

AUDIT TEAM

Jim Williamson, CPA, CIA, City Auditor

Matt Weller, CPA, Assistant City Auditor

Lori Rice, MBA, Audit Manager

Tim Alvarez, CICA, Senior Auditor

**MAJOR MEDICAL INSURANCE
BENEFITS ELIGIBILITY AUDIT**

DECEMBER 19, 2017

MAYOR AND CITY COUNCIL

<i>Mick Cornett</i>	<i>Audit Committee, Mayor</i>
<i>James Greiner</i>	<i>Ward 1</i>
<i>Ed Shadid</i>	<i>Ward 2</i>
<i>Larry McAtee</i>	<i>Audit Committee, Ward 3</i>
<i>Todd Stone</i>	<i>Ward 4</i>
<i>David Greenwell</i>	<i>Audit Committee, Ward 5</i>
<i>Margaret S. "Meg" Salyer</i>	<i>Ward 6</i>
<i>John A. Pettis Jr.</i>	<i>Ward 7</i>
<i>Mark K. Stonecipher</i>	<i>Ward 8</i>



December 19, 2017

The Mayor and City Council:

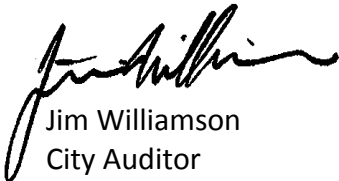
The Office of the City Auditor has completed an audit of controls over participant eligibility for major medical insurance benefits.

Based on the results of our audit, we believe that, as of April 1, 2017, established controls over participant eligibility for City major medical insurance benefits are adequate and operating effectively.

Recommendations for further enhancing controls over major medical insurance benefit eligibility, discussed in more detail in the attached report, are summarized as follows:

- Dependents without current City benefit coverage should be designated as ineligible in PeopleSoft to ensure benefits are not extended to dependents without evidence of eligibility on file. See Recommendation 1.
- Premium billings and collections should be reconciled monthly. See Recommendation 3.
- All premium billings should direct payments to the City Treasurer's Office. See Recommendation 4.

All comments, recommendations, suggestions and observations arising from our audit have been discussed in detail with appropriate representatives from management. These discussions were held to assure a complete understanding of the content and emphasis of items in this report. Responses to this report from management are attached.


Jim Williamson
City Auditor


Matt Weller
Assistant City Auditor


Lori Rice
Audit Manager

MAJOR MEDICAL INSURANCE BENEFITS ELIGIBILITY AUDIT

AUDIT OBJECTIVE, BACKGROUND, SCOPE AND METHODOLOGY

The objective of this audit was to evaluate the adequacy and determine the effectiveness of controls over participant eligibility for City major medical insurance benefits, as of April 1, 2017.

The Personnel Department's Employee Benefits Division (Employee Benefits) is responsible for the City's Health and Welfare Benefits Program (Program). The Program provides various types of insurance including major medical to active employees, retirees, and their dependents. Major medical insurance providers (providers) include a self-funded indemnity plan administered by a third-party provider and a health maintenance organization plan.

Active and retired firefighters and their dependents participate in a separate health plan sponsored and administered by the local International Association of Firefighters (IAFF). The City's responsibility is limited to paying an annual per employee or per retiree contribution as established in the annual IAFF Collective Bargaining Agreement and annual agreement with the Oklahoma City Health and Welfare Trust, respectively.

As shown in Exhibit 1, major medical insurance was provided or funded for 13,464 participants as of April 1, 2017 at a cost, net of employee contributions of almost \$82 million for fiscal year 2017, representing 99% of total City insurance benefit net costs.

Exhibit 1 – Major Medical Insurance

<u>Participants</u>	<u>Net Cost</u>	<u>Subscribers</u>	<u>Dependents</u>	<u>Total</u>
Active Employees	\$48,449,384	3,424	5,371	8,795
Retirees	18,314,074	2,175	1,161	3,336
Active/Retired Firefighters	15,028,596	1,333	N/A	1,333
Grand Totals	\$81,792,054	6,932	6,532	13,464

Source: Unaudited dollar amounts from PeopleSoft financial reports as of June 30, 2017 and participant information from PeopleSoft Human Resources system as of April 1, 2017.

