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CORRESPONDENCE MEMORANDUM

DATE: October 8, 2015
TO: Group Insurance Board
FROM: Yikchau Sze, Director
Office of Internal Audit
SUBJECT: Income Continuation Insurance (ICI) Enrollment and Premium Reporting Audit

This report is for informational purposes only. No Board action is required.

Attached is the audit report of the Income Continuation Insurance (ICI) Enrollment and Premium Reporting Audit. The results of this audit have been submitted to and discussed with the Office of the Secretary and the Audit Committee of Employee Trust Funds Board.

This audit was conducted in accordance with the biennial Audit Plan for 2015-2017.

When conducting the risk assessment for the 2015-2017 biennial Audit Plan, management rated the risk of the ICI program "high," based on the following reasons:

- a. There has never been a comprehensive ICI enrollment database. The Department of Employee Trust Funds (ETF) relies on employers to determine premium due.
- b. Recent actuarial analysis indicates the need for premium increases in the state ICI program, due to the increase in claims at the same time enrollment appears to be falling.

This audit was conducted to determine whether participating employers are accurately reporting enrollment and premium. Based on the audit results, OIA concludes with 95% confidence that the premium misreporting on the application forms for the state ICI program could be between 16% and 26%*. However, without direct access to the employer payroll systems and without a participation database, OIA cannot establish the link that the premium error rate of state ICI enrollment applications will correlate to the error rate of the monthly premium payments that ETF receives from the participating

*This calculation does not include employer premium variances of minimal amounts (less than \$1 variance per month). Note that one application could have more than one premium error.

Reviewed and approved by Robert J. Conlin, Secretary

Electronically signed 10/28/15

Board	Mtg Date	Item #
GIB	11.17.15	8B1

state employers. It is possible for employers to have correct deductions in their payroll system for the participating employees without referencing the correct premium amount on individual applications, especially in the situation of supplemental ICI enrollment.

OIA did not calculate a premium error rate for the local ICI applications. Local employers are not required to fill out premium information on the local ICI applications as the local program has experienced a premium holiday since 2012 due to strong financial position and the premium holiday is expected to continue for the near future.

An ICI enrollment database, as part of ETF's multi-year Benefit Administration System (BAS) project, is scheduled to go live in 2017. The database will allow ETF to invoice employers and assure that premiums are being paid for all covered employees. OIA focused its recommendations on the specific steps that management can take to improve program support and oversight so that employers will submit complete and correct applications that will be beneficial to the creation of the ICI enrollment database. In response, management developed detailed corrective action plans with a timetable for implementation. (See attachments A and B for the detailed management corrective action plans.) Also included in the audit report is attachment C, which provides detailed testing results and associated risks across the enrollment process.

This audit was conducted by Mary Statz, Auditor-Advanced, who will be available at the Group Insurance Board meeting to answer any questions.

Attachment: Audit Report



Income Continuation Insurance (ICI) Enrollment and Premium Reporting Audit
August 2015

Audit Objective

The audit objective is to evaluate the accuracy of ICI enrollment and premium reporting by participating employers. Expectations for the ICI enrollment and premium reporting processes include ensuring enrollment eligibility requirements are met, applications are complete, Aetna processes enrollments timely, ETF images applications, and employers report enrollments and pay premiums accurately and timely.

Audit Scope

The audit scope is the state ICI enrollment process and premium reporting for 2014 and the local ICI enrollment processing for 2014.

Background

Program: The ICI program is an optional insurance program available to state and local government employees under age 70 who have participated in the Wisconsin Retirement System (WRS) for at least six calendar months (except some elected officials), not including periods of absence without pay. The ICI program is authorized under Wis. Stats. 40.61 and 40.62. It is administered by the Department of Employee Trust Funds and the Group Insurance Board. The ICI program provides replacement income for periods of short-term disability as well as those lasting for extended periods. The ICI program is self-insured and financed by employer and employee premium contributions. A third party administrator (TPA) is contracted to determine eligibility, process claims, and manage program benefits.

Based on participation, the ICI program has fewer participants than the WRS, health insurance, life insurance, and Wisconsin Deferred Compensation programs.

The table below outlines December 2014 enrollment and total premiums collected and claims (ICI payroll) paid for 2014.

