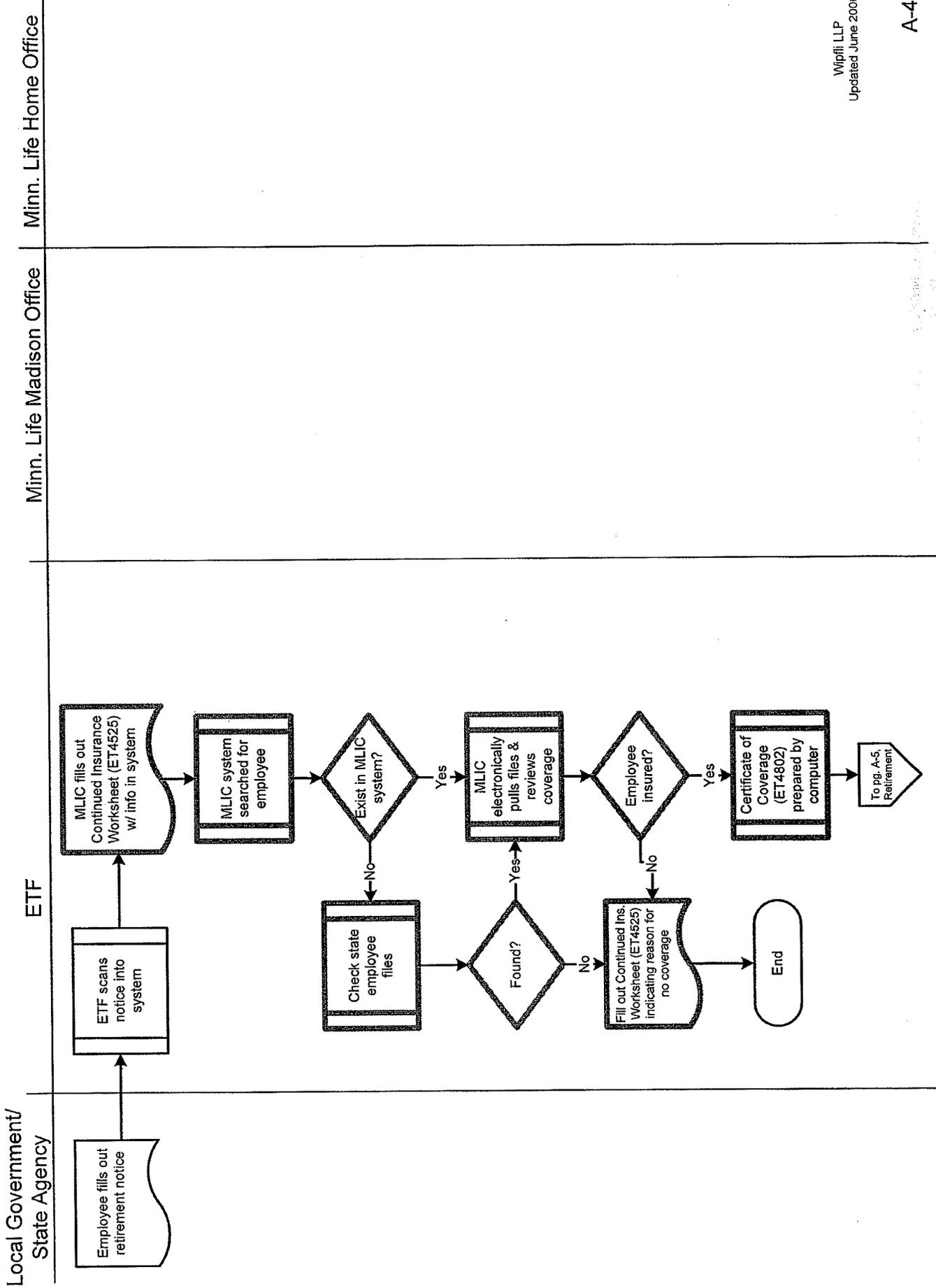
Wisconsin Department of Employee Trust Funds Group Life Insurance Program - Enrollment and Billing



Wisconsin Department of Employee Trust Funds Group Life Insurance Program - Enrollment and Billing



Wisconsin Department of Employee Trust Funds Group Life Insurance Program - Retirement



