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Audit Report

**DENTAL  
CLAIMS**

As of 12/31/16

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



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November 21, 2017

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

We have completed an audit of Dental Claims as of December 31, 2016.

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. Their help was essential to the performance of this audit.

Our report was discussed with management at our exit conference on November 7, 2017. 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**

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United Concordia Companies, Inc. (UCC) provides effective third party administration of the County's Dental Plan. Claims appear to be paid accurately and on a timely basis for eligible employees and their families. A few claims exceptions were noted for immaterial amounts, and there was one mispaid claim caused by a violation of County policy. We also found that if the County exercised more diligence in updating eligibility lists when employees retire or terminate, an estimated \$1,661 in administrative fees could have been saved. The County also needs to clarify their contractual relationship with UCC to ensure that in all cases the relationship complies with provisions of the Administrative Code.

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## INTRODUCTION

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On October 1, 2001, the County of Northampton entered into a contract with UCC for third-party administration of the County's dental benefits. The contract term was for one year but featured an automatic renewal clause which had been exercised every year since its initiation. On November 10, 2016, however, the County Executive signed Executive Order 16-91, which continues the County's relationship with United Concordia, but through a relationship this vendor has with the Lehigh Valley Business Coalition on Healthcare (LVBCH). In an effort to keep down administrative costs through cooperative contracting, the County is now going through LVBCH for all of its health benefits, including medical and vision.

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

In 2016, the County spent \$688,964 to pay for dental claims for enrolled employees and eligible family members, and an additional \$41,138 in administrative fees to UCC for third party administration. (In our audit as of 12/31/11, the County paid for claims totaling \$764,230 and administrative fees of \$48,710.) The administrative fees for third-party administration are \$2.20 per month (down from \$2.40 as of our prior audit) 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, co-pays and contribution rates assessed through payroll deduction. Employees pay a single payroll deduction amount for all of the County's health benefits, including dental. Unlike third-party administrative fees, employees' payroll contribution is more depending on whether a spouse and/or children are covered as well.

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## PURPOSE AND SCOPE

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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 2016.

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 only paid for eligible employees, retirees, spouses and beneficiaries.
- Ensuring accuracy in aspects of the monthly UC bill.

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## METHODOLOGY

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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. UCC provided us with all of the claims paid in 2016 in Excel format as well as an eligibility list as of 12/31/16, 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 UCC 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 UCC 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.

Our review included an assessment of internal controls in the audited areas. Any significant findings related to internal controls are included in the Audit Results section of the report.

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.

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## AUDIT RESULTS

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### Section A – Eligibility

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#### 1. Claims and Administrative Fees Paid for Terminated Employees

##### 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:

- We compared the UCC Eligibility List as of 12/31/16 to the County’s list of eligible employees available in the IFAS system to determine if there were individuals on the UCC list that should have been removed. We found 34 ineligible individuals still included on the UCC list. The estimated amount of overpaid administrative fees for all 34 ineligible totaled \$1,661.00 (calculated from the month following termination until they were actually removed from the list as a result of this audit).

It should be noted that as a result of our prior audit of medical claims, our office has been performing periodic comparisons between the Blue Cross eligibility lists and the County’s records as a non-audit service. In 2016, we expanded this service to include dental benefit eligibility. Results of these comparisons are submitted to Human Resources via memo for research; no further work is performed by our office to determine if appropriate action is taken. Of the 34 exceptions identified during this audit, 14 had previously been brought to the attention of Human Resources on our dental eligibility memo dated 7/12/16, however no action was taken at that time.

- We also compared the file of claims paid by UCC in 2016 to the County’s list of eligible employees to determine if claims were paid for ineligible individuals. We found three exceptions totaling \$349.84. One additional exception was noted for claims paid for a former employee; however, the individual’s spouse was also a county employee. The claims were payable, but not under the enrollment of the original employee.

Two of the ineligible employees were brought to the attention of Human Resources on our memo dated 7/12/16, however, no action was taken. One of the exceptions (claim total \$64) was paid after UCC was notified to remove the individual from coverage.

- Three individuals were also noted on the County's list of eligible employees that were not found on the UCC eligibility list. These do not present a monetary cost to the County, but could result in an inconvenience for the affected employees.

#### RECOMMENDATION

We recommend that Human Resources exercise more care in promptly notifying UCC of employees no longer eligible for dental benefits. The County should also notify UCC on a timely basis of new individuals becoming eligible. In all cases, research should be performed and action taken on a timely basis regarding those employees brought to the attention of Human Resources as a result of our non-audit services. Human Resources may wish to request reimbursement by UCC for the claim paid after UCC was notified to terminate coverage; however, we acknowledge the amount is immaterial.

