



GARLAND

INTERNAL AUDIT

City Benefits Bill Payment

**Jed Johnson, CIA, CGAP
City Auditor**

Major Contributor(s):

**Marla Hamilton
Staff Auditor**

**Jonna Murphy
Staff Auditor**

October 1, 2015

Report 201503

Table of Contents

	<u>Page</u>
Authorization	1
Objective	1
Scope and Methodology.....	1
Overall Conclusion	3
Background	3
Management Accomplishments*	8
Opportunities for Improvement.....	9
Exhibit A – Sampling Methodology.....	26

Authorization

We have conducted an audit of the City Benefits Bill Payment. This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council. The audit was initially requested by the Senior Managing Director of Human Resources after the departure of the previous Human Resources (HR) Services Director, but before the hire of the current HR Services Director.

Objective

Assess the adequacy of internal controls over the City's Benefits program which may include (1) claims/payment processing, (2) monitoring, (3) oversight, and (4) eligibility determination.

Scope and Methodology

Internal Audit 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 scope of the audit is from calendar year (CY) 2013 to mid-July 2015. The scope was expanded to include July 2012 through December 2012 in order to perform a reconciliation of stop loss payments received compared to high claims incurred by claimants. IA also included CY2012 for the review of payments to the City's Dental Carrier due to concerns regarding premium and administrative charges for terminated employees.

During the audit, IA attempted to review Explanation of Benefits (EOB) from the medical Third-Party Administrator's (TPA's) website in order to verify and evaluate the City's discounted rates reported by the medical TPA. Due to errors on the website, IA was unable to complete this test because IA could not access EOBs for many of the claims sampled for review. As a result, IA considered this a scope limitation.

To determine the eligibility of dependents receiving medical benefits coverage, IA attempted to review documentation of eligibility including birth certificates, marriage certificates, and court documents. About half of these documents were located for the sample of dependents selected. According to HR, a third-party audit was conducted in 2009 and the eligibility documentation was provided directly to the third-party auditors. Since IA could not review the audit details or these records, IA considered this a scope limitation.

As part of the methodology, we:

- Obtained and reviewed contracts with benefits providers and inquired with the City Secretary to ensure contracts were on file.
- Accessed websites to obtain data from benefit carriers and calculated payments to compare to actual payments made to ensure timeliness and accuracy.
- Performed inquiries with Human Resources personnel regarding cash handling procedures, administrative policies and procedures, privacy policies and monitoring, eligibility of enrollees and monitoring of benefits activity.
- Gained access to online websites and systems to review trends in stop loss reimbursements, medical and prescription drug claims.
- Obtained reports from online systems to review and ensure appropriateness of enrollment of individuals and their benefit selections.
- Reviewed payments made by the City's Stop Loss Carrier and compared to claims processed to determine accuracy and completeness of reimbursements.
- Estimated the average number of employees per month for CY2015 in order to calculate and compare the administrative fees charged to the City.
- Reviewed Health Information Portability and Accountability Act (HIPAA) and Health Information Technology for Economic and Clinical Health Act (HITECH) for privacy requirements.
- Sampled current employees to verify eligibility of claims processed.
- Interviewed benefits carriers regarding processes, billing, and claims.
- Reviewed records for the City's payroll system to determine start and termination dates, and determine if fees are being collected from staff appropriately.
- Reviewed pertinent City directives including HR Directives, Finance Directives, and City Secretary Directives.
- Contacted sister cities to benchmark health benefits programs, auditing standards, and monitoring practices.
- Interviewed staff in Risk Management regarding renewal of benefits carriers and review of benefits programs.
- Interviewed staff in Finance regarding deductions from employee payroll and payments to benefits carriers.

To assess the reliability of reports obtained through the City's medical TPA, online benefit enrollment system (OBES), and Dental Carrier billing, IA interviewed multiple individuals in the Human Resources Department regarding their processes, reviewed source documents and reports, and compared information across systems where possible. As a result of our testing, IA determined that the data was sufficiently reliable for the purposes of this report.

Based on the audit work performed, any deficiencies in internal control that are significant within the context of the audit objectives are stated in the Opportunities for Improvement section beginning on page 9.

Overall Conclusion

During the audit, the Benefits Services Coordinator exhibited a wealth of benefits knowledge and performed many functions for employees and retirees of the City. Prior to the departure of the HR Services Director in April 2014, the responsibilities of the benefits division were handled by two individuals. Since then, the Benefits Services Coordinator has been solely responsible for performing the oversight and duties of the Benefits Department with the assistance of contracted health insurance brokers. The benefits function can be overwhelming at times for just one individual.

IA's review of the City's Benefits program highlighted areas in need of greater control regarding claims/payment processing, monitoring, oversight and eligibility.

A reconciliation process was not in place to monitor reimbursements from Stop Loss Carriers. As a result, IA identified potentially uncollected stop loss reimbursements in the amount of \$244,762. In addition, IA noted that checks for stop loss reimbursements and premium payments were not always deposited timely.

Discrepancies in billing were also noted. The Dental Carrier billed the City for individuals who had waived coverage, were terminated, and were deceased. This resulted in overpayments of \$812 for administrative fees and \$201 for claims in CY2015. These individuals were examined in previous years and a potential additional \$26,198 in overpaid premiums was identified dating back to CY2012.

IA observed that there were no written policies and procedures for the City's benefits program, which would prove detrimental should the current Benefits Services Coordinator be unable to perform the essential functions of the job or leave the City.

