



STATE OF WISCONSIN
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CORRESPONDENCE MEMORANDUM

DATE: August 22, 2011

TO: Employee Trust Funds Board

FROM: Marcia Blumer, Program Manager
Employee Reimbursement Accounts Program
Commuter Benefits Program

SUBJECT: Audit of the Employee Reimbursement Accounts and Commuter Benefits Programs for Plan Years 2006 through 2008

This memo is for informational purposes only. No Board action is required.

The Department of Employee Trust Funds (ETF) retained Wipfli, LLP to conduct an audit of the Wisconsin Employee Reimbursement Accounts (ERA) and the Commuter Benefits programs for calendar years 2006, 2007, and 2008. The audit was designed to assess compliance with the contract and all applicable state statutes and Federal regulations with the plan administrator, Fringe Benefits Management Company (FBMC), a Wageworks Company. The audit included inquiries, observations, and/or tests of processes and procedures used by FBMC to administer the programs.

FBMC was found to be in compliance with significant elements of the contract and administers the programs in compliance with applicable statutory and Federal regulatory requirements. The audit revealed several areas of concern that will be addressed by FBMC and ETF staff. (See page 19 in the audit report, attached.) The FBMC response to the audit findings is included in the audit report on pages 21 and 22. I have outlined actions that will be taken by ETF staff to address these concerns below.

- The audit report noted that a Statement on Auditing Standards (SAS) No. 70 report was not available from the outsourced administrator of the Commuter Benefits program, Wired Commute (now Edenred). FBMC has indicated that a copy has been requested. ETF will work with FBMC to obtain a copy of the Standards for Attestation Engagements (SSAE) No. 16 report on a regular basis. The SSAE 16 report supersedes the SAS 70 report, effective June 15, 2011.

Reviewed and approved by Lisa Ellinger, Administrator, Division of Insurance Services

Lisa Ellinger
Signature

8/31/11
Date

Board	Mtg Date	Item #
ETF	9.15.11	5D

- Several change in status forms requested for 2006 could not be located. In 2007, FBMC implemented an imaging system which images all documents when they are received. This appears to have alleviated the problems of misplaced forms.
- Commuter Benefits payment transactions lacked corroborating check copies or electronic disbursement data to support the transactions. ETF will work with FBMC and Edenred to assure that there is a process in place to determine what data is available and to maintain the necessary documentation on a regular basis.
- The audit identified differences between the total claims paid for each year reported on FBMC's system and the amount reported by FBMC in the annual report to ETF. FBMC's response identifies how these differences occur and how the issue will be addressed in future reports to eliminate these differences. The audit also identified slight differences between FBMC's annual claim totals and ETF's accounting records. ETF staff is working toward reconciling all accounts with FBMC in a timelier manner to address discrepancies between ETF and FBMC records.
- This audit took an extraordinary length of time to complete. Part of the problem may have been FBMC's audit contact person was not completely familiar with the data that was requested. Once the point of contact changed, the timeliness improved. In future audits, ETF staff will develop a detailed timeline with project milestones identified to keep the process on track. In addition, FBMC's response indicates that future audit projects will be managed on their side by using project management tools designed to monitor timelines and process checkpoints to ensure the audit is completed within the agreed-upon timeframe.

Department staff will be available at the Board meeting to answer any questions that you may have regarding the audit.

Attachment: Audit Report for Employee Reimbursement Accounts and Commuter Benefits Programs

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 Employee
Reimbursement Account and Commuter Benefits Programs
July 31, 2011

State of Wisconsin - Department of Employee Trust Funds

Independent Accountant's Report on Applying Agreed-Upon Procedures

Table of Contents

Executive Summary	i
Independent Accountant's Report on Applying Agreed-Upon Procedures for Third-Party Administration of Employee Reimbursement Account and Commuter Benefits Programs	1
Section I Objectives and Scope.....	2
Section II Procedures and Results	
Review of FBMC Internal Controls, Policies, and Procedures.....	4
Employee Reimbursement Account Program.....	7
Commuter Benefits Program	16
Section III Comments and Recommendations.....	19
Section IV Response by Fringe Benefits Management Company.....	20
Section V Appendices	
Appendix A	A-1
Appendix B	B-1

State of Wisconsin - Department of Employee Trust Funds

Independent Accountant's Report on Applying Agreed-Upon Procedures

Executive Summary

Wipfli LLP (Wipfli) performed agreed-upon procedures in relation to the third-party administration of the Employee Reimbursement Account (ERA) and the Commuter Benefits (CB) Programs for the years ended December 31, 2006, 2007, and 2008. Fringe Benefits Management Company (FBMC) performs the administration of the ERA and CB Programs pursuant to an administrative agreement with the Department of Employee Trust Funds (ETF). Certain aspects of the CB Program are subcontracted by FBMC to Wired Commute, a provider of tax-favored account solutions. Our procedures were designed to test for specific elements of compliance with the administrative agreement, as specified in our contract dated May 17, 2010, and by ETF personnel. The results of our procedures are summarized below and discussed in greater detail later in this report.

- We noted FBMC to be in compliance with all significant elements of the administrative agreement tested.
- Our examination of selected transactions revealed no significant exceptions related to eligibility determination, enrollment and withholding elections, claim processing and payment, or the maintenance of participant accounts with respect to the ERA Program.
- While ERA disbursements per FBMC's annual report are comparable to ETF accounting data, the value of claims data provided by FBMC for testing purposes varied significantly from these amounts. This difference should be investigated further to ensure the validity of testing results.
- Generally, we found the detail records maintained by FBMC to be complete, accurate, and properly organized with respect to ERA transactions. However, documentation for certain ERA transactions prior to 2007 and all CB claims transactions were not available or were inadequate.

