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Audit Report

**DENTAL
CLAIMS**

As of 12/31/11

**Office of the Controller
County of Northampton
Pennsylvania**



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October 16, 2012

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

We have completed an audit of Dental Claims as of December 31, 2011.

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 United Concordia. 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
County Controller

Anthony D. Sabino, CIA
Lead Auditor

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EXECUTIVE SUMMARY

For the most part, dental claims are being processed accurately and on a timely basis by the third party administrator, United Concordia (UC). We found only one duplicate claim in a database that included more than \$746,000 worth of claims.

However, we did find some problems with claims and administrative fees being paid for ineligible individuals. This was caused by the County's inability to effectively analyze the eligibility list since UC does not submit one to the County regularly in electronic format. The monthly administrative fee bill received from UC does list all of the enrolled employees (but not spouses and dependents), but it is received in paper format only which makes effective analysis time-consuming. Monetarily, the exceptions are small, but any instance where an ineligible individual intentionally charges dental claims to the County is fraudulent behavior, and the County should develop internal controls to prevent this. (One individual charging claims to the County in 2011 worked for the County for only four days in 2009.) In addition, retaining employees on the eligibility list beyond termination even if no claims are filed is a waste of money since the County pays a monthly administrative fee for each employee covered. One individual still on the eligibility list retired from the County over 10 years ago.

We may be able to assist the Human Resources Department (HR) in implementing these controls through our use of ACL data analysis software. We would agree to perform electronic comparisons every six months between an electronic enrollee list supplied by UC and the County's IFAS record of eligible employees.

Other minor exceptions were also noted which are included in the detail of this report.

INTRODUCTION

On October 1, 2001, the County of Northampton entered into a contract with United Concordia Companies, Inc. for third-party administration of the County's dental benefits. The contract term was for one year but features an automatic renewal clause which has been exercised every year since its initiation.

The County is self-insured for health benefits; UC pays the providers as they receive claims and bills the County for the amount paid to providers. The County pays UC via wire transfer.

In 2011, the County spent \$764,230 to pay for dental claims for enrolled employees and eligible family members, and an additional \$48,710 in administrative fees to UC for third-party administration. The administrative fees for third-party administration are \$2.40 per month for each employee enrolled in the plan, regardless of whether there is a spouse and/or children enrolled as well. Spouses and children of enrollees are covered under the plan without a separate enrollment for each individual. These benefits apply to active employees only; retirees do not receive dental benefits.

Employees contribute toward dental costs through deductibles, payment maximums and contribution rates assessed through payroll deduction. Employees pay a single payroll deduction amount for all of the County's health benefits, including dental. The amount of contribution varies among Career Service workers and those covered under various collective bargaining agreements, and unlike third-party administrative fees, employees pay more depending on whether a spouse and/or children are covered as well.

PURPOSE AND SCOPE

The purpose of our audit was:

- To determine if dental claims are being processed accurately and on a timely basis by the third-party administrator
- To ensure that payments are made only on behalf of eligible enrollees.

The scope of our audit included all claims from 2011.

The objectives of individual tests within our audit included:

- Verifying the completeness/validity of the UC 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 accuracy in aspects of the monthly UC bill.

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. UC provided us with all of the claims paid in 2011 in Excel format as well as an eligibility list as of 12/31/11, 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. 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 UC database by looking for illogical data anomalies such as negative amount paid.
- Determine the average delay in processing claims.
- Review for duplicate payments on claims.
- Compare the UC database and eligibility list with the IFAS database to find any claims paid for ineligible individuals.
- Investigate payments on behalf of beneficiaries older than 26 years of age.
- Investigate claims paid for spouses and beneficiaries where the employee is enrolled in an Employee Only plan.
- Determine that the Administrative Fee bill does not include individuals that do not belong to the County's plan.

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 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. Eleven former employees continued to file claims after they were no longer eligible due to termination. One of these individuals (with claims totaling \$187.00 in 2011) only worked for the County for four days in 2009 prior to termination. 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 dental claims in 2011 totaling \$266.00. The total of 2011 paid claims for all eleven former employees was \$3,327.50. In five of these cases, HR discovered evidence that UC was notified to terminate benefits prior to the incurrence of additional claims, but the individual was not immediately terminated. No credit was received from UC for claims paid following the notification to terminate. The total amount of claims that could be recoverable from UC is \$984.00.

Of the eleven instances noted, three former employees currently remain on the eligibility lists. The rest were removed late either because the County notified UC late or UC did not terminate eligibility in a timely fashion after having received notice. (UC did issue administrative fee credits to the County on three of these missed terminations.)

- b. Forty-seven additional terminated employees or employees that chose to opt out of health care benefits were noted that had no paid claims in 2011 but were still on the eligibility list as of 12/31/11. Some of these

individuals have remained on the eligibility list for many months after eligibility expired (one has been on the list for over 10 years, another for just under 10 years, two for over 6 years and one for over 5 years).

The estimated amount of overpaid administrative fees for all 50 ineligible subscribers still on the eligibility lists as of 12/31/11 above totaled \$3,633.60 (calculated from the month following termination until 12/31/11).

Research conducted by HR revealed that in 18 of these cases, UC was notified on a timely basis to terminate the eligibility for these individuals. The total amount of administrative fees that could be recoverable from UC is \$1,228.80.

RECOMMENDATION

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

HR should pursue recovery from UC for any claims paid and administrative fees incurred after they were notified to terminate an individual's eligibility.