A third-party audit of medical and prescription drug claims has not been performed to ensure appropriate cost management monitoring of the City's benefits program.

Management was also provided with additional Opportunities for Improvement to enhance internal controls. These were not considered significant to the objectives of the audit, but warrant the attention of Management. Consequently, they do not appear in this report.

Background

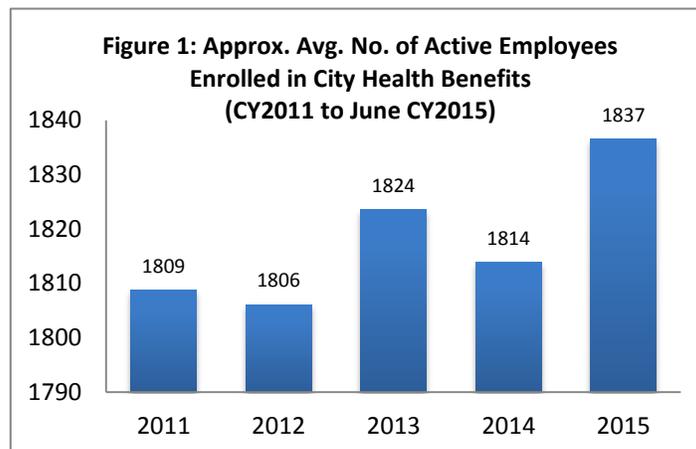
The City of Garland's Group Health Insurance Fund is self-funded by contributions from other city funds and premiums from subscribers. Group health coverage is available for all regular, full-time employees and eligible dependents, and becomes effective two months and one day after new hire date of employment with the City ^(1, 2). The City also offers health benefits for retired employees and their eligible dependents. Terminated employees have the option to elect coverage through COBRA (Consolidated Omnibus Budget Reconciliation Act). The annual operating budget for 2015-16 is approximately \$31 million ⁽³⁾.

The City offers a wide range of benefits which includes medical, dental, vision, critical care and life insurance. These benefits are managed by the City of Garland's Benefits Services Coordinator who administers a comprehensive package of benefits and assists with benefits-related questions. In addition, the Benefits Services Coordinator operates as a liaison between employees, retirees and the benefits service providers that are contracted by the City ⁽⁴⁾.

Active Employees

For medical and prescription coverage, the City contracts with a medical TPA to provide administrative services and health benefit services to the City of Garland for employees and retirees under the age of 65 and their dependents. The medical TPA grants the City use of their network, which allows for discounted rates of approximately 50% from providers. For CY2014 and according to the medical TPA, the discount received was 59.5% ⁽⁵⁾.

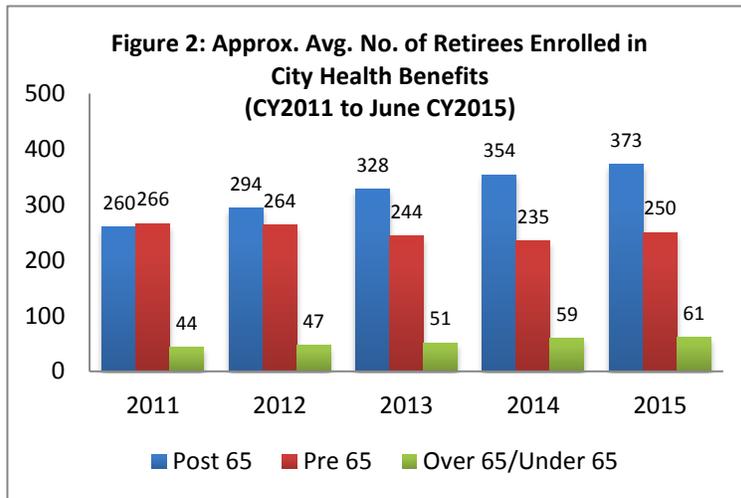
The medical TPA offers two self-insured PPO plans, basic and premium. The coverage levels available are employee only, employee + child(ren), employee + spouse, and employee + family ⁽⁶⁾. The City has contracted with the current medical TPA for administrative services since January 1, 2011 as approved by the City Council on July 13, 2010 ⁽⁶⁾. Figure 1 depicts the average number of employees enrolled in the City's benefits program.



Source: City's Payroll System

Retirees

Medical supplemental and prescription benefits for retirees over the age of 65 are provided by a separate carrier, which is managed for the City by a second TPA. Figure 2 depicts the average number of retirees enrolled in City health benefits since 2011. The information was provided to IA by the second TPA for retiree benefits, who collects premiums payments from retirees and forwards the funds to the City on a monthly basis. IA did not verify the accuracy of the data shown in Figure 2.

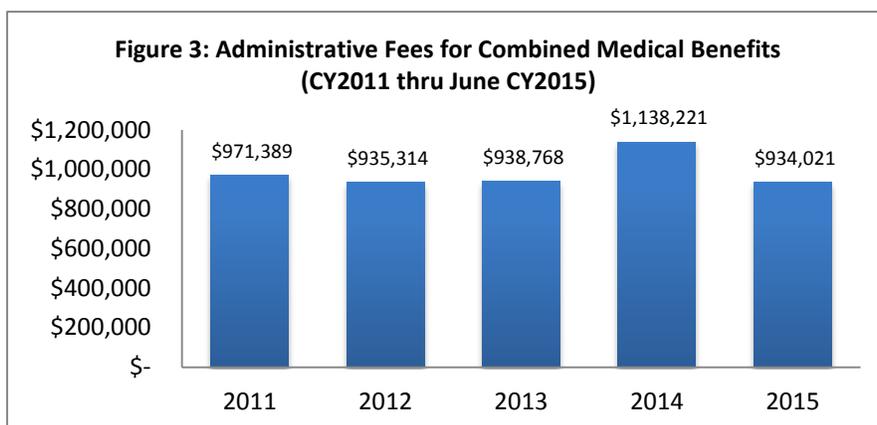


Source: TPA for retirees

Note: Over/Under denotes a couple with 1 individual over the age of 65, and 1 under 65.

