

Insurance Administration

**City of Tulsa
Internal Auditing
June 2009**



Insurance Administration



City of Tulsa Internal Auditing

A handwritten signature in blue ink that reads 'Ron Maxwell'.

Ron Maxwell, CIA, CFE
Chief Internal Auditor

A handwritten signature in blue ink that reads 'Phil Wood'.

Phil Wood, CIA, CFA
City Auditor

AUDIT TEAM:
Nathan Pickard
Seth Potter
Tina McIntosh

SUMMARY OF AUDIT PROJECT

Scope:

Review procedures in the Human Resources Department related to acquiring, managing, and accounting for employee benefits insurance.

Objectives:

- Review the accuracy and validity of insurance claims and premiums.
- Assess whether quality service is provided to participants
- Determine whether highest quality insurance is offered at lowest possible cost
- Evaluate information for accuracy and security
- Review compliance with laws and regulations.

Overall Risk Exposure: (Low, Moderate, High)
High

Risk exposure is considered high primarily due to the significant dollar amount associated with insurance expenditures. Other factors that increase risk are complex regulatory requirements, high impact on employees if coverage is cancelled, and competitive nature associated with employer paid benefit packages.

Conclusion: (Satisfactory, Satisfactory-needs improvement, or Unsatisfactory)
Satisfactory-needs improvement

Project Results:

- Insurance and Retirement Services maintains outstanding intradepartmental communication.
- Insurance and Retirement Services maintains high visibility within the organization.
- Insurance and Retirement Services maintain outstanding customer service which promotes a high level of communication with the participants they serve.
- Insurance and Retirement Services monitors the results of the health and wellness program.
- The RFP process may not be functioning as designed.
- Protected healthcare information may not be adequately protected.
- Benefits package may be inadequate to attract and retain employees.

Audit Contacts:

- Jeff Wilkie, Interim director of Human Resources
- Tina Fazendine, Manager of Insurance and Retirement Services
- Christine Fisher, Insurance and Retirement Services Administrator

INTRODUCTION

Insurance and Retirement Services (IRS) is a division of the Human Resources Department. IRS responsibilities for insurance benefits include being a liaison between City of Tulsa employees and insurance providers, acting as the main contact for employees and retirees, and tracking premium collection to ensure premiums collected are properly submitted to carriers.

Administration of insurance benefits includes the following:

- Initiating and terminating employee's benefits in a timely manner.
- Ensuring insurance premiums are paid in a timely manner.
- Accurately calculating employee's pay and deducting for insurance premiums.
- Maintaining manual billing for employees on military or maternity leave.
- Maintaining a database of retirees to monitor retiree deductions.
- Initiating billing for employees who elect additional or optional coverage.
- Ensuring insurance billing discrepancies are resolved daily.
- Ensuring insurance data changes from exception reports are accurately recorded.
- Administering flexible spending accounts (FSA).
- Administering COBRA benefits.
- Administering wellness program.
- Administering life insurance benefits.
- Planning and administering annual City of Tulsa health fair.

Audit Findings, Recommendations and Management Responses

AUDIT FINDING 1:

A contract was not in effect for health insurance coverage.

SUMMARY:

Per correspondence with health insurance provider, the 2008-2009 contract had not been signed as of October 2008. The health insurance provider had been operating based on an April 28, 2008 letter of agreement which outlined final rates. On October 16, 2008, the health insurance provider requested to expedite the process to execute a formal agreement.

A contract should be signed between the City and the provider which should define the rights and obligations of both parties to protect the City and its employees from loss of insurance coverage. The health insurance provider could stop covering City employees since they are not bound by a contract that protects the interests of the City.

RECOMMENDATION:

Management should implement a process to ensure that all contracts remain current with insurance providers.

RESPONSE:

Concur with recommendation. Management will implement by December 31, 2009.

AUDIT FINDING 2:

The City does not ensure accuracy of data used for requesting bids from insurance providers.

SUMMARY:

Insurance premiums are based on claims expense data obtained directly from the City's current healthcare insurance provider. The City does not audit the data to ensure that only claims from valid City employees are included or that claims are for expenses agreed upon in the General Service Agreement and calculated accurately.

There is a risk that the claims data may be inflated. This would benefit a current provider because a high loss ratio created by inflated claims will make other providers bid at higher rates. If the data is not valid, accurate, and complete, the City will assume an unacceptable level of risk of paying higher than necessary premiums.

RECOMMENDATION:

- Prior to the next RFP, management should strongly consider using the right to audit clause in the General Service Agreement and obtain funds or other resources necessary to hire a third party independent auditor to audit the claims expense data used in the RFP and the loss ratio used in the premium calculation.
- Management should strongly consider requesting a SAS 70 report from its next service provider to ensure internal controls are adequate to ensure claims reported to the City are complete, accurate and valid.

RESPONSE:

The City will request audit clause language be included in the contract with Blue Cross Blue Shield of Oklahoma (BCBSOK). BCBSOK will provide a SAS 70 report. Management will implement by December 31, 2009.

