



County Controller

Stephen J. Barron, Jr., CFE

Audit Manager

Frank S. Kedl, CIA

Solicitor

Timothy P. Brennan, Esq.

County Executive

John A. Brown

County Council

Margaret Ferraro, President
Glenn A. Geissinger, Vice-President
Mathew M. Benol
Kenneth M. Kraft
Lamont G. McClure, Esq.
Leonard S. Parsons
Hayden Phillips
Seth Vaughn
Robert F. Werner

Audit Report

**MEDICAL
CLAIMS**

As of 12/31/14

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



STEPHEN J. BARRON, JR., CFE

CONTROLLER OF NORTHAMPTON COUNTY

NORTHAMPTON COUNTY COURTHOUSE
669 WASHINGTON STREET
EASTON, PENNSYLVANIA 18042

FRANK S. KEDL, CIA
Audit Manager

TIMOTHY P. BRENNAN, ESQ.
Solicitor

PHONE (610) 559-3186
FAX (610) 559-3137

December 9, 2015

Members of the Northampton County Council
John A. Brown, County Executive
County of Northampton, Pennsylvania

We have completed an audit of Medical Claims as of December 31, 2014.

The Executive Summary on page 1 summarizes the audit results, 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.

Our report was discussed with management at our exit conference on October 26, 2015. 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

Table of Contents

	<u>PAGE</u>
EXECUTIVE SUMMARY	1
INTRODUCTION	2
PURPOSE AND SCOPE.....	3
METHODOLOGY	3
AUDIT RESULTS	5
<i><u>Section A – Eligibility and Claims</u></i>	
1. Claims and Administrative Fees Paid for Terminated Employees Individuals	5
2. Improperly Paid Claims	6
<i><u>Section B – Internal Controls</u></i>	
1. Extended COBRA Benefits	7
2. Plan Enrollment Errors.....	8
3. Minor Housekeeping Errors	9

EXECUTIVE SUMMARY

We noted few errors or procedural deficiencies in this audit. There has been significant improvement since our prior audit in 2010. As a result of that audit, our office partnered with the Human Resources Department (HR) to perform comparisons every six months between the eligibility list maintained by Capital Blue Cross (CBC) and the County's database of enrolled employees and retirees using ACL data analysis software. In addition to the ongoing diligence of both CBC and the County, we believe that this comparison has aided in the strengthening of internal controls, minimizing the potential for costly errors. However, we did note some errors in this audit that, once addressed, can result in the recovery of some funds and the further strengthening of internal controls.

INTRODUCTION

On February 28, 2007, the County of Northampton entered into a contract with CBC for third-party administration of the County's health care benefits. In 2012, Capital was once again retained as third party administrator for an additional term, which expires on December 31, 2016.

The County is self-insured for health benefits; CBC pays the providers as they receive claims and bills the County the following week for the amount paid to providers. The County also has access to CBC's Electronic Group Enrollment Management System (eGEMS). Most information is transmitted to CBC via e-mail, entered by Blue Cross, and then verified using the eGEMS system by County employees. Enrollee lists are available in Excel format on eGEMS. HR does not verify the full list, however, every six months the Controller's Office uses ACL data analysis software to compare enrollees on the County's records to CBC eligibility lists. HR researches and clears any discrepancies noted as a result of this comparison.

In 2014, the County spent just under \$22.8 million to pay for medical and prescription claims for enrolled employees, retirees and eligible family members, and an additional \$1,213,535.66 in administrative fees to CBC for third-party administration and stop loss insurance. The County benefits from deep discounts negotiated between CBC and medical providers/facilities; although the County paid \$22.8 million in claims in 2014, providers billed over \$88 million during this period, according to the database provided to us by CBC.

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 2014, the County spent \$1,096,225.80 in premiums for enrollees in Senior Blue.

Employees contribute toward health care costs through deductibles, co-pays, co-insurance 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 2014. 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 CBC, 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 \$1,750,000.

The objectives of individual tests within our audit included:

- Verifying the completeness/validity of the CBC 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 claims and PPO Administration Fees are not paid for retirees enrolled in Senior Blue.
- Ensuring COBRA benefits are granted within federal guidelines.
- Analyzing various coverage issues within the CBC 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. CBC provided us with all of the claims paid in 2014 in Excel format as well as an eligibility list as of 12/31/14, 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 CBC 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 CBC database and eligibility list with the IFAS database to find any claims paid for ineligible individuals.
- Compare the CBC database and eligibility list with the database of retirees to make sure retirees are coded to the proper plan.
- 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 and Claims

1. Claims and Administrative Fees Paid for Terminated Employees Individuals

OBSERVATION

According to County Policy 3.301 – Group Health and Welfare Plans, any employee who terminates County employment (unless retiring) is no longer eligible for health benefits effective the last day of the month after their termination date.

