



CITY OF VANCOUVER
INTERNAL AUDIT REPORT
Employee Benefits Audit

Distribution:

Audit Committee
KPMG (External Auditor)

Andrew Naklicki – General Manager, Human Resources
Deb Gale – Director, HR Business Partnerships
Trish Rosengren – Manager, Compensation & Benefits

EXECUTIVE SUMMARY

December 15, 2020

The Employee Benefits Audit was initiated to provide reasonable independent assurance that effective processes and controls are in place to ensure that benefit claims paid are for valid expenses and that the City’s employee extended health benefits plan is managed in a cost effective manner.

Additional monitoring and review processes should be implemented to complement the vetting of benefit claims conducted by the benefits administrator as the City has limited insight into these processes. There is an opportunity to strengthen controls to mitigate any potentially excessive or unnecessary benefit claims and ensure that the City is provided with detailed, meaningful data from the benefits administrator to manage the benefits program.

The more significant findings and recommendations are:

E.1 Strengthen Benefits Fraud Prevention and Increase Cost Management Awareness

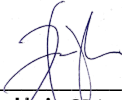

As the City pays the cost of all medical expenses claimed, any fraud or abuse related to benefit claims has a direct financial impact. Management has committed to strengthen employee awareness of benefits fraud and abuse through an update of reference materials and the Human Resources benefits webpage. Information will include how to report fraud, what to monitor to ensure benefits plan information is not being used fraudulently, and the financial impact to the City of benefits fraud and abuse.

E.2 Establish Effective Monitoring of Administrator’s Claims Verification Activities

The benefits administrator has the sole responsibility to ensure the validity of benefits claims; there are no processes in place for City staff to review or spot check the validity of claims. Management will establish a periodic reporting process whereby details of the administrator’s monitoring and verification activities are provided to the City to ensure claims processed and paid are valid and eligible under the benefits plan.

E.3 Establish Effective Monthly Invoice Verification and Follow-Up

The information currently provided on the invoices from the benefits administrator to the City do not enable meaningful review and verification. Management will establish a review process using various reasonableness checks and ensure that responsibility for the review is clearly assigned and that any unusual items or discrepancies are investigated.

 _____ Tony Hui, CPA, CA, CRMA Chief of Internal Audit	 _____ Carmen Fuellbrandt, CPA, CMA, CIA, CRMA Manager, Internal Audit
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A. BACKGROUND

City staff and their dependents are provided extended health and dental coverage as part of their overall compensation and benefits package. Benefit premiums are paid either entirely by the City or split between the City and the employee, as outlined in the each of the 11 employee group's benefits plan handbooks and determined by the respective collective agreements.

The current administrator of the City's employee extended health benefits plan reported that a total of 267,208 benefits claims, with a total value of \$17.9 million were paid between August, 2019 and July, 2020.

City pays cost of benefits and fee to administrator

The agreement between the City and the benefits administrator is an administrative services only (ASO) contract, whereby the City reimburses cost of the benefits claimed by plan members and also pays an administrative fee to the administrator. This fee is determined as a set percentage of claims that have been reimbursed to plan members by the administrator. The agreement also includes a stop-loss provision that limits the City's financial exposure to unexpectedly large claims.

Self-funded benefits plan

The City is responsible for the cost of benefits claimed by plan members as it is a self-funded benefits plan. Plan members submit benefit expense claims to the benefits administrator, and obtain reimbursement. The City is then invoiced by the administrator on a monthly basis to recover the cost of claims paid during the period. The City is also required to retain an amount on deposit to cover the cost of upcoming claims.

Compensation and Benefits Division coordinates benefits program

The City's Compensation and Benefits division of the Human Resources department coordinates and oversees the extended health and benefits program, among other employee benefits. Responsibilities with respect to the extended health benefits plan include ensuring that the employee enrollment data is accurate and that the benefits administrator is advised on a timely basis of any changes to plan member information.

Benefits division staff also have access to an online database on the administrator's website from which various summary reports on claims transactions can be retrieved to monitor the quantity, type, and value of claims paid.

Benefits administrator approves and pays employee claims before invoicing City

As outlined in the agreement with the City, the benefits administrator's services include reviewing, approving, and paying claims submitted by benefits plan members. The administrator also maintains claims payment records, provides periodic summaries of claims paid, and provides the

City with a monthly billing statement that includes the total amount of claims paid plus other fees and expenses.

B. SCOPE

The audit objective was to provide reasonable independent assurance that the City has effective systems and procedures in place to ensure that:

- Benefit claims paid are for valid expenses that are eligible under the City's benefits plan;
- The City receives effective and timely claims administrative services for benefits;
- Health premiums are calculated and paid accurately for eligible employees in accordance with policies / procedures and applicable bargaining unit agreements; and
- Personal information is handled in a manner upholding privacy and security.

