

MANATEE COUNTY CLERK OF THE CIRCUIT COURT
INTERNAL AUDIT DEPARTMENT

FINANCIAL MANAGEMENT DEPARTMENT
EMPLOYEE HEALTH BENEFITS DIVISION
DEPENDENT ELIGIBILITY

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 the Employee Health Benefits Division for eligibility of covered dependents as of August 10, 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. Employees may enroll an unlimited number of qualified dependents in the plan at a single contribution rate. Qualified dependents include an employee's spouse, natural or adopted child, child under guardianship, stepchild, or student or handicapped child age 19 or older. A grandchild, born to an employee's covered dependent, is also eligible for coverage for a limited time.

The Board of County Commissioners has contracted with McNulty Barber Consulting, Inc., an administrative service organization, subcontracted to the Trizetto Group, to provide benefits and health management consulting services, including the adjudication and processing of claims, third party administration services, administration of the Manatee Health Network, prescription benefits management, and supplemental related services. EHB provides the third party administrator with eligibility information.

PURPOSE/OBJECTIVES:

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

To verify that dependents covered under the medical plan as of August 10, 2004, were eligible for coverage.

To verify that an adequate system of control exists to ensure that dependents added to the plan are eligible for coverage, and that coverage is terminated for dependents that are no longer eligible.

SCOPE:

The audit scope consisted of a review of eligibility for all dependents covered under the medical plan as of August 10, 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 performed as of August 10, 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 as of August 10, 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 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 is staffed by dedicated individuals, who are responsible for providing a quality medical benefits plan to the employees of Manatee County and their families. While Manatee County contracts the responsibility for payment and adjudication of claims, the responsibility for determination of eligibility resides with the EHB Division. This includes the responsibility for collecting and maintaining documentation in support of dependent eligibility. The EHB Division staff is committed to improving controls over eligibility determination. The areas where improvements can be made include:

- The Division's current practice for collecting and retaining proof of dependent eligibility requires improvement. EHB does not always request proof of eligibility when a dependent is enrolled. Employee files maintained by the EHB Division did not contain adequate proof of eligibility for the majority of dependents currently enrolled in the plan. Additionally, insurance coordinators have not received sufficient guidance and training regarding documentation requirements. The Management Team through its Management Action Plan will develop policies and procedures to require proof of eligibility for all covered dependents, to standardize documentation requirements, and to provide training for insurance coordinators in the collection and retention of eligibility documentation.

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

- The Division's current practice for determining eligibility of a student or handicapped child requires improvement. The language of the Plan Document is unclear as to the exact date of termination of coverage for a student who has reached age 25, and there exists discrepancy regarding continuation of student coverage through the summer. The Management Team through its Management Action Plan will clarify the language of the Plan Document and establish specific requirements for eligibility documentation.

(See Area for Improvement #2 on page 7.)

- The Division's controls for identifying a newborn child of an employee's dependent when enrolled in the plan and communication of eligibility limits to the third party administrator require improvements. The Management Team through its Management Action Plan will ensure that its new enrollment system provides a specific designation for these dependents and that clear information is provided to the third party administrator regarding eligibility status.

(See Area for Improvement #3 on page 7.)

- There are inconsistencies between the enrollment system used by EHB and the claims payment system used by the third party administrator. Currently, periodic reconciliations are not performed between the two systems. The Management Team through its Management Action Plan will perform reconciliations once the new enrollment system is operating.

(See Area for Improvement #4 on page 8.)

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MANAGEMENT SUMMARY (continued):

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:

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: Collection and Retention of Eligibility Documentation

Employee Health Benefits' current practice for collecting proof of dependent eligibility requires improvement. EHB's files did not contain adequate proof of eligibility for the majority of dependents currently enrolled in the plan. EHB does not always request proof of eligibility when a dependent is enrolled. In addition, documents collected for dependents are not always sufficient to prove the legal relationship asserted. While EHB has accepted certain documents as substitutes, no formal procedure is in place to approve legitimate exceptions to documentation requirements.

In addition to its own staff, EHB relies on Insurance Coordinators throughout the various County departments, as well as in the offices of the Constitutional Officers. The Insurance Coordinator is the point of contact for any employee enrolling him/herself or a dependent in the plan. The Insurance Coordinators have not received sufficient guidance and training pertaining to documentation requirements and must use their best judgment in deciding what documentation to require in order to enroll a dependent. As a result, documentation requirements are not uniform throughout the County.

