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**CORRESPONDENCE MEMORANDUM**

**DATE:** January 11, 2011  
**TO:** Group Insurance Board  
**FROM:** Lisa Ellinger, Deputy Administrator  
Division of Insurance Services  
**SUBJECT:** Independent Accountant's Report on Applying Agreed-upon Procedures for Third-Party Administration of the Income Continuation Insurance and Long-Term Disability Insurance Benefit Programs

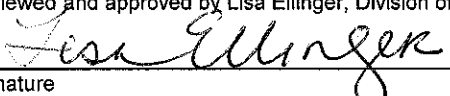
**This memo is for informational purposes only. No Board action is required.**

The Department of Employee Trust Funds retained Wipfli, LLC to conduct a review of agreed-upon procedures related to the contract for third-party administration of the Income Continuation Insurance (ICI) and Long-Term Disability Insurance (LTDI) programs. The examination covered calendar years 2006, 2007, and 2008. Wipfli's final report is attached.

Aetna was found to be performing well and there were no performance concerns.

Staff will be available at the Board meeting to answer questions or you may contact Diane Poole, Director of the Disabilities Program Bureau, Division of Insurance Services at (608) 266-5387.

Attachment: Wipfli Report

Reviewed and approved by Lisa Ellinger, Division of Insurance Services.  
  
Signature \_\_\_\_\_ Date 1/13/11

Board	Mtg Date	Item #
GIB	2.8.11	5F

# **State of Wisconsin - Department of Employee Trust Funds**

Madison, Wisconsin

Independent Accountant's Report on Applying Agreed-Upon  
Procedures for Third-Party Administration of the Income Continuation  
Insurance and Long-Term Disability Insurance Benefit Programs  
Years ended December 31, 2006, 2007 and 2008

# State of Wisconsin - Department of Employee Trust Funds

## Independent Accountant's Report on Applying Agreed-Upon Procedures

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### Table of Contents

Executive Summary .....	1
Independent Accountant's Report on Applying Agreed-Upon Procedures for Third-Party Administration of the Income Continuation Insurance and Long-Term Disability Insurance Benefit Programs .....	2
Section I - Objectives and Scope.....	3
Section II - Procedures and Results .....	5
Section III - Appendix - Process Flow Analysis .....	10

# State of Wisconsin - Department of Employee Trust Funds

## Independent Accountant's Report on Applying Agreed-Upon Procedures

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### Executive Summary

Wipfli LLP (Wipfli) performed agreed-upon procedures in relation to the third-party administration of the Income Continuation Insurance (ICI) and the Long-Term Disability Insurance (LTDI) Programs for the years ended December 31, 2006, 2007, and 2008. Aetna, Inc. performs the administration of the ICI and LTDI Programs pursuant to an administrative agreement with the Department of Employee Trust Funds (ETF). Our procedures were designed to test for specific elements of compliance with the administrative agreement, as specified in our approved proposal, signed on February 2, 2010 and discussed in our entrance conference with ETF and Aetna staff. The results of our procedures are summarized below and discussed in greater detail later in this report.

- We noted Aetna, Inc. to be in compliance with all significant elements of the administrative agreement tested.
- Our examination of selected transactions revealed no significant exceptions related to claim processing and payment, or the timeliness of reporting to the ETF.



**Independent Accountant's Report on Applying Agreed-Upon Procedures for Third-Party Administration of the Income Continuation Insurance and Long-Term Disability Insurance Benefits Programs**

Department of Employee Trust Funds  
State of Wisconsin  
Madison, Wisconsin

We have performed the procedures presented in the following report, which were agreed to by the State of Wisconsin - Department of Employee Trust Funds (the specified user), to assist the Department in satisfying its requirements under the Statutes with respect to the Income Continuation Insurance Program (ICI) and Long-Term Disability Insurance Program (LTDI) for the years ended December 31, 2006, 2007, and 2008. The State of Wisconsin - Department of Employee Trust Funds' management is responsible for the ICI and LTDI Programs' accounting records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the party specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in the attached supplement, either for the purpose for which this report has been requested, or for any other purpose.

We were not engaged to, and did not, perform an audit on Aetna, Inc., the ICI, or the LTDI financial statements or any elements, accounts, or items thereof, the objective of which would be the expression of an opinion on the specified elements, accounts, or items thereof. Accordingly, we do not express such an opinion. Also, we express no opinion over financial reporting or any part thereof. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the user specified above, and is not intended to be and should not be used by anyone other than the specified user.