Administrative Fees for Active Employees and Pre-65 Retirees

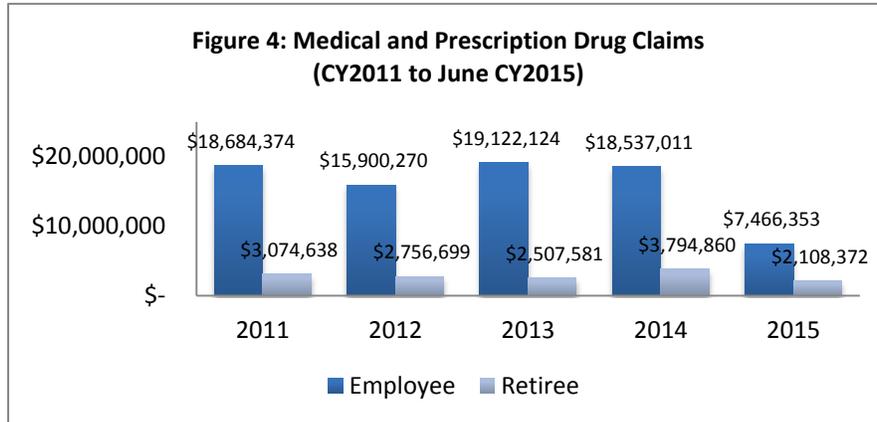
The City pays administrative fees to the medical TPA in the amount of \$35.24 per member per month to coordinate claims payments with providers. Since CY2012, administrative fees have increased (See Figure 3). The greatest change in these fees since CY2013 is due to the addition of fees required by the Affordable Care Act (ACA) which include the Patient Centered Outcomes Research Institute (PCORI) and transitional re-insurance fee for both active employees and pre-65 retirees. In addition, the City also became self-insured for dental coverage and engaged the services of a third-party consultant that works to keep the City's health costs down while increasing benefits satisfaction since CY2014.



Source: City's Finance System

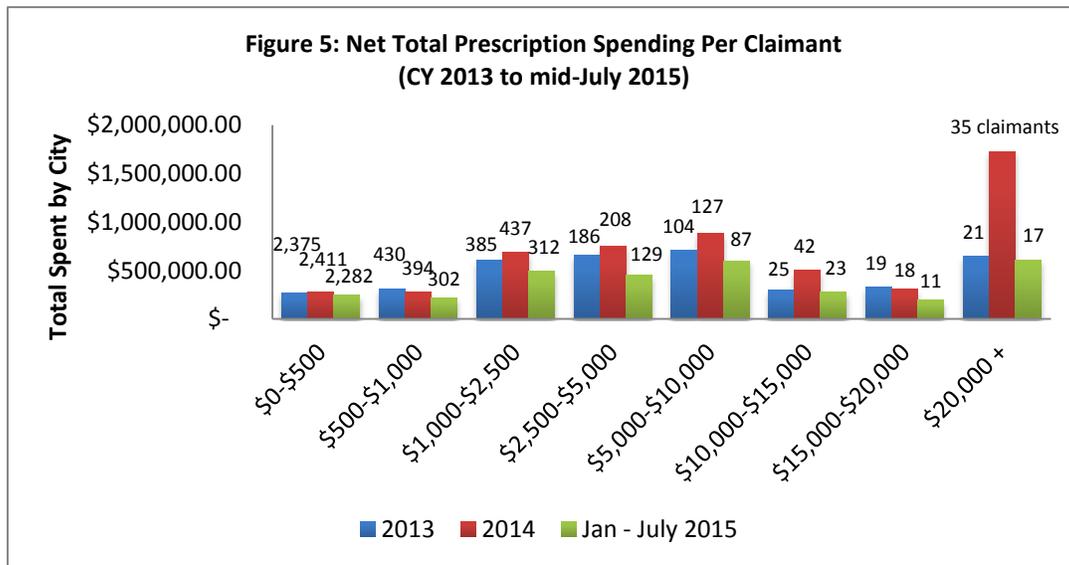
Claims Expenditures for Active Employees and Pre-65 Retirees

Most of the City's expenditures for medical costs come from medical and prescription drug claims (see Figure 4).



Source: City's Finance System

In particular, the cost of drug claims has been increasing due in part to the high cost of specialty drugs which became available in CY2014, the use of compounding pharmacies, and single source generic drugs ⁽⁴⁾.



Source: Medical TPA Prescription Claims Data

Note: Data labels indicate number of claimants per category

As indicated in the table below, the average amount spent on each high claim is increasing.

