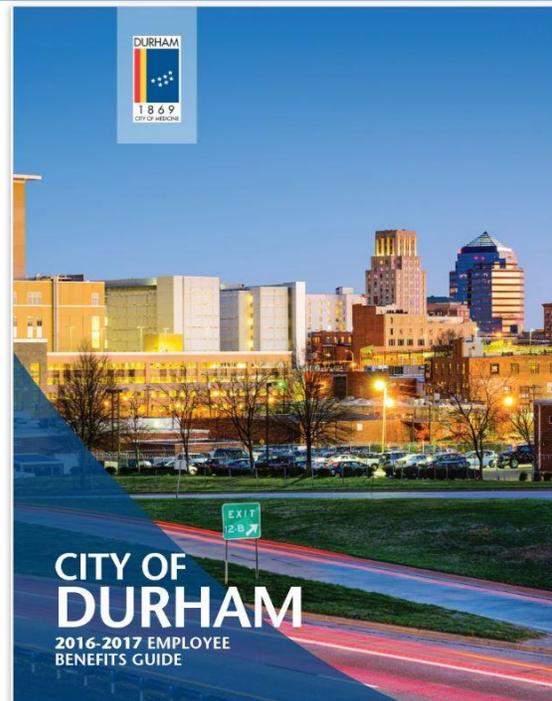


March 2017

City of Durham

Dependent Eligibility Verification Audit



City of Durham
Audit Services Department
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Audit Services Department
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To: Audit Services Oversight Committee
From: Germaine F. Brewington, PhD, CPA, CFE, CGMA
Director, Audit Services Department
Date: March 27, 2017
Subject: City of Durham Dependent Eligibility Verification Performance Audit

Auditor's Report

The Audit Services Department staff completed the report for the Dependent Eligibility Verification Audit. The purpose of this audit was to determine if dependents enrolled in the City's healthcare and dental benefits were eligible per the City's definition of eligibility.

This report presents the observations, results, and recommendations of the Dependent Eligibility Verification Audit. In response to this audit's recommendations, City Management does not concur with the first recommendation made and did concur with the second recommendation made. The detailed Management response to the recommendations is included with the attached report.

The Audit Services staff would like to acknowledge the contributions of the Human Resources staff for providing timely documentation and substantive discussions around processes for this audit; and, the Departments of Public Works, Water Management, Fire, and Police in providing meeting space to make this audit accessible to all employees. We would also like to thank the directors and administrative members that reached out to their employees to advocate for compliance and underscore the value of the verification process.

Finally, the Audit Services staff would like to acknowledge the time employees who were selected for this engagement, took out of their busy schedules to comply with this audit.



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Audit Report Highlights

Background

Audit Services staff chose to perform the second annual Dependent Eligibility Verification Performance Audit due to the rising costs of providing healthcare benefits and the lack of systems to verify dependents during open enrollment. As a self-insured City, Durham managed a \$33 million dollar fund to cover 5,300 employees, retirees, and dependents. In fiscal year 2016, the City found that the majority of dependents met the City's definition of eligibility. However, a small fraction of dependents were removed from City sponsored coverage. Three recommendations were made in the FY 2016 audit, one of which included the verification of dependents' eligibility upon enrollment by new hires in 2017.

Purpose

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



Dependent Eligibility Verification Audit March 2017

Audit Services staff's research revealed that the City's unverified/ineligible dependents fell slightly below the industry norm (4%-8%). Any reduction in the number of unverified dependents has a positive impact on the City's financial position.

Highlights

Audit Services staff verified the eligibility of 585 (97%) of dependents out of 602 dependents reviewed. However, Audit Services staff found that approximately 8% of employees did not comply with the audit within the initial audit time frame. In an effort to minimize insurance lapses for employees, Audit Services staff extended the review period for a full month. Ultimately, Audit Services staff found that eligibility could not be verified for 17 dependents covered by 9 employees (approximately 3%). Dependents were unverified because employees failed to respond to the requests to present documents for verification of their dependents' eligibility. The risk exist that some or all of these unverified dependents may be ineligible. Not only do ineligible dependents enrolled in City coverage increase the overall healthcare costs, carrying ineligible dependents can be classified as healthcare dependent fraud.

Audit Services staff issued two recommendations: 1. Management should determine disciplinary actions for employees who did not comply with the audit's deadline; and 2. Management should terminate unverified dependents' coverage, issue disciplinary actions for the employees, and require restitution for paid claims in Benefits Year 2017.

