Audit Report

MEDICAL CLAIMS

As of 12/31/10

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Office of the Controller
County of Northampton
Pennsylvania
January 20, 2012

Members of the Northampton County Council
John Stoffa, County Executive
County of Northampton, Pennsylvania

We have completed an audit of Medical Claims as of December 31, 2010.
The Executive Summary on page 1 summarizes the audit results and identifies opportunities for improvement, while the Audit Results section provides a detailed explanation.

We acknowledge the cooperation and assistance we received from the Human Resources Department and the staff of Capital Blue Cross. Their help was essential to the performance of this audit.

Management’s response is included in the Audit Results section of the report.

Very truly yours,

Stephen J. Barron, Jr., CFE
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# Table of Contents

EXECUTIVE SUMMARY - OPPORTUNITIES FOR IMPROVEMENT .................. 1

INTRODUCTION ............................................................................................................ 2

PURPOSE AND SCOPE................................................................................................... 3

METHODOLOGY ............................................................................................................ 3

AUDIT RESULTS ............................................................................................................. 5

Section A - Eligibility
1. Claims and Administrative Fees Paid for Terminated Employees and Other Ineligible Individuals 5
2. Claims Paid For Spouses and Dependents Enrolled in “Employee Only” Plan ......................... 8
4. Extended COBRA Benefits – Surviving Spouses .................................................................. 10
5. Eligibility List - Housekeeping .......................................................................................... 11

Section B – Claims Processing
1. Duplicate Payments and Other Improperly Paid Claims ..................................................... 12
EXECUTIVE SUMMARY - OPPORTUNITIES FOR IMPROVEMENT

The following is a summary of the content of the enclosed report. See report references noted below for full detail.

Section A - Eligibility

1. If the County improves procedures regarding inputted eligibility data, and performs regular comparisons between the Blue Cross eligibility list and the IFAS system, improperly paid claims and excessive administrative fees can be prevented. Also an opportunity exists to recover on claims paid for ineligible individuals and undercharged payroll deductions if the County takes proper action. (Section A-1, page 5)

2. If the County improves procedures regarding inputted plan election data, it can ensure that the proper deductions are applied to employee payroll. (Section A-2, page 8)

3. If the County considers discontinuing offering Vision and Prescription coverage to those segments of the part-time workforce receiving benefits without support of a written policy, savings can be realized on both claims expense and administrative fees. (Section A-3, page 9)

4. If the County reviews the list of surviving spouses on extended COBRA benefits on a periodic basis, it can ensure that benefits are provided only to those that have paid the proper premium. (Section A-4, page 10)

5. Correcting certain database errors we noted will allow the County to better analyze COBRA participants, making it easier to compare participants to premium payments received. (Section A-5, page 11)

Section B – Claims Processing

1. The County can receive a small benefit from pursuing improperly paid claims with Blue Cross. (Section B-1, page 12)
INTRODUCTION

On February 28, 2007, the County of Northampton entered into a contract with Capital Blue Cross for third-party administration of the County’s health care benefits. The contract term was for three years with an option to extend it for another two years. The County exercised that option, which will ultimately expire at the end of 2011. Following an RFP process, Capital was once again retained as third party administrator for an additional term.

The County is self-insured for health benefits; Capital Blue Cross pays the providers as they receive claims and bills the County the following week for the amount paid to providers. The County also participates in Blue Cross’s Electronic Group Enrollment Management System (eGEMS). This gives the County the opportunity to process new employee information, changes to existing employee information, and terminations on-line rather than by filing paperwork with Blue Cross. (Retirees are still handled manually, because they need to be terminated from one plan and enrolled in another, which requires paperwork.) Both the County’s centralized Human Resources (HR) department in the courthouse and the satellite HR office at Gracedale have access to the eGEMS system.

