



DEPENDENT ELIGIBILITY VERIFICATION PERFORMANCE AUDIT

DECEMBER 2015

DURHAM



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AUDIT SERVICES DEPARTMENT

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To: Audit Services Oversight Committee
From: Germaine F. Brewington, Director
Audit Services Department
Date: January 25, 2016
Re: Dependent Verification Audit Performance Audit
(December 2015)

The Department of Audit Services completed the report on the Dependent Verification Performance Audit dated December 16, 2015. The purpose of the audit was to verify that each spouse and dependent enrolled for Health and Dental benefits through the City is accurately listed and eligible for coverage.

This report presents the observations and results of the Dependent Verification Performance Audit dated December, 2015. City management concur with the recommendations made. Management's response to the recommendations is included with the attached report.

The Department of Audit Services appreciates the contribution of time and other resources from employees of the Human Resources Department as well as every other City department.

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BACKGROUND INFORMATION

The City spent approximately \$28 million in FY 2015 to provide Health and Dental benefits to employees, retirees and qualified dependents. Given the high cost of providing these benefits to employees, it is essential that the City seek opportunities to minimize the cost of providing benefits. Ensuring that only eligible dependents are enrolled in these benefits will help reduce overall healthcare costs. At present the City does not require employees to submit during the annual enrollment period, documentation to support eligibility of the dependents that they choose to enroll for these benefits. Annual enrollment is the only chance employees have each year to enroll dependents, except for qualifying events or when a court order is adjudicated. Supporting documentation is verified for enrolling dependents as a result of qualifying events. Qualifying events include (but are not all inclusive) birth, adoption or the addition of a certified dependent. The City has never conducted a Dependent Eligibility Verification audit to ensure that only eligible dependents are enrolled during regular open enrollment. In absence of controls to verify eligibility, it's possible that ineligible dependents may be receiving benefits which could potentially increase the healthcare costs to the City. The Human Resources Department staff recognized this risk exposure and requested the Audit Services staff perform a Dependent Eligibility Verification Audit.

A Dependent Eligibility Verification Audit would review an employer's medical benefits to ensure all enrolled dependents are eligible as per established guidelines. Performing a Dependent Eligibility Verification Audit would help the organization:

- Reduce healthcare costs by eliminating claims paid for ineligible dependents; and
- Ensure that the City can continue to provide appealing benefits that help attract talented employees.

At the City, all full time and specified part-time or temporary-with-benefits employees are eligible for medical coverage beginning on the first day of the month following date of employment. Medical coverage includes Health, Dental and Vision benefits. Employees may also enroll dependents, which include the following:



BACKGROUND INFORMATION

- Spouse;
- Certified dependent (same-sex or opposite-sex partners);
- Natural children, step children, adopted children, and children of certified dependents (up to age 26);
- Children specified in a court order (up to age 26); and
- Unmarried children who are mentally or physically handicapped and incapable of self-support, regardless of age.

Dependent eligibility requirements are outlined in the Employee Benefits Guide, which is provided to all employees during the enrollment period for medical benefits. Employees can also access the guide from the City of Durham Intranet site.

The City of Durham has 1,465 employees that enrolled dependents in the City's health and dental benefits beginning September 1, 2015. Of these 1,465 employees:

- 979 employees enrolled dependents for both dental and health benefits;
- 319 employees enrolled dependents for health benefits only; and
- 167 employees enrolled dependents for dental benefits only.

BACKGROUND INFORMATION

Table 1 shows the number of dependents enrolled in the City's health and dental benefits. This data was provided by the Human Resources staff and was not verified by the Audit staff.

Table 1: Enrolled Dependents

	End of Benefit Year 2012-13	Beginning of Benefit Year 2013-14	End of Benefit Year 2013-14	Beginning of Benefit Year 2014-15	End of Benefit Year 2014-15	Beginning of Benefit Year 2015-16
Children	1843	1861	1905	1946	1987	1811
Spouses	1046	1066	1079	1049	1028	860
Employees	2706	2722	2770	2727	2692	2699
Total	5595	5649	5754	5722	5707	5370

Table 2 shows the percentage change in the number of dependents enrolled for the City's health and dental benefits. This data was provided by the Human Resources staff and was not verified by the Audit Services Staff.

Table 2: Percentage Change in Number of Enrolled Dependents

	Benefit Year End 2012-13 to Benefit Year Beginning 2013-14	Benefit Year End 2013-14 to Benefit Year Beginning 2014-15	Benefit Year End 2014-15 to Benefit Year Beginning 2015-16
Children	0.98%	2.15%	-8.86%
Spouses	1.91%	-2.78%	-16.34%
Employees	0.59%	-1.55%	0.26%
Total	0.97%	-0.56%	-5.91%

According to the Department of Human Resources staff, the above table shows that from plan year 2012-13 to plan year 2013-14 coverage for dependents (both children and spouse) increased. From plan year 2013-2014 to plan year 2014-15 coverage for children again increased but there was a slight decrease in spousal coverage, which was likely triggered by changes to the plan design making it more expensive to cover a spouse. From plan year 2014-15 to plan year 2015-16 there was an uncharacteristic drop in coverage for both children and spouses.