Management did not concur with recommendation 1, citing that sanctions should not be imposed due to the lack of communication of possible sanctions for non-compliance with the audit time line. Management did concur with recommendation 2 and indicated the recommendation would be completed in March of 2017.

Audit Services Department

Internal Audit

The Audit Services Department serves a two-fold role at the City of Durham. As an Internal Audit department, the mission is to provide professional, independent, objective assurance and investigative services.

Specifically, staff provide an independent appraisal function designed to evaluate activities within the City as a service to management. Staff also serve as internal fraud examiners when fraud, waste, or abuse is alleged against a City employee or department. Finally, in order to constantly foster high ethical standards, staff provide ethical training to all City employees on a rolling basis.

The Internal Audit function supports the Strategic Plan goal: Innovative and High Performing Organization.

To learn more, visit durhamNC.gov/Audit

Audit Services Oversight Committee

In order to maintain its organizational independence, the Audit Services Department reports to the Audit Services Oversight Committee (ASOC) at a minimum of four times a year. The ASOC approves all proposed audit plans and completed audits prepared by Audit Services staff.

The Audit Services Oversight Committee is made up of 6 members: 2 City Council Members, 3 members of the business community, and 1 alternate City Council Member. The members include a certified public accountant and a person with experience in the finance industry. The City Manager is an ex-officio non-voting member of the ASOC.

Audit Services Oversight Committee Members

Chair:

Cora Cole-McFadden
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Vice-Chair:

Kim Anglin, CPA
Resident Member

Committee Members:

Steve Schewel
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Jenna Meints, PhD
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Resident Member

Eddie Davis
Alternate City Council Member

Non-Voting Member:

Thomas J. Bonfield
City Manager



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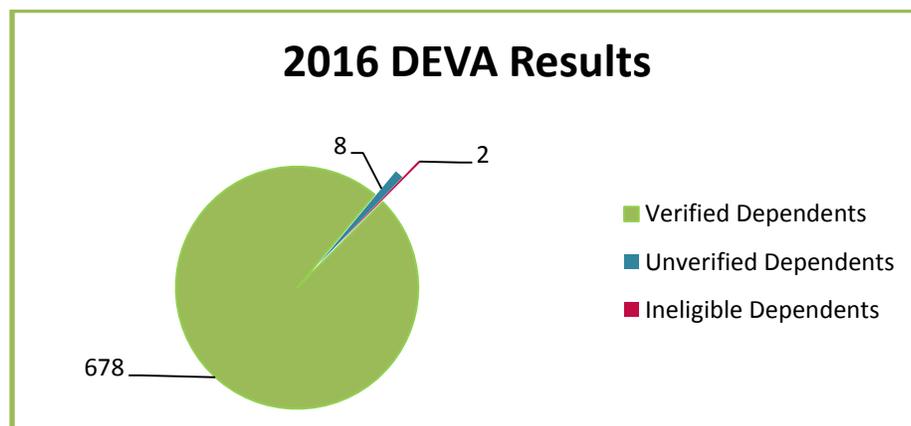
Background

The rising costs of providing healthcare benefits to employees and the lack of systems to verify dependents during open enrollment are driving the second annual review [since fiscal year 2016] of dependent eligibility. The City of Durham (City) is self-insured for medical health coverage for City employees and retirees. The City also provides, via a self-insured plan, dental insurance for current employees and their dependents. The City's medical healthcare plan is administered by Blue Cross Blue Shield of North Carolina (BCBSNC). The dental plan is administered by Delta Dental. The self-insured employee insurance fund is approximately \$33 million insuring over 5,300 people¹. The City spent approximately \$26 million in fiscal year 2015 and \$34 million in fiscal year 2016 to provide healthcare benefits to employees, retirees, and qualified dependents. Ensuring that only eligible dependents are enrolled in these benefits will help reduce overall healthcare costs to the City.

Fiscal Year 2016 Audit

In fiscal year 2016, Audit Services staff randomly selected 352 employees out of the 1465 employees with enrolled dependents. The 352 employees carried a total of 688 dependents. Audit Services staff verified all but ten (10) of the 688 dependents were eligible for City healthcare coverage.

Figure 1. 2016 Dependent Eligibility Verification Results.



¹ Budget book 2016-2017

The low number of unqualified dependents was in part due to the extensive communication strategy that was adopted while performing the DEVA in 2016. All employees were notified prior to the enrollment period about the audit.

