# 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 Income Continuation Insurance Benefit Program

Years ended December 31, 2015, 2016 and 2017

# State of Wisconsin – Department of Employee Trust Funds

## Independent Accountant's Report on Applying Agreed-Upon Procedures

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WIPFLI LLP

## Independent Accountant's Report on Applying Agreed-Upon Procedures for Third-Party Administration of the Income Continuation Insurance Benefits Program

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 party), on the Third-Party Administrator's (Aetna Life Insurance Company) compliance with the Income Continuation Insurance Program (ICI) Administrative Agreement for the years ended December 31, 2015, 2016, and 2017. Aetna management is responsible for the Third-Party Administrator's compliance with the ICI Program Administrative Agreement. The sufficiency of these procedures is solely the responsibility of the State of Wisconsin - Department of Employee Trust Funds. 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.

Our procedures and findings are described in the following report.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not, conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Third-Party Administrator's compliance with the ICI Program Administrative Agreement. Accordingly, we do not express such an opinion or conclusion. 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 - Department of Employee Trust Funds and is not intended to be and should not be used by anyone other than these specified parties.

Wipfli LLP

WIPFLI LLP

Madison, Wisconsin
August 21, 2018

# Section I – Objectives and Scope

# Objectives and Scope

This section of our report is based on the agreed-upon procedures as set forth in the Request for Proposal dated August 24, 2009 and Wipfli proposal dated October 29, 2009, as amended from time to time through February 1, 2018. Certain other specific procedures including the desired sample size were discussed with ETF personnel in advance of performance.

## A. Background - Income Continuation Insurance Program

The ICI Program was authorized by Wisconsin Statute Section 40.62 and is an optional benefit that replaces up to 75% of a participant's salary if the participant is unable to work because of a disability. The plan is available to all State of Wisconsin employees and all local government employees whose employers have elected to participate in the program. Depending on the participant's age at the time of the disability, benefits may continue until age 70, but normally end at age 65.

The Program is administered by Aetna Life Insurance Company (Aetna), who is under contract to provide such services through December 31, 2018. Under the administrative agreement between ETF and Aetna, Aetna is responsible for recordkeeping, payment processing, and daily administrative services. ETF is responsible for program administration and oversight.

## C. Previous Examinations

The ICI Program was last tested for contract compliance for the period January 1, 2012 through December 31, 2014.

## D. Objectives

Our engagement was designed to assist ETF in determining Aetna's compliance with specified terms of the administrative agreement, adherance to established performance standards and maintenance of participant records and processing claims timely, accurately, and in accordance with regulatory and contractual requirements, as established by ETF, who is responsible for the sufficiency of the procedures for their purposes. In addition, we were engaged to issue a written report that describes the procedures applied and the related findings.

## E. Scope

Our engagement extends to the application of the procedures enumerated in Sections II and III of this report. We applied these procedures to the records and systems maintained by Aetna and ETF. Our procedures were applied to the years ended December 31, 2015, 2016, and 2017.

# Section II – Income Continuation Insurance Procedures and Results

# Income Continuation Insurance Procedures and Results

**Approved Claims Testing**

Objectives

Aetna is responsible for the approval and denial of all claims received, and is responsible for reporting approvals and denials to ETF on a periodic basis. The objective is to ensure that claims are approved in accordance with plan provisions, properly communicated to the participant and adequately documented.

Procedures

1. Obtained a report of all approved ICI claims for 2015, 2016 and 2017.
2. Randomly selected 70 approved claims per year (80% State ICI and 20% Local ICI) for the years 2015, 2016, and 2017. Sample size was determined based on our discussions with ETF personnel.
3. For selected claims:
    a. Observed introductory packets were sent to participants and sent timely.
    b. Observed that the participant was properly enrolled as a Program participant.
    c. Observed that the claim was filed within 12 months of the date of disability.
    d. Inspected the Employer Statement to ensure it was complete and justified the approval of the claim.
    e. Mathematically checked the benefit calculation for accuracy and observed that it had been reviewed by an analyst.
    f. Observed that approval letters were sent to participants and sent timely in accordance with the administrative agreement.
    g. Observed that copies of approval letters and other participant correspondence were scanned into the ETF system.
    h. Inspected claim file for medical information, system notes, and other correspondence to determine that approval was valid and made in accordance with the plan requirements.
    i. Observed that ongoing claims included ongoing case documentation, such as medical record updates, to document that the disability is ongoing and that the participant should not return to work.

# Income Continuation Insurance Procedures and Results

Results

Of the 210 approved claims selected for testing, 207 had no exceptions. For three claims selected, form DTPA-1200 was not scanned into the MyETF system (item g above), and thus there is no record of it being sent to the participants which is considered an exception. Form DTPA-1200 communicates that benefits under short-term disability will be terminating in the near future (short term benefits last for 12 months) and is sent approximately 9 months after a participant begins receiving short-term disability benefits (initiation of benefits is communicated on form DTPA-100). The letter is an important communication helping participants understand their current benefit and allows participants to consider applying for long-term benefits after their short-term benefits terminate.

