

**OFFICE OF THE CITY CONTROLLER**



**HUMAN RESOURCES DEPARTMENT  
CIGNA – HEALTH BENEFITS CLAIMS**

**HEALTH BENEFITS ELIGIBILITY PERFORMANCE AUDIT OF  
CONTRACT #4600010853**

**Ronald C. Green, City Controller**

**David A. Schroeder, City Auditor**



OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

RONALD C. GREEN

October 16, 2013

The Honorable Annise D. Parker, Mayor

**SUBJECT: REPORT #2014-02  
HUMAN RESOURCES DEPARTMENT - HEALTH BENEFIT CLAIMS – PERFORMANCE  
AUDIT**

Dear Mayor Parker:

The Office of the City Controller's Audit Division has completed a Performance Audit of the Human Resources Benefit Division's (HR) management of the health benefits eligibility process. This process is related to employee and retiree health benefit plans under the administrative services agreement (Contract #4600010853) between the City of Houston (City) and Connecticut General Life Insurance Company (CIGNA). The primary objectives were to determine whether:

1. The employee benefit data contained in the City's SAP system was complete and accurate, and
2. The benefit data between the City and CIGNA was valid and consistent.

We concluded that the internal control structure in place during our audit period were not adequate to ensure compliance with eligibility requirements, complete and accurate health benefit plan election records, or the timely detection of errors.

Key issues identified during our audit were:

- Lack of periodic reconciliations performed between the City and the Third Party Administrator (TPA) resulting in coverage for ineligible participants and no coverage for eligible participants (Finding #1)
- Missing support documentation required to verify eligibility for City health benefits (Finding #2)
- Inconsistent assessment of penalties (Finding #3)
- Inconsistencies between HR's record management systems including a lack of consistent documentation for changes to elections made by HR personnel (Finding #4)

We appreciate the cooperation and professionalism extended to the Audit Division during the course of the project by personnel from HR.

Respectfully submitted,

Ronald C. Green  
City Controller

cc: City Council Members  
Chris Brown, Chief Deputy City Controller, Office of the City Controller  
Waynette Chan, Chief of Staff, Mayor's Office  
Omar Reid, Director, Human Resources Department  
David Schroeder, City Auditor, Office of the City Controller

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**NOTE: Responses of HR Management are embedded within the report and identified as such. These were inserted directly by management of the Human Resources department and thus represent the entirety of those communications.**



## *EXECUTIVE SUMMARY*

### *INTRODUCTION*

The Office of the City Controller's Audit Division has completed a Performance Audit of the Human Resources Benefit Division's (HR) management of the health benefits eligibility process. The audit considered compliance with HR policies and the efficiency of procedures to ensure only eligible individuals were covered under the City's healthcare Plans. The audit was included in the fiscal year (FY) 2012 Audit Plan and was a direct result of our Enterprise Risk Assessment process.

### *BACKGROUND*

On May 1, 2011, the City of Houston (City) changed their healthcare format from fully insured to self-funded. They selected Connecticut General Life Insurance Company (CIGNA) as their Third Party Administrator (TPA). On April 5, 2011, the City and CIGNA entered into an \$84 million 3-year Administrative Services Agreement (ASA) (Contract #4600010853). The ASA's effective dates are May 1, 2011 through April 30, 2014, with two 1-year renewals.

The City effectively became their own insurance company when they chose to become self-funded. This requires them to be fully responsible for ensuring that only eligible employees, their spouses and dependents are covered under the City's health insurance. CIGNA does not receive bi-weekly payroll deductions therefore they are completely dependent upon the City to verify employees are paying the correct premium on a timely basis. CIGNA does not receive nor verify supporting documentation to ensure only eligible spouses and/or dependents are covered. The only dependents that CIGNA does verify are those dependents over the age of 26 whose parents are claiming them as totally disabled. As the TPA, CIGNA handles the administration of the City's plan including processing, adjudication, and negotiation of claims, record-keeping, and maintenance of the plan details within their system.

The employee's contributions and the City's healthcare costs from the period when the City became self-funded to the end of FY13 are shown below. The healthcare cost do not include the expense for individual or aggregate stop loss fees.

	May 2011	June 2011	FY2012	FY2013
Employee Contributions (FY2013 includes an increase to employees premium fees)	\$18,017,767	\$20,707,146	\$259,301,876	\$293,615,096
Healthcare Costs (Includes Admin & Capitated fees, and actual claims paid)	(\$20,650,576)	(\$20,826,812)	(\$258,536,651)	(\$258,018,134)
Overfunded/(Underfunded)	(\$2,632,809)	(\$119,667)	\$765,225	\$35,596,950

### *AUDIT SCOPE AND OBJECTIVES*

Our original objectives were broadly defined to encompass many aspects of the healthcare insurance process such as, verifying individuals were eligible for coverage, ensuring that only eligible employees were actually covered under the City's Plans and claims were accurately paid, the IBNR was reasonable, and CIGNA's compliance with contract guarantees. After conducting further research, modifying the initial scope, and outsourcing a portion of the audit, we further refined the engagement objectives to assess whether:

1. The employee benefit data contained in the City's SAP system was complete and accurate, and
2. The benefit data between the City and CIGNA was valid and consistent.

