

Office of Internal Audit

Disability Annuity Benefit Audit



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Prepared for Audit Committee Meeting of the Department of Employee Trust Funds,

Reviewed and approved by Yikchau Sze, Director, Office of Internal Audit

prepared by Kim Richmond

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Electronically Signed 11/20/20

Executive Summary

We have completed an audit of the Disability Annuity Benefit claims process managed by the Disability Program Section (DPS) of the Division of Retirement Services (DRS). This audit was completed in accordance with the fiscal year 2020-2021 Biennial Audit Plan to evaluate the design and operating effectiveness of internal controls over administration of the Disability Annuity Benefit claims process for the years 2018 and 2019.

The Disability Annuity Benefit is one of the four disability benefit programs administered by the Department of Employee Trust Funds. The benefits payments in the years 2018 and 2019 for the Disability Annuity Benefit program were 147 million and 149 million respectively.

We did not identify significant gaps in the design of internal controls, and we did not identify material exceptions as a result of our audit testing. We concluded that the design and operation of internal controls of the Disability Annuity Benefit claims process appeared effective for the years 2018 and 2019.

Background

Program Information

The Disability Annuity Benefit Program (40.63) is a disability retirement benefit under the Wisconsin Retirement System, providing income to members who have become totally disabled by a mental or physical impairment that is likely to be of an indefinite duration.

For protective occupant members, 40.63(4) provides "special" benefits for participants who are not totally disabled if the individual: has 15 years of accumulated service, is between the age of 50 and 55 at the time the disability occurs, and is no longer able to perform their protective occupation duties because of the disability.

Disability annuities most resemble a regular WRS retirement annuity and include similar death benefits, depending on the annuity option selected. Prior to the year 2018, the disability annuity benefits were available to WRS employees who were continuously employed by a WRS employer since before October 16, 1992, and who had at least one-half year of creditable service in five of the previous seven years. As a result of the disability program redesign, the ETF Board at its September 29, 2016 meeting approved the closure of the Long Term Disability Insurance (LTDI) program to new claims effective January 1, 2018 and re-opened the 40.63 benefit to all WRS members

who met the eligibility criteria to receive benefits. If eligible and all application requirements are met, a WRS participant will be approved for the 40.63 in lieu of a regular retirement benefit.

Once an individual is approved for a 40.63 benefit, the recipient is notified by ETF if an annual medical recertification is required. If an individual does not provide the necessary medical recertification form when initially due, 40.63 benefits are suspended. 40.63 benefits are ultimately terminated if the medical form is not received within 12 months of the benefit suspension.

If the medical recertification form indicates the individual is no longer disabled, the recipient's benefits will be terminated. Those receiving 40.63 benefits are also required to report earnings information annually. Annual earnings statements are required whether the individual receives earnings or not. Benefits will be suspended if the individual does not provide annual earnings information when due or if income exceeds the annual earnings limit.

Protective occupation employees are not subject to the annual earnings limitation, however; benefits for these individuals will be suspended immediately upon re-employment in a law enforcement or firefighting position. The Hartford, ETF's third-party administrator, was responsible for the review and mailing of both the medical recertification and earnings forms, with DPS performing follow-ups related to The Hartford's review and mailing of these forms¹.

Systems Information

Administration of the Disability Annuity Benefit program involves several manual calculations and processes, with data residing in multiple ETF systems:

- Employment and WRS account information is obtained from the Wisconsin Employee Benefits System (WEBS)
- Disability Annuity Payments are made through the Benefit Payment System (BPS)

¹ In March of 2020, ETF began conducting the mailing of the annual earnings statement in-house while The Hartford is still responsible for the review of these statements. ETF will bring the review of the annual earnings statements in-house beginning March 2021. In August of 2020, ETF began conducting the review and mailing of the medical recertification forms, thus The Hartford is no longer involved in this process.

- DPS created a Microsoft Access database to maintain benefit information for the purpose of providing statistical data to the ETF Board.

Both WEBS and BPS are separate ETF systems with separate security settings, and a review was outside the scope of this audit. The Disability Annuity Benefit Program database is secured on ETF's shared network drive within a restricted access folder.

In the LTDI audit report dated August 14, 2019, there are areas identified for which security on ETF's shared network drive could be enhanced to protect data integrity and confidentiality. ETF Management have implemented a plan to mitigate these security issues.

Audit Objective and Scope

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

The audit objective was to evaluate the design and operating effectiveness of internal controls over the processing of Disability Annuity benefits. The audit scope focused on the applications processed during the years 2018 and 2019. Although the input information, such as years of service and final average earnings, were verified, the actual calculation is not in the scope of this audit.

Results and Recommendations

Positive Results

Our audit determined that the administration of the Disability Annuity Benefit Program adheres to Wisconsin State Statute 40.63. We found that ETF staff properly followed the written guidelines and procedures associated with the program when processing Disability Annuity Benefit applications. We have no recommendations to report as the result of our audit.

Process Improvement Observations

Minor potential process improvements were communicated to the DPS management for consideration. Additionally, we noted that the disability annuity claims processing procedures should be periodically reviewed for necessary updates.

Audit Methodology

The OIA conducted this audit by:

- obtaining an understanding of the procedures used to administer the Disability Annuity Program, including
 - researching Wisconsin State Statute and Administrative Code,
 - reviewing procedural documentation,
 - conducting interviews with responsible staff and
 - performing process walkthroughs;
- assessing processing risks to determine the design of internal controls, and
- performing sample testing to determine the operating effectiveness of controls.