

# **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  
Years ended December 31, 2009, 2010, 2011, and the six  
months ended June 30, 2012

**(With TPA Management Response)**

# 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

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### 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, 2009, 2010, 2011, and for the six month period ended June 30, 2012. Testing included areas such as:

- Internal controls
- Policies
- Annual reporting
- Reimbursement funding
- Paid claims
- Eligibility
- Change-in-status
- Bank reconciliation

The administration of the ERA and CB Programs was performed by Fringe Benefits Management Company (FBMC) through December 1, 2010, and thereafter by WageWorks, following its acquisition of FBMC's tax-favored business and COBRA/Retiree Administration contracts. (Hereafter, FBMC and WageWorks will be collectively referred to as 'the TPA.')

Our procedures were designed to test for specific elements of compliance with the administrative agreement between the TPA and ETF, 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.

- Differences between what was paid or reimbursed by the TPA for ERA, plus CB orders were not reconciled to the amounts invoiced by the TPA to ETF for the 2011 plan year.
- ETF contribution amounts for both ERA and CB Programs posted by the TPA to individual participant accounts and reflected in the annual report were not reconciled to actual payroll contributions withheld from employees' paychecks, resulting in a difference between the TPA annual report and the ETF trust fund deposits for the 2011 plan year.
- 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.
- We noted the TPA to be in compliance with all significant elements of the administrative agreement tested.

# State of Wisconsin - Department of Employee Trust Funds

Independent Accountant's Report on Applying Agreed-Upon Procedures

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**WIPFLI**<sub>LLP</sub>

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

Employee Trust Funds Board and  
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) Program for the years ended December 31, 2009, 2010, and 2011 and the six month period ended June 30, 2012. 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 following report, either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the State of Wisconsin Employee Trust Funds Board and the Department of Employee Trust Funds and is not intended to be and should not be used by anyone other than that specified user.

Wipfli LLP

*Wipfli LLP*

January 14, 2014

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, 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 dependent care 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.

## 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.

Both Programs were administered by the TPA. Under the administrative agreement between ETF and the TPA, the TPA was responsible for the provision of marketing, record keeping, payment processing, and daily administrative services. ETF is responsible for program administration and oversight.

## C. Previous Examinations

Both the ERA Program and the CB Program were last tested for compliance for the period 2006 through 2008.

## D. Objectives

Our engagement was designed to assist ETF in determining whether the TPA was in compliance with the terms of the administrative agreements, conducted enrollments in accordance with program provisions, and processed claims and maintaining employee records in a timely manner, accurately, and within regulatory requirements.

# Objectives and Scope

## **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 the TPA and ETF. Our procedures were applied to the years ended December 31, 2009, 2010, and 2011. Because the TPA changed operating platforms effective July 1, 2012, ETF requested we extend our coverage to June 30, 2012, so that future examinations would only require testing of the new platform.

## **F. TPA Response**

The TPA has been given an opportunity to review this report and their responses appear under the heading 'TPA Management Response'. Such information is the representation of TPA management, and has not been subjected to examination procedures.

## Section II – Procedures and Results

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# Procedures and Results

## Employee Reimbursement Account Program

### Annual Report Data Analysis

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#### Objectives

ETF requires the TPA 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 TPA 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 2009, 2010, and 2011 Annual Reports.
2. Discussed the process for preparation of Annual Reports with TPA 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 TPA in the Annual Report.
5. Compare ETF and TPA forfeiture data for 2011.

#### Results

From the data downloads of claims paid, provided by the TPA, 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

## Employee Reimbursement Account Program

### Annual Report Data Analysis (Continued)

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

#### Comparison of Claims Paid Data

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Per TPA's system	\$ 23,105,785	\$ 23,175,188	\$ 21,818,760
Per TPA's Annual Report	<u>23,102,104</u>	<u>23,184,730</u>	<u>21,817,271</u>
Difference	<u>\$ 3,681</u>	<u>\$ (9,542)</u>	<u>\$ 1,489</u>

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Per ETF accounting	\$ 23,103,779	\$ 23,129,635	\$ 21,837,639
Per TPA's Annual Report	<u>23,102,104</u>	<u>23,184,730</u>	<u>21,817,271</u>
Difference	<u>\$ 1,675</u>	<u>\$ 55,095</u>	<u>\$ 20,368</u>

#### Recommendation

Differences between TPA reporting and ETF reporting may be comprised of larger offsetting amounts. Accordingly, in order to enhance controls over payroll and benefits, we recommend procedures be implemented to facilitate a more timely disposition of such variances. A quarterly comparison and disposition may be warranted.