The Segal Company's analysis of CIGNA's claims processing included verification that claims were paid accurately. They submitted the results of their observations to HR in an internal report. An analysis of CIGNA's compliance with contract guarantees was performed by an outsourced firm and will be presented in a separate report from the Controller's Department.



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### ***SCOPE MODIFICATION***

The original engagement scope consisted of the benefits eligibility process and the analysis and review of actual claims paid by CIGNA on behalf of the City for the period of May 1, 2011 through April 30, 2012. A few months after our audit began it was discovered that HR had a contract with the Segal Company, (Contract #4600009087), to perform claims audits. The five year contract is for the period of September 2008 through September 2014. The Segal Company was preparing to do a claims audit for HR during the same period as the Audit Division.

The Audit Division had discussions with the Segal Company concerning their audit methodology and approach to the claims audit. Based on their experience in auditing claims and the fact that it would have been be a duplication of effort for both groups to perform the same audit, we decided to remove the audit of claims claims paid from our scope.

The scope of the audit was modified to be a review of individuals eligible for health insurance coverage from May 1, 2011 through February 26, 2013.

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### ***PROCEDURES PERFORMED***

In order to obtain sufficient evidence to achieve engagement objectives and support our conclusions, we performed the following:

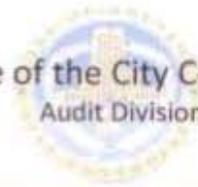
- Interviewed HR management about their processes for verifying eligibility status, ensuring eligibility documentation agreed to SAP, employees were paying the correct rate for the insurance Plan selected; and the City's record of who should be covered agreed to CIGNA's records.
- Documented our understanding of their processes and the internal controls put in place to ensure only eligible individuals are covered, employees are paying the correct rates, and HR's records are accurate;
- Downloaded tables from SAP of all employees who had selected an insurance Plan under CIGNA. The tables contained employees and their spouses and dependents covered by the City. The tables noted if the dependent was a child, step-child, grandchild, etc.
- Using the data from the SAP tables performed a test of controls to determine if the stated internal controls were working effectively;
- Using the data from the SAP tables performed substantive testing and documented the results; and
- Reconciled CIGNA's file for active coverage as of February 26, 2013 to the City's SAP payroll file as of February 22, 2013 and the SAP February 2013 Retiree file. For discrepancies other than timing issues, performed a detailed review to determine why individuals were on CIGNA's active file but not on the SAP files and vice versa. Results were documented.

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### ***AUDIT METHODOLOGY***

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and in conformance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of our work did not constitute an evaluation of the overall internal control structure of HR's Benefits Division. Management is responsible for establishing and maintaining a system of internal controls to ensure that City assets are safeguarded; financial activity is accurately reported and reliable; and management and employees are in compliance with laws, regulations, and policies and procedures. The objectives are to provide management with reasonable, but not absolute assurance that the controls are in place and effective.



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### ***CONCLUSIONS AND SIGNIFICANT ISSUES***

We believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards. Each Conclusion is aligned with the related Audit Objective for consistency and reference. For detailed findings, recommendations, management responses, comments and assessment of responses, see the *"DETAILED FINDINGS, RECOMMENDATIONS, MANAGEMENT RESPONSES, AND ASSESSMENT OF RESPONSES"* section of this report.

#### **CONCLUSION 1 – (AUDIT OBJECTIVE #1)**

Based on the results of the procedures performed, there were weak internal controls over compliance with HRs eligibility requirements and records management. The deficiencies identified reflect a need for improvements over HR policies and procedures.

The most significant issues noted were:

- Based on lack of supporting documentation such as, birth certificates, marriage licenses, or Affidavit of Financial Support, ten ineligible spouses/dependents are being provided healthcare coverage. (***See Finding #2***)
- HR Benefits does not assess the smoking penalty consistently to all employees who volunteer that they or their family members are smokers. Employees that were found to have violated the eligibility requirements were not penalized. (***See Finding #3***)
- The City paid \$136,953.00 for Choicelinx, a system that they did not use for nine and a half (9 ½) months due to system "rule" issues. (***See Finding #4***)

#### **CONCLUSION 2 – (AUDIT OBJECTIVE #2)**

Based on the results of the procedures performed, there were inadequate and/or ineffective internal controls over ensuring the validity and consistency of data between the COH and CIGNA. Because of the deficiencies identified, this internal control does not provide a reasonable assurance that only eligible persons are covered by the City for health costs nor does it provide a process to detect discrepancies and remediate in a timely manner.

