



MEMORANDUM

DATE: December 2, 2019

TO: Audit Committee of the School Board of the City of Virginia Beach

FROM: Terrie L. Pyeatt, CPA *TL*
Director, Office of Internal Audit

SUBJECT: **Consolidated Benefits Audit**

BACKGROUND

As part of the 2019 Audit Work Plan, the Office of Internal Audit (IA) has performed a Consolidated Benefits Audit.

The Office of Consolidated Benefits (CBO), within the Department of Budget and Finance, is responsible for ensuring Virginia Beach City Public School (VBCPS) and the City of Virginia Beach (City) employees are paying the correct rates for the health and dental benefits provided to them. VBCPS and the City are self-insured for health benefits and use an external insurance provider for dental benefits. This audit includes active employees and those in a leave status but excludes retired and COBRA participants.

Health benefits are managed by a third-party administrator, Optima Health. Participating employees pay health premiums while VBCPS and the City contribute between \$5,945 and \$15,576 annually for each employee, depending upon the plan and tier. There are approximately 7,900 VBCPS employees and 5,400 City employees enrolled in health benefits. Employees are also responsible for the employer share when they enter into some, but not all, unpaid leave statuses. There are three plan types and five tiers for health benefit plans. See the chart below for the health benefit premiums:

ACTIVE HEALTH PLAN PREMIUMS						
LEVEL OF COVERAGE	CITY EMPLOYEE PREMIUMS (26 pay periods annually)			SCHOOL EMPLOYEE PREMIUMS (20 pay periods annually)		
	POS PREMIER	POS STANDARD	POS BASIC	POS PREMIER	POS STANDARD	POS BASIC
Subscriber Only	\$48.69	\$21.60	\$3.66	\$63.29	\$28.08	\$4.75
Subscriber + 1 Child	\$102.70	\$58.82	\$29.76	\$133.51	\$76.47	\$38.69
Subscriber + Children	\$174.38	\$108.22	\$64.40	\$226.70	\$140.69	\$83.73
Subscriber + Spouse	\$224.97	\$161.82	\$119.99	\$292.46	\$210.36	\$155.98
Family	\$306.20	\$217.80	\$159.25	\$398.06	\$283.14	\$207.03

Dental insurance is provided through MetLife. Participating employees pay 100% of their premium with no employer contribution. There are approximately 7,300 VBCPS employees and 5,100 City employees enrolled in dental benefits. There are two plan types and five tiers for dental insurance plans. See the chart below for the dental benefit premiums:

DENTAL PLAN PREMIUMS				
LEVEL OF COVERAGE	CITY EMPLOYEE PREMIUMS (24 pay periods annually)		SCHOOL EMPLOYEE PREMIUMS (20 pay periods annually)	
	GOLD	SILVER	GOLD	SILVER
Subscriber Only	\$15.45	\$9.57	\$18.54	\$11.48
Subscriber + 1 Child	\$24.73	\$15.31	\$29.68	\$18.37
Subscriber + Children	\$32.47	\$20.10	\$38.96	\$24.11
Subscriber + Spouse	\$32.47	\$20.10	\$38.96	\$24.11
Family	\$49.45	\$30.61	\$59.34	\$36.74

Employee premiums for health and dental benefits are paid through payroll withholdings using benefit tables imbedded in the payroll systems. VBCPS employees pay health and dental premiums for 20 payroll cycles. City employees pay health premiums for 26 payroll cycles and dental premiums for 24 payroll cycles.

CBO uploads the plan and tier information for each employee into the payroll systems to determine the amount of withholdings, if any. Optima Health and MetLife obtain enrollment data, including plan and tier information, from CBO to determine who should receive benefits. The information from the payroll file should match the vendor enrollment data with the exception of timing issues that may occur when employee data is changed. CBO compares the plan and tier categories in the payroll systems to the vendor enrollment data on a monthly basis. Any discrepancies between the records are investigated by CBO then forwarded to the vendor for resolution, if applicable. CBO also manually tracks the premiums owed from each employee that enters into a nonpaid leave status. According to CBO, there are approximately 100 to 150 employees (combined VBCPS and City) on a leave of absence every month throughout the year.

AUDIT OBJECTIVES

This audit was performed to determine if employees' payroll withholdings for health and dental benefits match the coverage provided by the vendors.

AUDIT SCOPE AND METHODOLOGY

Inquiry and examination of documents and data were the methods of reviewing internal controls. IA reviewed the following records for this audit:

- Payroll withholdings for all VBCPS employees for pay period ended April 30, 2019
 - Approximately \$977,000 of health and dental premiums were withheld this pay period

- Payroll withholdings for all City employees for pay period ended April 19, 2019
 - Approximately \$554,000 of health and dental premiums were withheld this pay period
- Vendor enrollment data

IA performed the following testwork:

- Compared the benefit tables in the payroll systems for VBCPS and the City to the premium rates published by CBO. No exceptions were noted.
- Compared the plans and tiers for all VBCPS and City employees in the payroll systems to the vendor enrollment data. Exceptions are noted in Finding #1.
- Compared the deductions withheld for all VBCPS and City employees with the premium rates published by CBO. IA noted 78 employees with 108 variances in the amounts withheld for the selected pay period. IA investigated approximately 30% of the variances, all of which were due to timing differences. This indicates the benefit tables were operating effectively.