Average Amount Spent per Claim in \$20,000 + Category	
CY 2013	\$807.63
CY 2014	\$1,250.97
Jan – Jul 2015	\$2,752.02

Source: Medical TPA Prescription Claims Data

To protect against catastrophic claims, the City contracts with a Stop Loss Carrier to provide protection against high dollar claims processed by the TPAs. This coverage provides reimbursement to the City if an individual's total claim amount exceeds a particular threshold in a given calendar year. The thresholds (or stop loss attachment points) for the previous CY2011 through CY2015 are as follows ⁽⁴⁾:

Status	2011	2012	2013	2014	2015
Active Employees/Dependents	\$150,000	\$200,000	\$200,000	\$225,000	\$225,000
Retirees/Dependents	\$125,000	\$125,000	\$125,000	\$125,000	\$125,000

Source: Benefits Services Coordinator

In recent years, the City has seen an increase in total claims, but a decrease in the number of claims which exceed the stop loss threshold. This has resulted in draws on the fund balance reserves ⁽¹⁾. The City has a new Stop Loss Carrier for CY2015, and had the previous Stop Loss Carrier for two years (CY2013-CY2014) ⁽⁴⁾.

Sources:

⁽¹⁾ City of Garland 2014-2015 Annual Operating Budget

⁽²⁾ City of Garland Intranet

<http://cognet.cog.coggov.local/depts/hr/Pages/Employee-Benefits.aspx>

⁽³⁾ City of Garland 2015-2016 Annual Operating Budget

⁽⁴⁾ Benefits Services Coordinator, City of Garland HR Department

⁽⁵⁾ Medical TPA 2014 Annual Review

⁽⁶⁾ 2015 Employee Benefits Guidebook

⁽⁷⁾ Minutes of the City Council Regular Meeting (archived),

<http://www.garlandtx.gov/civicax/filebank/blobdload.aspx?BlobID=4463>

Management Accomplishments*

The City has a comprehensive benefits program providing services to over 5,100 lives (employees, retirees and dependents) and manages a budget of approximately \$31 million. Over the last three years the HR Benefits Services team has implemented numerous value added programs and services provided cost containment for COG and improved the overall functionality and management of the plan:

- 2013:
 - Introduced C2W Plus completion option. Successful completion provided additional cost savings on a monthly basis for employee premiums.
 - Introduced a Universal Life Policy with a long term care rider.
 - Introduced a Critical Illness supplemental policy inclusive of heart issues, cancer and other critical conditions which provides financial assistance.
 - Contracted with a new Stop Loss Carrier.
- 2014:
 - Introduced Compass Health Pro: a navigation tool for the health care industry which helps assist consumers to locate the best care at the most cost effective rate. They are able to provide estimates of cost for given procedures or treatment and are able to review and assist with billing issues or questions for medical, pharmacy, dental and vision purposes.
- 2015:
 - Introduced prior authorization and step therapy programs as cost containment measures within the pharmacy program.
 - Transferred the dental program from a fully-insured program to a self-insured program which saved the City an 8% on overall dental rate increase.
 - Contracted with a new Stop Loss Carrier.
- In 2016:
 - Will Introduce Blue Distinction Facilities which are Centers of Excellence that demonstrate expertise in delivering clinically proven specialty health care by providing high quality consistent specialty care at a lower cost.
 - Will limit the usage of compound Rx to those medically necessary only.
 - Will align the pharmacy program with FDA recommendations on Lifestyle Rx .
 - Will contract with a new vision provider who provides cost efficient benefits.
- Continual oversight:
 - Will continue to maintain adherence and full compliance with the Affordable Care Act.
 - The Benefits Services Coordinator was selected by the Texas Municipal Retirement System (TMRS) to be one of the 12 pilot cities out of 860 for the rollout of the enhanced TMRS website.

*Please note that “Management Accomplishments” are written by the audited entity and that Internal Audit did not audit or verify their accuracy.

Opportunities for Improvement

During our audit we identified certain areas for improvement. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the Opportunities for Improvement section presented in this report may not be all-inclusive of areas where improvement might be needed.

Finding #1

Condition (The way it is)

The City contracts with a third party to provide stop loss insurance which will reimburse the City for catastrophic claims over a set threshold (attachment point) for active and retired employees and their dependents. The current (CY2015) attachment point for active employees and their dependents is \$225,000, and for retirees and their dependents it is \$125,000. The following was discovered in our review of the stop loss insurance:

1. Stop loss reimbursements received from Stop Loss Carriers did not reconcile with expected reimbursements calculated through a review of the TPA's claims. IA identified 12 instances where the City was not reimbursed for high claims:

Potential Stop Loss Recovery Jul 2012 – Jul 2015		
No. of Claims	Lost Recovery	Status
3	\$131,342	Denied (Lack of Information)
7	\$87,559	Potentially Underpaid
2	\$25,861	Not identified by Stop Loss Carrier
12	\$244,762	Total Lost Recovery

2. IA identified a total of 4 checks reportedly sent by the Stop Loss Carrier, totaling \$59,422.44, were never deposited by the City nor recorded as having been received. Note: Three of the checks totaling \$9,562.34 are included in the total lost recovery above; one check for \$49,860.10 was not included in the total above because it is a subrogation case (payment by external insurance company) which would require reimbursement to the Stop Loss Carrier had the funds been received.
3. Inquiries with the current Stop Loss Carrier revealed that while the City's current stop loss insurance does not change the status of an employee if he/she retires mid-year, the medical TPA does change the status from active to retiree. There is a gap in potential reimbursements since the attachment points differ between active employees and retired employees. Note: IA did not identify any discrepancies in reimbursements received due to a change in status of any employee reviewed.