The most significant issues noted were: (***see Finding #1***)

- HR Benefits does not perform a reconciliation between the City's data of eligible persons to CIGNA's data of covered members.
- Seventy-three ineligible employees, spouses, and dependents were being covered by CIGNA as of February 26, 2013. Four of the ineligible employees had never paid a health insurance premium since the inception date of May 1, 2011. The estimated monetary impact to the capitated and Admin, (includes Stop Loss insurance), fees for the period of May 1, 2011 through February 26, 2013 was \$67,000.
- Six active employees were current on their payroll deductions for healthcare but were not covered by CIGNA as of February 26, 2013.

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### ***ACKNOWLEDGEMENT AND SIGNATURES***

The Audit Team would like to thank HR management for their cooperation, time and efforts throughout the course of the engagement.

Handwritten signature of Courtney E. Smith in black ink.

Courtney E. Smith, CPA, CIA, CFE  
Audit Manager

Handwritten signature of David Schroeder in black ink.

David Schroeder, CPA, CISA  
City Auditor



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***DETAILED FINDINGS, RECOMMENDATIONS, MANAGEMENT RESPONSES AND ASSESSMENTS OF RESPONSES***

**FINDING #1 – HR IS NOT RECONCILING CITY DATA FILES TO CIGNA’S ACTIVE COVERAGE FILE RESULTING IN CIGNA COVERING INELIGIBLE EMPLOYEES, SPOUSES, AND DEPENDENTS (IMPACT AND MAGNITUDE = HIGH)**

**BACKGROUND:**

The reconciliation of two or more sets of records is a basic internal control that is utilized to ensure the data is in agreement and accurate. Reconciliations can reveal a variety of discrepancies. Reconciling the individuals covered by CIGNA for health insurance to the City’s records helps ensure the following:

- All revenue generated from employee benefit contributions are collected in a timely manner,
- The City minimizes its liability for ineligible expenses, and
- The City pays the correct amount of Administrative and Capitated fees to CIGNA.

Reconciliations between CIGNA and the City’s data are also a reflection that HR has implemented a monitoring process to ensure CIGNA’s compliance with the contract.

Per the City’s Administrative Policy 3-4, *Termination of Health Benefits Coverage*, employees are eligible for coverage if they meet eligibility requirements and pay the required contribution. If the employee misses a payment their coverage is either temporarily suspended or permanently stopped. This process was established to minimize the City’s potential liability for unpaid contributions and ineligible expenses. Each pay period the HR Benefits Division is required to reconcile the *Benefits Deduction Not Taken Detail Report* to identify employees who missed a payment. The policy requires immediate notification to CIGNA to suspend coverage and contact the employee to arrange for repayment. Once employees remit the missed payment their benefit coverage is reinstated.

Employee’s contributions for benefits are automatically deducted from their paychecks 24 times a year. Employees who are on *Leave without Pay (LWOP)* or have separated from employment with the City and selected COBRA, submit their contributions through the Direct Pay Program administered by the HR Benefits division.

Each pay period a file is created in SAP listing all employees who had a health insurance deduction taken from their paycheck. This file is transmitted to CIGNA so that they may update their files. Retiree’s health insurance deduction is taken from their pension checks once a month. Each Pension office, (Muni, Police, and Fire), submit a list of retirees that have paid for insurance. These files are also sent to CIGNA to update their data.

The SAP file is used by HR to create the invoice for the Administrative fee paid to Cigna. Cigna uses their Active coverage file for the last Sunday of the month to create the Capitated fee for employees who have chosen the Limited Plan. Once the Capitated fee is paid it is non-refundable. The Administrative fee is refundable up to 90 days when an employee is retroactively terminated.

The Audit Division reconciled CIGNA’s active coverage file as of February 26, 2013 to the City’s SAP payroll file for February 22, 2013, the SAP Retiree file for February 2013, and LWOP/COBRA tracking spreadsheets through April 2013. The files reflected an initial variance of 146 employees/retirees.

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CIGNA file	24,225
SAP Actives	(19,667)
SAP Retirees	<u>( 4,412)</u>
	<u>146</u>

**FINDING:**

1. HR Benefits does not perform reconciliations between the City's records of eligible employees and CIGNA's file of covered individuals.

CIGNA provides two bi-weekly reports to HR Benefits; the *Error Report* and the *Default Cancel Candidates*. The reports are run after HR transmits the latest bi-weekly payroll file and monthly pension files to CIGNA for uploading into their system. Records that do not agree or create a conflict between the two systems generate these reports. The *Default Cancel Candidates* report lists individuals that did not appear on the latest City file and, if CIGNA is not told otherwise by HR Benefits, the individuals will automatically lose coverage within 30 days. Rather than perform a reconciliation HR Benefits has relied on these reports to detect discrepancies between the systems.

