

MANATEE COUNTY CLERK OF THE CIRCUIT COURT

INTERNAL AUDIT DEPARTMENT

EMPLOYEE HEALTH BENEFITS DIVISION

LIFE INSURANCE - CLAIMS PAYMENT PROCESS

A U D I T   R E P O R T

**TABLE OF CONTENTS**

I.    INTERNAL AUDIT REPORT

A.	Background; Purpose/Objectives .....	2
B.	Scope; Methodology; Irregularities, Abuse, or Illegal Acts; Test of Compliance.....	3
C.	Statement of Internal Control Structure.....	3 - 4
D.	Management Team and Management Action Plan.....	4
E.	Management Summary.....	4 - 5
F.	Audit Report Authorization.....	5
G.	Areas of Improvement and Management's Action Plan.....	6 - 7

MANATEE COUNTY CLERK OF THE CIRCUIT COURT

INTERNAL AUDIT DEPARTMENT

EMPLOYEE HEALTH BENEFITS DIVISION

LIFE INSURANCE - CLAIMS PAYMENT PROCESS

# A U D I T   R E P O R T

The Internal Audit Department conducted an audit of the life insurance claims payment process under the Employee Health Benefits Division for the audit period January 1, 1999 through February 29, 2000. The audit was performed in accordance with *Generally Accepted Governmental Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors.

## **BACKGROUND:**

Standard Insurance Company of Portland, Oregon provides group life insurance to Manatee County Government. The life insurance benefit program includes core life, dependent life and additional life benefits. Core life insurance is provided to all eligible government employees. Group life members may elect dependent life and additional life coverage through contributory premiums.

## **PURPOSE/OBJECTIVE:**

The audit purpose / objectives included, but were not limited to, the following:

- Determine what life insurance claims were filed with the Standard Insurance Company and whether the claims were paid in accordance with the policy.
- Determine whether the Standard Life Insurance Company requires new evidence of insurability for employees to maintain their existing levels of insurance coverage for core and additional life insurance.
- Determine whether the Standard Life Insurance contract/policy was competitively bid and whether the Board of County Commissioner's approved the contract/policy.

### **SCOPE:**

The scope of the audit included an evaluation of the life insurance claims filed with the Standard Insurance Company from the inception of the policy on 1/1/99 through 2/29/00.

The scope of the audit included examining evidence supporting that life insurance claim payments were made in compliance with the Group Life Insurance Policy.

### **METHODOLOGY:**

Internal control evaluations were accomplished by flow charting the key operations of this specified area, discussions with management and staff, observations, and analytical and substantive testing of individual internal controls. Risk analysis was used to establish priorities of audit objectives.

### **IRREGULARITIES, ABUSE, OR ILLEGAL ACTS:**

No indications of irregularities, abuse, or illegal acts were discovered during the audit for the period ending February 29, 2000 in the audit of the Life Insurance Claims Process.

### **TEST OF COMPLIANCE:**

Internal Audit tested compliance of the Standard Insurance Company Policy with the life insurance claims filed in order to obtain an understanding of internal controls and to assess control risk. Tests performed were limited to the specific areas included in the Purpose/Objective section of this report and appeared to provide sufficient evidence to support an opinion on compliance and internal controls for the areas tested.

Except as noted in our audit report, tested items were in compliance with Florida Statute 112.08, the Standard Group Life Insurance Policy, and departmental policies.

### **STATEMENT ON INTERNAL CONTROL STRUCTURE:**

In planning and performing the audit of life insurance claims payment under the Employee Health Benefits Division for the period ending February 29, 2000, the internal control structure was considered in order to determine the auditing procedures for the purpose of this report. As a result, we noted in the audit report matters involving the internal control structure and its operations that are considered reportable conditions under standards established by the U.S. General Accounting Office, *Government Auditing Standards*. Reportable conditions involve matters relating to deficiencies in the design or operation of the internal control structure, that in our judgment, could adversely affect the organization's ability to record, process, summarize and report on data consistent with management's intentions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions, as defined above. In addition, because of the inherent limitations in any internal control structure, deficiencies in the design or operation of the internal control structure may exist and not be detected. We believe the conditions identified in our audit report constitute reportable conditions as previously defined.