#### TPA MANAGEMENT RESPONSE 1:

The TPA Annual Report reflects account totals, contributions, and reimbursements at a point in time – the date the necessary system reports are generated in support of the Annual Report. Adjustments occurring after the preparation and release of the TPA Annual Report will result in differences between any TPA Reports generated at a later date (as was the case with the reports used by Wipfli, LLP, in the tri-annual examination) and the earlier prepared TPA Annual Reports. This is simply a matter of the timing of the release of the TPA Annual Report and later generated reports.

# Procedures and Results

## Employee Reimbursement Account Program

### Annual Report Data Analysis (Continued)

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#### TPA MANAGEMENT RESPONSE 1 (Continued):

Adjustments occurring after the preparation and release of the TPA Annual Report are driven by the following business reasons:

- Timing – transactions could occur subsequent to the generation of the annual report. These transaction types are driven by:
  - plan year re-classes;
  - an overpayment is identified and recovered after the Annual Report is released;
  - claims appeals for prior plan years;
  - State of WI ETF or one or more payroll center(s) requests the TPA to make adjustments to individual participant accounts after the Annual Report is released; and
  - debit card settlement.

The annual forfeiture report should be used as the final data source and not the annual report, which serves as a preliminary snapshot of the plan year.

- System limitations – historical items can only post to the current year in the control account (the control account is the data source that was used by WageWorks for invoicing purposes). Examples of these historical items would be a payback by a participant for a transaction in the prior plan year, or an appeal that was processed that related to a prior plan year. Therefore, while the underlying participant account is correct, the year noted on the invoice would be incorrect. These items were noted in the 2011 claims paid reconciliation.
- Omission of specific transactions – re-classes (i.e. moving a claim payment for a participant from one plan year to another), were purposely omitted from the invoicing process since the transactions netted out and did not impact funding of claims payments. These items were noted in the 2011 claims paid reconciliation.
- Manual processes – the weekly claims paid invoice is created manually off of Common Remitter (please note that this is an automated process in the V5 system). As noted in the audit, errors and omissions of data occurred due to this manual process. For 2011, a claims paid reconciliation was completed and provided to both the State of Wisconsin and Wipfli. This reconciliation comprised of one invoice where an incorrect timeframe was used to generate the invoice and was the main source for the majority of the variance. The remaining differences occurred due to data omission, incorrect plan years initially noted on an invoice, and claims payments re-classed between plan years which were omitted from the invoicing process.

# Procedures and Results

## Employee Reimbursement Account Program

### **Annual Report Data Analysis** (Continued)

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#### TPA MANAGEMENT RESPONSE 1 (Continued):

##### TPA MANAGEMENT RECOMMENDATION 1A:

As an addendum to the Annual Report, include the supporting system reports detail for review by the ETF. This supporting documentation will clearly demonstrate the activity and financial transactions used to prepare the TPA Annual Report.

##### TPA MANAGEMENT RECOMMENDATION 1B:

Agree with recommendation that TPA Reports should be reconciled to ETF Reports on a regularly-scheduled basis and more frequently than annually. Monthly or quarterly reconciliations would assure that cash contributions (deposits) made to the ETF and claims reimbursements (disbursements) tie to the TPA activity (posting of contribution amounts to individual account balances and claim payments made during the same time period).

One significant reconciling area noted by the TPA that should be considered and accounted for during reconciliation consists of employee contributions to the ETF that do not tie to posted amounts to individual participant accounts in TPA system. These are not currently accounted for by the payroll centers and are not proactively worked for correction.

EXAMPLE 1: Payroll Center A deposits contributions for 10 employees equaling \$1,000 (10 x \$100) to ETF. Payroll Center A sends funding file to TPA with 10 employee records equaling \$1,000 (10 x \$100); however, there are only 9 employee records in TPA system to post contributions (9 x \$100 or \$900). Payroll Center A has made a cash contribution to ETF that is \$100 greater than the amount posted by TPA to individual accounts. This is a reconciling item and is due to Payroll Center A not reporting the enrollment activity for the one individual employee to TPA.

EXAMPLE 2: Employee A elects a \$1,200 annual contribution or \$50 per regularly-scheduled payroll. Employee A goes on leave and does not pay 100% of the payroll deductions. Payroll Center C does not report that Employee A is on leave and not making active contributions. Funding file sent to TPA inaccurately includes the regularly-scheduled payroll deduction amount for Employee A. Thus cash contributions made to the ETF do not match the funds posted in TPA system.

##### TPA MANAGEMENT RECOMMENDATION 1C:

Payroll contributions deposited to the ETF by payroll centers should match dollar-for-dollar the funds posted to TPA system. This can be accomplished if the ETF and payroll centers were to use one of the following options:

- TPA recommends that funds for record variances be held in suspense by payroll centers until all discrepancies are worked; or
- TPA recommends that payroll centers use TPA contributions report (which matches to funding posted to TPA system) as an invoice for determining amounts to deposit to ETF.