The *Default Cancel Candidates* report for December 3, 2012, was reviewed to determine if any of the 73 ineligible employees, spouses, and dependents noted in "a." below (**Table 1**) were on the report. They were not on the report.

2. Based on the Audit Division's reconciliation and testing of the 146 variances, 82 discrepancies not related to normal timing issues were noted. They are separated into two groups. The first are employees that were on CIGNA's file as being actively covered as of February 26, 2013, but were not currently paying health insurance premiums or had missed payments. (**Table 1**) The second are employees/retirees who were currently paying premiums but were not shown on CIGNA's file as being covered for health insurance. (**Table 2**)

**Table 1 - Employees Covered by CIGNA but not on an SAP file**

			Employees Overpaid, City didn't reimburse	Ex-employee paying Active Rate.
	Employees	Spouses and Dependents	Employees	Employees
a. Ineligible for health insurance coverage	50	23	-	-
b. Employees Missed Deductions not Repaid	10	6	1	1
c. Individuals shown twice on CIGNA's file.	2	1	1	-
d. Employees Overpaid Premiums	4	-	-	-
	<u>66</u>	<u>30</u>	<u>2</u>	<u>1</u>

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a. Four of the 50 employees were covered from May 1, 2011 to February 26, 2013 but had never had a payroll deduction for health insurance. The others ranged from 575 to 11 days of coverage without employee contribution. The estimated monetary impact to the Capitated and Admin fees for covering the 73 individuals during the period of May 1, 2011 through February 26, 2013 was \$67,000.

b. Per A.P. 3-4, individuals who do not make a contribution are to have their benefits temporarily suspended until they reimburse the City.

One of the 10 employees was eligible for coverage on February 16, 2013, however, they did not have a payroll deduction for health insurance taken until March 20, 2013.

Another employee who had missed some contributions was paying coverage for themselves and their family, yet CIGNA was only covering the employee and spouse. Per HR the employee did not drop the dependents until May 1, 2013.

Additionally, an employee was paying LWOP rates for three months when they should have been paying COBRA rates.

c. Three individuals were listed twice on CIGNA's active coverage file. One of the individuals was also charged the rate of Retiree + Spouse, when they should have been charged for Spouse Only coverage.

d. Four employees overpaid on their insurance premiums and were not reimbursed.

Two employees had passed away. Their health insurance deduction was not stopped prior to their last paycheck. They effectively paid for insurance for the period after they had passed away.

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Two other employees turned 65 years of age and transferred from CIGNA to a Medicare supplemental plan. Their spouses remained on CIGNA's coverage. Their deductions for CIGNA coverage did not change from Employee +Spouse to Spouse or Dependent Only.

**Table 2 - Employees on an SAP file but not Covered by CIGNA**

	Emps	Spouses and Dependents
e. Eligible and paying for coverage	6	-
f. Missed Contributions not Repaid	2	3
g. Canceled or Switched Ins., yet still paying CIGNA premiums	7	-
h. Paying Twice for Insurance Coverage	1	-
	16	3

- e. Employees were current on their health insurance contributions yet they were not covered by CIGNA.
  - f. Employees had missed some contributions in the past, but they had health insurance deductions from their paycheck on February 22, 2013. These employees were not covered by CIGNA. This is the opposite of "b" above in which 10 employees had missed contributions and did not have a deduction on February 22, 2013, but were covered by CIGNA.
  - g. Employees had either canceled their CIGNA coverage or had switched to a Medicare supplement Plan, yet they were charged for CIGNA coverage on their February 2013 pension checks.
  - h. An employee and her husband were both retired City employees. After one retiree passed away the spouse began to receive both pension checks. Health insurance premiums were deducted from both checks.
3. HR Benefits is not in compliance with Administrative Policy 3-4 *Termination of Health Benefits Coverage*.

When employees miss a health insurance contribution their coverage should be terminated. This is an internal control that is intended to minimize the City's potential liability for unpaid contributions and ineligible expenses. The risk for paying ineligible expenses increases if policies and procedures are not followed.

**RECOMMENDATION:**

- A. HR management should implement a periodic reconciliation process between the City's records of eligible employees and their spouses/dependents to the Third Party Administer's (TPA) records. While the TPA's bi-weekly reports are beneficial, HR should not use the reports as their only control mechanism, accept them as completely accurate or use them as a substitute for reconciliations.

**HUMAN RESOURCE MANAGEMENT RESPONSE**

Effective September 2013, Human Resources will both implement a process/schedule and begin periodic reconciliation of the TPA's eligibility files to the



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City's eligibility file.