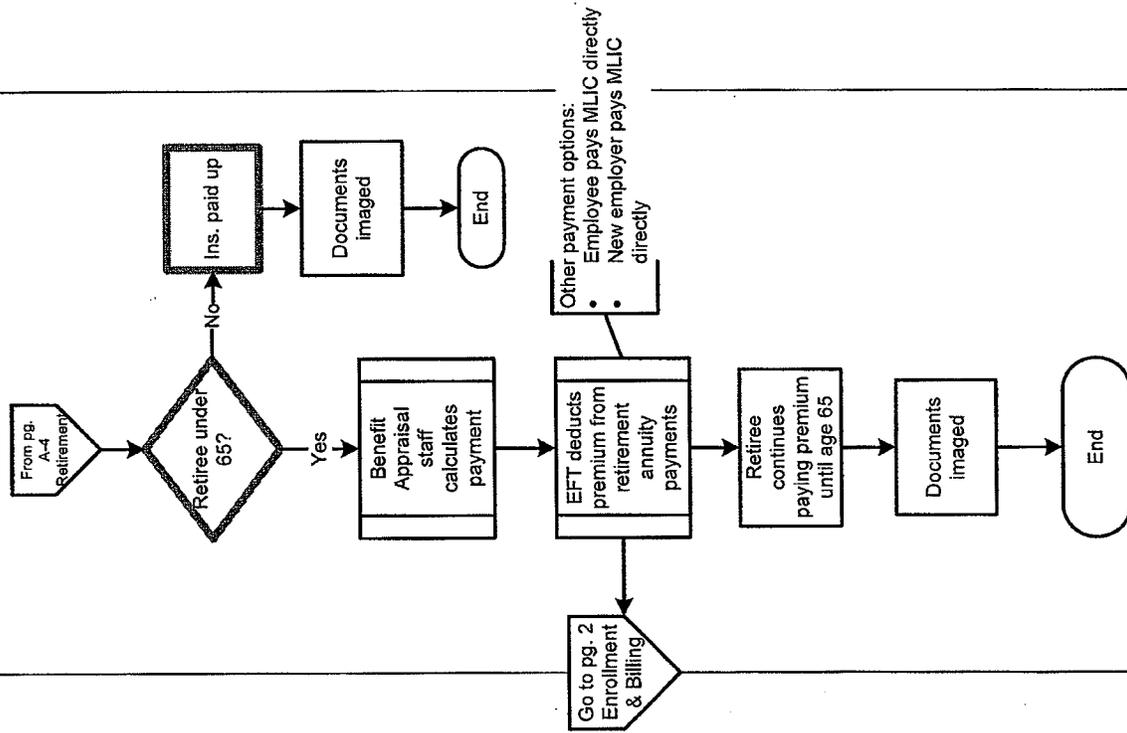
Wisconsin Department of Employee Trust Funds Group Life Insurance Program - Retirement

