



STATE OF WISCONSIN
Department of Employee Trust Funds
Robert J. Conlin
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931

1-877-533-5020 (toll free)
Fax (608) 267-4549
<http://etf.wi.gov>

CORRESPONDENCE MEMORANDUM

DATE: January 8, 2013

TO: Group Insurance Board

FROM: Deb Roemer, Director
Disability Programs Bureau

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 2009, 2010, and 2011. Wipfli's final report is attached.

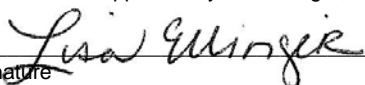
Aetna was found to be in compliance with the administrative agreement and there were no performance concerns. The single recommendation made, that ETF work with Aetna to ensure the imaging of documents into ETF's imaging system, has been addressed.

Staff will be available at the Board meeting to answer questions or you may contact Gina Fischer, Policy Analyst, Disabilities Program Bureau, Division of Insurance Services at (608) 261-8168.

Attachment: Wipfli Report

Board	Mtg Date	Item #
GIB	2.5.13	6A

Reviewed and approved by Lisa Ellinger, Division of Insurance Services.


Signature

1/11/13
Date

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, 2009, 2010 and 2011

State of Wisconsin - Department of Employee Trust Funds

Independent Accountant's Report on Applying Agreed-Upon Procedures

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State of Wisconsin - Department of Employee Trust Funds

Independent Accountant's Report on Applying Agreed-Upon Procedures

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, 2009, 2010, and 2011. Aetna Life Insurance Company ("Aetna") 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, and through discussion 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 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.
- We identified certain matters of lesser importance that the ETF and Aetna can consider for future periods which are discussed in more detail in Section III.



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 party), with respect to the Income Continuation Insurance Program (ICI) and Long-Term Disability Insurance Program (LTDI) for the years ended December 31, 2009, 2010, and 2011. The State of Wisconsin - Department of Employee Trust Funds' management is responsible for satisfying the ETF's statutory requirements relating to the ICI and LTDI Programs. 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 following report, either for the purpose for which this report has been requested, or for any other purpose.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the financial statements or 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 Department of Employee Trust Funds, and is not intended to be and should not be used by anyone other than this specified party.

Wipfli LLP

Madison, Wisconsin
November 2, 2012

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 10, 2010. Certain other specific procedures including the selection of sample size, 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, who is under contract to provide such services through December 31, 2013, with the option to extend for two additional two-year periods. 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 participants who become permanently disabled, the program pays up to 40%, or for those not eligible for Social Security- 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, who is under contract to provide such services through December 31, 2013, with an option to extend the contract for two additional two-year periods. 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 last tested for contract compliance for the period January 1, 2006 through December 31, 2008.

Objectives and Scope

D. Objectives

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

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, 2009, 2010, and 2011.

Section II – Procedures and Results

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

Procedures

1. Discussed with appropriate personnel the flow of information within ETF; within Aetna; and between ETF and Aetna.
2. Obtain an understanding of the periodic reports produced by Aetna and how they are utilized as part of the monitoring and reporting process.
3. Obtained and examined the Independent Accountant's Report on Management's Description of its System and the Suitability of the Design and Operating Effectiveness of Controls reports on internal controls and effectiveness ("SAS 70/ SOC 1") for Aetna Disability Management Services covering April 1, 2009 through March 31, 2012.
4. Obtained and examined related written policies and procedures.

Results

Based on our inquiries and analysis 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 IV - Appendix)

Aetna engages a public accounting firm to assess the controls of its Disability Management Services through a Type II SAS 70/ SOC 1 report. The Type II SAS 70/SOC 1 reports covering April 1, 2009 through March 31, 2012 for Aetna contained certain testing exceptions identified by the Service Auditor. That report also specifies a number of controls that user organizations should have in place to achieve the control objectives contained in the SAS 70/ SOC 1 reports.

Procedures and Results

Periodic Reporting

Objectives

The administrative agreements require Aetna to provide monthly, quarterly and annual reports on various 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. Determine whether Aetna is compliant with reporting requirements specified in the administrative agreements.
2. Determine that the timeliness of reporting requirements, as specified in the administrative agreements, are achieved.

Procedures

1. Obtained a sample of 2009, 2010, and 2011 monthly, quarterly and annual reports, selected by ETF.
2. Obtained ETF's report tracking worksheet to verify that reports from Aetna were received timely.
3. Obtained the Claims Processing Report and the Telephone Statistics Report from ETF and compared them to Aetna's internal tracking system.
4. Obtained the New Claim Demographic Statistics Report and the Claims Financial Statistics Report and the total of claims reported to them total in each statistical group.