# Procedures and Results

## Employee Reimbursement Account Program

### Review of Forfeitures

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#### Objectives

Determine program year forfeitures are properly calculated.

#### Procedures

1. We examined the 2011 plan year forfeiture summary provided by the TPA and compared it to ETF data.

#### Results

Wipfli noted that the amount of withholding / deposits differed from the amount reported by ETF accounting by \$15,900 and the amount of claims / payments differed from the amount reported by ETF accounting by \$21,050. The resulting net forfeiture difference between the TPA's reconciliation and ETF accounting was \$36,950.

#### Recommendation

As the ultimate amount of 2011 withholding and claims was not satisfactory resolved by ETF and the TPA as of July 2013, we recommend procedures be implemented to facilitate a more timely disposition of such variances. A quarterly comparison and disposition may be warranted.

#### TPA MANAGEMENT RESPONSE 2:

See TPA Management Response 1 for recommendations.

2011 plan year reporting has been closed at this time as part of a larger account reconciliation that has been performed by ETF and TPA.

# Procedures and Results

## Employee Reimbursement Account Program

### **Paid Claim, Reimbursement, and Eligibility Testing**

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#### 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 the TPA 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 Internal Control Reports report for discussion of controls over these areas and relevant exceptions.
2. Randomly selected 60 claims for testing from a claims-paid data file provided by the TPA. Total population for 2009, 2010, 2011 and the first six months of 2012 was 474,521 medical and dependent claims. The sample size was designated by ETF, and provides 95% confidence that the error rate is 5% or less, provided there are no errors in the items tested.
3. Inspected online enrollment or evidence from the TPA's system of enrollment via phone or the TPA's website for participants.
4. Examined selected claims for adequate documentation, compliance with IRS rules, adequacy of TPA approvals, and timeliness of processing.
5. 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 vouched enrollment information to a screen on the TPA's system showing the method of enrollment and the coverage elected. No exceptions were noted with respect to evidence of enrollment. We further compared 15 participants to ETF system records for retirement system participation, as a means of ensuring false participants are not being setup in the plan.

# Procedures and Results

## Employee Reimbursement Account Program

### **Paid Claim, Reimbursement, and Eligibility Testing** (Continued)

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#### Results (Continued)

With one exception, all claims selected were adequately documented, accurately paid, and properly approved. In accordance with our instructions from ETF personnel:

- we judgmentally selected 10 claim payments from our sample of 60
- compared the amount of the disbursement check to the amount clearing on the bank statement or the amount of the debit card purchase to the account activities detail report
- in total agreed that disbursement amount to bank statement clearing.

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.

One of the claims tested was paid in 6 days, which is beyond the required 5 day lag.

#### TPA MANAGEMENT RESPONSE 3:

Agree with results; no other comments.

### **Change-in-Status Testing**

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#### 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. 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 the TPA for the State of Wisconsin plan during the 2009 through 2011 plan years, as well as during the first six months of 2012.

# Procedures and Results

## Employee Reimbursement Account Program

### **Change-in-Status Testing** (Continued)

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2. Randomly selected 30 changes for inspection. The population size was 660. The sample size was designated by ETF, and provides 90% confidence that the error rate is 10% or less, provided 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

All 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

### Recommendation

Procedures should be reviewed to ensure that all change-in-status forms are imaged and retained to support the transactions.

### TPA MANAGEMENT RESPONSE 4:

Agree with results and recommendations. TPA has implemented the necessary procedures to scan (image), index, and retain CIS forms and supporting documentation.



# Procedures and Results

## Employee Reimbursement Account Program

### Testing of Reimbursement Funding

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#### Objectives

The TPA maintains an amount on deposit from ETF to pay current claims. Periodically, the TPA provides ETF a summary of claims paid so ETF may reimburse the TPA to maintain a stable balance on deposit.

Objectives included:

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

#### Procedures

1. Discussed remittance procedures with ETF personnel.
2. Judgmentally selected the months of March and October 2009, April and September 2010, and January and July 2011, to test reimbursement payments from ETF to the TPA.
3. Agreed amounts on reimbursement requests as paid by ETF to underlying check registers maintained by the TPA. Daily check runs from the ERA account were grouped and agreed to clearing on the TPA'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 staff at ETF. All paid reimbursement requests from the months selected for testing in 2009 through 2011 were agreed to check registers maintained by the TPA. All items on the selected check registers were coded to the State of Wisconsin plan and were below IRS maximums (Medical: \$7,500, Dependent Care: \$2,500 or \$5,000, depending on tax filing status). Based on the amounts disbursed, TPA invoice request amounts and balances on deposits appear reasonable. No exceptions were noted.

