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Audit Report

**NATIONAL VISION  
ADMINISTRATORS**

As of October 2013

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



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July 14, 2014

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

We have completed an audit of certain aspects of the County's contract with National Vision Administrators (NVA) as of October 2013.

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 July 8, 2014. 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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For the most part, vision claims are being processed accurately by the third party administrator, NVA. We found no evidence of duplicate claims. We did find claims totaling \$527 paid for 14 individuals who are not eligible. This is a small amount of money, but the total amount of claims paid in the period under review was only \$21,101; the error rate on the entire file was 2.5%.

The cause of the above monetary error was the lack of internal controls over the NVA Eligibility List. We found that there were 466 individuals on the list who were not eligible; the vast majority of these were caused by retired and terminated individuals that were not removed from the list. These errors were not caught by the County because there is no mechanism in place to periodically review the Eligibility List. Some of the errors date back many years; 157 of the ineligible individuals retired or terminated more than 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 NVA and the County's IFAS record of eligible employees.

We also noted that the NVA contract has been automatically renewed every year since 1993. Since that time there have been many changes to Article XIII of the County's Administrative Code (Procurement and Disposition of County Property) and as a result, the original contract is in violation of the Code in a number of ways. Contract revisions are necessary, and this may require that the contract be re-awarded using one of the competitive purchasing methods outlined in the Code.

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

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## INTRODUCTION

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On September 13, 1993, the County of Northampton entered into a contract with National Vision Administrators (NVA) for third-party administration of the County's vision benefits. The contract term was for two years but features an automatic renewal clause which has been exercised every year since its initiation.

The County is self-insured for health benefits; NVA pays the providers as they receive claims and the County reimburses NVA for these expenditures via wire transfer.

Between October 2012 and September 2013, the County spent \$21,101 to pay for vision claims for enrolled employees and eligible family members, and an additional \$4,780 in administrative fees to NVA for third-party administration. The administrative fees for third-party administration are based on the number of paid claims rather than the number of covered employees, as is the case for the County's health and dental benefits. The County pays \$7.00 for each claim paid. These benefits apply to active employees only; retirees do not receive vision benefits.

Employees contribute toward vision 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 vision. The amount of contribution varies among Career Service workers and those covered under various collective bargaining agreements, and employees pay 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 vision claims are being processed accurately by the third-party administrator.
- To ensure that payments are made only on behalf of eligible enrollees and for covered procedures.

The scope of our audit included all claims from October 2012 through September 2013.

The objectives of individual tests within our audit included:

- Verifying the completeness/validity of the NVA database.
- Determining if claims are being paid more than once.
- Ensuring that claims are paid for eligible employees, spouses and beneficiaries.
- Ensuring accuracy in aspects of the monthly NVA bill.
- Ensuring that only covered procedures are paid.

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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. NVA provided us with all of the claims paid from October 2012 through September 2013 in Excel format as well as an eligibility list as of October 2013, 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 NVA database by looking for illogical data anomalies such as negative amount paid.
- Review for duplicate payments on claims.
- Compare the NVA database and eligibility list with the IFAS database to identify ineligible individuals and any claims that might be paid in error.
- 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.
- Verify the accuracy of NVA bills.
- Ensure NVA is only paying for covered procedures.

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 - Compliance

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#### 1. Contract Renewals and Administrative Code Violations

##### OBSERVATION

Northampton County's contract with NVA was originally signed in 1993 and has been automatically renewed ever since. According to the current revision to Article XIII of the Administrative Code, "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." (Section 13.16 g (7))

Since this contract was signed, Article XIII has been revised a number of times. As a result, the contract violates Administrative Code in a number of ways, as follows:

- Section 13.16 g (1) – "Every contract shall specifically state that it is contingent upon the availability of appropriated funds from which payment can be made." This wording is not present in the current contract.
- Section 13.16 g (4) – "Every contract shall state that if the vendor becomes delinquent on taxes owed the County during the term of the agreement, vendor shall be in breach of the agreement and the County shall withhold vendor payments in lieu of taxes until taxes are paid in full." This wording is not present in the current contract.
- Section 13.16 g (12) – "Every contract shall specifically state that the vendor agrees not to hire County personnel who have or shall exercise discretion in the awarding, administration or continuance of that vendor's contract." The current contract does not state this.
- Section 13.16 g (13) – This section states that each contract must include conditions related to Undue Influence, Conflict of Interest, and Breach of Contract, none of which are present in the current contract.
- Section 13.16 c (1) – This section requires that County Council approve all contracts exceeding \$100,000 that were awarded using the Competitive Negotiation, Negotiation After Competitive Sealed Bidding and Non-Competitive Negotiation methods. For contracts with renewal clauses, the entire payout if all renewal clauses are exercised under the terms of the contract must be considered when determining if Council approval is necessary. Since the NVA contract has a perpetual renewal clause, potential payout will inevitably exceed \$100,000.