An expanded discussion and recommendations developed based upon our observations are located in Section III.



Independent Accountant's Report on Applying Agreed-Upon Procedures for Third-Party Administration of Employee Reimbursement Account and Commuter Benefits Programs

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 with respect to the Employee Reimbursement Account (ERA) and Commuter Benefits (CB) Programs for the years ended December 31, 2006, 2007, and 2008. The State of Wisconsin - Department of Employee Trust Funds' management is responsible for the ERA and CB Programs' accounting records. 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 Fringe Benefits Management Company and Subsidiaries', the ERA's, or the CB'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

July 31, 2011
Madison, Wisconsin

Section 1 – Objectives and Scope

Objectives and Scope

This section of our report is based on the agreed-upon procedures as set forth in our contract dated May 17, 2010. Certain other specific procedures, including the selection of sample sizes, confidence levels, and acceptable error rates, were discussed with ETF personnel in advance of performance.

A. Background – Employee Reimbursement Account Program

The ERA Program was authorized by Section 125 of the Internal Revenue Code, established for state employees in 1987 by Wisconsin Act 399, and offered to employees beginning in 1990. The Program is an optional benefit that allows participants to earmark pretax 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 FBMC. Under the administrative agreement between ETF and FBMC, FBMC is responsible for the provision of marketing, record keeping, payment processing, and daily administrative services. ETF is responsible for program administration and oversight.

B. Background – Commuter Benefits Program

The CB Program was authorized by Section 132 of the Internal Revenue Code, established for state employees in 2001 by Wisconsin Act 16, and offered to employees beginning in 2002. The Program is an optional benefit that allows participants to earmark pretax salary, subject to IRS limitations, to pay for certain approved qualified transportation expenses including: transportation in a commuter highway vehicle (van pooling), transportation passes, and qualified parking all subject to exclusion maximums. Utilization of this program reduces participants' gross taxable income, which in turn reduces state and federal tax liabilities.

The Program is administered by FBMC, which subcontracts the administration of certain aspects of this program to Wired Commute. Under the administrative agreement between ETF and FBMC, FBMC is responsible for the provision of marketing, record keeping, payment processing, and daily administrative services. ETF is responsible for program administration and oversight.

Objectives and Scope

C. Previous Examinations

The ERA Program was last tested for compliance for the period 2003 through 2005. The CB Program was also last tested for compliance for the period 2003 through 2005; however, certain documentation limitations prior to April 2005 restricted the scope of testing.

D. Objectives

Our engagement was designed to assist ETF in determining whether FBMC is complying with the terms of the administrative agreements, conducting enrollments in accordance with program provisions, and processing claims and maintaining employee records in a timely manner, accurately, and within regulatory requirements.

E. 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 ETF. Our procedures were applied to the years ended December 31, 2006, 2007, and 2008.

Section II – Procedures and Results

Procedures and Results

Review of FBMC Internal Controls, Policies, and Procedures

Review of Internal Controls

Objectives

1. Obtain an understanding of the procedures and controls surrounding the Programs' processes in the following specific areas:
 - Enrollment and eligibility
 - Employee record keeping
 - Change in status
 - Claim 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. Discussed with appropriate personnel the flow of information within ETF; within FBMC; between ETF and FBMC; and between ETF, FBMC, and FBMC's subcontractors.
2. Obtained and examined the SAS 70 reports on internal controls and effectiveness for FBMC Common Remitter application within relevant audit areas.
3. Obtained and examined related written policies and procedures.
4. Obtained and examined forms, documents, and transmittals used in the monitoring and reporting processes.

Results

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. Our tests of the enrollment, participant record keeping, change in status, and reimbursement processes were designed accordingly.

FBMC obtains Type I and Type II SAS 70 reports for the Common Remitter application in alternating years. A Type I report documents the controls in place, whereas a Type II report tests the operating effectiveness of those controls.

Procedures and Results

Review of Internal Controls (Continued)

Results (Continued)

The Type I SAS 70 report for the FBMC Common Remitter application for 2007 contained a description of the controls in place.

The Type II SAS 70 report for the FBMC Common Remitter application for 2006 and 2008 contained six and no exceptions, respectively, related to accounting and reconciliation services and no significant testing exceptions or control weaknesses as identified by the service auditor. A SAS 70 report for Wired Commute, an FBMC subcontractor for the CB Program, was not made available. This constitutes a scope limitation in that we were not able to contemplate the controls in place at this subcontractor, which may have had a bearing on the nature of the procedures performed and conclusions reached. See Comment 1 in Section III.

Review of Specified FBMC Policies

Objective

FBMC's contract with ETF requires that it maintain specific internal policies and procedures. Testing objective included:

1. Obtain an understanding of the policies in place at FBMC regarding affirmative action, privacy and Health Insurance Portability and Accountability Act (HIPAA), and disaster recovery.

Procedures

1. Discussed the policies with appropriate personnel.
2. Obtained and examined SAS 70 reports for descriptions of policies.
3. Compared 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 recovery plan.
4. Inquired whether there have been any security incidents specific to the State of Wisconsin plan.

Results

We obtained a copy of FBMC's affirmative action policies for 2006 and 2007. An affirmative action policy statement was not provided for 2008. We obtained a copy of FMBC's Equal Employment Opportunity certifications for 2006 and 2008. An Equal Employment Opportunity certification was not provided for 2007.