Results

We obtained the report tracking worksheets for 2009, 2010 and 2011 used by the ETF to monitor the timely receipt of Aetna reporting. Based on our discussions with ETF personnel, dates are entered on those worksheets at the time reports are routed to ETF personnel. For 2009, we noted a total of 2 reports were submitted late and as a result, ETF assessed total fees of \$1,000 per the Administrative Agreement. Additionally, 3 reports did not meet the performance standards, as defined by the Administrative Agreement, and were assessed total fees of \$3,000. For 2010, we were not able to obtain a complete tracking worksheet due to turnover at ETF. Accordingly, we inquired as to any known errors for 2010 and obtained email correspondence between ETF and Aetna. We noted there was 1 report that was submitted late, resulting in a fee of \$5,000. Additionally, 2 reports did not meet performance standards and a fee of \$1,500 was assessed. For 2011, we noted there was one report submitted late, resulting in a \$3,500 fee. We were able to test the accuracy of tracking worksheet data for 3 selected items in 2011. Due to lack of documentation we were not able to corroborate the timeliness of reports received for 2010.

See Comment 1 in the Comments and Recommendations Section.

Procedures and Results

Paid Claims and Overpayment/Underpayment Testing

Objectives

The administrative agreements require Aetna to accurately calculate and process claim payments timely. When underpayments occur, Aetna is required to notify participants and send them the amount they are due within timeframes specified in the administrative agreement. When overpayments occur, Aetna is required to notify participants and start collecting the outstanding balance. Our objectives included:

1. Determine that Aetna is processing claims timely, properly adjudicating them according to the terms of the administrative agreements and obtaining and maintaining adequate supporting documentation.
2. Determine that underpayments are properly calculated and paid to the participants according to the terms of the administrative agreements.
3. Determine that overpayments are properly calculated and recovered according to the terms of the administrative agreements.

Procedures

1. Obtained and examined the SAS 70/SOC 1 report's discussion of controls over these areas and any relevant exceptions.
2. Randomly selected, 10 paid LTDI claims and 20 paid ICI claims. Sample sizes were determined based on our discussions with ETF personnel, and were evenly divided among the three testing years.
3. For selected claims, inspected enrollment applications for the ICI program using the ETF Step 2000 system.
4. Examined selected claims for adequate documentation (including salary, medical evidence, claim file notes, etc. using the Aetna 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 yearly 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.
6. For selected claims, verified that ongoing claims included updated medical records to document that the disability is ongoing and that the participant should not return to work.
7. For selected claims, verified that there was adequate correspondence to the claimant about overpayments and underpayments. Determined the underpayment was paid to the claimant. Determined that letters were sent timely to claimants who were overpaid and that the collection process had started or was complete.
8. For selected claims, ensured that benefit payments did not go beyond the maximum time allowed based on the participant's age at disablement.

Procedures and Results

Paid Claims and Overpayment/Underpayment Testing (Continued)

Results

For all paid claims selected, claim files were adequately documented and properly approved. Benefits were calculated correctly and were updated periodically to ensure the claim should be ongoing. All claims sampled were processed timely based on the initiation date 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. Also, benefits were properly terminated once the participant reached the maximum time benefits are to be paid based on the age of the participant at the time of their disability. The following table shows total claims tested and the total number of exceptions:

	2009	2010	2011	Total	Exceptions
Claims					
LTDI	3	3	4	10	0
ICI State	6	6	4	16	0
ICI Local	1	1	2	4	0
	10	10	10	30	0

For the 30 overpaid and underpaid claims selected for testing, we verified that the calculation was accurate and that participants were notified timely of the discrepancy. For all underpayment, we verified that the participant was reimbursed. For all overpayments, we verified that the collections had started or were in process.

Denied and Cancelled Claims

Objectives

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

Procedures and Results

Denied and Cancelled Claims (Continued)

Procedures

1. Obtained a report of all ICI claims denied for 2009, 2010 and 2011.
2. Obtained a report of all LTDI claims denied for 2009, 2010, and 2011.
3. Randomly selected 20 denied claims, 10 for the ICI program and 10 for the LTDI program, ratably over three years. Sample sizes were determined based on our discussions with ETF personnel.
4. For selected claims, 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.
5. Obtained a report of all LTDI claims cancelled for 2009, 2010, and 2011. Ten were randomly selected for testing, ratably over three years.
6. For selected claims, examined claim file for medical information, system notes, participant correspondence, etc. to determine that the cancellation was valid, made in accordance with the plan requirements, and was communicated to the participant timely.

