

Audit Report

Eligibility for Health Insurance Benefits

October 2018



Department of Audit and Control

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Audit Summary

Eligibility for Health Insurance Benefits



What we did

Determined if employees and dependents were eligible for health insurance benefits.

How we did it

Selected participants in the health insurance plan. Verified that subscribers were employees or former employees of the city.

Determined if dependents were eligible for health insurance by reviewing available documentation.

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Background

The city of Buffalo (COB) spends approximately \$80 million annually on health insurance. The COB's health insurance provides coverage to approximately 12,000 individuals.

What we found

Documentation proving dependent eligibility for health insurance benefits is not consistently obtained and retained. Supporting documents were not available for 52% of dependents tested. It is estimated that the COB is spending \$23 million annually for participants whose eligibility cannot be verified.

Documented policies and procedures related to offering employees health insurance benefits do not exist.

Annually, a certification of eligibility for health insurance coverage is sent to all subscribers (the Form). The Form lists all the subscriber's dependents who receive health insurance. The Form requires the subscriber to certify that the listed dependents are eligible for coverage. No follow-up procedures are performed if the Form is not returned. This could lead to the COB providing coverage to ineligible dependents.

What we recommended

A dependent eligibility audit should be performed to determine if all individuals receiving benefits are eligible. The audit should be performed by a qualified independent auditor.

Evaluate the annual certification process. Determine and document how this process can be used to enhance the internal controls over benefit eligibility to ensure all individuals receiving health benefits are eligible.

Create formal written policies and procedures for enrolling new hires and their dependents into the health insurance plan and for adding dependents after employment begins.

The City of Buffalo provides health insurance to approximately 12,000 individuals.

Preface

In accordance with the goals set forth in the Annual Audit Plan, we conducted an audit of the eligibility of employees and dependents for health insurance benefits at the City of Buffalo (COB). The audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

Background

As of July 2018, the COB had approximately 2,500 active employees, 2,700 retired employees (collectively the “subscribers”) and approximately 6,800 dependent spouses and children receiving health insurance benefits, for a total of approximately 12,000 covered individuals. The COB incurs approximately \$80 million in health care expenditures annually, representing 15% of total COB expenditures.

The COB Human Resources Division of Compensation & Benefits (Compensation and Benefits) is responsible for managing health insurance, including verifying the eligibility of all participants in the health insurance plan.

Audit Objectives and Scope

The objectives of the audit are to determine employee and dependent eligibility for health insurance benefits, and to document and evaluate the benefits administration process at Compensation and Benefits.

To achieve the objectives, the auditors:

- Selected a sample of active and retired COB employees receiving health insurance. The sample included random and judgmental selections, comprised of 60 subscribers, 38 dependent spouses and 92 dependent children.
- Determined whether subscribers are eligible for coverage by verifying inclusion in COB payroll records.
- Determined if subscribers have provided COB with the annual certification verifying the subscriber and dependents qualify for health insurance coverage.
- Verified that dependents listed on the census are included on annual certification from subscriber.
- Reviewed birth certificate or adoption agreement for dependent children, to verify subscriber is listed as parent. For dependents listed as spouses, verified that marriage certificate lists subscriber as spouse.
- Verified that dependent children are under 26 years of age, the age limit for dependent medical coverage.

It is estimated that the City of Buffalo is spending \$23 million annually on health insurance for participants whose eligibility cannot be verified.

Audit Findings

1. Marriage and Birth Certificates Not Consistently Obtained and Retained when Enrolling Employees and their Dependents in Health Insurance Plan

In the sample of 130 dependent spouses and children, only 48% had supporting documents (marriage or birth certificates) proving eligibility for coverage. Verifying that dependents receiving health insurance are eligible is not possible without supporting documents. It is estimated that the COB is spending \$23 million annually on health insurance for participants whose eligibility cannot be verified.