	LOCAL	STATE
Participants	8,463	51,379
Premiums	<i>Premium Holiday</i>	\$15,746,565
Payroll/Claims Paid	\$1,187,616	\$21,516,929

Over the last five years, the local ICI program has experienced a small increase in the number of participating employers (190 in 2010 to 212 in 2014) and number of participants (7,402 in 2010 to 8,452 in 2014).

Conversely, the state ICI program has seen a decrease in the number of participants (56,068 in 2010 to 51,379 in 2014). While the local ICI program has had a premium holiday since 2012, the state program had four premium increases over the last five years (7% in 2010 and 2012, 4.5% in 2013 and 2014).

There has never been a comprehensive ICI enrollment database. Employers remit premium payment to ETF accompanied by a monthly report showing aggregate enrollment. Due to the lack of detailed supporting documents, verification and reconciliation of premium payment cannot currently be performed. Recent actuarial analysis indicates the need for premium increases in the state ICI program.



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ETF's multiyear Benefit Administration System (BAS) project (part of the Transformation, Integration, and Modernization initiative) is expected to reduce risk because BAS will house a database and ETF will generate ICI premium invoices payable by participating employers. ETF's expectation is that employers will review and reconcile any discrepancies in program enrollment appearing on the monthly invoices. This audit may also prove beneficial in the design of the ICI program and database within the BAS project.

The third party administrator is Aetna Life Insurance Company (Aetna). Aetna is under contract through December 31, 2017. The Aetna contract includes monthly, quarterly, and annual reports. Only one of these reports focuses on enrollment: Evidence of Insurability Application Process quarterly report.

The majority of applications are processed by Aetna. ETF's Employer Services Section (ESS) processes applications for local employers joining the ICI program and applications due to employer error. Applications are imaged in Step2000, ETF's document imaging system, and routed to one of Aetna's workbaskets. ICI benefits are paid monthly with checks dated the first of the month for the preceding month's benefit period. Benefits for standard ICI coverage are based on 75% of an insured employee's gross basic earnings, up to a monthly maximum benefit of \$4,000. Insured employees with annual earnings exceeding \$64,000 may elect supplemental ICI coverage with a maximum monthly benefit of \$7,500.

Until April 2015, the Disability Programs Bureau was in the Division of Insurance Services and the Employer Services Section was in the Division of Retirement Services. An organizational change was initiated by ETF's Secretary's Office to bring the disability programs' operational and policy roles under the same division. This change is expected to improve internal communication and oversight of the ICI program.

Independent Audit Review: Wipfli, LLC has been retained by ETF to conduct a review of agreed-upon procedures for both the ICI program and Long-Term Disability Insurance. In November 2012 Wipfli submitted their findings for calendar years 2009 – 2011. The cost of this review was \$20,000. The objectives of Wipfli's review were "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."¹ Wipfli's review of the ICI program focused on claims and did not include enrollment. Consequently, compliance with the *Processing ICI Applications* procedure was not reviewed. Wipfli focused on the following related to claims, recordkeeping, overpayments, and administrative billing:

- Internal controls
- Periodic reporting
- Paid claims and overpayment/underpayment testing
- Denied and cancelled claims
- Approved claims
- Offset

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 (Wipfli Report), 2/5/13 Group Insurance Board agenda item 6A, page 4.



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Wipfli concluded that Aetna was “in compliance with all significant elements of the administrative agreement test.”² Wipfli’s examination “revealed no significant exceptions related to claim processing and payment, or the timeliness of reporting to the ETF.”³ Wipfli’s review for calendar years 2012 – 2014 is expected in October 2015 and the focus for the review remains the same.

Roles and Responsibilities

Employers play a key role in ICI enrollment and premium payment; state and local employers:

- Determine when the enrollment eligibility requirements have been met
- Share information with eligible employees regarding the ICI program
- Provide application materials to eligible employees
- Receive and review applications submitted by employees
- Complete the employer section of applications and submit to ETF
- Secure, audit, and maintain completed applications
- Designate a payroll/benefits/Human Resources representative to work with the TPA
- Report enrollment on the Monthly Premium Report submitted to ETF
- Deduct employee premium from payroll
- Pay employee and employer premium accurately and timely to ETF

