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

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April 17, 2017

MR. JOE CHRISMAN, STATE AUDITOR
LEGISLATIVE AUDIT BUREAU
22 E. MIFFLIN ST., SUITE 500
MADISON, WI 53703

Dear Mr. Chrisman,

Thank you for the opportunity to review and comment on the 2015 financial audit of the Department of Employee Trust Funds (ETF). We appreciate the time and effort expended by the Legislative Audit Bureau in completing this audit as well as the additional areas you selected for review.

As described below, ETF agrees with your recommendations. I am pleased that your review confirms the appropriateness of actions ETF has already taken regarding monitoring of third-party administrators and the Income Continuation Insurance (ICI) Fund Balance.

Monitoring Third-Party Administrators

ETF agrees with the recommendations regarding the monitoring of third-party administrators (TPA). In early 2015, ETF identified the need for improvements in this area. Based on a risk analysis and discussions with ETF management, ETF's Office of Internal Audit (OIA) included a TPA consulting project in ETF's biennial internal audit plan for 2015-2017. This plan was presented to the ETF Board's Audit Committee on June 25, 2015. The consulting work was conducted from December 2016 to March 2017. On March 31, the OIA issued an internal memo outlining the process to be used for reviewing TPA service organization control (SOC) audit reports. Next steps include the following:

- The OIA will request and obtain the SOC audit reports from TPAs each year. To date ETF has received SOC audit reports for 2016 from most TPAs.
- The OIA, in conjunction with program staff, will review the reports as well as ensure the identified user controls are in place at ETF.
- A training session has been scheduled for April 19, 2017 to educate and train ETF's program managers on SOC audit reports and this process.
- ETF will include specific language requiring SOC audit reports in TPA contracts as existing contracts are renewed or as new ones are executed.

Income Continuation Insurance (ICI) Fund Balance

While ETF agrees with the recommendations regarding monitoring the ICI Fund Balance, we believe more must be done. ETF staff and its past and current consulting actuary have consistently monitored the financial status of the State and Local ICI programs. Starting in 2014 the ETF's governing boards responded to a deteriorating financial position of the State ICI program by taking additional steps. Those steps included:

- In 2014, a new actuary reviewed the past actuary's work and made changes to the assumptions used in actuarial valuations of the ICI program.
- As noted in the report, premium increases through 2020 have been approved by the Group Insurance Board to address the deficit in the State ICI program.
- In late 2014, ETF staff engaged with the ICI actuary to begin a redesign of the program structure in order to address the long term fund balance of the State ICI program rather than depend solely on premium increases. The redesign efforts focused on addressing declining enrollments, benefit levels that appear higher than industry norms, and simplifying the structure for program efficiency.
- In February 2017, the Group Insurance Board approved the program redesign, and recommended moving forward with legislative changes necessary to implement it. If approved by the Legislature, these changes would help to eliminate the deficit and improve the program's sustainability into the future.
- ETF will seek legislative support for the statutory changes in the coming months.

Consistent with the LAB's recommendations, we will report to the Joint Audit Committee on the status of the ICI program's financial condition and our continuing efforts to improve that condition by September 30, 2017.

Financial Reporting

We addressed the financial reporting recommendations in our response to LAB Audit Report 16-10 and in my testimony to the Joint Audit Committee in January of this year. We continue to make improvements to our internal controls and will report those improvements to the Committee in July, as directed.

Thank you again for the opportunity to comment on this report.

Sincerely,

Robert J. Conlin
Secretary