#### MANAGEMENT RESPONSE – Amy Trapp, Director of Human Resources

It was the impression of Human Resources this was addressed previously. Human Resources absolutely takes care to ensure this does not occur. No audit or follow up occurred since the 2016 audit. This will be properly addressed and resolved.

## **2. Violation of County Policy**

### OBSERVATION

According to County Policy 3.301 – Benefits, in instances where more than one family member is employed by the County, children may only be covered under one parent. Duplicate coverage is not permitted.

In our audit we noted one child was listed as a dependent on both a parent's plan and a grandparent's plan. Both adults are County employees. As a result, a claim was submitted twice to UCC, once under each plan. Only \$1,000 of the \$4,645 claim should have been covered, however \$2,000 in total was paid.

### RECOMMENDATION

Management should request reimbursement from the employee(s) for the amount which should not have been covered. Human resources should also determine if any other action is warranted.

### MANAGEMENT RESPONSE – Amy Trapp, Director of Human Resources

Human Resources is currently investigating this as an issue of fraud. The dependent has been enrolled under multiple names. Reimbursement will be requested as necessary and any additional action necessary will be taken to address other issues if found to be intentional.

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## **Section B – Contracting**

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### **1. Confusion Regarding Contractual Arrangement**

#### **OBSERVATION**

Article XIII, section 13.13a of the County's Administrative Code permits the County to enter into cooperative purchasing agreements to acquire materials and services under the contracts of other public entities provided structured procurement procedures have been exercised. As members of the Lehigh Valley Business Coalition on Health Care (LVBCH), the County took the opportunity to leverage that organization's pooled purchasing power to negotiate reduced administrative fees for benefit programs. All three of the County's major benefits programs (medical, dental and vision) are administered by vendors offering preferential rates as a result of our relationship with the LVBCH.

In the case of the County's third party administrator for dental benefits, however, there is some confusion as to which contract governs our relationship. The County originally contracted directly with UCC in 2001 (contract 01-126). The term of this contract was initially for one year, but it featured a renewal clause which could be exercised in perpetuity. In 2016, the County Executive signed Executive Order 16-91, which once again awarded the contract to UCC, this time through LVBCH. The Executive Order stated that the County Executive would "sign the agreements for coverages through the LVBCH awarded contracts." This led us to believe that a contract existed between LVBCH and UCC to which the County was now a party. Representatives from Human Resources agreed that a new contract is in force but that their office only had in its possession a Renewal Rate Acceptance Form signed by the County Executive.

We consulted with the Purchasing Manager regarding the UCC contract. Their office also does not have a copy of a new contract. In consultation with the Purchasing Manager and a UCC representative, we found that in the opinion of UCC, the original 2001 agreement is still in force, as amended by the new renewal rates.

Items of concern as they pertain to this audit are:

- If a detailed Administrative Services Agreement exists between LVBCH and UCC, and the County is a party to that contract, then a copy of that contract must be on file with Procurement, in accordance with Administrative Code section 13.16b. This contract must be made available to our office upon request, as it would detail the agreed upon responsibilities of both parties; compliance with the terms of the contract are among the items subject to audit.
- If our original contract from 2001 is still in force, and is simply modified by rate agreements that are a result of our relationship with LVBCH, then the

terms of the contract are currently in violation of Administrative Code. Section 13.16g (7) of the Code states that "No renewal of any existing contract, upon the expiration or termination of the original term, shall be entered into if such renewal fails to conform to provisions of the Administrative Code herein set forth." Since this contract renews annually, it is subject to the requirements of this section. Since this contract was originally signed, revisions to the Administrative Code have been approved which require clauses of all County contracts which are not present in the original UCC agreement. These required conditions are detailed in Administrative Code sections 13.16 g (1), (2), (4) (12) and (13).

#### RECOMMENDATION

- Human Resources should clarify our contractual relationship with UCC, determining whether a separate, new contract exists between LVCBH and UCC to which the County is a party. If such a contract exists, then a copy should be obtained and placed on file in Procurement. If the County's older contract is still valid, then the County should rewrite its terms to comply with the requirements of the Administrative Code.
- It is unlikely that cooperative contracts have all the wording required by Administrative Code as they are not written by the County. County Council may wish to rewrite the code to exempt cooperative contracts from such requirements.

#### MANAGEMENT RESPONSE – Amy Trapp, Director of Human Resources

Human Resources will work in conjunction with Procurement and the County's broker to ensure all necessary contractual language is included to properly protect the County.

#### AUDITOR'S COMMENT

Following the issuance of the draft of this report, the County Purchasing Manager informed us that, in response to our discussions on this matter, an addendum to the original contract from 2001 had been signed on 7/13/17 which incorporates the necessary wording from the Administrative Code. We reviewed this amendment and found that it sufficiently addresses the concerns noted in this finding.