Audit Services staff made three (3) recommendations to the Department of Human Resources staff in light of these results:

1. Terminate benefits for ineligible dependents and unverified dependents; determine disciplinary actions to undertake for employees with unverified or ineligible dependents and determine if restitution would be required from the non-compliant employees;
2. Conduct an eligibility process during open enrollment or continue to have an independent assessment by the Audit Services staff; and
3. Retain all court ordered documents for employees with court system mandated financial obligations.

At the time of the current (FY 2017) audit, the Department of Human Resources had completed recommendations 1 & 2 of the FY 2016 audit.

Eligibility

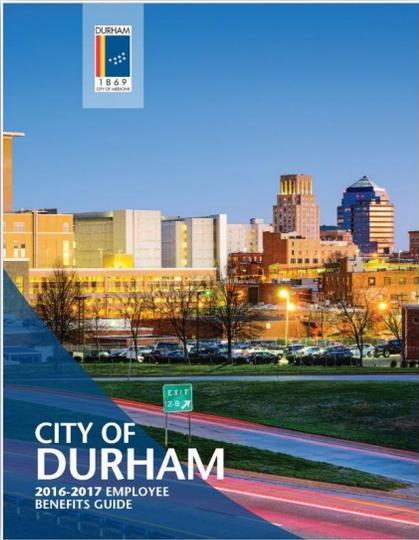
At the City, all full time, specified part-time, and temporary-with-benefits employees are eligible for medical and dental coverage beginning on the first day of the month following the date of employment. Retirees are also eligible for medical coverage. Employees may also enroll dependents, which include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

Table 1. Dependents recognized as eligible per the City's guidelines.

Type of Dependents
Spouse
Certified dependent (same-sex or opposite-sex partners)
Biological 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

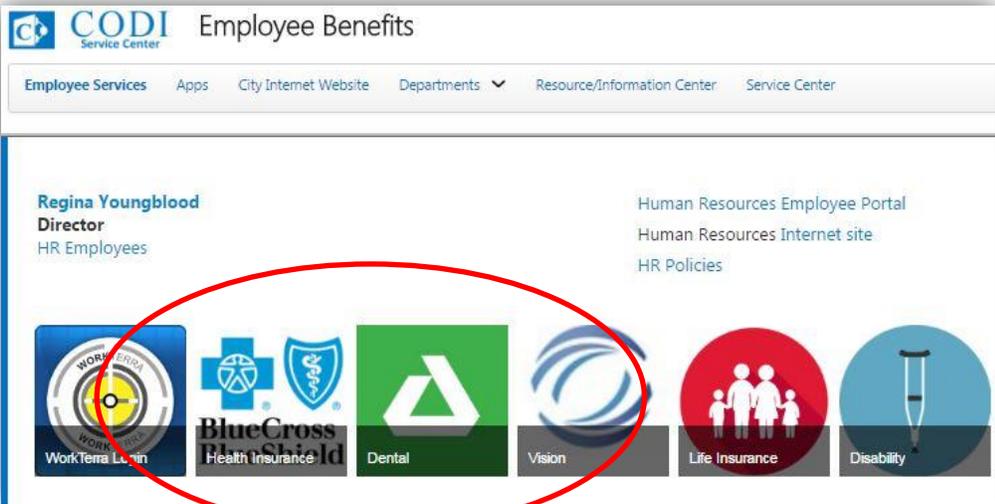
Dependent eligibility requirements are outlined in the Employee Benefits Guide, which is provided to new employees upon hire and all employees during the open enrollment periods for healthcare benefits.

Image 1. City of Durham 2016-2017 Benefits Guide.



Employees can also access the benefits guide anytime from the City of Durham Intranet Site (CODI).