**See Comment 1 in Appendix I.**

# Income Continuation Insurance Procedures and Results

**Denied Claims Testing**

Objectives

Under the administrative agreement, Aetna is responsible for the approval, denial, or cancellation of all claims received, and is responsible for reporting approvals, denials, or cancellations to ETF on a periodic basis. The objective is to ensure that claims are denied or cancelled for valid reasons, properly communicated to the participant and adequately documented.

Procedures

1. Obtained a report of all denied ICI claims for 2015, 2016 and 2017.
2. Randomly selected 10 denied claims per year (80% State ICI, 20% Local ICI). Sample size was determined based on our discussions with ETF personnel and was evenly divided among the three testing years.
3. For selected claims, inspected claim file for medical information, system notes, participant correspondence, etc. to confirm that the denial was valid, made in accordance with the plan requirements, and was communicated to the participant.

Results

For all but one denied claims selected, the reason for the denial was valid, adequately documented and communicated to the participant, and processed timely. For one claim selected, form DTPA-900 and DTPA-600 were not sent to the participant. Forms DTPA-900 and DTPA-600 communicate the denial status of the claim and the reason for the denial.

**See Comment 2 in Appendix I.**

# Income Continuation Insurance Procedures and Results

**Enrollment Testing**

Objectives

There are several routes that potential participants can take to enroll in the ICI Program or elect to decline coverage. The objective is to ensure that participants are being enrolled, denied, or declining coverage via the appropriate method and that enrollment and eligibility are supported by adequate documentation. The Employers of the Plan are responsible for processing enrollments and eligibility matters properly.

Procedures

1. Obtained reports of open enrollment elections, initial offerings, new hire enrollments, and Evidence of Insurability (EOI) enrollments for the years 2015, 2016, and 2017.
2. Randomly selected 20 enrollment elections per year, allocated approximately evenly between State ICI and Local ICI as well as between method of enrollment (open enrollment, new employer initial offering, new hire, EOI). Sample size was determined based on our discussions with ETF personnel.
3. For selected enrollments, observed MyETF system profiles to verify participant eligibility and inspected necessary documentation confirming enrollment or denial of enrollment.

Results

For all enrollments or declines/denial of coverage selected, the ETF system documentation demonstrated the enrollment or declines of coverage were valid, adequately documented, communicated to the participant, and processed timely.

# Section III – Review of Periodic Reporting

# Review of Periodic Reporting

**Periodic Reporting – Claim Funding Reports**

Objectives

The administrative agreements require Aetna to provide monthly Claim Funding Reports. These reports include information on the amount ETF owes Aetna for claims paid during the given month, adjusted for certain minor transactions. Objectives included:

1. Determine whether Claim Funding Reports are supported by Aetna's system data.

Procedures

1. Obtained a sample of 2015, 2016, and 2017 monthly Claim Funding Reports (we tested one quarter per year).
2. Obtained supporting Aetna claim payment data for the selected quarters from Aetna's annual Open/Closed Claim File.
3. Compared and obtained reconciliations of items 1 and 2 above.

Results

We found variances ranging between approximately ($52,500) to $29,500 when comparing the claim funding reports to Aetna's system payment data.

| Month/Year | Claim Funding Report | Open/Closed File Payment Data | Variance ($) | Variance (%) |
|---|---|---|---|---|
| January 2015 | $4,667,139 | $4,637,738 | $29,401 | 0.63% |
| February 2015 | 4,746,981 | 4,730,155 | 16,826 | 0.36% |
| March 2015 | 4,853,737 | 4,834,456 | 19,281 | 0.40% |
| October 2016 | 5,210,648 | 5,202,962 | 7,686 | 0.15% |
| November 2016 | 5,286,223 | 5,258,105 | 28,118 | 0.53% |
| December 2016 | 5,318,856 | 5,371,376 | (52,520) | (0.98%) |
| July 2017 | 5,116,883 | 5,115,533 | 1,350 | 0.03% |
| August 2017 | 5,178,559 | 5,191,899 | (13,340) | (0.26%) |
| September 2017 | 5,136,052 | 5,127,511 | 8,541 | 0.17% |

**See Comment 3 in Appendix I.**

# Appendix I – Comments and Recommendations

# Comments and Recommendations

### Comment 1

It was noted that for some of the approved ICI claims, certain letters that should be sent 9 months into a claim, such as the form DTPA-1200, were not being scanned into the system due to analyst error. We recommend that ETF work with Aetna to determine whether additional steps can be implemented to ensure that these forms are being sent and scanned into the system for proper claim documentation and compliance with the agreements.

### Comment 2

It was noted that for one of the denied ICI claims, the required DTPA-600 or DTPA-900 letter was not sent to the participant to notify them of their claim denial due to case owner error. We recommend that ETF work with Aetna to determine whether additional steps can be implemented to ensure these forms are being sent to participants in a timely manner.

### Comment 3

It was noted that there were variances when reconciling between Aetna's monthly Claim Funding reports and their annual Open/Closed Claim File. These variances may indicate discrepancies regarding what ETF owes Aetna for claims paid. We would recommend that ETF work with Aetna to determine the cause of the variances and to ensure ETF is not over/under paying for claims.