



**A Report to the  
City Commission**

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City of  
Gainesville Office  
of the City  
Auditor

Carlos L. Holt – City Auditor

**Audit of Health Plan  
Dependent Eligibility**

September 1, 2016

# Audit of Health Plan Dependent Eligibility

## EXECUTIVE SUMMARY

September 1, 2016



### Why We Did This Audit

The audit was requested by Risk Management and included on the 2016 annual audit plan. Its purpose was to verify that only those individuals qualified as health plan dependents are enrolled in the plan.

### What We Recommend

Risk Management should:

- Conduct rotational reviews of enrolled dependent eligibility so that all dependents are re-verified over time
- Continue to proactively communicate requirements to notify of dependent change events and encourage compliance
- Periodically review eligibility criteria for possible changes and unique situations
- Ensure all employees are periodically informed of consequences for failure to notify Risk Management of change events

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[www.cityofgainesville.org/cityauditor.aspx](http://www.cityofgainesville.org/cityauditor.aspx)

### BACKGROUND

City of Gainesville employees and retirees have the ability to participate in the City's group health plan. Members may also elect to include coverage for qualifying dependents. Eligibility requirements are binding and members are required to provide documentation as proof that dependents meet eligibility requirements. When life events do occur, members are responsible for notifying Risk Management. On average, when all costs are included (administrative, claims, and catastrophic insurance), annual net costs per member in the plan is \$4,996.

Dependent eligibility verification audits are normally conducted to ensure long term viability of benefits to members. Dependent verifications can lower instances of fraud and unintentional enrollment acceptance. Periodic verifications serve as a deterrent. Verifications also provide continual eligibility information so that members may plan accordingly. Ineligible enrollees not only drive up the cost and time of administrative requirements and increase the cost of annual claims; they also represent additional risk of a catastrophic claim case. A small number of large claims may amount to a significant portion of the total claims (note that Risk Management carries an insurance policy that limits the City's claim responsibility to \$250,000).

We would like to thank the employees and retirees who were chosen in our sample for their cooperation and patience. We also appreciate the increased efforts of the Risk Management staff during the undertaking of this audit.

### OBJECTIVES

The objectives of the audit were to determine the following:

- Were ineligible dependents enrolled in the City's health care plan?
- Were the processes and controls used to enroll and maintain dependents in the health plan operating effectively?

### WHAT WE FOUND

Our testing indicated that a small number of ineligible dependents were enrolled in the City's health care plan. Our sampling found that 98 percent of enrolled dependents were eligible for their enrolled coverage. Out of 290 dependents included in the statistical random sample, employees chose to drop five dependents when qualifying documents and affidavits were requested. Another dependent was deemed ineligible (should not have been retained in the plan after life event/age change). Coverage was discontinued for these six by Risk Management. The statistical sample exception rate projects that 45 ineligible dependents (39 more) were resident in the population of dependents. Risk Management's processes have effective controls but they should include a proactive, rotational dependent verification.

## GOVERNANCE

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The City is self-insured and provides an employee and retiree health and accident benefits plan. Premiums and costs associated with the plan are accounted for in the Health and Accident Benefits Fund. Premiums are set annually by the City Commission based on historical experience and claim trends. Plan contributions are shared between the City and plan members, active employees and retirees, who choose to participate.

The Plan is administered by Florida Blue for an annually contracted, two-tier (individual and multi/family), fixed fee amount. The contract was competitively bid. The Administrative Services Department performs strategic planning functions and provides oversight to Risk Management. The Risk Director is responsible for monitoring the health care industry and ensuring health care benefits are delivered effectively to contain plan costs.

## SCOPE AND METHODOLOGY

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The scope of the audit was plan members with dependents enrolled the group health plan effective January 1, 2016. To accomplish our audit objectives, our procedures included:

- Reviewing the following relevant three sections of the health plan booklet:
  - Section 9 – Eligibility for Coverage
  - Section 10 – Enrollment and Effective Date of Coverage
  - Section 11 – Termination of Coverage
- Making a statistically-based calculation of the sample size based on the population of active employees and retirees with dependents. The sample size was 116 employees with 257 dependents and 29 retirees with 33 dependents.
- Requesting each member in the sample to provide the supporting documentation that sufficiently established the eligibility of the dependent (i. e., marriage certificates, proof of shared residence, birth certificates, etc.).
- Considering risk of fraud, waste, and abuse.