Wipfli LLP

*Wipfli LLP*

Madison, Wisconsin  
November 10, 2010

## Section 1 – Objectives and Scope

# Objectives and Scope

This section of our report is based on the agreed-upon procedures as set forth in the approved proposal signed on February 2, 2010. Certain other specific procedures including the selection of sample sizes, confidence levels, and acceptable error rates were discussed with ETF personnel in advance of performance.

## A. Background - Income Continuation Insurance Program

The ICI Program was authorized by Wisconsin Statute Section 40.62 and is an optional benefit that replaces up to 75 percent of a participant's salary if the participant is unable to work because of a disability. The plan is available to all state employees and all local employees whose employers have elected to participate in the program. Depending on the participant's age at the time of the disability, benefits may continue until age 70, but normally end at age 65.

The Program is administered by Aetna. Under the administrative agreement between ETF and Aetna, Aetna is responsible for recordkeeping, payment processing, and daily administrative services. ETF is responsible for program administration and oversight.

## B. Background - Long-Term Disability Insurance Program

The LTDI Program became effective on October 16, 1992, and is designed to replace a portion of a participant's salary after they become permanently disabled. For employees who become permanently disabled, the program pays up to 40%, or for certain employment categories 50%, of a participant's final average salary, which is defined as the average of the three highest annual earning periods.

The Program is administered by Aetna. Under the administrative agreement between ETF and Aetna, Aetna is responsible for recordkeeping, payment processing, and daily administrative services. ETF is responsible for program administration and oversight.

## C. Previous Examinations

The ICI and LTDI Programs were previously subjected to testing for the period January 1, 1996 through December 31, 1997, by another independent accounting firm.

## D. Objectives

Our engagement was designed to assist ETF in determining whether Aetna is complying with the terms of the administrative agreements and maintaining participant records and processing claims timely, accurately, and in accordance with regulatory requirements.

# Objectives and Scope

## E. Scope

Our engagement extends to the application of the procedures enumerated in Section II of this report. We applied these procedures to the records and systems maintained by Aetna and ETF. Our procedures were applied to the years ended December 31, 2006, 2007, and 2008.



## **Section II – Procedures and Results**

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# Procedures and Results

## Review of Internal Controls, Policies, and Procedures

### Review of Internal Controls

#### Objectives

1. Obtain an understanding of the procedures and controls surrounding the programs' processes in the following specific areas:
  - Claims management
  - Claim payments
  - Recordkeeping
  - Overpayments
  - Administrative billings
2. Obtain an understanding of the periodic reports produced by Aetna and determine how they are utilized as part of the monitoring and reporting processes.

#### Procedures

1. Discussed with appropriate personnel the flow of information within ETF; within Aetna; and between ETF and Aetna.
2. Obtained and examined the SAS 70 reports on internal controls and effectiveness for Aetna Disability Management Services within relevant audit areas covering April 1, 2007 through March 31, 2009.
3. Obtained and examined related written policies and procedures.
4. Obtained and examined forms, documents, and transmittals used in the monitoring and reporting processes.

#### Results

Based on our inquiries and walkthroughs of these processes and our evaluation of the controls thereon, we obtained an understanding of these systems. Based on this understanding and our professional judgment, we made an assessment of the potential for process failures and control risks. Our tests of the claims management, claim payments, recordkeeping, overpayments and administrative billing controls were designed accordingly. (See Section III - Appendix)

# Procedures and Results

## Review of Internal Controls (Continued)

Aetna, Inc. engages a public accounting firm to assess the controls of its Disability Management Services through a Type II SAS 70 report. The Type II SAS 70 reports covering April 1, 2007 through March 31, 2009 for Aetna, Inc. contained no relevant testing exceptions or control weaknesses as identified by the Service Auditor. Due to the acquisition of Broadspire Services, Inc., by Aetna, Inc. in 2006, a SAS 70 report, covering the disability programs, was not prepared for the period April 1, 2006 through March 31, 2007.

## Periodic Report Data Analysis

### Objectives

ETF requires Aetna to provide monthly, quarterly and annual reports on numerous elements of the ICI and LTDI Programs. These reports include information on the number of participants, the total claims paid, total claims open and closed, and various other statistics. Objectives included:

1. Obtain an understanding of the methodology for compiling and preparing data for the Annual Report to the State of Wisconsin.
2. Determine whether key data in the reports are supported by underlying Aetna records.
3. Determine whether Aetna, Inc. reporting to ETF is timely as specified in the administrative agreement.

