



MEMORANDUM

To: Kim Stroud, Employee Health Benefits Manager

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

Date: July 31, 2012

Subject: Employee Health Benefits Division Non-Payroll Deductions Follow-up Audit#3

The Internal Audit Department has completed a third follow-up audit based on the Clerk of the Circuit Court's Follow-up Audit Memo issued on February 25, 2010. This follow-up audit consisted of reviewing those areas where we highlighted areas for improvement and developed management action plans to ensure that the Division's implemented controls are functioning properly. The follow-up audit period scope included the twelve-month period ending November 30, 2011.

Employee Health Benefits Division (hereafter referred to as EHB) continues to make efforts in the implementation of the management action plans included in the latest report. During the period of testing, EHB experienced turnover with senior management staff which resulted in reevaluating current operations. While the improvements may appear limited, EHB believes they now have the dedicated staff needed to improve operations over the management of retiree and COBRA accounts, as well as employees on "no pay" status. Specific areas that continue to require management's attention are identified below:

1. EHB's draft policies and procedures require that deposits from retiree, COBRA, and "no pay" participants be made within two days of receipt. In addition, checks are manually date stamped on the face of the actual checks and copied prior to being deposited. Copies are retained as evidence of payments.
 - Retirees: A review of all payments received for the month of November 2011 found the following:
 - For 17 out of 90 (18.8%) copies of retiree checks tested, timeliness of deposits could not be determined due to the copies cutting off most of the date stamp.
 - For the remaining retiree check copies tested, 11 out of 73 (15.1%) were deposited more than 2 days after the date received; a slight improvement from the 21% exception rate reported in the previous audit.

- **COBRA:** A review of all payments received for the months of October and November 2011 found the following:
 - For 5 out of 20 (25%) copies of COBRA checks tested, timeliness of deposits could not be determined due to the copies cutting off most of the date stamp. The remaining 15 checks were deposited timely.
- **“No Pay”:** A review of all payments received for the audit period ending November 30, 2011 found the following:
 - All checks tested were deposited timely.

Management Action Plan:

Effective immediately, management will enforce that deposits be made within two business days of receipt. In addition, EHB staff will begin to review all check copies to ensure that the date stamp is clear. For those copies of checks that require additional attention, notations will be made on the check copies explaining the reason for the delay in meeting the two business day deposit requirement.

2. According to COBRA law, when coverage is terminated due to non-payment, a notice must be given as soon as possible to the participant describing the reason for termination with the effective termination date. In addition, HIPPA law requires a certificate of creditable coverage be provided when an individual loses coverage under the plan or exhausts COBRA continuation coverage. A review of COBRA files for the audit period found the following:
 - For 14 out of 23 (60.8%) COBRA participants, who lost coverage due to non-payment, evidence did not exist in the participants' files to support that a letter was sent notifying the reason of termination, as required by law.
 - For 8 out of 26 (30.8%) of all COBRA participants, evidence did not exist in the participants' files to support that a credible coverage certificate letter was sent, as required by HIPPA.

Management Action Plan:

Management will develop and implement quality control procedures to ensure that termination letters and creditable coverage certificates are on file, evidencing compliance with COBRA and HIPPA law. Implementation date is anticipated by December 31, 2012.

3. EHB is responsible for notifying and collecting premiums on employees (under the Board of County Commissioners) that are on a “no pay” status. These employees are identified by a Payroll Exception report that is automatically generated every payroll cycle. EHB uses an Excel tracking worksheet to record the amount of payments that are due and when payments are received. A review of all “no pay” status incidents for the audit period ending November 30, 2011 found the following:

- A standard has not been established as to when notification letters of outstanding premiums due should be sent to employees. Testing found that 4 out of 26 (15.4%) "no pay" incidents had letters sent out to employees in excess of 30 days after the last pay date.
- For the 26 payroll exception reports generated during the audit period, 3 out of the 26 (11.5%) were not on file at the time of audit. One report had a "no pay" status employee that required attention and was missed.
- 17 out of 26 (65.4%) required payments from 9 employees were not received. These outstanding balances totaled \$954.34 of which \$799.32 was owed by current employees. This was not an improvement from the previous audit that identified an exception rate of 19%.

Management Action Plan:

Management anticipates implementing the following Management Action Plans by December 31, 2012:

- Updating their Policies and Procedures Manual to require notification letters to be sent to active employees on a "no pay" status within 14 days from the receipt of Payroll's "No Pay" Status Exception report.
 - EHB has streamlined their process, as of March 1, 2012, by having the Payroll reports emailed directly to the individual working on the "no-pays." Management confirmed that since that time, all payroll reports have been adequately accounted for.
 - EHB will add columns on their Excel tracking spreadsheet that will include dates of notification attempts, payments received, and any other relevant information regarding contact with employees having outstanding balances with EHB.
 - EHB will seek legal advice from the County Attorney's Office to determine what options are available to enforce collections of these outstanding balances.
4. Policies and procedures for COBRA, retirees and "no-pay" status enrollees are currently in draft form and have not been completely updated. In addition, several areas were identified as being inconsistent with current operations. These areas included the following:
- The draft Policies and Procedures states that no partial payments for retiree, COBRA, and No-Pay status participants are to be accepted and EHB will return the payment to the participant requesting exact payment. This is inconsistent with COBRA and IRS regulations that allow the acceptance of partial payments..., "a shortfall is no greater than the lesser of \$50 or 10% of the required amount" and participants should be given 30 days as reasonable time to make the payment in full. The actual practice at EHB appears to be that they have accepted partial payments for COBRA, inconsistent with the current draft Policies.

- The draft Policies and Procedures states that individuals required to receive a COBRA notification letter include any terminated employee and/or covered dependent(s). It does not specify, however, that separate letters should be sent to individuals who reside at a different address. EHB's practice has been to properly send individual notification letters when they reside at a different address.
- According to COBRA law, when coverage is terminated due to non-payment, a notice must be given as soon as possible to the participant describing the reason for termination and the date of termination of coverage. While EHB is complying with the rule, it is currently not included in the draft Policies and Procedures.
- According to HIPPA law, the certificate of creditable coverage must be provided when an individual loses coverage under the plan or exhausts COBRA continuation coverage. While EHB has procedures to comply with this rule, it is not documented in the current draft of the Policies and Procedures.

Complete and updated policies and procedures will ensure consistency with EHB's operations and may be used as a tool to train current and future employees.

Management Action Plan: Management is in the process of formally updating their policies and procedures manual to reflect current operations. The implementation date of this procedure is anticipated by December 31, 2012.

RBS/MDB/MTT

cc: Board of County Commissioners
Ed Hunzeker, County Administrator
Dan Schlandt, Deputy County Administrator
Rob Eschenfelder, Deputy County Attorney
Dan Wolfson, Finance Director