#### TPA MANAGEMENT RESPONSE 5:

Agree with results; no other comments.

# Procedures and Results

## Employee Reimbursement Account Program

### Unpaid Claims Testing

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#### 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 the TPA of all fully and partially denied claims during each year from 2009 through 2011 as well as the first six months of 2012.
2. Randomly selected 30 items for inspection. The population size was 60,798. The sample size was designated by ETF, and provides 90% confidence that the error rate is 10% or less, provided there are no errors in the items tested.
3. Examined claim request and related documentation, participant account activity, and TPA 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.

#### TPA MANAGEMENT RESPONSE 6:

Agree with results; no other comments.

# Procedures and Results

## Employee Reimbursement Account Program

### **Bank Reconciliation Testing**

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#### Objectives

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

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

#### Procedures

1. Discussed the reconciliation process with appropriate TPA personnel.
2. Obtained and examined the Internal Control Reports 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 Internal Control Reports and information obtained therein. The 2009, 2011 and 2012 documents indicated no exceptions related to accounting and reconciliations. For the nine months selected for testing from the plan years 2009 through 2011, all reconciliations were completed and approved in a timely manner, were clerically accurate, and contained no obvious errors or unusual items. No exceptions were noted.

#### TPA MANAGEMENT RESPONSE 7:

Agree with results; no other comments.

# Procedures and Results

## Employee Reimbursement Account Program

### **Administrative Performance Review and Analysis**

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#### Objectives

The TPA is required 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 the TPA'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 TPA personnel.
2. Selected two quarters from each year from 2009 through 2011 for testing.
3. Examined certain underlying documentation related to timeliness of claim reimbursements.

#### 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 TPA 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 TPA system reports that were used to populate the quarterly performance report. The reports provided validated the performance as reprinted in the quarterly communications.

#### TPA MANAGEMENT RESPONSE 8:

Agree with results; no other comments.

# Procedures and Results

## Employee Reimbursement Account Program

### Analysis of Invoices

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#### Objectives

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

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

#### Procedures

1. Judgmentally selected two months from 2009, 2010, and 2011 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 TPA supporting documentation.

#### Results

We noted no unusual fluctuations in the invoices that were reviewed, except as it related to the change in billing structure effective January 1, 2010. Invoices from January 2009 to December 2009 ranged from \$35,006 to \$35,335. Invoices from January 2010 to December 2011 ranged from \$54,388 to \$60,059. 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 TPA documentation for each month selected.

#### TPA MANAGEMENT RESPONSE 9:

Agree with results; no other comments.

# Procedures and Results

## Commuter Benefits Program

### **Paid Claim, Reimbursement, and Eligibility Testing**

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#### 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 the TPA 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 the TPA to accounting information maintained by ETF.
5. Compare CB information in the TPA annual report to underlying data.

#### Procedures

1. Requested data file with records of all paid claims for 2009 through 2011, as well as the first six months of 2012.
2. Randomly selected 60 paid claims for inspection. The population size was 50,149, parking and transportation fulfillment and reimbursement claims. The sample size was designated by ETF, and provides 95% confidence that the error rate is 5% or less, provided there are no errors in the items tested.
3. Reviewed electronic transaction detail for sample of paid claims selected.
4. Attempted to reconcile total of claims paid per TPA'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.

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.

#### TPA MANAGEMENT RESPONSE 10:

Agree with results; no other comments.

# Procedures and Results

## Commuter Benefits Program

### Annual Report Data Analysis

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

#### Comparison of Paid Claim Data

	2009	2010	2011
Per TPA's and subcontractor's systems	\$ 1,125,861	\$ 1,505,651	\$ 1,468,281
Per ETF's accounting-Benefits	1,277,129	1,323,710	1,306,013

We noted that the annual report does not indicate claims paid, but only deductions withheld. The TPA indicated that the differences noted above can arise due to various factors including timing. Transactions may occur subsequent to the generation of the annual report, such as for plan year reclasses, claims appeals for prior plan years and debit settlement, which would be reflected in system reports for the purposes of the examination, but not in the Annual Report at the time it was produced. In addition, the subcontracting of certain components of the CB program through March 2009 and operating on two processing platforms through June 2012 also adds to the complexity of comparison and reconciliation.

#### Recommendation

During our examination of CB data, we determined that the value of claims paid according to the data provided from the TPA's system differed from 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. We note that the implementation of a single operating platform beginning July 2012 provides an opportunity to streamline reporting processes and implement a more effective reconciliation process.