EXECUTIVE SUMMARY

Purpose

The purpose of the audit was to verify that dependents enrolled for health and dental benefits through the City are eligible for coverage.

The Audit Services staff 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 and 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.

Results in Brief

Overall 98.5% of dependents verified were eligible to be enrolled in the health and/or dental benefits. Audit staff could not determine eligibility for 8 of the 688 dependents selected for review. In addition, 2 ineligible dependents were enrolled for benefits that did not qualify based on the eligibility criteria. The Departments of Audit Services and Human Resources proactively engaged employees through a series of meetings and question and answer sessions. Informing the employees about the audit prior to annual enrollment provided employees the opportunity to evaluate and update dependents if needed based on the eligibility criteria.

Ensuring that only eligible dependents are enrolled in these benefits will help reduce overall healthcare costs. At present the City does not require the employees to submit documentation to support eligibility of the dependents that they choose to enroll for these benefits during the annual enrollment period. Annual enrollment is the only chance employees have each year to enroll dependents, except for qualifying events or when a court order is adjudicated. Supporting documentation is verified for enrolling dependents as a result of qualifying events. Qualifying events include (but are not all inclusive) birth, adoption, and the addition of a certified dependent. The City has never conducted a Dependent Eligibility Verification Audit to ensure that only eligible dependents are enrolled. This lack of a control to



EXECUTIVE SUMMARY

verify eligibility means that ineligible dependents may be receiving benefits which increases the healthcare cost to the City.



OBJECTIVES, SCOPE AND METHODOLOGY

Objective

The objective of the audit was to determine if dependents enrolled for health and dental benefits were eligible as per the City's definition of eligibility.

Scope

The scope of this engagement included all enrolled dependents under the City's health and dental benefits, for the benefit year beginning September 1, 2015.

Methodology

To accomplish the objectives of this audit, Audit Services staff performed the following steps:

1. **Communication Plan:** During the planning phase of the audit, Audit staff developed a communication plan and identified the types of documents that would be accepted as verification of eligibility for each type of dependent. Since documentation was not required in the past to substantiate eligibility, staff had to identify all the major challenges they would face and develop methods to overcome them. Significant efforts were made to inform employees about the audit. Audit staff held information sessions at most of the operations departments at the City. In addition, Human Resources staff also informed employees about the audit during their benefits presentations to City employees. The required documentation and the initial audit letter were also included in the Employee Benefits Guide. Employees were advised during the open enrollment period, to obtain the documents necessary to substantiate eligibility;
2. **Sample Selection:** Audit staff obtained a list for the September 2015 open enrollment of all employees who enrolled dependents on the City's health and dental benefits. The list, which was obtained from the Department of Human Resources, was reviewed for accuracy and completeness. A random sample of 352 employees was selected using the ACL audit software;

OBJECTIVES, SCOPE AND METHODOLOGY

3. Method of Delivery: Employees selected for the audit were notified via a letter of their selected participation for this audit. Letters were hand delivered to all active City employees. The employees were required to sign a delivery notification sheet to acknowledge receipt of the letter. Letters were mailed to employees who were absent from the office for an extended period of time. Letters were also mailed to all retirees that were selected as part of the sample. Certified/registered mail was not used. All of the letters were mailed first class through the United States Postal Service. The addresses used were the same as the official address records for employees maintained by the Department of Human Resources;
4. Verification of Documents: Employees could bring the documents to the Audit Services office in City Hall or to other locations around the City where Audit staff were scheduled to review documentation. Documents were reviewed to ensure eligibility was met; and
5. Extensions of the Deadline: Several extensions were granted to ensure employees were provided every reasonable opportunity to comply with the audit requirements. Audit staff called employees to notify them of the deadline. In addition, Human Resources staff sent out a final notification letter to employees to inform them of the consequences of not cooperating with the Audit. See the Dependent Verification Audit Timeline on page 12.

During the audit, the staff also maintained awareness to the potential existence of fraud.

