



# MIAMIBEACH

BUDGET AND PERFORMANCE IMPROVEMENT  
Internal Audit Division

## INTERNAL AUDIT REPORT

TO: Jorge M. Gonzalez, City Manager  
VIA: Kathie G. Brooks, Budget and Performance Improvement Director  
FROM: James J. Sutter, Internal Auditor

DATE: November 17, 2010  
AUDIT: City and Employee Funded Core Insurance Audit  
PERIOD: January 1, 2009 – June 30, 2010

This report is the result of a regularly scheduled audit to review the amounts charged, collected and paid by the City and employees in exchange for the health, dental and life insurance benefits received between January 1, 2009 and June 30, 2010 since the inception of the City's self-insurance plan for health and dental.

### INTRODUCTION

Chapter 78, Article II, Sections 78 through 81 of the City Code provide for employee health care coverage with the cost of such coverage shared between the employee and the City. In addition, the collective bargaining agreements of the American Federation of State, County and Municipal Employees (AFSCME), the Communication Workers of America (CWA), and the Government Supervisors Association (GSA) all require the City to provide group health and dental coverage to their members. Providing group health and dental coverage to employees helps enable the City to attract and maintain a quality workforce.

Currently, the City provides its active full time employees and retirees the opportunity to purchase group health (medical) and dental care coverage. Both the City and employee/retiree contribute to the costs of this coverage, at different rates, based on the plan elected by the participant. These group health plans exclude coverage for members of the Fraternal Order of Police (FOP) and the International Association of Fire Fighters (IAFF), as both have their own health trusts and do not participate in the City's group health insurance plans. Further more members of the IAFF do not participate in the City's Dental plan as it is covered by their own Trust. Members of the FOP do participate in the City's dental plan.

Retirees hired prior to March 18, 2006 share equally in the group health and dental cost with the City paying 50% and the retiree paying 50% of the cost of coverage. However, due to the changes in the City's pension system which became effective on March 18, 2006, those employees hired afterwards will instead be provided with a \$10 monthly stipend for each year of service toward their group health and dental costs as retirees with a maximum of \$250 per month..

In June 2008, the City Commission passed Resolution No. 2008-26818 to implement self-insured health and dental plans in accordance with Florida Statute Section 112.08, which means that the City would assume both the plan's risk and its reward based on the number and amount of claims received. A monthly administration fee is paid to the third party plan administrator (currently Humana Medical Plan of Florida, Inc. for health and Metropolitan Life Insurance Company for dental) providing the City with a provider network, claims adjudication and plan administration. The City is provided access to employee claim information (without any identifying employee information) to help customize plan benefit design and health and wellness events.

In addition, the incurred claims information can be utilized by the City's benefits consultant to make the annual actuarial determination of plan premium costs. Excess premium amounts are retained by the City and are used to build the plan's reserves which can be used when conversely incurred claims exceed the premiums paid.

Finally, the City selected Hartford Life and Accident Insurance Company based on their response to Request for Proposal No. 10-2589 to provide a basic group life and accidental death and dismemberment insurance plan for the City's non-public safety employees and retirees, and an employee funded (voluntary) supplement life insurance plan for all employees. Basic life and accidental death and dismemberment insurance provides each full time non-public safety employee life insurance coverage equal to their annual salary, rounded to the next highest thousand dollars, and one time their annual salary to a maximum benefit of \$20,000 in accidental death and dismemberment coverage. The cost of basic life and accidental death and dismemberment insurance is shared between the City and the employee with each paying 50% of the coverage.

## **OVERALL OPINION**

The City's implementation of self-insured health and dental plans appears to have been effective as cost savings have been realized with no noticeable material changes in benefits. Human Resources Department and/or Finance Department staffs conduct monthly medical audits to ensure that insurance deductions and benefits match, that tested employees' payroll deductions equal approved amounts, that timely wire transfers are made to the plan administrators and that the medical and dental plans funds are self-supportive. Despite these positive findings, the following shortcomings were noted during testing that are in need of improvement:

- The City's current fiscal year dental insurance claims have exceeded contributions by \$93,018 through June 30, 2010 as monies are transferred from the medical insurance fund to help cover this shortage. Overall, the combined medical and dental self-insured plan funds' total operating income equals \$2,304,536 as of July 30, 2010.
- Basic life insurance transactions are commingled in the City's Financial System thereby hindering subsequent analyses performed by the Human Resources Department.
- Dental plan audits were not performed timely by Human Resources Department personnel during the audit period thereby increasing the possibility that unwarranted differences would continue to exist.
- Departmental policies and procedures covering health, dental and life insurance processes do not entirely reflect current operations and are in need of revision.