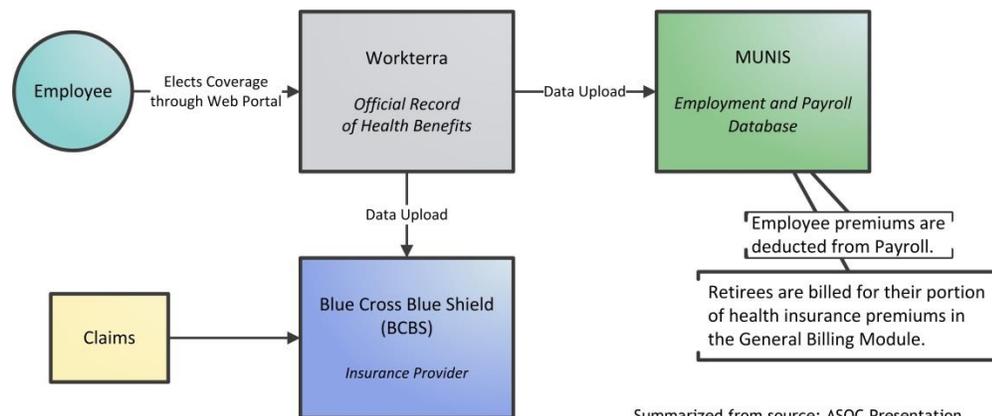
Image 2. The City ensures that all employees have access to eligibility requirements via the employee intranet portal (CODI).



Health Benefits Enrollment Process

In order to enroll in the City offered health plans, Human Resources staff utilize the Workterra system, a database that allows employees to self-select their elected coverage.

Figure 2. Employees' coverage is maintained in a database called Workterra that feeds information to BCBSNC and MUNIS, the City's payroll and billing database.



Summarized from source: ASOC Presentation April 2015 - Health Benefits Performance Audit

Ensuring that only eligible dependents are enrolled in City medical benefits will continue to help reduce overall healthcare costs. As of July 1, 2017, the City began requiring all new hires to submit acceptable verification documents when enrolling dependents for healthcare benefits. Beginning with Open Enrollment in fiscal year 2017, all existing employees will be required to provide verification documents when enrolling new dependents on the City's insurance plans.

Table 2. Enrolled employees and dependents: Benefit Years 2014-2016

Total Enrolled Employees and Dependents			
Beginning of Benefits Year	2016	2015	2014
Employees	2653	2699	2692
Dependents	2579	2671	3015
Total	5232	5370	5707
Change in enrollees	≤2.6%	≤17%	

Note: This data was provided by the Department of Human Resources which was not verified by Audit Services staff.

Objective

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

Scope, Methodology, and Compliance

Scope

The scope of this engagement included all enrolled dependents under the City's health and dental benefits, for the benefit year beginning July 1, 2016.

Methodology

Audit Services staff performed the following procedures to accomplish the objectives of the audit:

1. Obtained a list from the Human Resources Department of employees that enrolled dependents in the City's healthcare benefits for the benefit year beginning July 2016.
2. Reviewed the list for accuracy and completeness.
3. Used ACL audit software to select a random sample of 285 employees that enrolled approximately 602 dependents in the City's health and dental benefits.
4. Distributed letters containing the objective, submission deadlines, compliance requirements, and frequently asked questions (FAQs) to selected employees via:
 - a. Hand-delivery with signed roster of receipt; and
 - b. Certified mail with signed return receipt.
5. Reviewed documents submitted physically or electronically to verify dependents' eligibility.
6. Sent follow-up emails and made follow-up phone calls to employees and retirees that had not provided documentation close to the deadline.

7. Interviewed Departments of Human Resources and Finance staff on the court ordered documents process and procedures relating to childcare support.

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

Compliance

Audit Services staff conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that Audit Services staff plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. Audit Services staff believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Findings

Objective

To determine if dependents enrolled in the City's health and dental benefits were eligible per the City's definition of eligibility.

Audit Services staff verified supporting documentation for 585 out of 602 dependents (97%) without exception. Eligibility was verified using the documents listed on the Dependent Eligibility and Verification Document chart.

Finding 1

Audit Services staff found:

22 employees did not adhere to the audit's deadline.

The formal verification period ended on January 31, 2017. As of that date, 49 dependents had not been verified due to employees not complying with the audit requirements.

Before and shortly after the January 31st deadline, staff continued to contact non-compliant employees and retirees by phone, e-mail, and certified letters to ensure every effort was made to reach these employees.

Table 3: Non-Compliance Results

DEVA – Non-Compliance Results	
Employees who did not comply	22
Unverified Dependents	49

Note: Dependents are not reported as ineligible in the above table. This result is to ONLY indicate the employees who failed to comply within the designated time frame.

Complete, accurate, and timely information is expected from all City employees as part of our employee ethics culture as outlined in mandatory ethics training which every city employee receives upon hire.

Finding 2

Audit Services staff found:

Eligibility could not be determined for 17 dependents (3%) that were claimed by 9 employees.