Criteria (The way it should be)

1. Stop loss reimbursements should be tracked and reconciled with expected high claims information.
2. A. Stop loss checks should be tracked to ensure proper receipt.
B. Follow-up should be conducted if amounts received do not match amounts expected.
3. The agreement with the Stop Loss Carrier should dictate that employment status should be changed immediately when an employee retires, or when an employee returns to active employment.

Effect (So what?)

1. A potential recovery in the amount of \$244,762 was not identified due to lack of appropriate reimbursement reconciliation.
2. Without proper reconciliation, the City cannot identify the anticipated amount of recovery and whether or not the Stop Loss Carrier provided the expected amounts.
3. The gap between when the status is changed by the medical TPA and when the status is changed by the Stop Loss Carrier could cause a loss in potential reimbursements.

Cause (Difference between condition & criteria)

1. No reconciliation process was in place.
2. A. High claims were not appropriately tracked to identify potential stop loss reimbursements.
B. Checks received were not tracked to ensure that appropriate amounts were reconciled.
3. The agreement was not properly reviewed to ensure a gap did not exist.

Recommendation

HR Management should ensure:

1. A. The outstanding amount of \$244,762 is recovered from the Stop Loss Carrier.
B. A reconciliation process is in place to track high claims and review for expected stop loss reimbursements.
2. A. Checks received from the Stop Loss Carrier are tracked to ensure proper recovery.
B. Follow-up on any differences.

3. The contract with the Stop Loss Carrier is updated to ensure the change in status agrees with the City's medical TPA.

Management Response

HR Management concurs.

Action Plan

- 1a. We have contacted the previous vendor and have begun to recoup stop loss insurance monies due with the help of our brokers. We have received \$129,678 to date and are working on recouping the rest.
- 1b. We are using a current spreadsheet provided by the medical TPA (continuously updated) to help identify and reconcile stop loss monies anticipated for collection through our Stop Loss Carrier.

- 2a. We will follow up on checks/monies already received and reconcile to the expected amounts due.
- 2b. If there is a dispute in the amount owed to us by our Stop Loss Carrier, we will work through our brokers to assist in recoveries and reconciliation of amounts due.

- 3. Will reach out to Stop Loss Carrier through our broker to add language to our contract concerning the parameters of the change in employment status from active to retiree to coincide with City's tracking and to identify proper attachment points.

Implementation Date

- 1a. HR plans to recoup remaining balance of monies due from stop loss insurers within the next six months.
- 1b. We will have reconciled spreadsheets for stop loss collection no later than end of CY 2015.

- 2a. We will follow up on checks/monies already received and reconcile to the expected amounts due no later than the end of CY 2015.
- 2b. Should any disputes arise, immediate follow up will be initiated.

- 3. Will reach out to Stop Loss Carrier through our broker by the end of October 2015 to add language to our contract concerning the parameters of the change in employment status from active to retiree to coincide with City's tracking and to identify proper attachment points.

Finding #2

Condition (The way it is)

When the most recent bill from the Dental Carrier (which contains enrollment information from June 2015) was reviewed for correctness, IA located 61 individuals for which the City was being inappropriately billed. This list included 4 active employees who had waived coverage, 54 terminated employees, and 3 individuals who were deceased. Further examination of this matter revealed the following:

- The City has continued to pay administration fees for coverage for these 61 individuals, resulting in an \$812 overpayment to the Dental Carrier for January 2015 through June 2015.
- Prior to 2015 the City was fully insured with the same carrier. Therefore previous years were examined for these 61 individuals, going back to CY2012. An additional overpayment of over \$26,198 in dental premiums was identified.
- Finally, because the Dental Carrier listed these individuals as actively insured, they would have received insurance cards and been able to receive dental services (up to \$1,500). Claims were identified for one terminated individual in the amount of \$201.

Criteria (The way it should be)

- Employee benefits are cancelled the same day as the employee's termination date with the City.
- The Dental Carrier terminates individuals when they are notified by the OBES.

Effect (So what?)

An overpayment of \$27,211 to the Dental Carrier was identified.

Cause (Difference between condition & criteria)

- The Dental Carrier's system is unable to process the file feeds sent by the City. This is an issue that was discussed with the City late last calendar year. A plan was implemented at that time for the Dental Carrier to reimburse the City for overpayments, as well as institute regular audits to monitor enrollment. The payment was not received and the enrollment problem is ongoing.
- HR Management believed this problem was resolved and did not follow up.

Recommendation

HR Management should:

- Coordinate with the City's Dental Carrier to ensure problems with system communications are resolved and determine correct enrollment.
- Request reimbursement for any overpaid claims, premiums, and administration fees from the Dental Carrier.
- Verify the accuracy of bills for the Dental Carrier before authorizing payment.

Management Response

HR Management concurs.

Action Plan

1. Consider alternate options for resolving eligibility issues (i.e. creating separate group numbers, division titles or providing manual monthly follow up to ensure proper termination
2. HR has made contact with the carrier for expected monies of \$27,010, as well as \$201 in claims paid for reimbursement; currently waiting for confirmation of checks being issued.
3. Review monthly bill to ensure terminated and waived employees are no longer reflected.

Implementation Date

1. Find a mutually agreeable option for resolving eligibility issues no later than the end of October 2015.
2. Expect reimbursement from carrier end of CY 2015.
3. Implementation of monthly bill review will occur immediately.

