



## **Audit of Health Insurance Operations**

### **Follow-Up Review**

The City's Risk Management Division has improved monitoring of employee dependents and clarified the claims funding reconciliation process.

In addition, the Division has generally established processes to improve Third-Party Administrator monitoring, including having a healthcare claims audit performed by an external vendor; however, regular review of the Service Organization Control Report would further improve monitoring efforts.

### **Audit Team**

#### **City Auditor**

Madison Rorschach, CIA, CGAP

#### **Audit Staff**

Amber Jackson, MBA, CFE

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## Follow-Up at a Glance

### Why we did this Follow-Up:

This report is intended to provide information on what changes have been made in response to the Audit of Health Insurance Operations issued in November 2020. The original audit evaluated the City's health insurance operations including benefits plan management, participant enrollment, and claims administration. This follow-up review was included on the City's fiscal year 2021-22 Annual Internal Audit Plan as approved by the City Council.

### What we Found:

The City's Risk Management Division has begun requiring employees to annually attest that their dependents meet the City's eligibility standard and has clarified the health insurance claims funding reconciliation process. In addition, the Division has generally established processes to improve Third-Party Administrator monitoring including annual verification of those who have access to the Third-Party Administrator's internet portal, annual review of performance guarantees, and having a healthcare claims audit conducted. However, a process has not been established to regularly review the Third-Party Administrator's Service Organization Control Report. The status of each recommendation is summarized below:

Recommendation	Mgmt. Response	Status
1. Develop and formalize a process for periodically identifying and removing ineligible dependents who are not removed by employees in a timely manner.	Concurred	Implemented
2. Periodically conduct a review of adjudicated health insurance claims to verify plan implementation and identify claim processing errors.	Concurred	Implemented
3. Develop a process to report to City Management any control weaknesses identified in the Third-Party Administrator's Service Organization Control Report.	Concurred	In Progress
4. Annually verify that the City has adequate complementary user organization controls based on the Third-Party Administrator's Service Organization Control Report.	Concurred	In Progress
5. Periodically request the Third-Party Administrator provide a list of individuals who have access to the City's eServices Internet Portal and verify that only authorized individuals are included.	Concurred	Implemented
6. Clarify the weekly health insurance claim funding reconciliation process in consultation with the Finance Department.	Concurred	Implemented
7. Implement monitoring procedures for performance guarantees.	Concurred	Implemented

## Introduction

The Internal Audit Department is responsible for providing: (a) an independent appraisal<sup>1</sup> of City operations to ensure policies and procedures are in place and complied with, inclusive of purchasing and contracting; (b) information that is accurate and reliable; (c) assurance that assets are properly recorded and safeguarded; (d) assurance that risks are identified and minimized; and (e) assurance that resources are used economically and efficiently and that the City's objectives are being achieved.

The Internal Audit Department has completed a follow-up review of the Audit of Health Insurance Operations issued in November 2020. We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

## Management Responsibility

City management is responsible for ensuring that resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

## Audit Objectives, Scope, and Methodology

This report is intended to provide a progress update on recommendations from the [Audit of Health Insurance Operations \(November 2020\)](#), which evaluated the City's health insurance operations including benefits plan management, participant enrollment, and claims administration.

Audit fieldwork was conducted during March, April, and May 2022. The scope of review varied depending on the procedure being performed. The following list summarizes major procedures performed during this time:

- Reviewed documentation from the issued audit to develop criteria including industry standards, best practices, policies, and procedures;
- Interviewed Risk Management Division staff;
- Reviewed Health Fund Reconciliation Procedure Manual, 2020 and 2021 Third-Party Administrator Performance Guarantee Reports, 2021 Third-Party

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<sup>1</sup> The City of Denton's Internal Audit Department is considered structurally independent as defined by generally accepted government auditing standard 3.56.

Administrator Service Organization Control Report, and Healthcare Claims Audit Report;

- Verified that a sample of Third-Party Administrator payments were authorized in accordance with City policy; and
- Observed annual dependent eligibility attestation statement.

## Recommendation Status Update

This report summarizes the Audit of Health Insurance Operation's recommendations, management responses, and the Internal Audit Department's follow-up findings, which describe to what extent City management has implemented Internal Audit's recommendations since the publication of the original report in November 2020.

### Medical Benefits Plans are Appropriately Monitored for Compliance & Utilization

The original [Audit of Health Insurance Operations](#) found that the City had established effective monitoring procedures to ensure its health insurance plan was adequately utilized and had access to resources that provided assurance that the City complies with all applicable regulations – including its fiduciary duty. For these reasons no recommendations were issued for this section. As such, this was not reevaluated as part of this follow-up review.