Procedures and Results

Review of Specified FBMC Policies (Continued)

Results (Continued)

According to FBMC officials, the policy is widely distributed to management and is made available to all employees in the employment handbook. Quarterly statistics on equal employment opportunity performance are disseminated to company officers to communicate progress toward established goals.

We obtained copies of FBMC's confidentiality policies and HIPAA compliance. FBMC requires all employees to be trained in its privacy and security policies and procedures to ensure compliance with HIPAA requirements and offers periodic training for existing employees. 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 reported three data security incidents with respect to the State of Wisconsin during the period. We inquired of ETF personnel and verified that there were no other known or reported incidents.

We obtained and read a copy of FBMC's emergency management plan. The plan calls for a specified team of executives to enact the recovery plan in the event of a disaster. Recovery sites are identified in the plan. Under the plan, annual testing of data systems at these off-site locations is required. We reviewed documentation of FBMC's disaster recovery testing and results conducted during 2006 through 2008, the last of which took place on May 11, 2008. No significant deficiencies or errors were noted as a result of these tests.

Procedures and Results

Employee Reimbursement Account Program

Annual Report Data Analysis

Objectives

ETF requires FBMC to provide annual reporting on numerous elements of the ERA Program. This report includes information on the number of participants, the total claims paid, and various performance standards. Objectives included:

1. Obtain an understanding of the methodology for compiling and preparing data for the Annual Report to the State of Wisconsin.
2. Determine whether key data, as selected by ETF, in the Annual Report is supported by underlying FBMC ledgers and records.
3. Determine whether key data, as selected by ETF, in the Annual Report agrees to ETF accounting information.

Procedures

1. Obtained the 2006, 2007, and 2008 Annual Reports.
2. Discussed the process for preparation of Annual Reports with FBMC personnel.
3. Traced selected components of the annual report to underlying records, including:
 - a. Dependent claims paid
 - b. Medical claims paid
4. Obtained ETF totals of claims paid for each plan year and compared to totals reported by FBMC in the Annual Report.

Results

From the data downloads of claims paid, provided by FBMC, we recalculated the total amount of claims paid for each year and for each account type. We reconciled total claims per the data downloads to the amount indicated in the annual report as well as to ETF accounting records.

Procedures and Results

Variances between claims data and the FBMC Annual Report and between ETF accounting and FBMC Annual Report amounts are identified in the following tables.

Comparison of Claims Paid Data

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Per FBMC's system	\$ 21,965,357	\$ 22,518,601	\$ 23,019,048
Per FBMC's Annual Report	<u>21,965,326</u>	<u>22,518,066</u>	<u>23,020,233</u>
Difference	<u>\$ 31</u>	<u>\$ 535</u>	<u>(\$ 1,185)</u>

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Per ETF accounting	\$ 21,963,219	\$ 22,524,588	\$ 23,033,158
Per FBMC's Annual Report	<u>21,965,326</u>	<u>22,518,066</u>	<u>23,020,233</u>
Difference	<u>(\$ 2,107)</u>	<u>(\$ 6,522)</u>	<u>\$ 12,925</u>

Procedures and Results

Testing of Reimbursement Funding

Objectives

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

1. Determine whether reimbursement requests represent valid claims that were actually paid by FBMC.
2. Evaluate whether the balance maintained on deposit with FBMC is appropriate.

Procedures

1. Discussed remittance procedures with ETF personnel.
2. Judgmentally selected the months of February, July, and September 2006; March, August, and December 2007; and January, April, October 2008 to test reimbursement payments from ETF to FBMC.
3. Agreed amounts on reimbursement requests as paid by ETF to underlying check registers maintained by FBMC. Daily check runs from the ERA account were grouped and agreed to clearing on FBMC's bank statement.
4. Examined 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, which are ineligible for participation in such a plan).

Results

We discussed remittance procedures with Ms. Marcia Blumer at ETF. All paid reimbursement requests from the months selected for testing in 2006 through 2008 were agreed to check registers maintained by FBMC. All items on the selected check registers were coded to the State of Wisconsin plan and were below IRS thresholds. No exceptions were noted.

Procedures and Results

Paid Claim, Reimbursement, and Eligibility Testing

Objectives

Eligible state employees may make ERA elections annually during the open-enrollment period. If an employee experiences a qualifying life event, the ERA election may be changed mid-year. The amount elected is withheld from participants' paychecks throughout the year. As allowable expenses are incurred, participants submit these claims to FBMC for reimbursement. Objectives included:

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 allowability under IRS rules.
4. Determine whether claims paid are in excess of available account balances.

Procedures

1. Obtained and examined SAS 70 report for discussion of controls over these areas and relevant exceptions.
2. Randomly selected 59 claims for testing from a claims-paid data file provided by FBMC. With a population of 952,093 medical and dependent claims, the sample size provides 95% confidence that the error rate is 5% or less, provided that there are no errors in the items tested.
3. Inspected imaged paper enrollment forms or evidence from FBMC's system of enrollment via phone or FBMC's website for 23 participants. (8, 7, and 8 from 2006, 2007, and 2008 as instructed by ETF personnel.)
4. Examined selected claims for adequate documentation, compliance with IRS rules, adequacy of FBMC approvals, and timeliness of processing.
5. Judgmentally selected 26 claims paid (8, 12, and 6 from 2006, 2007, and 2008 as instructed by ETF personnel) from sample of 59 and reviewed actual disbursement for accuracy and consistency with claim request.
6. Inspected 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

We tested enrollment documentation for 23 participants as instructed by ETF personnel. FBMC's system maintains electronic information for its Web and phone enrollment systems in an easily accessible format. We vouched enrollment information to a screen on FBMC's system showing the method of enrollment and the coverage elected. No exceptions were noted with respect to evidence of enrollment.

