

January 26, 2006

Internal Audit Report 2006-2
Administration of Municipal Self-Insurance Plan
Employee Relations Department

Introduction. The Municipality of Anchorage (Municipality) has a self-insured benefit plan that covers medical, dental, vision and prescription services for approximately 7,600 employees, retirees and dependents. Premera Blue Cross Blue Shield of Alaska (Premera) is the Claims Administrator for the plan and processes all claims for the Municipality. Premera has processed \$23,245,073 in claims for the period beginning January 1, 2005, and ending September 30, 2005. The current contract with Premera will expire on December 31, 2005.

The Benefits Section of the Employee Relations Department is the Plan Administrator and is responsible for ensuring the required insurance enrollment paperwork is on file and for notifying Premera of any changes of coverage, terminations, retirements, etc. In addition, Benefits Section personnel administer the contract with Premera.

Objective and Scope. The objective of the audit was to determine whether the database used by Premera to pay claims was accurate and contained only those employees who were currently enrolled in the Municipal health plan. Specifically, we determined whether employee files maintained by the Municipality contained all required documentation, if plan participants were assigned to the correct health plan, if dependent data was accurately reported to Premera, and if claims were paid in accordance with the appropriate health plan. We statistically selected a random sample of 231 individuals from a total population of 7,569 employees, spouses, dependents and Police and Fire retirees to accomplish our audit tests.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of

accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of October through November 2005. The audit was requested by the Administration.

Overall Evaluation. The database used by Premera to pay claims was generally accurate and contained employees who were enrolled in the Municipal health plan. However, employee files maintained by the Municipality did not always contain all required documentation. We also found three employees in the Premera database who were no longer employed by the Municipality, resulting in an overcharge of premiums of \$10,071 as of the end of September 2005. In addition, employees were not required to re-certify their spouses and dependents after the initial enrollment in the health plan. Moreover, the monthly performance reports provided by Premera were not computed correctly. Finally, payments had not been made timely to Premera by the Municipality, which may result in late fees totaling about \$8,000 as of the end of September 2005.

FINDINGS AND RECOMMENDATIONS

1. Health Insurance Data Maintained by Premera Not Completely Accurate.

- a. Finding.** Our review of the health insurance data maintained by Premera for 231 employees revealed eight errors (3.5%). Specifically, we found three terminated employees still listed as insured. One employee terminated June 30, 2001, another terminated January 31, 2004, and the third terminated December 31, 2004. This has resulted in premium overpayments of \$10,071 to Premera. No claims had been submitted by the employees after termination. We also found the wrong birth dates for two spouses, two instances where the age of the employee was shown as “0”, and one instance where the employee’s 12-year-old daughter was shown as the spouse. We were not able to determine whether the errors were made by Records and Benefits staff or Premera.

- b. Recommendation.** The Employee Relations Director should ensure that accurate data is provided to Premera for health insurance coverage. In addition, the Employee Relations Director should ensure that data maintained by Premera is reviewed for accuracy on a periodic basis. All errors should be corrected and terminated employees should be removed from the health insurance data base.
 - c. Management Comments.** Management stated, “The Employee Relations Department concurs with the findings of the MOA Internal Auditor. Effective January 1, 2006 an electronic interchange from PeopleSoft to Premera has occurred, this update will occur every two weeks. This electronic interchange will eliminate the data entry errors on both ends of the file and enable Employee Relations to promptly review data on a periodic basis. Starting in April all new hires will enter their own personal data through the New Employee Orientation (NEO) system that has been designed by the MOA’s PeopleSoft department to streamline the process.”
 - d. Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.
- 2. Employee Files Incomplete.**
- a. Finding.** Employee files maintained by the Records Section did not always contain proper documentation for health insurance elections. Our statistical sample of 231 employees revealed 29 errors (12.6%). Specifically, we found that enrollment forms for two employees differed from the plans in the Premera records. We also found that the employee files for 27 employees did not contain required documentation, such as enrollment forms, birth certificates, marriage licenses, and so forth. Seven of the 27 employees were Police and Fire retirees and the same problem was found in our audit of the Police and Fire Retiree Medical Trust in 2004 (Internal Audit Report 2004-4).