DEPENDENT VERIFICATION AUDIT TIMELINE

TASK	Monthly/Day																						
	5/1	7/6	7/7	7/8	7/9	7/10	7/11	7/12	7/13	7/14	7/15	7/16	Aug 17	10/2	10/28	11/2	11/20	11/30	12/7	12/9	12/10		
AS met with HR to finalize the eligible dependent definition and the documentation required to support medical benefits																							
Open Enrollment period for enrolling dependents)																							
AS sent out all user email to notify employees of the Dependent Verification Audit																							
AS staff visited 10 departments to conduct face to face meetings and answer questions about the audit																							
HR staff reminded employees about the audit at the benefits presentation																							
AS staff selected a random sample																							
Active employees received letters and signed for them																							
AS mailed letters to retirees																							
Document verification (initial deadline) by AS staff																							
Deadline Extended																							
HR staff hand delivered Final Notice letters giving an extension to 12/7/2015																							
Final deadline to submit documentation																							
AS contacted 3 directors for employees still not in compliance																							
AS = Audit Services staff																							
HR = Human Resources staff																							

AUDIT RESULTS

Objective 1: To determine if dependents enrolled in the City's health and/or dental benefits were eligible as per the City's definition of eligibility.

Overall 98.5% of dependents verified were eligible to be enrolled in the health and/or dental benefits

A random sample of 352 employees was selected from the list of 1465 employees who had enrolled dependents on their health and/or dental benefits. The 352 employees enrolled approximately 688 dependents on the City's health and/or dental benefits. Audit Services staff verified supporting documentation to substantiate dependent eligibility. The results were as follows:

Results by Dependents

Verified Dependents	678
Unverified Dependents	8
Ineligible Dependents	<u>2</u>
Total Dependents	688

Dependents Verified without exception

Audit Services staff verified supporting documentation for 678 dependents without exception. Eligibility was verified using the documents listed on the Dependent Eligibility and Verification Document chart.

Unverified Dependents

The risk exist that some or all of these unverifiable dependents may be ineligible. Ineligible dependents enrolled for benefits, increases the overall healthcare cost to the City. Unverified dependents were as a result of employees submitting:

- No documentation(6 dependents);
- Unacceptable documentation (1 dependent); and
- Partial documentation (1 dependent).

AUDIT RESULTS

In the absence of supporting documentation Audit Services staff could not validate the eligibility of the dependents enrolled for medical benefits. Audit Services staff and Human Resources staff notified the employees to submit the required documentation on several occasions. Employees submitted proof that they had initiated the process to obtain the necessary documents for two of the eight unverified dependents. However, as of end of field work on December 14, 2015 the documentation was still outstanding.

Ineligible dependents

Claiming ineligible dependents increases the overall healthcare cost to the City. As noted above two ineligible dependents were enrolled in the City's benefits. The employees who claimed these ineligible dependents were aware that the dependents claimed on their health and/or dental benefits did not meet the eligibility criteria. The City defines the eligibility criteria for dependents in the Employee Benefits Guide issued to employees. The Departments of Audit Services and Human Resources proactively engaged employees through a series of meetings and question and answer sessions. Informing the employees about the audit prior to annual enrollment provided employees the opportunity to evaluate and update dependents if needed based on the eligibility criteria.

The Department of Human Resources staff prior to this audit did not verify eligibility of dependents enrolled by employees during the open enrollment period. Lack of an effective verification process exposes the City to the risk of employees claiming ineligible dependents and increasing healthcare costs. Verifying the supporting documentation to ensure only eligible dependents are enrolled for health and/or dental benefits would help the City reduce its overall healthcare costs.



AUDIT RESULTS

Results by Employee

Status	Number of Employees
Employees claimed eligible dependents	346
Employees claimed ineligible dependents	2
Employees did not provide supporting documentation for some or all of their dependents (as of December 14, 2015)	3
Employee provided partial documentation	1
Total	352

Based on the above numbers approximately 98% of employees provided the required documentation to support eligibility.

Department of Human Resources did not maintain court ordered healthcare coverage documents on file

During the audit several instances were noted where employees claimed that they were court ordered to provide healthcare to their children. However, they did not have the court order documents or other documents to satisfy the eligibility criteria. Audit services staff were able to establish that the healthcare was court ordered based on information in the MUNIS system. The healthcare records for these employees in MUNIS showed the court ordered box checked off. However, the actual order was not maintained in MUNIS or in other Human Resource Department files. According to Human Resources staff, these documents were misplaced as a result of staff turnover. Staff turnover should not affect the retention of these documents. A procedure should be established to ensure that these documents are appropriately maintained.

AUDIT RESULTS

Conclusion

Overall 98.5% of dependents verified were eligible to be enrolled in the health and/or dental benefits. Audit staff could not determine eligibility for 8 of the 688 dependents selected for review. In addition, two (2) ineligible dependents were enrolled for benefits that did not qualify based on the eligibility criteria. Audit Services staff and Human Resources staff took proactive measures to notify employees of the audit requirements prior to the annual enrollment period. Informing the employees about the audit prior to annual enrollment provided employees the opportunity to evaluate and update dependents if needed based on the eligibility criteria.