The scope of the audit covered the City employee extended health and dental benefits handled by the City's benefits administrator. Our work included:

- Interviews with key management and staff in the Compensation and Benefits division of the Human Resources department;
- Review of policies and procedures, vendor performance reports and other relevant documentation;
- Review of transactions involving updates to the City's employee benefits list; and
- Analysis of claims transactions as reported by the benefits administrator, which excluded any personal identifier information of claimants, and covered the period of January 1 to December 31, 2019.

The audit is not designed to detect fraud. Accordingly there should be no such reliance.

C. CONCLUSION

Additional monitoring and review processes should be implemented to complement the vetting of benefits claims conducted by the benefits administrator as the City has limited insight into these processes. There is an opportunity to strengthen controls to mitigate any potentially excessive or unnecessary benefit claims and ensure that the City is provided with detailed, meaningful data from the benefits administrator to manage the benefits program.

Findings and recommendations have been discussed with appropriate management and responses incorporated in this report.

D. RISK ANALYSIS

The potential significant risks considered if controls were not in place are:

- Fraudulent, excessive, or invalid claims resulting in additional cost to the City;
- Updates to the City's benefits plan member listing are not completed on a timely basis;
- Unauthorized additions or changes to the City's benefits plan member listing;
- The City is over charged by the benefits plan administrator as the invoiced amount does not reflect the actual amount of claims paid;
- Premiums are not sufficient to cover the annual cost of benefits claims;
- The City is not receiving timely, efficient and effective service from the benefits administrator; and
- Personal information is not adequately protected.

E. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES

E.1 Strengthen Benefits Fraud Prevention and Increase Cost Management Awareness

Benefits fraud and abuse is an evolving and pervasive problem that affects all types of organizations, including municipalities. The financial impact can be significant. The Canadian Life and Health Insurance Association estimates that in North America 2 per cent to 10 per cent of all health care dollars are lost to fraud. Benefits fraud can be conducted by plan members / employees, or benefits providers, or a combination thereof.

The identification and investigation of any fraudulent claims submitted by City employees is handled by the benefits administrator. The administrator then reports any determined fraudulent claims activity to the City's Manager of Compensation and Benefits. Since May 2018, the benefits administrator reported four cases of fraudulent claims activity to the City. Human Resources and any applicable union representatives were engaged in addressing the employee conduct and taking any associated disciplinary action.

Fraud awareness and education is an important part of prevention. Employee awareness of the financial impact to the City of any benefits claims abuse or excessiveness of claims is an important message as well. It is the City that pays the direct cost of all medical expenses claimed. The City's benefits plan reference materials and related communications do not specifically address staff awareness of benefits fraud.

Recommendation:

E.1.1 The Director, HR Business Partnerships should ensure that employee benefits reference materials, including the HR Benefits webpages, include information around benefits fraud and abuse that would support employee awareness of this topic.

Communications should include information to staff such as how to report fraud, what to monitor to ensure their benefits plan information is not being used fraudulently, and the financial impact to the City of benefits fraud and abuse. Additionally, it should be reiterated to staff that claims are subject to audit and other verification checks, and there is a need to ensure that claims submitted are accurate and valid.

This should be updated by September 30, 2021.

Management Response:

Please check one:

- Agree with the findings
 Disagree with the findings

Please check one:

- Agree with the recommendations
 Disagree with the recommendations

Management Action Plan:

A review of new employee orientation material will occur to establish a means for inclusion of suggested material. Citywire benefits pages will also be reviewed and redesigned to include required information.

E.2 Establish Effective Monitoring of Administrator's Claims Verification Activities

The City's Compensation and Benefits division relies upon the benefits administrator to ensure the validity of benefits claims; there are no processes in place for City staff to review or spot check the validity of claims. The reports available in the administrator's database are at a summary level and do not identify individual claims or enable verification of whether claims processed are for valid, eligible expenses.

Exceptions noted were validated with the administrator

After analysis of claims transactions, several items requiring further investigation were raised to the Administrator for their follow-up and explanation. These items included claims that appeared to be for disallowable drugs, and expenses that appeared unusually high in value or frequency. The Administrator confirmed that all claims paid were valid and that documentation for a medical exception or other supporting documentation was on file.