TPA/Aetna administers the ICI program and as the administrator

- Reviews and verifies applications to ensure they are complete, signed, and dated
- Performs medical underwriting
- Manages claims
- Maintains records

Group Insurance Board

- Develops benefit provisions
- Sets premium
- Selects the TPA

ETF

- Provides overall program oversight
- Interprets ICI plan language, applicable statutes and administrative code
- Develops brochures, forms, reports and an employer administrative manual
- Provides ombudsperson services
- Images the applications for enrollment upon receipt from employers
- Receives and summarizes the Monthly Premium Reports
- Receives and summarizes the premium payments from employers in order to create the ICI ledger used in allocating premium contributions
- Verifies the ICI ledger with the payment vouchers and cash receipts

² Wipfli Report, page 1.

³ Wipfli Report, page 1.



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Conclusion

OIA evaluated the accuracy of ICI enrollment and premium reporting by participating employers and noted that controls evaluated are not adequate to ensure eligibility requirements are met, enrollments are processed timely, and employers report enrollments and pay premiums timely and accurately. We suggest the following recommendations to improve the effectiveness of enrollment and premium reporting processes.

Findings, Recommendations, and Management Responses

1. Overall accountability for the ICI enrollment process is lacking

No one area at ETF appears to have overall accountability for the ICI program. Internal communication between ETF areas is lacking. Training for employers and Aetna is inadequate.

Recommendations:

- Enhancing TPA management by
 - Using a performance-based contract term related to enrollment processing and monitoring the results internally
 - Providing additional training for Aetna
 - Updating administrative manuals and procedures
- Initiating external monitoring by having Wipfli include the enrollment process as part of their engagement
- Implementing a monitoring procedure for evidence of insurability (EOI) applications to ensure timely follow-up
- Applying the same rules for determining the coverage effective date across all enrollment opportunities
- Providing additional employer training (along with an updated administrative manual requested in the Employer Advisory Council Survey April 2014)
- Improving communication between disability and ESS staff
- Establishing an enrollment database (coming with BAS)

Management Response:

The Division of Retirement Services (DRS) agrees with the findings and recommendations in the Income Continuation Insurance Enrollment and Premium Reporting Audit.

The Action Plan from DRS Management can be found in Attachment A.

Responsible Staff: Deb Roemer and Rory McGarry

Time of Completion: March 2017

2. Monthly Premium Reports are not verified for correct calculations and premium payments cannot be validated

The Division of Trust Finance does not foot or cross-foot the monthly premium reports submitted by employers. Employers are calculating employer premiums differently, although the variance in calculations per participant is immaterial.



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Recommendations:

- Add an adjustment column to the Monthly Premium Report for the employer premium columns to coincide with the employee adjustment column so premium values can more easily be verified
- Foot and cross-foot the Monthly Premium Reports
- Begin plans for the foundation of the BAS database needed by 1/1/17
- Calculate all premiums, employee and employer, uniformly (will happen when ETF begins invoicing employers with roll-out 2 of the BAS project planned for 1/1/17)

Management Response:

The Division of Trust Finance agrees with your recommendations and has changed our procedures to include cross-footing of all premium calculations. As your audit discovered, due to the lack of a participant database, our role is limited to collecting premiums as calculated by the employer. We're all looking ahead to the BAS environment where we'll be able to bill employers and assure that premiums are being paid for all covered employees.

See the complete DTF Management Response in Attachment B.

Observation

OIA observed that local ICI premium report and payment (when not in holiday status) are received prior to the month of coverage while the state ICI premium report and payment are paid in the month following the coverage month. We encourage DTF to improve cash flow by requesting an earlier due date for the state Monthly Premium Report and premium payment.

The remainder of the report provides more detailed information about the audit procedures and testing results.

The following pages summarize each segment of the enrollment process tested during this audit. The segments include the State ICI Program, Local ICI Program, Local Employers Joining the ICI Program, and ICI Enrollment through Evidence of Insurability. Test samples were randomly selected using a confidence level of 95% and 5% margin of error. Sample size for each of the above mentioned segments is 362, 263, 94 and 177 respectively. Please refer to the table in Attachment C for a summary of the testing results and associated risks across the enrollment process. The final segment relates to employer monthly reports and premium payments submitted to ETF.

