

Audit of Retiree Health Benefits

Report # 2019/20-04 | December 2019

Recordkeeping of Retiree Benefit Eligibility and Elections Could be Strengthened

Performing Dependent Verifications Ensures Qualified Dependents are Enrolled in City-Sponsored Health Plans and Could Save the City up to \$600,000 Annually

Reconciliation of Retiree Health Benefit Payments Can Help to Increase Accuracy and Reduce Costs



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RECOMMENDATIONS

We made 13 recommendations aimed at improving the administration of retiree health benefits. Our recommendations included:

Strengthen Recordkeeping Practices

- Develop a process to ensure compliance with the City's Records Management Policy that maintains complete personnel information for all retirees.
- Establish a process to validate that health benefit enrollment forms and confirmation letters are being retained, as applicable.
- Work with the IT department to identify and resolve eCAPS health benefit report errors for retirees.
- Work with the IT Department to migrate CalPERS retiree health benefit data into eCAPS.

Regularly Perform Dependent Verifications

- Retain sufficient documentation to substantiate dependent eligibility before enrolling dependents in retiree health benefits.
- Establish a process to perform regular dependent eligibility verification reviews.
- Review and address HMS' active employee dependent eligibility verification results.
- Perform a retiree dependent verification review for participants of City-sponsored plans.

Improve Reconciliation Processes

- Continue to improve processes for terminating coverage for deceased retirees.
- Implement a process to self-bill dental and vision providers.
- Continue to ensure that health care premiums are updated timely and accurately.
- Reconcile health care deductions.
- Develop a process to reconcile retiree health benefit transactions in the Risk Management Fund.

BACKGROUND

The Human Resources Department (HR) manages health benefit information for approximately 3,500 retirees. The City offers retirees and their dependents the option to participate in City-sponsored medical, dental, and vision plans. Based on the retiree's hire date and length of service, the City may contribute to the cost of health benefits for qualified retirees and their dependents. Terms of qualification and contribution amounts are specified in the City's labor agreements.

FINDINGS

Finding 1: Recordkeeping of Retiree Benefit Eligibility and Elections Could be Strengthened

Accurate and reliable retiree personnel and benefit records are vital to demonstrate that only qualified retirees receive health benefits. During our review of personnel and benefit records we found that:

- Some retiree records were incomplete or contained an error;
- Data discrepancies in health benefit reports could create inefficiencies; and
- Management of some retiree's health benefits can be modernized.

Finding 2: Performing Dependent Verifications Ensures Qualified Dependents are Enrolled in City-Sponsored Health Plans and Could Save the City up to \$600,000 Annually

Providing benefits to dependents that are no longer eligible drives up costs for employers and diverts resources from other programs. Our audit found that the City does not have an adequate process to ensure all dependents enrolled in City-sponsored health plans have been verified. Specifically, our findings included:

- Not all documentation used to substantiate dependent verification at the time of enrollment was retained;
- Failure to require all active employees to comply with a recent dependent verification review could be costing the City up to \$600,000 annually; and
- A dependent verification review has not been performed for retiree dependents.

Finding 3: Reconciliation of Retiree Health Benefit Payments Can Help to Increase Accuracy and Reduce Costs

HR has been working to improve management of the City's retiree health benefits but additional opportunities for improvement still exist, including:

- The City may have paid over \$140,000 in dental benefits for deceased retirees;
- Accuracy of health care premium deductions can be improved; and
- Over \$800,000 in retiree health benefit contributions had not been reimbursed to the Risk Management Fund.

Introduction

In accordance with the City Auditor's 2018/19 Audit Plan, we have completed an *Audit of Retiree Health Benefits*. We 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, 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.

The City Auditor's Office would like to thank the Department of Human Resources and the Department of Finance for their cooperation during the audit process.

Background

The City offers retirees and their dependents the option to participate in City-sponsored medical, dental, and vision plans. Based on the retiree's hire date and length of service, the City may contribute to the cost of health benefits for qualified retirees and their dependents. Terms of qualification and contribution amounts are specified in the City's labor agreements. In order to be eligible for a contribution, an employee must retire from the City with a minimum of 10 years of service. It is important to note that the City has eliminated retiree health contribution for newly hired employees, except for those affiliated with the Sacramento Area Firefighters Local 522 (Fire) labor union.

The Benefits Services Division of the Department of Human Resources (HR) is responsible for the administration of the City's new-hire orientations, benefit enrollments, and retirement services. In Fiscal Year 2018/19, the Benefit Services Division's approved budget was \$956,234, which included funding for 9 full-time employees. In the approved budget, HR highlighted its review of retiree medical enrollment and noted that they implemented self-billing¹ for retiree medical plans.

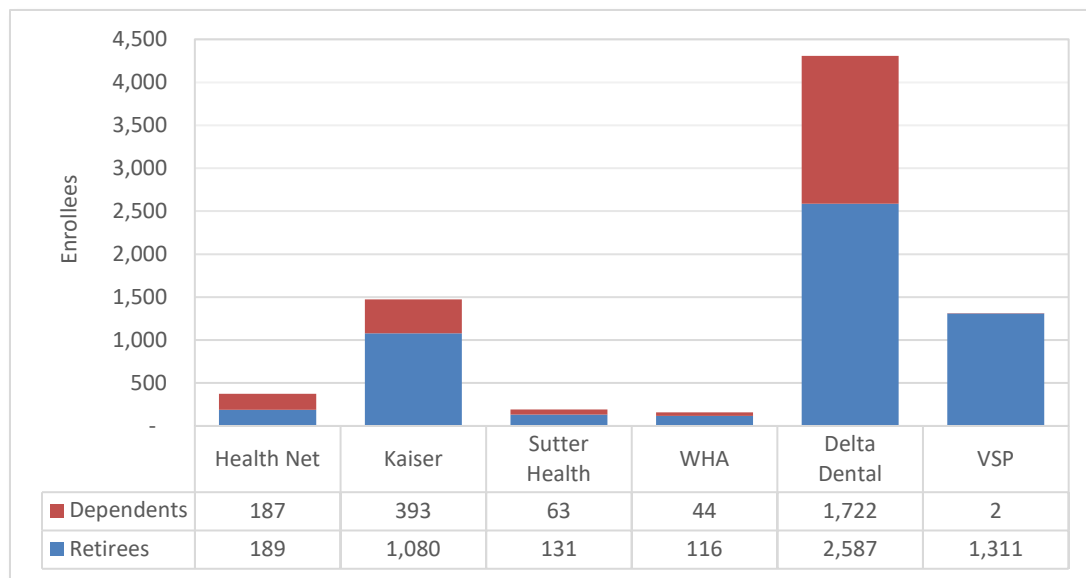
HR manages health benefit information for approximately 3,500 retirees based on their association with either the Sacramento City Employees' Retirement System (SCERS) or the California Public Employees' Retirement System (CalPERS). A retiree's affiliation with SCERS or CalPERS has the same qualifications; however, the administration of benefits is different between the two groups. The SCERS pension is managed in-house while the CalPERS pension is managed by the State of California. This distinction impacts how HR maintains health benefit information and processes health benefit premiums.

Medical insurance plan choices include Kaiser Permanente (Kaiser), Health Net², Sutter Health, and Western Health Advantage (WHA). In addition, retirees and their dependents may enroll in dental insurance with Delta Dental and vision insurance with Vision Services Plan (VSP). All plans include options to cover the retiree only, the retiree plus one dependent, or the retiree plus their family. Figure 1 shows the number of retirees and dependents enrolled in City-sponsored health plans as of April 2018.

¹ Self-billing is a process where the City self-generates bills based on its eligibility and enrollment records.

² As of January 1, 2019, Health Net was eliminated from the plan choices and replaced with United Health Care.

Figure 1: Number of Retiree Enrollees by Health Plan



Source: Auditor generated based on data provided HR and health care providers.

Note: Enrollment numbers fluctuate monthly.

As shown in the figure above, Delta Dental has the highest participant rate with approximately 2,600 retirees and 1,700 dependents. There are over 2,200 participants enrolled in City-sponsored medical plans; approximately 1,500 are retirees (70 percent) and 700 are dependents (30 percent).

City-sponsored health plans have experienced premium increases over the last few years. Figure 2 shows the lowest health plan premiums, by provider, for retiree-only coverage from calendar years 2016 to 2018.

Figure 2: Lowest Cost Health Care Plan Premiums per Month

	2016	2017	2018
Kaiser HMO	\$655.05	\$705.52	\$719.24
Sutter Health Plus HMO	\$628.32	\$658.54	\$693.06
WHA HMO	\$657.70	\$690.46	\$722.22
Health Net Seniority Plus	\$398.28	\$414.90	\$435.21
Kaiser Senior Advantage	\$314.90	\$312.10	\$323.68
DeltaCare	\$27.86	\$27.86	\$27.86
Vision Services Plan	\$7.96	\$7.96	\$7.96

Source: Auditor generated based on data provided by HR.

On average, retiree medical plan premiums for the lowest cost plan, have increased by 9 percent from 2016. Dental and vision plans remain steady at 2016 rates.

City contribution amounts are prorated based on the total number of years of service. Figure 3 shows the maximum contribution rates for retirees in the Police and Miscellaneous labor groups.

Figure 3: Maximum City Contribution for Police and Miscellaneous Retirees³

Years of Service	% of Contribution	Police Service Date On or Before 6/30/13		Miscellaneous Service Date On or Before 6/30/12	
		Retiree	Retiree + 1	Retiree	Retiree + 1
20+	100%	\$300	\$365	\$300	\$365
15 – 19.99	75%	\$225	\$273.75	\$225	\$273.75
10 – 14.99	50%	\$150	\$182.50	\$150	\$182.50
<10	0%	\$0	\$0	\$0	\$0

Source: Auditor generated based labor agreements.