### Plan Enrollment is Adequately Managed; Dependent Monitoring Could Lower Costs

- 1. Develop and formalize a process for periodically identifying and removing ineligible dependents who are not removed by employees in a timely manner. It may be appropriate to focus these monitoring efforts on spouses and stepchildren who are at a higher risk of becoming ineligible than other dependents.**

Management Response: Concur

The Risk Management department concurs. Because the City relies on the employee to notify when a change in familial status occurs annually within six months of the close of open enrollment, a report will be run to identify dependents who are on the Plan. A sample of the dependents will be identified, and dependents' eligibility will be verified through a review of eligibility documents previously provided and by contacting the employee to verify that the dependent is still eligible to be on the Plan.

#### **Audit Follow-Up Finding: Implemented**

As part of the annual benefits enrollment process, employees are required to attest that all dependents covered on their benefits plan meet the City's eligibility requirements. In addition, the City requires that employees submit documentation whenever dependent coverage changes are made so that their eligibility can be verified. Dependent eligibility requirements are readily available on the City's internal website.

## Claim Administration Controls Appear Adequate but Should be Regularly Reviewed

2. **Periodically conduct a review of adjudicated health insurance claims to verify plan implementation and identify claim processing errors. Best practices suggest that the period between Third-Party Administrator audits be based on previous audit results and changes to the benefits plan design. In addition, performance guarantees could be verified as part of this process.**

Management Response: Concur

The Risk Management department concurs with this recommendation. In response to this recommendation, the Risk and Compliance Manager has requested price quotes for an external claims audit. When quotes are received, a determination will be made regarding funds availability in this year's budget.

### **Audit Follow-Up Finding: Implemented**

The City contracted with a vendor to perform an external healthcare claims audit for the period of January 1, 2020 through December 31, 2020. Based on review of the draft audit report, the review appeared to have evaluated issues such as eligibility, cost control, fraud/waste/abuse, other party liability, plan design, and industry standards using a judgement sample approach.

In general, the audit found that the City should work with the Third-Party Administrator to clarify plan intent as some benefits were being processed outside of the City's Summary Plan Description. In addition, the audit identified some instances where plan benefits and industry standards had been implemented incorrectly resulting in some over and underpayments. Further details regarding the audit of healthcare claims can be shared by the Risk Management Division.

The City's Third-Party Administrator has provided a detailed response to each of the audit's findings. According to Risk Management staff, they plan to contract with a vendor to perform a healthcare claims audit of the City's Third-Party Administrator every two years going forward.

3. **Develop a process to report to City Management any control weaknesses identified in the Third-Party Administrator's Service Organization Control Report. If weaknesses are identified, City Management should develop a plan to appropriately address these weaknesses.**

Management Response: Concur

The Risk Management department concurs with this recommendation. The department obtained the current report during the audit process and

requested that moving forward, McGriff provide the report on an annual basis as part of our Plan mid-year review. At the mid-year review, the report will be reviewed, and we will work with McGriff and the TPA to address any areas of concern. Should any areas of concern be identified, the Risk and Compliance Manager will notify City leadership about the concerns and the processes put in place to address the concerns on an ongoing basis.

**Audit Follow-Up Finding: In Progress**

According to Risk Management staff, the Third-Party Administrator's Service Organization Control Report was not requested for the 2020 plan year due to an administrative error. As part of the audit follow-up review, Risk Management staff requested the 2021 Service Organization Control Report be provided. In addition, Risk Management plans to meet with the City's Employee Benefits Consultant annually in the future to review the Service Organization Control Report.

Based on Internal Audit's review of this report, the Third-Party Administrator's independent auditor opined that internal controls were suitably designed and operating effectively to provide reasonable assurance that the control objectives were achieved if complementary user entity controls operated effectively.

While no control weaknesses were identified in the 2021 Service Organization Control Report, regular review of the Service Organization Control Report provides further assurance that the City is able to quickly identify any material control weaknesses or exceptions that could increase the risk of errors or irregularities when adjudicating claims.

**4. Annually verify that the City has adequate complementary user organization controls based on the Third-Party Administrator's Service Organization Control Report.**

Management Response: Concur

The Risk Management department concurs with this recommendation. Based on the SOC report received and reviewed at our Plan mid-year review as described above, the department will review and work with McGriff and the TPA to put in place any additional complementary controls needed to address any concerns.