I. State Income Continuation Insurance Program

The state ICI program has been available since 1972 to eligible state employees, including the University of Wisconsin and authorities such as the Wisconsin Housing and Economic Development Authority.

Eligible state employees have three opportunities to enroll in the ICI program: initial enrollment (within 30 days of eligibility date); deferred coverage (upon reaching a specific category or length of WRS service); and evidence of insurability.



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Testing Results:

Employers calculate the employer premium differently and employee premiums are not always for the correct year (the next year of premium values may not be available for deferred coverage applications). There is confusion on how to process participants transferring between state employers. Multiple applications are submitted for the same event with no indication of which one is correct. One application was received at ETF more than 11 months after the coverage effective date. One application enrolling in supplemental coverage was received after the 1/30 due date and was accepted and processed by Aetna. One application was accepted for deferred coverage when previous coverage had been canceled and enrollment should have been required through EOI. One application where the employee did not elect supplemental coverage included a supplemental premium; no check was done to ensure the employer was not deducting the supplemental premium. One application was missing the employer signature. One application processed by Aetna should have been rejected because so much information was missing.

Conclusions:

OIA audit findings show that the ICI enrollment process is not complying with expectations of ensuring enrollment eligibility requirements are met and that applications are complete.

The most common problem (21.3% of sample applications or 77 of the 362 state applications tested⁴) found in the test sample was missing or incorrect premium information. Aetna states their processing instructions are to verify the premium box is completed, not to recalculate the premium amount. Another concern is the effective date of coverage. Five percent of the sample applications had an incorrect effective date or were missing an effective date. Two percent of the applications showed a coverage effective date prior to the date the employer received the application and/or prior to the date the employee signed the application. When the application was received in a year prior to when coverage would be effective, the year for the effective date was often incorrect. There was one application without an employer signature.

II. Local Income Continuation Insurance Program

The local ICI plan has been available since 1987 to eligible employees whose employer has elected to participate by filing a resolution. Local eligible employees have two enrollment opportunities: 1) initial enrollment (within 30 days of eligibility date); and 2) evidence of insurability. There is an annual opportunity for all eligible local participants with earnings of \$64,000 or more to enroll in supplemental ICI. An employer must offer the ICI plan to all eligible employees and 65% of eligible employees must elect to participate. The participant selects an elimination period of 30, 60, 90, 120, or 180 days. The participant's portion of the monthly premium decreases as the length of the elimination period increases. Please note that the local ICI program has experienced a premium holiday since 2012 due to a strong financial position. As a result, this audit did not review employee or employer premium calculations or payment for the local ICI program.

⁴ This calculation does not include employer premium variances of minimal amounts (less than \$1 variance per month). Note that one application could have more than one premium error.



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Testing Results:

There are various ways of counting prior service months (partial or full) and clarification is needed. Applications that should be rejected and returned to the employer are not. One employee signed her own application as the employer. Multiple applications submitted and imaged for the same enrollment period/event create confusion; Aetna makes assumptions as to the reason and is not always correct. One application was missing an elimination period and another approved without EOI when decreasing the elimination period. One application was processed when it should have been rejected. Three applications were rejected by Aetna (including one rejected as a result of this audit). Four applications were approved due to employer error.

Conclusions:

Testing results indicate that Aetna is not following the *Processing ICI Applications* procedure.

The most common problem found in the test sample was an incorrect effective date of coverage. Aetna corrected many of these dates, some during processing and others after identified by this audit. When the application was received in a year prior to when coverage would be effective, the year for the effective date was often incorrect.

Aetna is contracted to audit and review ICI applications and is informed when the detailed worker instructions associated with the *Processing ICI Applications* procedure are updated. Yet Aetna often fails to note what is missing or incorrect on applications. ETF contracts Aetna to review each application and considers Aetna to be a key control in the application review and enrollment process. When asked about noting what was verified or completing blank application fields, Aetna commented that they rely heavily on the Aetna claims analyst to verify eligibility and enrollment when a claim is filed.

Missing information needed for premium calculation may contribute to financial risk when the premium holiday ends. ETF has a fiduciary responsibility to maintain a sound financial ICI program. Now is the ideal time to train employers to submit only completed applications as ETF and Aetna will then have better information when the ICI database is created in BAS and invoices generated.

