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SECRETARY

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November 22, 2019

The Honorable Senator Robert Cowles, Co-Chairperson  
Joint Legislative Audit Committee  
PO Box 7882  
Room 118 South  
Madison, WI 53707

The Honorable Representative Samantha Kerkman, Co-Chairperson  
Joint Legislative Audit Committee  
PO Box 8952  
Room 315 North  
Madison, WI 53709

Dear Chairperson Cowles and Chairperson Kerkman:

The Legislative Audit Bureau's (LAB) Report 19-2: *Administration and Oversight of the Group Insurance Programs* recommended the Department of Employee Trust Funds (ETF) provide a status to the Legislative Audit Committee by November 22, 2019, on ETF's efforts to implement LAB's recommendations contained in the report. We appreciate the opportunity to report on the significant progress ETF has made in addressing the recommendations. ETF staff have had on-going discussions with both the ETF Board and the Group Insurance Board (GIB) regarding ETF's approach and efforts in responding to the audit.

During the February 28, 2019, Joint Legislative Audit Committee hearing regarding Report 19-2, ETF pledged to thoroughly examine each of the LAB's recommendations and legislative considerations. As discussed at the February hearing, many of those recommendations had been implemented or were in the process of being implemented when the report was published. The attached table identifies each recommendation made by the LAB and how ETF and/or GIB has or will address them. I would like to highlight a few of ETF's efforts to implement the LAB's recommendations.

Providing the Group Insurance Board Consistent, Timely and Outcome Based Information

ETF understands the importance of providing relevant and timely information to the GIB and takes the responsibility seriously. As noted in the audit report, the administration of the Group Health Insurance programs (GHIP) has improved over time and ETF's efforts to ensure it has needed information continues to improve. I would like to highlight a few of ETF's efforts to implement the LAB's recommendations related to providing information to the Board.

To ensure that Board members receive consistent and useful information, ETF has established new standardized reporting procedures for providing information to the Board. ETF developed a memo template that will be used for all GIB memos. The new template includes written analyses of recommendations from consultants and regular reporting on program outcomes and performance metrics. Furthermore, ETF has created several standing agenda items related to health plan performance metrics, contractually-specified performance measures and outcomes, information related to actuarial audits, security audits, and program reserves. This will ensure that the GIB is provided relevant information on a consistent basis. Additionally, ETF developed a decision log to document contractually-specified health plan performance goals and outcomes, including if the goals were realized, if a financial penalty was assessed, and documentation of any additional details.

ETF has also established a new contract reporting memo that will be provided at each GIB meeting. The memo will update the GIB on the status of Health Plan Performance Reports and the status of all contracts, including contract extensions for GHIP and Income Continuation Insurance program vendors and penalties assessed to vendors in the GHIP.

Furthermore, ETF developed an annual report for the GHIP. The annual report provides information on the programs and performance goals and outcomes. The annual report offers the Board members consistent information over a multi-year time-period, supporting data-driven policy evaluation of the numerous programs, aiding board members to make data supported decisions regarding programs. Additionally, this report provides valuable information to members, health plans, vendors, public officials and other stakeholders about the management and performance of the GHIPs.

Finally, ETF does everything possible to ensure the GIB members receive accurate and relevant information in a timely manner. ETF posts on its website all nonconfidential meeting information in advance of the meeting and provides all substantive reports to GIB members at least one week before meetings. In the rare case that ETF is unable to provide a report in advance, staff or the consultants who generated the report are at the meeting and present the materials to the GIB and are available to answer questions. Overall, the vast majority of materials are provided at least a week in advance of the meeting. For example, for the most recent GIB meeting, all ETF and consultant prepared meeting materials were posted thirteen days in advance.

ETF is always seeking ways to improve the information we provide to the Board and have significantly enhanced the information it receives over the last decade.