Finding #3

Condition (The way it is)

An independent medical and pharmaceutical claims audit has not been conducted by an independent third party since the City became self-insured in 2009.

Criteria (The way it should be)

Medical and pharmaceutical claims and trends should be reviewed periodically to ensure appropriate cost management and determine if the City's medical TPA is meeting performance guarantees. Additionally, a third-party audit for medical and pharmaceutical claims should be conducted periodically to recover any amounts owed to the City.

The current contract with the medical TPA states: "[t]he audit period will be limited to the most recent twenty-four (24) months and no more than one (1) audit shall be conducted during a twelve (12) consecutive-month period."

Effect (So what?)

The City is unable to independently verify if the medical TPA is providing promised discounts and meeting performance guarantees to make appropriate cost management decisions regarding the City's medical benefits claims.

Additionally, a third-party claims audit would ensure the City's claims are being processed correctly. According to the most recent available American Medical Association National Health Insurer Report Card (2012), "the commercial health insurance industry still paid the wrong amount for nearly one in ten medical claims."

Cause (Difference between condition & criteria)

- A third-party claims auditor for medical and pharmaceutical claims was not considered.
- Reviews are currently provided by the medical TPA (for medical claims) and by a pharmaceutical company owned by the medical TPA (for pharmaceutical claims). These were considered sufficient by management, but are not independent.
- Staff does not have the expertise or resources to conduct a detailed claims-level analysis.

Recommendation

HR Management should:

- Procure a third-party claims auditor(s) to conduct medical and pharmaceutical claims audits.
- Upon completion of the claims audit, evaluate whether conducting these audits on a bi-annual basis going forward is cost-efficient.

Management Response

HR Management concurs.

Action Plan

HR is working with our brokers and the Purchasing Director to review the HUB list of potential vendors as well as other potential auditing firms that can be utilized to conduct third-party claims audits for both medical and pharmaceutical claims.

Implementation Date

HR will pursue hiring a third-party auditor no later than end of first quarter 2016; medical TPA has notified the City of Garland that no audits are conducted for any of their clients during the months of October and November due to preparations for open enrollment.

Finding #4

Condition (The way it is)

When an employee is terminated, his/her medical benefits are cancelled the same day. However, a number of employees continued to receive benefits when no longer eligible.

Terminated employees were sampled (see Exhibit A) to determine if benefits through the City's medical TPA were cancelled timely. Of 73 employees examined, 13 cases (15%) were not cancelled timely in the medical TPA's system. This resulted in \$576.83 spent for medical claims and \$1,263.41 spent for prescription claims when the employees were not eligible. According to the City's medical TPA, they will recover the costs for medical claims, but they will not recover the costs for prescription claims.

Criteria (The way it should be)

- Employees' medical benefits should be cancelled the same day as the employee's termination date with the City.
- HR Directive 5, Section 4.2.1 states, "An appeal of a disciplinary termination may not change the City's normal process for terminating individuals. Except where prohibited by law, all benefits of terminated individuals who choose to appeal will be discontinued as of the effective date of termination, and reinstated only if the appeal overturns the termination in question."

Effect (So what?)

If employee benefits are not cancelled timely, the City will continue to pay administrative fees and claims for terminated employees. Pharmaceutical costs are not recoverable.

Cause (Difference between condition & criteria)

- Employee demographic information is loaded into the City's OBES weekly and is then transferred to the medical TPA weekly on the same day. This creates up to a two week lag between an employee's termination date and the date the medical TPA is notified to cancel coverage because the file sent to the medical TPA is not complete.
- Some benefit cancellations must be done manually instead of through the OBES (for example, the end of an employee's severance). If not entered timely, a retroactive termination date may be entered; however prescription claims incurred during this period will not be recovered.
- Employees were covered during the appeal of their termination. This process may take several weeks.

Recommendation

HR Management should:

- Ensure that the employee demographic information is uploaded to the City's OBES the day before transmission of information to the medical TPA. This will ensure the information sent to the medical TPA is up to date, and reduce the lag time to less than a week between termination and notification to the medical TPA.
- Implement policies and procedures to ensure manually entered benefit terminations are processed timely. In cases where terminations are planned (such as the end of a severance), HR should enter these termination dates into the OBES in advance.
- Ensure medical care coverage is cancelled on the date of termination. Benefits can be reinstated if an appeal of termination is successful.
- Work with the medical TPA to recover medical claims costs incurred after an employee's termination date.

Management Response

HR Management concurs.

Action Plan

1. The HR Department has changed the schedule of the upload from Wednesdays to Tuesdays thereby ensuring timely communication to the medical TPA regarding terminations, thus reducing the lag time from as much as two weeks to less than one week.
2. HR will enter known terminations well in advance of the actual date to ensure timely notification of termination for medical TPA.
3. All disciplinary terminations will follow Directive #5, Section 4.2.1: "Except as prohibited by law, all benefits of terminated individuals who choose to appeal will be discontinued as of the effective date of termination and reinstated only if the appeal overturns the termination in question."
4. HR has been in contact with the medical TPA and made them aware of overpayments to be recovered.

Implementation Date

1. Implementation of change of schedule for uploads to online enrollment system has already occurred with the assistance of the information technology department.
2. HR has currently implemented expedited system notification for known future termination dates.

3. Due to new and updated technology HR can now reinstate an employee efficiently. Implementation has occurred.
4. Expected recoveries of medical TPA overpayments are expected to take about six months.