Additionally, EHB maintains files containing documents submitted since 1997 for all employees enrolled in the plan. All documents submitted prior to 1997, including any marriage licenses, birth certificates, and other documents that may have been provided by employees as proof of dependent eligibility, have been destroyed.

As of August 10, 2004, the Manatee County Government Employee Medical Plan covered 3499 dependents. Based on the documentation collected by EHB since 1997 and documentation obtained during the audit, a total of 1037 dependents, or 30 percent, were verified as legal dependents of the covered employee. Eligibility could not be verified for 1343 dependents, or 38 percent, for whom EHB has not requested proper proof of eligibility since 1997. In addition, eligibility could not be verified for the remaining 1119 dependents, or 32 percent, who were enrolled in the plan prior to 1997, since documentation was not retained.

Management Action Plan:

- Employee Health Benefits Management is in the process of developing policies and procedures to require proof of eligibility to be obtained for all covered dependents and these documents to be maintained as permanent records in the files of the corresponding employees. Management will develop standards for required documentation to ensure that proof of eligibility accepted is appropriate. In addition, EHB will work together with Internal Audit to acquire proof of eligibility for the remaining covered dependents for whom such proof is not currently on file. Implementation is expected by June 2005.

AREA FOR IMPROVEMENT #2

Subject: Dependent Children Age 19 and Older

The Plan Document contains provisions for coverage of a dependent child age 19 through 25 and of a dependent handicapped child age 19 or older. The language of the Plan Document is unclear as to the exact date of termination of coverage for a student who has reached age 25. Additionally, some discrepancy exists regarding continuation of student coverage through the summer.

EHB's current practice for determining eligibility of a student or handicapped child is to request proof once a claim is received for that child. Documents received by EHB are forwarded to the third party administrator (TPA) and are not always retained in the employee's current file. As a result of the current filing system, documents provided as proof of eligibility could not readily be recovered, and the period of eligibility could not be determined for the majority of these dependents.

Management Action Plan:

- Management has sought outside legal counsel to review the Plan Document. The review is currently in progress and will include the clear definition of eligibility rules for students and dependent handicapped children. Implementation is expected by January 2005. Once this determination has been made, EHB will establish specific requirements for documentation of eligibility and will decide how often to require documents to be submitted.

AREA FOR IMPROVEMENT #3

Subject: Limited Coverage for Dependent Grandchildren

The Medical Plan currently covers a newborn grandchild, born to an employee's covered dependent, through the last day of the 18th month after the birth of the newborn child. The enrollment system presently used by EHB has no unique designation for grandchildren. As a result, EHB staff must notify the third party administrator that the child being added is a grandchild and provide the TPA's representative with the birth certificate or other documentation to confirm the child's relationship. Many of the documents accepted by EHB in lieu of birth certificates are not adequate for determining a newborn child's relationship to the covered employee. The misclassification of these grandchildren may result in the extension of medical benefits in excess of the 18-month eligibility limit. The audit identified grandchildren older than 18 months who are currently covered by the plan, for whom EHB does not have documentation to support continued eligibility beyond 18 months.

Management Action Plan:

- Management is in the process of reviewing the covered grandchildren and correcting the exceptions noted. EHB will be implementing a new enrollment system during the upcoming annual enrollment period. Management has requested that the new system provide a designation for child of a dependent. In addition, management will ensure that clear information is provided to the third party administrator regarding grandchildren's eligibility status.

AREA FOR IMPROVEMENT #4

Subject: System Discrepancies

The audit revealed discrepancies between the records contained in EHB's enrollment system and the records contained in the third party administrator's claims payment system. Dependents who were not covered or whose coverage had terminated according to EHB's system were listed as covered dependents in the TPA's system. Currently, no periodic reconciliations are performed between the enrollment system and the claims payment system. It is important to verify that both systems have the correct information so that claims will not be paid for ineligible dependents.

Management Action Plan:

- Management is preparing to implement a new enrollment system, Empliant, and plans to perform periodic reconciliations with the claims payment system once Empliant is operating. Implementation is expected within 60 days.