The week ending March 3, 2017, Human Resources received a final list of employees who were still non-compliant.

Table 4. Unverified dependents for City health and dental insurance coverage due to non-compliance.

DEVA – Eligibility Results	
Verified Dependents	585
Unverified Dependents	17

The number of the unverified dependents at the close of the audit dropped from 8% as of January 31st to 3% as of the close of fieldwork. At the time of the report’s drafting, Audit Services staff had verified 97% of the eligibility documentation for dependents. Audit Services staff could not classify the 17 unverified dependents as ineligible because employees failed to respond to the request to present documents for verification. The risk exist that some or all of the unverified dependents are ineligible. Claims against the City’s health plan(s)

submitted by ineligible dependents increase the overall healthcare costs to the City and could be classified as healthcare dependent fraud.

The industry standard expectation is that on average, between 4% and 8% of dependents enrolled in employer-sponsored health plans will not meet the plan's eligibility definitions.² The number of unverified dependents for the City was slightly below the industry norm of employer-based audits.

Conclusion

Given the rising costs of providing benefits to employees, the City elected to conduct the Dependent Eligibility Verification Performance Audit on an annual basis. Ensuring that only eligible dependents are enrolled in these benefits will help reduce overall healthcare costs to the City. Audit staff verified without exception, the eligibility of 585 (97%) of dependents out of 602 dependents reviewed. Eligibility could not be verified for 17 dependents covered by 9 employees (approximately 3%). Dependents were unverified because employees failed to respond to the request to present documents for verification of their dependents' eligibility. The risk exist that some or all of these unverified dependents may be ineligible. Ineligible dependents enrolled for benefits, increases the overall healthcare cost to the City and could be classified as healthcare dependent fraud.

² <http://hms.com/dependent-eligibility-verification/>

Recommendations

Recommendation 1

Management should determine disciplinary actions to undertake for employees that did not adhere to the audit deadline to encourage compliance during future DEVA engagements.

Value Added: Compliance, Risk Reduction

Recommendation 2

The Department of Human Resources staff should:

- Terminate Health and Dental benefits for unverified dependents
- Determine the disciplinary actions to undertake for employees that claimed unverified dependents; and
- Require employees claiming unverified dependents to make financial restitution to the City.

Value Added: Cost Reduction, Compliance, Risk Reduction

Value Added Legend



To learn more, visit our website at: durhamNC.gov/audit

Management Response



Durham
NORTH CAROLINA

Memo to: Dr. Germaine F. Brewington, Director of Audit Services
From: Regina Youngblood, Human Resources Director
Date: March 6, 2017
Subject: Management's Response to Recommendations
Dependent Eligibility Verification Audit March 2017

The following is the management's response to the Dependent Eligibility Verification Audit dated March 2017.

Recommendation 1:

Management should determine disciplinary actions to undertake for employees that did not adhere to the audit deadline to encourage proper and smooth annual DEVA verification.

Management's Response:

We do not concur. The purpose of the audit is to determine if dependents enrolled in the City's health and dental benefits were eligible per the City's definition of eligibility. While 22 employees missed the communicated deadline, they subsequently presented documents to prove that all of their covered dependents were eligible for coverage. As such, City of Durham was not exposed to any additional risks in this instance.

Management does understand how missed deadlines negatively impact the annual DEVA verification. However, an employee's ability to obtain sufficient documentation from another governmental entity may not always align with the DEVA timetable. Finally, employees should be given fair warning that they may be subject to discipline if they fail to meet the deadline. Notification was not provided to employees in advance.



Recommendation 2:

The Department of Human Resources staff should:

- Terminate Health and Dental benefits for unverified dependents
- Determine the disciplinary actions to undertake for employees that claimed unverified dependents; and
- Require employees claiming unverified dependents to make financial restitution to the City.

Management's Response:

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

Effective March 17, 2017, the Human Resources Department will terminate Health, and where applicable, Dental benefits for all unverified dependents. Active employees with unverified dependents will receive hand-delivered letters the week of March 6, 2017, notifying them of our intent to terminate coverage, retirees will receive their letters in the mail.

Human resources will determine if any claims were paid for unverified dependents during the current plan year. If so, a request for repayment of claims will be issued net of any premium differentials owed to the employee.

Active employees will be issued Employee Notice Forms (ENF) to inform them of the City's intent to place them on a five-day unpaid suspension for covering unverified dependents.

Implementation Date: March 2017.

Distribution of Report

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