As shown in the figure above, the maximum City contribution for Police and Miscellaneous employees is \$300 per month for the retiree only option. Additionally, the retiree may also receive \$65 per month for enrolling one or more dependents in their City sponsored medical plans. As mentioned previously, the City has eliminated the retiree health benefit contribution for new employees, except for those affiliated with the Sacramento Area Firefighters (Local 522) labor union. Figure 4 details the formula used to calculate the City’s maximum contribution toward Fire (Local 522) retiree health benefits.

Figure 4: Maximum City Contribution for Fire Retirees in Local 522

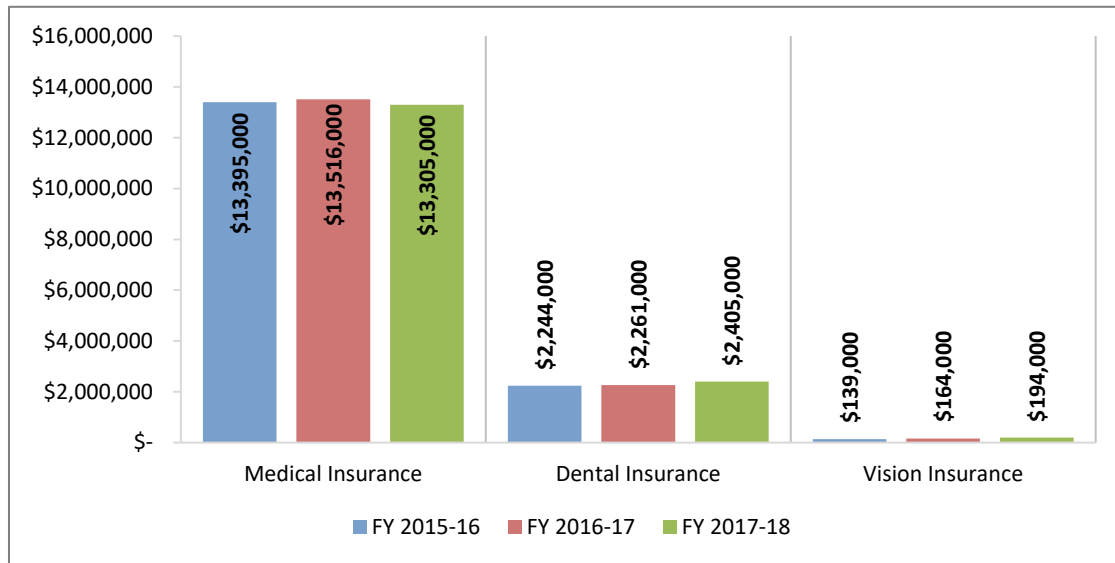
Years of Service	% of Contribution	Service Date Before 1/14/15	Service Date On or After 1/14/15	
			Pre-Medicare	Medicare
20+	100%	Lowest cost \$25 co-pay health plan premium + 5.28% (lowest cost \$25 co-pay health plan premium) + lowest cost PPO dental plan + \$25 = Total monthly contribution.	Pre-Medicare	Medicare
15 – 19.99	75%		\$774	\$387
10 – 14.99	50%		Employees contribute \$45 per month with a City match of \$45 per month to a trust fund to pay for benefits.	Employees contribute \$45 per month with a City match of \$45 per month to a trust fund to pay for benefits.
<10	0%			

Source: Auditor generated based on labor agreements.

In general, costs associated with medical, dental, and vision services exceed the City’s contribution. Health insurance premiums exceeding the City’s contributions are deducted from retiree pension checks or invoiced on a monthly basis, as applicable. Figure 5 shows the retiree health care expenditures for Fiscal Years 2016-2018.

³ Includes all labor groups except Local 522.

Figure 5: Retiree Health Care Expenditures for Fiscal Years 2016-18



Source: Auditor generated using data from the Finance Department.

As shown in figure 5, expenditures have remained relatively consistent over the last three years.

Objective, Scope, and Methodology

The objective of the *Audit of Retiree Health Benefits* was to review the City's retiree health benefit program and to identify opportunities for improvement. The scope of our audit included a review of retirement documents, billing and payment records, and benefit enrollment forms. While the primary focus of our audit was fiscal years 2016-2018, due to the nature of the audit subject many of the retiree's records that we reviewed were several years old.

In performing our audit we reviewed best practices, labor agreements, previous audits, interviewed staff, and performed analysis and testing of health billing and payment data. In some instances, retirees' records were incomplete and billing reconciliation records were unavailable. Our audit procedures were performed using the best available information.

Finding 1: Recordkeeping of Retiree Benefit Eligibility and Elections Could be Strengthened

Complete and accurate information is necessary to effectively manage retiree health benefits. The Human Resources Department (HR) is responsible for maintaining personnel records that document the relationship between the City and its retirees. These records may contain the retiree’s personal information, hire date, labor union affiliation, performance appraisals, employment agreements, benefit enrollment documents, dependent information, and post-employment forms. As needed, these documents may be relied upon by HR to confirm a retiree’s eligibility to enroll in City-sponsored health plans or to receive City contributions for health care premiums. As such, accurate and reliable retiree personnel and benefit records are vital to demonstrate that only qualified retirees receive health benefits. During our review of personnel and benefit records we found that:

- Some retiree records were incomplete or contained an error;
- Data discrepancies in health benefit reports could create inefficiencies; and
- Management of some retiree’s health benefits can be modernized.

Complete and accurate personnel data is necessary to ensure that only qualified individuals receive retiree health benefits. Failure to effectively retain and manage retiree benefit records could lead to errors and inefficiencies, including retirees being enrolled in the incorrect plan or receiving the wrong benefits.

Some Retiree Records were Incomplete or Contained an Error

In order to enroll in City-sponsored retiree health plans or receive a contribution for health plan premiums, a retiree must be deemed eligible for benefits based on their service date, years of service, and labor union affiliation.

The City’s *Record Retention Schedule*⁴ specifies that retiree personnel and benefit records are to be retained for two years after the death of the retiree. If the retiree has a surviving dependent, all relevant retiree records are retained for two years after the death of the dependent. The current process for storing this information is to scan it into a digital repository called the Citywide Content Management System, also known as “CARA”.

Prior to these electronic systems, HR maintained employee records in Rolodexes containing typed and handwritten details about retirees such as name, service date, retirement date, and labor union association. Figure 6 is a photo of some of the Rolodex records still maintained by HR.

Figure 6: Rolodexes of Retiree Personnel Records



Source: Photo taken by Auditor.

⁴ The Employee Personnel and Benefit Records section of the City’s *Record Retention Schedule* was approved on March 8, 2011.

We reviewed personnel records for 30 retirees currently participating in City-sponsored plans to determine if their personnel and election records were sufficient to support enrollment in City-sponsored health plans and were maintained in accordance with the City’s retention schedule. Based on our testing, we found that some key documents used to establish health benefits for 3 of the 30 retirees in our sample were incomplete or inaccurate. As some of the retirees’ information is more than 20 years old, we searched through the current system (CARA) and the Rolodexes to determine if the retirees’ information had been retained in either location. Specifically, we noted that:

- A comparison between CARA records and the Rolodexes found that the service date for one retiree varied by as much as 5 years.
- For one retiree in our sample, neither CARA nor the Rolodexes contained the retiree’s original service date or labor union affiliation.
- One retiree in our sample was awarded the incorrect City contribution amount for their health benefit. Retirees with 10 to 15 years of service are eligible to receive 50 percent of City contribution for health benefits. As shown in the figure below, one retiree with 12.2 years of service was awarded 100 percent retiree health benefit contribution by the City.

Figure 7: Incorrect Retiree Health Contribution Awarded at Retirement for a Retiree

INSURANCE COVERAGE UPON RETIREMENT (PERS)	
NAME: _____	% CITY CONTRIBUTION: <u>100%</u> to T 12/1
ADDRESS: _____	INSURANCE EFFECTIVE: <u>11-1-98</u>
CITY: _____	CARRIER/CODE COST TO RETIREE
PHONE #: _____	<u>Health Net</u> <u>PC</u> \$ <u>0</u>
SSN: _____	<u>Delta</u> <u>HA</u> \$ <u>0</u>
DOB: _____ AGE: _____	Sub-Total \$ <u>0</u>
RET. DATE: <u>1-98</u> TYPE: <u>Svc. Pend.</u>	Life Ins. Waiver* \$ <u>0</u>
YEARS OF SERVICE: <u>12.2</u>	TOTAL \$ <u>0</u>
REP. UNIT: <u>16</u> FUND: <u>101</u> ORG. # <u>1121</u>	Date Waiver Approved/Denied: _____
Circle One: <u>MISC</u> / POLICE / FIRE	

Source: CARA records.

In this case, the retiree was identified as being entitled to receive up to \$300 for retiree-only health benefits; however, the retiree was only eligible to receive up to \$150. Since the employee retired in 1998, the error in health benefit contribution went undetected for the last 20 years. If the retiree continuously received health benefit contributions during this time, the City would have incurred an additional \$36,000 in health benefit costs.

Using the most conservative documentation between CARA and the Rolodexes, we were unable to validate benefit eligibility for two retirees and found one retiree was awarded a higher amount of City contribution than what they were qualified to receive. While 3 of 30 records does not constitute a significant deviation from the desired standard, and HR relies on the best available information when awarding retiree benefits, the documentation gap shows there is room for improvement.

Benefit Election Documentation Was Retained for 95 Percent of Recent Retirees Sampled

As the records related to the retirees in our previous sample were several years old, we also evaluated the current separation process for new retirees to determine if recordkeeping practices have improved.