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.

CONCLUSION

The results of the audit were discussed with management. We thank management and staff of the Office of Consolidated Benefits for their cooperation throughout the audit. A summary of the audit results, audit recommendations, as well as responses from management, are included in this report. These recommendations are intended to further strengthen compliance with policies and procedures as well as to strengthen internal controls and offer process improvements.

In our opinion, the results of the audit indicate that substantially all employees' withholdings for health and dental benefits match the coverage provided by the vendor.

cc: Linda C. Matkins, Director, Office of Consolidated Benefits
Farrell E. Hanzaker, Chief Financial Officer

Finding No. 1: Benefits Received Do Not Match Premiums Paid

Not Paying Premiums but Receiving Benefits

Eleven VBCPS employees received health and/or dental benefits during the audit period but did not pay for these benefits. These employees have outstanding premium balances ranging from one month to several months. Employees should be paying for the benefits provided to them. These employees were on various types of unpaid leave, including Family Medical Leave Act (FMLA) and non-FMLA leave, during the audit period. Some of these employees retired or terminated their employment after their leave ended. Some returned to work and are still employed in a regular pay status.

CBO stated that, in general, benefits should be canceled after appropriate notice if coverage is not paid by check when an employee enters an unpaid non-FMLA status. Coverage for FMLA employees cannot be canceled. According to CBO, letters were sent to employees when they entered a leave status that directed the employees to pay by check when they enter an unpaid status. However, CBO did not effectively monitor to ensure payment was received, and therefore termination of coverage for nonpayment did not occur for non-FMLA employees. In addition, CBO stated that an executive leadership decision was made many years ago to not pursue amounts from employees who move from a leave status directly into retirement or termination. CBO also stated that managing benefits for employees on an unpaid leave of absence is strictly manual as there are system limitations for tracking.

Paying Premiums but Receiving Benefits at a Different Tier Level

Four VBCPS employees and one City employee received a higher tier of health coverage than the tier premium they were paying. One City employee received a lower tier of healthcare coverage than the tier premium they were paying. The employees were paying the correct premiums, but the vendor had incorrect enrollment data. Employees should be paying for the benefits provided to them. According to CBO, they found these discrepancies when they conducted their monthly reconciliation in the Spring of 2019 and sent them to Optima Health for resolution and continued to report the errors monthly. However, CBO staff did not escalate them to a CBO supervisor for resolution, and it wasn't until after IA brought these discrepancies to the attention of CBO in November that management became involved for correction. IA is unaware if unallowable healthcare claims were made on behalf of these employees during this period.

The two types of exceptions noted above are due to a lack of monitoring by CBO on these manual processes. Because VBCPS and the City are self-insured for health benefits, the dollar impact can grow in size quickly, especially when considering any healthcare claims paid on behalf of the employees that should have been canceled for nonpayment or should have been on a different plan or tier. The loss of premiums collected and payment of healthcare claims could result in higher premiums for other employees in subsequent years.

Recommendations:

We recommend that CBO more closely monitor employees going into, and returning from, unpaid leave statuses and those who are identified in their monthly reconciliation process to include the following:

- Cancel benefits after the appropriate notification procedures have been done for the eligible non-FMLA employees that are not paying their premiums;
- Collect any outstanding premium balances from retired and terminated employees; and
- Adequately resolve any discrepancies in the monthly reconciliation process.

We also recommend that CBO research the healthcare claims of the identified employees to ensure the correct claim amounts were paid.

Management's Response:

Management concurs. CBO needs to strengthen its monitoring process, but also acknowledges that the management of benefits for employees on an unpaid leave of absence is intensely manual and CBO has a deficiency in staffing resources. By March 2020, CBO will document the monitoring process in writing. The Benefits Executive Committee (BEC) will be consulted in the Spring of 2020 about whether they want CBO to pursue outstanding balances for employees that have subsequently retired or terminated. The BEC's decision will be documented in the written monitoring procedures. CBO will ensure that Optima Health performed retroactive adjudication on the employees within incorrect tiers to ensure no adverse effect on City/Schools.

Finding No. 2: Policies and Procedures Manual

CBO does not have a written policies and procedures manual in place related to ensuring the employees are paying for the same level of benefits that are being provided to them. A written policies and procedures manual is a common best practice to document controls and uniform methods to complete tasks on a daily basis. Without written processes it is difficult to provide consistent direction and guidance for personnel.

Recommendations:

We recommend that CBO document their internal policies and procedures as it relates to ensuring employees are paying for the same level of benefits that are being provided to them.

Management's Response:

Management concurs. CBO will formalize their existing procedures into written guidance by March 2020.