Administering insurance benefits includes obtaining proof of participant eligibility. Full-time employees are automatically granted eligibility upon hire, while eligibility for retirees is determined at retirement. The following documentation proving eligibility is required for coverage of dependents:

- Social Security Card, and;
- Marriage Certificate for spouse, Birth Certificate for child;
- Appropriate legal documentation for court-ordered dependents;
- Current doctor's letter regarding disabled status and tax return showing the disabled child as a dependent, or Social Security disability award letter.¹

¹ Children are eligible for health benefits until the age of 26, unless they are disabled; in which case eligibility will continue after the age of 26.

Procedures performed during this audit included interviews with Employee Benefits personnel and the Municipal Counselor's Office; reviews of relevant City Ordinances and Collective Bargaining Agreements, personnel policies, and provider contracts; comparison of provider listings of eligible participants to eligible participants included in the City's PeopleSoft Human Resources system (PeopleSoft); review of premium collection, benefit assignment, eligibility monitoring, and firefighter and retired firefighter contribution procedures; and examination of eligibility documentation.

We conducted this audit in accordance with generally accepted government auditing standards (GAGAS). GAGAS requires that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following section of this report includes recommendations intended to provide constructive suggestions for improving controls over participant eligibility for major medical insurance benefits. Included in the body of this report are management responses to each recommendation. Management responses are attached to this report in their entirety.

RESULTS OF WORK PERFORMED

Established controls over participant eligibility for City major medical insurance benefits are adequate and operating effectively as of April 1, 2017.

Dependent Eligibility Documentation

Some dependents are designated as eligible to be selected for insurance benefit coverage within PeopleSoft without having documentation on file proving eligibility. Eleven of 319 tested dependents designated as eligible for insurance benefit coverage in PeopleSoft did not have documentation on file proving eligibility. Four of the eleven dependents without documentation are covered by City insurance while the other seven are not currently covered.

Employee Benefits recently began a review to confirm required documentation is on file proving dependent eligibility. However, immediate completion of the review is not expected given the number² of dependents and limited staff available to perform the audit.

Dependents designated as eligible for insurance benefit coverage within PeopleSoft without documentation on file proving eligibility could allow City benefit coverage of ineligible dependents without detection.

² Covered dependents totaled 6,532 as of April 1, 2017.

Recommendation (1)

The Personnel Department should immediately designate all dependents without current City benefit coverage as ineligible in PeopleSoft instead of waiting to identify those dependents during the review of eligibility documentation.

Personnel Department Response (1)

Agree with the City Auditor's recommendation.

Two of the four dependents identified as having missing documents have provided the documents to the Employee Benefits staff. The employee associated with the other two dependents was provided notification of the missing documents and informed that the documents must be provided for the dependents to continue coverage. The letters were mailed October 5, 2017, with final notices on November 16, 2017. If documents are not provided by December 15, 2017, coverage will be terminated effective January 1, 2018.

In 2013, the Employee Benefits Division began an internal review of the health plan participant's files, to ensure proper eligibility documentation was included for dependent coverage. In 2014, the 420 West Main basement offices, where the Employee Benefits Division offices are housed, were flooded. Due to the flooding, and the damage or destruction of some records, the review process started over, after staff returned to the basement offices in March 2016. (Note: In 2012, the Personnel Department began requiring copies of social security cards for individuals enrolled in the City's health insurance plan. Prior to 2012, an employee/retiree was required to provide a copy of the marriage/birth certificate and the dependent's social security number. A copy of the dependent's social security card, in addition to the other documentation, has been required for all new dependent enrollees, since 2012.)

By February 28, 2018 (following the current benefits open enrollment period), the Employee Benefits staff will generate an electronic PeopleSoft report to identify dependent participants. (Note: this report has been generated following the annual open enrollment period since 2013.) Any dependent not currently enrolled in City benefits will be coded as ineligible, unless required documentation is contained in the employee's or retiree's benefit file, or required documentation is provided at the time of enrollment.

Insurance Premium Collections

Billed insurance premium collections from participants without paychecks³ from which those premiums can be deducted are not adequately monitored. Premiums billed monthly to these participants total an estimated \$630,000 annually⁴. Employee Benefits' billing records show approximately \$74,000 of uncollected premiums as of September 1, 2017. While Employee Benefits believes most of this amount relates to erroneous billings or unposted receipts and no

³ Employees on unpaid leave of absence, terminated employees electing continuing coverage through the Consolidated Omnibus Budget Reconciliation Act (COBRA) option, and retirees that do not have a pension check from which to withhold premium amounts are billed directly.

