

MANATEE COUNTY CLERK OF THE CIRCUIT COURT  
INTERNAL AUDIT DEPARTMENT

FINANCIAL MANAGEMENT DEPARTMENT  
EMPLOYEE HEALTH BENEFITS DIVISION  
NON-PAYROLL DEDUCTION PAYMENTS

A U D I T   R E P O R T

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**A U D I T   R E P O R T**

The Internal Audit Department conducted a limited scope audit of non-payroll deduction payments of the Employee Health Benefits Division for the audit period June 1, 2003 through May 31, 2004. 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:**

The Employee Health Benefits (EHB) Division is an internal service fund under the Financial Management Department. The Division's primary purpose is to provide a comprehensive self-insured medical and dental program for employees of the Board of County Commissioners; employees of the Supervisor of Elections, Sheriff's Office, Property Appraiser, Tax Collector, Clerk of the Circuit Court, and Housing Authority also participate in EHB's insurance program. The employers pay 100% medical coverage for the employee, but pay only a portion of the dental and dependent medical coverage; the employee is responsible for paying the remaining portion. As a general rule, these payments are made via payroll deduction. However, when an employee is on authorized leave without pay, there are no paychecks from which to make the deduction. Therefore, the employee has to make payment arrangements with EHB or their respective employer to continue dental, dependent medical coverage, and/or other insurance, such as additional life and long-term disability.

EHB is also responsible for collecting payments from retirees and COBRA participants. When an employee retires from the County, he/she has the option to continue insurance coverage with Manatee County, as long as he/she is actively receiving Florida Retirement System (FRS) benefits. To continue coverage, the employee has to sign up with EHB and make payment arrangements. The majority of the retirees have FRS deduct the insurance premium from their monthly benefit check, and FRS then pays Manatee County directly.

In addition, employees and/or their dependents are allowed to continue their insurance coverage for a limited time through Manatee County, when they experience one of the approved qualifying events, such as termination or divorce, under the Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1986, which is a federal requirement for providing continuation of coverage. Those who elect to continue coverage have to sign up with EHB and make payment arrangements.

**PURPOSE/OBJECTIVES:**

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

To verify that an adequate system of control exists to ensure that insurance coverage payments for no-pay status employees of the Board of County Commissioners, retirees, and COBRA enrollees are properly collected and recorded by the EHB Division.

To verify that an adequate system of control exists to ensure that insurance coverage payments for no-pay status employees of the other Constitutional Officers and agencies participating in EHB's insurance program are properly collected and recorded by the respective employer.

To verify that there are effective procedures in place for tracking of non-payroll deduction payments.

To verify that claims are not paid for enrollees who either are not qualified or have not made proper insurance payments.

**SCOPE:**

The audit scope consisted of a review of the non-payroll deduction payments from all participating Constitutional Officers/agencies for the period June 1, 2003 through May 31, 2004.

**METHODOLOGY:**

Internal control evaluations were accomplished by reviewing key operations of this specified area through 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 EHB Division limited scope audit for the period ending May 31, 2004.

**TEST OF COMPLIANCE:**

Internal Audit tested compliance with certain policies and rules, obtained an understanding of internal controls, and assessed 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 policies and other rules established by the Board of County Commissioners.

**STATEMENT ON INTERNAL CONTROL STRUCTURE:**

Management is responsible for establishing and maintaining an effective system of internal accounting controls. This system should be under continuing review by management to determine that it is functioning as prescribed and is modified as appropriate for changes in conditions. In planning and performing the limited scope audit of the EHB Division for the year ended May 31, 2004, the internal control structure was considered in order to determine the auditing procedures for the purpose of this report. Internal control weaknesses 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 considered an internal control weakness. 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. Except as noted in this report, we did not note any other significant matters involving internal control weaknesses.

**MANAGEMENT TEAM AND MANAGEMENT ACTION PLAN:**

A Management Action Plan will be given for each Area for Improvement. Management Action Plans are corrective actions with implementation dates developed in cooperation with the EHB Division's Management Team and the Internal Audit Department. The Management Team included Jim Seuffert, Financial Management Department Director, Bob Goodman, EHB Division Manager, and Mary Cannamela, EHB Fiscal/Administrative Coordinator. Other minor findings noted during the audit were discussed and/or corrected during the audit, and are included in a memo to management.