Finding #5

Condition (The way it is)

The Health Insurance Portability and Accountability Act (HIPAA) is a federal law passed in 1996 to restrict access to an individual's personal health information. The Health Information Technology for Economic and Clinical Health Act (HITECH) passed in 2009 to strengthen HIPAA and expand it to better address electronically stored and transmitted health information.

1. There was no HIPAA risk analysis or review taking place.
2. The City's Notice of Privacy Practices contained contact information that was not accurate. It contained the name and contact information for the previous HR Services Director.

Criteria (The way it should be)

1. A. Regular risk analysis and review is required by the HIPAA Security Rule 164.308(a)(1). B.3.6 B.3.7. HIPAA Security Rule 164.308(a)(2) requires the designation of a security officer to be responsible for HIPAA compliance issues and monitoring B.3.6 B.3.7.
B. Regular risk analysis and review not only ensures employees are notified of their rights under HIPAA, but also ensures security of the storage, use, and transmission of personal health information (PHI). This includes (but is not limited to): access (such as storage of paper files, shared computer drives, and access to devices and health websites), and transmission of information (such as emails sent within the City of Garland, or externally to benefits carriers such as the City's medical TPA)
2. Department information published on the City's websites should include the most accurate and updated information.

Effect (So what?)

1. There is increased risk that the city is not adequately safeguarding health information, which puts the City at risk for lawsuits from employees and their dependents, as well as potential civil and criminal penalties as outlined in the HITECH Act. Note: The HITECH Act makes it possible for penalties to be enforced even if the individual did not know he/she was violating HIPAA (HITECH section 13410(d)).
2. Questions or complaints regarding privacy issues may be directed to the wrong party. This can result in further sharing of confidential information with inappropriate individuals.

Cause (Difference between condition & criteria)

1. According to HR, HIPAA monitoring is not performed at the level conducted prior to the departure of the HR Services Director in 2014.

2. Limited oversight.

Recommendation

HR Management should:

1. Institute policies and procedures for conducting HIPAA security monitoring on a regular basis. This should include designation of a HIPAA security officer. The security officer should have responsibilities recorded in his or her job description. HR Management should ensure a backup security officer is designated, and accountability for performance of the security officer(s) functions is established. The policies and procedures should additionally include:
 - Performance of regular risk assessments,
 - Security analysis, including administrative safeguards, physical safeguards, and technical safeguards, and
 - Financial analysis (what is reasonable based on cost and existing infrastructure).
2. Ensure the City's Notice of Privacy Practices is appropriately updated.

Management Response

HR Management concurs.

Action Plan

1. Privacy Officer has now been designated as the HR Director, with a backup security officer being the Benefits Services Coordinator. Both job descriptions will be reviewed to ensure that wording is reflected in their job description. Policies and procedures will be established which will detail the duties of the Privacy Officer and Backup as well as the manner and time schedule in which the assessments and analyses should be performed for HIPAA compliance. HR will also work with the brokers to locate a potential HIPPA advisory group or vendor to assist in identifying administrative, physical and technical risks and safeguards
2. HR will update and disseminate appropriate notice of privacy practices. HR has begun the process of presenting the basics of HIPAA compliance through training to leads, supervisors, managers and above.

Implementation Date

1. HR has identified the Privacy Officer and Backup and will begin in CY2015 to ensure job descriptions include designation of privacy officer and backup. HIPAA compliance policies and procedures will be established in FY 2015-16.
2. HR will update and disseminate notice of privacy practices by end of CY 2015. HR has already implemented training presentations to leads supervisors managers and above; HR will continue to coordinate with WED training to ensure continual training of HIPAA.

Finding #6

Condition (The way it is)

IA's inquiry and review of cash handling procedures revealed the following:

1. Checks were not stored in a secure area.
2. Checks were not immediately endorsed. However, according to HR, checks were endorsed upon processing deposits.
3. Checks and money orders were not deposited by the next business day (see Exhibit A). These included payments from Stop Loss Carriers, payments from retirees for benefits, and payments from employees for Cross Fit.

Total Checks/Money Orders Sampled:	88
Total Batches Sampled:	13
Average Number Checks/Money Orders per Batch:	6.8
Average Business Days to Deposit Check/Money Order:	24

Criteria (The way it should be)

1. Cash Handling Training provided by Finance through COGU requires funds be "ke[pt] in a safe place - locked."
2. Finance Directive 1 states: "[u]pon receipt, all checks shall be properly endorsed."
3. Finance Directive 1 states: "each day's receipts will be deposited intact no later than the following business day."

Effect (So what?)

- 1 & 2. Checks that are not secured and endorsed may be lost or stolen.
3. A. Failure to process payments timely for retiree benefits may result in termination of those benefits.

B. Individual checks from employees and retirees that are not deposited timely may cause problems in personal financial planning for those individuals.

C. Funds that are not deposited timely may result in lost operating revenue or interest earned.

Cause (Difference between condition & criteria)

1. The Benefits Services Coordinator did not have a safe or secure area to store the checks.

2. The Benefits Services Coordinator had a "deposit only" stamp. According to HR, the coordinator was unaware checks should be endorsed immediately.
3. According to HR, the Benefits Services Coordinator was unaware that checks should be deposited intact, no later than the next business day.