## **PURPOSE**

The purpose of this audit was to determine whether active employee and retiree insurance premiums, and City contributions and payments were properly authorized, correctly collected, accurately recorded, and timely reconciled; whether tested operations were performed in compliance with the City Code and City Resolutions; and whether the third party administrators conformed to the tested terms and conditions of their signed agreements.

**OBJECTIVES**

1. Confirm that comprehensive policies and procedures exist, are known and are followed by staff.
2. Confirm that tested documentation is complete, well organized and sufficient, and that internal controls (segregation of duties, timely reconciliation of payroll deductions and City contributions with insurance company invoices, etc.) are adequate.
3. Confirm that tested employee and retiree insurance rates and allocations are in agreement with the relevant sections of the City Code and Resolutions.
4. Confirm that tested employee and retiree payroll deductions were correctly calculated based on the chosen coverage.
5. Confirm that tested City payments to the designated third party administrators are submitted timely.
6. Confirm that tested health, life and dental transactions are recorded accurately in the City's Financial System.
7. Confirm that selected key terms in the City's agreements with the designated third party administrators are complied with.

**FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

1. Finding: *Medical and Dental Insurance's Combined Operating Revenues Cumulatively Exceed Operating Expenses but Current Year Dental Insurance Premiums are Insufficient*  
 As of June 30, 2010, the Human Resources Department provided documentation stating that there were 1,050 active employees and 566 retirees participating in the City's group health insurance plans. The following figures were calculated based on entries into the City's Financial System as they separately show the operating income (loss) for medical and dental insurance since the inception of the City's self-insured plan on January 1, 2009 through June 30, 2010:

<b>MEDICAL INSURANCE</b>	01/01/09 – 09/30/09 (9 months)	10/01/09 – 06/30/10 (9 months)	Total
Retiree Drug Subsidy	\$143,415	\$0	\$143,415
Employee Contributions	\$5,386,660	\$5,008,543	\$10,395,203
City Contributions	\$7,269,787	\$6,513,735	\$13,783,521
Recoveries	\$65,319	\$460,918	\$526,237
Total Operating Revenues	\$12,865,181	\$11,983,196	\$24,848,376
Personnel Services	\$66,194	\$41,963	\$108,157
Administrative Fees	\$572,029	\$436,327	\$1,008,356
Bank Fees	\$11,859	\$13,284	\$25,143
Stop Loss Excess *	\$469,982	\$465,460	\$935,442
Capitation Fees **	\$113,712	\$119,339	\$233,052
Prescription Claims	\$2,515,462	\$2,313,962	\$4,829,423

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Paid Claims – Eye	\$0	\$48,229	\$48,229
Paid Claims – Medical - Humana	\$6,978,292	\$8,311,871	\$15,290,162
Total Operating Expenses	\$10,727,529	\$11,750,434	\$22,477,963
<b>Total Operating Income (Loss)</b>	<b>\$2,137,652</b>	<b>\$232,762</b>	<b>\$2,370,414</b>

\* The amounts in the stop loss excess row represent the reinsurance premiums that the City pays to a carrier to cover any employees' cost of care that exceeds a set annual amount as a means to help protect the plan's funding.

\*\* Capitation Fees is a payment method for health care services in which the physician, hospital or other health care provider is paid a contracted rate for each member assigned, regardless of the number or nature of services provided.

<b>DENTAL INSURANCE</b>	01/01/09 – 09/30/09 (9 months)	10/01/09 – 06/30/10 (9 months)	Total
Employee Contributions	\$303,119	\$303,898	\$607,017
City Contributions	\$281,135	\$297,849	\$578,984
Total Operating Revenues	\$584,253	\$601,747	\$1,186,001
Personnel Services	\$24,396	\$15,185	\$39,581
Administrative Fees	\$27,800	\$28,882	\$56,682
Bank Fees	\$3,465	\$2,254	\$5,719
Fully Insured – HMO	\$200,088	\$139,000	\$339,088
Paid Claims – Dental	\$301,365	\$509,444	\$810,809
Total Operating Expenses	\$557,114	\$694,765	\$1,251,879
<b>Total Operating Income (Loss)</b>	<b>\$27,139</b>	<b>(\$93,018)</b>	<b>(\$65,878)</b>

As shown above, the City's total combined medical and dental operating income equaled \$2,304,536 (\$2,370,414 minus \$65,878) for the January 1, 2009 through June 30, 2010 audit period. The medical insurance's operating income balance allows monies to be transferred to help offset the dental insurance's current \$93,018 shortage as the insurance premiums are set in advance and are not subject to change until the covered fiscal year expires.