### Procedures

1. Obtained a sample of 2006, 2007, and 2008 monthly, quarterly and annual reports, selected by ETF.
2. Selected four reports and eight data elements within those reports to trace to underlying documentation. Elements tested include appeals, reconsiderations, and claims paid data.
3. Obtained ETF's report tracking worksheet to verify that reports from Aetna, Inc. were received timely.

### Results

We judgmentally selected appeals from the 3<sup>rd</sup> Quarter 2007 report, reconsiderations from the 1<sup>st</sup> Quarter 2008 report, and claims data from the September 2006 and November 2008 reports. For the data reported, we obtained information from Aetna, Inc. to substantiate the values. No exceptions were identified.

# Procedures and Results

## Periodic Report Data Analysis (Continued)

We obtained the report tracking worksheets for 2007 and 2008 used by the ETF to monitor the timely receipt of Aetna, Inc. reporting. Based on our discussions with ETF personnel, dates are entered on those worksheets at the time reports are routed to ETF personnel. Our observation of the receipt dates indicated that all reports during the periods examined were received within the parameters specified in the administrative agreement.

## Paid Claims and Overpayment Testing

### Objectives

Aetna, Inc. is required to accurately calculate and process claim payments timely and accurately. When overpayments occur, Aetna, Inc. is required to notify participants and receive reimbursement within parameters specified in the administrative agreement. Our objectives included:

1. Obtain an understanding of the claim payment processes.
2. Examine a sample of paid claims for accuracy and timeliness.
3. Determine whether claims being paid should be an ongoing benefit to the participant.
4. Determine whether overpayments are received as required in the administrative agreement.

### Procedures

1. Obtained and examined the SAS 70 report's discussion of controls over these areas and any relevant exceptions.
2. Randomly selected, 60 paid LTDI claims, 60 paid ICI claims for state employees and 15 paid ICI claims for local government employees. The total claims paid population was 3,603 for LTDI claims, 6,973 for state ICI claims and 376 for local ICI claims. Sample sizes were based on total numbers of claims in each population, and were evenly divided among the three testing years. The sample size provides 95% confidence that the error rate is 5% or less, provided that there are no errors in the items tested.
3. Inspected enrollment applications, for the ICI program, from the ETF Step 2000 system.
4. Examined selected claims for adequate documentation (including salary, medical evidence, claim file notes, etc. from the Workability system) and timeliness of processing based on application dates, system notes and claim payment data.
5. For all LTDI claims selected, inspected the benefit calculation and ensured that the highest three salaries were used and that the calculated benefit was appropriate. For all ICI claims selected, ensured that the benefit payment was based on 75% of the participant's salary.

# Procedures and Results

## Paid Claims and Overpayment Testing (Continued)

6. Verified that ongoing claims included updated medical records to show that the disability is ongoing and that the participant should not return to work.
7. For the randomly selected paid claims, 13 represented a claim where an overpayment was being applied to the payment. Of these 13 claims, 5 were for LTDI claims, 7 for state ICI claims, and 1 was a local ICI claim. We tested that there was adequate correspondence to the claimant about the overpayment, and that the overpayment was being deducted according to the agreed-upon payment schedule.

### Results

For all paid claims selected, claim files were adequately documented, properly approved, benefits were correctly calculated and were updated periodically to ensure the claim should be ongoing. All claims sampled were processed timely based on the initiation of the claim as well as when medical records were provided to Aetna. We also noted that the outstanding claims sampled were updated with new medical records periodically, to support the ongoing disability, through the date the claim was paid. The following table shows total claims tested and the total number of exceptions:

	2006	2007	2008	Total	Exceptions
Claims					
LTDI	20	20	20	60	0
ICI State	20	20	20	60	0
ICI Local	5	5	5	15	0
	<u>45</u>	<u>45</u>	<u>45</u>	<u>135</u>	<u>0</u>
Overpayments					
LTDI				5	0
ICI State				7	0
ICI Local				1	0
				<u>13</u>	<u>0</u>

### Denied Claims

### Objectives

Aetna is responsible for the approval and denial of all claims received, and is responsible for reporting approvals and denials to ETF on a periodic basis. The objective is to ensure that claims that are denied, are denied for valid reasons, properly communicated to the participant and adequately documented.