Human Resources monthly reconciles the City's Eligibility File to CIGNA's Capitation File of capitations paid for the 75% of covered City members that are in the Limited Network Plan. While CIGNA's Biweekly Default Cancel Report and the City's Deductions Not Taken Reports are not full reconciliation of the two files, proper handling of the reports supports verifications of eligible (or ineligible) members.

The City's eligibility file contains only City employees that paid biweekly contributions through payroll deductions. The Default Cancel Report is the output of employees that were not on the City's Eligibility File but are in CIGNA's system. Within two weeks, Benefits researches names on the report, cross-referencing the Leave of Absence Without Pay Report and COBRA Report, and advises CIGNA of how to manage the discrepancies. Recordkeeping for Leave of Absence Without Pay and COBRA are manual processes, which means their names will not transfer on the City's Eligibility File. Benefits also advises employees that coverage has been cancelled and provides the structure that they may utilize to reinstate it.

- B. HR management should ensure their processes for permanently or temporarily suspended an employee's health benefit is in compliance with AP 3-4. If HR management determines that they are willing to accept the risk of employees missing some contributions then they should amend AP 3-4 to reflect this.

**HUMAN RESOURCE MANAGEMENT RESPONSE**

HR will immediately review application of and ensure compliance with AP 3-4, and will not make any exceptions or deviate from this policy. Only employees eligible for coverage and pay the required contribution will have active coverage.

**ASSESSMENT OF  
RESPONSE:**

- A. The Audit Division agrees with HR's commitment to implement a periodic reconciliation between the City's eligibility files to CIGNA's.

The Audit Division did not review HR's reconciliation of the City's eligibility file to CIGNA's eligibility file of capitations paid for City members covered under the Limited Plan. However, the data in Table 1 for ineligible employees and their spouse/dependents contains 17 employees and five spouse/dependents who were covered under the Limited Plan and had not paid a premium, (payroll, COBRA, or LWOP), since at least August 2012. One employee left the City one month prior to her eligibility and never paid a premium, yet she and her two dependents were covered under the Limited Plan.

- B. The Audit Division agrees with HR's commitment to ensure compliance with AP 3-4.



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**FINDING #2 – INELIGIBLE SPOUSES AND DEPENDENTS ARE COVERED UNDER THE CITY’S HEALTH CARE PLAN DUE TO MISSING SUPPORTING DOCUMENTATION  
(IMPACT AND MAGNITUDE = HIGH)**

**BACKGROUND:**

As healthcare cost increase, one of the first steps that Human Resource (HR) can do to manage these costs is ensure that only employees and their eligible dependents are covered.

Prior to 2000 HR did not require employee’s to submit any type of supporting documentation to validate the eligibility of their spouses/dependents. The City has since established a policy requiring specific documentation to verify that a spouse or dependent qualifies for health insurance coverage. Some of the required documents are as follows:

- Marriage certificate
- Declaration and Registration of an informal marriage certificate
- Legal adoption placement papers
- Physician’s documentation of disability that supports that fact that the dependent is incapable of self-sustaining employment.
- Birth Certificate or Birth Fact
- Court order describing the person to be covered
- Social security number
- Affidavit of Financial Dependency (applies to grandchildren and stepchild, employee acknowledges that the child would meet the IRS dependency requirements)

Stepchildren are eligible for coverage as long as their biological parent is married to the City employee and they live with both individuals. Step-grandchildren are not eligible dependents. Grandchildren must be supported by a birth certificate that shows their lineage back to the employee.

For our review we judgmentally selected 40 employees and their spouses/dependents. The selection consisted of 40 employees, 27 spouses, and 96 dependents (children, grandchildren, step-children, etc.).

**FINDING:**

1. There was no supporting documentation to verify that some dependents or spouses were eligible for insurance coverage based on the City’s requirements.
  - a. Four (4) of 96 (3%) dependents had no birth certificates.
  - b. Two (2) of 27 (7%) spouses had no marriage certificates.
  - c. Four (4) of 15 (27%) employees did not sign the required Affidavit of Financial Support.
2. Two of 12 (17%) of grandchildren did not have birth certificates showing their lineage back to the employee. HR is not consistently following their policy for identifying dependents as either grandchildren or step-grandchildren. Each instance was handled differently by HR:
  - a. The birth certificate of one mother was amended so that the employee was listed as her father, thus making the grandchildren his biologically and providing them health insurance. The application for an amended birth certificate was in the file, but the actual amended one was not.



- b. Another grandchild was classified as a biological grandchild without requiring the mother's birth certificate to be amended so that the employee was listed as her father.
3. Two grandchildren were covered under the City's policy by court order. The grandmother is a City employee. The court order mentioned the grandmother, but it specifically stated that the grandfather was to provide health insurance. The grandfather has health insurance through his employer. Because HR does not require birth certificates for dependents under court orders it cannot be determined if these were the biological grandchildren to the employee.