In 2010, the County spent just over $20 million to pay for medical and prescription claims for enrolled employees, retirees and eligible family members, and an additional $1,038,623 in administrative fees to Blue Cross for third-party administration and stop loss insurance. The administrative fees for third-party administration are based on a given amount per month for each enrollee in the plan. Spouses and beneficiaries of enrollees may be covered under the plan without a separate enrollment for each individual. The County also gives retirees the option of enrolling in Senior Blue rather than the traditional plan. This is a premium-based rather than a self-insured plan; in 2010, the County spent $746,061 in premiums for enrollees in Senior Blue.

Employees contribute toward health care costs through deductibles, co-pays and contribution rates assessed through payroll deduction. The amount of contribution varies among Career Service workers and those covered under various collective bargaining agreements.
PURPOSE AND SCOPE

The purpose of our audit was:

➢ To determine if medical claims are being processed accurately and on a timely basis by the third-party administrator,
➢ To determine that payments are made only on behalf of eligible enrollees and for covered services.

The scope of our audit included all claims from 2010. It should be noted, however, that although the claims database was otherwise complete, certain important data was absent for all claims involving mental health, substance abuse or HIV/AIDS. According to representatives from Blue Cross, this is due to a State mandate regarding privacy issues. All information related to the identity of the patient or employee and all diagnosis and procedural data was not provided to us and we were unable to perform any substantive analysis of these claims. The total of these claims exceeded $1,285,007.

The objectives of individual tests within our audit included:

➢ Verifying the completeness/validation of the Blue Cross database
➢ Determining if processing delays are excessive
➢ Determining if claims are being paid more than once
➢ Ensuring that claims are paid for eligible employees, retirees, spouses and beneficiaries
➢ Ensuring retirees are placed in the proper plan
➢ Ensuring COBRA benefits are granted within federal guidelines
➢ Analyzing various coverage issues within the Blue Cross claims database.

METHODOLOGY

For audits of this nature, our office utilizes ACL data analysis software which greatly improves an auditor’s ability to review large amounts of computer-based data. Capital Blue Cross provided us with all of the claims paid in 2010 in Excel format as well as an eligibility list as of 2/15/11, also in Excel format. We were also able to download County employee data into Excel using pre-formatted reports available in the IFAS system as well as customized IFAS reports we created using the Click, Drag and Drill report writer. We also acquired an Excel spreadsheet of retirees from the Fiscal Affairs Accountant. All of these reports were imported to ACL for the purpose of detailed analysis. Using ACL, we were able to perform the following:
- Verify the validity of the Blue Cross database by looking for illogical data anomalies such as negative days of service and total paid
- Determine the average delay in processing claims
- Review for duplicate payments on claims
- Compare the Blue Cross database and eligibility list with the IFAS database to find any claims paid for ineligible individuals
- Compare the Blue Cross database and eligibility list with the database of retirees to make sure retirees are coded to the proper plan.
- Investigate enrollees noted on the eligibility list that are not coded with a Medical Plan ID
- Investigate instances where the claim paid was out of network but there was no co-insurance percentage paid by the claimant.
- Analyze claims database to ensure only covered services are paid.

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 findings and conclusions based on our audit objectives.
AUDIT RESULTS

Section A - Eligibility

1. Claims and Administrative Fees Paid for Terminated Employees and Other Ineligible Individuals

OBSERVATION

According to County Policy 3.301 – Benefits, any employee who terminates County employment (except employees who retire) is no longer eligible for health benefits effective the last day of the month after their termination date. Terminated employees may elect to continue coverage under the Consolidated Omnibus Budget Reconciliation Act (COBRA), but the individual is responsible for paying the full premium cost each month.