#### Managing Group Health Insurance Program Reserves

The reserves were identified as a specific topic of interest by members of the audit committee. The audit confirmed that the methodology created by the GIB's independent actuary for determining the appropriate amount of reserves is reasonable. The LAB included several recommendations related to the GIB's oversight and management of the reserves.

At the August 2019 GIB meeting, the GIB's independent actuary provided a detailed presentation on the reserves, including an explanation of the changes to the reserves calendar-year balances, and a projection of future investment income using the long-term assumed investment rate of return for the Core Retirement Investment Trust Fund. The GHIP reserves presentation will be a standing agenda item for each August GIB meeting.

Moreover, one of the main purposes of the reserves is to stabilize premiums so as to avoid large premium swings from year to year. The GIB has used reserves in nine of the eleven past years to mitigate costs. At this year's August meeting, the GIB utilized reserves to mitigate rate increases and move closer to the midpoint of the target range established by the actuary.

Finally, the GIB reviewed and confirmed the reserve policy at its November 2019 meeting. The policy provides for periodic reviews of the target ranges for GHIP reserves. As noted above, the GHIP's actuary will continue to conduct its annual review of the reserves and report the findings during the GIB's August meeting.

#### Group Life Insurance and Income Continuation Insurance Program Management

The LAB made several recommendations relating to the administration of the Group Life Insurance program (GLIP) and the Income Continuation Insurance program (ICI), including more detailed program reporting, providing information on external audits and establishing program reserve policies and target ranges for program reserves.

ETF provides the GLIP report annually at the August GIB meeting. At this year's August meeting, ETF included detailed information on performance standards, the biennial client satisfaction survey, state and local plan reserves and plan valuation. Additionally, the GIB reviewed the GLIP plan asset and funding structure, consolidation of the reserve funds, the active premium deposit funds and the assets and liabilities of the state and local plan reserves. The GIB approved program reserve target ranges and strategies to achieve the targeted reserves. The GLIP annual review is a standing agenda item for August GIB meetings.

Additionally, the LAB recommended that ETF assess whether the GLIP administrator or the State of Wisconsin Investment Board (SWIB) should invest program reserves. ETF consulted with SWIB to evaluate having SWIB invest GLIP reserves. Due to a variety of reasons, including increased risks and increased administrative costs that would negate any potential savings, it would not be advantageous for SWIB to invest the GLIP reserves. ETF provided a detailed memo addressing this recommendation to the GIB at the November 2019 meeting.

All external audit reports and summary reports of ETF's programs, including the ICI program, are provided to the GIB and the ETF Board's Audit Committee. In July, ETF's Office of Internal Audit (OIA) began tracking the progress of external audit evaluations. OIA will provide the GIB and ETF Board's Audit Committee updates on the status of any active external audits of ETF's programs.

ETF has also created a policy and established program reserves target ranges for the ICI program. During October of 2018, ETF began working with the ICI program's actuary to establish a strategy

and process for managing program reserves. This work resulted in an ICI program reserve policy and established target ranges for the ICI program reserves. The GIB reviewed and approved the policy and target ranges for the ICI program reserves at the November 2019 meeting. ETF will continue to provide program performance reports and review the ICI program reserves annually at November GIB meetings. The ICI program reserves policy will be reviewed every three years at May GIB meetings.

Finally, the LAB noted ETF's disability program redesign effort. In 2013, ETF contracted with an actuary to evaluate ETF's disability programs. ETF staff worked with the actuaries to redesign the programs, which streamlines, simplifies, and reduces duplication of the state's disability programs. The redesign effort will decrease the costs of the program and increase the long-term sustainability. The end goal is to restructure the disability programs to have one short-term disability program (ICI) and one long-term disability program (Disability Retirement Annuity under s.40.63 Wis. Stats.). ETF has achieved most of the changes through modifications to administrative rules and contracts. The final pieces of the redesign require legislative change. ETF is in the process of seeking legislative support to introduce legislation that is required to complete the disability redesign initiative.

