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Correspondence Memorandum

Date: November 7, 2024
To: Audit Committee
From: Shellee Bauknecht, Advanced Auditor
Office of Internal Audit
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) 2024. 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, Office of Internal Audit (OIA) has an ongoing advisory engagement for TPA oversight as part of the Fiscal Year (FY) 2024–FY 2025 Internal Audit Plan, 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 | 09.19.24 | 3B](#)).

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 (Committee) to fulfill its responsibility for reviewing the results of audits as outlined in the Committee Charter.

TPA contract compliance engagements had 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 2024 Contract Compliance Oversight

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

- Wisconsin Deferred Compensation Program (WDC) (CY 2023) – The WDC contract compliance review was previously an outsourced AUP engagement. The contract compliance audit ([Ref. AUD | 06.20.24 | 3B1](#)) for CY 2023 was the first time this review was insourced by OIA for this program. It is estimated that ETF spent about \$9,200 less insourcing the audit than it had spent on the prior outsourced AUP engagement (CY 2021) for the WDC. OIA identified four recommendations related to performance standards reporting, self-directed brokerage minimum balances and fees, equity wash requirements, and contribution limit reviews. Corrective actions for these audit recommendations have been completed.

Additionally, the following audit was recently completed:

- Navitus Pharmacy Benefit Program Administration Audit – The audit, outsourced to PillarRx, included multiple segments of services provided for plan years 2022 and 2023. Attachment A includes both the memo detailing the audit that was provided to the Group Insurance Board (GIB) for its November 2024 meeting, as

² AICPA Statement on Standards for Attestation Engagements No. 19 – Agreed-Upon Procedures Engagements indicates that a practitioner should not express an opinion or conclusion in any form, as well as any recommendations.

well as the Executive Summary of the audit ([Ref. GIB | 11.13.24 | 17A](#)). Attachment B includes the full report and is considered confidential³.

- PillarRx found four prescription drug event claims with an incorrect copay and two prescription drug event claims with the incorrect total cost for the Employer Group Waiver Plan in CY 2022.
- Additionally, during review of the audit report, OIA found ETF had not identified that Navitus missed two performance standards in CY 2022 and therefore ETF had not evaluated whether penalties were warranted for these missed performance standards. ETF estimates it should have assessed \$15,000 for a failure to ship at least 99% of mail order prescriptions requiring intervention within five business days in December 2022 and being unable to respond to at least 98% of customer services issues submitted by email and website within two business days in October 2022. ETF indicated it has since established a protocol for performance deliverable workbooks to be reviewed by multiple individuals each quarter when assessing penalties. PillarRx did include the oversight of the missed performance standards identified by OIA in its report, but it was excluded from the Executive Summary.
- The audit reviewed ETF's pharmaceutical manufacturer rebate contracts and invoices and did not identify variances outside the 3% threshold which closes an outstanding audit recommendation from the prior contract compliance audit ([Ref. AUD | 12.14.23 | 3B](#)).

The following contract compliance engagements are currently in progress:

- Employee Reimbursement/Health Savings/Commuter Benefit Accounts Administration (CY 2022-2023) – This audit has been insourced by OIA for the second time and is in the testing phase. It will cover CY 2022-2023 and is scheduled to be presented at the February 2024 Group Insurance Board meeting.
- Life Insurance Program Administration (CY 2022-2023) – This AUP engagement is outsourced and is in the reporting phase. It will cover CY 2022-2023 and is scheduled to be presented at the February 2024 Group Insurance Board meeting.

For the externally contracted engagements, OIA has assisted the program areas with planning and oversight of the engagement, including the following advisory 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.

³ GIB members received the full report confidentially for their review and oversight purposes. Similarly, the full report is only being provided to Committee members.

- 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. OIA will complete engagement and advisory activities in accordance with OIA's Biennial Audit Plan for FY2024–FY2025, and continue insourcing certain TPA contract compliance audits based on risk and resources to accomplish one of the long-term goals of OIA's Strategic Plan FY2025 – FY2026 ([Ref. AUD | 09.19.24 | 4A1](#)).

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

Attachment A: [GIB Pharmacy Audit Results Memo and Executive Summary](#)

Attachment B: GIB Pharmacy Audit Results – Full Report (**Confidential**)