Procedures and Results

Paid Claim, Reimbursement, and Eligibility Testing (Continued)

Results (Continued)

For all claims selected, claims were adequately documented, accurately paid, and properly approved. In accordance with our instructions from ETF personnel, we judgmentally selected 26 claim payments from our sample of 59 and additionally agreed the amount of the direct deposit to the claim form or the amount and payee on the cancelled check or direct deposit evidence to the claim form. For all participants examined, the salary deferral amount posted to the individual account agreed to the amount requested on the enrollment form. For dependent flex-spending accounts, there were no instances of the payment amount exceeding the available account balance at the time of payment. No duplicate claim payments were noted for the participants selected.

Procedures and Results

Unpaid Claims Testing

Objective

A claim submitted for reimbursement may be denied in part or in total because it is incomplete, exceeds a participant's available account balance, or is not in compliance with IRS rules and plan provisions.

Objectives included:

1. Determine that unpaid claims were appropriately denied.

Procedures

1. Obtained a data download from FBMC of all fully and partially denied claims during each year from 2006 through 2008.
2. Randomly selected 29 items for inspection. With a population size of 142,071, the sample size provides 95% confidence that the error rate is 10% or less, provided that there are no errors in the items tested.
3. Examined claim request and related documentation, participant account activity, and FBMC disposition of claim.
4. Determined if claims were appropriately denied.

Results

All claims selected for testing were denied, or partially denied, for appropriate reasons, depending upon the specifics of the cases selected. Account activity for each participant properly omitted the denied portion of the claim.

Change-in-Status Testing

Objectives

ERA elections may not be changed during a plan year unless a participant has a qualifying life event as defined by IRS rules. If a participant has such an event, a change-in-status request may be submitted and the ERA election changed.

Procedures and Results

Change-in-Status Testing (Continued)

Objectives (Continued)

Objectives included:

1. Determine whether changes in ERA elections outside of the open-enrollment period are allowable under IRS rules.
2. Ascertain whether the changes are requested by the employee and approved by the employer.
3. Determine whether participant accounts are updated accurately and in a timely manner to reflect approved change-in-status requests.

Procedures

1. Obtained a data download of all changes in status processed by FBMC for the State of Wisconsin plan during the 2006 through 2008 plan years.
2. Randomly selected 28 changes for inspection. With the population size of 516, the sample size provides 95% confidence that the error rate is 10% or less, provided that there are no errors in the items tested.
3. Examined change-in-status form, including signatures, reason for request, and new withholding amount.
4. Examined participant account history.

Results

FBMC was not able to provide documentation of the change-in-status for four participants selected for testing. All other change-in-status transactions selected for testing were executed in accordance with IRS rules and supported by properly authorized and approved change-in-status forms. All changes in status were a result of qualifying events as defined by IRS rules. All status changes tested were accurately and timely reflected in participants' account histories. See Comment 2 in Section III.

Bank Reconciliation Testing

Objectives

Monthly reconciliation of bank accounts is a necessary element of internal controls. Testing objective included:

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

Procedures and Results

Bank Reconciliation Testing (Continued)

Procedures (Continued)

1. Discussed the reconciliation process with appropriate FBMC personnel.
2. Obtained and examined the SAS 70 report for process and control descriptions and testing results.
3. Judgmentally selected three months from each year and obtained bank reconciliations.
4. Inspected selected bank reconciliations for clerical accuracy, unusual items, and timely completion and review.

Results

We obtained and read the SAS 70 reports and information obtained therein. The document indicated six exceptions in the 2006 report and none in the 2008 report related to accounting and reconciliations. For the nine months selected for testing from the plan years 2006 through 2008, all reconciliations were completed and approved in a timely manner, were clerically accurate, and contained no obvious errors or unusual items. No relevant exceptions were noted.

Administrative Performance Review and Analysis

Objectives

ETF requires FBMC to comply with certain performance standards as a condition of its administration of the ERA Program and to issue reports to ETF. Objectives included:

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

Procedures

1. Discussed quarterly and annual reporting of performance standards with FBMC personnel.
2. Selected two quarters from each year from 2006 through 2008 for testing.
3. Examined certain underlying documentation related to timeliness of claim reimbursements.

Procedures and Results

Administrative Performance Review and Analysis (Continued)

Results

Certain performance standards were noted to be easily verifiable by the State of Wisconsin, such as the receipt of the various annual and quarterly reports and meeting attendance by FBMC representatives. Our examination focused on quantitative measurements that are not verifiable by the State of Wisconsin; namely, timeliness of claim reimbursement. For selected quarters, we requested FBMC system reports that were used to populate the quarterly performance report. The reports provided validated the performance as reprinted in the quarterly communications.

Analysis of Invoices

Objectives

FBMC issues monthly invoices to ETF for administrative fees. Objectives included:

1. Determine compliance with administrative agreement.
2. Assess accuracy of monthly invoicing from FBMC.

Procedures

1. Judgmentally selected three months from 2006, 2007, and 2008 for testing.
2. Obtained and examined invoices from selected months.
3. Compared selected invoices for unusual fluctuations and inspected for obvious clerical errors.
4. Recalculated selected invoices for use of appropriate per-participant fee.
5. Selected specific months to agree participant counts to FBMC supporting documentation.