Results

For 1 of the 10 LTDI denied claims selected, the reason for the denial was adequately documented and communicated to the participant and processed timely, however, a copy of the denial letter was not scanned into the ETF system. For 3 of the 10 LTDI cancelled claims selected for testing, a copy of the cancellation letter was not scanned into the ETF system. Aetna indicated that all the proper steps were taken and the cancellation letter was sent, it just had not been scanned in. All denied LTDI claims selected were properly denied based on the participant not providing two qualifying medical reports completed by doctors or because the doctor indicated the participant does not meet the definition of disabled in the submitted medical report. For all cancelled claims selected, the reason for the cancellation was adequately documented and communicated to the participant and processed timely. All cancelled claims selected were properly cancelled based on the participant not providing two medical reports completed by doctors within 12 months of filing the claim.

See Comment 2 in the Comments and Recommendations Section.

Procedures and Results

Approved 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 are approved in accordance with plan provisions, properly communicated to the participant and adequately documented.

Procedures

1. Obtained a report of all ICI claims approved for 2009, 2010 and 2011.
2. Randomly selected 50 approved ICI claims, 35 state claims and 15 local. Sample sizes were determined based on our discussions with ETF personnel.
3. Obtained a report of all LTDI claims approved for 2009, 2010, and 2011.
4. Randomly selected 10 approved LTDI claims. Sample sizes were determined based on our discussion with ETF personnel.
5. For selected claims, verified introductory packets were sent to participants and sent timely.
6. For selected claims, verified that the participant was properly enrolled as a Program participant.
7. For selected claims, verified that the claim was filed within 12 months of the date of disability.
8. For selected claims, verified that Aetna did not process the claim until the medical release form was received.
9. For selected claims, examined Aetna and ETF systems to determine that participant files were correctly updated to reflect their current status (ICI Approved, LTDI Approved, etc.)
10. For selected claims, examined the Employer Statement to ensure it was complete and justified the approval of the claim.
11. For selected claims, reviewed the benefit calculation for accuracy and verified that it had been reviewed by an analyst.
12. For selected claims, verified that approval letters were sent to participants and sent timely in accordance with the administrative agreement.
13. For the selected claims, verified that copies of approval letters and other participant correspondence were scanned into the ETF system.
14. For the selected claims, examined claim file for medical information, system notes, and other correspondence to determine that approval was valid and made in accordance with the plan requirements.

Procedures and Results

Approved Claims (Continued)

Results

Of the 50 approved claims selected for testing, Wipfli noted the following exceptions. For 2 of the claims selected, a folder tag was not added in the ETF system, which tests #9 on the previous page and was failed. For 8 of the claims selected, the form DTPA 1200 (ICI End of Benefits Termination Letter) was not sent due to analyst error, which tests #13 above and was failed. For 3 of the claims selected, the form DTPA 2100 (Transferrable Skills Assessment Letter) was not sent due to analyst error, which tests #13 above and was failed. No exceptions were noted in the remaining 37 claims.

See Comment 3 in the Comments and Recommendations Section.

Offsets

Objectives

Under the administrative agreement, Aetna is responsible for inquiring of participants and employers as to any part time employment income during the period of disability. The Income Continuation Insurance Report of Employment and Earnings is typically completed by the employer if it is known that a participant is returning to part-time employment. Aetna also sends Statement of Annual Earnings forms to all recipients of ICI, LTDI, and 40.63 each March. If a participant earns income during their period of disability, Aetna offsets the amount earned against the amount of benefit paid and the participant repays the portion of the benefit received in error to the Program.

Procedures

1. Obtained a report of all ICI claims with offsets for 2009, 2010 and 2011.
2. Randomly selected 20 ICI claims with offsets. Sample sizes were determined based on our discussions with ETF personnel.
3. Obtained a report of all LTDI claims with offsets for 2009, 2010, and 2011.
4. Randomly selected 10 LTDI claims with offsets. Sample sizes were determined based on our discussions with ETF personnel.

Procedures and Results

Offsets (Continued)

5. For selected claims, examined Income Continuation Insurance Report of Employment and Earnings and/or Annual Earnings Statements to determine the amount of income earned during the year by the participant.
6. For selected claims, verified that Aetna removed a participant's name from the mailing list for the 2nd and 3rd mailings after the participant submitted the Annual Earnings Statement.
7. For selected claims, determined that the amount of income earned from part time employment per the statements above, was offset against benefit payments made to each participant.

Results

Of the 30 claims selected for testing, one of the ICI claims did not have an Annual Earnings statement on file. We discussed this claim with ETF personnel who explained that this was an exception, as the individual had been in a nursing home and totally incapacitated for an extended period of time.