## RELATED FACTS AND FIGURES

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Dependents represent a significant portion of plan enrollment among those employees and retirees with some type of dependent coverage. The following table summarizes the number of employees and retirees enrolled with dependents effective January 1, 2016:

**Figure 1: Plan Numbers that Include Dependents – Excludes Single Coverage**

2016 Participants	Number in Category
Employees	857
Retirees	187
Dependents	2,147
Total	3,191

*Source: Risk Management Health Plan Enrollment Data*

Premiums due under the health and accident plan are shared by the employee or retiree and the City. The following table summarizes total health claims paid in fiscal year 2013, 2014, and 2015.

**Figure 2: Claims Paid by Fiscal Year**

Fiscal Year	Claims Paid
2013	\$20,657,769
2014	\$22,466,739
2015	\$22,027,528

*Source: City of Gainesville Employee Health and Accident Fund  
Financial Summary fiscal year 2015*

## **OBJECTIVES AND CONCLUSIONS**

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The objectives of the audit were to determine if ineligible participants were included in the City’s health plan, assess the processes and controls used to ensure that only eligible dependents are enrolled in the City’s health plan, and determine if more efforts are needed to address the risk that health plan participants may include ineligible dependents. Risk Management is committed to enforcing plan compliance for dependents and developing control strategies. Lack of proper verification of eligibility of the dependents could lead to ineligible dependents being covered under the City’s plan and thereby adding to the financial liability of the City in addition to noncompliance with plan policies.

1. *Were there ineligible dependents participating in the City’s health plan?*

**Yes.** A small number (2.1%) of the statistical random sample (290) were discontinued from the plan as a result of the audit. Projected to the population of 2,147 dependents results in 45 possible total dependents that were ineligible (39 more projected since six were already removed). Further efforts should be made to identify and deter ineligible participants (see Observation A).

2. *Were processes and controls used to enroll and maintain dependents in the health plan operating effectively?*

**Generally yes.** Risk Management has an effective process for enrolling new dependent participants. Although one dependent was found to be ineligible and should not have been enrolled, the situation was a somewhat unique situation requiring careful scrutiny of details. No system is foolproof and there are many other unique situations involving dependents that are not easily understood. Various legal arrangements arise as to the dependent status of children and disabled adults under their parent’s or other’s care. Risk Management requires an annual certification of dependent status (not requiring an affidavit or inspection of documents) each year which is a best practice. Additional measures could be undertaken to further prevent ineligible participants (see Observation A).

## AUDIT OBSERVATIONS

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Internal control helps entities achieve important objectives and sustain and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control – Integrated Framework (2013 Framework)*, enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environments, mitigate risks to acceptable levels, and support sound decision making and governance of the organization. The audit observation listed is offered to help management fulfill their internal control responsibilities.

### ***Observation A: Additional Measures to Further Prevent Ineligible Participants***

Other than the completed audit, plan members have not been required to produce documentation showing that enrolled dependents remain eligible to participate in the health plan. Risk Management uses an annual member certification of dependents as a tool to deter keeping no longer eligible dependents on the health plan. While this model is appealing because of its simplicity, its effectiveness is limited. Documentation is not required to validate eligibility allowing gaps to exist and ineligible dependents continue to receive benefits.

Risk Management is aware of the importance of internal control over dependent eligibility, interested in implementing cost control measures over health plan costs, and committed to enforcing plan compliance. The Risk Director acknowledges the role that dependent eligibility audits have in deterring fraud or errors of omission and was the primary reason for requesting our assistance with this audit. Further, Risk Management does verify the eligibility of all newly eligible dependents and conducts document verifications:

- 1) Upon initial enrollment of a newly hired employee or newly retired employee
- 2) Following a qualified change in status event during the plan year, or
- 3) During the annual enrollment period

The deterrent value of the audit was immediately recognized when Risk Management began communicating the upcoming audit to members during the open enrollment period. The Risk Director reported that the general announcements of the pending audit resulted in some members dropping dependents during the open enrollment period.