From the state and local ICI audit segments, it is apparent that

1. Communication between ETF staff in disability and ESS needs to be strengthened by
 - Identifying common goals and objectives
 - Meeting periodically to discuss issues and concerns to provide adequate training and communication to Aetna and employers
2. Aetna needs additional training and communication
 - Aetna's practices are not in compliance with the Administrative Manual and *Processing ICI Applications* procedure
 - Aetna does not understand what constitutes a complete application
 - Aetna does not document what has been reviewed and verified, by whom and when
 - Aetna does not populate blank fields noting the date and who populated the field
 - Aetna's resources dedicated to ETF's contract seem inadequate



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3. Employers need additional training and communication (requested in the Employer Advisory Council Survey April 2014). ETF can

- Share information at the annual It's Your Choice employer meeting
- Use the annual bulletin as an educational opportunity
- Update the employer administration manuals which (local last revised in 2004 and state in 2005)
 - List Broadspire as the TPA rather than Aetna
 - Include outdated sample forms and references
 - Are not clear as to who is authorized to sign applications on behalf of employers
 - Include reporting due dates in Chapter 5 that are not aligned with current practice

III. Local Employers Joining the ICI Program

In order to join the local ICI program, the governing body of a local employer must file a resolution to join. Employers receive an implementation packet from ETF and an initial enrollment period is established. Coverage for eligible employees is effective on the first of the month on or after 90 days following ETF's receipt of the certified resolution. At least 65% of eligible employees must elect to participate during the initial enrollment or the resolution becomes void. Participation is required to remain at a minimum of 65% of eligible employees or the Group Insurance Board may terminate an employer's participation. ETF has an application (ET-2344) and several procedures specific to the initial enrollment when an employer joins the ICI program. The procedures were last revised in 2005 and are listed below:

- New Income Continuation Insurance (ICI) Employer Overview (TRS-NE4.0)
- Income Continuation Insurance (ICI) New Employer Inquiry (TRS-NE4.1)
- Acknowledge Income Continuation Insurance Resolutions (TRS-NE4.2)
- Processing Applications for New Income Continuation Insurance Employers (TRS-NE4.3)

Five Wisconsin Public Employers joined the local ICI program in 2014; they are the City of Delavan, the Village of Weston, the Town of Geneva, the Middleton Fire District, and the New London Housing Authority.

Testing Results:

One application did not have electing ICI and authorizing payroll deduction checked. One applicant did not check to elect or not elect supplemental coverage when eligible. One participant elected supplemental coverage when not eligible, but the application was accepted by ESS. Three of the five employers did not include any premium information on the applications (New London Housing Authority, Town of Geneva, and Middleton Fire District).

Conclusions:

Many employers are not populating the premium fields. This is likely because of the premium holiday in place since 2012.



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IV. ICI Enrollment through Evidence of Insurability

State and local eligible employees who missed their initial enrollment opportunity can apply for ICI through EOI. ICI participants (local and UW faculty and academic staff) with an elimination period can apply through EOI to shorten their elimination period.

Testing Results:

Applications that were incomplete or not signed, were generally returned to the employee by Aetna. One application was approved even though the applicant's weight (a required field) was missing. The approval (DTPA-905) or denial (DTPA-902) notice is not always imaged in the participant's folder. In two cases enrollment was approved on the first of the month and Aetna started coverage effective the first of the next month which is a different practice than for other enrollment opportunities. Aetna noted on one application that the approval letter was sent in error by Aetna; a claim has been filed and Aetna is investigating to see if premiums have been paid. Two applications sent to the underwriter have not been approved or denied (sent on 8/15/14 and 10/2/14). One application received at ETF on 8/19/14 has no notes from Aetna. One application was closed in error without any notes of approval or denial when it should have been rejected.

Aetna submits a quarterly report to ETF titled Evidence of Insurability Application Processing Report. Our review of the 2014 quarterly reports showed:

- a. Participants' applications appeared multiple times on the same report or on more than one 2014 quarterly report
- b. One report had an incorrect Social Security Number
- c. Six applications for which an approval notice had been sent did not appear on any 2014 quarterly report
- d. One application for which a denial notice had been sent was not included on a 2014 quarterly report

Conclusion:

Not all EOI applications are reviewed timely with decisions issued to applicants.