⁴ This estimate is based on billings for April 2017.

significant premium amounts remain uncollected, the actual amount of uncollected premiums billed could not be determined.

Insurance premium billing records are also not reconciled with monthly premium collections to ensure the accuracy and completeness of those records.

Inadequate monitoring of billed insurance premium collections could result in uncollected premiums and allow coverage of ineligible participants without detection.

Recommendation (2)

The Personnel Department should determine what amount of uncollected premiums shown in the billing records is valid and what amount relates to erroneous billings or unposted receipts. Collection of valid premium billing amounts, if any, should be sought while those relating to erroneous billings should be removed from the billing records.

Personnel Department Response (2)

Agree with the City Auditor's recommendation.

The "erroneous" premium billings referred to in the audit report relate to health insurance premium invoices that are generated and mailed (30-45 days prior to the due date) to an employee on unpaid leave. Due to various reasons that arose after the invoice was generated (i.e., employee returned to work, employee elected to discontinue coverage, etc.), the invoiced amount is not owed, yet the employee's account continued to reflect an uncollected balance. Personnel Department staff did not "zero out" the employee's account "balance," so as to ensure the preservation of a historical record. Personnel Department staff acknowledges that at a minimum, notations should have been made on employee accounts where a balance was not owed, including the reason(s) the balance was not owed.

By December 31, 2017, the delinquent accounts report will be updated to only reflect actual/current delinquent accounts. Premiums that were identified as billed erroneously on the delinquent accounts report will be "zeroed out" by the appropriate staff member, and will include a documented reason(s) for the action taken. The delinquent accounts report will be monitored and reconciled monthly.

Recommendation (3)

The Personnel Department should perform documented reconciliations of the premium billing records with premium collections monthly. These reconciliations should ensure the accuracy and completeness of any remaining balances due and identify covered participants, if any, with unpaid premiums that are ineligible for coverage. The reconciliations should also be reviewed by a supervisor.

Personnel Department Response (3)

Agree with the City Auditor's recommendation.

The current reconciliation process is segregated among three staff members in the Employee Benefits Division. By December 31, 2017, the premium billing reconciliations will be reviewed monthly by supervisory staff.

Segregation of Premium Billing & Collection Duties

Employees responsible for billing premiums may also receive the related payments.

Employee Benefits directly receives mailed monthly payments for premiums billed to the Oklahoma Police Pension System and Oklahoma Firefighters Pension System totaling approximately \$6.8 million annually. Premium billings relating to employees on unpaid leave of absence also directed payment to Employee Benefits rather than the City Treasurer's Office and other payments are occasionally received by Employee Benefits even when directed to the City Treasurer's Office. Mailed payments may be opened by any Employee Benefits employee.

Lack of segregation between premium billing duties and premium payment receipt duties enhances the risk of those receipts being misappropriated and misappropriated receipts could go undetected in instances where reconciliations are not performed. See Recommendation 3.

Recommendation (4)

The Personnel Department should ensure all premium billings direct payments to the City Treasurer's Office and work with the City Treasurer's Office to ensure payment details included with pension system payments are forwarded to them. All billing statements should be revised to include the City Treasurer's Office as the remittance address.

Personnel Department Response (4)

Agree with the City Auditor's recommendation.

As of October 31, 2017, all billing statements have been updated and all applicable pension systems have been notified that premium payments are to be remitted to the City Treasurer's Office.

Retired Firefighter Contributions

Confirmation of the accuracy of contributions to the IAFF-sponsored plan for retired firefighters is not adequate.

Monthly per retiree contributions to the plan are based on a listing of participating retirees maintained by Employee Benefits and updated for changes submitted by the IAFF. Contributions to the plan for retired firefighters totaled approximately \$3.6 million for fiscal year 2017.

Our comparison of Employee Benefits' participating retiree listing to an IAFF-provided insurance provider listing of 450 participants as of April 1, 2017, identified 24 participants either incorrectly included or excluded from the Employee Benefits listing. Employee Benefits determined previous contributions were underpaid by approximately \$7,200 as a result.