2. Open Enrollment Annual Certification Forms not Returned by Employees

All active and retired employees are mailed Certification Forms on an annual basis, listing all individuals covered by the COB health insurance plan. In the sample of 60 subscribers, none had returned the Certification Form. There is no follow-up performed by Compensation and Benefits when subscribers do not return the Certification Form. This is of particular concern for dependent spouses, as marital status could change without COB knowledge. This could lead to the COB providing coverage to ineligible dependents.

3. No Written Documentation of Process to Enroll Employees and Dependents in Health Insurance

A formal written procedure for enrolling and removing employees and their dependents in the health insurance plan, or adding/deleting dependents to the health insurance plan after employment begins, does not exist.

Audit Recommendations

1. Perform a Dependent Eligibility Audit

A dependent eligibility audit should be performed by a qualified independent vendor. The audit would require dependents to provide birth and/or marriage certificates to document that they are eligible for health insurance. The audit would also require verification that the marriage is still in existence. The audit would allow the COB to adjust the population of individuals receiving health insurance to include only individuals who have verified their eligibility. There is a large potential savings to the COB, as each ineligible individual receiving health insurance costs the city approximately \$6,600 per year. If 1% of the total population receiving health insurance is determined to be ineligible, it is estimated that the COB would save \$800,000 annually.

2. Perform an Analysis of the Annual Certification of Dependent Eligibility Process

The lack of responses to the Certification Form suggests the need to evaluate the annual certification process. Electronic distribution of the Certification Form or utilizing a website has the potential to increase responses and save the COB and taxpayers money. Follow-up procedures should be instituted to ensure all Certification Forms are returned and reviewed by Compensation and Benefits. The procedures should be formalized and documented so that there are clear consequences for non-compliance.

3. Document and Standardize Process for Enrollment in Health Insurance Plan

Compensation and Benefits should create a formal written policy and procedure for enrolling new hires and their dependents into the health insurance plan and for adding dependents after employment begins. Compensation and Benefits should institute a procedure to obtain marriage and birth certificates of dependents prior to enrollment in the health insurance plan. Supporting documents should be obtained and retained for all dependents enrolled in the health insurance plan. Obtaining and reviewing supporting documents reduces the potential for paying health insurance claims for ineligible dependents.



CITY OF BUFFALO
DEPARTMENT OF HUMAN RESOURCES
Compensation & Benefits Division



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October 3, 2018

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DIVISION OF AUDIT

RE: Audit Report – Dependents’ Eligibility for City Employee Health Insurance Benefits

Mr. Kaufman:

Below, please find the Division of Compensation and Benefits’ responses, organized according to your recommendations, as contained in the above referenced report.

Relevant Background:

Prior to the Department of Audit and Control’s initiation of an audit regarding dependent health insurance benefits eligibility, the Division of Compensation and Benefits (Hereinafter, the “Division”) had already initiated its own audit of this issue. In September 2017, the Division met with Premier, the City’s healthcare consultant for purposes of determining how to best complete this task.

In March 2018, the Division invited Premier and the City’s third party administrator, BlueCross BlueShield of Western New York, to discuss industry standards for Dependent Eligibility Audits and to discuss options for encouraging employees’ compliance with providing information for such an audit. Based upon the discussion at this meeting, Premier and the Division created draft letters for further discussion and possible distribution to employees during the 2018 Open Enrollment period, which explained what was needed for verification of dependents’ eligibility for healthcare coverage.

In early April 2018, the Division scheduled meetings between itself, Premier, and representatives of the Police Benevolent Association, the Crossing Guards, Local 650, Local 282, Local 264, Local 2651, Local 264 Teamsters, and Local 17/71 for purposes of explaining the planned upcoming audit and answering questions. Soon after those meetings, the Director of Labor Relations contacted the Division with concerns that the labor unions had brought to her. The labor unions proposed 1) that requiring them to submit

additional information for the audit required collective bargaining, 2) that an amnesty period should be provided for members who had previously included ineligible dependents on their insurance benefits, and 3) suggested that there should be an appeal process in place for instances where the Division removed dependents from health insurance benefits due to ineligibility. The objections which the labor unions raised hindered the Division's gathering of the paperwork necessary for moving forward with their audit of dependent eligibility during the most recent open enrollment period. To date, these labor issues have not been resolved.