HR should also regularly compare the list of recently terminated employees to the monthly administrative fee bill which provides detail on each covered employee. If terminated individuals are still noted on the administrative fee bill, the County should notify UC immediately.

In addition, we offer our services to HR 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 termination procedures, should prevent any error from remaining undetected for long periods of time. An accurate eligibility list will help to prevent improperly paid claims as well.

MANAGEMENT RESPONSE – Patricia Siemiontkowski, Director of Human Resources

The Department of Human Resources with the assistance of the Controller's Office has been successful in recovering \$1,013.00 from United Concordia for claims paid to terminated employees and/or ineligible individuals. This recovery involved cases where the County of Northampton provided evidence to United Concordia that termination of coverage was requested prior to the filing of the erroneously paid claims. Human Resources will continue its investigation of several remaining claims and seek to recover payment either from United Concordia or from the former employees. United Concordia also credited administrative fees to the County for three of eleven missed and/or late removals from the eligibility lists.

With the implementation of the on-line PAN form, Human Resources fully expects that more timely reporting of employee terminations will occur resulting

in the prompt removal of terminated employees from benefit eligibility lists. In addition, the County's Benefits Administrator will compare monthly the lists of terminated employees to the administrative fee bill received from United Concordia and notify UC of any terminated employees who still appear on the administrative fee bill.

Finally, Human Resources accepts the Controller's Office offer of services in using ACL to perform file comparison on a regular basis (every six months) between the electronic eligibility list and IFAS data. Human Resources firmly believes that this review using ACL coupled with improvements to our own internal controls will curtail, if not totally eliminate, the payment of claims and/or administrative fees by the county for terminated employees and/or ineligible individuals.

2. Claims Paid For Spouses and Dependents – Employee Enrolled in “Employee Only” Plan

OBSERVATION

Two instances were noted in which claims were paid for spouses and/or dependents; however the related employees were enrolled in the “Employee Only” plan. We verified these exceptions by reviewing payroll data for 2011 which confirmed that payroll deductions were for the “Employee Only” plan. The breakdown of the exceptions was as follows:

- One employee removed a spouse from eligibility in 2009, but there is no indication UC was notified.
- One other individual added a spouse and a stepchild in 2009 (enrollment forms were completed) but IFAS was not updated, therefore the employee continued to be charged the “Employee Only” payroll deduction rate.

It should be noted that the total of claims paid for ineligible spouses/dependents was only \$366.00

RECOMMENDATION

HR should review procedures in place 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 involved employees for the past improper payroll deductions or paid claims. 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

Human Resources will review its procedures regarding the verification of inputted data to determine if any improvement can be made to further ensure that employees are placed in the proper plan and that the proper deduction is being levied.

The two exceptions noted in the audit will be corrected.

3. Eligible Individuals Missing from Eligibility List

OBSERVATION

We found four employees with payroll deductions for one of the County's health care plans, however they were not included on the eligibility list as of 12/31/11. In three of these instances, no dental enrollment form was completed, and in one case, an enrollment form was found on file, but the individual was never set up as an enrollee by UC.

RECOMMENDATION

HR should correct these errors so the eligible employees can receive benefits. Further, as with terminated employees, HR should compare recently completed enrollment forms with the administrative fee bill received from UC to ensure that proper enrollment occurred. As noted above, 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

Employees missing from the Eligibility List will be notified of the availability of this benefit to them.

Further, as with terminated employees, Human Resources will compare recently completed enrollment forms with the administrative fee bill received from United Concordia to ensure that proper enrollment has occurred and will use the services offered by the Controller's Office in comparing the eligibility list to IFAS data on a regular basis.

4. Affordable Care Act – Dependent Children

OBSERVATION

In compliance with the Affordable Care Act of 2010, the County covers dependent children up to age 26, as long as the children do not have coverage available from an employer. County employees were asked at open enrollment to fill out a disclaimer stating that their dependent child does not have health care through an employer; some did not fill out the form, but the County took no further action.

RECOMMENDATION

The County should follow up on this situation. Research should be performed to determine if dependent coverage can be denied for employees who neglect to complete the proper disclaimer forms. If so, applicable employees should be informed that coverage will be discontinued if the disclaimers are not completed and filed in HR.

MANAGEMENT RESPONSE – Patricia Siemiontkowski, Director of Human Resources

In 2014, pursuant to the Affordable Care Act of 2010, all children up to age 26 will be eligible for coverage through their parents' plan even if those children have coverage available to them from their own employer. Until that time, Human Resources will continue to require the completion of the proper disclaimer forms.

5. Eligibility List – Social Security Number Differences

OBSERVATION

We noted nine individuals with different Social Security Numbers between the IFAS system and the UC database.

RECOMMENDATION

These differences should be researched by HR and corrected.

MANAGEMENT RESPONSE – Patricia Siemiontkowski, Director of Human Resources

These nine errors have been corrected.

Section B – Claims Processing

1. Duplicate Payments

OBSERVATION

We used ACL data analysis software to search the entire claims database for indications of improperly paid claims. We found only one potential duplicate claim for \$346.50, which we submitted to UC for further research. They acknowledged that the claim was indeed a duplicate and initiated a refund request.

It should be noted that this is an extremely small error rate for a claims database which included more than \$746,000 in claims.

RECOMMENDATION

Regardless of the size of the errors, the County should ensure that it receives the refund initiated by UC.

MANAGEMENT RESPONSE – Patricia Siemiontkowski, Director of Human Resources

United Concordia has acknowledged the payment of a duplicate claim and has initiated a refund request. Human Resources has asked that the County be credited the refund on its next bill.