Results

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 agreed to FBMC documentation for each month selected.

Procedures and Results

Commuter Benefits Program

Paid Claim, Reimbursement, and Eligibility Testing

Objectives

Participants in the CB Program may change their withholding elections monthly. The program offers two options for reimbursement: (1) participant reimbursement or (2) direct payments to transportation or parking providers. Objectives included:

1. Verify that only eligible employees participate in the program.
2. Determine whether elections made by participants are properly reflected in the records of FBMC and its subcontractors.
3. Determine whether reimbursements are made in accordance with participant elections and that they do not exceed available account balances.
4. Compare claims-paid totals from FBMC to accounting information maintained by ETF.
5. Compare CB information in FBMC annual report to underlying data.

Procedures

1. Requested data file with records of all paid claims for 2006 through 2008.
2. Randomly selected 30 paid claims for inspection. With the population size of 55,322, the sample size provides 95% confidence that the error rate is 10% or less, provided that there are no errors in the items tested.
3. Reviewed election and reimbursement documentation for sample of paid claims selected.
4. Attempted to reconcile total of claims paid per FBMC's system and reporting to ETF accounting records.

Results

All state employees are eligible to participate in the program, and their withholdings are processed only by state government and agency payroll departments. None of the claims selected were noted to be for individuals outside of the employment of state government or agencies.

For nine of the selected claims, three in each program year, we obtained participant history detail. We verified that the value of the claim selected for testing agreed with the withholding/deduction election authorized by the participant.

Procedures and Results

Paid Claim, Reimbursement, and Eligibility Testing (Continued)

Results (Continued)

From 2006 through 2008, FBMC processed all reimbursement claims internally using the Common Remitter application and subcontracted the administration of parking and transit fulfillment elections to Wired Commute, a provider of tax-favored account solutions. We verified that paid claim data provided for our testing was consistent with Wired Commute online activity and transaction details. However, corroborating documentation of paid claims (check copies or electronic payment information) was not provided for testing, in that the third-party administrator (the "TPA") had difficulty in locating payment data from the time period in question and indicated they could not ascertain the validity of the recorded payment history. Accordingly, this constitutes a scope limitation, in that we cannot conclude on the deviation rate in the population with respect to actual disbursement activity. See Comment 3 in Section III.

The results of our comparison of paid claims data from FBMC and ETF follow in the table below.

Comparison of Paid Claim Data

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Per FBMC's and subcontractor's systems	\$ 1,371,772	\$ 1,377,379	\$ 1,416,599
Per FMBC's Annual Report*	<u>1,193,033</u>	<u>1,170,242</u>	<u>1,211,888</u>
Difference	<u>\$ 178,739</u>	<u>\$ 207,137</u>	<u>\$ 204,711</u>
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Per FBMC's Annual Report*	\$ 1,193,033	\$ 1,170,242	\$ 1,211,888
Per ETF's accounting-Benefits	1,203,715	1,114,766	929,071
Per ETF's accounting- Administrative Expenses	<u>181,750</u>	<u>172,998</u>	<u>109,781</u>
Difference	<u>\$ (192,432)</u>	<u>\$ (117,522)</u>	<u>\$ (173,036)</u>

*Using deposits as an approximation of disbursements because CB disbursements are not reported in the Annual Report

Procedures and Results

Paid Claim, Reimbursement, and Eligibility Testing (Continued)

Results

We noted that the annual report does not indicate claims paid, but only deductions withheld. We recommend the full array of data be added to the annual reporting to ETF. See Comment 3 in Section III.

Invoice Testing

Objectives

FBMC issues monthly invoices to ETF for administrative fees. Objectives included:

1. Determine that reimbursements paid by ETF into the plan for qualified transportation benefits relate to valid claim reimbursements processed by FBMC or provider payments processed by Wired Commute.
2. Determine that administrative fees charged to ETF are in accordance with the administrative agreement.

Procedures

1. Determined the administrative charges paid by ETF were in accordance with the administrative agreement.
2. Determined whether the ETF had been charged in regular monthly intervals.
3. Compared the participation levels and claims reported month-to-month by the third-party payors for reasonableness.

Results

We noted no unusual fluctuations in the invoices that were reviewed. 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 agreed to FBMC documentation for 2006 through 2008.

Section III –

Comments and Recommendations

Comments and Recommendations

Comment 1

The evaluation of the TPA's internal controls includes a review of any SAS 70 reports over the processing systems employed. The TPA outsourced a portion of the Commuter Benefits Program's processing to another vendor and did not make a SAS 70 report available for that organization. To ensure the controls for all systems and processes are adequately designed and functioning appropriately, we recommend that SAS 70 reports for all vendors involved in the Programs' administration be obtained.

Comment 2

During our examination of ERA change-in-status processing by FMBC, it was determined that 4 of the 28 transactions selected could not be documented. Participant request forms were not imaged prior to 2007, and efforts to locate these four documents were not successful. Each of these forms related to 2006 examination requests. Because there were no exceptions in our 2007 or 2008 selections, it appears this condition is limited to pre-imaging periods.

Comment 3

Documentation of CB payment transactions consisted of system-generated screen shots or other system-generated data but lacked corroborating check copy or electronic disbursement data to support the selected transactions. We recommend ETF work with FMBC to determine what types of nonsystem data are maintained or should be maintained to serve as documentation of CB claims for audit trail purposes.