# Procedures and Results

## Denied Claims (Continued)

### Procedures

1. Received a report of all ICI claims denied for 2006, 2007 and 2008. There were a total of 89 denied claims for 2006, 125 denied claims for 2007 and 137 denied claims for 2008.
2. Randomly selected 15 denied short-term disability claims, 5 from each year for the ICI program. Sample sizes were determined based on our discussions with ETF personnel.
3. Examined claim file for medical information, system notes, participant correspondence, etc. to determine that the denial was valid, made in accordance with the plan requirements, and was communicated to the participant timely.

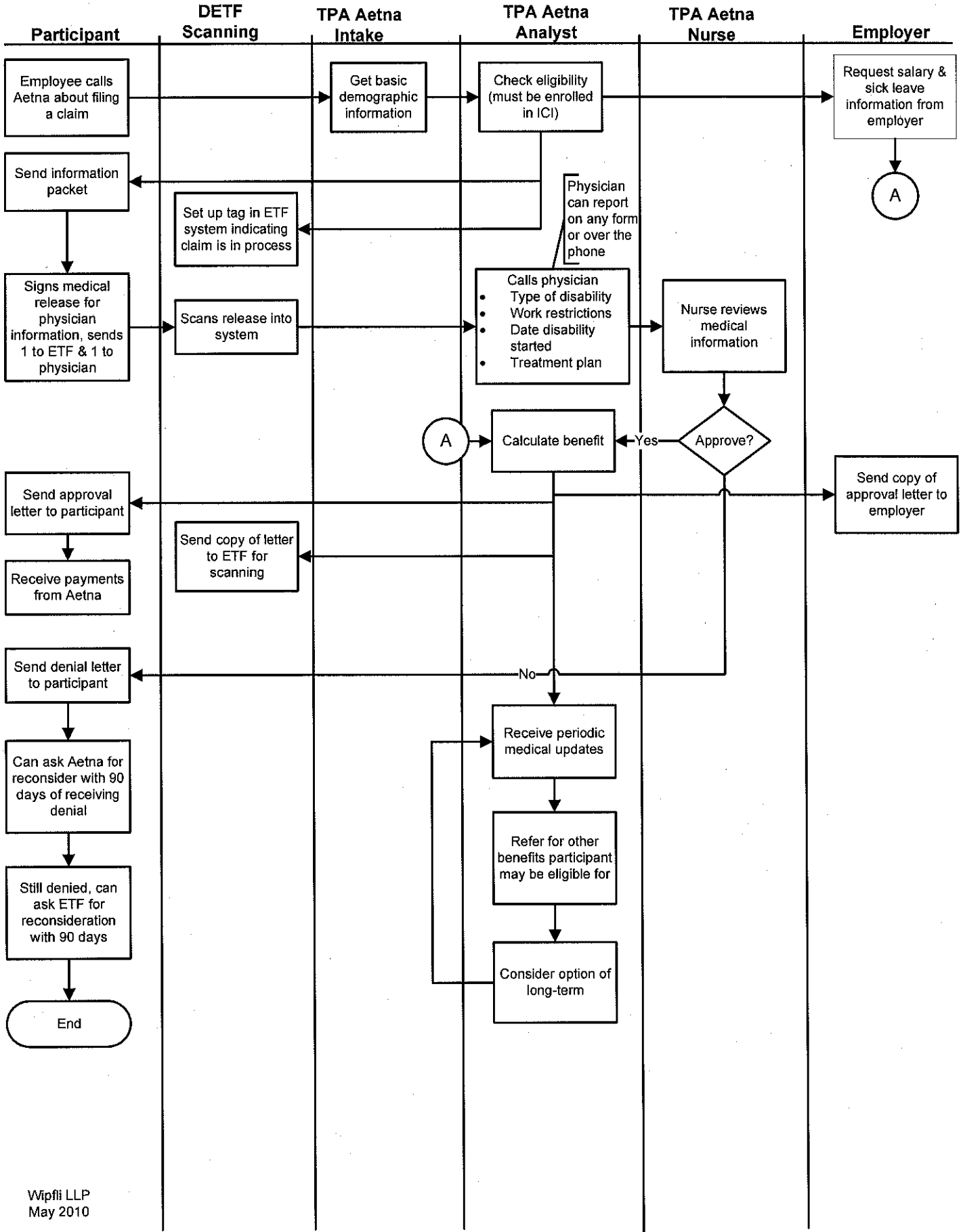
### Results

For all denied claims selected, the reason for the denial was adequately documented and communicated to the participant and processed timely. All denied claims selected were properly denied based on the participant not meeting the full elimination period. The denied claims reports, received from Aetna, Inc., also included claims that were closed. A closed ICI claim is a claim that was closed due to the participant being paid benefits from another source. In the sample selected, there was one claim that met the definition of a closed claim, and based on documentation received, was properly closed. These closed ICI claims should not be classified as denied in the reporting to ETF.

