



# CITY OF WILMINGTON

## Health Benefits

### Internal Audit Review

**June 28, 2018**

#### **City Auditor's Office**

Terence J. Williams  
City Auditor  
(302) 576-2165

#### **Highlights**

##### ***Why We Did This Audit***

In June 2016 the Internal Audit Department presented the Mayor's Chief of Staff and The Department of Human Resources with the results of agreed upon procedures<sup>1</sup> (AUP). The scope covered July 1, 2013 to February 28, 2016. As part of the FY2017 audit plan we conducted testing of Health Benefits for a subsequent period to ascertain if observations from the AUP were sufficiently addressed.

##### ***Methodology***

The objectives were met by reviewing prior year audit engagements, reviewing City Code and related policies and procedures, analysis of claim data and enrollment reports from USI and Highmark, reviewing MUNIS and personnel records, and through discussions with City, Highmark, and USI personnel.

##### **Audit Review Committee:**

Robert C. Johnson, Chair

Ciro Adams  
Marchelle Basnight  
Angelique Dennis  
Bud Freel  
Ronald Pinkett  
Tanya Washington

#### ***Objective and Scope***

As part of our audit plan, we conducted a Performance Audit of the City of Wilmington's (COW) Health Benefits. The objective was to determine whether operating procedures and internal controls were in place and functioning appropriately in the administration of health benefits for enrollees. The scope of the audit was status changes among current, retired enrollees, and terminated employees for health benefits (medical), associated claims paid data, and the affect the changes had on healthcare budget projections for the time period March 1, 2016 to January 31, 2017. IA believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS"). These 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.

#### ***Background***

In June 2016 the Internal Audit Department presented the Mayor's Chief of Staff and The Department of Human Resources with the results of agreed upon procedures<sup>1</sup> (AUP). The scope covered July 1, 2013 to February 28, 2016. The procedures performed included:

- An analysis of retiree and active employees receiving health benefits,
- An evaluation of the City's health benefit enrollee information that is submitted to Highmark,
- A review and analysis of the quarterly reports provided to the City by Highmark,
- An analysis to determine the healthcare costs associated with the 63 enrollees that were identified as having inaccurate statuses in Highmark's system.
- Quantification of the costs of premiums and claims associated with the identified 63 enrollees with inaccurate statuses in Highmark's system.

#### ***Key Statistics:***

Medical Costs	FY15	FY16	FY17 (As of 9/30/17)
USI Projections	N/A	\$13.9M	\$13.7M
Actual Costs	\$14.3M	\$14.1M	\$13M
City-Set Budget	\$11.5M	\$11.1M	\$14.2M

## What we found

### Key Findings

Following are key issues that resulted in a process/area to be risk rated a three or four. See **Attachment A** for the detail of these and all comments identified during the review.

### *Risk Ranking:*

Process / Area	Process / Area Owner	(See Attachment B for full rating definitions)				Prior Year Ranking
		1 Strong Controls	2 Controlled Effectively	3 Controlled - Improvement Required	4 Significant Improvement Required	
Compliance	Dany Smith				√	4
Errors & Omissions	Dany Smith				√	N/A
Review & Approval Process	Dany Smith				√	N/A
Reporting	Dany Smith			√		N/A

### Compliance

1. Management actions were not completed for the Internal Audit Agreed upon Procedures (AUP) Review on June 2016 which identified approximately \$269K in questioned costs. As of the date of this report, \$0 has been recovered from overpaid claims and fees that are due to the City of Wilmington (COW).

Below are examples of the outstanding findings that were not mitigated:

- Pension Fund has not reimbursed the Health and Welfare fund for misclassified enrollees \$301K.
  - Significant delays were noted in regard to receiving credits from Highmark.
  - Noncompliance exists with the Coordination of Benefits policy which is listed in the COW's contract with Highmark and the Membership booklet.
2. Control weaknesses led to \$12.5K in invalid claims and retention fees being paid, due to the misclassification of enrollee statuses caused by deficiencies in both the COW and Highmark's internal processes. In addition, \$46.6K in pensioner claims were expensed to an active employee healthcare fund.

## **Errors & Omissions**

3. Weak controls exist with regards to how enrollment data is being processed, due to the Benefits Administrator manually processing transactions versus entering the data in Highmark's system.

The following transactions were processed manually:

- New member enrollment,
- Current enrollee status updates or plan changes,
- Monthly audits to verify changes in employee status have occurred in Highmark's system.

## **Review & Approval Process**

4. There is a lack of timeliness and consistency in Health Insurance contract renewals for third party administrator (Highmark). The final version of the FY17 contract between the City and Highmark was not fully reviewed or signed by either party prior to the end of the fiscal year. As of October 19, 2017, the City is still under the terms of the FY16 contract and the annual contract for FY18 was not drafted.