V. Monthly Premium Reports and Premium Payment

State and participating local employers submit the Monthly Premium Report to ETF's Division of Trust Finance (DTF). The state report is due by the 24th of the month following the month of coverage. The local report is due the 24th of the month preceding the month of coverage. ETF does assess a late interest charge if the monthly reports and premium are not received on the due date. The reporting and premium payment process is scheduled to change 1/1/17 when roll-out 2 of the BAS project goes into production and ETF will then invoice employers monthly.

Testing Results:

OIA reviewed Monthly Premium Reports for three large employers (University of Wisconsin, Department of Corrections, and Department of Health Services) filing paper reports, four small payroll centers (Wisconsin Housing and Economic Development Authority, Health & Education Facilities, Wiscraft, and Wisconsin Economic Development Corporation) filing electronic reports, and three Central Payroll agencies (Department of Justice, Public Defenders' Office, and Department of



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Children and Families). DTF summarizes the Monthly Premium Reports and premium payments to create an ICI Ledger which is used to allocate premiums. DTF does not foot or cross-foot the Monthly Premium Reports. Not all employers use the actuarial tables provided by ETF for premium calculations, although the variance in calculations per participant is immaterial.

Conclusions:

DTF does not foot or cross-foot the monthly premium reports submitted by employers. Enrollment categories and premiums cannot be validated due to the lack of an enrollment database.

Attachments: A. 2015 ICI DRS Action Plan
B. 2015 ICI Enrollment and Reporting Audit Memorandum
C. Table 1: 2015 ICI Audit of Enrollment Processes



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Correspondence Memorandum

Date: September 4, 2015

To: Mary Statz, Auditor – Advanced
Office of Internal Audit

From: Anne Boudreau, Deputy Administrator
Division of Retirement Services

Subject: DRS Action Plan – ICI Audit

In response to the recommendations from the Income Continuation Insurance (ICI) Enrollment and Premium Reporting Audit, the Division of Retirement Services (DRS) created the following action plan.

Recommendation 1: Enhance Third Party Administrator (TPA) management by

- using a performance-based contract term related to enrollment processing and monitoring the results,
- providing additional training for Aetna, and
- updating administrative manuals and procedures.

ETF's current contract with Aetna expires at the end of calendar 2017. This will require a Request for Proposals, with the procurement process beginning in the fall of 2016. In the RFP, ETF will include additional performance-based requirements specifically related to enrollments.

The additional training for Aetna can begin now. ETF will use a multi-faceted process, beginning with the third part of this recommendation—the updating of administrative manuals and procedures. Because these serve as guidelines for TPAs, the DRS Employer Services Section (ESS) has begun reviewing the procedures (last updated in 2014) that are provided to Aetna staff who process ICI applications. ESS expects to have the procedures revised by December 31, 2015.

Once the procedures are updated, ESS will schedule recurring meetings and training sessions with Aetna to ensure staff understand the new procedures and apply these correctly.

Finally, beginning in early 2016, ESS will audit a statistically-significant sample of ICI applications each month to ensure that Aetna is processing these applications correctly, that is, that Aetna is consistently applying the rules to determine coverage effective

dates. ESS will discuss trends or discrepancies found, in the future recurring meetings with Aetna.

Recommendation 2: Initiate external monitoring by having Wipfli include the enrollment process as part of its engagement.

The contract for compliance audit services with Wipfli ends 12/31/2015 with an option for one additional three-year renewal. The ETF Board delegated authority over these contracts to ETF at the June 19, 2009 meeting. It is our intention to exercise this three year renewal of the contract with Wipfli. We plan to add an audit of the ICI enrollment process to the contract extension.

Recommendation 3: Implement a monitoring procedure for evidence of insurability (EOI) applications to ensure timely follow up.

Approximately 25 members apply for ICI each month using the EOI process. The Aetna contract requires that each EOI application receive a response within 15 days. Because of this audit finding, ETF will be randomly checking ICI applications processed by Aetna in order to verify that there was a timely response to members.

Recommendation 4: Apply the same rules for determining the coverage effective date across all enrollment opportunities.

As mentioned in the response to Recommendation 1 above, ETF will be randomly checking ICI applications processed by Aetna each month in order to verify that staff are correctly determining coverage effective dates for all enrollment opportunities. These applications will be checked within 30 days of receipt. This random audit will also be useful for identifying additional training needs of Aetna staff.