Recommendation(s):

The City with the assistance of hired actuaries should continue to closely scrutinize the medical and dental annual operating income (loss) to ensure that the optimal amount of contributions are collected to offset any payouts and to increase the funds to desired levels.

Management Response:

The Human Resources Department was aware of the underfunding of the PPO dental plan. This underfunding was a result of a move to a new carrier providing enhanced benefits and an elimination of one dental plan effective January 1, 2010. As a result of the change in carrier and loss of a plan, the number of employees electing PPO coverage significantly increased. This increase in enrollment was significantly higher than the actuarial projection, resulting in the underfunding of the plan. The City is currently working with the actuary to determine an appropriate premium increase for the 2011 plan year which begins on January 1, 2011 to prevent underfunding the plan and to begin to build plan reserves.

2. Finding: Life Insurance Entries are Commingled in the City's Financial System Thereby Hindering Subsequent Analyses

The City's Financial System currently uses six different medical and four different dental general ledger accounts to report their corresponding transactions. However, there are only the following two accounts to record similar life insurance transactions: 601-7000-229326 (employee, retiree and City subsidy for employees) and 540-1791-000355 (City subsidy for retiree life). As a result, there are various entries commingled in these accounts making it difficult for Human Resources Department staff to subsequently conduct desired analyses.

Recommendation(s)

The Finance Department and Human Resources Department personnel should meet to discuss the optimum number of general ledger accounts for recording the processing and billing of life insurance transactions and to still provide the needed information for analyses.

Management Response:

The Human Resources Department is working with the Finance Department to determine the availability of additional general ledger accounts to address this issue.

3. Finding: Dental Insurance Benefit and Payroll Deduction Reconcilements are Not Done Timely

With the cooperation of the Humana Medical Plan of Florida, Inc. (Humana), the Human Resources Department routinely performs monthly audits of the City's medical insurance premiums collected versus the coverage provided. Any found differences are subsequently investigated until resolved.

However, similar audits were not conducted on the dental plan during 2009 as CompBenefits, the City's group dental plan administrator at that time, would not provide the City with the reporting necessary according to questioned Human Resources Department staff. Therefore, any existing differences could not be identified until a spreadsheet was provided at the beginning of 2010 showing all employees and retirees who were terminated as a result of a discrepancy throughout 2009. Human Resources Department staff investigated the nine found true differences and made the necessary corrections.

The City Commission's subsequent ratification of Resolution No. 2009-27137 approved an agreement with Metropolitan Life Insurance Company (MetLife) to administer the City's group dental plan for a three year period commencing on January 1, 2010. Despite being in an auditable format, Human Resources Department staff did not perform an analysis of employees' enrollment and their deductions until requested by Internal Audit in June 2010. Once completed, forty-one discrepancies were found which were corrected by the City's Human Resources Department. No other dental audits were performed by the department to date.

Recommendation(s)

The City's Human Resources Department in conjunction with MetLife should routinely perform dental audits with all found differences further investigated until resolved. These dental audits are a valuable internal control to help ensure that City employees' dental payroll deductions and benefits received are the same. Furthermore, they take on added importance after the conclusion of the annual open enrollment period due to the high number of insurance coverage changes and should be required to be done shortly

thereafter.

Management Response:

The Human Resources Department is currently working on internal audit policies for the MetLife Dental Plan.

4. Finding: *Departmental Policies and Procedures are in Need of Revision to Better Reflect Current Operations*

The Human Resources Department's policies and procedures have not been updated to cover such recent material operational changes as the City's conversion to self-insurance and are in need of revision.

Recommendation(s):

The Human Resources Department's operating policies and procedures should be updated to more descriptively outline operations. Policies and procedures serve both as a benchmark to measure individuals' performance and as an instruction manual in the event employees' change. Once completed, they should be distributed to all applicable personnel so that they can be read, understood and followed.

Management Response:

The Human Resources Department is currently working on updating the operating policies and procedures for all its group benefit plans.

## EXIT CONFERENCE

An exit conference was held on October 25, 2010 in OBPI's Conference Room. Participants included Human Resources Department Assistant Director Rafael Granado, Human Resources Administrator I Sue Radig, Human Resources Specialist Frank Estevez, Internal Auditor James Sutter and Senior Auditor Mark Coolidge. Audit findings and recommendations were discussed, as were management responses, which are included herein. All were in agreement with the contents of this audit report.

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(Audit performed by Mark Coolidge)

cc: Hilda Fernandez, Assistant City Manager  
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