We reviewed records for 20 employees that retired between January 1, 2018 and August 31, 2019 to determine if the benefit election documentation was maintained in the City's content management system (CARA.)

HR was not able to provide a signed benefit election agreement for 1 out of the 20 (or 5 percent of) retirees in our sample. However, HR had retained an unsigned copy of that retiree's benefit calculations. Similar to our evaluation of older HR records, the more recent retiree documentation did not appear to be significantly out of compliance with the desired standard of 100 percent. However, it does show some room for improvement with regards to recordkeeping practices. We recommend HR continue to work towards the goal of retaining 100 percent of retiree benefit election documents, as required by the City's retention policy.

In addition to evaluating benefit election documentation, we also reviewed whether HR verified dependent eligibility for the same 20 retirees in our sample. For those retirees that elected to include dependents on their plan, HR was not able to provide dependent-verification documentation for 6 of the 20 (or 30 percent of) retirees in our sample. Failure to adequately verify dependent eligibility could lead to ineligible dependents being covered in City-sponsored health plans, which we discuss further in Finding 2.

While our testing was not based on statistically significant sample sizes, we believe it is sufficient to recognize that there are some gaps in the recordkeeping process. We recommend HR develop a process to ensure compliance with the City's Records Management Policy that maintains complete and accurate personnel information for all retirees. Failure to maintain supporting documentation could result in retirees receiving incorrect health benefits and City contributions.

RECOMMENDATION

We recommend the Human Resources Department:

1. Develop a process to ensure compliance with the City's Records Management Policy that maintains complete personnel information for all retirees.

Not All Benefit Confirmation Records are Being Retained

Annually, retirees submit open enrollment documents to specify their health plan choices for the following year. HR requests that retirees remit their annual benefit elections, even if their benefit elections remain the same as the previous year. However, it is important to note that not all retirees comply with this request. If a retiree does not reaffirm their choices during open enrollment, HR's process is to maintain the same elections as the prior year.

These annual elections impact the types of care the retirees and their dependents receive along with their out-of-pocket costs associated with the plan premiums for the following year; therefore, it is essential that retirees are enrolled in the plans they elected. As such, at the end of the open enrollment period, HR provides retirees with confirmation letters specifying their health plan enrollments and premiums.

To assess whether the City has adequate processes in place to notify retirees of the health plan they have been enrolled in, we reviewed open enrollment records and confirmation letters for 30 retirees for calendar years 2017 and 2018. As shown in figure 8, HR did not retain health benefit confirmation records for 6 of the 30 retirees in our sample from 2017 and for 8 from 2018. As previously mentioned, benefit confirmation records are used to notify retirees of their health plan elections. Without complete records, it is difficult to assess whether or not a retiree was notified of their benefit elections.

Figure 8: Missing Benefit Election Confirmation Records

Benefit Election Year	2017	2018
Number of Records Reviewed	30	30
Number of Missing Benefit Confirmation Records	6	8

Source: Auditor generated using records from CARA.

Key objectives of the retiree health benefit program are to ensure retirees are enrolled in the correct health plans and are paying the correct premiums for those plans. Our review found HR does not always retain health benefit election documents and confirmation records that would validate retirees are enrolled in their choice of health plans. Without accurate and complete benefit records, there is an elevated risk that retirees are enrolled in the incorrect health plan, which may result in retirees paying the wrong plan premiums. We recommend HR establish a process to verify that retiree health benefit enrollment and confirmation letters are being retained.

RECOMMENDATION

We recommend the Human Resources Department:

2. Establish a process to validate that health benefit enrollment forms and confirmation letters are being retained, as applicable.

Data Discrepancies in Health Benefit Reports Could Create Inefficiencies

As indicated in the Background section, HR administers health benefits for SCERS and CalPERS retirees. While the SCERS and CalPERS retirees have the same retirement health benefit qualifications, HR manages these benefits differently. For SCERS retirees, HR uses the City’s electronic Citywide Accounting and Personnel Systems (eCAPS), a citywide software system, to store retiree health benefit information. eCAPS offers built-in automated benefits processing and has the ability to generate management reports. Some of these reports capture benefit eligibility, health plan enrollment, and payroll data related to health plan contributions and deductions – which are then used by HR to manage the retiree health benefit program. Given eCAPS’ built-in features, we expected to find the reports generated by this system accurately captured enrollment and deduction data for retirees that participate in City-sponsored health benefits. During our review of retiree health benefits, we used “Enrollment”, “Deduction”, and “Other Pay” reports generated by eCAPS to assess the accuracy of retiree health benefit elections, premium deductions, and City contributions. However, when we compared these reports, we noted that some retirees’ information was not being included in all of the reports.

For example, when we performed random sample testing of retiree data, we noted one retiree whose information appeared in the “Enrollment” and “Other Pay” reports, but was not on the “Deduction”

report for the same time period. When we brought this to the attention of HR, they performed a review of the retiree’s records and identified errors in how the retiree’s health benefits were processed. Their review found the retiree received the wrong amounts of City contributions and medical deductions. In addition, our review of medical plan enrollment data found that the retiree was not identified as an enrollee for several months. As a result, the City failed to charge the retiree for approximately \$780 in health plan premiums. The figure below shows the errors attributed to the discrepancies in the retiree’s benefit deductions.

Figure 9: Result of Inaccurate Deductions for One Retiree

2018 Retiree Benefit Elections					
Election	City Contribution	Medical Deduction	Dental Deduction	Total Deduction	
\$ Amount	\$300	(\$435.21)	(\$52.32)	(\$187.53)	
Actual Deductions from 2018 Pension Checks					Inaccurate Deduction
January	\$300	(\$404.84)	(\$52.32)	(\$157.16)	\$30.37
February	\$52.32	\$0	(\$52.32)	\$0	\$187.53
March	\$52.32	\$0	(\$52.32)	\$0	\$187.53
April	\$52.32	\$0	(\$52.32)	\$0	\$187.53
May	\$52.32	\$0	(\$52.32)	\$0	\$187.53
Total Uncollected Amount					\$780.49

Source: Auditor generated using data from eCAPS and HR.

As shown in the figure above, the retiree did not receive the full \$300 City contribution and was not charged for medical premiums between February and May 2018. HR has since invoiced the retiree for the \$780.49 that had not been collected.

It is important to note that HR was already aware of the deficiency in the reporting system and, as a workaround, manually reviews the reports to add some retirees’ information to their enrollment data when they identify incomplete or inaccurate information. However, manually inserting data into a software system that is capable of automation is inefficient and may lead to data entry errors. Errors could result in inaccurate health plan enrollment or incorrect collection of premiums, as described in figure 9. According to HR, the retiree in the example above is one of four known individuals that occasionally fail to show up on eCAPS reports. HR speculates this may stem from how these retirees were initially set up in the eCAPS system. HR reported the issue to the Information Technology Department (IT) on June 21, 2018 and is waiting for a solution.

As eCAPS reports are used by HR to confirm enrollment, verify City contributions, and facilitate self-billing, it is essential that the reports contain complete and accurate information. Incorrect or incomplete data could increase the risk of errors and reduce the efficiency and effectiveness of the program. We recommend HR work with the IT Department to identify a timely solution to resolve eCAPS health benefit report errors for retirees.

RECOMMENDATION

We recommend the Human Resources Department:

3. Work with the IT department to identify and resolve eCAPS health benefit report errors for retirees.

Management of Some Retirees' Health Benefits Can be Modernized

HR uses retiree health benefit eligibility and benefit election data to facilitate health benefit billing. The information may include confidential retirees' personnel information such as name, address, social security number, and date of birth. In addition, the data also contains health benefit eligibility, benefit elections, benefit cost, and deduction details. These key pieces of information are crucial for the management of retiree health benefits as they are used to produce self-billing reports, determine benefit costs, and confirm benefit eligibility and enrollment. Therefore, it is essential the City has an adequate system of internal controls in place to ensure the data is reliable and accurate. As mentioned previously, HR manages health benefit data for SCERS and CalPERS retirees differently. The SCERS retirees' personnel and benefit data is maintained in eCAPS, a database system, whereas CalPERS retirees' personnel and benefit data are maintained in an Excel spreadsheet named the "Master File."

According to the Institute of Internal Auditors' (IIA) *International Professional Practices Framework for Auditing User-developed Applications*⁵, "using spreadsheets... for accumulating and calculating critical operational and material financial information can present significant risk to the organization." The risks include data integrity issues, input and output errors, and erroneous or inappropriate data changes.

Despite HR incorporating some access controls over the Excel Master File, including a password requirement and archiving historical copies of the spreadsheet, we believe the storage and administration of this data would be better managed in eCAPS. Our review of the Master File found that two retirees' health plans were modified between March and April 2017, which resulted in their enrollments to new medical plans with higher premiums, however an Excel spreadsheet does not have the capability to record who made the change or precisely when the change was made. This raises accountability concerns regarding changes made to the retiree data contained in the Excel Master File.

HR acknowledges it could benefit from modernizing the maintenance of CalPERS retiree health benefit data by migrating the data to eCAPS. Amongst other system capabilities, eCAPS includes built-in controls to ensure data reliability and accountability. In addition, by maintaining both CalPERS and SCERS retiree health benefit information in eCAPS, the department could expedite monthly health care processing and potentially reduce errors.

In the previous section, we noted inaccuracies in eCAPS reports which may cause inefficiencies in the administration of retiree health benefits. By working with IT to identify reporting errors, HR can improve the accuracy of the data maintained in eCAPS. Despite the reporting errors, eCAPS' processing controls appear to be more effective in ensuring data reliability and accuracy. HR stated that it is already working

⁵ The Institute of Internal Auditors (IIA) is the internal audit profession's recognized authority and provider of standards, guidance, and certifications.

with the IT Department to migrate CalPERS retiree information to eCAPS. We recommend HR continue to work with the IT Department to migrate CalPERS retiree health benefit data into eCAPS to take advantage of the processing controls already in place.