#### TPA MANAGEMENT RESPONSE 11:

Actual claims data is made up of Reimburse Me Parking/Transit claims paid on the Common Remitter platform during this period. The other reports are based on orders fulfilled by the 3<sup>rd</sup> party vendor Edenred.

We are unable to provide claims data for anything other than the claims we pay, which for commuter is the Reimburse Me Parking/Transit and we have provided that data. This data (column M) can be compared to the Commuter Reimburse Me claims amounts invoiced from FBMC/WageWorks.

# Procedures and Results

## Commuter Benefits Program (Continued)

### **Annual Report Data Analysis** (Continued)

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#### TPA MANAGEMENT RESPONSE 11: (Continued)

The Transit and Direct Pay Parking Fulfillment data was provided from Edenred (Note: 2009 Jan – March parking data was not available). This data would more closely match the separate invoices to the State from FBMC/WageWorks and the Order Funding Reports that the State pulled down from the Commuter vendor's website each month to verify the FBMC/WageWorks invoice.

Here is the process that was followed for the Transit and Direct Pay Parking orders during the period of review:

- WageWorks would pull down the Wired Commute/Eden Red invoice (Order Funding Report) from the vendor's website.
- WageWorks would then manually prepare an invoice in Excel on FBMC or WageWorks letterhead and send to Wisconsin.
- Wisconsin would compare the manually prepared FBMC/WageWorks invoice to the Wired Commute/EdenRed Order Funding Report (invoice).
- Wisconsin then sends funds to FBMC/WageWorks to the Wisconsin plan account for the exact amount of the Wired Commute/FBMC/WageWorks invoice.
- FBMC/WageWorks then paid Wired Commute/EdenRed invoice for the exact amount.



# Procedures and Results

## Commuter Benefits Program

### Invoice Testing

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#### Objectives

The TPA 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 the TPA 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

Selected invoices were calculated accurately and according to the fee structure specified in the administrative agreement, as amended. Participation levels to which the per-participant fee is applied were agreed to TPA documentation for 2009 through 2011.

#### TPA MANAGEMENT RESPONSE 12:

Agree with results; no other comments.

# Procedures and Results

## Review of TPA Internal Controls, Policies, and Procedures

### Review of Internal Controls

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#### Objectives

1. Obtain an understanding of the procedures 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 internal controls at the TPA through review of SAS 70 (*Statement on Accounting Standards No. 70, Service Organizations*) and SSAE 16 SOC 1 (*Statement on Standards for Attestation Engagements, Service Organization Controls*) reports on controls at a service organization ('Internal Control Reports').
3. Obtain an understanding of the periodic reports produced by the TPA 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 the TPA; and between ETF and the TPA.
2. Obtained and examined the Internal Control Reports and TPA application effectiveness 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.

#### TPA MANAGEMENT RESPONSE 13:

Agree with results; no other comments.

# Procedures and Results

## Review of TPA Internal Controls, Policies, and Procedures

### **Review of Internal Controls** (Continued)

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#### Results (Continued)

The Internal Control Reports applicable to the ERA program consisted of a Type I report covering FBMC's Benefit Administration Services for 2009, a Type II report covering FBMC's Benefit Administration Services for 2010 and a Type II report covering WageWorks for 2011 and 2012 (which included coverage of FBMC's Benefit Administration Services subsequent to their acquisition). A Type I report provides a description of the controls in place at the service organization, whereas a Type II report provides testing results related to the operating effectiveness of those controls.

As the 2009 report was a Type I report, ETF did not receive information as to the effectiveness of the TPA's controls for that year.

The Internal Control Report for 2010 contained three exceptions, related to incomplete maintenance log checklists for UPS system inspections, expired server maintenance contracts and system access to add participants granted to terminated employees. The report disclosed no significant testing exceptions or control weaknesses as identified by the service auditor.

The Internal Control Report for 2011 and 2012 contained no exceptions and the reports disclosed no significant testing exceptions or control weaknesses as identified by the service auditor.

#### Comment

Prior to FBMC's acquisition by WageWorks, for odd numbered years, the TPA obtained a 'Type I' report, which provided only a description of its controls and not testing of the effectiveness of those controls. With WageWorks' acquisition of FBMC, a 'Type II' report including testing of the effectiveness of controls is available annually beginning in 2011. The TPA had outsourced a portion of the Commuter Benefits Program's processing to a subcontractor, for which an Internal Control Report was not made available. With WageWorks' acquisition of FBMC, this program's processing will be transitioned to an in-house system beginning July 2012, for which an Internal Control Report will be available.

#### TPA MANAGEMENT RESPONSE 14:

Agree with results; no other comments.