Administrator's processes in place for claims verification

The administrator also reported that the following monitoring and verification processes are in place:

- Claims submitted may be selected for audit based on random selection or breach of threshold criteria in place. This would require a member to submit the same documentation necessary for a paper claim.
- Plan member online audits have certain thresholds / triggers in place that can be adjusted by the City as plan sponsor. Examples are single day claim total, high claim value, and total dollar amount.
- Benefits providers may be requested to verify treatment or provide treatment records, based on unusual claiming patterns (i.e. excessive treatment; multiple providers for same benefit, multiple locations;

Additionally, the benefits administrator has undergone a third party review, by a reputable CPA firm, of the effectiveness of its controls over claims processing (CSAE 3416 report). This report was provided to Internal Audit for review; no exceptions were noted in that report.

Recommendations:

E.2.1 To ensure that adequate controls are maintained over the processing of benefits claims, the Director, HR Business Partnerships should:

- a) request that the benefits administrator provide periodic updates as to the monitoring and audits performed. Examples could include number and details of provider reviews undertaken, number of random audits performed where supporting documentation was requested, and the types of suspicious claims activity that were flagged for further investigation. If adequate information cannot be provided by the administrator under the current contractual agreement, then a contract amendment should be pursued.**
- b) ensure that spot checks on claims are conducted periodically at the individual claimant level to identify any unusual activity. This could include number or value of claims over a certain threshold and any other potentially excessive claims patterns.**

A schedule for these reports and reviews should be decided upon and implemented by September 30, 2021.

Management Response:

Please check one:

- Agree with the findings
- Disagree with the findings

Please check one:

- Agree with the recommendations
- Disagree with the recommendations

Management Action Plan:

Discussions with GSC account manager will occur by Q2 to ascertain whether the required information can be provided. During Q2 exploration of appropriate reliance documents and methodology for spot checks will be established. Spot checks will begin by Q3.

E.2.2 The Director, HR Business Partnerships should ensure that the administrator provides a copy of the CSAE 3416 report to the City for review on an annual basis, and that any exceptions noted are followed up with the administrator. This process should be in place by July 31, 2021.

Management Response:

Please check one:

- Agree with the findings
- Disagree with the findings

Please check one:

- Agree with the recommendations
- Disagree with the recommendations

Management Action Plan:

A copy of the CSAE 3416 report has been requested. An annual process for review will be determined by Q2.

E.2.3 The Director, HR Business Partnerships should ensure that the thresholds / triggers in place for claims audits are reviewed with the Benefits Administrator and adjusted as appropriate given claims history and any trends that have been noted over the past year. This should be completed by September 30, 2021.

Management Response:

Please check one:

- Agree with the findings
- Disagree with the findings

Please check one:

- Agree with the recommendations
- Disagree with the recommendations

Management Action Plan:

Discussions with GSE account manager will occur by Q2. An analysis of the thresholds will occur by Q3.

E.3 Establish Effective Monthly Invoice Verification and Follow-Up

The monthly invoices from the benefits administrator reflect the total value of claims processed for the period as well as the associated administration fee and any other applicable fees. The volume and value of claims is also broken down by claims category such as drug, vision, and dental.

Invoices are reviewed for cost allocation purposes only

Benefits division staff calculate the allocation of the total invoice amount to various account codes within SAP. This information is then submitted to Accounts Payable for processing the payment.

Invoices are not reviewed and verified on a regular basis as the City does not have a view into the details of claims submitted and paid by the administrator. In order to reconcile the invoice amount, one would need to rely on the administrators detail report of claims transactions.

Lack of details on invoices to enable verification

Without a reliable method of verifying monthly invoices, there is a risk that the City may be incorrectly charged by the benefits plan administrator. Additionally, given that the contract with the administrator is structured so that the administration fee paid by the City is a percentage of claims processed, there lacks an incentive for ensuring costs are controlled.

Recommendation:

E.3.1 The Director, HR Business Partnerships should ensure that a process is established for monthly review of the invoices from the benefits administrator, to provide some assurance as to the reasonableness of the invoiced amounts. Responsibility for the review should be clearly assigned and review steps should include: verification of the amount of administration fees and other fees, a comparison to detailed claims activity reports, and tracking of year over year invoiced amounts to ensure reasonableness.

This process should be established by December 31, 2021.

Management Response:

Please check one:

- Agree with the findings
- Disagree with the findings

Please check one:

- Agree with the recommendations
- Disagree with the recommendations

Management Action Plan:

The recommendation is not disputed, however, the invoices are being confirmed for a sense of reasonableness to the amounts invoices. Steps will be taken to ensure this process is documented and occurs regularly. As the comparison to claims necessarily lags the invoice process, a quarterly retrospective review will be established by the end of the year.

E.4 Enhance Vendor Performance Metrics for Benefits Administration

A more comprehensive set of performance metrics is needed to ensure that the benefits administrator is performing the services required and providing the City with value for money.