RECOMMENDATION

We recommend the Human Resources Department:

4. Work with the IT Department to migrate CalPERS retiree health benefit data into eCAPS.

Finding 2: Performing Dependent Verifications Ensures Qualified Dependents are Enrolled in City-Sponsored Health Plans and Could Save the City up to \$600,000 Annually

The Government Finance Officers Association (GFOA), an entity that represents public finance officials throughout the United States, recommends employers consider strategies to save on employee health care costs such as implementing dependent verification reviews. Providing benefits to dependents that are no longer eligible drives up costs for employers and diverts resources from other programs. Our audit found that the City does not have an adequate process to ensure all dependents enrolled in City-sponsored health plans have been verified. Specifically, our findings included:

- Not all documentation used to substantiate dependent verification at the time of enrollment was retained;
- Failure to require all active employees to comply with a recent dependent verification review could be costing the City up to \$600,000 annually; and
- A dependent verification review has not been performed for retiree dependents.

Covering ineligible dependents can be costly; therefore, it is essential to have a process in place to ensure only eligible dependents are enrolled in City-sponsored health plans.

Not All Documentation Used to Substantiate Dependent Verification at the Time of Enrollment was Retained

The *City of Sacramento Employee Handbook* states that employees may enroll family members in City-sponsored medical, dental, and vision plans. The handbook identifies family members as:

- Spouse;
- Domestic partner;
- Natural born, adopted, current step, or current registered domestic partnership children that are under 26 years of age;
- Children that are incapacitated due to a disability and are dependent on the employee's support; or
- Children named in a Qualified Medical Child Support Order.

The HR Department also provides employees with the *Acceptable Documents for Benefit Enrollment* guidance on the City's website, which defines the documents needed to add dependents to City-sponsored health plans during annual open enrollment or during a qualified life event⁶.

To verify whether the City has an adequate process in place to ensure supporting documentation for dependent enrollment is being retained, we judgmentally selected a sample of 20 dependents and

⁶ A Qualified Life Event is a change in situation, such as: marriage, birth, adoption, loss of coverage, or Medicare eligibility status, that allows for health benefit changes outside of the annual open enrollment period.

reviewed benefit records to determine if they met the eligibility requirements⁷. Our review found that HR did not retain proof of relationship for 9 out of 20 dependents in our sample. HR was not able to provide supporting documents such as marriage licenses or birth certificates to substantiate spousal or dependent-child relationship for these individuals enrolled in city-sponsored health plans.

During our review of the supporting documentation that was retained, we also noted that HR accepted an incomplete document as support for dependent eligibility. Specifically, we found a retiree enrolled their grandchild in their health plan in 2009 using an unsigned *Affidavit of Eligibility of an Economically Dependent Grandchild* form. The form requires the retiree to attest under penalty of perjury that the grandchild resides with them as a member of their household in a parent/child relationship and that they are responsible for his/her financial support. The figure below is a copy of the unsigned affidavit.

Figure 10: Unsigned Affidavit Accepted to Certify Dependent Status

I, therefore, swear (or affirm) under penalty of perjury that [redacted] (grandchild's name), who was born on [redacted] (date of birth) is my grandchild, resides with me as a member of my household in a parent/child relationship, and that I am responsible for his/her financial support and maintenance. I also swear (or affirm) under penalty of perjury that the above mentioned grandchild is not now, nor has ever been married and came to live with me in my household on [redacted] (date of acquisition).

I recognize that this affidavit is a legally-binding document and accept responsibility for notifying the City of Sacramento Personnel Services Division immediately if there are any changes pertaining to this grandchild's status as my dependent. I also agree to provide supporting documentation, such as tax, court, or notarized custody records when requested by the City of Sacramento at any time as long as the grandchild is enrolled as my dependent.

Employee/Retiree Signature: _____ Date Signed: _____

Print Name: _____ Social Security No.: _____

Daytime Phone No: _____

Source: CARA records.

As shown on the figure above, the retiree did not confirm the statement with their signature, and as a result, the affidavit should not have been accepted as sufficient eligibility documentation. Further, HR indicated that the form has not been in use since 2016, and that the City currently does not permit grandchildren on a retiree's health plan without legal guardianship documents. Despite the change in guidance, the department did not seek new proof of dependent eligibility and the dependent remained enrolled in the retiree's medical, dental, and vision plan until October 2017.

By employing industry best practices, the City can strengthen internal processes to ensure sufficient documentation is retained for dependents are enrolled in retiree health plans. This includes consistently communicating the list of acceptable documents required to demonstrate dependent eligibility, requiring

⁷ A non-statistical sampling method was used and therefore may not be representative of the entire population.

that participants certify dependent eligibility by submitting sufficient proof of relationship documents prior to enrolling dependents in health care plans, and retaining the supporting documentation.

RECOMMENDATION

We recommend the Human Resources Department:

5. Retain sufficient documentation to substantiate dependent eligibility before enrolling dependents in retiree health benefits.

Failure to Address the Recent Dependent Eligibility Verification Review Could Be Costing the City up to \$600,000 Annually

California Government Code section 22843.1 requires State agencies and California State Universities to validate dependent eligibility and periodically re-verify dependent eligibility to ensure that only qualified dependents are enrolled in state-sponsored health plans. While the City of Sacramento is not subject to this requirement, implementing a similar dependent verification process may help ensure that only qualified dependents participate in City-sponsored health benefits. To comply with State Code, the California Public Employees' Retirement System (CalPERS)—which manages pension and health benefits for California public employees, retirees, and their families—requires that health plan participants provide documents to verify eligibility of dependents prior to enrollment, and to substantiate continued eligibility of family members every three years. CalPERS' website states that it will remove family members from participant's health and/or dental plans if the participants do not respond or do not provide the required documentation for dependent verification.

Industry best practices suggest private and public employers perform dependent eligibility verifications to ensure compliance with plan guidelines and to reduce health benefit costs.

A dependent eligibility verification review is the process of verifying coverage eligibility of dependents enrolled in an employee or retiree health plan. The verification can be performed as new dependents are enrolled, or after enrollment to confirm continuous eligibility. The process involves requesting participants provide documents that prove their relationship to the dependents and to verify that the relationship meets the definition of an eligible dependent under the plan guidelines. Industry best practices suggest private and public employers perform dependent eligibility verifications to ensure compliance with plan guidelines and to reduce health benefit costs.

In evaluating “Controlling Health-Care Costs With Dependent Eligibility Audits⁸”, researchers estimated that one ineligible dependent costs a public entity, on average, \$3,500 per year and that on average, eight percent of covered dependents are ineligible for coverage. In addition to the potential cost savings associated with dependent verification, the review can serve as an important tool to ensure compliance with health plan guidelines.

The City contracted with Health Management Systems, Inc. (HMS) to perform a dependent eligibility verification for active employees in 2017.

However, the review did not include dependents enrolled in retiree health plans. As the definition of eligible dependents and the enrollment requirements for both City employees and retirees are similar, the process used to verify active employee dependents could also be applied to retiree dependents. We reviewed the dependent verification results for active employees to assess how a similar process could be used to verify dependents of retirees. In doing so, we found the dependent verification review for active employees started in 2017 has not been completed and some dependents are still not verified.

The purpose of HMS’ dependent verification review in 2017 was to verify that dependents of employees enrolled in City of Sacramento health plans meet eligibility guidelines. HMS identified 4,952 dependents of active City employees and requested employees to submit proof of relationship documents including, but not limited to:

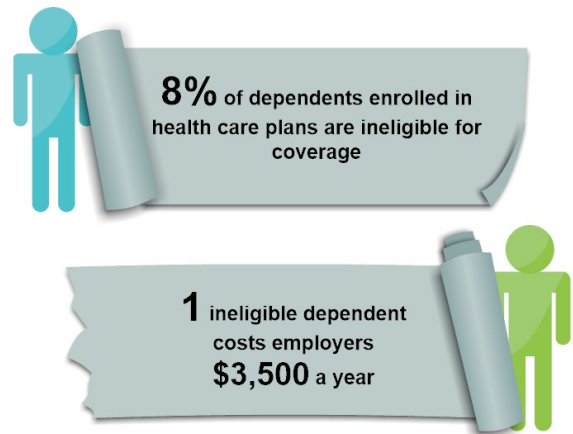
- Marriage/domestic partnership and tax documents;
- Birth certificates; or
- Court documents to certify legal guardianship.

The document request HMS sent to City employees stated that:

If you do not submit complete documentation for your dependents by the deadline, or if you knowingly submit false information for enrolled dependents, one or all of the following actions may occur:

- *The effected dependents(s) for whom complete documentation has not been submitted will be removed from coverage.*
- *The City of Sacramento may seek to recover claims paid during the period that the ineligible dependent was covered.*

Figure 11: Estimated Cost of Covering Ineligible Dependents



Source: Government Finance Review.

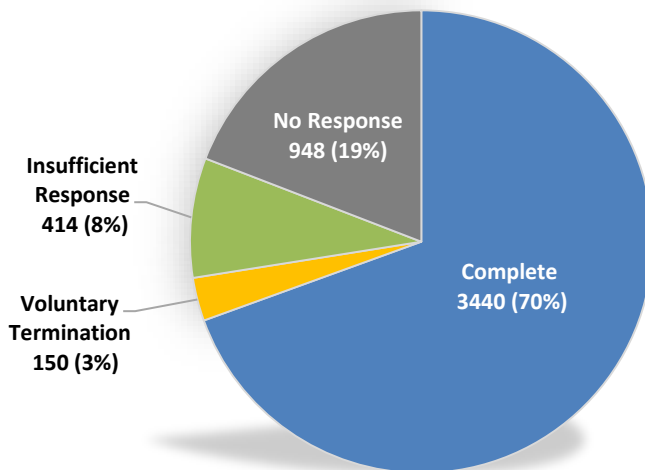
⁸ Government Finance Review. *Controlling Health-Care Costs With Dependent Eligibility Audits*. Mark Mack. June 2015.