#### Safeguarding Member Privacy and ETF's Information Security Efforts

Information security continues to be front-and-center in the administration of ETF programs. ETF's security program is led by ETF's Chief Information Security Officer (CISO), who is responsible for addressing the most critical security issues, implementing the most effective controls, and ensuring a solid foundation, through the use of industry standards like the National Institute of Standards and Technology (NIST) and the Center for Information Security (CIS) CSC Top 20.

ETF's information security plan was developed to provide security expectations for ETF's information technology-related policy, standards and procedures needed to minimize the likelihood of an information security breach. ETF continues to take steps to further reduce the risk and effect of an unauthorized disclosure of employer, member or staff personal information. A few highlights from recent efforts include:

- Began ETF's Security Program, which employs the industry's most recommended security controls to develop and execute the most appropriate projects to further enhance ETF's information security.
- Implemented an information Security Policy for Vendor Relationships in October 2019. The policy provides for the review of vendor information security and an assessment of whether the vendor meets minimum information security standards, as a prerequisite to access ETF information assets.
- Completed projects to ensure automated inventorying and system baseline configuration of ETF's technology assets.
- Completed a project to improve vulnerability management, ensuring that risk is being continually addressed and reduced within ETF's systems and applications.
- Completed a project to implement a system for inventorying and classifying data, which allows appropriate protections to be applied to data based on its sensitivity.

- Developed a plan to complete audits of ETF's IT systems and processes.
- Revamped ETF's security account management function, assessing our current people, processes and technologies that allow user authentication and authorization to key ETF computer systems.
- Developed and implemented ETF's Information Security Incident Response Plan based on industry standards that cover the most probable computer security incidents. Conducted a successful tabletop exercise in December 2018 to test the plan.
- Began to implement the ETF Information Risk Management Program (IRMP). The program will provide ETF a systematic approach to safeguard ETF's information assets through consistent and continuous mitigation of risk.
- Added information systems security audit language to the 2020 Health Program Agreement, providing health plan specific documentation requirement language to improve health plan compliance and ease of administration moving forward.
- Required ETF staff to complete Department of Administration (DOA) Privacy/HIPAA training.
- Required State IT Security Awareness training in August 2019 with completion scheduled by the end of 2019. Additional targeted training and awareness is being evaluated and will be scheduled and implemented as part of the ETF Awareness Program slated to begin in January 2020.

#### Statutory Changes for Legislative Consideration

Finally, ETF has identified several statutory changes that will improve the oversight and efficacy of the GIB and improve the sustainability of the ICI program.

**GIB Terms:** Public members of the GIB serve two-year terms expiring on May 1 of odd-numbered years. In some years in which a change of administration occurs, like 2019, it is possible for the GIB to experience total or near total turnover. The loss of institutional memory on the GIB can be problematic for the programs it oversees. We recommend that public members of the GIB have staggered four-year terms.

**GIB Per diem:** Given the responsibilities of the GIB, it seems that the \$25 per diem is inadequate. We recommend that GIB members be eligible for a higher per diem.

**GIB reporting relationships:** Recently, the GIB had two members who were employees of the same state agency. While their expertise in insurance matters was welcome, having a board member who reports for employment purposes to another board member may affect the appearance of independence that all board members are expected to exercise. We recommend such reporting relationships be prohibited on the GIB.

**Disability program redesign:** As noted above, the LAB report summarized disability program changes that ETF proposed to address long-term sustainability concerns. ETF has achieved a number of changes through modifications to administrative rules and contracts. The final pieces of the redesign require statutory changes. We recommend that the state's ICI program discontinue basing ICI premiums on sick leave balances and move to an elimination period, similar to the local

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ICI plan. This would streamline the ICI programs and address the state's long-term sustainability concerns.

ETF will continue to look for new opportunities to improve the administration of the GHIPs. As always, if you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Conlin". The signature is written in a cursive style with a large initial "R" and a stylized "C".

