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Audit Report

**VISION BENEFITS  
AUDIT**

As of May 2018

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



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Members of the Northampton County Council  
Lamont G. McClure, Jr., County Executive  
County of Northampton, Pennsylvania

We have completed an audit of County Vision Benefits as of May 2018.

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 August 29, 2018. Management's response is included in the Audit Results section of the report.

Very truly yours,

Richard J. Szulborski  
County Controller

Anthony D. Sabino, CIA  
Lead Auditor

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## **EXECUTIVE SUMMARY**

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Vision claims are being processed accurately by the third party administrator, NVA. We found no evidence of duplicate claims or claims paid for individuals who are not eligible. We did find 61 individuals included as employees on the NVA eligibility list that were not found on the County's records of employees enrolled in Health Benefits. We also noted 11 individuals on eligibility lists provided by AFSCME for employees in the Gracedale and Corrections Officers Unions who are ineligible for benefits. This is an improvement over our prior audit, where 466 ineligible individuals were included on the eligibility lists, but there is still room for improvement in ensuring that eligibility lists are accurate. 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 periodically between an electronic enrollee lists 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.

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

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## INTRODUCTION

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Northampton County offers a vision benefit plan to all full-time employees. Depending on where an individual works, this benefit is managed differently.

The majority of County employees are covered under the self-insurance plan administered by National Vision Administrators (NVA). The County originally contracted with NVA in 1993 to provide third party administration of the County's vision benefits; the contract term was for two years but featured an automatic renewal clause which has been exercised every year since its initiation. Recently, through the County's membership in the Lehigh Valley Business Coalition on Health Care (LVBCH), the County has modified the contract through addenda to provide updated rates; the other terms of the original 1993 contract, however, remain in force.

Employees who are members of the Gracedale and Corrections Officers Unions (AFSCME) are not covered under the County's self-insurance plan. They are covered under plans offered by the Union (Gracedale Union also provides prescription coverage in this fashion). The County reimburses the Union \$4.50 per employee each month for this benefit.

In 2017, the County spent approximately \$39,000 to pay for vision claims for NVA enrolled employees and eligible family members, and an additional \$7,500 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. Additionally, the County reimbursed the Union an estimated \$36,000 for individuals covered under the AFSCME plan.

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 2017 and well as eligibility as of May 2018.

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 dependents.
- Ensuring that enrollee lists only include eligible individuals.
- 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 in 2017 in Excel format as well as an eligibility list as of May, 2018, also in Excel format. We were also able to download County employee data into Excel using reports available in the IFAS system. Eligibility lists for employees covered under AFSCME plans were only available in print format, however we scanned these documents and saved them as PDF files. Using PDF software, we were able to convert these to Excel format as well. 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 claims database and the NVA and AFSCME eligibility lists with the IFAS database to identify ineligible individuals and any claims that might be paid in error.
- Investigate payments on behalf of dependents older than 26 years of age.
- Investigate claims paid for spouses and dependents where the employee is enrolled in an Employee Only plan.
- Verify the accuracy of NVA bills.
- Ensure NVA is only paying for covered procedures.

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 – Internal Controls

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#### 1. Ineligible Individuals Included on NVA/AFSCME Eligibility Lists

##### OBSERVATION

We found 61 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:

- 20 individuals were found to be terminated or retired.
- 29 individuals were employees in the Gracedale or Corrections Officers Union. These individuals are covered under the separate plan provided under the terms of collective bargaining agreements.
- Nine individuals were found to have opted out of Health Benefits.
- Two individuals listed as employees who were found to be the spouses or children of current employees.
- One individual could not be found as ever having worked for the County. No evidence was found that this individual is related to anyone who worked for the County.

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. However, it should be noted that no claims were noted for the ineligible individuals in 2017.

We also noted nine individuals on the AFSCME Corrections Officers eligibility list that had opted out of County benefits and were, therefore, ineligible. Two individuals were also noted on the AFSCME Gracedale eligibility list who were currently per diem (not full-time). According to the collective bargaining agreement, only employees regularly scheduled to work at least 37 ½ hours in a work week or at least 75 hours during a two week period are eligible for benefits. The County reimburses AFSCME \$4.50/employee per month for vision benefits. In addition, for employees in the Gracedale Union, the County reimburses AFSCME an additional \$287.00/employee per month for prescription benefits. For these ineligible individuals, the County is paying \$7,482 per year.

##### RECOMMENDATION

We recommend that HR request that NVA and AFSCME remove all ineligible individuals from the eligibility lists. HR should also develop procedures to review the eligibility lists periodically to ensure accuracy.

MANAGEMENT RESPONSE – Elizabeth Kelly – Director of Human Resources

This is something we would like to avoid to the greatest extent possible. I am happy to see that the prior Director of Human Resources implemented some changes in the Department that made big improvements in the number of people deleted who were no longer eligible for the NVA benefits. I am told that the major change was to take the responsibility for deleting retired and terminated employees away from NVA and to do this with our own HR staff.

We would like to improve on this progress, but unfortunately, we do not have the ACL analysis software tool that the Controller's office uses to compare large amounts of computer-stored data. However, it also appears that the Controller's office obtained lists of eligible employees from NVA and from AFSCME (for the AFSCME Health & Welfare Benefits Trust plan).

I am willing to accept the recommendation to remove all ineligible individuals from the eligibility lists of NVA and AFSCME.

In addition, I am also willing to accept the recommendation to develop procedures to review the eligibility lists periodically to ensure accuracy. I would be willing to make requests for these lists semi-annually.

