# CITY OF WILMINGTON
## Healthcare Benefits
## Internal Audit Review


**City Auditor's Office**
Terence J. Williams
City Auditor
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## Highlights

***Why We Did This Audit***

The Internal Audit Department (IA) performed a scheduled audit of Health Benefits (Highmark Billing). The audit was conducted in accordance with the FY23 Audit Plan.

## *Methodology*

The objectives were achieved by reviewing prior audits, reports, claims, vendor contracts, accounting records that included, bank statements, cash disbursements and other pertinent documents from FY22.

***Audit Review Committee:***

Ronald Pinkett, Chair

Angelique Dennis
Chris Johnson
James Spadola - Designee
Stephanie Mergler - Designee
Tanya Washington

***Non-voting Members***

Marchelle Basnight
Mona A. Parikh

**Oct 19, 2023**

Internal Audit Department (IAD) conducted a Performance Audit of the Healthcare Benefits (Highmark Billing). The audit objective was to determine whether monitoring controls exist and whether other internal controls provide adequate assurance to ensure the timely performance of contractually required services conducted by service providers operating the City's medical benefits plan. We also looked to verify whether medical stop-loss claim details were submitted timely. The scope includes a review of medical stop-loss benefits services provider contract and activities in effect during the period of July 1, 2021, through June 30, 2022.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS"). These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. IAD believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## *Background*

The City of Wilmington (CoW) health benefit plans are self-funded which means that they pay all cost associated with health care. The CoW outsources health benefits management to a Third-Party Administrator (TPA). TPA's handles administrative and operational services for the CoW which includes billing, claims processing, enrollment and maintaining compliance with state and federal insurance regulations. Highmark is one of the TPA's utilized by CoW. The CoW also outsources other administrative services to USI (insurance broker) who is a healthcare consulting company. USI's role includes, but is not limited to, assisting with managing healthcare, contracts reviews, negotiations, and strategic planning.

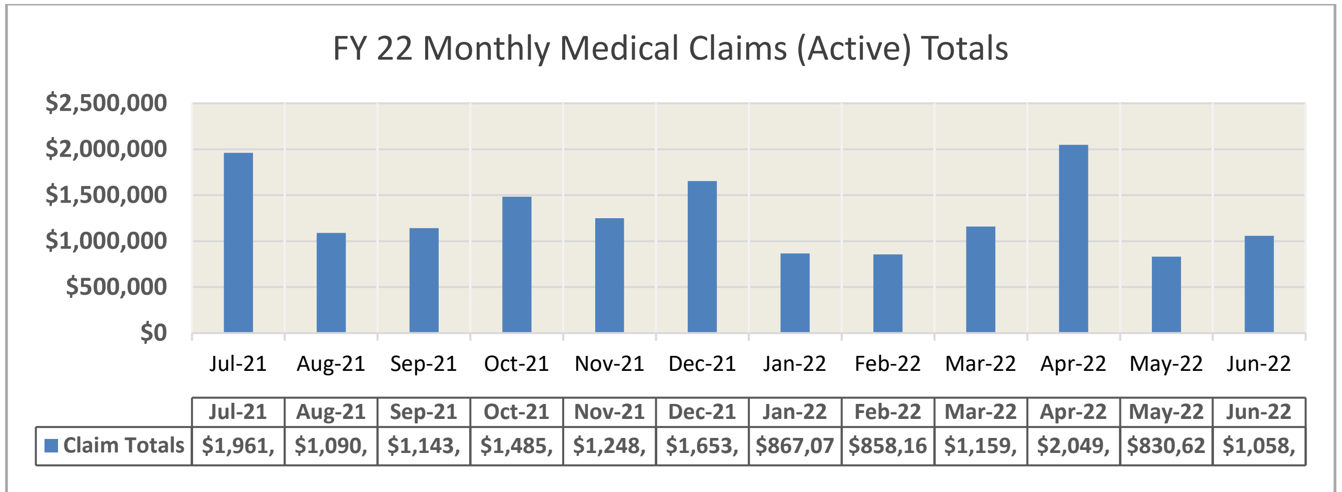
Highmark health insurance is offered to all eligible employees and retirees under 65 years of age. The CoW pays a monthly amount (fully insured equivalent) to Highmark to cover the monthly premium rate that is based on some aggregate factors but not limited to enrollment status/tier (employee only, dependents), Highmark plan selection (POS I, POS II & EPO, etc.) and prior years budgeted amounts etc. The monthly healthcare premium is split between the CoW and its employees. The employees' contribution is 12% and the CoW pays the difference; however, if the employee participates in the CoW Well Works program, they will receive a 2% healthcare premium reduction which means the employees contribution will be 10% instead of 12%.