## RECOMMENDATION

We recommend that the County utilize one of the approved competitive purchasing methods to award a new contract for administration of vision benefits. If the County elects to continue to implement a perpetual renewal clause, it should consider obtaining approval of Council. Any signed contract should include all wording required by the Administrative Code.

## MANAGEMENT RESPONSE – Patricia Siemiontkowski, Director of Human Resources

Recognizing that the current contract is in violation of the Administrative Code, it is agreed that the County will prepare an RFP in 2015 for the purpose of awarding a new contract for administration of vision benefits. At that time, all violations identified in the current contract can be remedied.

## 2. Benefit Coverage

### OBSERVATION

The contract signed in 1993 contains an appendix which provides specific vision benefit coverage information. There is no provision in the contract which states that these benefits are subject to change. However the benefits outlined in the contract differ significantly with the current coverage brochure available in Human Resources. Current benefits are also listed in the County Employee Policies Manual and the NVA website. The benefits listed in these sources correspond to the brochure with the exception of the maximum benefit for elective contact lenses. The brochure states that the maximum is \$50.00, however, the NVA website states that the maximum is \$22.00.

The contract also does not include any stated benefit structure for non-participating providers or any benefit for laser eye surgery or the use of a mail order Contact Fill Service. These are all included in the current benefits listed on the brochure.

### RECOMMENDATION

A new contract awarded by the County should state that benefits are subject to change if the current benefits are specifically included in the contract language. In addition the County should ensure that all benefit disclosure information available to employees is in agreement.

### MANAGEMENT RESPONSE – Patricia Siemiontkowski, Director of Human Resources

When a new contract is awarded, the recommended language changes will be included.

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## **Section B – Internal Controls**

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### **1. Ineligible Individuals included on NVA Eligibility List**

#### **OBSERVATION**

We found 466 individuals included as employees on the NVA Eligibility List that were not found on the County's HR records of employees enrolled in Health Benefits. Reasons for these discrepancies were as follows:

- 448 individuals were found to be terminated or retired (retired employees are not eligible for vision benefits). Many of these individuals terminated/retired a number of years ago; 157 were found that had a termination date prior to 2004 (over 10 years).
- Nine individuals were found to have opted out of Health Benefits.
- Five individuals could not be found as ever having worked for the County. No evidence was found that these individuals are related to anyone who worked for the County.
- Four individuals were found to be ineligible part-time employees.

In addition, we found 25 spouses and dependents of employees included on the Eligibility List, however the employees are currently enrolled in the Employee-Only benefit plan.

Although the County does not pay an Administrative Fee for each member on the Eligibility List, having ineligible individuals on the list increases the risk that claims will be improperly paid. (See Section B-2 below)

#### **RECOMMENDATION**

We recommend that Human Resources request that NVA remove all ineligible individuals from the Eligibility List. Human Resources should also develop procedures to review the Eligibility List periodically to ensure its accuracy.

#### **MANAGEMENT RESPONSE – Patricia Siemiontkowski, Director of Human Resources**

Human Resources has requested that NVA remove all ineligible individuals from the Eligibility List. NVA has agreed to do so. In addition, going forward the Controller's Office has offered to assist Human Resources in comparing, on a regular basis, the NVA Eligibility List with information contained in IFAS to assure that ineligible individuals are removed from the list on a timely basis.

## **2. Claims Paid on Behalf of Ineligible Individuals**

### OBSERVATION

Claims totaling \$527 were paid for ineligible individuals. This included various claims for 13 former employees and one dependent of a former employee. This is a small amount, but it represents 2.5% of total claims paid (\$21,101) from Oct. 2012 to Sept. 2013.

### RECOMMENDATION

As noted in Section B-1 above, management should take steps to ensure that the NVA eligibility list is current and accurate. The third party administrator will pay claims for any individual included on the Eligibility List.

### MANAGEMENT RESPONSE – Patricia Siemiontkowski, Director of Human Resources

As stated above, steps are being taken to ensure that the NVA eligibility list is current and accurate. The payment of claims totaling \$527 is still being researched. A report on these claims will be forthcoming.