## 2. AFSCME Reimbursement – Corrections Officers Union

### OBSERVATION

The collective bargaining for the Gracedale Union specifically requires the County to reimburse AFSCME for vision and prescription premiums in amounts detailed by year in the contract. The collective bargaining agreement for the Union, however, simply states, “Vision Plan benefits shall be provided to Corrections Officers by the Union.” No mention is made of reimbursements by the County. The County is currently paying approximately \$10,200 in reimbursements per year, but there may not be a legal requirement to do so.

### RECOMMENDATION

If the County wishes to reimburse AFSCME for premiums associated with vision benefits, then specific verbiage should be included as part of the collective bargaining agreement.

### MANAGEMENT RESPONSE – Elizabeth Kelly – Director of Human Resources

Although the Corrections’ CBA contains no express language stating that the County will pay the Union \$4.25 per month per employee who elects vision coverage through the AFSCME Health & Welfare Trust plan, this does not mean that there is no obligation on the County to pay. In the collective bargaining setting, a past practice that has been mutually assented to by the employer and the union and is regularly repeated as the accepted course of conduct between the parties on a particular subject may be a binding and enforceable term of employment, the same as if it were written into the CBA, even if it is not written into the CBA. See, e.g., *County of Allegheny v. Allegheny County Prison Employees Independent Union*, 476 Pa. 27, 381 A.2d 849. (1978). With the subject at issue, vision benefits, the past practice consists of the employees enrolling in the AFSCME Health & Welfare Trust plan for vision care, and the County paying the going rate per employee enrolled, which at this time is \$4.25 per employee per month.

Because of the Supreme Court’s recognition of enforceable past practices as a binding term of employment, and because of the mutual assent and agreement to the \$4.25 per employee fee for Corrections Officers enrolled in the AFSCME plan, I cannot agree that there is no obligation on the part of the County to pay for the vision benefits, and I cannot agree to accept this recommendation.

### AUDITORS COMMENT

It was not the intention of our recommendation for the County to discontinue paying this benefit. We noted that the verbiage in the AFSCME Gracedale contract is much more specific regarding the County reimbursement and provides a schedule with different rates for prescription coverage for each year of the contract with a \$4.50 vision benefit reimbursement for all years of the contract. We simply believe this approach makes sense and that more detailed verbiage should be incorporated into future AFSCME Corrections Officers collective bargaining agreements to document the County’s obligation.

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## **Section B – 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 13.15 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 13.15 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 13.15 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 13.15 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 13.15 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.

We also made this Observation in our audit dated October 2013. At the time, the then Director of Human Resources felt that our membership in LV BCH would result in a new cooperative contract that would be in compliance with Administrative Code. However, our LV BCH membership only provides us preferential rates which are handled through addenda to the original contract.

Other terms of the original contract are still in effect.

We also made a similar observation in our audit of dental benefits as of 12/31/16. In that audit, the situation was resolved through an addendum to the original contract which incorporated the necessary wording from the Administrative Code.

RECOMMENDATION

We recommend that the County work with NVA to incorporate the necessary contractual language into the current contract.

MANAGEMENT RESPONSE – Elizabeth Kelly – Director of Human Resources

Thank you for bringing it to my attention that the only NVA contract on file dates back to 1993 and contains an “automatic renewal” clause. I have reviewed the NVA contract and I have alerted BSI, the County’s healthcare advisor, to provide me with contacts for NVA so that this contract can be amended as soon as possible. I met with representatives of BSI last week, and I am expecting that when Ms. Ralston returns from vacation, I will have the name of the right person at NVA to work with in order to obtain a contract amendment at the soonest possible date.

This recommendation is accepted.

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## **Section C – Policies and Procedures**

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### **1. Vision Benefits Defined in Employee Manual**

#### **OBSERVATION**

We noted that the Vision Care Plan section of the Human Resources Employee Policies Manual lists some specific benefits which are not accurate, since benefits changed after the policy was written in 2007. Specifically, the policy manual is in error as follows:

- Some benefits are listed as available every 24 months. All benefits are now available every 12 months.
- The examination co-pay for in-network providers is listed as \$15. The actual co-pay is now \$10.
- The frame allowance is listed as \$15 of the wholesale price for in-network providers. The allowance is now \$25.
- A co-pay is included for medically necessary contact lenses. These types of contacts are no longer subject to a co-pay.

#### **RECOMMENDATION**

We recommend that HR correct the inaccuracies in the Employee Policy Manual. It may be a better option to simply refer to the current schedule of benefits, without listing the specific benefits themselves.

#### **MANAGEMENT RESPONSE – Elizabeth Kelly – Director of Human Resources**

You observed that the current County policy addressing vision care benefits has not been updated since 2007 and that it no longer reflects the vision benefits provided by the policy. I agree that this should be changed. I plan to make this change as soon as possible, but my preference is to leave the language open enough that the vision benefits can be changed in the future without having to update the County policy manual each time.

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## **ISSUES RESOLVED DURING FIELDWORK**

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### **1. Terminated Employees Still Listed In IFAS as Having Vision Benefits**

#### **OBSERVATION**

The IFAS report generated for usage in this audit which lists all employees with vision benefits included a number of individuals who were terminated (most of these terminations occurred in 2005 and 2006). This was found to be caused by HR staff not properly updating the "Benefit End Date" in IFAS when an individual terminated employment. None of these individuals appeared on the NVA eligibility list, so there was no danger that claims would be paid for ineligible individuals.

#### **RECOMMENDATION**

The "Benefit End Date" field should be updated so that terminated employees do not appear on a list of employees with benefits.

#### **CORRECTIVE ACTION TAKEN**

Using ACL data analysis software, we were able to compare the IFAS benefits report to an IFAS current employee roster report and identify all of the terminated individuals still listed as having benefits. We presented this list to HR during the preliminary phase of our audit, and all corrections were made immediately.