# Procedures and Results

## Review of TPA Internal Controls, Policies, and Procedures

### Review of Specified TPA Policies

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#### Objective

The TPA'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 the TPA 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 Internal Control 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 the TPA's affirmative action policies for 2011. An affirmative action policy statement was not provided for 2009 or 2010.

We obtained a copy of the TPA's Equal Employment Opportunity certifications for 2011 and 2012. An Equal Employment Opportunity certification was not provided for 2009 or 2010.

According to TPA 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 the TPA's confidentiality policies and HIPAA compliance. The TPA requires all employees to be trained in its privacy and security policies and procedures to ensure compliance with HIPAA requirements and requires annual 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.

# Procedures and Results

## Review of TPA Internal Controls, Policies, and Procedures

### **Review of Specified TPA Policies** (Continued)

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#### Results (Continued)

The TPA reported three data security incidents with respect to the State of Wisconsin during the period, none of which were considered to be breaches. We inquired of ETF personnel and verified that there were no other known or reported incidents.

We obtained and read a copy of the TPA's emergency management plan covering 2009 and 2010, and WageWorks' business continuity plan for 2011. The plans call 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 the TPA's disaster recovery testing and results conducted during 2009 through 2011, the last of which took place on September 22, 2011. No significant deficiencies or errors were noted as a result of these tests.

#### TPA MANAGEMENT RESPONSE 15:

Agree with results; no other comments.

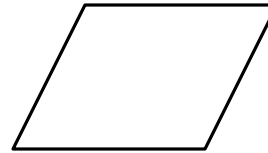
## Section III – Appendices

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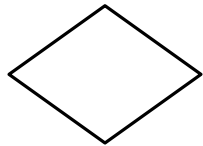
**Wisconsin Department of Employee Trust Funds  
Employment Reimbursement Accounts  
Flow Chart Symbols**



Manual Process



Electronic Data



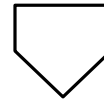
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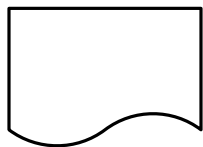
Cross reference to form  
attached to flowcharts



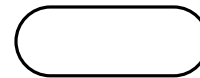
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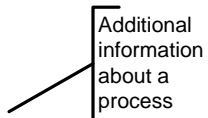
Connector to other chart



Paper Document



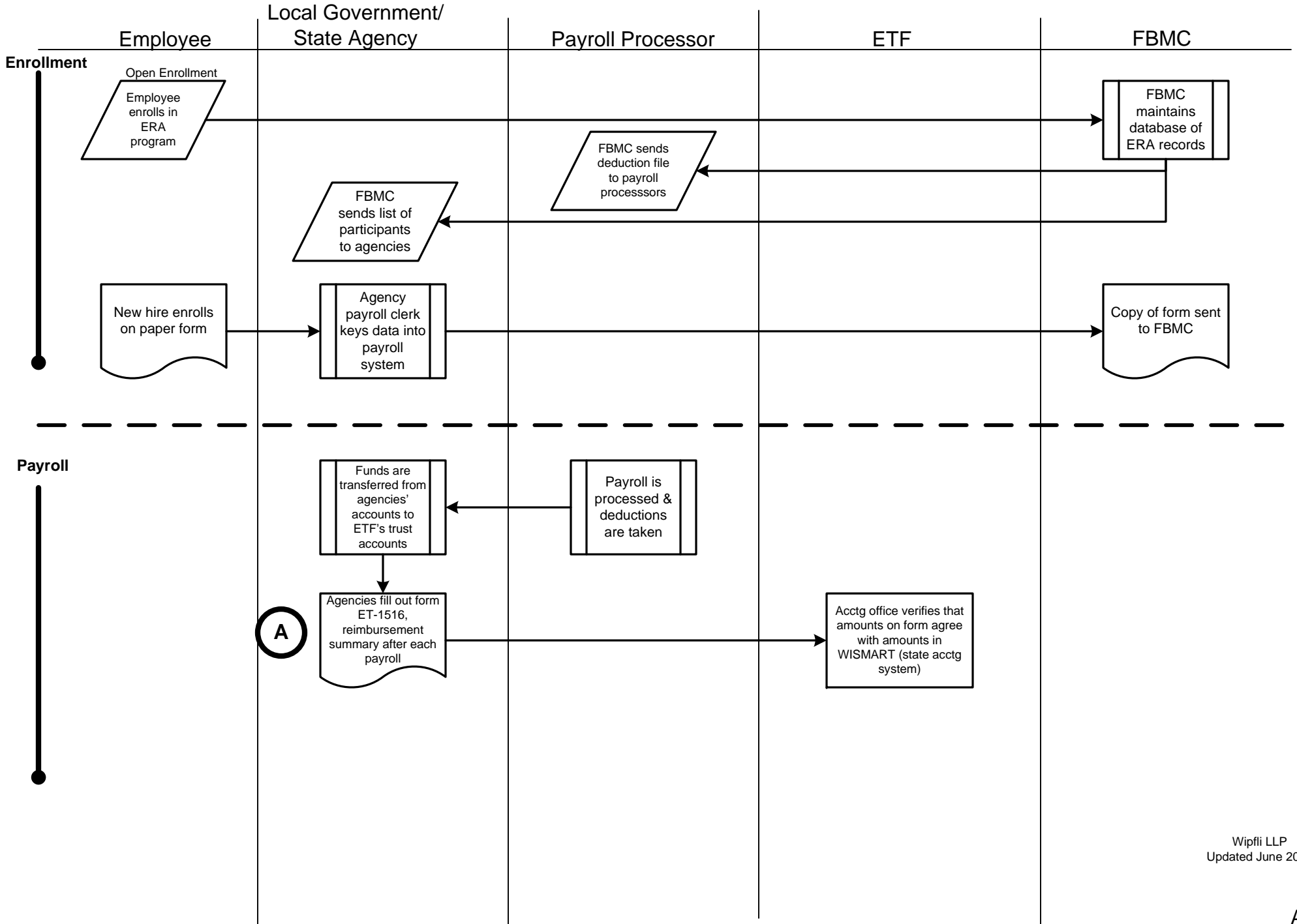
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Process Annotation