AUDIT FINDING 3:

Controls are weak to ensure the City is paying accurate premiums for health insurance benefit.

SUMMARY:

Insurance and Retirement Services (IRS) does not review the detail level of the health insurance premium invoice. However, IRS recalculates the invoice based on internal data. If the invoice is within two percent of the recalculation, the details of the invoice are not reviewed according to staff. Any deviation greater than two percent is investigated. There is no control to ensure that the insurance premiums paid do not escalate by two percent on a continuous basis. Premiums are approximately \$2 million monthly and two percent could possibly lead to an undetected variance of \$40,000 monthly or \$480,000 annually.

Health insurance invoice should be monitored to ensure only eligible employees and their dependents are on the invoice. During testing and field work, one employee was identified by Internal Auditing as having an ineligible spouse still enrolled for benefits after a divorce. The divorce occurred in May and the ex-spouse was still on the insurance plan as of October.

RECOMMENDATION:

Management should consider the following:

- Review the monthly invoice for accuracy and validity. It may be helpful to obtain the monthly invoice in electronic format.
- Perform a monthly trend analysis.
- Write policies and procedures to ensure that the analysis is conducted properly and documented.
- Request more resources to adequately review the monthly health insurance provider invoice.
- Periodically review divorces within Tulsa County to find ineligible insurance participants.

RESPONSE:

Invoices for premium payments are monitored through detailed exceptions reporting. Current staffing levels do not permit the type of item by item detailed validation in this recommendation. Additional resources are unavailable due to budget constraints.

AUDIT FINDING 4

The request for proposal (RFP) process did not provide for competitive bidding to ensure the City obtained the highest quality health insurance at the lowest possible price.

SUMMARY:

The Purchasing Division of the Finance Department submits a request for proposals detailing the specifications to be met by bidders. It was noted that executive management negotiated outside of the normal RFP process after bids were received and gave one bidder the ability to waive requirements listed in the original RFP. One of the requirements waived was the City's right to audit claims. When RFP requirements are changed, the Purchasing Division normally changes the RFP and resubmits for bids so all bidders have the option to bid according to the new requirements.

There were other providers that provided proposals to the City, and there is a possibility that had the other bidders known that certain RFP requirements were not mandatory, their bids may have been significantly lower.

RECOMMENDATION:

- Human resources management should consider reviewing all RFPs, proposals, and contracts related to IRS prior to management signing a contract to ensure that proposals meet all of the requested terms in the RFP and that the contract includes all requirements outlined in the proposal.
- Management should request an opinion from City Legal to determine if any laws, regulations or ordinances were violated by not sending a new RFP out after bidding requirements were changed.

RESPONSE:

Terms and conditions associated with this RFP were negotiable according to the Finance Department. The 2008-2009 RFP was a proposal process and not a bid process.

AUDIT FINDING 5:

Training for clerks administering the flexible spending account plan is insufficient.

SUMMARY:

Payroll clerks should receive training to mitigate the risk of reimbursing employees for inappropriate expenses, maintaining inaccurate records, and improperly securing healthcare information protected by HIPAA. Internal Auditing observed that clerks responsible for administration of flexible spending accounts (FSA) are not receiving adequate training. As a result one clerk was unable to provide receipts to verify that expenses were reimbursable. Another clerk was unaware that an FSA benefits guide existed. Many of the clerks were using different retention periods.

Insufficient training is caused in part from a lack of ultimate responsibility for FSA administration taken by any one department. Payroll clerks are administering the FSA function, but are supposed to call Insurance and Retirement Services if they have questions. The payroll function falls under the Finance Department while Insurance and Retirement Services is in the Human Resources Department.

Inappropriate expenses may be reimbursed. This could result in fines and penalties or loss of the flexible spending accounts benefit. If protected health information is released to inappropriate sources, a lawsuit could be filed by employees whose rights have been violated.

RECOMMENDATION:

- Executive management should determine which department bears ultimate responsibility for FSA administration and give adequate resources to fulfill responsibilities.
- The department should consider implementing processes to ensure that adequate training is provided. The department could consider automated web based training for newly hired payroll clerks and annual refresher training thereafter.
- The department should periodically test a sample of receipts to ensure compliance and effectiveness of training.

RESPONSE:

Flex Spending Account administration has been outsourced. Benesyst, Inc. will assume compliance and liability of FSA administration effective July 1, 2009.

AUDIT FINDING 6:

Healthcare information is not appropriately safeguarded as required by the Health Insurance Portability and Accountability Act (HIPAA) Privacy Rules.

SUMMARY:

Because the City administers medical flexible spending accounts, it is subject to HIPAA Privacy Rules. During the course of testing and fieldwork the following was not in compliance with HIPAA Privacy Rules:

- No HIPAA compliance training has occurred since October 2007.
- There is no protected healthcare information privacy official.
- There are no written policies and procedures restricting the use and disclosure of protected health information.
- No notice of privacy practices has been distributed in regards to the FSA plan.
- No complaint mechanism has been created and no compliance documented.
- The City's flexible spending accounts plan guide has not been amended to include information regarding specific provisions addressing how the employer will safeguard protected health information.