Section III – Comments and Recommendations

Comments and Recommendations

Comment 1

The Administrative Agreement requires Aetna to send a variety of monthly, quarterly, and annual reports to ETF. We noted that for 2010 ETF employees monitored the timeliness of these reports, but documentation was not retained to permit us to verify the accuracy of the monitoring schedules. We observed that the documentation for 2011 is complete and current employees are tracking and cataloging the reports received from Aetna.

Comment 2

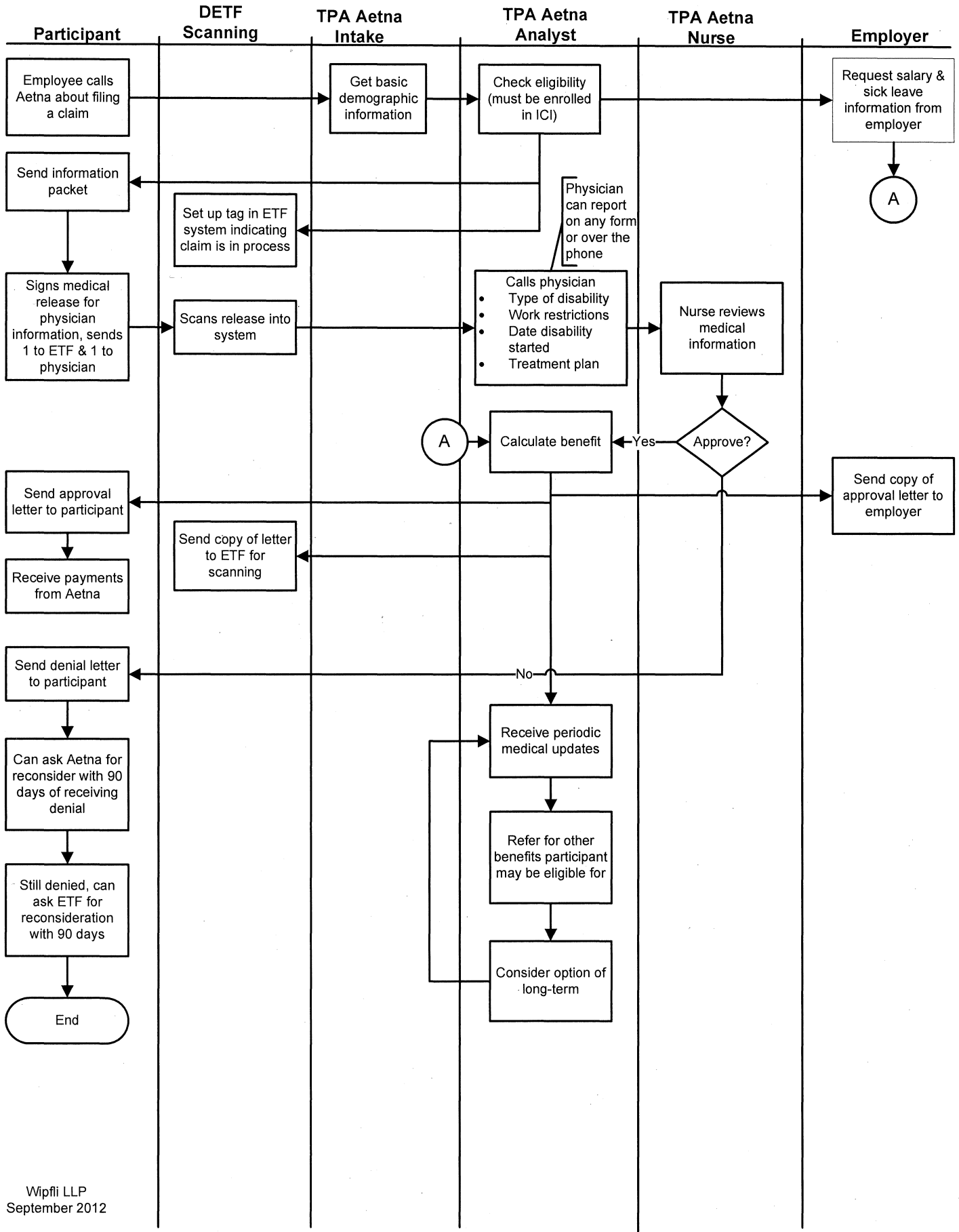
It was noted that prior to early 2011, denial and cancellation letters were being generated outside of the Aetna system. As such, letters were being sent to ETF for scanning into the claim file. However, our testing indicates a breakdown in the documentation process, although all the other procedures appear to be followed. Based on our discussion with Aetna and ETF personnel, these letters are now generated by Aetna and being scanned in. We noted no exceptions in our testing of denied and cancelled claims in late 2011.