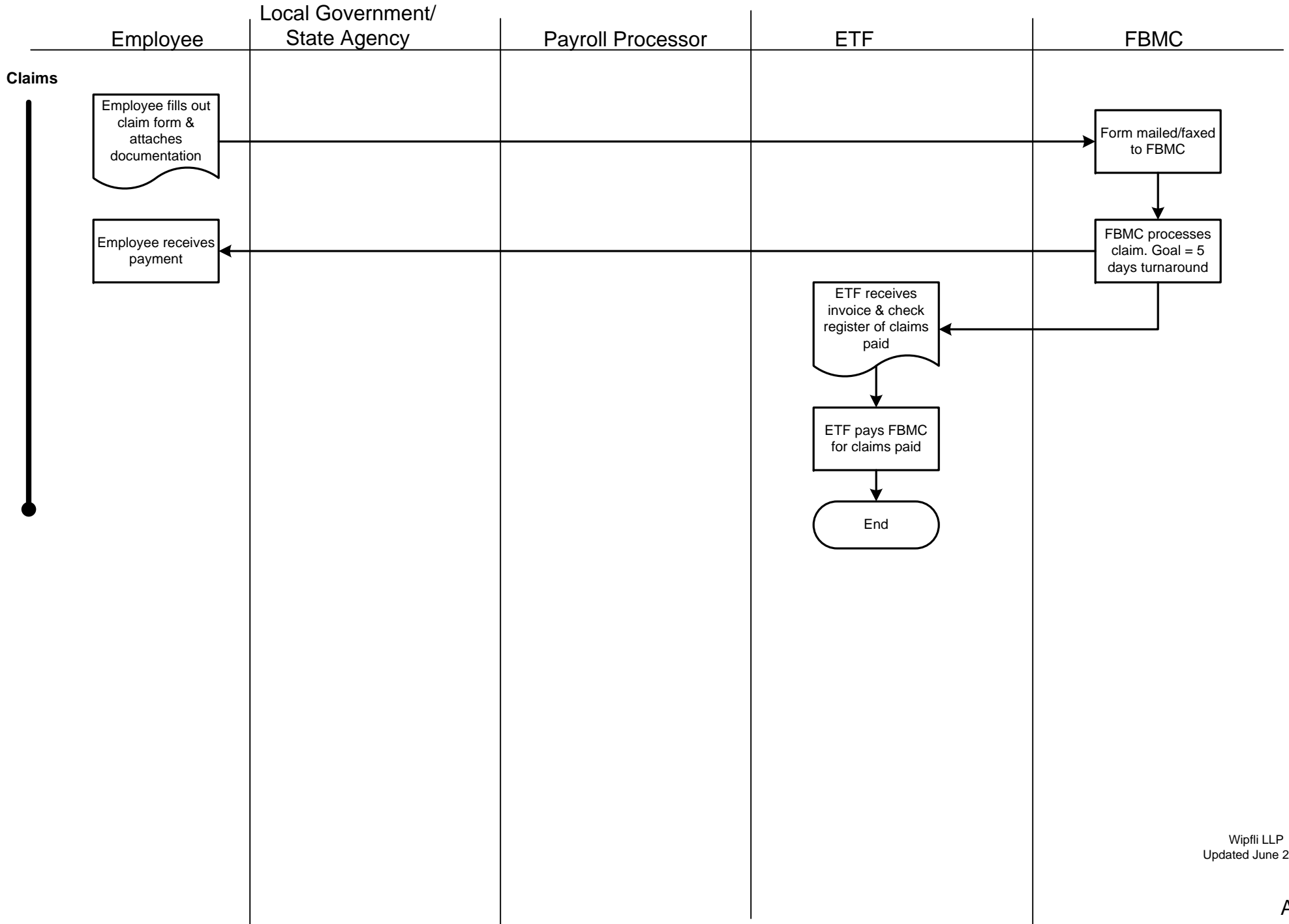
Additional  
information  
about a  
process