Employees were given over six weeks to submit the required documents to HMS via an online portal, fax, or mail. Those that did not submit their paperwork by the original deadline were provided an additional three weeks to complete the verification process. At the end of the audit, HMS provided HR with the results of the dependent verification review. HMS classified responses into the following categories:

- Complete – an employee who responds to the audit and provides all required documents to validate dependent eligibility.
- Voluntary termination – an employee elects to remove a dependent from coverage during the review process.
- No response – an employee who did not respond to the review.
- Insufficient response – an employee who did not provide all necessary documents to validate dependent eligibility.

The figure below summarizes the results of HMS’ dependent verification review.

Figure 12: Results of HMS City of Sacramento Employee Dependent Verification Review

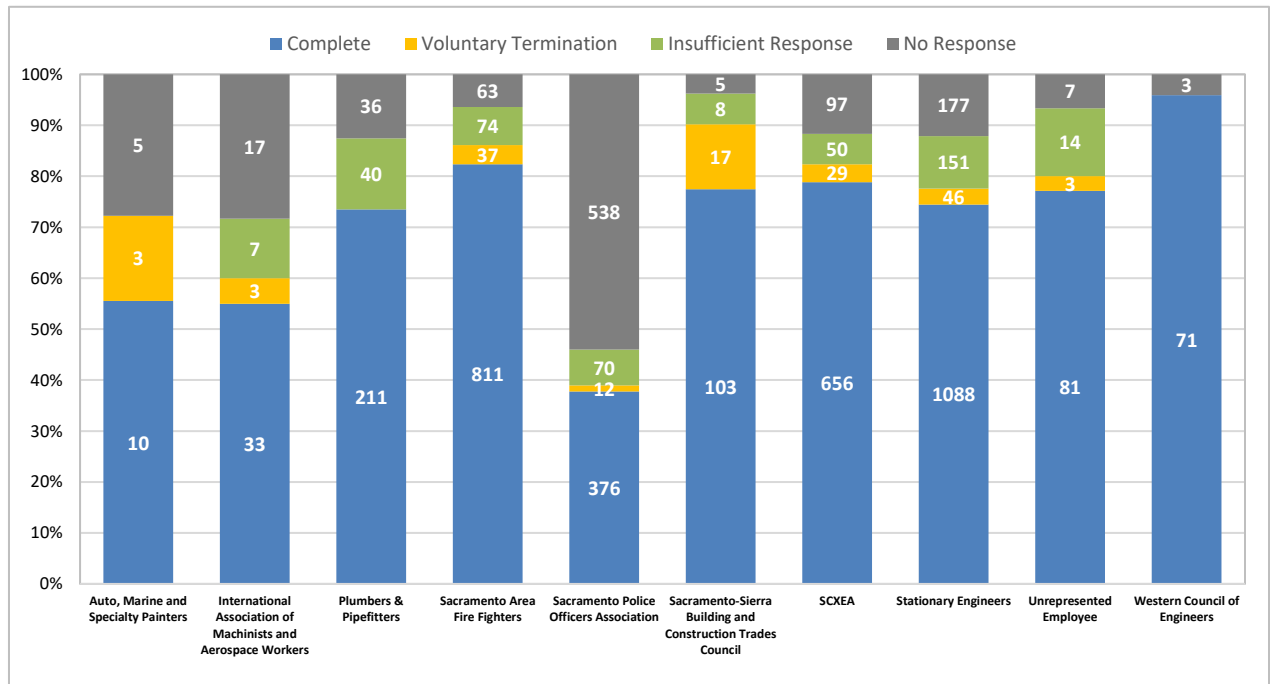


Source: Auditor generated using data from HMS.

As shown in figure 12, approximately 70 percent of dependents were successfully validated and three percent of dependents were voluntarily removed from City-sponsored health plans. Approximately 27 percent of dependents were not successfully verified as some employees failed to comply with the review by either not responding or not submitting sufficient paperwork to HMS.

To learn more about the “No Response” group, we analyzed the data further. Our review found compliance rates varied between the different labor groups. The figure below shows the compliance rate by labor unit.

Figure 13: Dependent Eligibility Review Compliance Rate by Labor Unit



Source: Auditor generated using data from HMS.

As shown in figure 13, the Sacramento Police Officers Association (SPOA) had the lowest compliance rate of 39 percent; while the Western Council of Engineers had the highest compliance rate of 96 percent.

We inquired with HR about the low response rate from SPOA members. HR informed us that SPOA had challenged the verification process when their members received letters asking for dependent verification documents. During HMS’ review, SPOA informed the City that “While the purported justification for the Dependent Verification is understandable, (i.e., ‘to control health care plan costs’) the City’s unilateral implementation of the timelines and procedures necessary to complete the audit is unacceptable.” Further, SPOA claimed that asking employees to produce “confidential” information infringed on their privacy rights.

In response to SPOA’s concerns, HR specified it would allow for dependents who did not respond to HMS’ document requests to remain covered. In an email to SPOA, HR indicated that employees are required to submit documents to verify their dependents; however, HR also noted that the “City will not take action to remove anyone from benefit at that point.” The message to SPOA members that their benefits would not be removed may have contributed to the low compliance rate.

We inquired with HR regarding its plans to complete the process of identifying and removing ineligible dependents from City sponsored health plans. HR identified internal staffing shortages and labor union concerns for their delay in addressing HMS’ review results. To date, HR has not concluded its review and has not set a target completion date. Therefore, unverified dependents remain covered on City-sponsored plans.

At the end of the HMS review, HR terminated coverage for dependents that were voluntarily identified by employees as ineligible dependents – a group that complied with the dependent eligibility review. However, the City did not terminate coverage for those that did not comply with HMS’ review. This practice is contrary to HMS’ recommended practice. Instead, HMS suggests that employers remove benefits for dependents of employees who did not submit all required documents, or did not submit any documents. Based on a whitepaper authored by HMS called *Dependent Eligibility Verification: What You Need to Know and Why it Matters*⁹, terminating only those who comply with dependent eligibility verification by self-reporting ineligibility sends the incorrect message to employees in that it tells employees that they are not required to comply and/or provide proof of relationship in the future.

We reviewed other jurisdictions’ dependent eligibility audit reports in an effort to understand how other jurisdictions address participants that did not comply with their dependent eligibility verification review. We found that the Los Angeles City Employees’ Retirement System (LACERS) worked with HMS to perform a similar health plan dependent audit. According to LACERS, “The goals of the audit were to ensure that only eligible dependents were being covered by primary subscribers as defined in the LACERS Board Rules, to validate health enrollment and family status change information in LACERS’ systems, and to minimize costs associated with our health plan programs.” The audit focused on dependents of retired members and eligible survivors enrolled in the entity’s medical and/or dental plans; the audit took less than nine months to complete.

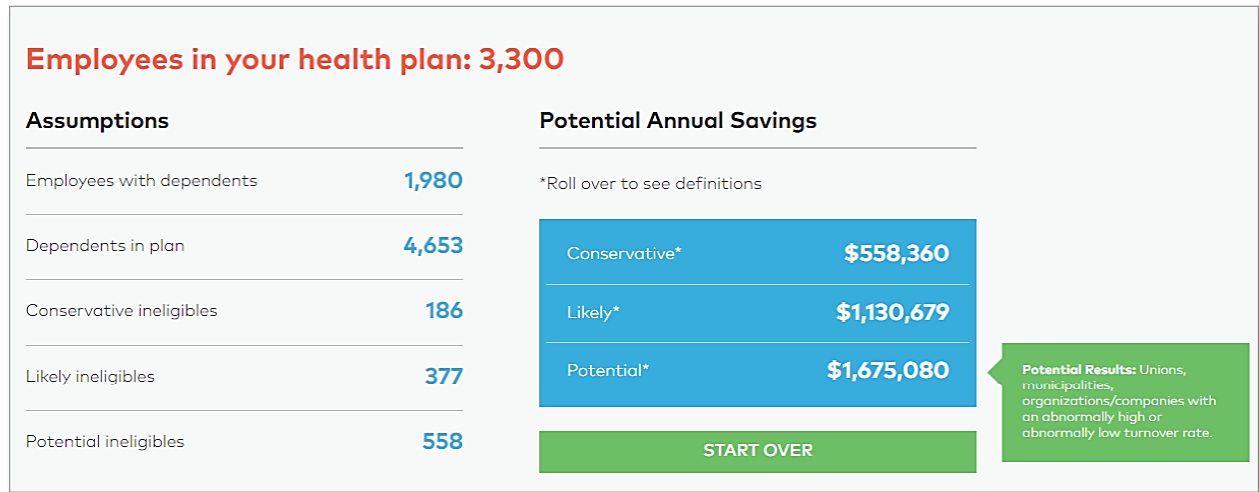
From a total population of 6,151 dependents, LACERS identified 52 dependents that voluntarily terminated coverage and 85 dependents that did not respond or complete the verification. Compelled by the lack of compliance, LACERS terminated medical and/or dental coverage for the 85 dependents and reported a reduction in monthly premium payments of \$16,181.31 or over \$190,000 a year¹⁰. LACERS’ practice of removing dependents whose eligibility cannot be established is HMS’ recommended practice, which ensures that only eligible dependents are enrolled in the entity’s health plans. The City of Sacramento should apply a similar practice to reduce health care costs and ensure that only eligible dependents are covered.

