



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

John Cusick, President
Seth Vaughn, Vice-President
Mathew M. Benol
Matthew H. Dietz
Margaret Ferraro
Glenn A. Geissinger
Kenneth M. Kraft
Hayden Phillips
Robert F. Werner

Audit Report

**HEALTHCARE AND
DENTAL SELF-
INSURANCE TRUST
FUND**

As of December 31, 2015

**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) 829-6615
FAX (610) 559-3137

December 27, 2016

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

We have completed an audit of the Healthcare and Dental Self-Insurance Trust Fund as of December 31, 2015.

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 Fiscal Affairs and Human Resource Departments. 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

Paul L. Albert, CIA
Lead Auditor

Table of Contents

	<u>PAGE</u>
EXECUTIVE SUMMARY	1
INTRODUCTION	2
PURPOSE AND SCOPE.....	3
METHODOLOGY	3
AUDIT RESULTS	4
 <u>Section A – Internal Controls</u>	
1. Improve the Process Involved with Employee Opt-Out Payments	4
2. Absence of Authorized Signatures.....	6

EXECUTIVE SUMMARY

Overall, Fiscal Affairs and Human Resources did a good job throughout the year managing the Healthcare and Dental Self-Insurance Trust Fund (Fund). Revenues and expenditures were properly accounted for; and the monthly rate charged to divisions was properly adjusted so that by the end of the year, there was a minimal variance between revenue and expenditures in the Fund. We also found that the amount budgeted per covered employee of \$11,200 for these health benefits was based on sound logic and data prepared by the Actuary, even though the actual healthcare and dental expenditures only amounted to about \$9,015 per employee, about 80% of the amount budgeted. While it's good that the actual expenditures were significantly less than anticipated, funds of \$2,185 per covered employee were committed in the budget but not spent. County-wide that amounted to in excess of \$3 million not spent, which had an effect on the yearend fund balance.

The primary area that needs improvement is the process involved with payments to employees who opt-out of medical benefits. Employees should be required to complete opt-out forms annually and greater care needs to be taken to ensure the correct opt-out amount is paid to employees.

INTRODUCTION

The Fund is classified as an Internal Service Fund, accounting for the financing of the medical and dental self-insurance activities that are incurred by the County for all of its employees. Human Resource employees manage the benefits portion of the Fund and approve invoices for payment while Fiscal Affairs staff provide the accounting and budgeting for the Fund, and initiate payment of invoices.

For 2015, 85% percent of funding was from employer contributions. The amount of necessary contributions was calculated during the budget process using Actuarial Reports prepared for the Fund. The employer contribution, which was offset by estimated employee contributions, was then charged to each division once a month through payroll for all covered employees. The amount charged each month was adjusted throughout the year by the Accountant based on current Actuarial Reports and actual claims being paid. Other sources of funding included employee contributions, insurance reimbursements from stop-loss insurance and COBRA fees.

Expenditures for 2015 were driven primarily by medical claims processed by Capital Blue Cross which accounted for 87% of Fund expenditures. Total medical claims can vary widely from year to year but there is a \$350,000 maximum liability that the County could incur annually for each covered individual. Claims above that \$350,000 are covered by the County's stop-loss insurer Avalon Insurance Co. Other large expenditures were for dental claims processed by United Concordia, the third party administration fees by Capital Blue Cross and United Concordia, employee GAP insurance through AEGIS and opt-out payments to employees.

During 2015, revenue totaled \$17,165,000 and expenditures totaled \$17,151,000, leaving a fund balance at 12/31/15 of \$43,175.

PURPOSE AND SCOPE

The purpose of the audit was to:

- Determine the adequacy of internal controls.
- Determine whether the Fund is being operated economically and efficiently.
- Determine compliance with laws, regulations, policies and procedures.

Our scope included the twelve-month period ending December 31, 2015.

METHODOLOGY

Our methodology included:

- Interviewing personnel in Fiscal Affairs and Human Resources to understand and document how the Fund works.
- Analyzing financial data from different time periods.
- Identifying applicable policies, procedures, laws and regulations.
- Testing the reasonableness of the healthcare estimate used for the 2015 budget.
- Testing payments to vendors to determine if they were correct and properly authorized.
- Verifying that contracts/insurance policies were in effect for vendors that received more than \$25,000 in 2015.
- Verifying the reasonableness of the stop-loss insurance payments received from Avalon Insurance Co.
- Testing the accuracy of opt-out payments made to employees for 2015.
- Testing the reasonableness of the healthcare reform fees that were paid in 2015 because the County is self-insured.

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.

AUDIT RESULTS

Section A – Internal Controls

1. Improve the Process Involved with Employee Opt-Out Payments

OBSERVATION

County employees who qualify for healthcare and dental benefits may instead opt-out of those benefits and receive monetary compensation from the County. For 2015 the amount of compensation ranged from \$1,200 to \$1,800 per employee depending which union or employee group they belonged to. Total compensation paid to employees that opted-out of employee healthcare for 2015 totaled approximately \$182,550 and was paid on January 17, 2016, unless the employee left employment with the County during 2015. In that case they were paid a pro-rata amount.

Documentation for 25 of the payments was reviewed and numerous items were noted which indicate that improvements should be made to the opt-out process. Those items include the following:

- Opt-out forms are not required to be completed annually, but rather only when an employee first opts-out of health benefits or opts back in. Of the forms examined, only about half were completed in the last year or two; the remainder were dated earlier than that including one which was completed in 2002. The County currently requires that employees who opt-out provide proof of insurance coverage through their spouse's insurance. If proof of other insurance is a requirement of opting-out, then forms should be updated annually because a spouse's insurance information could change at any time.
- One of the opt-out forms was not signed or dated by the employee.
- Payments for six (6) employees who were members of the Residual or Corrections Officer's union were made at the 2016 rate of \$1,500 instead of the 2015 rate of \$1,200. This included some partial payments for those who opted-out during the year.
- One employee signed an opt-out form on 10/28/14 with an effective date of 12/31/14. She worked all of 2015 but was only paid opt-out compensation for 11 of those months.

RECOMMENDATION

The opt-out option for employees who have other health insurance is a good program for both the County and the employee. However, the program could be strengthened by requiring an opt-out form be completed annually during the open enrollment period, by reviewing the form for completeness, and by ensuring the employees are paid at the correct rate for the correct number of months.

MANAGEMENT RESPONSE

Amy Baker Trapp, Director of Human Resources

HR will update the process to include at least a biennial recertification process for opting out, if not annually. Additionally, process improvements will occur with regard to quality checks for completeness and annual review of information through an internal audit.

As a point of interest, it was not an incorrect payment of \$1,500 rather than \$1,200, for those people mentioned in the findings, it was a union arbitration settlement with which the County agreed to comply. Some who were previously in the Corrections union moved to the Residual union; however, they were entitled to the reimbursement of \$300.

2. Absence of Authorized Signatures

OBSERVATION

Two of the 22 disbursements examined were not supported by the signature of an individual authorized to approve invoices for that fund. There were four individuals in Human Resources and two in Fiscal Affairs who were authorized to approve those invoices for payment. Both of these disbursements were for legitimate invoices (Capital Blue Cross and United Concordia) and funds were wired to the appropriate vendor.

RECOMMENDATION

Written approval should be obtained for all invoices paid as evidence that someone reviewed the invoice and determined that it was appropriate to pay.

MANAGEMENT RESPONSE

Amy Baker Trapp, Director of Human Resources

Written approval under the current HR administration has always occurred. Unfortunately, this audit was from a time period prior to the current HR administration and we will continue to ensure appropriate signatures appear and are completed in a timely manner prior to payment.