

Office of Internal Audit

Annuitant Health Insurance Deduction Set-up Audit



June 1, 2021

Prepared for Audit Committee Meeting of the Department of Employee Trust Funds, 6.16.21;
prepared by Kim Richmond
Page 1 of 5

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

Electronically Signed 6/4/21

Board	Mtg Date	Item #
AUD	9.16.21	4

Executive Summary

We have completed an audit of the health insurance premium deduction set-up process for annuitants managed by the Insurance Unit of Employer Service Section (ESS) within the Division of Retirement Services (DRS) at the Department of Employee Trust Funds (ETF). 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 the health insurance deduction set-up process for annuitants for the year 2020.

The State of Wisconsin Public Employer Group Health Insurance Program (GHIP) and the Wisconsin Public Employers Group Health Insurance Program (WPE) are authorized by Wis. Stats. 40.51 and administered by ETF under the authority of the State of Wisconsin Group Insurance Board. The GHIP is available to state and some local employees and retirees. The WPE is available to Wisconsin Retirement System (WRS) employers and governmental employers who are not in the WRS but who meet the definition of employer under Wis. Stats. s. 40.02(28). ETF also administers the Local Annuitant Health Program (LAHP) which was established by 1987 Wisconsin Act 107 to provide group health insurance for local retirees from local employers who do not participate in WPE. All programs offer retirees the opportunity to choose from multiple health plan choices.

The ESS Insurance Unit staff are responsible for processing health insurance applications for annuitants. Members may submit health insurance applications during the open enrollment period or during the specified time frame for eligible life events. For the year 2020, there were 120,168 annuity deduct health insurance contracts with premiums amounting to approximately \$66 million and 5,285 applications were processed by ESS.

We found that the health insurance deductions for annuitants are processed appropriately and did not identify any exceptions as a result of our audit testing. However, we believe internal controls could be strengthened by including a monitoring control to the existing Exception Report review process.

Background

Health Insurance Enrollment

Upon retirement State and Local Annuitants, along with their dependents, are eligible to continue their health insurance coverage. Various funding sources may be made available to State and Local Annuitants to pay health insurance premiums. The sequence for funding sources used to pay health insurance premiums is directed by State Statutes. The audit focused on annuitants who used an Annuity Deduct funding

source to pay health insurance. The annuity deduct funding source is a funding source made available to both State and Local Annuitants and allows an annuitant to have health insurance premiums deducted from their monthly annuity payment, if the annuity payment is large enough to cover the monthly health insurance premium in its entirety.

For members enrolling in GHIP and WPE, health insurance applications can be submitted to ETF by fax, mail, or electronically during the open enrollment period or by the specified deadline date for Life Events (i.e. becoming Medicare eligible, change in marital status, retirement). For members enrolling in the LAHP, there are limited enrollment periods available and applications must be submitted to ETF during these periods.

Applications are required to be signed by the member and must contain all applicable information prior to being processed. ETF is considered an annuitant's employer for purposes of health insurance.

Systems Used in Process

ESS uses both the myETF Benefit System (MEBS) and the Benefit Processing System (BPS) when processing health insurance applications for annuitants. MEBS contains health insurance applications, coverage changes, terminations and calculates and generates health insurance invoices. BPS maintains deductions, net pay, and tax information for annuitant payments and processes an annuitant's retirement, disability, and death benefits.

The Health Insurance Premium Rate Table, a table consisting of health care premiums for each health plan, is loaded into MEBS for each enrollment period by ESS and is pulled into BPS automatically. A batch runs nightly to process adjustments that were made to health insurance contracts in MEBS throughout the day and the file is sent to the health plans to update their systems to correspond to the changes. Both systems then calculate an annuitant's monthly health insurance contract amount based on their coverage level and health plan choice. Data from an annuitant's application is entered into MEBS and BPS manually by ESS Insurance Unit staff. There is a two-month time lag between the time an annuity deduct contract is entered into MEBS and the time the contract is processed in BPS due to the difference in the billing cycles of these two systems.

During the Open Enrollment period, there is a weekly batch run that updates the existing health insurance deduction in BPS for contracts changes that become effective on January 1 of the following year. Deductions for new contracts and contract

terminations are entered manually into MEBS and BPS during the open enrollment period.

Each month, ESS generates the Exception Report to identify discrepancies between the MEBS and BPS deductions. After the Exception Report has been reviewed and errors have been identified, the report is then provided to a different staff member to make the necessary corrections.

Audit Objective and Scope

The 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 health insurance deduction set-up process for annuitants to ensure the deductions were processed correctly and were the same in both MEBS and BPS. The audit scope focused on health insurance applications that were processed by the ESS Insurance Unit staff during the period January 1, 2020 through December 31, 2020, where an annuity deduct funding source was used to pay the health insurance premium.

Results and Recommendations

Positive Results

Overall, we found that the controls in place are operating as designed and we found no exceptions in our testing.

Findings, Recommendations and Management Responses:

<u>Finding</u>	<u>Risk/Effect</u>
<i>Exception Report Follow-up Review</i> We noted that although the Exception Report is reviewed monthly by a ESS Insurance Unit staff to identify errors that need to be corrected, there are no follow-up reviews to verify whether adjustments have been made correctly in the systems.	Without a follow-up review, there is the potential to overlook a correction that should be made, or a wrong correction may be made to a member's account.

Recommendation

We recommend that management consider implementing a follow-up review to the Exception Report review process to ensure appropriate corrections were made in the systems.

Management Response

We will implement a spot check of 10 exceptions each month, five from each report. This will average between 5-10% of the exceptions found. We will evaluate any errors found and correct processes as needed. In July 2022, we will review all errors to see if continued spot checking has resulted in needed changes or if reviews are still needed. We will also evaluate how IAS will continue to impact BPS and if different processes will be implemented.

Responsible Staff: John Alexander and Elizabeth Bush

Completion Dates: July 2021

Process Improvement Observations

Minor process improvement observations were communicated to Management for consideration.

Audit Methodology

The OIA conducted this audit by:

- obtaining an understanding of the procedures used in processing health insurance applications and setting up the health insurance deduction, including;
 - reviewing procedural documentation,
 - conducting interviews with responsible staff,
 - performing process walkthroughs.
- assessing processing risks to determine the design of internal controls,
- performing sample testing to determine the operating effectiveness of controls and
- using ACL Analytics software to determine if the Annuity Deduction in MEBS and BPS were equivalent in members accounts. We also used ACL to identify members that appeared in one of the reports and not the other (BPS & MEBS Reports) and investigated the accounts of these members to determine if the reason the member was missing from the report was due to timing.