

# **Office of Internal Audit**

## *Non-Retirement Program Payments*



September 6, 2018

Prepared for Audit Committee meeting of the Department of Employee Trust Funds, 9.20.18;

Reviewed and approved by Yikchau Sze, OIA Director

Electronically Signed 9/10/18

prepared by Michelle Hoehne

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## **Executive Summary**

We have completed an audit of payments processed for the non-retirement benefit programs administered by the Department of Employee Trust Funds (ETF). Non-retirement benefit program payments include the following: health, including dental; pharmacy; Medicare low-income subsidy; sick leave account depletion; wellness and the contractual payments for the data warehouse; Income Continuation Insurance (ICI); Long-Term Disability Insurance (LTDI); life insurance; and flexible spending and health savings accounts (FSA and HSA). This review was completed as part of the cash audit included in the 2017-2019 Internal Audit Plan.

The Division of Trust Finance (DTF) is responsible for ensuring that payments relating to the non-retirement benefit programs are accurate and appropriate. DTF has the following key internal controls operating effectively to ensure that the non-retirement benefit program payments are processed and recorded accurately:

- Segregation of duties, including a secondary review and supervisory approval;
- Voucher templates used to reduce the risk of inconsistent transaction coding for similar transactions; and
- A payment log, by program and payment period, used to track non-retirement benefit payments that have been processed.

We did not identify any material inappropriate payments, based on invoiced amounts reviewed. However, we believe the design of the controls could be improved to further substantiate invoiced amounts. Also, improvement in communication and collaboration between DTF and program managers could further reduce the likelihood of inappropriate or excessive expenditure for the benefit programs, for which over \$1.7 billion in payments were processed during 2017.

## Background

Multiple offices and divisions within ETF work together to oversee the various non-retirement programs administered by ETF and its vendors<sup>1</sup>. For example, the Office of Strategic Health Policy (OSHP) is responsible for oversight of benefit programs including health, dental, and pharmacy benefits, while the Division of Retirement Services is responsible for oversight of programs including ICI and LTDI. While management of benefit programs falls within different ETF offices or divisions, the Non-Retirement Program Accounting section within the DTF is responsible for processing invoices for the non-retirement programs.

DTF processed over \$1.7 billion in 2017 for non-retirement program payments for the benefit of members, retirees and beneficiaries. Below is a table including some of the major non-retirement programs, the program vendor, and associated payments:

<u>Program</u>	<u>Vendor</u>	<u>Program Payments</u>	<u>Program Payments for 2017 (Rounded; in Millions)</u>
Health	Various HMOs	Monthly premiums	\$1,158
Pharmacy	Navitus	Weekly, biweekly, or monthly claims and biweekly or monthly administrative costs	\$324
ICI & LTDI	Aetna	Monthly claims and monthly administrative costs	\$69
Dental	Delta Dental	Weekly claims and monthly administrative costs	\$56

### Payment Processing:

Wisconsin Statutes (s. 16.53) requires that DOA audit all claims against the state before a payment is made. DOA has delegated the daily audit of these transactions to the individual agencies, including ETF. Thus, DOA has provided specific review criteria in the Wisconsin Accounting Manual available to all agencies. Invoices should be reviewed for items such as mathematical and coding accuracy and conformance with legislative and program intent. Additionally, there should be assurance of completion of services, a review to ensure no duplicate payments have been made, proper approvals, and appropriate supporting documentation to support payments. These review steps should be completed prior to the approval of payment.

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<sup>1</sup> The term vendor, as used in this report, includes third-party administrators (TPA), insurance providers, and contracted vendors.

A proper review and approval of all payments processed is necessary to ensure that expenditures recorded and resulting payments made by ETF are accurate and appropriate. The payments processed by DTF are primarily based on an invoiced amount (for claims, premiums, and/or administrative costs) sent from each program vendor. Other payments without an associated invoice, such as sick leave account depletion payments, are either based on reports generated by ETF or reports received from a vendor. Each payment is entered into the STAR accounting system by one individual in DTF, a pre-audit is done by another individual, and then DTF management places the final approval in STAR, generating the payment. Since many of the payments are due within one week, most invoices received are processed immediately upon receipt. Thus, there is limited risk of non-compliance with the State's Prompt Payment Law (s. 16.528), which generally requires interest to be paid if a payment is not made within 30 days of receipt of an invoice.

Vendor Monitoring Controls:

In addition to controls within the payment processing process discussed above, ETF management places reliance on the vendor compliance audits performed by external auditors, as well as ETF's review of Service Organization Controls (SOC) reports, to ensure adequate and effective controls are in place at each vendor related to ETF's benefit programs.

**Audit Objective and Scope<sup>2</sup>**

Our audit was conducted in conformance with the International Standards for Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.