HMS also provides its own estimate associated with covering ineligible dependents on its website. We used HMS’ potential savings calculator to estimate the amount of potential savings that may be applicable to the City. With approximately 3,300 active employees enrolled in City health plans, HMS estimates there are potentially 558 ineligible dependents that are currently covered in City-sponsored health plans. Figure 14 shows the potential annual savings based on these estimates.

⁹ HMS Enterprising Health Care. *Dependent Eligibility Verification: What You Need to Know and Why it Matters*. 2016.

¹⁰ Calculation does not include savings associated with the 52 voluntary terminations.

Figure 14: Health Management Systems, Inc. Assumption of Potential Annual Savings for an Entity with Approximately 3,300 Employees Participating in Health Plans



Source: www.hms.com/savings-calculator.

We performed additional analysis to assess the potential savings to the City of Sacramento if the unverified dependents identified by HMS during the 2017 dependent eligibility review were removed from coverage. We calculated an average savings range, per ineligible dependent, using LACERS' reported savings ($\$190,000/85 = \$2,200$) and HMS' potential annual savings ($\$1,600,000/558 = \$2,900$). Using these estimates, we calculated the potential annual savings associated with removing ineligible dependents from City-sponsored health plans at between \$2,200 and \$2,900 per dependent. We projected the number of ineligible dependents as a percentage of the number of City dependents whose eligibility was not verified during HMS' dependent eligibility review. Figure 15 summarizes our calculations and assumptions.

Figure 15: Potential Annual Cost Savings from Removing Ineligible Dependents

Number of Unverified Dependents: 1,362			
Possible Percentage of Ineligible Dependents	Ineligible Dependents	Potential Savings Based on LACERS Realized Savings of \$2,200 per Ineligible Dependent	Potential Savings Based on HMS Estimated Savings of \$2,900 per Ineligible Dependent
5%	68	\$149,800	\$197,500
10%	136	\$299,600	\$395,000
15%	204	\$449,500	\$592,500

Source: Auditor generated based on LACERS and HMS data.

If five percent of the 1,362 unverified dependents from the HMS review are deemed ineligible for health benefits, the City could potentially save \$150,000 to \$200,000 per year from terminating their City-sponsored health plans. Similarly, if 15 percent of unverified dependents from the HMS review were deemed ineligible and removed from City-sponsored health plans, the City could save between \$450,000 and \$600,000 annually.

Given the rising costs of health care, the cost to cover ineligible dependents will likely increase year over year. In our opinion, by only removing dependents that voluntarily disclose ineligibility and not addressing those that failed to provide proof of relationship, the City is indicating that employee compliance with dependent eligibility verification requests is optional and there is no penalty for non-compliance. To ensure compliance with health plan guidelines and reduce health care costs, we recommend HR complete the verification review they started in 2017 and implement industry best practices for dependent eligibility verification. These processes should include periodic reviews and methodologies to address non-compliance with verification requests.

RECOMMENDATIONS

We recommend the Human Resources Department:

6. Establish a process to perform regular dependent eligibility verification reviews that includes procedures on how to address instances of non-compliance with verification requests.
7. Review and address HMS' active employee dependent eligibility verification results.

A Dependent Verification Review Has Not Been Performed for Retiree Dependents

As indicated in the Background section, retiree dependents make up approximately 30 percent of the total number of participants in City-sponsored retiree medical plans. Because the City has not performed a dependent eligibility verification for retirees, it is possible that some of those dependents are ineligible for benefits. The potential savings associated with removing ineligible dependents from City-sponsored health plans would be less for the retiree population since the City contributes up to \$65 per month towards medical premiums for the dependents. Using the maximum City contribution amount, we estimate that the City can potentially save up to \$780 per year for each ineligible dependent removed from City-sponsored health plans. Despite the lower benefit to the City for removing ineligible retiree dependents, a review of retirees' dependents can provide assurance that only qualified individuals participate in City-sponsored plans.

RECOMMENDATION

We recommend the Human Resources Department:

8. Perform a retiree dependent verification review for participants of City-sponsored plans.

Finding 3: Reconciliation of Retiree Health Benefit Payments Can Help to Increase Accuracy and Reduce Costs

To identify ways to reduce costs and improve the administration of employee benefits, the Office of the City Auditor conducted an *Audit of Employee Health and Pension Benefits* in April 2011. The audit found HR lacked formal processes to ensure retirees are enrolled in the correct health plans and lacked controls to ensure the City was paying the correct amounts for those benefits. In December 2014, the City's external auditor observed that "the City is not performing a monthly reconciliation of health care bills received from insurance providers to the City's records of participating retirees." During this audit, we found that HR has been working to improve the management of the City's retiree health benefits but that additional opportunities for improvement still exist. Specifically, our audit found:

- The City may have paid over \$140,000 in dental benefits for deceased retirees;
- Accuracy of health care premium deductions can be improved; and
- Over \$800,000 in retiree health benefit contributions had not been reimbursed to the Risk Management Fund.

An effective health benefit program includes retirees being enrolled in the correct health plans, paying the appropriate premiums, and receiving proper City-contributions. The program should also ensure the City is only covering eligible retirees and paying health care providers with the correct amount for those benefits. Strengthening reconciliation and review processes could help to reduce costs and increase accuracy.

The City May Have Paid Over \$140,000 in Dental Benefits for Deceased Retirees

While the City has implemented self-billing for retiree medical insurance, it still relies on dental and vision providers to bill the City. Dental and vision bills are produced by the providers and the City pays the bill without performing a reconciliation to ensure retirees are enrolled in the appropriate plans or that the City is paying the correct premiums. The lack of reconciliation may result in the City paying for someone that should not have been covered. According to HR, the City is working with Delta Dental to reconcile retiree information to facilitate self-billing in 2019. Once this process is complete, the department will apply similar measures to convert to self-billing for the vision provider, VSP. Given the rise in health care costs, it is essential that the City continue its efforts to transition to self-billing for dental and vision plans for retirees to ensure it only pays for retirees that are covered.

To assess whether the City has inadvertently paid premiums for someone who should not have been covered, we compared the Delta Dental subscriber list to City benefits records. City benefit records used for comparison consisted of the pension deduction reports for SCERS retirees and Master File worksheets used to manage CalPERS retirees. We reviewed a total of 5,215 subscriber records for calendar year 2017 and between January and May of 2018, and summarized our result in figure 16.

Figure 16: Summary of 2017 and 2018 Delta Dental Review

Description	2017*	January to May 2018*	Total
Number of Records Reviewed	2,628	2,587	5,215
Deceased	42	62	104
Waived Coverage	5	20	25
Unnecessary Cost Incurred by the City	\$28,000	\$21,500	\$49,500

Auditor generated using subscriber and HR data.

*Excludes retirees that passed away during the specified year.

As shown in the figure above, the City incurred unnecessary cost by paying dental premiums for 104 retirees who were deceased and 25 retirees who waived their dental coverage. We estimated the City may have overpaid Delta Dental over \$49,500 in premiums for retirees that should not have been covered between January 2017 to May 2018. Because the City relies on provider billing and does not have a process to verify the accuracy of the bills, the City paid premiums for retirees that should not be covered.

Our review of deceased retirees also found that the City paid Delta Dental premiums for some retirees many years after the retirees had passed away. For example, we identified three individuals that passed away in 2006 but the City appeared to have paid for their dental premiums for up to an additional 12 years. Due to the lack of personnel and benefit records, we were unable to confirm that all deceased individuals identified in our review were City retirees. Assuming all those identified were City retirees, we estimated the cost to cover the deceased retirees from their date of death to May 2018. Figure 17 summarizes our calculations.

Figure 17: Cost of Covering Deceased Retirees by Year as of May 2018

Year	Count of Deceased Retirees by Year*	Monthly Cost	Cost**
2006	3	\$42.00	\$1,100
2007	3	\$42.00	\$1,500
2008	3	\$42.00	\$1,500
2009	3	\$42.00	\$1,500
2010	7	\$43.34	\$2,400
2011	10	\$51.46	\$5,200
2012	16	\$51.46	\$7,800
2013	26	\$51.46	\$11,600
2014	33	\$51.46	\$16,900
2015	37	\$51.46	\$21,500
2016	41	\$49.76	\$23,700
2017	56	\$49.76	\$30,200
January to May 2018	62	\$52.32	\$16,200
Total Cost			\$141,200

Auditor generated using subscriber and HR data.

*Count as of May 2018 and excludes retirees that passed away in 2018

**Cost vary due to partial year cost based on date of death.

As shown in the figure above, costs associated with not removing deceased retirees increase year over year if their coverage is not terminated timely. We estimated the City may have overpaid more than \$141,000 to Delta Dental in premiums for retirees that have passed away as far back as 2006.

HR conducted has since conducted their own review of deceased retiree records for 2018. Their review also revealed deceased individuals that had not yet been removed from coverage. HR reported these accounts to Delta Dental and is seeking reimbursements for these payments.

Based on our review of Delta Dental enrollment records, it appears that the City may be paying premiums for retirees that are either deceased or waived coverage. Currently, the City is also paying vision providers without reconciling their bills; therefore, it is likely that the City is also paying vision premiums for retirees that should not be covered. A similar exercise of comparing VSP's enrollment records to City records can help identify those retirees that should not be covered.

The *Audit of Employee Health and Pension Benefits* released in 2011 recommended HR transition to self-billing for retiree health benefits. Using self-billing, HR can identify all eligible retirees and determine costs based on their benefit elections which reduces the risk of the City paying for retirees that are deceased or are no longer enrolled. We recommend HR develop a process to identify and terminate coverage for deceased retirees timely from City-sponsored health plans. In addition, HR should continue its efforts to implement a process to self-bill for Delta Dental and VSP.

