

**Group Health Fund Follow-Up Audit
April 2012**

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Group Health Fund Follow-Up Audit

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GROUP HEALTH FUND FOLLOW-UP AUDIT



Office of the City Auditor
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Executive Summary

*Six of 10 prior audit
recommendations fully
or partially implemented*

Fully Implemented

*Reconciliation of benefit
enrollment invoices*

Claims data reconciliation

*Dependent eligibility
verification indicator*

Partially Implemented

*Reconcile employee FSA
accounts*

*Segregate accounts and
establish a budget for the
Group Health Fund*

Not Implemented

COBRA reconciliation

Dependent eligibility audit

*Risk assessment and
controls*

As part of the 2011 Annual Audit Plan, the City Auditor's Office conducted the Group Health Fund Follow-Up Audit. The audit was conducted in accordance with generally accepted government auditing standards, except for peer review. 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 objective of the follow-up audit was to determine the implementation status of prior audit recommendations. There were ten recommendations included in the initial audit report. Management concurred with eight of the recommendations and did not concur with the remaining two recommendations.

The City Auditor's Office was able to obtain documentation supporting the implementation status for all eight of the recommendations for which management concurred. The City Auditor's Office determined that three of the recommendations were fully implemented, one was partially implemented and four recommendations were not implemented. In addition, the City Auditor's Office noted management has partially implemented the two recommendations for which management did not concur in the initial audit report.

Staffing changes and workload issues have delayed implementation of the recommendations. However, based on City Auditor discussions with the Workforce Services Director, it appears that the department is committed to implementing the recommendations as staffing and workload allows.

Audit Scope and Methodology

Documentation, correspondence and transactions from release of the prior audit through March 2012 were included in the scope of this audit. The audit was conducted in accordance with generally accepted government auditing standards, except for peer review.

The following methodology was used in completing the audit.

- Interviewed Workforce Services (WFS) and Financial Management and Resources (FMR) management and staff members in order to gain an understanding of measures taken to address prior audit recommendations
- Reviewed health plan enrollment reconciliations
- Reviewed reconciliation of flexible spending account (FSA) contributions
- Reviewed management documentation of planned corrective actions

Status of Prior Audit Recommendations

Recommendation:

The Deputy City Manager over Workforce Services should ensure that staff automates and simplifies the reconciliation of monthly premium and administration payments, including the communication and resolution of discrepancies with the appropriate vendors.

Management's Response:

Concur. The Workforce Services staff will automate and simplify the reconciliation of the benefit enrollment with monthly premium and administration payments, including the communication and resolution of discrepancies with the appropriate vendors. However, WFS staff will need the assistance of IT and FMR staffs to insure proper tools are available to perform this function and that all pertinent information is available to WFS staff to complete the task. The WFS HRIS Specialist will need to work with IT to develop standard reports that reflect accurate enrollment information for both active and retired employees that can be used to compare with the billings from the various vendors on a monthly basis. Once those reports are developed and available, FMR staff will need to advise their contacts to send the billing information to WFS for processing. Once the invoices have been validated, WFS staff will then send the invoices to FMR for entry into the Catalyst system. Meetings have been scheduled with IT staff to develop the standard reports that will be needed to achieve this recommendation.

Target Date: October 1, 2011

Responsibility: Leeann Shackelford, WFS Manager – Employee Services

Implementation Status:

Fully Implemented. Workforce Services staff provided documentation indicating that reconciliations are performed before monthly premium and administration payments are made.

Recommendation:

The Deputy City Manager over Workforce Services should ensure that staff provides FMR with monthly claims reports to support journal entries of claims expenditures.

Management's Response:

Concur. WFS staff will ensure that FMR staff has access to UHC's E Services and has access to all accounting and banking information to support journal entries of claims expenditures.

WFS staff will review the data on the UHC site and identify those detail claims reports that will substantiate the daily "sweep" that transfers funds from the City's concentration bank account to a UHC bank account for paid claims.

Target Date: July 1, 2011
Responsibility: Leeann Shackelford, WFS Manager – Employee Services
FMR designated personnel

Implementation Status:

Fully Implemented. WFS has granted FMR staff access to UHC's E-Services accounting and claims data. Financial Services verifies that journal entries to record claims expenditures agree to UHC monthly claims reports.