The audit objective was to evaluate the adequacy and effectiveness of internal controls implemented by DTF over cash payments for the non-retirement benefit programs. Specifically, we evaluated the controls within the process and reviewed for accuracy, appropriateness, and timeliness of these payments. The audit scope focused on non-retirement benefit payments processed and paid during 2017.

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<sup>2</sup> The audit objective and scope were narrowed from what was originally included for the cash receipts and disbursements audit in the 2017-2019 Internal Audit Plan based on additional risk assessment and previously completed and planned future audits.

## Results and Recommendations

### Positive Results

We found that procedures for processing the varying types of payments were well documented, except as noted below. Additionally, DTF uses a payment log to track payments for the non-retirement programs, which includes for each program and payment period, the voucher number, date processed and the individual the voucher was processed by. This quick snapshot allows any staff member involved in the payment process to easily see whether a voucher has been processed, reducing the risk of missing a payment or making a duplicate payment for that payment period.

### Findings, Recommendations and Management Responses

<b>Finding</b>	<b>Risk/Effect</b>
<p>We found that for some payment types with certain vendors, further substantiation of invoiced amounts and additional communication and collaboration between DTF and program managers is necessary.</p> <p>Specifically, we noted:</p> <ul style="list-style-type: none"> <li>• Administrative costs           <ul style="list-style-type: none"> <li>○ For both Delta Dental and Navitus PBM, the counts of participants used in the invoiced administrative cost calculation were not confirmed or checked for reasonableness.</li> <li>○ The SOC report received by ETF for Delta Dental includes a user entity control that a review of the Reconciliation Account Invoice Report should be performed to verify transactions are appropriately processed. DTF indicated that they download and review reconciliation reports from Delta Dental, but that they need to review and document their current reconciliation process specific to Delta Dental administrative costs. It was unclear how or whether the Reconciliation Account Invoice Report reconciled to the invoiced administrative costs.</li> </ul> </li> <li>• Claims:           <ul style="list-style-type: none"> <li>○ Pharmacy Claims: Neither DTF nor the program manager receives a detailed claims file for invoiced amounts from Navitus. We do however note that based on discussions</li> </ul> </li> </ul>	<p>Without further substantiation of the invoiced amounts, inappropriate, and potentially excessive payments could be made for the benefit programs.</p> <p>Additionally, the level of review performed does not appear to meet DOA payment review requirements.</p> <p>Without sufficient communication and collaboration, program managers could lose financial insight of the program they manage; DTF could lose opportunities of learning complex programs to better</p>

<p>with the program manager, a test comparing claims data to invoiced amounts will be incorporated into the 2018 TPA compliance audit. Additionally, it is anticipated that the data warehouse may assist in substantiating invoices in the future. However, the specifics of this process have yet to be determined.</p> <ul style="list-style-type: none"> <li>o Dental Claims: DTF staff were unaware of who the current program manager was within OSHP, whether any specific review of detailed claims data was being done and were not currently providing the invoiced/payment information or associated claims files to OSHP.</li> </ul>	<p>perform its operational duties and better support program areas.</p>
<p><b><u>Recommendation</u></b>          DTF, as the owner of the payment process, should work with the program managers to leverage current and future resources to ensure invoiced amounts are further substantiated.</p> <p>This should include:</p> <ul style="list-style-type: none"> <li>• substantiating member counts used in administrative costs for all programs;</li> <li>• developing and documenting a Delta Dental administrative cost reconciliation process;</li> <li>• performing reasonableness reviews of invoiced claims (ex: looking for potential duplicates); and</li> <li>• providing information of payments processed to the program managers for review, where this is not currently done.</li> </ul>	
<p><b><u>Management Response</u></b>  <b>Response:</b>          DTF staff will work with OSHP staff to better define and document roles and responsibilities for reviewing and approving invoices related to Delta Dental and Navitus expenses. DTF will also discuss and assess the risk of inappropriate payments and implement additional controls based on that risk assessment.</p> <p><b>Responsible Staff:</b> Dave Ehlinger</p> <p><b>Completion Date:</b> December 31, 2018</p>	

**Process Improvement Observations:**

Minor potential process improvements were communicated to DTF for consideration, along with any immaterial exception items identified during audit testing.

## **Audit Methodology**

The OIA conducted this audit by:

- obtaining an understanding of DTF's procedures for processing and reviewing non-retirement benefit payments, including conducting interviews with responsible staff and performing process documentation walkthroughs;
- vouching payments recorded in the STAR accounting system to invoices received;
- reviewing timeliness of payments processed;
- vouching a sample of invoices to review for appropriate approvals and determining the accuracy of processing;
- performing analytical procedures on administrative payments;
- considering detailed claims information availability and any review for substantiation of invoiced amounts; and
- considering the operational effectiveness of STAR system controls identified and tested during previous audits and any impact on DTF's payment processing.