Robert J. Conlin  
Secretary

cc: Herschel Day, Chairman, Group Insurance Board  
cc: Joe Chrisman, State Auditor, Legislative Audit Bureau

Enclosure

LAB Recommendation	LAB Report Page Number	Update
Employee Trust Funds (ETF) require its staff who work on individual group insurance programs to track on an ongoing basis the amount of time they used to complete work for each group insurance program.	19	ETF refined its administrative cost allocation process in 2019. Managers now provide staff time allocations on a quarterly basis and provide supporting documentation for the allocations. ETF uses the staff time allocations as the basis for allocating administrative costs to the various programs administered by ETF.
ETF consistently prepare and provide the Group Insurance Board (GIB) with the results of its written analyses of recommendations from consultants for the Group Health Insurance Program (GHIP).	29	ETF has developed a memo template for all GIB memos. The new template requires written analyses of all recommendations from consultants in memos to the GIB. Staff training and implementation of the new template was completed on May 22, 2019. It is expected that ETF staff use the new template in preparing all GIB memos.
ETF work with the GIB to establish intended outcomes for changes to the GHIP.	31	ETF staff is expected to incorporate intended outcomes into all GIB memos. The annual May GIB meeting presentation of the GHIP's Annual Report will continue to provide results across all programs.
ETF annually assess progress toward achieving these intended outcomes and provide the results of these assessments to the GIB.	31	ETF staff is committed to incorporating intended outcomes into GIB memos. That commitment is reiterated with the new GIB memo template.  The annual May GIB Meeting presentation of the GHIP's Annual Report will continue to focus on goals, progress and results across all health insurance programs and Income Continuation Insurance (ICI).
ETF work with the GIB to ensure contracts sufficiently specify how to calculate performance measures.	34	The reporting of health plan performance statistics is a standing agenda item at GIB meetings. Performance measures not part of the Health Plan Performance Statistics will continue to be discussed with the GIB as part of the standing agenda item regarding contract cycles.
ETF consistently determine whether firms achieved contractually specified performance measure goals and assess contractually specified financial penalties when firms do not achieve these goals.  Report to the GIB on the financial penalties it assesses.	34	ETF staff implemented a decision log to document contractually-specified health plan performance goals and outcomes, including the goals were met, if a financial penalty was assessed, and documentation of any additional details.  Reporting templates have been established for updates at each GIB meeting including quarterly and annual Health Plan Performance Reports and the quarterly Bureau of Budget, Contract Administration and Procurement (BCAP) Contract Update. BCAP's memo to the GIB includes contract extensions for GHIP and ICI Vendors and penalties assessed in the GHIP.

LAB Recommendation	LAB Report Page Number	Update
ETF require the program actuary to take investment income into account when it recommends the amount of GHIP reserves to spend.	42	During the 2019 annual August presentation to GIB regarding the GHIP's reserves the program the actuary's information included a projection for future investment income using the long-term assumed investment rate of return for the Core Retirement Investment Trust Fund. Presenting this information will be a standing agenda item for each August GIB meeting.
ETF require the program actuary to annually explain why the change in GHIP reserves differed from the amount the GIB had voted to spend.	42	Presenting this information will be a standing agenda item for each August GIB meeting.
ETF require the program actuary to provide the GIB with calendar-year information on GHIP reserves.	42	The GHIP's actuary will continue to provide an annual report and presentation on program reserves at each August GIB meeting.
ETF work with the GIB to establish a policy requiring periodic reviews of the target ranges for GHIP reserves and provide the results of these reviews to the GIB.	43	The GIB will review and approve a new reserve policy at its November 2019 meeting. The GHIP's actuary will continue to conduct its annual review of the reserves and report the findings during the GIB's August meeting.
ETF consistently prepare and provide the GIB with the results of its written analyses of key information about program reserves that was provided to the actuary for the GHIP.	45	ETF staff and actuaries will continue to provide the GIB with memos and reports as a standing agenda and discussion item at each August meeting.
ETF indicate in writing to the GIB if the program actuary makes a recommendation that is inconsistent with a prior GIB decision	46	ETF staff will report if this situation happens. This will be a standing agenda item for each August GIB meeting.
ETF consistently provide the GIB with audit reports of the performance of the ICI program administrator and memoranda that accurately summarize these audit reports.	66	Each external audit of any program administered by ETF, including the ICI Program, is always reported to the GIB and the ETF Board's Audit Committee by ETF staff. ETF's Office of Internal Audit (OIA) began working with ETF staff to track the progress of external audit recommendations at the beginning of FY 2020. OIA will submit external audit updates at each meeting of the GIB and ETF Board's Audit Committee.