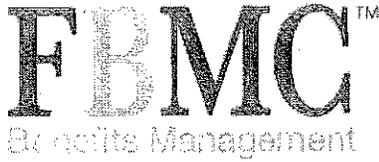
Comment 4

During our examination of CB data, we identified differences between the total of claims paid for each year per FMBC's system data provided for testing purposes and the amount it included in its annual reports to ETF. We also identified less significant differences between the annual totals of paid claims reported by FMBC to those shown by ETF's accounting records. ETF should consider the magnitude of these differences and determine whether a closer evaluation of their causes is appropriate because it may bear on the validity of the testing results contained in this report.

Comment 5

ETF's contract with the TPA calls for triennial examinations of performance. This cycle's examination (2006 through 2008) began in March 2010 and was not completed until July 2011. Such a drawn-out examination time frame does not provide ETF with the timely management information needed to make decisions about the TPA's performance and to identify opportunities for changes and enhancements to program operations. We recommend ETF, the TPA, and the examination firm develop a more compacted time line that is adhered to, provide inquiries for clarification when certain data requests are not clear, and implement other project management tools that will result in a more timely conclusion to the examination of 2009 through 2011.

Section IV – Response by Fringe Benefits Management Company



August 19, 2011

Response Re: 97088_2008 AUP Report

Thanks for the opportunity to respond to the Wipfli Audit Report. We have reviewed the audit results and recommendations, and provide the following measures in response to them.

The FBMC Affirmative Action Policy does not change from year to year. As a result, the 2007 policy language was the same as the document provided for 2008. On a go forward basis, our Affirmative Action Policy will identify the last date revised. This should assist in clarifying the period of time for which the submitted document represents.

Fringe Benefits Management Company (FBMC) does subcontract a portion of the commuter benefit services to Edenred, formerly known as Wired Commute. We have requested a copy of their most recent SAS70 report, or a comparable report, to satisfy the request in the audit. As of the date of this response, Edenred has not responded to the request. We will continue to follow up on this request and ensure we satisfy this need for future audits.

With regard to the change in status testing, FBMC implemented a document scanning and electronic storage system in 2007. Change in Status Forms are scanned into our system immediately upon receipt and processed. This reduced the chance of lost documents and the time it takes to retrieve them.

FBMC provided system generated data from the Edenred system to corroborate participant transit orders and parking provider transactions associated with the Commuter Benefits Program. In addition, we provided the auditor training and access to the Edenred system. We will work with staff at ETF and Edenred to identify other data elements that will be maintained, and serve as documentation for future audit purposes.

The Commuter Benefits data provided in FBMC Annual Reports is based on Statistical Reports generated from our Common Remitter system. The Account Statistics Report contains payroll deductions/contributions as opposed to actual transit or parking transactions amounts. A deduction taken during a particular month would be applied towards a transit or parking provider in the following month. To address this issue in the future, Annual Reports will contain transactions attributed to parking and transit providers from the Commuter Benefits system, in addition to parking claim reimbursements data. We will also research additional data elements to add to our report for audit purposes.

FBMC will manage future audits using Project Management Tools. These tools will require advance organization and planning by all departments involved in data retrieval and responses, and will include published and monitored timelines and process checkpoints. Incorporating

project management tools and developing project planning timelines for the audit process will ensure the focus and prioritization required to meet the objectives established for the completion of the audit in the agreed upon timeframes.

Our Company takes this feedback very seriously, and will develop action plans to ensure the measures identified above to address the recommendations are incorporated and reflected in future audit processes.

Sincerely,

A handwritten signature in cursive script that reads "Barbara Hinson".

Barbara Hinson

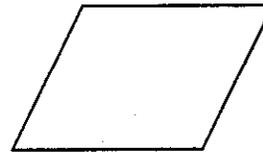
Sr. Manager Human Resources and Quality
FBMC Benefits Management Company, Inc.

Section V – Appendices

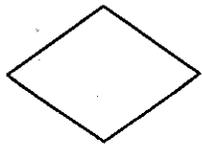
Wisconsin Department of Employee Trust Funds
Employment Reimbursement Accounts
Flow Chart Symbols