Multiple Information Technology Department personnel had access to protected healthcare information stored on the Insurance and Retirement Services network drive. Not all IT personnel had an adequate reason for keeping access to this drive. The City may be subject to fines should protected healthcare information be compromised.

City staff was unable to provide Internal Auditing with policies and procedures which mandate employees to secure sensitive information protected by the HIPAA Privacy Rule. In the current open floor plan, there is greater risk of sensitive data being observed by unauthorized personnel, causing the City to be subject to fines and lawsuits.

RECOMMENDATIONS:

- Human Resources Department should discover all HIPAA Privacy Rule requirements the City is under due to its medical flexible spending accounts plan and should ensure compliance with all requirements.
- Human Resources Department should consider giving one division ultimate responsibility for protected healthcare information and give adequate resources to that division to ensure the City complies with all requirements.
- The chosen division should adopt policies to ensure compliance with changes to HIPAA regulations.
- The division should adopt policies and procedures to periodically determine which plans and services offered by the City fall under requirements of the HIPAA Privacy Rule.
- Management should consider allowing limited or temporary access for IT personnel who work on any server or application with protected healthcare information.

RESPONSE:

The City of Tulsa, Human Resources Department, Occupational Health Division is designated as the Compliance Division.

AUDIT FINDING 7:

The Benefits Online System is not adequately supported.

SUMMARY:

The Benefits Online System interfaces with the City of Tulsa's payroll system to update Insurance and Retirement Services (IRS) with employment changes. It also provides a webpage for employees to input benefits changes. This system provides IRS an automated source for submitting changes to insurance carriers. The programmer who developed the Benefits Online System retired. One person in IT was trained; however, she also terminated employment before adequately training a replacement.

The City's ability to maintain Benefits Online appears questionable. Should the Benefits Online System fail, it could supply incorrect or untimely information to insurance providers.

RECOMMENDATION:

Management should ensure proper support from IT department to maintain the Benefits Online System and ensure that information obtained from the system is correct and timely.

RESPONSE:

The IT Department lost several staff members who supported the Benefits Online program. However, IT has made it a priority to continue to meet the needs of the Benefits Online System. Management will implement by December 31, 2009.

AUDIT FINDING 8:

Policy and procedure manuals are not adequate for Insurance Retirement Services (IRS) staff.

SUMMARY:

Insurance and Retirement Services operates in a complex environment with state and federal regulations affecting how processes should be performed. In this environment, it is critical to keep updated policy and procedure manuals so that processes are done according to laws and regulations.

Without a standard policies and procedures manual, illness, extended leave, or termination may cause a disruption of the IRS function. Further, a disruption may cause the City to be exposed to risk of non-compliance with state and federal laws and regulations.

RECOMMENDATION:

Human resources management should consider providing necessary resources to create and regularly update an employee policy and procedure manual for Insurance and Retirement Services and ensure that each employee is issued and maintains a current manual.

RESPONSE:

Recently the City of Tulsa, Human Resources Department hired an HR Manager of Policy and Administration. The HR Director has made it a priority to update the policy & procedures manual. Management will implement by December 31, 2009.

AUDIT FINDING 9:

Feedback to the Mayor's Action Center regarding Insurance and Retirements Services (IRS) has not been documented and tracked to resolution.

SUMMARY:

Insurance and Retirement Services stated that one way employees are able to give feedback about quality of service received is through the Mayor's Action Center. When contacted, a representative from Mayor's Action Center stated that a few complaints regarding IRS had been called in; however, the calls were not documented and complaints were not followed to ensure a proper resolution. Employees are not informed about what channel is appropriate to give feedback about employee services. If a feedback mechanism isn't operational, confidence in employee services may drop and employees may become less likely to communicate problems with employee services in the future.

RECOMMENDATION:

- Human resources management should determine what channel is most appropriate to send complaints about employee service divisions.
- Whichever channel is determined most appropriate should be adequately communicated to all employees.
- If it is determined that the Mayor's Action Center is most appropriate, then the Mayor's Action Center should consider implementing processes and procedures to ensure that every call is documented and tracked to resolution.

RESPONSE:

Concur with the recommendations. Lisa Brannin, HR Administration Assistant II has taken on the responsibility of disseminating the complaints received through the Mayor's Action Center and tracking resolution within a 30-60-90 day window.

Report Distribution List

Mayor
Councilor, District 1
Councilor, District 2
Councilor, District 3
Councilor, District 4
Councilor, District 5
Councilor, District 6
Councilor, District 7
Councilor, District 8
Councilor, District 9
City Auditor
City Attorney
Council Administrator
Council Secretary
Chief of Staff
Chief Technology Officer
Human Resources Director
Insurance and Retirement Manager
City Physician
Health and Wellness Coordinator
Finance Director
Chief Risk Officer
Controller
General Counsel
Senior Administrative Services Officer
External Auditor
Mayor's Audit Committee