In our audit, we noted a number of exceptions related to eligibility and terminated employees:

a. Seventeen former employees continued to file claims after they were eligible either due to termination or expiration of COBRA. One of these individuals terminated in the first quarter of 2007 and had paid claims totaling $52,525.13 in 2010 alone. There was no evidence that this individual ever applied for coverage under COBRA. One other former employee registered for COBRA and sent in two checks to pay for premiums; both checks bounced. Following termination, this individual incurred paid claims totaling $3,842.12. The total of paid claims for all eighteen former employees was $76,511.25. All of these individuals also incurred monthly administrative fees for the months following the expiration of eligibility; many were still on the eligibility list provided to us by Blue Cross, dated 2/15/11.

b. Nineteen additional terminated and retired employees were noted that had no paid claims in 2010 but were still on the eligibility list as of 2/15/11. Some of these individuals have remained on the eligibility list for many months after eligibility expired (one has been on the list for 51 months, two for 49 months, and one for 48 months).

The estimated amount of overpaid administrative fees for all 37 ineligible subscribers noted in a and b above totaled $26,863.34 (calculated from the month following termination until 2/15/11).

In this analysis, it was noted that of the 36 exceptions noted in this test,
21 were for Gracedale employees (58%).

We also noted a number of exceptions regarding eligibility and current employees:

c. Due to an entry error (Gracedale employee), one individual was not properly coded on IFAS as enrolled in a health benefit plan. As a result, there are no deductions from payroll noted on IFAS for the period under review. However, the employee was noted on the Blue Cross eligibility list enrolled in the Single Plan and claims totaling $1,684.70 were incurred in 2010. Based on this individual's salary, the County did not charge the employee $323.96 per year in payroll deductions.

d. One spouse of a full-time employee who also works part-time (Gracedale employee) for the County is incorrectly listed as a separate enrollee on the Blue Cross eligibility list. Also, there was one individual who is a spouse of retiree who was also incorrectly listed as a Subscriber on the eligibility list. The spouse never worked for the County. These errors cost the County an additional $634.80 in Administrative fees per year.

e. One part-time individual (Gracedale employee) went full-time very briefly, and was enrolled in health care. When the individual went back to part-time status, health care enrollment was not deleted. This costs the County $317.40 in Administrative fees per year.

f. One individual that went from full-time status to part-time status (Gracedale employee) was not removed from the eligibility list as of 2/15/11. The cost to the County in Administrative Fees was $79.35.

It should be noted that we found many similar errors in our previous audit dated 12/31/05

RECOMMENDATION

The County should determine if any legal action can be taken to recover claim amounts paid on behalf of ineligible terminated individuals. Also, the County should take steps to ensure terminated employees are removed from the eligibility lists on a timely basis.

For the current employee noted in c above, the County should charge the employee for the missed payroll deductions.

The Human Resources Department should review the procedures in place at Gracedale, since Gracedale enters much of their own information into the eGEMS system and many of the errors involved Gracedale employees.

The County should also review the eligibility list on a regular basis to determine if terminated employees have been promptly removed and current employees are properly classified. To assist in this effort, we offer our services to the Human Resources Department in using ACL to perform file comparisons on a regular basis (every six months) between the electronic eligibility list and IFAS data. We would promptly report any anomalies to HR for their review. This review,
combined with good internal controls over checking of inputted data should prevent any error from remaining undetected for long periods of time. An accurate eligibility list will help to prevent improperly paid claims.

**MANAGEMENT RESPONSE – Patricia Siemiontkowski – Director of Human Resources:**

Before pursuing legal action to recover claim amounts paid on behalf of ineligible terminated individuals, the Department of Human Resources will draft and send letters to these employees seeking voluntary recovery of claims paid on behalf of ineligible terminated employees. The Department of Human Resources has begun working with the Office of the Controller to determine what, if any legal action can be taken to recover claim amounts paid on behalf of ineligible terminated individuals in the event that voluntary payment of the amount owed is not received. The Controller has provided the department with the names of those ineligible employees who had claims paid by the County and from whom restitution will be sought.

For those employees who were not charged healthcare contributions for a period of time during which they had healthcare coverage, the amounts of these missed contributions will be identified and recovered through payroll deduction. Human Resources has begun to send letters to each employee advising of the missed deductions and of the County’s plan to recover these contributions.

