



STATE OF WISCONSIN
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Correspondence Memorandum

Date: August 24, 2018
To: Audit Committee
From: Yikchau Sze, Director
Office of Internal Audit
Subject: Income Continuation Insurance (ICI) Contract Compliance Audit

This memo is for Audit Committee review and discussion. No action is required.

Aetna Life Insurance Company (Aetna) has administered the ICI program since 2006 for the employees of the State of Wisconsin and local governments who enrolled in the program.

The Department of Employee Trust Funds (ETF) and the ETF Board retained Wipfli, LLC (Wipfli) to assess Aetna's compliance in participant enrollment, claim adjudication and claim processing, and periodic reporting for the calendar years 2015, 2016 and 2017. Wipfli was also contracted to review Aetna's current work from home policy and overpayments and underpayment procedures to identify control gaps or risks.

Wipfli identified missing documentations in claim processing and discrepancies in periodic reporting. Wipfli also identified potential risks as a result of its policy and procedure review. ETF is working with Aetna to address those audit findings.

Attachment A is the memo to the Group Insurance Board from Jim Guidry, Director of Benefit Services Bureau of Division of Retirement Services, highlighting objectives, scope and findings of the audit and management responses to the findings.

Jim Guidry will be available at the Audit Committee meeting to answer any questions.

Attachment A: Third Party Audit Contract Compliance Audit of Aetna Life Insurance Company

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Correspondence Memorandum

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

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

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

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

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

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

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

Electronically Signed 9/4/18

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

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

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

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

Attachment A: ICI Cover Letter

Attachment B: 2015-17 Controls and Procedures Report

Attachment C: 2015-17 ICI Report



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August 21, 2018

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

RE: Income Continuation Insurance Program
Contract Compliance Engagement

Dear Mr. Guidry:

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

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

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

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

Sincerely,

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

Zachary D. Mayer
Partner

ZDM/sek