Comment 3

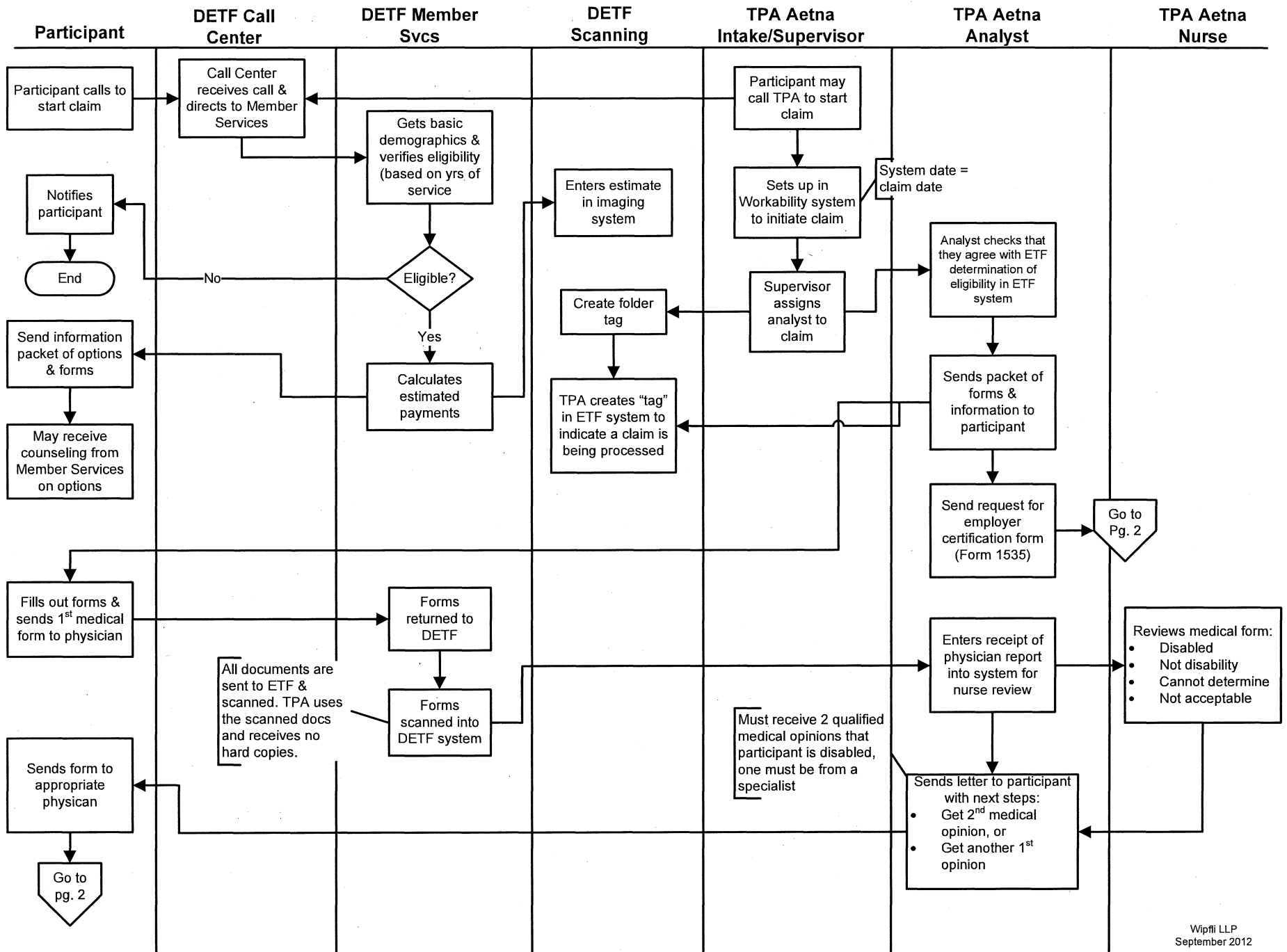
It was noted that for several of the approved ICI claims, certain letters that should be sent 9 months into a claim, such as the form DTPA-1200 and DTPA-2100, were not being scanned into the system due to analyst error. We would recommend that ETF work with Aetna to determine whether additional steps can be implemented to ensure that these forms are being sent and scanned into the system for proper claim documentation and compliance with the agreed upon procedures.

Section IV – Appendix - Process Flow Analysis

WI DETF Income Continuation Insurance



WI DETF Long-Term Disability Insurance



WI DETF Long-Term Disability Insurance

