

# Memorandum



CITY OF DALLAS

DATE: March 24, 2006

TO: Honorable Mayor and Members of the of the City Council

SUBJECT: Follow-up report of the November 7, 2003, *Performance Audit of the Health Benefits Administration--Report #403*

We conducted this follow-up under the authority of Chapter IX of the City Charter, and according to applicable government auditing standards. We included tests of records and reviews of program guidelines and procedures that we considered necessary in the circumstances. Our objective was to determine whether management had implemented the original audit's recommendations or had taken other acceptable actions to remedy the control weaknesses identified in the original audit report.

The original audit contained seven findings that include twenty-one recommendations. Management implemented ten of the recommendations, partially implemented four, and did not implement seven.

**1. The City's benefit administration costs are not decreasing even though claim processing has been outsourced.**

**We recommended** the Director of Human Resources (HR):

- A. Calculate the HRIS health benefits enrollment costs and assess health benefit administration accordingly. Funding for HRIS employees should be detailed separately in the HR departmental budget.

*Deloitte Consulting has calculated 2005 and 2006 enrollment costs and HR found administrative costs have decreased. HR will use their method to calculate future costs and make future budget projections (Implemented).*

- B. Identify the cause of the cost increase in Employee Benefit Administration Fund and take corrective action to improve the cost efficiency. Additionally, establish and implement policy and procedures that ensure that only expenditures related to employee health benefits are charged to employee benefit administration.

*We found that HR identified one cause of the cost increase for the fiscal year 2003-2004, but not for the two previous years (identified in the audit). They did adopt Deloitte's policy and procedures to show that all current and future charges are proper and so can better take corrective action to improve cost efficiency (Partially implemented).*

**2. Payments for health care benefits are not in compliance with established ordinances.**

**We recommended** the Director of HR:

- A. Determine if the City should pay the Medicare Part A premiums for eligible employees. If it is the policy to pay Medicare Part A premiums, establish and institute procedures to educate employees about the benefits and liabilities of Medicare Part A.

*We found that the Council has adopted the policy that Medicare Part A premiums should be paid by the Health Benefits Fund for retirees and spouses only (age 65 plus), not active employees (Council Resolution 032582). Management provides information on this subject during annual enrollment and pre-retirement seminars, as well as when qualified persons become 65 (Implemented).*

- B. Immediately terminate the practice of paying the Part B premiums for active employees. Contact active employees for whom the City is paying the Part B premiums and make arrangements for the individuals to assume the payment responsibility should they desire to continue Part B.

*We found that HR has stopped the practice of paying part B premiums for active employees, aged 65 plus (Implemented).*

**3. Monitoring of the health care benefits program is inadequate.**

**We recommended** the Director of HR:

- A. 1. Consult with UHC to determine whether there is a reasonable explanation for the \$507,483 in payments after the claims filing period. If there is not a reasonable explanation, HR should seek a refund of the overpayment.

*We found that HR did not request a refund or have the consultant audit the claims in question. Therefore, the City Auditor's Office (CAO) performed an audit of UHC's record for paying claims and determined that it owes the City \$372,000 for claims it did not submit timely or pay promptly. We recommended that the City Attorney collect this amount and it was received September 26, 2005 (Implemented).*

2. Establish and implement procedures to conduct annual audits of the TPA and its claims processing. If the Hay Group has not conducted the UHC claims audit by the end of FY03, HR should seek a refund of the \$46,900, and HR should contract with another firm to conduct the audit.

*We found that this audit was not done by the Hay Group, so it was not paid because the CAO did it. HR hired a new consultant (Deloitte) to conduct annual audits of the TPA claims processes. This is to be done after the end of the calendar year **(Implemented)**.*

3. Establish and implement procedures to randomly verify the performance results provided by the health benefits administrator.

*We found that HR does not randomly verify performance results from the TPA, but Deloitte will audit it annually and HR meets with the TPA periodically to discuss performance **(Partially implemented)**.*

4. Establish and implement procedures for an immediate claims audit of UHC.

*HR did not ensure the audit was performed immediately; as a result, the City lost the chance to recover a year's worth of money owed from claims processing errors. As mentioned in item 1, the City Auditor's Office conducted the audit **(Not implemented)**.*

5. Establish and implement procedures to receive and review hospital claims audits.

*We found that HR has gained access to the TPA's data and has given that access to Deloitte, who is scheduled to perform a claims audit at the end of the year **(Implemented)**.*

6. Establish and implement procedures to receive, review, and retain current TPA data.

*HR has access to current data, but did not provide evidence of current review. The most recent period for which they have thoroughly evaluated data is January through July, 2004. They have summarized data for all of 2004 **(Not implemented)**.*

B. Reconcile and apply the correct funding to each Employee Health Benefit Fund balance. Additionally, simplify the Agency Fund structure and ensure accounting practice is in compliance with GAAP.