Recommendation

HR Management should ensure that checks are:

1. Secured in a locked drawer, lockbox, or safe in order to prevent loss or theft.
2. Stamped "for deposit only" immediately upon receipt to prevent any potential irregularities.
3. Deposited timely by the Benefits Services Coordinator, or delegated to staff already present if the Benefits Services Coordinator does not have the time to process the funds.

Management Response

HR Management concurs.

Action Plan

1. Effective immediately, HR utilizes the finance department's lock box to ensure a safe and secure location for checks received.
2. All checks received are now being stamped "For Deposit Only" upon receipt.
3. Checks are now being taken to the Finance department lockbox within 24 hours of receipt.

Implementation Date

All recommendations made by IA have been implemented.

Finding #7

Condition (The way it is)

The City of Garland's Benefits Services Coordinator manages a comprehensive package of benefits and assists with benefits-related questions. In addition, the Benefits Services Coordinator operates as a liaison between employees, retirees, and the benefits service providers that are contracted by the City.

Discussions with HR confirmed that there were no written policies and procedures for the City's benefits program. While the Wellness Coordinator serves as a backup to the Benefits Services Coordinator for payments to benefit providers, he/she does not serve as a backup for all functions of the Benefits Services Coordinator.

Criteria (The way it should be)

- Written policies and procedures assign accountability and responsibility and allow for continuity of operations.
- Training a backup for all duties allows for continuity of operations should the Benefits Services Coordinator be unavailable.

Effect (So what?)

- The City's Benefits Services Coordinator exhibited a wealth of knowledge regarding the City's Benefits program. If the Benefits Services Coordinator is unable to perform the essential duties of this job or were to leave the City, necessary knowledge and experience would leave or potentially become unavailable.
- Without adequate backup coverage, timely follow up of request for information or services, customer service, and fiduciary oversight could be compromised.

Cause (Difference between condition & criteria)

According to HR, staffing limitations prevented:

- The Benefits Services Coordinator from developing written policies and procedures.
- Training additional staff as a backup for all functions of the Benefits Services Coordinator.

Recommendation

HR Management should:

- Create written policies and procedures that would assign accountability and responsibility for the City's health benefits program.

- Train additional staff as backup for all functions of the Benefits Services Coordinator. This will allow for continuity of operations should the current Benefits Services Coordinator be unable to perform the essential job duties or leave the City.

Management Response

HR Management concurs.

Overseeing a benefits program covering over 5,100 lives (employees, retirees and dependents) and managing a budget of approximately \$31 million, requires considerable diligence and multitasking to maintain an effective operation.

The Wellness Program Coordinator serves as a backup in a limited capacity. Additionally, as a result of the expanded Wellness Program (C2W), the Wellness Program Coordinator's time to serve as a backup to the Benefits Services Coordinator is now further limited.

Action Plan

1. HR is in the process of updating standard operating procedures.
2. In a very limited capacity, HR has trained temporary staff members to assist with basic benefits processes (new hire and life status event processing). At this time, to due to overwhelming work load in all HR areas, no other position in HR is able to provide consistent backup for this position.
3. HR will request an additional full time benefits position to assist the Benefits Services Coordinator.

Implementation Date

1. Process mapping will begin in Fall of 2015.
2. Available administrative personnel provides limited assistance to the Benefits Services Coordinator whenever possible.
3. The HR Director will develop a position justification petition to be presented to the Senior Managing Director and City Manager for immediate hire of an additional professional full time position to assist the Benefits Services Coordinator.

Finding #8

Condition (The way it is)

The City offers a comprehensive package of benefits for employees and retirees and has agreements with over 23 Benefit Administrators for these services. Of these 23+ agreements, IA was only able to obtain 10 agreements to review for terms and conditions such as payment due dates and grace periods. These agreements were not filed with the City Secretary's Office.

Criteria (The way it should be)

City Secretary Directive 5 states that “[t]he City Secretary’s Office is the repository for the original active documents” and that “[i]ndividuals who are entitled to enter into the agreement on behalf of the City of Garland are responsible... (3) for timely transferring the documents to the Office of the City Secretary.”

Effect (So what?)

- A contract cannot be properly managed if the contract cannot be located.
- The City is unable to verify agreements with vendors or resolve potential discrepancies.

Cause (Difference between condition & criteria)

- Several of the agreements have been in place for long periods of time.
- The HR department was unaware of the directive.

Recommendation

HR Management should ensure that all contracts are filed with the City Secretary's office for retention purposes.

Management Response

HR Management concurs.

Action Plan

HR has begun providing the City Secretary’s Office with new contracts and will be working on providing the City Secretary with all other current contracts.

Implementation Date

HR anticipates completion of this recommendation no later than the end of CY 2015.

Exhibit A – Sampling Methodology

Timeliness of Benefit Termination-the medical TPA

Of the 4,958 claims records filed with the medical TPA from January 2015 through June 2015, IA was able to identify claims for 89 terminated employees. Of these, 16 were removed because either the claimant was a dependent of an active employee with the same name as a terminated employee, was a former employee who is now a dependent of an active employee, or because was an active employee that had been rehired. These 16 were excluded, leaving a sample of 73 terminated employees. The results of this sample can be projected to the entire population.

Timeliness of Check Deposit

IA pulled from Finance the supporting evidence for all batches for calendar years 2014 and 2015 which had payments containing stop-loss reimbursements. All checks and money orders from these batches were included in this test with the exception of: 1) money orders which were too faint to be legible, and 2) receipts for checks if a copy of the check was not also found. The results can be projected to the entire population.