LAB Recommendation	LAB Report Page Number	Update
<p>ETF work with the GIB to establish target ranges for program reserves for the state and local components of the ICI program as well as a strategy and a timeline for achieving them.</p> <p>ETF work with the GIB to establish a policy requiring periodic reviews of the target ranges for ICI program reserves and provide the results of these reviews to the GIB.</p>	71	<p>During October of 2018 ETF began engaging with the ICI program's actuary to establish a strategy and process for discussing program reserves. The two-step process of first setting policy and then establishing targets includes periodic reviews. The GIB adopted the reserve policy and target ranges during the November 2019 meeting.</p> <p>ICI Program reserve reporting and review is a standing agenda item at November GIB meetings.</p> <p>ICI Program reserves policy will be reviewed every three years at May GIB meetings.</p>
<p>ETF provide sufficiently detailed information in its memoranda to the GIB regarding the annual financial reports from the program administrator of the Group Life Insurance Program (GLIP).</p>	78	<p>In the 2019 GLIP Annual Report, given yearly as a standing agenda item at the August GIB meeting, additional detail and information including a financial report were included and discussed. Presenting this information will be a standing agenda item for each August GIB meeting.</p>
<p>ETF work with the GIB to establish target ranges for program reserves for the state and the local components of the GLIP, as well as a strategy and a timeline for achieving them.</p> <p>ETF work with the GIB to establish a policy requiring periodic reviews of the target ranges for GLIP reserves and provide the results of these reviews to the GIB.</p>	81	<p>Program target ranges, strategies and timelines for program reserves for state and local GLIPs are all standing agenda items for August GIB meetings.</p>
<p>ETF assess whether the [Group Life Insurance] program administrator or the State of Wisconsin Investment Board (SWIB) should invest program reserves and provide the results of this assessment to the GIB.</p>	81	<p>On September 18, 2019, ETF Staff met with SWIB to discuss the possibility of investing GLIP reserves with the agency. SWIB and ETF both agree that SWIB is not positioned to take on this role for the GLIP reserves.</p> <p>ETF staff presented a detailed memo to the GIB at the November 2019 meeting addressing this issue and highlighting what investing GLIP reserves with SWIB would mean to the program reserves.</p>

LAB Recommendation	LAB Report Page Number	Update
ETF work with the GIB to establish sufficient policies pertaining to audits of information technology controls.	84	<p>ETF staff developed an agency-level policy for Service Organization Controls (SOC) reporting. This new policy includes a SOC Review Form and a SOC Tracking Spreadsheet. Training was conducted with program management staff on April 4, 2019 and will continue as an annual event. This policy applies to most third-party administrators.</p> <p>Information systems security audit language was added to the 2020 Health Program Agreement, providing health plan specific documentation requirement language to improve health plan compliance and ease of administration moving forward.</p> <p>An information Security Policy for Vendor Relationships was developed, and approved by ETF leadership on October 8, 2019. The policy requires ETF review of vendor information security and an assessment of whether the vendor meets minimum information security standards, as a prerequisite to access ETF information assets. The policy is now operational.</p>
ETF collect all contractually required audits of information technology controls, review all submitted audits, and provide GIB with the results of the reviews.	85	ETF assessed a workflow/process for review and action with either SOC2, Level 2 Audit, High Trust Audits or other mutually agreed options. The report of findings will be a standing agenda item at the November GIB meeting.
ETF ensure that the security awareness training it provides its staff adequately addresses the appropriate ways to securely communicate confidential information.	86	<p>ETF requires staff to complete Department of Administration (DOA) training and Privacy/HIPAA training. Staff's training results are tracked. Any results of the training deemed to be "not completed" or "unsatisfactory" require a follow-up with the employee.</p> <p>Part of the ETF Security Awareness Program is a newly established Information Risk Management Program. ETF continues through vendor negotiation to create the Information Risk Management Program with the goal of full implementation by the end of 2021.</p> <p>State IT Security Awareness training was completed by ETF staff during the Fall of 2019. Additional targeted training and awareness is being evaluated and will be scheduled and implemented as part of the ETF Awareness Program slated to being in January 2020 and will be an ongoing program.</p>