Recommendation 1: Perform a Dependent Eligibility Audit

Response:

On March 16, 2018, the Department of Audit and Control informed the Human Resources Department, and thereby, informed the Division through its correspondence, that it was conducting an audit of dependents' eligibility for employee benefits. This correspondence requested the most recent dependent verification forms, supporting documentation for each dependent (i.e. marriage licenses, birth certificates, etc.), the Division's policies/procedures related to offering new employees and their dependents health insurance, and the Division's policies/procedures related to enrolling additional dependents after initial employment. The Division has complied with the Department of Audit and Control's request, and towards assisting the Department of Audit and Control with its audit, has reviewed a sample set of active employee and retiree files for purposes of determining whether documentation necessary for confirming dependent eligibility for healthcare coverage is missing.

It is the Division's position that currently, because there is no demonstrable number of individuals who have been inappropriately covered through City healthcare benefits, there is no way to estimate a potential savings to the City of Buffalo. Preliminary findings suggest however, that since 2010, all newly hired employees who are eligible for the healthcare benefits have been required to provide appropriate documentation in order to add any family members to their healthcare coverage.

Recommendation 2: Perform an Analysis of the Annual Certification of Dependent Eligibility Process

Response:

The Division is aware of the need for a formal policy to ensure that forms verifying eligibility of dependents for City healthcare benefits are returned; however, as discussed above, the recourse for non-compliance with returning such information to the Division has been raised as a subject of collective bargaining, making enforcing compliance difficult at this time. While electronic distribution of information might possibly increase employee compliance with providing dependent eligibility verification in those populations who readily have computer access, fully operational electronic distribution would not be possible until the MUNIS software is updated, possibly at an expense to the City.

Recommendation 3: Document and Standardize Process for Enrollment in Health Insurance

Response:

As requested, the Division of Compensation and Benefits has submitted, its standardized process for enrollment in the City of Buffalo's Insurance Plan (see attached). The Division requires all employees who

are adding any dependents to provide the required documentation prior to enrollment (birth certificate, marriage license, adoption or guardianship paperwork, etc.).

In conclusion, the Division of Compensation and Benefits looks forward to progressing with its audit of this issue once collective bargaining issues are settled. Please do not hesitate to contact me with any questions or concerns. Thank you for your time and attention to these issues.

Very truly yours,

Antoinette Palmer

Antoinette Palmer
Compensation & Benefits Division

Polices & Procedures

Benefit Plans Enrollment or Changes

PURPOSE/OVERVIEW

To allow eligible employees to enroll into or make changes to current elections of group benefit plans offered by the City of Buffalo based upon their Collective Bargaining Agreement (CBA), a qualified life event or during the annual open enrollment period.

Benefits- Eligible Employee – Please refer to CBA

Qualified Life Event – the Internal Revenue Service designated the following events as qualified life event: marriage, divorce, death, birth, adoption, and loss of coverage from a previous source.

Open Enrollment Period – period of approximately one month that occurs every year in late April early May during which benefits-eligible employees may add, change or drop benefit plans and levels of coverage . Benefits and changes during open enrollment will be effective on July 1st.

PROCEDURE/POLICY

Procedures for eligibility due to:

New Hire:

1. Welcome Letters are mailed out to all New Hires advising them to contact Compensation & Benefits to schedule their new hire orientation. A Compensation & Benefits Specialist will provide the new hire information regarding their benefits at the time of their new hire orientation.
2. If an employee is adding a spouse or dependent(s) , all supporting documentation must accompany the completed enrollment/change application(s) If the employee does not provide appropriate supporting documentation, the spouse or dependent children will not be entitled to enroll for healthcare benefits until the following open enrollment period, unless there is a qualifying life event.
Eligibility for healthcare coverage is determined by CBA.
3. When completed and signed application(s) are received in the Compensation & Benefits office, a Specialist will review and verify all documentation and process the employee enrollment accordingly. Health Plan Identification Cards will be provided by the carrier.
4. File maintenance form with effective date is submitted to Audit & Payroll by email for all required deductions.