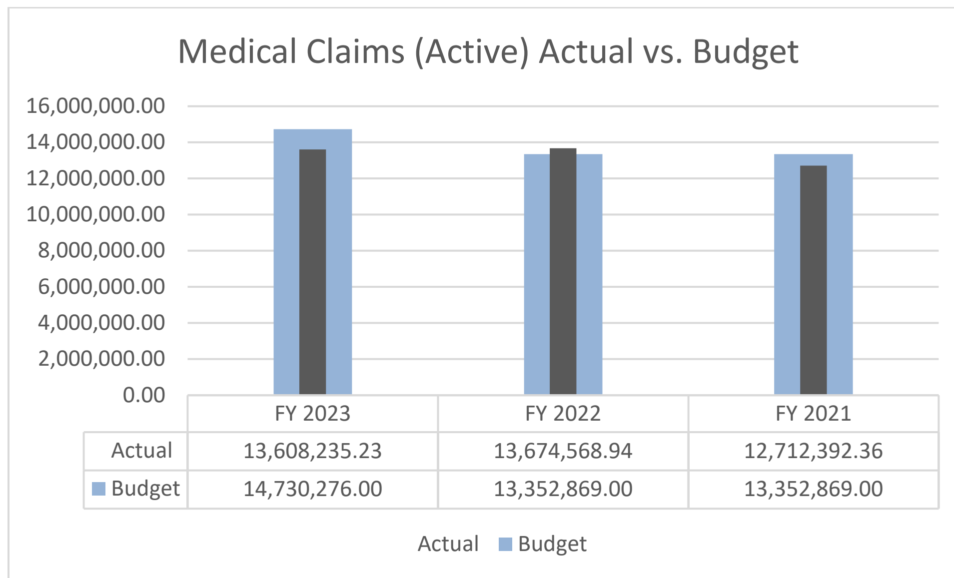
In addition, to the monthly premium the CoW also pays monthly administrative fees which are paid per contract holder (employee). These administrative fees are billed separately from the monthly medical bills. Both the administrative fees and medical claims are billed on the same cycle and payments are auto-debited from a designated financial institution which is monitored by the Treasury Department. As a formality, the Deputy Treasurer is designated to approve the auto-debited transactions and is notified by the financial institution via a secured email when an approval is required.

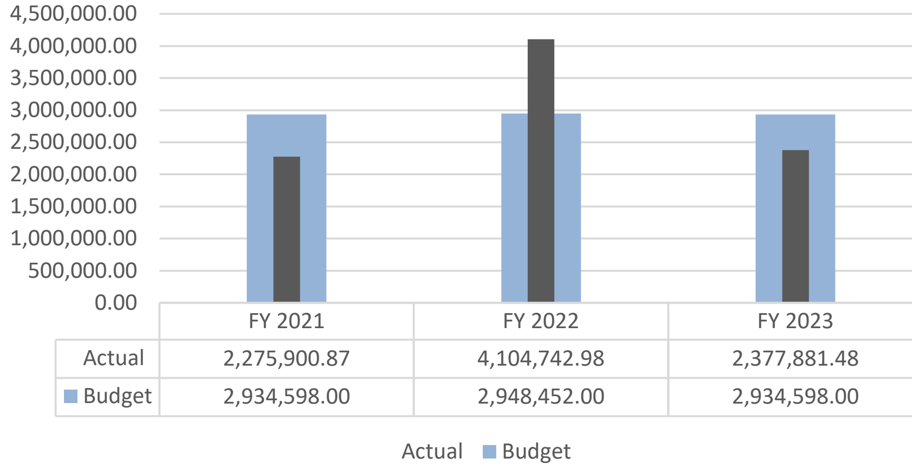
As a protection to assets, in 2014 CoW invested in Medical Stop-Loss Insurance through Vista Underwriting. This insurance covers medical and prescriptions. Vista Underwriting provides two types of coverages to the CoW which are aggregate and specific. Aggregate is for the entire group and specific is for each individual. Specific Stop-loss is reimbursed when an individual exceeds their specific deductible of $250,000. Aggregate is reimbursed when total of the group exceeds their deductible of $25,414,612.

As part of Vista's requirement, Highmark and Express Scripts sends monthly reports to Vista Underwriting. Vista then audits and tracks this data to determine if claimants have exceeded the specific deductibles. If it is determined that the deductible has been exceeded, Vista will contact the COW Benefits Department via email requesting that a "Eligibility Verification" form be completed for said claimant(s). Typically, the Employee Benefits Operations Administrator completes the Eligibility Verification form. Once the form is received, Vista starts the reimbursement process. When all administrative steps are completed, a check is processed, and a secured email is sent to the Employee Benefits Operations Administrator notifying them that a payment will be arriving via mail.

*Key Statistics*






| | FY 2021 | FY 2022 | FY 2023 |
|---|---|---|---|
| Actual | 2,275,900.87 | 4,104,742.98 | 2,377,881.48 |
| Budget | 2,934,598.00 | 2,948,452.00 | 2,934,598.00 |

***What we found***

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

| **Risk Ranking:** | | **(See Attachment B for full rating definitions)** | | | |
|---|---|---|---|---|---|
| **Process / Area** | **Process / Area Owner** | **1 Strong Controls** | **2 Controlled Effectively** | **3 Controlled - Improvement Required** | **4 Significant Improvement Required** |
| Access of Records | Charlotte Barnes, HR Director | | | | ✓ |
| Accounts Payable | J. Brett Taylor, Finance Director | | | | ✓ |
| Compliance | Charlotte Barnes, HR Director | | | | ✓ |
| Policies & Procedures | Charlotte Barnes, HR Director | | | | ✓ |
| Reconciliation | Charlotte Barnes, HR Director | | | ✓ | |

## Access of Records

1. Noncompliance exists with City Code Sec. 2-677 – Access to employees, records, and property, due to a lack of information being provided during a review of the medical stop-loss process which caused a scope limitation.