It was noted in the Medical Claims Audit Report that many of the errors involved Gracedale employees. The Human Resources Department has already met with its staff at the Gracedale Nursing Home to implement improved internal controls over the checking of inputted data so as to avoid a recurrence of these mistakes in the future.

Finally, the Department of Human Resources gratefully accepts the offer of the Office of the Controller to assist in the performance of file comparison on a regular basis (every six months) between the electronic eligibility list and IFAS data to assure that terminated employees have been promptly removed and that current employees have been properly classified.
2. Claims Paid For Spouses and Dependents – Employee Enrolled in “Employee Only” Plan

OBSERVATION

Nine instances were noted (seven of them from Gracedale – 78%) in which spouses and/or dependents were improperly included on the eligibility lists for employees that were enrolled in the “Employee Only” plan. We verified these exceptions by reviewing payroll data for 2010 which confirmed that payroll deductions were for the “Employee Only” plan. The breakdown of the exceptions was as follows:

- Seven involved an ineligible spouse/dependent that was still listed on the eligibility list as of 2/15/11 and had claims paid in 2010.
- One exception involved an ineligible spouse/dependent that was still listed on the eligibility list but had no claims in 2010.
- One exception involved claims that were paid for an ineligible spouse/dependent, but that individual had been removed from the eligibility list by 2/15/11.

The total of claims paid for ineligible spouses/dependents was $13,606.56

RECOMMENDATION

The HR department should review procedures in place (especially at Gracedale, where the majority of these errors occurred) regarding the verification of inputted data to ensure that employees are placed in the proper plan and the proper deduction is levied via payroll. The County should conduct a review of the individual cases and, if possible, charge all involved employees for the past improper payroll deductions. Once again, we offer our services in trying to identify these types of errors on an ongoing basis using ACL to compare the eligibility list to IFAS data.

MANAGEMENT RESPONSE – Patricia Siemiontkowski – Director of Human Resources:

As stated in the preceding response, the Human Resources Department has met with its staff at the Gracedale Nursing Home to implement improved internal controls over the checking of inputted data so as to avoid a recurrence of these mistakes in the future. Once again, the Department is grateful to the Office of the Controller for offering its assistance in identifying these types of errors on an ongoing basis using ACL to compare the eligibility list to IFAS data and looks forward to working together with the Controller’s staff in monitoring this data.

Furthermore, the Department of Human Resources is currently investigating claims paid for spouses and dependents where the employee was enrolled in the “Employee Only” Plan and will proceed to recover from each employee the total amount of each claim paid on behalf of the ineligible spouse and/or dependent.
3. Vision and Prescription Benefits – Part-Time Employees

OBSERVATION

We noted that the County offers Vision and Prescription coverage to part-time Gracedale Steelworkers union employees and certain part-time non-union workers who work more than 33 hrs per pay period at Gracedale. No payroll deduction is charged for these benefits. Research revealed there is little documented support for offering this benefit to these classes. The current Steelworkers contract states, “Vision and prescription benefits shall be continued to be afforded to part-time employees on the same basis that those benefits are provided to the County’s Career Service employees.” There is no documented County policy which offers this benefit to any segment of the Career Service staff. County Policy 3.303 – Prescription Plan states, “Eligible employees enroll simultaneously in the Prescription Drug Card Plan when they enroll for the Health and Medical Plan.” Since the Health and Medical Plan is only offered to full-time Career Service employees, the implication is that only full-time employees can participate in the Vision and Prescription plans.

Prescription claims totaling $14,564.04 were paid in 2010 for part-time employees. Of the 33 employees that could be covered under this undocumented policy, only seven are actually enrolled which could indicate that the availability of benefits is not widely known.

RECOMMENDATION

The County may wish to discontinue offering Vision and Prescription coverage to only one segment of the part-time Career Service workforce. It is unwise to offer a benefit to one segment of a class and not to others within the same class, and to not have the policy properly documented and communicated. In addition, if the County discontinues offering this benefit to all part-time Career Service employees, there is no need to offer it to employees covered under the Steelworkers Union, according to the provisions of the current collective bargaining agreement.

