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Correspondence Memorandum

Date: November 16, 2023

To: Audit Committee

From: Shellee Bauknecht, Advanced Auditor
 Office of Internal Audit (OIA)

Subject: Third-Party Administrator (TPA) Contract Compliance Oversight

This memo is for informational purposes only. No Committee action is required.

This memo provides an overview of TPA contract compliance oversight completed during Calendar Year (CY) 2023. The Department of Employee Trust Funds (ETF) contracts with various TPAs to administer certain benefit programs or portions thereof. Contract compliance oversight is one component of ETF’s TPA oversight procedures. In carrying out its responsibilities under the International Standards for the Professional Practice of Internal Auditing¹, OIA has an ongoing consulting engagement for TPA oversight as part of the Fiscal Year (FY) 2022–FY 2023 and FY 2024–FY 2025 Internal Audit Plans, which includes assisting program staff with certain components of contract compliance oversight, conducting contract compliance audits, and ETF’s annual System and Organization Controls (SOC) 1 report review (Ref. AUD | 09.21.23 | 5).

Overview of TPA Contract Compliance Oversight

ETF program managers have the day-to-day responsibility of TPA oversight and the ongoing management and operation of benefit programs and contracted services. ETF management also engages independent external auditors and OIA to review TPA contract compliance. These engagements provide assurance on a TPA’s adherence to contract terms and conditions, as well as compliance with applicable statutes, rules, and regulations. Contract compliance engagements are completed on a periodic basis—

¹ Standard 2050 – Coordination and Reliance: The chief audit executive should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts.

Standard 2110 – Governance: The internal audit activity must assess and make appropriate recommendations to improve the organization’s governance processes for coordinating the activities of, and communicating information among, the board, external and internal auditors, other assurance providers, and management.

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annually, biennially, or triennially—depending on the nature of the program and perceived risks. Results from contract compliance engagements, as well as other external audits, are provided to the governing board with program oversight responsibility. The results are also shared with the Audit Committee to fulfill its responsibility for reviewing the results of audits as outlined in the Audit Committee Charter.

TPA contract compliance engagements have traditionally been outsourced. However, in recent years, ETF's review of draft engagement reports has led to quality control concerns on some engagements. Additionally, for those completed as part of an Agreed-Upon Procedures (AUP) engagement, the AUP standards² that need to be followed by the auditors completing these engagements have been clarified to restrict the ability of the auditors in providing conclusions or recommendations based on the work performed. OIA determined insourcing certain contract compliance engagements would lead to a reduction in externally contracted costs, allow for additional flexibility and expansion in the scope of the engagements performed, and provide ETF with increased control over the quality of work performed. In accordance with OIA's Biennial Internal Audit Plan for FY 2022– FY 2023, OIA began insourcing certain TPA contract compliance audits.

CY 2023 Contract Compliance Oversight

Throughout the year, OIA has shared the results of the following contract compliance engagements:

- Employee Reimbursement/Health Savings/Commuter Benefit Accounts Administration (CY 2020-2021) – The contract compliance audit (Ref. AUD | 03.23.23 | 6) was the first TPA audit fully insourced by OIA. It is estimated that ETF spent about \$22,150 less insourcing the audit than it had spent on the prior outsourced AUP engagement (CY 2017-2018) for the pre-tax savings account programs. OIA identified six recommendations related to reporting concerns, claims substantiation, program discrepancies, performance standards reporting, penalty assessments, and access to critical data. Corrective action for five of the audit recommendations has been completed.
- Life Insurance Program Administration (CY 2020-2021) – This AUP engagement (Ref. AUD | 03.23.23 | 10) was outsourced with exceptions identified related to contract timeliness standards for evidence of insurability declinations and approvals (2 exceptions), claims processing (1 exception), and disability premium waivers processing (2 exceptions). Corrective action for these exceptions has been completed.

² AICPA Statement on Standards for Attestation 19 – Agreed-Upon Procedures Engagements indicates that a practitioner should not express an opinion or conclusion in any form, as well as any recommendations.