Recommendation 5: Provide additional employer training and update our ICI employer administration manuals.

During the past three years, ESS has significantly expanded its training program for employers. This has included hiring a dedicated employer trainer and significantly increasing the number of employer training opportunities (in person and via webinar). In addition, ESS recently completed a pilot for employer compliance reviews. The program was very successful, is now a permanent service provided by ESS, and it will be expanded next year as part of our strategic planning goals for the agency. Finally, ESS has for the last three years been using a “case management” approach for employers, cultivating a consistent business relationship between ETF staff and employers. The ETF staff person gets to know the particular issues or concerns of each employer assigned to him/her, and the employers can become comfortable reaching out to their ETF contact whenever they have a question or concern. This has strengthened the lines of communication crucial to achieving employer compliance and accuracy.

More specifically, DRS has already taken steps to improve our ICI training program for employers. Earlier this summer, ESS and Disability Program Section (DPS) staff created and presented an ICI training to our largest employer. ESS plans to use this presentation to create an ICI webinar training for all employers that will begin in late 2015 or early 2016. ESS will then offer these ICI employer webinars year round for employers.

DRS is also currently in the process of revising both the local and state ICI employer administration manuals. The *local* ICI employer administration manual is in the final review phase, and DRS is working with the Communications Office to publish this manual by September 30, 2015. The *state* ICI employer administration manual is in the initial review phase, and DRS expects to publish this manual by January 15, 2016.

Recommendation 6: Improve communication between the Disability Program Section (DPS) and Employer Services Section (ESS).

Until recently, the ICI program was administered by the Division of Insurance Services (DIS) in two bureaus:

- The Insurance Administration Bureau (IAB) in DIS handled employer ICI questions having to do with completing the application and determining eligibility.
- The Disability Programs Bureau (DPB) managed ICI coverage and benefits. This included monitoring contracts, interpreting plan language, making benefit determinations for members, and deciding policy.

This year brought two significant changes to this structure.

First, on January 1, IAB moved to DRS and became part of ESS. IAB and ESS each provided services primarily to employers. It was logical to combine these into one unit in order to reduce the number of handoffs for employer issues.

Second, in April the Disability Programs Bureau moved from DIS to DRS. As a result, all parts of the ICI program—and several other disability programs—now reside in DRS.

This audit came at a good point in time. Because it focused on enrollment and premiums for 2014, it provided an “as is” snapshot of these parts of the ICI program. The recent restructuring provides an opportunity to take a fresh look at how this program is administered—and the audit findings provide a good starting point in this regard. The findings and recommendations will be incorporated into the discussions now happening in operations.

With regard to this particular audit finding and recommendation, it is not surprising that communications between DPS and ESS were identified as needing improvement. Many of the audit interviews took place in May and early June. The paint was still wet on this new structure.

In addition, two long-term subject matter experts from IAB retired as this transition was taking place. This left gaps that other staff had to fill, but it also forced staff in DPS and ESS to work together to resolve the issues caused by these transitions. Staff have made strides to improve internal communication between DPS and ESS. As one example, ESS is responsible for educating staff and employers on enrollment and eligibility issues, but looks to DPS for policy guidance and interpretation of plan language as needed. As another example, ESS and DPS are cross training staff. In July, DPS provided an overview of disability programs to ESS.

Recommendation 7: Establish an enrollment database.

DRS subject matter experts are currently designing the structure for an ICI enrollment database in our new Benefits Administration System (BAS). This database will be a part of our Roll-Out 2, which is tentatively expected to go live on January 1, 2017. There have been numerous project requests over the years for a disability database, dating back to the mid-1990s. In 2008, there was a project request to create a database to capture benefit and participant information for all four disability programs, which included ICI enrollment. The most recent project request was in 2011. This project was about to move forward until the decision was made by ETF to develop the BAS and incorporate the disability database within that new system.



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Correspondence Memorandum

Date: August 14, 2015

To: Mary Statz, Auditor – Advanced
Office of Internal Audit

From: Bob Willett, Chief Trust Financial Officer
Office of Trust Finance

Subject: Income Continuation Insurance Enrollment and Premium Reporting Audit

Thank you for sharing the findings and recommendations from the Income Continuation Insurance Enrollment and Premium Reporting Audit related to the Division of Trust Finance. As your audit discovered, due to the lack of a participant database, our role is limited to collecting premiums as calculated by the employer. We're all looking ahead to the BAS environment where we'll be able to bill employers and assure that premiums are being paid for all covered employees.