RECOMMENDATIONS

We recommend the Human Resources Department:

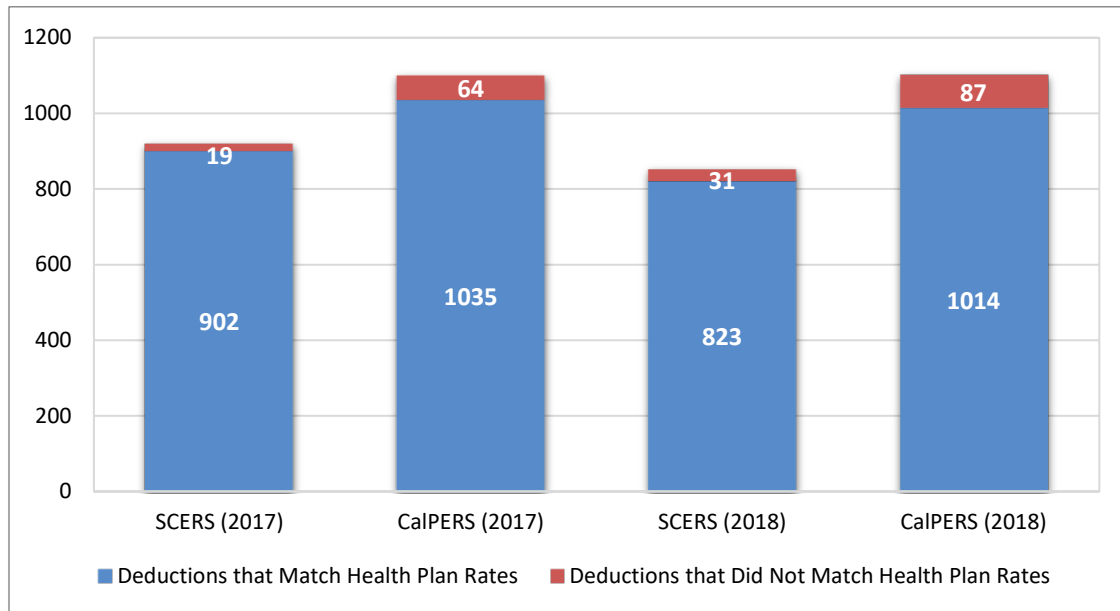
9. Continue to improve processes for terminating coverage for deceased retirees timely from City-sponsored health plans.
10. Implement a process to self-bill dental and vision providers.

Accuracy of Health Care Premium Deductions Can be Improved

As demonstrated with the medical provider billing, self-billing appears to be more effective at ensuring that the City is only paying benefit premiums for retirees that are enrolled in benefits plans. Self-billing is a process where the City self-generates bills based on its eligibility and enrollment records. This process can be strengthened by validating that the City is collecting the correct health benefit payments from the retirees. Without this reconciliation, the City is at risk of collecting too much or not enough to pay for retiree health plan premiums. In the *Audit of Employee Health and Pension Benefits*, we recommended HR develop a system to reconcile self-billed amounts to actual amounts deducted from payroll. If this process is performed consistently, HR can reduce the risk of the City from paying premiums for those that should not be covered and better ensure the City is collecting appropriate premiums dues.

To assess whether HR has a process in place to reconcile self-billed amounts to the amount deducted from payroll, we compared the pension deductions to the health premium rates for 2017 and 2018. We obtained the pension deduction reports for SCERS and CalPERS retirees and compared them to the rate sheets for the various health plan premiums for the applicable years. Deductions that matched with health plan rates indicate that retirees were charged the correct premiums. For example, a \$52.32 deduction would be matched to the 2018 Delta Dental premium. Whereas, deductions that do not match with health plan rate may indicate that the retirees were either charged too much or not enough for their premiums. We compared approximately 4,000 pension deduction records to the premium rates for 2017 and 2018 and summarized our results in figure 18.

Figure 18: Comparison of Pension Deduction Records and Health Plan Premium Rates



Source: Auditor generated using data from eCAPS, CalPERS and HR.

As shown in the figure above, some deduction records did not match with health plan rates; therefore, it appears that some retirees paid for health benefits at rates that were not consistent with the established rates. Our review found 4 percent of retirees’ pension deductions did not match health plan rates for 2017 and 6 percent of retirees’ pension deductions did not match the health plan rate for 2018.

We performed additional reviews to understand why some retirees’ health benefit deductions differed from the established health plan premiums. We reviewed personnel files, benefit election documents, and deduction records to establish potential causes for the discrepancies. Our review found that while the overall dollar amount was not significant, the following errors attributed to the discrepancies in health benefit premium deductions:

- The City charged the incorrect rate for the Sutter Health Plus Retiree Only plan from January to March 2018.
- Three retirees paid previous years’ medical or dental premiums.
- A retiree was overcharged for their medical insurance premium for March and April 2018.
- Some retirees did not receive City contributions for their dependents’ medical plan premiums.
- A retiree was enrolled and paying for a medical plan that was no longer offered in 2018.

Our analysis found a variety of issues that may cause retiree pension deductions to deviate from the established health plan premium rates. While dental and vision provider billing may contribute to the number of retirees paying incorrect amounts for their health benefits, we identified some instances where retirees were paying the incorrect rate for their medical plans or were enrolled in the incorrect medical plan. This was not unexpected, as Human Resources had implemented self-billing for medical providers in 2017 and is continuing to refine their process. Our review found that HR had already identified some of the discrepancies and reimbursed or requested reimbursement from these retirees.

However, we also identified instances where, due to incomplete or missing records, we were unable to verify that the underpayment or overpayment was remedied. For example, we found that a retiree's pension was deducted an additional \$200 for their health benefit in June 2018 but did not find evidence that they were reimbursed for the overpayment. We provided our findings to HR for further review.

The *Audit of Employee Health and Pension Benefit* recommended that HR reconcile self-billed amounts to the actual amounts deducted in payroll. A reconciliation process along with self-billing can provide improved assurance that the City is only paying for eligible retirees and collecting the appropriate premiums for the benefits selected. Our review of pension deductions found some retirees' pension deductions did not match with the health premiums dues and the City may be collecting incorrect payments for retiree health benefits. We recommend HR continue to ensure health benefit deductions are deducted timely and accurately. In addition, HR should review and reconcile health care deductions to ensure the City is collecting the appropriate health care premiums.

RECOMMENDATIONS

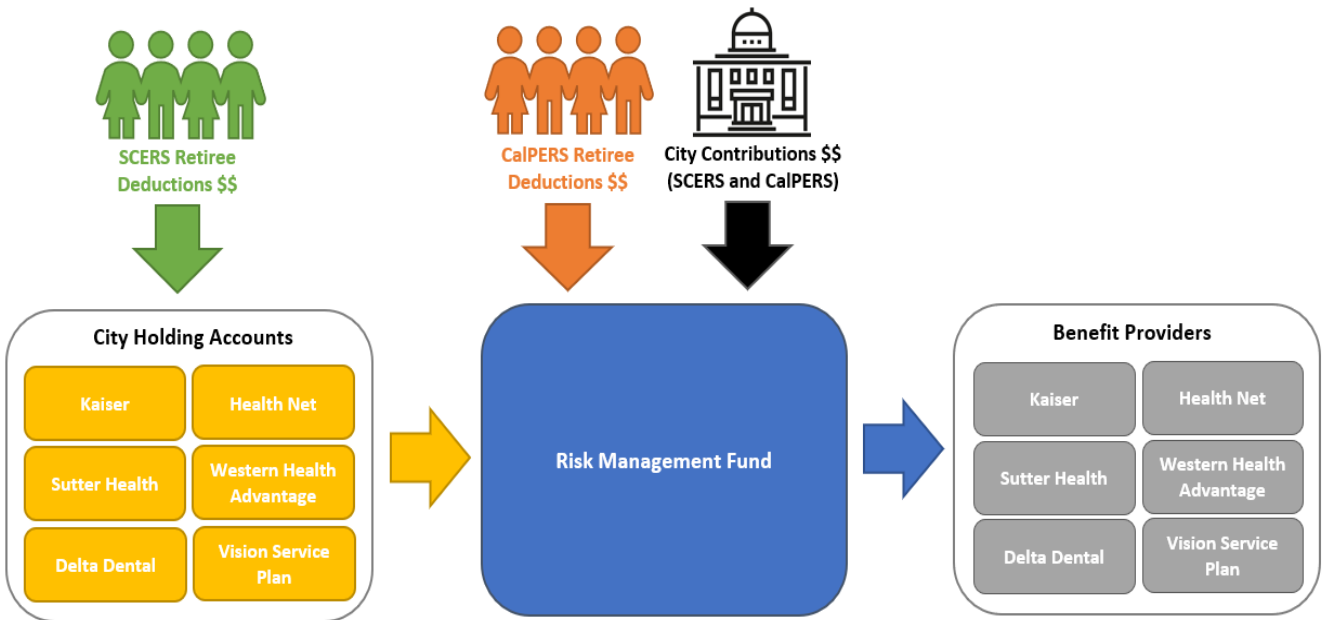
We recommend the Human Resources Department:

11. Continue to ensure that health care premiums are updated timely and accurately.
12. Reconcile health care deductions and refund (or invoice) retirees for any difference between the amount owed to the amount paid.

Over \$800,000 in Retiree Health Benefit Contributions Had Not Been Reimbursed to the Risk Management Fund

Pension check deductions and City contributions are collected on a monthly basis to pay health providers for retiree health insurance premiums. As indicated previously, SCERS and CalPERS retirees have the same retirement benefit qualifications; however, the administration of benefits is different between the two groups. In addition, the payroll process to collect payments to pay health providers is unique between the two retiree groups. Figure 19 shows how the City collects and pays health providers for SCERS and CalPERS retirees.