Local Government/
State Agency

ETF

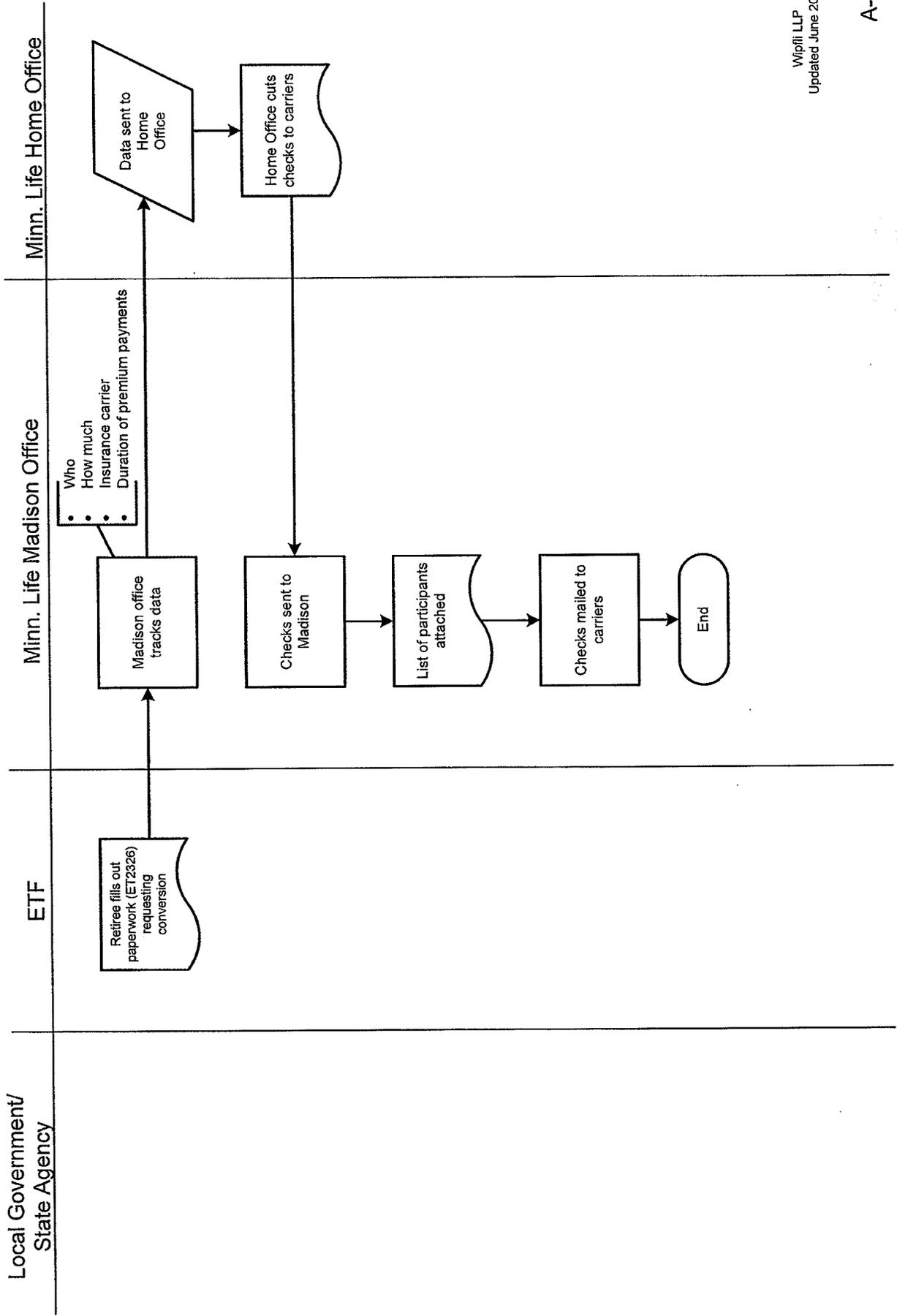
Minn. Life Madison Office

Minn. Life Home Office

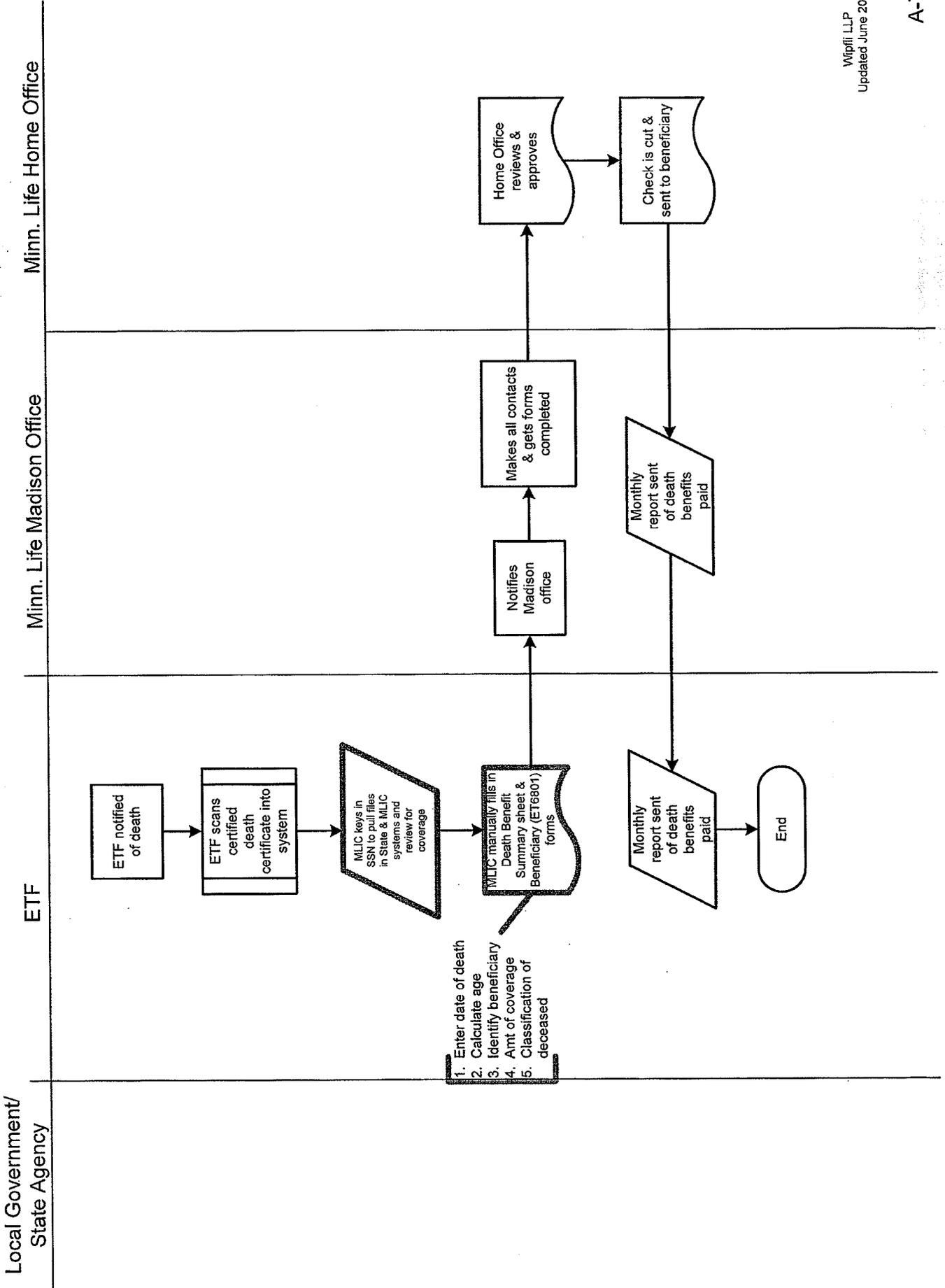


Wisconsin Department of Employee Trust Funds Group Life Insurance Program - Retirement and Death

Note: At age 66 (67 for local governments), a participant can convert the present value of a life insurance policy to pay health and long term care insurance premiums



Wisconsin Department of Employee Trust Funds
Group Life Insurance Program - Death Claims



Wisconsin Department of Employee Trust Funds Group Life Insurance Program – Evidence of Insurance