Recommendation:

The Deputy City Manager over Workforce Services should coordinate with the Information Technology Department to determine how to incorporate indication of dependent eligibility validation into the Lawson system.

Management's Response:

Concur. The WFS HRIS Specialist will work with IT to identify an appropriate field within Lawson to incorporate indication the dependent eligibility has been validated.

Target Date: July 2011
Responsibility: Leeann Shackelford, WFS Manager – Employee Services

Implementation Status:

Fully Implemented. WFS has started to use a field within the Lawson Dependent screen (HR13.1) to indicate that dependent eligibility has been reviewed and approved.

Recommendation:

The Deputy City Manager over Workforce Services should ensure that staff coordinates with UHC to ensure that FSA reports are accurate and reconciles UHC reports of FSA balances to amounts recorded in the Lawson financial system on an annual basis.

Management's Response:

Do Not Concur. Currently City staff in Finance does attempt to reconcile the employee FSA balances with UHC to the Lawson Financial records containing the escrow account. However, due to the very nature of the Flexible Spending Account, it is very difficult to reconcile the escrow account, Lawson records, and employee UHC balances particularly on a fiscal year basis vs. a calendar year basis. The FSA is based on a calendar year basis and the City also provides employees with an additional 2 ½ months in the next calendar year to utilize their previous annual pledge.

FSA funds are held in an escrow account once they are deducted from the employee's paycheck until the escrow account is drafted by UHC for payment of claims. Given the nature of FSA

accounts and the fact that claims may exceed deductions, particularly at the beginning of the year, accounting is difficult at best. By law, employees are allowed to utilize their entire FSA pledge at any time during the year to pay for medical, dental or vision claims. It is the employee's responsibility to track his or her deductions and claims and monitor their FSA balance on www.mhc.com. A flexible spending account is similar to a personal banking account and is used for the payment of medical related claims and subject to the rules of the IRS. Thus, it is the responsibility of the employee to make sure that his/her account is correct and accurately reflected.

The FSA year cannot be closed for several months after the year closes due to timing issues and the additional 2 ½ month roll-over that the City provides its employees.

WFS staff will continue to work with UHC, FMR and IT personnel to insure that UHC records are accurate and properly reflect the appropriate timeframe and that 2009 and 2010 funds are balanced and properly accounted for by 9/30/2011.

Target Date: July 1, 2011
Responsibility: Leeann Shackelford, WFS Manager – Employee Services

Implementation Status:

Partially Implemented. Although management did not concur with the original recommendation, Workforce Services staff has started to reconcile employee FSA contributions per the City's payroll reports to UHC monthly reports. In addition, Workforce Services is working with UHC to ensure that FSA member detail reporting is accurate. The City Auditor's Office noted that Financial Services has determined not to attempt to reconcile FSA expenditure and balance reports due to the complexity of the reconciliation, as noted in the original response.

Recommendation:

The Deputy City Manager over Workforce Services should coordinate with the Financial and Management Resources Department to ensure that a sufficient number of accounts are utilized to segregate revenues and expenditures by source, type, function and purpose.

Management's Response:

Concur. WFS staff will coordinate with FMR staff to ensure that a sufficient number of accounts are used in the Group Health Fund to segregate revenues and expenditures by source, type, function and purpose in the Lawson Financial System. Additional accounts would make accounting reconciliation a little easier.

Target Date: October 1, 2011
Responsibility: Leeann Shackelford, WFS Manager – Employee Services
Appropriate FMR Accounting Staff

Implementation Status:

Partially Implemented. During a meeting with the Workforce Services Director, the City Auditor's Office was informed that Workforce Services would be working with Financial Management and Resources personnel to ensure that accounting data is segregated to sufficient accounts. However, review of the year-end FY2011 closing folder and FY2012 Lawson account structure for the Group Health fund did not indicate that any new accounts had been added. It is anticipated that further segregation of revenue and expenditures by source, type and function will be in place for FY2013.

Recommendation:

The Deputy City Manager over Workforce Services should consider preparing and publicizing an operating budget for the Group Health Fund.