**Audit Follow-Up Finding: In Progress**

According to Risk Management staff, they did not request the 2020 Service Organization Control Report from the Third-Party Administrator. Based on review of the 2021 Service Organization Control Report, the City appears to have improved the adequacy of its complementary user controls as shown in Table 1:



**Table 1:** Complementary User Controls Assessment

Recommended Control	Assessment Result <sup>2</sup>
The user's customer benefit plan is complete, authorized, and furnished to United Healthcare promptly.	Adequate (Original Audit)
Enrollment files are complete, accurate, and timely when submitted.	Adequate (Original Audit)
Only authorized users have access to the United Healthcare information available on the eServices Portal.	Adequate (Follow-Up Review)
Available claim payment funds are authorized.	Adequate (Follow-Up Review)
Claim charges are funded completely and timely.	Adequate (Original Audit)
User reconciles monthly invoices using the number of enrollees and contracted rates.	Adequate (Original Audit)
Relevant financial performance reports are obtained and used appropriately.	Adequate (Original Audit)
User completes any needed actuarial analysis.	Not Reviewed <sup>3</sup>

While the City now appears to have adequate complementary user controls, regular evaluation of these by the Risk Management Division would increase assurance that claims are processed efficiently and further demonstrate the City's commitment to fulfilling its fiduciary duty.

**5. Periodically request the Third-Party Administrator provide a list of individuals who have access to the City's eServices Internet Portal and verify that only authorized individuals are included.**

Management Response: Concur

The Risk Management department concurs with this recommendation. The Benefits Supervisor will request a user report from the TPA at the end of each Plan Year and when an employee begins work with the Benefits Team (on a temporary or permanent basis) to ensure only authorized individuals are permitted access to the employer services portal. Additionally, when any team member departs the Benefits Team, the Benefits Supervisor will ensure the team member's access is removed on or before their last day with the team.

<sup>2</sup> Assessment results are generally detailed in the original [Audit of Health Insurance Operations \(pdf\)](#) or other sections of this follow-up report.

<sup>3</sup> According to Risk Management staff, the City's Employee Benefits Consultant conducts actuarial analysis as needed; however, this analysis was not examined as part of the original audit or this follow-up review.

**Audit Follow-Up Finding: Implemented**

The Risk Management Division has developed a process to annually request the list of individuals with access to the eServices Internet Portal to verify that only authorized individuals are included. According to Division staff, no changes were made based on these verifications during 2021 or 2022.

**Claims Funding Process Should be Clarified**

6. **Clarify the weekly health insurance claim funding reconciliation process in consultation with the Finance Department. This documentation should clearly identify roles and responsibilities in the process as well as clarify funding authority levels.**

Management Response: Concur

The Risk Management department concurs with this recommendation. The Benefits Team has the claims funding reconciliation process documented up to the point where the process transitions to the Finance department. The Benefits Supervisor and Benefits and HRIS Specialist will work with Finance to document the full process in one complete document.

**Audit Follow-Up Finding: Implemented**

The Risk Management Division has developed and implemented a standard operating procedure detailing the claim funding reconciliation process. This standard operating procedure assigns the claim funding authorization authority to the Deputy Director of Risk & Compliance for all health insurance claim funding transfers regardless of monetary value.

Based on review of a judgement sample of ten claim funding confirmation forms, all were approved in accordance with the adopted standard operating procedure.

**Periodic Verification of the TPA's Performance Would Increase Assurance**

7. **Implement monitoring procedures for performance guarantees. The City staff should also ensure that United Healthcare duly pays the penalties for non-performance, if any, relating to claims processing and other agreed performance guarantees.**

Management Response: Concur

The Risk Management department concurs with this recommendation. The Risk Management department will request that McGriff provide the Performance Guarantee report annually as part of our Plan year-end review. Upon review of the report, we will work with McGriff and the TPA to address any concerns.

**Audit Follow-Up Finding: Implemented**

According to Risk Management Division staff, the 2020 plan year performance guarantee was received and reviewed in June 2021. In addition, the 2021 plan year performance guarantee was received based on Internal Audit's request in March 2022; however, according to the Third-Party Administrator, this report is not typically ready till June.

Based on review of the performance guarantee reports, the Third-Party Administrator met all performance guarantees for 2020 and met all but one performance guarantee for 2021. The non-compliant performance guarantee was due to the average speed to answer a customer's phone call being about 8 seconds slower than the 30 second goal. This non-compliance resulted in a credit to the City of \$8,800, which was appropriately credited to the City in April 2022. It should be noted that the Performance Guarantee Results are self-reported by the Third-Party Administrator.