Manual Process



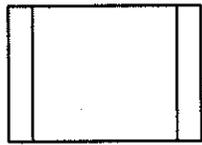
Electronic Data



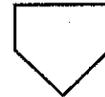
Decision Point



Cross reference to form
attached to flowcharts



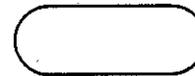
Electronic Process



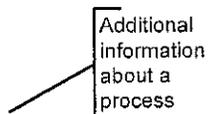
Connector to other chart



Paper Document



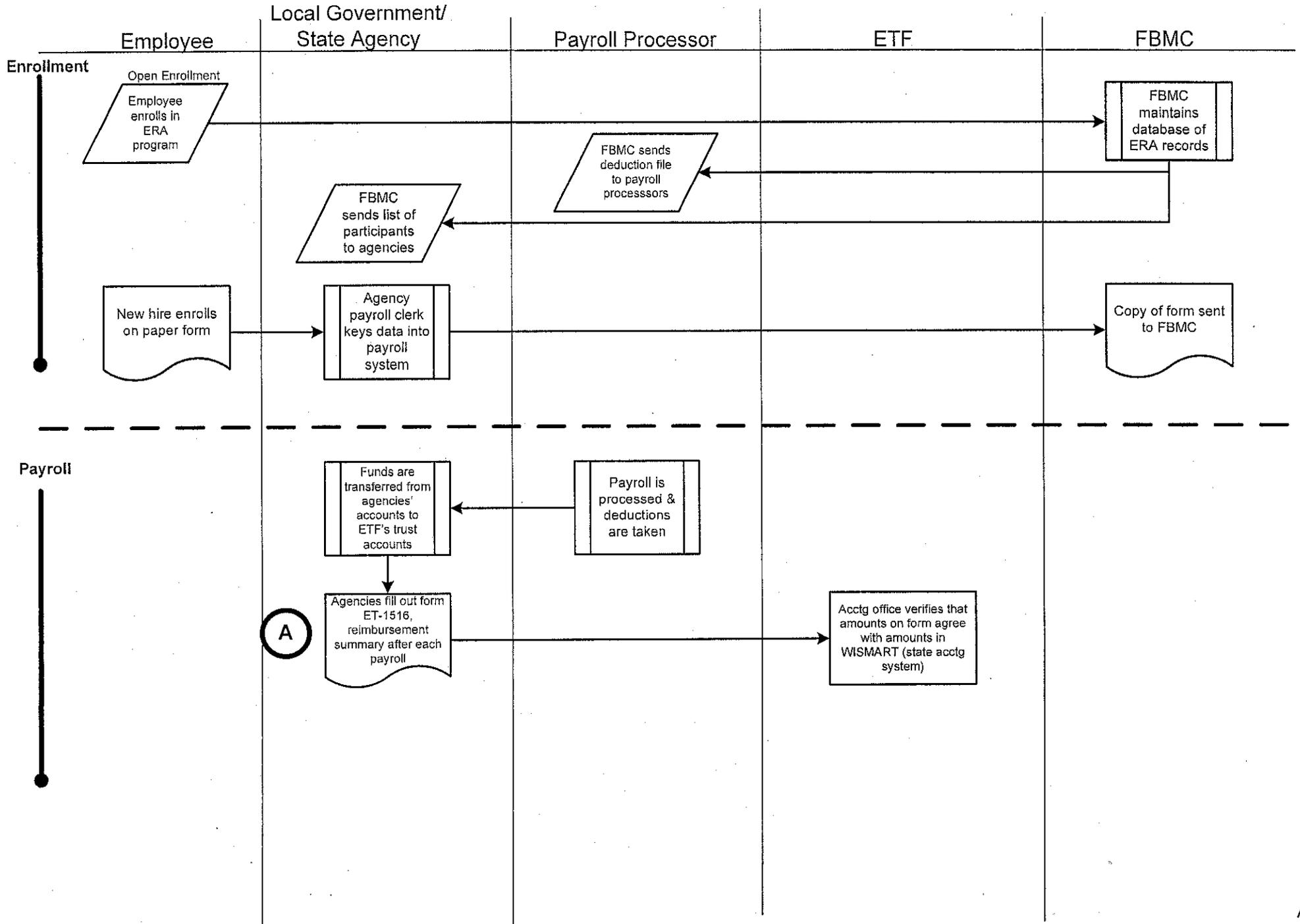
End of Process



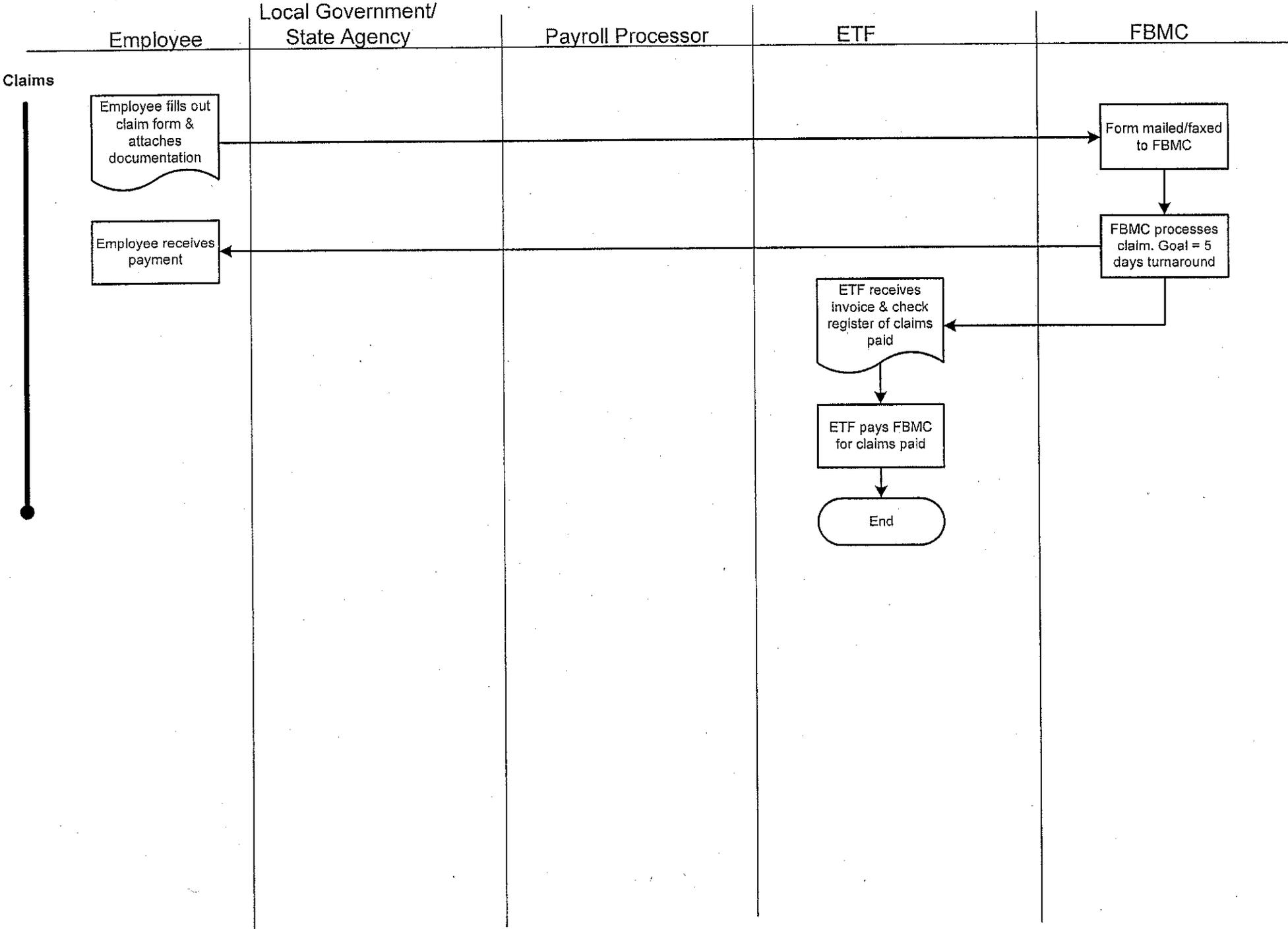
Process Annotation

Additional
information