   IAD was not provided with relevant evidentiary matter, such as **redacted** stop-loss claims data, to perform testing on the timeliness of the claims submissions and posting to the general ledger for the four stop-loss reimbursement checks received during the audit scope.

## Accounts Payable

2. Controls need strengthening with regards to recording and/or posting journal transactions in accordance with GAAP regulations. Testing of journal entries revealed untimely postings for paid medical claims.

## Compliance

3. Controls need strengthening regarding monitoring the recording of department expenditures. Per City Code Section 2-361 Expenditure Controls - Each City department is required to monitor its departmental spending in all account groups. This finding is related to Single Audit finding 2021-005 (Financial reporting Significant Deficiency).

## Policies & Procedures

4. Based on inquiries with Management there is a lack of policy and procedures outlining healthcare procedures and medical stop-loss.

## Reconciliations

5. Controls need strengthening with regards to the reconciliation of benefits records. Corrections made for discrepancies revealed during quarterly audits were inefficient and resulted in untimeliness and incompleteness.

***Management Responses to Audit Recommendations***

**Recommendation #1**:

It is recommended that the Benefits division monitor and document the milestones of each stop loss claim. Doing so will ensure that the benefits team can record, and post stop-loss reimbursement checks to the proper g/l accounts in a timely manner.

**Management response & action plan:** The broker, TPA, and stop loss provider were hesitant to share detailed information due to healthcare privacy concerns, even after requests to redact sensitive data. An offer for a joint meeting involving all parties was proposed to address this issue. This offer still stands.

Our established protocol includes consistent meetings among our broker, TPA, and stop loss vendor to assess notable claims and those that surpass the stop loss threshold. These meetings entail joint efforts to meticulously audit and validate all claims, guaranteeing that the city obtains correct reimbursements.

**Completion Date:** June 30, 2024

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**Recommendation #2**:

Management should enhance the current policy and procedure manual to reflect appropriate recording of transactions in accordance with GAAP regulations.

**Management response & action plan:** TBD

**Completion Date:** TBD (In process)

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**Recommendation #3**:

Management of the Benefits Division should review the monitoring controls over the service providers operating the City's various medical benefit plans and implement additional controls to ensure the timely performance of contractually required services, that expenses are properly accrued in the fiscal year to which they relate, and that expenses are recorded to the proper accounts. In addition, Management should ensure that stop-loss reimbursements are allocated to the correct accounts.

**Management response & action plan:** Human Resources will work closely with the Finance Department and USI, the City's healthcare broker, to ensure that stop-loss reimbursements and prescription rebates are accrued for the fiscal year in which they relate. This will require the alignment of the industry standard for these vendor reimbursements with the position of the external auditor's on how these reimbursements should be recorded in the City's financial statements.

Notably, although there were no changes from prior years in HR handling of rebates and reimbursements, in this fiscal year, there was large stop-loss reimbursement for a high-cost claimant, as well as a robust vendor payment for prescription rebates, the amounts of which prompted additional review by the external auditors.

The delay involving Retiree Bill Account 6 was caused by miscommunication and mismanagement on the part of Highmark, coupled with a lack of coordination and response from the Treasury aligning with Highmark's procedures. Upon being alerted to the problem, the Benefits Division promptly intervened to rectify the situation. The Benefits Division will engage with the stop loss vendor to explore if there are options for clearly separating medical and RX reimbursements for accurate allocation to the appropriate account.

**Completion Date:** June 30, 2024

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**Recommendation #4**:
Management should, per best practices, draft a comprehensive policy and procedure manual for the Benefits Division that defines monitoring controls for healthcare expenditures and medical stop-loss. The policy should be evaluated by the department annually and updated periodically according to a predetermined schedule.

**Management response & action plan:** The Benefits Division is currently in the process of developing a policy and procedure manual. The Standard Operating Procedures (SOPs) are currently in draft form and represent an ongoing task that we are actively refining.

**Completion Date:** June 30, 2024

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**Recommendation #5**:

Management should enhance the reconciliation process to include dates of completion and specifics of corrective action. In addition, corrective actions should be completed within the month the audit was completed.

**Management response & action plan:** The Benefits Division acknowledges that the fourth-quarter audit was inadvertently omitted from the original submission to the IAD. When this was identified as missing, it was promptly forwarded to IAD. Additionally, a service level agreement will be set up to ensure that any necessary corrections resulting from audits are addressed and resolved within 15 business days.

**Completion Date:** June 30, 2024

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***Audit Team***

Madonna Woodson
Tamara Thompson