- b. Recommendation.** The Employee Relations Director should ensure that employee files maintained by Records Section staff are complete and accurate. A review of employee files could be performed during the annual Flex Benefits enrollment to ensure that all required documents are in the file and that the correct enrollment selection has been reported to the claims administrator.
 - c. Management Comments.** Management stated, “The Employee Relations Department concurs with the finding of the MOA Internal Auditor. As of January 11, 2006 all filing for the benefits department has been completed. As of January 1, 2006 all correct enrollment selection information has been sent to Premera via the electronic interchange. Effective April 1, 2006 all newly hired employees will electronically complete their information.”
 - d. Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.
- 3. Annual Re-Certification of Dependent Status Not Required.**
- a. Finding.** Employees were not required to re-certify their spouses and dependents after the initial enrollment in the health plan. Instead, Benefits Section personnel relied on employees to voluntarily notify them of any changes in spouse or dependent status. It is common practice by many employers to require employees to annually certify and/or validate the status of spouses and dependents that are eligible to receive health insurance benefits.
 - b. Recommendation.** The Employee Relations Director should consider implementing an annual re-certification by employees of their spouses and dependents that are eligible to receive health insurance benefits under the Municipal Flex Benefits Plan.

- c. **Management Comments.** Management stated, “The Employee Relations Department concurs with the finding of the MOA Internal Auditor. During the month of June the benefits department will send out annual re-certification letters to all active employees and retirees.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Operations Performance Measures Summary Report Not Always Accurate.**

- a. **Finding.** The Operations Performance Measures Summary report submitted by Premera was not always accurate. The contract with Premera includes performance standards for a variety of actions and assesses penalties for not meeting the minimum standards. However, the 2005 contract does not specify how often the performance will be measured and when the penalties will be assessed. The Plan Administrator in the Benefits Section had not reviewed the reports submitted because she assumed that the penalties, if any, would be computed at the end of the contract period. Our review and analysis of the reports revealed that some of the performance measures computed by Premera were not accurate when compared to the detailed transactions provided by Premera. The errors in the August 31, 2005, report were as follows:

Measure	Computed by Premera	Per Audit	Minimum
Clean Claims TAT 0-30 Days	96%	95%	95%
Claims Accuracy-Frequency (PBC)	95%	96%	95%
Abandonment Rate (PBC)	1%	2.2%	5%
First Call Resolution	92%	91%	85%
Service Level Calls Answered in 30 Seconds	79%	70%	75%

- b. **Recommendation.** The Employee Relations Director should ensure that the contract for 2006 with Premera specifies how often performance will be measured and when penalties will be assessed for non-performance. In addition, the Plan Administrator should review the performance reports to ensure that the computed performance agrees with supporting data.

- c. **Management Comments.** Management stated, “The Employee Relations Department concurs with the finding of the MOA Internal Auditor. The Premera 2006 contract is being amended to reflect these changes. The Plan Administrator will review these on a quarterly basis.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. Late Payments Will Result in Penalties.

- a. **Finding.** For the period January 1, 2005, through September 29, 2005, timely payments were not made to Premera in accordance with the contract. As a result, the Municipality may incur penalties totaling about \$8,000, due at the end of the contract period. The contract requires payments to be received by Premera within 48 hours of confirmation of receipt of the invoice; however, most of the electronic payments in 2005 were consistently one to nine days late.

- b. **Recommendation.** The Employee Relations Director should ensure that payments to Premera are made within the time prescribed by the contract to avoid any penalties. Payment should be made when the invoice is received and the invoice should be reconciled later. In addition, the Plan Administrator should consider revising the payment clause to allow more time to make payments. Another option could be to set up a Municipal draft account and provide check stock to Premera. Claims could be paid from this account by Premera utilizing Municipal check stock.

The Plan Administrator would periodically review the account to ensure adequate funding of the account to pay for claims, and be responsible for ensuring additional appropriations are deposited as necessary. Any interest accrued by this account would be promptly reinvested and considered property of the Municipality.

- c. **Management Comments.** Management stated, “The Employee Relations Department concurs with the findings of the MOA Internal Auditor. The Employee Relations Department now processes and enters into the Key Bank system the ACH, and also processes and enters the Journal Entries into the People Soft system. While the transition to a new bank in September 2005 along these procedural changes, initially brought delays in the ACH transactions, these changes will enable Employee Relations to ensure that payments are made in a timely manner thus avoiding penalties. Finance has been notified and is now aware of how critical it is to release the ACH funds on the day that they receive the ACH release notification from the Employee Relations Department. They are now working with Employee Relations Department to prioritize the release of the ACH funds without delay. Effective with the Premera 2006 contract the MOA has 72 hours to make a payment after phone notification is received from Premera.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on December 14, 2005.

Audit Staff:
Bill Miller