## Section III – Appendix - Process Flow Analysis

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# WI DETF Income Continuation Insurance





# WI DETF Long-Term Disability Insurance

TPA Aetna  
Nurse

TPA Aetna  
Analyst

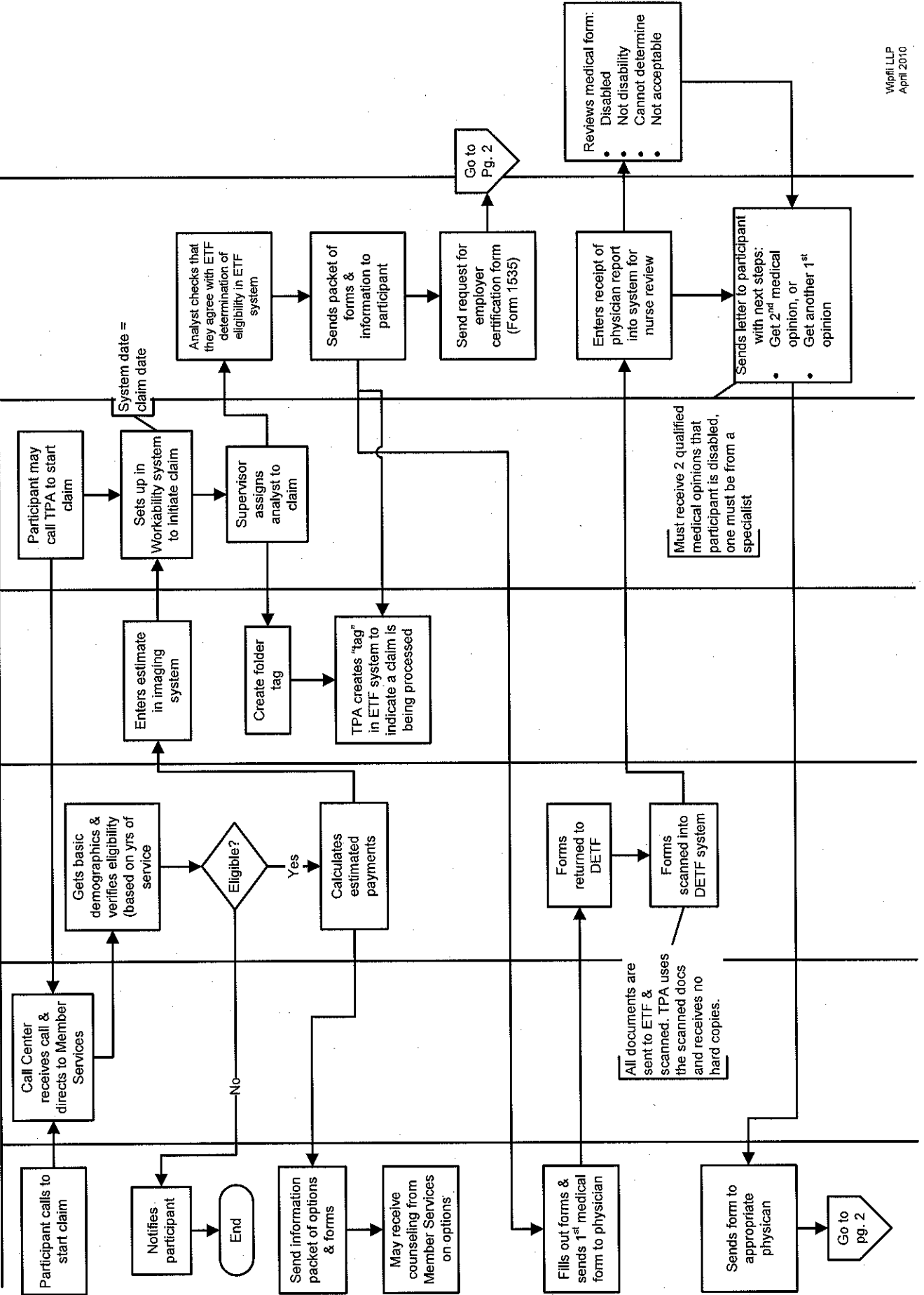
TPA Aetna  
Intake/Supervisor

DETF  
Scanning

DETF Member  
Svc's

DETF Call  
Center

Participant



# WI DETF Long-Term Disability Insurance