MANAGEMENT RESPONSE – Patricia Siemiontkowski – Director of Human Resources:

The Department of Human Resources will recommend to the Administration that the County discontinue its practice of offering Vision and Prescription coverage to one segment of the part-time Career Service workforce which is located at the Gracedale Nursing Home. All non-union Career Service employees should be treated equally with respect to the level of benefits to which they are entitled. If the Administration accepts this recommendation and implements it, this benefit will also cease to be offered to part-time Steelworker employees pursuant to the provisions of the current collective bargaining agreement.
4. Extended COBRA Benefits – Surviving Spouses

OBSERVATION

In our prior audit dated 12/31/05, we noted that there were a number of surviving spouses of deceased employees that were allowed to remain on COBRA indefinitely. (Federal guidelines limit availability of continued coverage to 36 months for a surviving spouse.) As a result of recommendations within that audit, this practice was discontinued for any new surviving spouse, but those that were already granted this privilege were allowed to continue as long as long as they continued to make COBRA premium payments. One of these individuals, however, had claims totaling $656.41 paid in 2010, but there was no evidence that the COBRA fee was paid during that year. (It should be noted that this individual died in January 2011, and was still on the enrollee list dated 2/15/11.)

RECOMMENDATION

The list of surviving spouses on extended COBRA benefits should be reviewed monthly to ensure that premium payments are received. The County should review the current enrollee list to ensure that this individual has been removed.

MANAGEMENT RESPONSE – Patricia Siemiontkowski – Director of Human Resources:

The list of surviving spouses on extended COBRA benefits will be reviewed monthly by the county’s Benefits Administrator to ensure that premium payments are received. The individual who died in January 2011 has now been removed from the enrollee list. Only three (3) surviving spouses remain on the list and all are making timely payments as per the agreement reached with the County Executive several years ago.
5. Eligibility List - Housekeeping

OBSERVATION

We noted some database housekeeping issues, as follows:

- Blue Cross utilizes a Class ID system to segregate the various groups of employees within the County database. When an individual terminates County employment, but remains covered under COBRA, the Class ID for that individual should be changed to the proper code which indicates COBRA coverage. This code begins with the prefix “CC”. We noted that most individuals covered under COBRA still retain their active employee Class ID in the Blue Cross database.

- We noted 25 individuals with different Social Security Numbers between the IFAS system and the Blue Cross database.

RECOMMENDATION

These housekeeping issues should be corrected. In particular, utilizing the proper Class ID codes for COBRA participants will allow the HR Department to filter the monthly eligibility list and produce a customized list of those employees participating in COBRA, which will make it easier to compare to premium payments received.

MANAGEMENT RESPONSE – Patricia Siemiontkowski – Director of Human Resources:

The incorrect Social Security Numbers in the IFAS system have been corrected and are now consistent and identical to the numbers in the Blue Cross database. The Department of Human Resources is now utilizing a “CC” code for COBRA participants which will allow the production of a customized list of those employees participating in COBRA. This list will make it easier to track the receipt of premium payments received from these employees.
1. Duplicate Payments and Other Improperly Paid Claims

OBSERVATION

We used ACL Data analysis software to search the entire claims database for indications of improperly paid claims. All of these potential errors were investigated. We found the following:

- Three duplicate payments totaling $528.42
- One out-of-network claim which was paid at 100%, but should have been paid at 80%. The total overpayment was $316.58

These errors are extremely small considering the size of the entire claims database (over $20 million). However, as noted in the Introduction to this report, our analysis did not include any claims involving mental health, substance abuse or HIV/AIDS, due to privacy concerns.

RECOMMENDATION

Regardless of the size of the errors, the County should pursue recovery of any improperly paid claims.

MANAGEMENT RESPONSE – Patricia Siemiontkowski – Director of Human Resources:

The Department of Human Resources will be pursuing the recovery of the improperly paid claims identified in the audit.