Figure 19: Health Benefit Collection and Payment Process for SCERS and CalPERS Retirees



Source: Auditor generated based on interviews with Finance and Human Resources staff.

As shown in the figure above, the process to collect payments and City contributions for health benefits differ between SCERS and CalPERS retirees. For SCERS, retiree contributions are temporarily deposited into vendor-specific insurance payable accounts and then transferred to the Risk Management Fund, whereas CalPERS retiree contributions are deposited directly into the Risk Management Fund. Money from the Risk Management Fund which includes SCERS retiree, CalPERS retiree, and City contributions is then transferred out of the Risk Management Fund to the benefit providers. It is important to note that the Risk Management Fund is also used to track income and expenditures for the HR’s Risk Management Division for employee benefits, service and supplies, and claims and judgments. As such, if insurance premiums exceed City and retiree contributions, the Risk Management Fund covers the costs to pay the health providers.

An *Audit of the City’s Risk Management Division*¹¹, issued in 2016, found that the City is at risk for under-collecting health benefits and leaving the fund to subsidize the cost. This practice is inconsistent with California’s Proposition 218 requirements, which states that these funds may not be used to finance programs unrelated to property-related service. The audit identified that the Risk Management Fund subsidized nearly \$158,000 in employee benefit costs for fiscal year 2014-15. As such, we expected HR to have controls in place to reconcile retiree and City contributions to health care premiums so that the Risk Management Fund is not subsidizing retiree health benefit premiums.

We reviewed the *Health Benefit Recap Report* from the Finance Department – which summarizes income (retiree and City contributions) and expenditures (health provider bills) for retiree health benefits for

¹¹ City of Sacramento, Office of the City Auditor, *Audit of the City’s Risk Management Division*, 2016, <http://www.cityofsacramento.org/-/media/Corporate/Files/Auditor/Audit-Reports/An-Audit-of-the-Citys-Risk-Management-Division.pdf?la=en>.

each fiscal year. According to the Finance Department, the *Health Benefit Recap Report* is provided to HR at the end of each fiscal year for review. The figure below shows the income and expenditures for retiree health benefits for fiscal years 2015-16, 2016-17, and 2017-18.

Figure 20: Income and Expenditures for Retiree Health Benefits for Fiscal Years 2015-16 to 2017-18

	FY 2015-16	FY 2016-17	FY 2017-18
Income	\$15,334,000	\$15,605,000	\$15,370,000
Expenditures	\$15,778,000	\$15,941,000	\$15,904,000
Difference	(\$444,000)	(\$336,000)	(\$534,000)

Source: Auditor generated based on Finance staff and eCAPS data.

As shown in the figure above, the City’s expenditures associated with retiree health benefits appears to be more than the income it received from retiree and City contributions from fiscal year 2015-16 to 2017-18. While we expected some variance between retiree health benefit income and expenditures due to enrollment adjustments, the amount of variance year over year raises concerns regarding the accuracy of retiree health benefit transactions.

To test the accuracy of retiree health benefit transactions in the Risk Management Fund, we reviewed income and expenditure transactions associated with Kaiser for FY 2017-18. Our review found that a \$325,000 transaction associated with premium payments for active employees was inaccurately categorized as a retiree health benefit transaction. By adjusting for the transaction, the total FY 2017-18 retiree health benefit income and expenditure difference was reduced to approximately \$210,000. Having a process to review retiree health benefit transactions in the Risk Management Fund can provide assurance that transactions are properly categorized and enable more accurate accounting of income and expenditures related to retiree health benefits.

To assess if HR has a process in place to reconcile retiree health benefit transactions to verify they are recorded accurately, we reviewed retiree health benefit transactions in the Risk Management Fund. As shown previously, in figure 19, the City collects SCERS pension deductions and City contributions and deposits the funds into various insurance payable accounts. The funds from these accounts are subsequently transferred to the Risk Management Fund monthly to pay for premiums associated with retiree health benefits. Our review found that the funds in the insurance payable accounts for three health providers were not transferred to the Risk Management Fund to pay for the corresponding retiree health benefits for over three years. The figure below shows the insurance payable accounts and the amounts that accumulated from FY 2015-16 to FY 2017-18.

Figure 21: Accumulated Funds by Insurance Payable Accounts from FY 2015-16 to FY 2017-18

	FY 2015-16	FY 2016-17	FY 2017-18
Sutter Health	\$189,100	\$350,300	\$511,500
Western Health Advantage	\$81,100	\$150,700	\$223,200
Vision Services Plan	\$9,900	\$37,700	\$67,500
Total			\$802,200

Source: Auditor generated based on eCAPS data.

As shown in figure 21, over \$800,000 of retiree health benefit revenue was not used to reimburse health benefit premiums from FY 2015-16 to FY 2017-18. According to the Finance Department, the money in these accounts should have been transferred to the Risk Management Fund to cover costs associated with retiree health benefits. However, the funds in these accounts went unnoticed for the last three years. This raises concerns regarding the methodology used to reconcile income and expenditures associated with retiree health benefits. In addition, as these funds were not applied towards retiree health benefit premiums, it is likely that the Risk Management Fund had subsidized retiree health benefit costs during the past three fiscal years— a practice that may not be consistent with Proposition 218 requirements. Finance staff indicated that miscommunication with HR may have been a contributing factor for the accumulation of funds in the accounts. By having a process to reconcile retiree health benefit income and expenditures, HR can provide assurance that funds collected for health retiree benefits are used timely and appropriately.

As a result of our review, in April 2019 just over \$800,000 was transferred from the holding accounts to the Risk Management Fund. We recommend HR and the Finance Department develop a process to reconcile retiree health benefit transactions in the Risk Management Fund going forward. The process should include a review of income and expenditure transactions to ensure that retiree health benefit transactions are accurately accounted for.

RECOMMENDATION

We recommend the Human Resources Department and Finance Department work together to:

13. Develop a process to reconcile retiree health benefit transactions in the Risk Management Fund.

MEMORANDUM

TO: Jorge Oseguera, City Auditor
FROM: Samantha Wallace, Human Resources Manager
DATE: November 15, 2019
RE: Audit of Retiree Health Benefits

This communication is in response to the City Auditor's Report #2019-04

- The Human Resources Department acknowledges receipt and concurs with the findings and recommendations from the City Auditor's report.
- I would like to take this opportunity to thank the City Auditor and staff for their recommendations and for their efforts in identifying areas for improvement.
- Below please find the Human Resources Department's response to the audit recommendations.

1. Develop a process to ensure compliance with the City's Records Management Policy that maintains complete personnel information for all retirees.

Response

Human Resources has implemented new practices to ensure information received from retirees is maintained in accordance with the City's Record Management Policy.

2. Establish a process to validate that health benefit enrollment forms and confirmation letters are being retained, as applicable.

Response

Human Resources implemented new practices with the recent annual open enrollment period to validate health benefit enrollment forms. Confirmation letters will be generated in January/February 2020. Human Resources is working with eCaps to upload a copy of confirmation letters to the City's document archiving system.

3. Work with the IT department to identify and resolve eCAPS health benefit report errors for retirees.

Response

Human Resources will continue to work with IT to resolve report errors.

4. Work with the IT Department to migrate CalPERS retiree health benefit data into eCAPS.

Response

CalPERS retirees and their associated health benefit data are now in eCAPS. Human Resources continues to audit the data loaded into the system and is completing 2020

retiree open enrollment elections in eCAPS.

- 5. Retain sufficient documentation to substantiate dependent eligibility before enrolling dependents in retiree health benefits.**

Response

Human Resources has implemented a practice and developed a checklist to ensure dependent eligibility documentation is collected and retained.

- 6. Establish a process to perform regular dependent eligibility verification reviews that includes procedures on how to address instances of non-compliance with verification requests.**

Response

Human Resources has implemented a process to review dependent eligibility documentation when a retiree elects health benefits at the time of retirement.

- 7. Review and address HMS' active employee dependent eligibility verification results.**

Response

Human Resources will evaluate its available resources to complete a dependent eligibility audit for active employees.

- 8. Perform a retiree dependent verification review for participants of City-sponsored plans.**

Response

Human Resources will evaluate its available resources to conduct a dependent eligibility audit for retiree health benefits.

- 9. Continue to improve processes for terminating coverage for deceased retirees timely from City-sponsored health plans.**

Response

Human Resources started using a death notification service in 2019 to aide in the City receiving timely data of the passing of retirees. Human Resources has implemented self-billing for all retiree health bills and CalPERS retiree data is now being maintained in eCAPS. These actions should improve the timely termination of coverage for deceased retirees or dependents.

- 10. Implement a process to self-bill dental and vision providers.**

Response

Human Resources has implemented self-billing for dental and vision providers.

- 11. Continue to ensure that health care premiums are updated timely and accurately.**

Response

For 2019, Human Resources implemented a new process to review health care premiums maintained in eCAPS to ensure correct data.

- 12. Reconcile health care deductions and refund (or invoice) retirees for any difference between the amount owed to the amount paid.**

Response

Human Resources has implemented a new practice of reviewing and completing refunds or invoicing for retiree health premiums, including a multi-step review by

multiple Human Resources staff to ensure accuracy. Backup documentation is more detailed, and a copy is also sent ahead of time to the retiree and maintained in the retiree's personnel file.

13. Develop a process to reconcile retiree health benefit transactions in the Risk Management Fund.

Response

Human Resources will work with Finance to ensure health benefit transactions reimburse the Risk Fund, as appropriate. The Finance Department completed the reconciliation for FY2019 prior to the completion of the Auditor's report.

Samantha Wallace
Human Resources Manager

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