As you noted, the Monthly Premium Report includes an adjustment column for the employee premium, but lumps both monthly premium and adjustments into a single column for employer share. The Monthly Premium Report is predominantly used by state agencies; local employers take advantage of our online reporting functionality. We are still working with the STAR project to define reporting processes to be effective on January 1, 2016, but it is likely that we'll take advantage of STAR generated outputs rather than our current report. If so, the current report would become obsolete. Regardless of the STAR outcome, BAS billing functionality will obsolete this report in 2017. If the Monthly Premium Report continues to be used in the STAR environment, we'll evaluate if the benefit of adding an adjustment column justifies the employer disruption caused by changing reporting procedures so close to the BAS implementation.

Your audit identified an instance in which an employer error in completing the Monthly Premium Report resulted in incorrect premium calculations by premium category, although the total premium was correct. You noted that this error would have been identified if staff had cross-footed the report. We agree with your recommendation and have changed our procedures to include cross-footing of all premium calculations.

BAS roll-out 2 will drastically change the premium collection process for ICI. A participation database will allow ETF to consistently calculate and bill employers for all covered employees rather than relying on employers to determine premiums due. Design activities for this functionality are occurring now, with implementation scheduled for 2017.

We appreciate your review of our activities, and will be incorporating your recommendations either immediately or as we move forward with STAR and BAS implementations.

2015 Income Continuation Insurance Audit of Enrollment Processes

TABLE 1: 2015 INCOME CONTINUATION INSURANCE AUDIT OF ENROLLMENT PROCESSES

	Testing Results	Risk	Responsible Areas				Enrollment Segments			
			Employer	Aetna	ETF	ETF	Local	New Employer	State	Evidence of Insurability
					ESS	Disability				
1	Employers are using older versions of the application without the following enhancements: a. bar code b. a field for the member ID c. a field for the date the application was provided to the employee d. additional space for responses	a. Lost efficiency in imaging and routing jobs b. Reduced confidentiality c. Difficulty in determining timeliness of enrollment d. Less space and difficult to read	x		x		x		x	
2	Missing elements in Application as indicated below:									
	a. Employee electing ICI coverage and authorizing payroll deduction	Employer deducting premium from employee's payroll without authorization	x	x	x		x	x	x	
	b. Employee selecting an elimination period	Incorrect premium calculation and payroll deduction	x	x						
		No known benefit start date if claim is filed	x	x			x		x	
	c. Employee signature	No attestation to providing true and correct information on application	x	x						
		No authorization for monthly employee premium payroll deduction	x	x			x			
	d. Employer signature		x	x					x	
	e. Employer identifying the reason for the application	Invalid enrollment opportunity	x	x			x		x	
	f. Employer indicating previous service check was completed	Ineligible employee enrolling	x	x			x		x	
	g. Employer providing earnings information	Incorrect employee premium being deducted from payroll	x	x						
		Incorrect premium being paid to ETF	x	x			x		x	
	h. Employer providing premium values	Unable to verify correct premium	x	x			x	x	x	
	i. Dates	Unable to verify if application is timely	x	x			x	x	x	x
	j. Effective date of coverage	Unable to determine when to start employee premium deduction	x	x			x		x	
		Unable to determine when to start paying premium to ETF	x	x			x		x	
	k. Sick leave	Invalid enrollment opportunity	x						x	
3	Effective date of coverage prior to employer receiving the application	Individual may receive benefit earlier than entitled to do so	x	x	x	x	x		x	
4	Effective date of coverage not on the 1st of a month	Individual may receive benefit earlier than entitled to do so	x	x	x		x		x	
5	Shortening the elimination period without Evidence of Insurability		x	x			x			
6	Employees electing supplemental coverage when not eligible		x	x					x	
7	Handwritten applications difficult to read		x				x	x	x	x
8	Missing employer name/number		x	x					x	x

Note: ETF has oversight responsibility for the ICI program and as such has ultimate responsibility for all aspects.