The last such comparison attempted by Employee Benefits in December 2016 was incomplete and was performed using an insurance provider participant listing provided by the IAFF. Erroneous contributions could unnecessarily accumulate without more frequent comparisons. Receiving the insurance provider participant list from the IAFF rather than directly from the insurance provider increases the risk of receiving an inaccurate listing.

Additionally, Employee Benefits' comparison of the participating retiree listing to the insurance provider participant listing was manually performed. Manual comparison of this data is not efficient, prone to errors, and requires more staff time than would be necessary if Excel, Access, or other data analysis software were used.

Recommendation (5)

The Personnel Department should compare their participating retired firefighter listing to a participant listing received directly from the medical insurance provider semi-annually using Excel, Access, or other data analysis software.

Personnel Department Response (5)

Agree with the City Auditor's recommendation.

By June 30, 2018, the database used to compare the data will be revised to systematically compare and reconcile the participant information received from the VEBA trust with City records on a monthly basis.

While the Personnel Department agrees that a listing of retired firefighters participating in the VEBA's health and welfare plan should come directly from the VEBA's medical provider(s), the City does not contract with any of the VEBA's providers and thus, cannot mandate that the provider(s) forward such information. However, the Personnel Department has requested that the VEBA's Board of Trustees make the necessary arrangements with its medical provider(s), to have the provider(s) forward retired firefighter participant information directly to the Personnel Department on a semi-annual basis.

A VEBA Board of Trustees representative has agreed to take the necessary action to comply with the Personnel Department's request (see attached email). If a retired firefighter participant report is received directly from the vendor, Employee Benefits staff will still be required to identify and remove individuals included on the report who are ineligible for the City subsidy. (Note: The VEBA Board of Trustees has extended coverage to IAFF staff and surviving dependents who are not eligible for the City's subsidy.)



MEMORANDUM

The City of
OKLAHOMA CITY



TO: Jim Williamson, City Auditor
THROUGH: James D. Couch, City Manager *JDC*
FROM: Dianna L. Berry, Personnel Director *DLB*
DATE: December 1, 2017
SUBJECT: Audit 17-05 Major Medical Insurance Benefits Eligibility Audit

Following are management's responses to recommendations outlined in the recent Major Medical Insurance Benefits Eligibility Audit:

1. Agree with the City Auditor's recommendation.

Two of the four dependents identified as having missing documents have provided the documents to the Employee Benefits staff. The employee associated with the other two dependents was provided notification of the missing documents and informed that the documents must be provided for the dependents to continue coverage. The letters were mailed October 5, 2017, with final notices on November 16, 2017. If documents are not provided by December 15, 2017, coverage will be terminated effective January 1, 2018.

In 2013, the Employee Benefits Division began an internal review of health plan participant's files, to ensure proper eligibility documentation was included for dependent coverage. In 2014, the 420 West Main basement offices, where the Employee Benefits Division offices are housed, were flooded. Due to the flooding and the damage or destruction of some records, the review process started over, after staff returned to the basement offices in March 2016. (Note: In 2012, the Personnel Department began requiring copies of social security cards for individuals enrolled in the City's health insurance plan. Prior to 2012, an employee/retiree was required to provide a copy of the marriage/birth certificate and the dependent's social security number. A copy of the dependent's social security card, in addition to the other documentation, has been required for all new dependent enrollees, since 2012.)

By February 28, 2018 (following the current benefits open enrollment period), the Employee Benefits staff will generate an electronic PeopleSoft report to identify dependent participants. (Note: this report has been generated following the annual open enrollment period since 2013.) Any dependent not currently enrolled in City benefits will be coded as ineligible, unless required documentation is contained in the employee's or retiree's benefit file, or required documentation is provided at the time of enrollment.

2. Agree with the City Auditor's recommendation.

The "erroneous" premium billings referred to in the audit report relate to health insurance premium invoices that are generated and mailed (30-45 days prior to the due date) to an employee on unpaid leave. Due to various reasons that arose after the invoice was generated (i.e., employee returned to work, employee elected to discontinue coverage, etc.), the invoiced amount is not owed, yet the employee's account continued to reflect an uncollected balance. Personnel Department staff did not "zero out" the employee's account "balance," so as to ensure the preservation of a historical record. Personnel Department staff acknowledges that at a minimum, notations should have been made on employee accounts where a balance was not owed, including the reason(s) the balance was not owed.