As previously stated, our statistical random sample determined a 2.1 percent rate of ineligible dependents in the population of dependents (2,147), indicating that approximately 45 ineligible dependents were in the health plan when the audit began. Six dependents were subsequently removed.

### ***Risks:***

- Each ineligible dependent increases the risk of a catastrophic claim
- Increased financial liability
- Noncompliance with plan policies

### ***Criteria:***

- City of Gainesville Self-Funded Group Health Plan - *Benefit Booklet for Covered Plan Participants*
- The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (2013 Framework)*, Control Environment – Principle 1 - “The organization demonstrates a commitment to integrity and ethical values.”

- The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (2013 Framework)*, Control Activities – Principle 5 - “The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.”
- The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (2013 Framework)*, Risk Assessment – Principle 8 - “The organization considers the potential for fraud in assessing risks to the achievement of objectives.”

**Recommendations:**

We recommend Risk Management continue their efforts to:

1. Conduct rotational reviews of enrolled dependent eligibility so that all dependents are re-verified over time
2. Proactively communicate requirements to notify of dependent change events and encourage compliance
3. Periodically review eligibility criteria for possible changes and unique situations
4. Ensure all employees are periodically informed of consequences for failure to notify Risk Management of life event changes
5. Prepare and submit to the City Auditor a follow-up status report six months from the date of issuance of this report.

**GOVERNMENT AUDITING STANDARDS COMPLIANCE**

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We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

**AUDIT TEAM**

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Carlos L. Holt, CPA, CFF, CIA, CGAP, CFE, City Auditor  
Eileen M. Marzak, CPA, CFE, Assistant City Auditor



**INTER-OFFICE COMMUNICATION**

**DATE:** August 18, 2016  
**TO:** Carlos Holt, City Auditor  
**FROM:** Anthony Lyons, City Manager *AL*  
**SUBJECT:** Risk Management - Audit of Health Plan Dependent Eligibility

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This is to acknowledge receipt of the Risk Management Department Audit of Health Plan Dependent Eligibility Final Report. Our responses to the audit findings are attached to this memorandum.

AL:hh

We believe that management is in a unique position to best understand their operations and may be able to identify more innovative and effective approaches, and we encourage them to do so when providing responses to our recommendations.

Recommendations	Concurrence and Corrective Action Plan	Proposed Completion Date
<i>Recommendations for Risk Management to:</i>		
1. Conduct rotational reviews of enrolled dependent eligibility so that all dependents are re-verified over time	<b>Agree.</b> Risk Management will initiate an annual verification process to verify current dependent status. Verification will closely follow the process utilized in the audit.	June 30, annually
2. Continue to proactively communicate requirements to notify of dependent change events and encourage compliance	<b>Partially Agree.</b> Risk Management feels we do proactively communicate eligibility requirements to employees. It is part of our new employee orientation and detailed definitions of dependent and spouse are included in every annual benefit document ever produced. As we upgrade our online enrollment tool, we will add acknowledgement statements when dependents and spouses are included in coverage. We suggest that the employee, annually during the open enrollment process, affirmatively attest that the individuals covered meet the definition of an eligible dependent as defined by the City’s Group Health Plan.	Completed in part, annual affirmation timeline is subject to upgrades of the current ESS tool. We will look for solutions for the upcoming enrollment period.
3. Periodically review eligibility criteria for possible changes and unique situations	<b>Agree.</b> Risk Management already does closely monitor Federal and State requirements associated with eligibility. In addition, we have incorporated a management review of non-standard eligibility documents that will include utilizing the City Attorney’s staff if necessary. We have also incorporated a termination date for grandchildren who may initially qualify for coverage.	Completed



## APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

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Recommendations	Concurrence and Corrective Action Plan	Proposed Completion Date
4. Ensure all employees are periodically informed of consequences for failure to notify Risk Management of life event changes	<b>Agree.</b> We will add this to our communication materials and incorporate that message on the initial user screen in Employee Self Service.	September 30, 2016
5. Prepare and submit to the City Auditor a follow-up status report six months from the date of issuance of this report.	<b>Agree.</b>	January 31, 2017