Additionally, the following two audits were recently completed:

- Navitus Pharmacy Benefit Program Administration Audit – The audit, outsourced to PillarRx, included multiple segments of services provided for plan years 2021 and 2022. Attachment A includes both the memo detailing the audit that was provided to the Group Insurance Board (GIB) for its November 2023 meeting, as well as the Executive Summary of the audit³. PillarRx included a recommendation for ETF to work with Navitus to understand rebate differences. After examining the rebates from the first quarter of ETF’s participation in Navitus’s drug rebate group purchasing organization (GPO), PillarRx found overall variances to be within a 3% threshold. However, PillarRx found some manufacturers were slightly above the 3% variance. The Office of Strategic Health Policy (OSHP) has oversight responsibility of the Pharmacy Benefit program and indicated that ETF staff will continue to make sure all yearly audits examine ETF’s pharmaceutical manufacturer rebate contracts and invoices. If a pattern of variances outside of the threshold emerges, ETF will work with Navitus on a corrective action plan. The audit did not identify any claims processed and paid without having received the required prior authorization form which closes an outstanding audit recommendation from the prior contract compliance audit (Ref. AUD | 12.08.22 | 5).
- Delta Dental Uniform Dental Benefits (UDB) Administration Audit – The audit, outsourced to Claim Technologies Incorporated (CTI), included Delta Dental’s administration of the UDB for 2021 and 2022. CTI identified several recommendations related to:
 - Requiring Delta Dental to keep accurate and complete records necessary to allow independent validation of performance guarantees
 - Performance measures are EFT-specific rather than for all Delta Dental clients on a global basis to provide a more accurate reflection of Delta Dental’s administrative performance for ETF
 - Identifying and evaluating potential duplicate claims
 - Updating the plan documentation to clarify exclusion or inclusion of a specific dental service
 - Improving the tracking of grievances (including in-network provider complaints) and the timeliness of acknowledgement and responses to ensure it meets the established performance guarantees
 - Evaluating procedures to ensure claims for service from sanctioned providers are not adjudicated
 - Workflow improvements to reduce the potential for paying claims after termination of coverage
 - Overpayment reporting to improve monitoring
 - Conducting audits.

³ The full report referenced as Attachment B in the GIB Memo is considered confidential and has therefore not been included. However, it was provided confidentially to GIB members for their review and oversight purposes.

OSHP has oversight responsibility of the UDB program and indicated that ETF will continue to monitor and review the recommendations made as part of this audit and work with Delta Dental to make appropriate improvements to the program. Attachment B includes both the memo detailing the audit that was provided to the GIB for their November 2023 meeting, as well as the Executive Summary of the audit.

The following contract compliance engagements are currently in progress:

- Wisconsin Deferred Compensation Program (WDC) (CY 2023) – An audit by OIA is in the planning phase, covering CY 2023, and is scheduled to be presented at the June 2024 Deferred Compensation Board meeting. The WDC contract compliance review was previously an outsourced AUP engagement.

For the externally contracted engagements listed above, OIA has assisted the program areas with planning and oversight of the engagement, including the following consulting services:

- Assisted in developing the statement of work for each engagement.
- Attended engagement kickoff, periodic check-in, and exit meetings, as requested by program staff.
- Reviewed draft reports and provided feedback to program managers and external auditors, including items to be corrected or clarified, and assessing adherence to the statement of work.
- Reviewed final reports and provided comments for future engagement considerations.
- Worked with program managers to track recommendations to ensure appropriate remediation of all findings by management.
- Provided periodic updates to the Audit Committee of remaining open issues.

Additionally, outside of TPA contract compliance, OIA has assisted the program areas in matters relating to contracting for TPAs, including things such as reviewing audit-related items in drafted TPA Request for Proposals (RFPs) and audit-related language in ETF's Department Terms and Conditions. OIA has also previously been involved in the procurement of external auditors to complete TPA contract compliance engagements and will assist in the future, as needed.

Future TPA Contract Compliance Oversight

Contract Compliance engagements are a critical component of TPA oversight. They provide ETF management with the assurance that programs administered externally are being administered appropriately. As such, ETF management plans to continue to complete these engagements for the foreseeable future. The table in Attachment C

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indicates future planned contract compliance engagements for ETF's TPAs in accordance with OIA's Biennial Audit Plan for FY 2024–FY 2025⁴.

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

Attachment A: [GIB Pharmacy Audit Results Memo and Executive Summary \(Ref. GIB | 11.15.23 | 11\)](#)

Attachment B: [GIB Uniform Dental Benefits Audit Results Memo, Executive Summary, and Detailed Findings Report \(Ref. GIB | 11.15.23 | 10\)](#)

Attachment C: [Future TPA Contract Compliance Audits](#)

⁴ ETF contracts with many vendors or TPAs for services, such as health plans and long-term care insurance, in addition to those TPAs noted in Attachment C. Contract compliance engagements for TPAs described in Attachment C are determined by risk and ETF resources.