**MANAGEMENT SUMMARY:**

The EHB Division appears to be staffed by dedicated individuals, who continuously strive to improve the operations for identifying and collecting non-payroll deduction insurance payments. The Division has developed an adequate system for tracking the insurance payments payable to the County. In addition, they are depositing the payments from the retirees and COBRA enrollees timely. There are various areas within the operations for which controls can be improved and additional procedures developed. While the loss to Manatee County as a result of weak controls has been minimal, implementing these controls will help ensure against any greater losses in the future. The areas where improvements can be made include:

- The Division could improve their procedures for ensuring that retiree and COBRA enrollee coverage is terminated on the claim payment system in a timely manner. The Management Team through its Management Action Plan will develop procedures for processing coverage terminations in their formal policies and procedures.

**(See Area for Improvement #1 on page 6.)**

- The Division could improve procedures for determining the proper rates to charge retiree and COBRA enrollees and for detecting and correcting rate errors. The Management Team through its Management Action Plan will adjust the rate errors where possible and develop formal procedures for assigning rates to participants and handling errors timely.

**(See Area for Improvement #2 on page 6.)**

**MANAGEMENT SUMMARY (cont.):**

- There are inconsistencies among the three systems in which EHB data for retirees and COBRA enrollees is being maintained. The Management Team through its Management Action Plan will develop procedures for reconciling information maintained on the three systems. **(See Area for Improvement #3 on page 7.)**
- The Division could improve compliance with COBRA regulations related to date requirements for enrolling a COBRA participant and for setting length of coverage. The Management Team through its Management Action Plan will review COBRA law with appropriate personnel and will develop procedures for processing and maintaining COBRA enrollees. **(See Area for Improvement #4 on page 7.)**
- The Division could improve procedures and controls for identifying and processing no-pay status employees. The Management Team through its Management Action Plan will train employees how to identify no-pay status employees, will develop formal policies and procedures, and will pursue payment where possible. **(See Area for Improvement #5 on page 8.)**
- The Division could improve procedures for obtaining documentation to verify that a retiree is actively receiving FRS benefits and is eligible for the Medicare B discount. The Management Team through its Management Action Plan will formalize the use of a pre-set checklist for retiree documentation, which has already been implemented. **(See Area for Improvement #6 on page 9.)**

We appreciate the efforts of 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 Plan included in this report, controls will be strengthened, improving accountability.

**AUDIT REPORT AUTHORIZATION:**

This audit report has been reviewed and authorized by:

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Richard J. Orienti, CIA, CFE  
Director of Internal Audit

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R. B. "Chips" Shore  
Clerk of the Circuit Court and Comptroller

**AREA FOR IMPROVEMENT #1 .....**

**Subject: Timeliness of Coverage Termination**

There do not appear to be adequate procedures for ensuring that retiree and COBRA enrollee coverage is terminated on the claim system in a timely manner, when the coverage is being discontinued. Both retirees and COBRA enrollees are given a 30-day grace period to pay their insurance premiums, and payments are due on the first of the month. During testing, it was noted that for several enrollees, coverage was not terminated until a month after either the grace period had expired or the legal ending date had been reached. In addition, for 12 (or 50%) of the 24 COBRA enrollees that ended their coverage, the timeliness of the termination could not be determined due to a lack of documentation in the files. Canceling insurance promptly is important to reduce the likelihood of paying claims for an ineligible recipient. Due to a delay in terminating coverage, there were 8 claims totaling \$424 that were paid for people who were not entitled to receive benefits.

**Management Action Plan:**

- Management will write formal policies and procedures that detail when coverage should be terminated, how to notify the Third Party Administrator (TPA), and what documentation to maintain for the cancellation. Management has already implemented procedures to put the TPA on notice when a retiree or COBRA enrollee appears to be late in making a payment. In addition, management will review the ineligible claims noted and request refunds from the physicians where applicable. The anticipated completion date is May 1, 2005.

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

**Subject: Rate Discrepancies for Retirees & COBRA**

There do not appear to be adequate procedures for determining the rates to charge enrollees, nor for detecting and correcting rate errors. The rates charged to retirees and COBRA participants for their insurance premiums are set by rate schedules, which are approved by the Board of County Commissioners. The rates for COBRA participants are based only on the number of enrollees covered, while those for retirees are based on length of service with Manatee County being on Medicare B, and the number of enrollees covered for each participant. During testing it was noted that several retirees and COBRA participants were not charged the proper rate, according to the rate schedule, and that some did not pay the proper rate, which they were quoted. These discrepancies resulted in a net underpayment to the County of about \$4,240 for the year tested. When the incorrect rates for the retirees are projected to the population, as the retirees were tested using a statistical sample, the estimated underpayment is \$18,700, which represents 1.8% of the annual retiree and COBRA revenue of about \$1.03 million.

**Management Action Plan:**

- Management will review the discrepancies noted and make adjustments where necessary and possible. Management will create written policies and procedures for ensuring that all participants are being charged the proper rate, as defined by a rate schedule, and that correcting adjustments from errors found are made timely. The anticipated completion date is May 1, 2005.