LAB Recommendation	LAB Report Page Number	Update
ETF consistently provide the GIB with programmatic information at least one week before meetings.	90	ETF continues to have a process to provide meeting materials to all GIB members in advance of meetings.
ETF post on its website at least one day before a given meeting all nonconfidential information that the GIB will consider at that meeting.	90	ETF continues to post all meeting information, including all nonconfidential information, well in advance of all GIB meetings.
ETF compile additional information about the performance of program administrators, program actuaries, and auditors and provide this information to the GIB and the ETF Board.	92	<p>Health plan performance outcomes reporting is a standing agenda item at GIB meetings. Performance measures not part of the a standard quarterly or annual Health Plan Performance Report will continue to be discussed with the GIB as part of the standing agenda item regarding contract cycles.</p> <p>Reporting templates have been established for updates at each GIB meeting including quarterly and annual Health Plan Performance Reports and the quarterly Bureau of Budget, Contract Administration and Procurement (BCAP) Contract Update. BCAP's memo to the GIB includes contract exceptions for GHIP and ICI Vendors and penalties assed in the GHIP.</p>
ETF work with the GIB and the ETF Board to determine the maximum durations of contracts with program administrators, program actuaries and auditors.	92	ETF addresses contract durations on a contract by contract basis. There is not a standard contract duration because of varying business and program needs.
ETF seek approval and direction from the GIB or the ETF Board before executing contract amendments for actuarial services.	92	At the March 2019 ETF Board meeting and May 2019 GIB meeting each board voted to delegate authority for Secretary Conlin to execute contract amendments.
ETF establish a written plan to periodically contract for actuarial audits to assess the appropriateness of information provide by program actuaries and provide the GIB with the actuarial audit results.	93	The GIB's actuaries are audited every five years. Audit results appear as standing agenda items at appropriate GIB and ETF Board meetings. Board Manuals will be updated to reflect the inclusion of these audit reports.
ETF assess options to improve oversight of group insurance programs and provide the results of its assessment to the GIB.	95	GHIP recommendations and results are discussed at each GIB meeting. ETF's Business Improvement Plan for the Office of Strategic Health Policy is an agenda item for the GIB when appropriate. A GIB Strategy Discussion is on the agenda for the November 2019 meeting.
<b>Recommended Statutes Change:</b> Require ETF to provide to the Legislature by June 30 of each year information about program reserves for the state and the local components, including the amounts of program reserves as of December 31 of the prior two years and the reasons why program reserves had changed over that period of time.	47	ETF will continue to monitor, provide information and respond as appropriate to any legislative inquiries about this provision.

LAB Recommendation	LAB Report Page Number	Update
<b>Recommended Statutes Change:</b> Specify that the Administrator of DOA's Division of Personnel Management, or his or her designee, is a GIB member.	95	ETF will continue to monitor, provide information and respond as appropriate to any legislative inquiries about this provision.
<b>Recommended Statutes Change:</b> Require the four insured employee/participants GIB members participate in at least one of the group insurance programs overseen by GIB.	95	ETF will continue to monitor, provide information and respond as appropriate to any legislative inquiries about this provision.