In our audit, we noted claims totaling \$4,624.58 for seven ineligible terminated individuals. HR stated that their records showed that CBC was properly notified of termination dates for these individuals.

RECOMMENDATION

Regardless of the size of the errors, the County should pursue recovery of any improperly paid claims where the County is not at fault. Administrative fees of \$37.29 per month can also be recovered for each of these individuals.

MANAGEMENT RESPONSE – Amy Trapp, Director of Human Resources

Management agrees with the recommendation and intends to comply. The county has a claims review scheduled with CBC on Friday, December 11, 2015. During that meeting, it will be covered with the account reps the desire to resolve by CBC and make whole the county for these charges.

2. Improperly Paid Claims

OBSERVATION

We noted two out-of-network claims totaling \$540.33 that were improperly paid by CBC. One claim was paid with the County as primary payer which should have been paid by Medicare as primary with the County as secondary. Another claim was a charge for an air ambulance which requires a \$100 co-pay from the employee, which was not charged.

Also, we noted one minor duplicate payment in the amount of \$76.87.

According to our Account Representative, CBC already initiated recovery of these amounts to reimburse the County as a result of our audit.

RECOMMENDATION

The County should follow up to ensure recovery of all improperly paid claims, no matter how small.

MANAGEMENT RESPONSE – Amy Trapp, Director of Human Resources

Management agrees with the recommendation and intends to comply. During the meeting scheduled on December 11, 2015, with CBC, this will be covered as well as finding #1 with regard to improper charges due to the County.

Section B – Internal Controls

1. Extended COBRA Benefits

OBSERVATION

Individuals who terminate employment with the County are entitled to temporarily continue health benefit coverage under the Consolidated Omnibus Budget Reconciliation Act (COBRA). Individuals are responsible to pay the full premium cost each month, and under normal circumstances the maximum period of coverage is 18 months. However, in instances where the former employee or a beneficiary becomes disabled, the maximum period of coverage can be extended for an additional 11 months, for a total of 29 months. However, according to County Policy 3.301 – Group Health and Welfare Plans, the employee must pay 150% of the premium costs during the extended period. We noted one individual that had been granted an extension, but was still paying only 100% of the premium cost. If this continues throughout the period of extension, the former employee will be undercharged \$3,555.86. We found that this was caused by our COBRA Administrator, Ceridian, not formally notifying the County that the former employee qualified for a disability extension.

RECOMMENDATION

HR should properly charge the individual identified for the required premium amount. In addition, they should contact the COBRA Administrator and remind them to contact the County on matters such as this.

MANAGEMENT RESPONSE – Amy Trapp, Director of Human Resources

Management agrees with the recommendation to the extent that Ceridian should charge the proper amounts. During the scheduled meeting with CBC on December 11, 2015, it will be discussed with regard to approach, and at a minimum, correct charges will be applied or a discussion to these charges will be discussed with the carrier. The employee should not be punished for the mistake of the carrier. During the discussion, a remedy of a credit of the wrong charges may be requested from the carrier in order to make whole.

2. Plan Enrollment Errors

OBSERVATION

- Two Gracedale employees switched from the Employee Only plan to a plan which included dependents. The Human Resources Department at Gracedale notified CBC, but neglected to update the County's IFAS system. As a result these employees were being charged the wrong rate on bi-weekly Payroll. After we notified the County HR Department of the error, they began to collect the past charges from the employees through Payroll deduction.
- Two employees opted out of the County's Healthcare plan, but Gracedale's HR Department neglected to notify CBC of this; these employees were not removed from the eligibility list, resulting in unnecessary Administration Fees.
- One employee opted out in 2009 and the County properly notified CBC to remove this individual from the eligibility list, however, due to a clerical error on the County's part in 2014, this person was reactivated, and the County once again began paying Administration Fees to CBC.

RECOMMENDATION

The County should review its procedures, particularly at Gracedale, to ensure that errors that occur are identified and corrected through a review process. If the County has not already done so, it should notify CBC of all employees noted in the audit that should be removed from the eligibility list.

MANAGEMENT RESPONSE – Amy Trapp, Director of Human Resources

Management agrees with the recommendation with regard to training. There are a number of opportunities to sharpen skill sets of the Clerical Specialists at Gracedale. With a new HR administration in place, this will be a focus and appropriate training will be provided as well as a proper accountability process installed to ensure issues like this are addressed appropriately in the future.

3. Minor Housekeeping Errors

OBSERVATION

CBC 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 five individuals still employed by the County that have a CC prefix in their Class ID in the CBC database.

RECOMMENDATION

The County should notify CBC to correct the Class ID coding for these individuals.

MANAGEMENT RESPONSE – Amy Trapp, Director of Human Resources

Management agrees with the recommendation and this will also be an item covered with CBC in the meeting for claims review on December 11, 2015.