### **MANAGEMENT TEAM AND MANAGEMENT ACTION PLAN:**

A Management Action Plan will be used for each Area of Improvement reported. Management Action Plans are corrective actions with implementation dates developed in cooperation with the Department's Management Team and the Internal Audit Department. The Management Team includes the Financial Management Department Director and the Employee Health Benefits Manager.

### **MANAGEMENT SUMMARY:**

The Employee Health Benefit Manager is adept at negotiating contracts and is constantly monitoring the insurance industry to ensure Manatee County employees are offered the best policies and reasonable prices. We found the Division's files to be complete and county records to be adequate for determining the proper amount of life insurance benefits to be paid for employees' claims. We verified that employees' elections of additional life insurance under past providers are being honored in claim payments with the current provider of life insurance. The claim payments process appears to generally function properly and we noted the following areas where we believe improvements can be made.

- The County's life insurance plan was properly bid to obtain competition, however the Board of County Commissioners did not approve the execution of the negotiated policy. The Management Team through its Management Action Plan will present to the Board of County Commissioners the Standard Life Insurance Group Policy for proper approval.  
**(See Area for Improvement #1 on page 6.)**
- Standard Life Insurance Group Policy pays claim benefits based on forms completed by the Employee Health Benefits Division. Division employees have not been adequately trained on how to complete these claims forms and one claim was underpaid by \$13,000. This underpayment was corrected during the audit. It was also noted that employees have not been adequately informed that life insurance benefits are paid on their current wages at time of death. One case was noted where an employee reduced his work schedule prior to his death, which resulted in a reduction of benefits paid. The Management Team through its Management Action Plan will provide training to their employees regarding the accurate completion of the claim forms, and will issue a bulletin to all employees to clarify life insurance coverage.  
**(See Area for Improvement #2 on page 6.)**

We appreciate the efforts of Employee Health Benefits Division's management in timely addressing the issues raised during the audit and aggressively seeking solutions to these matters. We believe through the implementation of the Management Action Plans included in this report, controls will be strengthened, improving accountability. We commend the Employee Health Benefit Division for providing a valuable service to Manatee County employees.

**AUDIT REPORT AUTHORIZATION:**

This audit report has been reviewed and authorized by:

---

Richard J. Orienti, CIA, CFE

Director of Internal Audit

---

R. B. "Chips" Shore

Clerk of the Circuit Court and Comptroller

AREA FOR IMPROVEMENT #1 .....

**Subject: Life Insurance Policy Approval**

The County's life insurance plan was properly bid to obtain competition. An insurance company was selected and the Board of County Commissioners authorized negotiating with the company by executing an Application of Insurance on October 6, 1999. The Board of County Commissioners' authorization for execution of the agreement was required but not obtained after the life insurance plan was negotiated by Employee Health Benefits management.

It is important that individual Board members be given the opportunity to review and approve or disapprove final terms and conditions negotiated for County insurance plans.

**Management Action Plan:**

- The Standard Life Insurance Group Policy will be presented to the Board of County Commissioners for the required authorized execution of the agreement June 30, 2000.

AREA FOR IMPROVEMENT #2 .....

**Subject: Claims processing**

-

The Employee Health Benefits Division is contractually responsible for completing insurance company claim forms for life insurance claims filed on behalf of County employees. The Division has not provided adequate training to their employees on how to complete these claim forms. As a result, auditors discovered an underpayment of \$13,000 on one claim that was subsequently corrected and resubmitted to the insurance company.

A review of the policy revealed that employee's benefits are based on the employees' wages, which is based on the employee's work schedule. It does not appear that this information has been effectively communicated to employees who mistakenly believe that benefits are based on their salary as of a fixed date. While the actual policy provision results in increased benefits to the majority of the claims paid, the amount of life insurance coverage is reduced for employees who reduce their work schedule prior to death.

**AREA FOR IMPROVEMENT #2 .....Continued**

**Management Action Plan:**

- Management will provide training to their employees regarding the accurate completion of the Life Insurance Benefits Application forms by May 31, 2000.
- The Employee Health Benefits Division will issue a bulletin to all employees to clarify life insurance coverage. The bulletin will be distributed with the new enrollment packages in October 2000.
- Management has resubmitted the claim to the Standard Life Insurance Company for the additional \$13,000 claim benefit that was underpaid. Management will follow-up to ensure the claim is paid.