Management's Response:

Do Not Concur. The Group Health Fund, like the Workers Compensation Fund, is established to account for funds utilized for payment of the health benefit program for City employees and retirees. The fund consists of revenues from the City based on the budgeted subsidy and the employee/retiree premiums and expenditures for employee and retiree medical claims and dental and vision premiums. These amounts are determined annually based on our employee/retiree claims experience and recommendations from the City's benefit consultant and City staff. These premium rates are disclosed to City Council during the budget process each year.

Beginning in 2009, the fund is reviewed on an annual basis by our benefits actuary and the appropriate fund balance is established. Any funds over and above the amount needed to pay group health claims could be used in emergency situations given the balance recommended by the actuary is maintained. It is the goal of WFS to ensure appropriate funds are available for payment of group health claims at all times.

It is the opinion of staff that current processes are sufficient accounting for the City's Group Health Fund.

<i>Target Date:</i>	<i>Not Applicable</i>
<i>Responsibility:</i>	<i>Not Applicable</i>

Implementation Status:

Partially Implemented. Although management did not initially concur with this recommendation, discussions with the Workforce Services Director indicated there was a need for a budget that outlines health and wellness expenditures, as well as actuarial, consulting and legal fees. It is anticipated that a Group Health Fund budget will be prepared for internal purposes in FY2013.

Recommendation:

The Deputy City Manager over Workforce Services should ensure that staff reconciles UHC submittals for COBRA coverage to actual COBRA participation. Workforce Services staff should identify, disclose and resolve any discrepancies between actual COBRA participation and amounts submitted by UHC.

Management's Response:

Concur. WFS staff currently sends the first COBRA notice to employees who are terminating employment or taking an unpaid leave of absence. These notices are triggered by payroll actions within Lawson or direct notification from other staff. To be able to identify, disclose and resolve any discrepancies between actual COBRA participation and amounts submitted by UHC to the City, WFS will work with IT and FMR staffs to insure proper tools are available to perform the function.

Target Date: October 1, 2011

Responsibility: Leeann Shackelford, WFS Manager – Employee Services

Implementation Status:

Not Implemented. Workforce Services stated that the COBRA review is scheduled to begin with the first quarter 2012 invoice. Delay has been experienced in implementing this recommendation due to staffing and workload issues.

Recommendation:

The Deputy City Manager over Workforce Services should ensure that a dependent eligibility audit is conducted.

Management's Response:

Concur. WFS will conduct a dependent eligibility audit of all employees who have dependents covered under the group health plan after tax returns are filed for 2010. WFS staff requests assistance from the Internal Audit Department to design the audit to seek the information in the most effective manner. After this audit, the same information will be requested from new employees as they enroll in benefits when employed by the City.

Target Date: July, 2011

Responsibility: Leeann Shackelford, WFS Manager – Employee Services

Implementation Status:

Not Implemented. While WFS has implemented dependent eligibility reviews for family members of new hires and for newborns and additions based on qualifying events, a comprehensive dependent eligibility audit for all employee dependents has not been conducted. According to WFS, implementation of this recommendation has been delayed due to workload and staffing issues. WFS estimates that it will implement this recommendation during FY2013.

Recommendation:

The Deputy City Manager over Workforce Services should ensure that periodic risk assessment activities are performed to identify and analyze relevant risks. At a minimum, the Deputy City Manager over Workforce Services should ensure that staff reviews the claim administrator's future reports on the operating effectiveness of controls and verifies that any identified user complementary controls have been established.

Management's Response:

Concur. See answer below.

Target Date: January 1, 2012

Responsibility: Leeann Shackelford, WFS Manager – Employee Services

Implementation Status:

Not Implemented. According to WFS management, this recommendation will be implemented by the new WFS Benefits Manager as workload and staffing permits.

Recommendation:

The Deputy City Manager over Workforce Services should ensure that appropriate controls are established as necessary to mitigate the risks noted through its periodic risk assessment activities.

Management's Response:

Concur. WFS staff will be conducting an RFP process this spring for group health administration. WFS staff will work with Legal and Internal Audit to make sure the appropriate questions are asked and answered during the RFP process to achieve a formal risk assessment and verify that proper controls are established to mitigate risk

Target Date: January 1, 2012

Responsibility: Leeann Shackelford, WFS Manager – Employee Services

Implementation Status:

Not Implemented. According to WFS management, this recommendation will be implemented by the new WFS Benefits Manager as workload and staffing permits.