By accepting the liability for health care coverage when the court order did not specifically create the same liability for the employee and lack of birth certificates to show lineage to the employee, the City is accepting additional health care expense that it might otherwise not be liable for.
4. An employee covered their ineligible ex-spouse for one year after he had remarried.

**RECOMMENDATION:**

- A. HR Benefits is planning to conduct an audit of all employees that have requested health insurance coverage for either spouses and/or dependents. They are going to require supporting documentation from all employees that do not currently have the documentation in their files. The Audit Division believes that this is a good action and we recommend that they do not deviate from their stated intention.

**HUMAN RESOURCE MANAGEMENT RESPONSE**

Human Resources is developing strategy/methodology for the upcoming dependent audit. With more than 30,000 hardcopy files, however, Human Resources will develop an alternative approach to auditing each file for relationship documents. The dependent audit will be conducted in two phases. Phase 1: The City will communicate eligibility requirements and covered dependents (as listed on subscribers' records) to active and retired employees. They will sign and return a notarized affidavit that states their listed dependents meet the eligibility requirements. Phase 2: Benefits will audit randomly selected files of up to 5% of employees and retirees that cover dependents and require submission of relationship documents, if any is required. If subscribers are non-compliant, they will suffer penalties established in the Administrative Procedure.

The Human Resources Director will discuss consideration of an Administrative Procedure that defines penalties for employees/retirees that are non-compliant. Penalties could include termination of dependents' coverage and termination of employment of employees. The Administrative Procedure will be especially punitive to employees (some now retired) hired before Human Resources executed stricter rules (1999-2000) for covering dependents.

- B. HR management should drop spouses/dependents from City healthcare coverage if an employee cannot provide the required documentation.



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**HUMAN RESOURCE MANAGEMENT RESPONSE**

As discussed above, Human Resources is developing strategy/methodology for the upcoming dependent audit. The Human Resources Director will discuss consideration of an Administrative Procedure that defines penalties for employees/retirees that are non-compliant. Penalties could include termination of dependents' coverage and termination of employment of employees. The Administrative Procedure will be especially punitive to employees (some now retired) hired before Human Resources executed stricter rules (1999-2000) for covering dependents.

- C. HR management should implement annual audits of all changes made to eligible dependents each year to ensure that the required documentation was received.

**HUMAN RESOURCE MANAGEMENT RESPONSE**

Human Resources agrees that a dependent audit in 2013 is appropriate. Employees and retirees must present relationship documents before their dependents are added to their plans for coverage. Starting at the end of the 2014 Second Quarter, Human Resources will implement procedures to quarterly audit dependents added during the quarter. Smaller groups will be more manageable.

Quarterly audits performed in 2014 will be a Pilot Project to identify any gaps in the current process that requires employees to use the online enrollment tool to request coverage for dependents. Their coverage is locked until employees provide approved relationship documents to Benefits. Benefits then releases the dependents' records (in the online enrollment tool) that are transferred to SAP; the eligibility file is created from Sap and transferred to the healthcare vendor. The gap will occur if Benefits releases dependents' records without receipt of relationship documents.

- D. HR management should ensure through written policy and procedure that all staff handle the classification of grandchildren uniformly. This policy should be signed and approved by management.

**HUMAN RESOURCE MANAGEMENT RESPONSE**

Human Resources will immediately review staff's application of policies and procedures for providing medical coverage for grandchildren and ensure the staff's strict adherence to those procedures.

- E. HR management should review their policy for accepting court orders as a basis for providing insurance coverage. They should determine if they are willing to accept the risk of additional health care expense if the court order does not specifically create the same liability for the employee.

**HUMAN RESOURCE MANAGEMENT RESPONSE**

Human Resources will immediately review staff's application of policies and procedures for accepting court orders as the basis for providing medical coverage for certain dependents and ensure the staff's strict adherence to those procedures.

**ASSESSMENT OF  
RESPONSE:**

**RESPONSES A THROUGH B:**

The Audit Division agrees with HR's commitment to audit a sample of employee's benefit files to ensure compliance. We recommend that if they find a substantial number employee files missing documentation that they expand their sample size.

The Audit Division does not believe that either of the first two recommendations should be especially punitive to either the employee or retiree who enrolled during 1999-2000 if they are given adequate notice and timeframe to comply. HR has established the criteria for who the City considers eligible for health insurance coverage. The only method for verifying the eligibility requirement is through supporting documentation.

Management is ultimately responsible for the amount of risk they are willing to accept. They should assess the level of risk for possibly covering ineligible individuals who fail to provide supporting documentation, particularly when it was not requested at their initial hire date. After this assessment, if HR determines that the punitive effect on these employees and retirees to supply the supporting documentation outweighs the risk to the City then they may want to exempt these employees from the documentation requirement for any spouses and/or dependents who have been covered prior to 1999.