Ensuring that only eligible dependents are enrolled in City medical benefits will help reduce overall healthcare costs. At present the City does not require the employees to submit documentation to support eligibility of the dependents that they choose to enroll for these benefits during the annual enrollment period. Annual enrollment is the only chance employees have each year to enroll dependents, except for qualifying events or when a court order is adjudicated. Supporting documentation is verified for enrolling dependents as a result of qualifying events. Qualifying events include a birth, adoption and addition of a certified dependent (list not all inclusive). The City has never conducted a Dependent Eligibility Verification Audit to ensure that only eligible dependents are enrolled. A lack of controls can provide opportunity for ineligible dependents to receive benefits; increasing healthcare costs to the City.

RECOMMENDATIONS

Recommendation 1

The Department of Human Resources staff should:

- Terminate Health and Dental benefits for ineligible dependents as well as unverified dependents;
- Determine the disciplinary actions to undertake for employees that either claimed ineligible dependents or unverified dependents; and
- Determine if employees claiming ineligible dependents will be required to make financial restitution to the City.

Recommendation 2

The audit results revealed that ineligible dependents were enrolled in the City's health benefits. Therefore, management should check eligibility of all dependents enrolled in the City's Medical benefits during each annual benefits enrollment period starting with FY 2017. This process will allow the City to ensure that a dependent is eligible at the time of enrollment for benefits, streamline costs and mitigate its risk.

Recommendation 3

The court system mandates that some employees provide support for their dependents. The Department of Human Resources staff should retain for easy retrieval, copies of all such court order documents for affected City employees.

MANAGEMENT'S RESPONSE

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Memo to: Dr. Germaine F. Brewington, Director of Audit Services
From: Regina Youngblood, Human Resources Director
Date: January 13, 2016
Subject: Management's Response - Dependent Verification Audit
Performance Audit (December 2015)

The following is the management's response to the Dependent Verification Audit Performance Audit dated December 2015.

Recommendation 1:

The Department of Human Resources staff should:

- Terminate Health and Dental benefits for ineligible dependents as well as unverified dependents;
- Determine the disciplinary actions to undertake for employees that either claimed ineligible dependents or unverified dependents; and
- Determine if employees claiming ineligible dependents will be required to make financial restitution to the City.

Management's Response

We concur. Management is in full agreement with the recommendation.

Effective December 31, 2016 the Human Resources Department terminated Health, and where applicable, Dental benefits for all ineligible dependents as well as all but two of the unverified dependents. The employees associated with the remaining two unverified dependents have provided sufficient proof to confirm that they have requested the necessary legal documentation to verify the dependent. A follow-up communication will be sent to these two employees in February. Benefits for the unverified dependents will be terminated if the required documentation is not provided by March 31, 2016.



Dependent Eligibility Verification
Performance Audit
December 2015

The Human Resources Director will submit a discipline recommendation to the City Manager. The recommendation will include a discussion of claims repayment.

Implementation Date: January 2016.

Recommendation 2:

The audit results revealed that ineligible dependents were enrolled in the City's health benefits. Therefore, management should check eligibility of all dependents enrolled in the City's Medical benefits during each annual benefits enrollment period starting with FY 2017. This process will allow the City to ensure that a dependent is eligible at the time of enrollment for benefits, streamline costs and mitigate its risk.

Management's Response

We concur with reservations. Management is in agreement with the recommendation, but there are circumstances that could affect its implementation which have to be resolved.

The City of Durham had approximately 1,465 employees that enrolled dependents in the City's Health and Dental benefits this plan year; if this number remains constant over time, additional resources will be required to review and validate paperwork on an annual basis. Open enrollment periods may need to be extended to accommodate face-to-face meetings with employees who would have otherwise enrolled without assistance. Benefits Counselors will need to be trained to inspect documentation.

Issues with the Workterra enrollment system will need to be resolved to accept uploaded documents. The Human Resources Department attempted to gain access to upload functionality during the audit, but the system did not work as expected. Even if the errors with the upload process can be corrected, each uploaded document would still need to be visually inspected by Human Resources staff to validate employee elections.

Implementation Date: March 2017.

Recommendation 3:

The court system mandates that some employees provide support for their dependents. The Department of Human Resources staff should retain for easy retrieval, copies of all such court order documents for affected City employees.

Management's Response

We concur. Management is in full agreement with the recommendation.

The Human Resources Department has already revised the process for maintaining child support court orders. As orders are received, they are logged and scanned for easy access and retrieval.

The missing documents discovered through this audit were documents received before the process change.

Implementation Date: Complete.