By December 31, 2017, the delinquent accounts report will be updated to only reflect actual/current delinquent accounts. Premiums that were identified as billed erroneously on the delinquent accounts report will be "zeroed out" by the appropriate staff member, and will include a documented reason(s) for the action taken. The delinquent accounts report will be monitored and reconciled monthly.

3. Agree with the City Auditor's recommendation.

The current reconciliation process is segregated among three staff members in the Employee Benefits Division. By December 31, 2017, the premium billing reconciliations will be reviewed monthly by supervisory staff.

4. Agree with the City Auditor's recommendation.

As of October 31, 2017, all billing statements have been updated and all applicable pension systems have been notified that premium payments are to be remitted to the City Treasurer's Office.

5. Agree with the City Auditor's recommendation.

By June 30, 2018, the database used to compare the data will be revised to systematically compare and reconcile the participant information received from the VEBA trust with City records on a monthly basis.

While the Personnel Department agrees that a listing of retired firefighters participating in the VEBA's health and welfare plan should come directly from the VEBA's medical provider(s), the City does not contract with any of the VEBA's providers and thus, cannot mandate that the provider(s) forward such information. However, the Personnel Department has requested that the VEBA's Board of Trustees make the necessary arrangements with its medical provider(s), to have the provider(s) forward retired firefighter participant information directly to the Personnel Department on a semi-annual basis.

A VEBA Board of Trustees representative has agreed to take the necessary action to comply with the Personnel Department's request (see attached email). If a retired firefighter participant report is received directly from the vendor, Employee Benefits staff will still be required to identify and remove individuals included on the report who are ineligible for the City subsidy. (Note: The VEBA Board of Trustees has extended coverage to IAFF staff and surviving dependents who are not eligible for the City's subsidy.)

From: Mike Kelley [<mailto:mkelley@local157.org>]
Sent: Thursday, November 30, 2017 6:31 AM
To: Coleman, Monica L
Cc: Jordan, Jeanna L; Firevanhorn@yahoo.com
Subject: RE: VEBA Billing

Monica,

That makes complete sense. We will absolutely assist in getting you the necessary information. We will work with Jeanna in determining the best format to obtain the data requested.

Mike Kelley 405-232-9543

OKLAHOMA CITY FIREFIGHTERS IAFF 157

From: monica.coleman@okc.gov [<mailto:monica.coleman@okc.gov>]
Sent: Wednesday, November 29, 2017 4:01 PM
To: mkelley@local157.org
Cc: jeanna.jordan@okc.gov
Subject: VEBA Billing

Hi Mike,

We have recently undergone an audit by the City Auditor's Office where they reviewed our eligibility requirements and made recommendations for improving our processes. One of the issues that came up was in regard to the accuracy of the contributions to the VEBA for retired firefighters. Each month we are able to reconcile our billings for active firefighters because they have their premiums paid through payroll deduction. We bounce our payroll list against your billing to ensure the billing list is accurate. We do not have that same process for retirees because they are not in our system. So, our reconciliation process for retirees is entirely manual. The City Auditor has recommended that semi-annually we receive a participant list from the VEBA's medical provider using Excel, Access, or some other data analysis software that is compatible with what our Benefits staff uses to compare the participating retirees. We know we cannot request that directly from the VEBA's provider. Would the VEBA board assist in making the necessary arrangements so that our Benefits staff can get this participant listing on a semi-annual basis directly from your medical provider?

We appreciate any help you can provide in this matter.

Thanks so much,

Monica

Monica L. Coleman
Assistant Personnel Director

Personnel Department
420 W Main, Ste. 110
Oklahoma City, OK 73102

Telephone (405) 297-2760
Facsimile (405) 297-2428

CONFIDENTIALITY NOTE: This e-mail message and any attachments are intended solely for the person to which it is addressed and may contain privileged and confidential information protected by law. If you have received this communication in error, please notify the sender immediately by telephone or e-mail, destroy this message and delete any copies held in your electronic files. Unauthorized use and/or re-disclosure may subject you to penalties under applicable state and federal laws.