## **Reporting**

5. Healthcare costs were incorrectly budgeted in fiscal years (FY15 - FY17), due to the COW setting the budget versus using the projections provided by the City's insurance broker, USI. The significant increase in budget in FY17 for the City's medical claims creates the appearance that healthcare costs have substantially increased when they have not.

Human Resources Management agrees with the audit comments, has developed action plans to address the issues, and the majority of the improvements will be completed by June 30, 2018. Details of Internal Audit's comments, recommendations, and Management's action plans are included in Attachment A.

## ***Additional Observations:***

IAD provided Management with the Government Finance Officers Association's (GFOA) Best Practices for *Managing Health-Care Costs* and *Strategic Health-Care Plan design*.

## *Management Responses to Audit Recommendations*

### Summary of Management Responses

**Recommendation #1:** The Pension fund must reimburse the Health and Welfare fund for any claims that were paid in error due to the misclassification of enrollee status. In all instances where timely notification of change in status was provided to Highmark, the Department should request the appropriate credit and/or reimbursement.

Agree

**Management response & action plan:** Process is in place with trained staff working in conjunction with Highmark to consistently follow up on any credit and/or reimbursements. The March 2018 Dependent Eligibility Audit is proving successful, three-fourths of the way through the process. Incorrect information discovered has had little to no financial impact on the City's or the employee's contribution to healthcare. The efforts made to correct misclassifications and incorrect enrollees are complete and appear to no longer be an issue.

**Completion Date:** June 30, 2018

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**Recommendation #2:** The Department should request all appropriate credits and/or reimbursements for claims paid due to Highmark system errors. As stated in the Division's performance objectives for FY 2016 and FY 2017, benefit/status changes should be processed within 10 days of the change occurrence. The division should also follow the timelines and checklists included in their Standard Operating Procedures. The City should consider other third-party providers of Claims Administration for its self-insurance programs. The Department should obtain written assurance that Highmark has addressed or will resolve the system issues that have led to repeat errors.

Agree

**Management response & action plan:** Once ongoing issues were identified regarding overpayments; all efforts were made to receive credit or reimbursement from Highmark. That said, claims guarantees were negotiated with Highmark to ensure a higher level of service and ownership in processing. Newly trained staff works with a Highmark team to ensure timely notification and that changes have taken effect in the Highmark system. The Employee Benefits Division launched a Request for proposals for a new third-party administrator (TPA) in December 2017. The 2018 results allowed the City to reevaluate the Highmark relationship. The Benefits Division engaged in a Dependent Eligibility Audit (March 2018) to further ensure information from the Highmark portal is accurate.

**Completion Date:** November 2017 – March 2018

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**Recommendation #3:** It is recommended that the Benefits Division work with the Department of Integrated Technology to fully utilize MUNIS benefits' functionality as soon as it is available and to implement a systematic approach for the monthly audits. In addition, management should work with IT, MUNIS, USI, and Highmark to ensure that Highmark's system is able to successfully interface with MUNIS and accurately capture all required data.

Agree

**Management response & action plan:** The December 2017 MUNIS enhancement did not affect the level of change desired between Highmark and MUNIS. As MUNIS is not a true HRIS system the ability for a direct link of information is not a capability that generates confidence in process or accuracy of information.

The Benefits Team is not able to go into the Highmark system to enter new enrollees and family status changes. Coinciding with the MUNIS upgrade, Highmark upgraded their client portals. Ongoing effort is being made to get trained on the new portal for effective data management. Monthly audits are still manual with the Benefits Division auditing the information received from Highmark to confirm changes have been processed timely and the Benefits Team is working directly with IT for the transferring of information into MUNIS.

**Completion Date:** Ongoing Human Resources Information System project deliverables with an expected completion date of June 30, 2020.

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**Recommendation #4** The Benefits Division must be the primary driver for ensuring its third-party contracts are negotiated and executed in a timely manner. Management should create procedures that include an agreed upon timeline utilized by Highmark, the City, and the insurance broker, that ensures future contracts are negotiated and executed prior to the start of the contract.

Agree

**Management response & action plan:** With the on-boarding of the new Benefit Manger, the City will improve the timeliness of contract renewals with the understanding that some delay can be caused when bidding for a new TPA.

**Completion Date:** June 30, 2018.

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**Recommendation #5** The Department should use the expertise and resources of its insurance broker and all knowledgeable parties when setting the estimated budget for annual healthcare costs.

Agree

**Management response & action plan:** The Benefits team has worked closely with USI for trusting yet verifying their projections. FY18 projections were accurately budgeted and in fact actualized lower than planned. During the budgeting cycle for FY19 utilization of USI underwriting team's projections were utilized. In person meetings were held with USI and City Human Resources leadership to understand claims trends and how to improve forecasting and reporting.

**Completion Date:** May 31, 2018

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**Audit Team**

Yvette R. Johnson, Senior Auditor  
Tamara Thompson, Audit Manager