about a
process

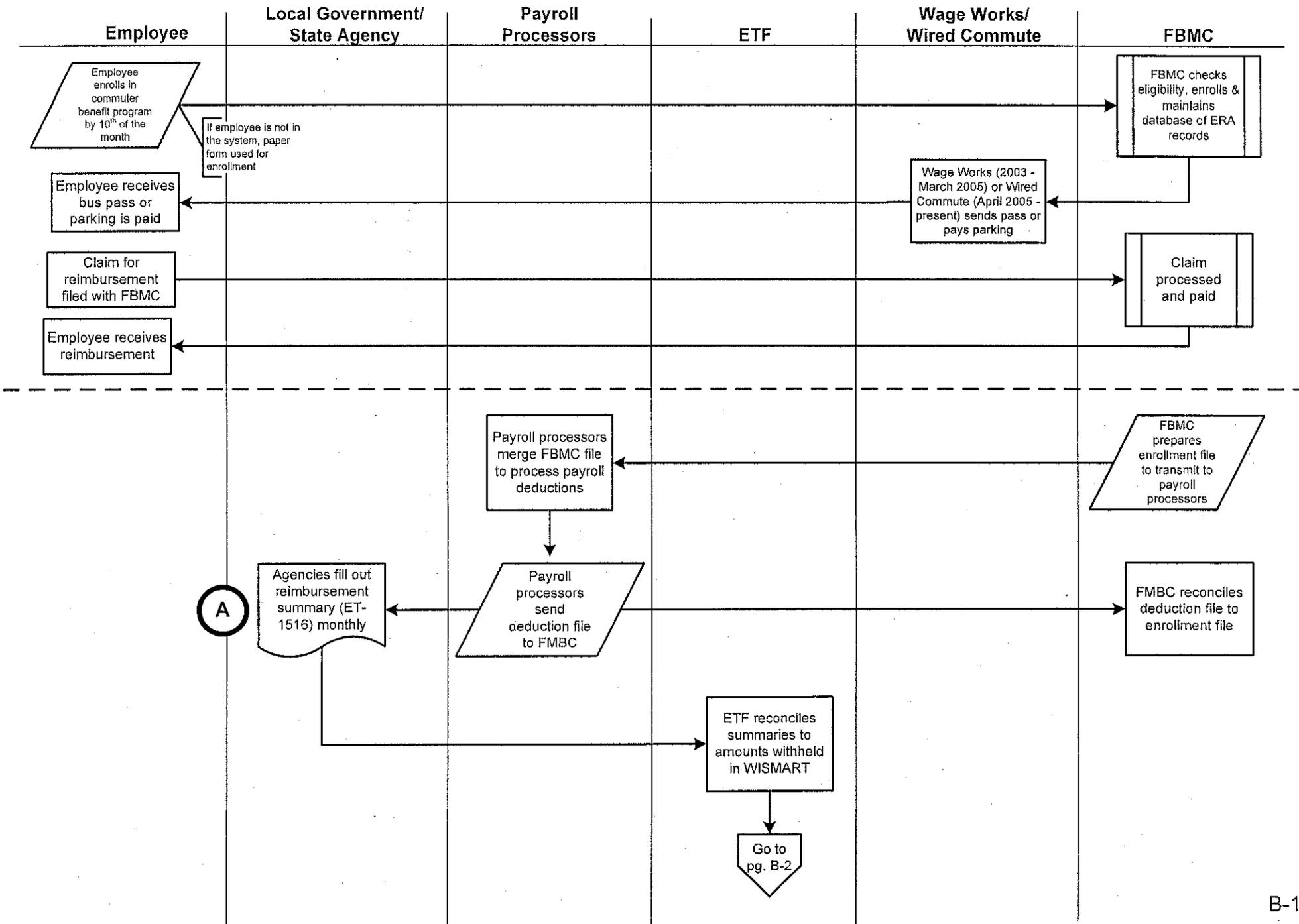
Wisconsin Department of Employee Trust Funds Employment Reimbursement Accounts – Medical & Dependent Care



Wisconsin Department of Employee Trust Funds Employment Reimbursement Accounts – Medical & Dependent Care



Wisconsin Department of Employee Trust Funds Employment Reimbursement Accounts – Commuter Benefits



Wisconsin Department of Employee Trust Funds
Employment Reimbursement Accounts – Commuter Benefits