While the agreement between the City and the benefits administrator sets out the responsibilities of each party, it does not explicitly include defined service targets for the administrator. However, the administrator provides the City with a quarterly update report in which information such as the total claims costs and volume of claim during the period. This report also includes some service metrics such as: claims processing time (the standard is five business days), and calls answered

under 60 seconds (target is 60%). These metrics and targets are established and tracked by the benefits administrator.

Other areas of performance evaluation could include a customer survey in which City employees can provide feedback on the service obtained by the benefits administrator. Also, given that the administrator is responsible for vetting claims to ensure they are valid and eligible, some metrics could be developed to ensure that appropriate monitoring is being performed, such as number of random audits conducted, number of provider reviews performed.

A complete set of performance metrics will assist the City in evaluating the performance of the vendor and will provide useful information when the time to renew the contract.

Recommendation:

E.4.1 The Director, HR Business Partnerships oversee that the existing performance metrics are enhanced to assist with evaluating the performance of the benefits administrator. Consideration should be given to metrics relating to the administrator’s monitoring and audits conducted as well as client satisfaction.

Once a comprehensive set of metrics is determined these should be incorporated into the contractual agreement with the administrator. The quarterly reporting for these metrics should be in place starting in December 31, 2021.

Management Response:

Please check one:

- Agree with the findings
- Disagree with the findings

Please check one:

- Agree with the recommendations
- Disagree with the recommendations

Management Action Plan:

There are metrics being delivered on a quarterly basis by GSC. A review of those metrics to determine whether enhancements, replacements or additions to those metrics will be undertaken with the goal of receiving any required changes by Q4.

E.5 Improve Accuracy of Updates to Employee Benefits Data

SAP Automatically Updates to the Administrator’s System

Under the contract with the benefits administrator, the City is required to ensure that any changes to employee information is updated on a timely basis. The SAP system is programmed to automatically upload the complete data set of employee benefits information to the benefits administrator’s system on a weekly basis. Comparison of the City’s data with the benefits administrator’s enrollment information did not reveal any instances of individuals on the benefits plan that were not also on the City’s list in SAP.

Benefits and Payroll Staff Update Employee Data

Updates to employee benefits data in SAP can include changes to an employee’s contact information, change in optional coverage or plan type, and change to dependents covered under the employee’s benefit plan. Updating this information in SAP is a role performed by staff in both

the Benefits division and Payroll division. Staff in both groups perform this function as it can be more efficient for Payroll to perform some of the entries rather than involving both groups.

Updates to employee benefits data were reviewed through the course of the audit and revealed some data entry errors. The transactions were promptly corrected once brought to the Benefits team attention. All efforts should be made to ensure accuracy of this information as any errors could impact premiums or coverage for plan members or their dependents.

Recommendation:

E.5.1 The Director, HR Business Partnerships should ensure that all staff, in Benefits and Payroll divisions, that are responsible for updating the benefits portion of SAP employee data are fully trained and knowledgeable in this area to mitigate any errors in data entry. Some “refresher” materials should be developed and communicated to all staff to ensure consistency. This material should be communicated by September 30, 2021.

Management Response:

Please check one:

- Agree with the findings
- Disagree with the findings

Please check one:

- Agree with the recommendations
- Disagree with the recommendations

Management Action Plan:

The Manager, Compensation & Benefits will work together with the Manager, Payroll and the Manager, Administration (HR) to ensure refresher materials and training occur.

E.6 Pursue Reduction in Invoice Payment Processing Time to Minimize Deposit Required

The benefits administrator requires the City to maintain an amount on deposit to cover upcoming costs of claims prior to the invoice payment. For the year ending June 30, 2020, the deposit level required was \$2.24 million. The administrator noted that the average time outstanding for the invoice payments was 36 days for the period. This payment processing time resulted in an increase to the required deposit level of \$1.33 million to a total required deposit of \$3.59 million.

The benefits administrator noted that if the payment schedule was reduced to a 15 day processing time, the deposit increase required would be \$203,000, or \$1.1 million less than the amount required if the same payment processing schedule continues. This reduction in deposit amount would free up \$1.1 million in cash flow.

Recommendation:

E.6.1 The Director, HR Business Partnerships, should ensure that the Benefits division, in consultation with the Accounting Operations team, explore any possible payment processing improvements with the aim of reducing invoice processing time and minimizing the required deposit held on account with the benefits administrator. The approach to be taken should be finalized by June 30, 2021.

Management Response:

Please check one:

- Agree with the findings
- Disagree with the findings

Please check one:

- Agree with the recommendations
- Disagree with the recommendations

Management Action Plan:

A payment processing improvement was implemented in January 2021. The current deposit of \$2,250,000 will remain with GSC. In addition, the City will begin to pay \$551,100 as a mid-month payment, and continue to pay billings by the 25th of the following month. This negated the request to increase the required deposit.