**AREA FOR IMPROVEMENT #3 .....**

**Subject: System Discrepancies**

EHB data for retirees and COBRA enrollees is being maintained on 3 different systems, and EHB does not have formal procedures to reconcile these systems. Several inconsistencies were noted in comparing the three systems; 25 participants were found in only one of the systems, while 55 participants had coverage discrepancies among the systems. It is important to verify that all systems have the correct information so that legitimate claims will not be denied and ineligible claims will not be paid. During the year tested, three dental claims totaling \$321 were paid for a patient, who was neither enrolled nor paying for dental coverage.

**Management Action Plan:**

- Management is in the process of resolving the discrepancies noted and bringing the systems into agreement. Management will write formal policies and procedures for reconciling the systems maintained by EHB and the TPA on a periodic basis. In addition, management will review the ineligible claims noted and request refunds from the physicians, where applicable. Management anticipates completion by May 1, 2005.

**AREA FOR IMPROVEMENT #4 .....**

**Subject: COBRA Date Requirements**

The COBRA law includes specific date requirements for enrolling a COBRA participant and for setting length of coverage. Regarding enrollment, EHB is required to ensure that the potential enrollee is informed of his/her right to elect COBRA within 14 days of EHB receiving notification of the qualifying event, such as termination or divorce. In reviewing the files at EHB, it was noted that, for 9 (or 18.7%) of the 48 participants tested, the letter notifying the enrollee of the COBRA option had been sent later than the 14-day requirement. For 3 additional participants, it could not be determined that all date deadlines had been properly met due to missing documentation. In addition, 6 (or 12.5%) of the 48 tested had incorrect dates for when to terminate coverage, due to calculation errors and a lack of understanding of the COBRA rules. Allowing coverage to continue longer than required could result in excessive claims, while ending coverage early could result in potential lawsuits.

**Management Action Plan:**

- Management will review the COBRA laws with those employees responsible for processing and maintaining COBRA information. In addition, management will create written policies and procedures that detail supporting documentation to be maintained in the COBRA files and that ensure date requirements will be properly met. The anticipated completion date is May 1, 2005.

**AREA FOR IMPROVEMENT #5 .....**

**Subject: No-Pay Status Employees**

A no-pay status employee is an employee on authorized leave without pay and is responsible for sending payments to EHB for dental, dependent medical and/or other insurance to continue coverage while on leave. EHB does not have any formal, written policies and procedures for identifying, processing, and collecting payments from no-pay status employees for dental, dependent medical, and other premiums. In addition, the employee responsible for handling no-pay status employees has not been properly trained to use the reports from Payroll to determine who needs to be making payments to EHB. As a result of the lack of training and procedures, several employees were not identified as needing to pay, while others were allowed to maintain coverage without making the requested payments for several months, or at all, and without consequence. For the 12 months ended May 31, 2004, \$2,837 in dental, dependent medical, and other coverage premiums was not collected, which represents about 41% of the total due from no-pay status employees.

**Management Action Plan:**

- Management will review with Payroll how to use the reports for identifying no-pay status employees and the amounts they owe and inquire whether another, more useful report is available.
- Management will pursue the collection of payments, where feasible, from those employees who have not properly paid for their dental, dependent medical, and other coverage.
- Management will create written policies and procedures for processing payments from no-pay status employees for their portion of the insurance premium for dental, dependent medical, and other coverage. These policies and procedures will cover such areas as how to determine which employees need to pay and the amount they need to pay, how and when to terminate coverage for lack of payment, recovering nonpayment if the employee returns to work, and obtaining payments from terminating employees.
- Management anticipates completing these procedures by May 1, 2005.

**AREA FOR IMPROVEMENT #6 .....**

**Subject: Retiree Documentation**

EHB does not have written procedures detailing the information necessary to be maintained for the retirees to document their eligibility for insurance and for discounts. For a retiree to be eligible for continuing insurance with Manatee County, the retiree must be actively receiving their Florida Retirement System (FRS) benefits. Of the 10 retirees tested, 7 (or 70%) did not have documentation to show that their FRS activity was verified. In addition, retirees are given a discount if they are on Medicare B; the retiree is required to provide a copy of the Medicare B card as evidence of their coverage. Fifteen (or 20.8%) of the 72 retirees tested have been given the discount without providing documentation of Medicare B status.

**Management Action Plan:**

- Management has already implemented the use of a pre-set checklist, which details the supporting documentation to be obtained for retirees; management will formalize the use of the checklist in written policies and procedures. In addition, management will attempt to obtain the missing documentation noted during the audit. The anticipated completion date is May 1, 2005.