**RESPONSE C:**

The Audit Division agrees with HR's commitment to implement quarterly audits to identify gaps between the on-line tool and SAP.

**RESPONSES D THROUGH E:**

The Audit Division agrees with HR's commitment to immediately review staff's application of policies and procedures for both grandchildren and court ordered dependents.



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**FINDING #3 – INCONSISTENT APPLICATION OF SMOKER PENALTY AND LACK OF PENALTIES FOR EMPLOYEES WHO VIOLATE THE CITY’S ELIGIBILITY POLICY  
(IMPACT AND MAGNITUDE = HIGH)**

**BACKGROUND:**

A penalty related to healthcare insurance is generally imposed on an employee as a punishment for a violation of a rule or to make the employee change a behavior that adversely affects their health and increases medical costs.

One of the penalties that HR imposes on employees is the smoking surcharge. This penalty is based on an honor system, whereas the employee must honestly mark on their insurance application that either they or someone in their family is a smoker. Based on this admission they have an additional \$12.50 deducted from their bi-weekly payroll check, for a yearly charge of \$300.00. The surcharge off-sets the contribution the City makes for their portion of the employee’s healthcare premium, which is approximately \$600,000 per year.

In regards to spouse/dependent eligibility the City has certain requirements for persons to be considered eligible, such as a legal spouse that is currently married to an employee, natural or adopted children up to age 26, or grandchildren and stepchildren to age 26 if they qualify as dependents for federal income-tax purposes and live with the employee. This does not include step-grandchildren or stepchildren if the parents divorce.

Intentional misrepresentation of eligibility for spouse/dependent healthcare coverage is considered fraud and can result in disciplinary action up to and including termination.

For our review we judgmentally selected 45 participants and their spouses/dependents.

**FINDING:**

1. The smoker surcharge/penalty is not being applied consistently to all employees that check the smoker box on their insurance application.

Four employees who marked that they were smokers were not charged the penalty and one employee who marked they were not a smoker but was charged the penalty. Because I-enroller ( one of two electronic systems to store employee’s records for insurance selections, I-enroller was used for Plan Year 1 May 1, 2011 – April 30, 2012) was not able to run reports it was impossible to determine the total population of employees that had marked they were smokers but were not charged and vice versa.

2. Employees are not penalized when they violate City policy on spouse/dependent eligibility. Two of 45 (4%) employees were discovered to be covering ineligible spouse/dependents. Other than dropping coverage on the ineligible individuals the employees were not penalized.



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**RECOMMENDATION:**

- A. HR management should ensure that 100% of employees who mark that they are smokers are actually charged the surcharge/penalty. If HR is unable to do this they should eliminate the surcharge.

**HUMAN RESOURCE MANAGEMENT RESPONSE**

Employees' election or declination of the tobacco surcharge is a combination of paper and two online enrollment systems, rendering an attempt at reconciliation ineffective and cost-prohibitive. In addition, Employees' adherence to paying the tobacco surcharge is voluntary, allowing employees to have voluntarily stopped paying it during an annual enrollment.

Reconciliation of Choicelinx and SAP files should identify discrepancies between the two systems (inasmuch as Choicelinx data populates SAP). If reconciliation reveals incompatible systems specifications and that employees are electing to pay the tobacco surcharge but it is not populating in SAP, the Human Resources Director and the Administration will discuss consideration to forego more than \$700,000 annually generated from the surcharge. Human Resources will communicate and implement the Policy.

- B. HR management should establish penalties appropriate for the fraudulent actions and enforce them. If the only punishment for adding an ineligible dependent or spouse is a memo, some employees will have no incentive to act in an ethical manner. This policy should be documented and approved by management.

**HUMAN RESOURCE MANAGEMENT RESPONSE**

Benefits exercises strict adherence to rules for adding a dependent. However, the Human Resources Director may recommend implementing an Administrative Procedure that commits penalties, including termination of dependents' coverage and termination of employees' employment, if active employees and retirees do not provide relationship documents. The Administrative Procedure will be especially punitive to employees (some now retired) hired before Human Resources executed stricter rules (1999-2000) for covering dependents.

- C. HR management should implement a marketing campaign that informs employees of actions related to healthcare that are considered fraudulent and the penalties that they will face if caught. The format could be comprised of posters in employee communal areas and periodic email blasts.

**HUMAN RESOURCE MANAGEMENT RESPONSE**

Benefits now communicates eligibility rules to employees and retirees. Any Administrative Procedure, that establishes punitive measures to employees and retirees that cover dependents whose relationship is not documented, will be comprehensively communicated. The Administrative Procedure will be especially punitive to employees (some now retired) hired before Human Resources executed stricter rules (1999-2000) for covering dependents.