Qualified Life Event

1. Employee must submit required application with supporting spouse and dependent child(ren) documentation to the Compensation & Benefits office within 30 days of the qualifying life event.
2. When completed applications are received in the Compensation & Benefits office, a Specialist will review and verify all documentation and process the employee enrollment accordingly. Health Plan Identification Cards will be provided by the carrier.
3. Benefits coverage is effective on the date of the qualifying life event.

Open Enrollment

1. Compensation & Benefits Division annually coordinates a month-long Open Enrollment which allows members the opportunity to review and make changes to their benefits based upon their CBA.
2. The Benefit Fair provides members the opportunity to meet with participating carriers. During this time members can review their benefit plans and ask questions.
3. Compensation & Benefits Specialist will process requested changes. All changes made during the open enrollment period will have an effective date of July 1. The employee must provide all spouse and dependent(s) verification documents in order to add spouses or dependent child(ren) to their plan during open enrollment.
4. File maintenance form with effective date is submitted to Audit & Payroll by email for all required deductions. All changes made during the open enrollment period will have an effective date of July 1.

Member Responsibility

It is the responsibility of the member to complete and sign an enrollment application within the indicated time limits per the CBA, within 30 days of a qualifying event or before the end of open enrollment as applicable. If the deadline is missed; the employee will not be able to enroll in any benefit plans until the open enrollment period the following year or another qualifying life event.



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DAC Evaluation of Auditee Comments

Auditee Comments – Relevant Background

“Prior to the Department of Audit and Control’s initiation of an audit regarding dependent health insurance benefits eligibility, the Division of Compensation and Benefits (the Division) had already initiated its own audit of this issue. In September 2017, the Division met with Premier, the City’s healthcare consultant for purposes of determining how to best complete this task.”

DAC Evaluation

It does not appear that an audit has been initiated by Division of Compensation and Benefits. A Request for Proposals has not been issued, therefore no vendor is in place to begin an audit. In the year since the initial planning meeting it does not appear that any progress has been made toward performing an audit.

Auditee Comment – Response to Recommendation 1

“It is the Division’s position that currently, because there is no demonstrable number of individual who have been inappropriately covered through City health care benefits, there is no way to estimate a potential savings to the City of Buffalo.”

DAC Evaluation

The Division’s documentation for benefit eligibility is unreliable, which is the main reason a complete audit of eligibility for health insurance benefits should be conducted.

Auditee Comment – Response to Recommendation 1

“Preliminary findings suggest however, that since 2010, all newly hired employees who are eligible for the healthcare benefits have been required to provide appropriate documentation in order to add any family members to their healthcare coverage.”

DAC Evaluation

This is contradictory to our audit findings. 13% of the children tested, who were enrolled since 2010, did not have birth certificates on record with the Division.

Auditee Comment – Response to Recommendation 2

“The Division is aware of the need for a formal policy to ensure that forms verifying eligibility of dependents for City healthcare benefits are returned; however, as discussed above, the recourse for non-compliance with returning such information to the Division has been raised as a subject of collective bargaining, making enforcing compliance difficult at this time.”

DAC Evaluation

The certification form has been sent out to subscribers for at least five years without having a formal policy for addressing non-compliance. Prior to mailing the certification form out next year, the Division should determine if it can seek recourse for non-compliance.

Auditee Comment – Conclusion

“In conclusion, the Division of Compensation and Benefits looks forward to progressing with its audit of this issue once collective bargaining issues are settled.”

DAC Evaluation

The Division does not appear to be progressing toward conducting this audit as no progress has been made in more than a year. This audit should be conducted as soon as possible, due to the potential cost savings to the city.

We are willing to assist the Division of Compensation and Benefits with an independent audit of eligibility for health insurance benefits in order to move this process forward as quickly as possible.
