

Maine Public Employees Retirement System (MainePERS)

Internal Audit Scoping Memo – Disability Program Review/Assessment

Prepared By:	Jim Kreiser, CLA		
Subject:	Disability Program Assessment	Date:	7/15/22
Audit Manager:	Matt Rever, CLA		
Key Stakeholders:	Sherry Vandrell, Director of Finance – MainePERS		
Project Source:	MainePERS Risk Assessment and 2022 Master Services Agreement		

Scope Identified:

In coordination with MainePERS, there were key items identified related to S.P. 529 – L.D. 1644, An Act to Improve the Disability Retirement Program of the Maine Public Employees Retirement System, as enacted on June 17, 2021 (the “Act”). Specifically the following scope items are noted for assessment and conformance with the Act, including:

- Changes to policy and procedures due to the repeal of specific requirement for a medical review board, and the new provision and role for permission of the executive director to contract with a medical review service provider;
- System’s hearing officers must be independent contractors who serve as neutral independent decision makers;
- Policies and procedures must accurately reflect the change in definition of "disabled";
- Application process changes and updates noting that the executive director may grant benefits based on medical records and the member’s health care provider’s views, may obtain opinions and recommendations from the medical review service provider (as indicated above), and may not deny an application for disability retirement benefits without first obtaining an independent medical examination unless waived by the member;
- Process and policy changes related to the requirement of that the board, executive director and hearing officers must primarily consider medical opinions in the record and whether the opinions are supported by sound medical evidence and are consistent with other medical evidence in the record;
- Process and rules are updated to indicate that attorney's fees up to a maximum of \$12,000 must be paid by the MainePERS for a member who appeals the denial of disability benefits and is subsequently awarded those benefits;
- Reporting updates as required of MainePERS to report to the Legislature over retirement matters on the experience of the system and its members, as impacted under the changes made by the bill; and
- Implementation of a stakeholder group to report to the Legislature (and reporting) over issuance of mandatory long-term disability insurance coverage.

Also, the scope will include aspects related to controls and processes that support eligibility determination and monitoring, as well as certain aspects of plan review/monitoring as noted in the Approach below.

Purpose and Objectives:

The primary request for this review is to look at the changes required in the statute and to determine if MainePERS has implemented them fully, and if not, identify and report what is outstanding. In addition, the assessment will provide the executive management insight and support by providing a review of process documentation for the program and making recommendations with any gaps in conformance of the requirements and scope as listed above. Lastly, assist with reviewing two key components of the benefit calculation – offsets and earnings limitations – to determine if MainePERS is applying those two things consistently with the statute and board rule, and in a timely and controlled fashion on behalf of disabled retirees.

Work Plan/Approach:

To meet the objectives described above, we expect to perform a program review of the implementation of the specific changes and requirements with the new law as enacted on June 17, 2021, as well as test and inspect controls and performance of offsets and earning limitations as applied under the statute. Further, we will work to identify and report on any exceptions, gaps, etc. and report recommendations accordingly. Tests and procedures will be designed and performed to determine that MainePERS has implemented the changes required by PL2021, Ch. 277... noting that the following have been updated and implemented effectively by the system:

- Eliminate Medical Review Board
- Incorporate use of medical review service provider and independent medical examinations
- Development of a provision to establish and provide a “disability form” with providers to facilitate a health care provider submitting an assessment of the member’s ability to work.
- Specify that hearing officers are independent contractors and adopt procedure for appellant to participate in hearing officer(s) selection.
- Provide for legal fee reimbursements as provided by law noted above.
- Implementation of the change(s) in the statutory standard for claims such that a member is unable to perform the essential functions of the position rather than the former standard of “impossible to perform the duties”
- Controls and reporting that in medical record review, primarily consider medical opinions in the record and whether the opinions are supported by sound medical evidence and are consistent with other medical evidence in the record.

Further, a test of controls around the disability decision-making process and procedures will be performed. In addition, testing will be performed on a sampling basis (CLA will utilize AICPA control testing guidance and standards for sampling), to test controls and re-performance of payments and records related to:

- Offsets that should be applied to those receiving disability benefit(s), and
- Earnings limitations and “caps” are applied and monitored for those receiving benefit(s).

We will conduct our procedures through review, observation, and walkthroughs of system policies, procedures, and process/controls. Additionally, as noted above, areas of inspection and sample testing will also be utilized to determine the effectiveness of reporting, controls, and procedural changes. This will be done to assess the consistency, timeliness, and effectiveness of updates and process changes across beneficiaries and members.

Further, the procedures will include tests and steps related to eligibility determination and monitoring. Specifically, we will conduct re-performance, data analytics, walkthroughs, and limited test sampling to confirm the source documentation and medical reviews/determinations to assess the effectiveness of controls and processes related to eligibility, compliance, and monitoring.

Finally, our reporting will identify any gaps, exceptions, and related recommendations. We will coordinate with management and the Director of Finance to assess the impact of exceptions and attempt to report and communicate the severity of exceptions, and the reasonable steps/timeliness of the recommendations suggested.

Budgeted Hours:

CLA anticipates a total of 110-120 hours to be billed to MainePERS on a monthly basis through project completion and reporting. We expect approximately 35% of the time to be Senior level team members, 30% Staff, 25% Manager/Director, and 5-10% Principal time for review/reporting.

Estimated Timeline:

Planning/Scoping Phase	Fieldwork/Testing Phase	Reporting Phase
August 2022	September – October 2022	October - November 2022

Reporting/Deliverables:

At the end of fieldwork, an audit report is drafted. The report will include summary of key audit observations/findings and recommendations for improving controls and increasing efficiencies. Audit findings are assessed on the impact and probability (in coordination with feedback from the Director of Finance as noted above), with a corresponding management response and action plan requested from management. The findings/observations identified will be validated with management prior to issuing a final report.