*We found that HR reconciled and simplified the funding, reducing the number of funds to two; and accounting practices now comply with GAAP **(Implemented)**.*

**4. Ongoing assessments need to be made to forecast future health care issues.**

**We recommended** the Director of HR:

- Consult with City Management and evaluate whether it is conducive for the City to continue paying Medicare Part A premiums for retirees.

*We found that HR still maintains that a financial benefit exists for the City to pay Medicare Part A premiums, as Medicare will be the primary medical payer when the retirees reach age 65. The City's self-insured PPO will then only assume a percentage of what is allowed and not paid by Medicare after the deductible **(Implemented)**.*

- Determine the actual number of individuals that the City will pay Medicare Part A premiums for, should the Resolution remain unchanged.

*The recommendation requested HR to determine how much the City **will** pay for Medicare Part A premiums for employees not otherwise eligible for federally paid coverage. HR determined that there were 32 **active** employees that met the age requirements for Medicare (Age 65 and over) as of 3/1/06. HR then calculated the amount that the City would have to pay for Medicare Part A for these individuals (\$150,912) if these individuals retired on 3/1/06. However HR did not inquire of these 32 employees whether they were eligible for Medicare through eligibility of a spouse or through contributions to Social Security. Additionally HR did not inquire of the remaining pre-April 1, 1986 hired employees (approximately 3,700) as to whether they were eligible for Medicare through eligibility of a spouse or through contributions to Social Security. Therefore HR has not done what it needs to do to determine what the City **will** pay for Medicare Part A premiums for retirees and their spouses who otherwise are not eligible for federally paid coverage **(Not Implemented)**.*

**5. Opportunities to reduce the City's potential liability for Medicare Part A premiums have not been explored.**

**We recommended** the Director of HR:

- Make an inquiry of all pre-April 1, 1986, hired employees to determine possible employee or spousal Medicare Part A coverage.

*HR did not inquire of the estimated 3700 active employees that were hired previous to April 1, 1986 as to whether they were eligible for Medicare through eligibility of a spouse or through contributions to Social Security. **(Not Implemented)**.*

- Determine actual impact to the City if the City accepts the liability of paying the Medicare Part A premiums.

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- Determine the actual City contribution for Medicare Part A for retirees and active employees.

*HR currently pays Medicare Part A premiums for 175 individuals (retired employees and/or spouse of retired employees). The actual City contribution in 2006 is \$393 per employee per month (approximately \$825,000 total per year). The City does not pay Medicare Part A Premiums for active employees (**Implemented**).*

*HR believes that it is in the City's best interest to continue as is because of costs associated with converting to a Section 218 Agreement (of the Social Security Administration—thus allowing individuals to choose their Medicare Part A coverage); therefore, it did not implement the remaining three recommendations under this finding.*

- Re-compute retiree health care premiums to differentiate: one for those that qualify for Medicare and one for those that do not (**Not implemented**).
  - Establish an employee educational process regarding the possible effects of not having Medicare Part A available (**Not implemented**).
  - Determine and present information to the City Council for a decision on providing affected employees the option of participating in Medicare through payroll deductions (**Not implemented**).
- 6. Incentives are not in place to encourage plan participants to report claim-processing errors.**

**We recommended** the Director of HR:

- Establish incentives to encourage users to review the Explanation of Benefits (EOB) and report inaccuracies.
- Communicate incentives to plan participants, such as adding a notation to the UHC EOB statements.

*We found that HR maintains that there are sufficient incentives in place to encourage members to review their EOB for errors in the annual enrollment guide and seminars, both of which provide information and encourage members to use the TPA's website. However, we could not find in the guide, the seminars or even the website explanations of the codes used by medical providers in their bills. Ready access to these codes by employees is crucial because only the employees can challenge the correctness of charges (two partially implemented).*

**7. A payment step in Medicare Part B processing may be eliminated.**

**We recommended** the Director of HR consult with ERF and PFP to establish procedures for ERF and PFP to pay Medicare premiums directly to the responsible agency.

*HR contacted the ERF and PFP and they expressed no interest in paying premiums directly (Implemented).*

*Paul T. Garner*

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c: Mary K. Suhm, City Manager  
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