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

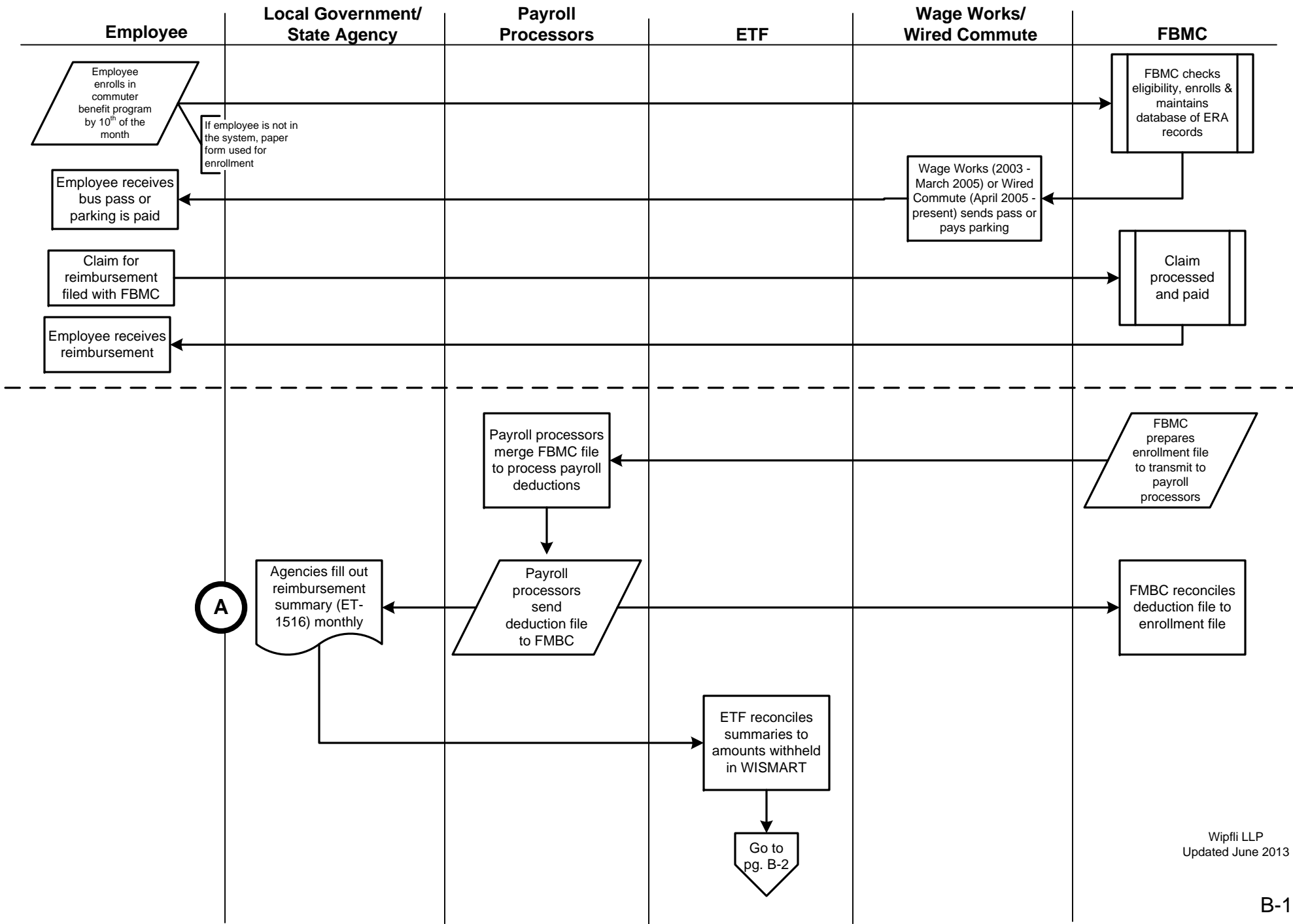




# Wisconsin Department of Employee Trust Funds Employment Reimbursement Accounts – Medical & Dependent Care



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



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