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**ASSESSMENT OF  
RESPONSE:**

- A. Our review was performed prior to Choicelinx going into full continuous service for 2014 Open Enrollment. During the period under review there was no documentation either in the online enrollment service or the employee's paper benefit file to note why the original application did not agree to SAP (e.g. notes regarding an employee calling HR Benefit to request them to change their initial selection). Without documentation to verify why changes were made and no way to reconcile the systems it cannot be determined if the surcharge was being fairly administered prior to Choicelinx.

While the reconciliation between Choicelinx and SAP should show discrepancies, the Audit Division believes that HR should also develop a reconciliation process to ensure retirees that voluntarily disclose that they are smokers are charged the surcharge. Retirees submit paper applications rather than use Choicelinx, therefore their discrepancies would not be discovered in the reconciliation between SAP and Choicelinx.

- B. The Audit Division agrees with HR's commitment to consider implementing an Administrative Procedure to address repercussions for intentional abuse of the system. When a person intentionally abuses the eligibility requirements it could be considered a fraudulent act.

Based on our review, the HR Benefit staff appears to be following their Department's policy for adding only eligible dependents and/or spouses with supporting documentation and dropping coverage when they discover individuals are not eligible.

The Audit Division believes that there should be repercussions for all employees, regardless of when they were hired, if they are abusing the system. In the end, abuse of the health care system affects everyone, employees and taxpayers alike.

- C. Internal Audit agrees with HR's commitment to communicate to comprehensively the issue to City employees. If HR feels an AP is overly punitive to employees they should perform a risk assessment as noted in Finding #2.



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**FINDING #4 – HR’S RECORD MANAGEMENT SYSTEMS DO NOT ALWAYS AGREE TO SAP.  
(IMPACT AND MAGNITUDE = MEDIUM)**

**BACKGROUND:**

Maintaining accurate healthcare records is critical to effective human resource management, especially when the City is self-insured. Supporting documentation in the record should contain information that provides evidence for the premium charged to the employee, level of insurance coverage they should receive, and the eligibility of their spouse and/or dependents.

Since the inception of the City’s health insurance coverage under CIGNA Human Resources (HR) has used two electronic systems to store employee’s records for insurance selections, I-enroller for Plan Year 1 (May 1, 2011 – April 30, 2012) and the current system Choicelinx.

For our review we judgmentally selected 45 participants and their spouses/dependents.

**FINDING:**

1. Choicelinx was populated with historical data that was inaccurate. Instead of transferring employee’s healthcare applications from I-Enroller HR transferred the historical data from SAP. SAP did not always agree to I-Enroller therefore Choicelinx began with inaccurate records.
2. HR Benefits does not perform reconciliations between Choicelinx and SAP. Reconciliations are an internal control that would catch the variances between the two systems and ensure manual changes made in SAP were properly supported.
3. The City paid \$136,953.00 for Choicelinx, which they did not use for nine and a half (9 ½) months. During Open Enrollment in 2012 it was determined that there were issues with the rules defined in Choicelinx that caused issues with loading the data into SAP. Due to this HR Benefits returned to paper applications. The rules were not updated until February 2013.

**RECOMMENDATION:**

- A. HR management should retrieve the original applications from I-enroller to ensure they are retaining accurate historical records.

**HUMAN RESOURCE MANAGEMENT RESPONSE**

Since using I-enroller in 2011, City employees have undergone two enrollments with the Choicelinx online enrollment tool. Each enrollment was challenged with new premiums and/or plan design changes that incentivized employees to further alter their elections from their initial enrollments in 2011. September 2013, Human Resources will review feasibility and applicability of retrieving I-enroller data files, of performing a comparative analysis, and how best to utilize the data. (Benefits has access to data in I-Enroller.)



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- B. HR management should perform reconciliations between Choicelinx and SAP to ensure the data agrees between the two systems. Since all of the selections made in Choicelinx have a financial effect on the City's healthcare cost, HR management should verify that 100% of the data transfers correctly into the City's financial system.

**HUMAN RESOURCE MANAGEMENT RESPONSE**

September 2013, Human Resources will both establish a procedure/schedule and begin auditing Choicelinx and SAP files.

**ASSESSMENT OF  
RESPONSE:**

- A. The Audit Division agrees with HR's response concerning I-enroller. When deciding the feasibility and applicability of retrieving the data files HR should remain mindful of the City and/or HR's record retention policy. Just as paper documentation is retained for a specified period, electronic records should be stored in a system that HR has access to and can retrieve documents from during the retention period.
- B. The Audit Division agrees with HR's response to implement a process to audit Choicelinx and SAP files.
- C. Note that Recommendation C did not require an HR management response.