

*Internal Audit Report*

**HOWARD COUNTY GOVERNMENT  
HOWARD COMMUNITY COLLEGE  
HOWARD COUNTY LIBRARY SYSTEM  
HEALTH BENEFITS AUDIT  
DECEMBER 2014**

*Office of the County Auditor*





## OFFICE OF THE COUNTY AUDITOR

Craig Glendenning, CPA  
County Auditor

December 2014

The Honorable Members of the County Council  
The Honorable Allan Kittleman, County Executive  
The Honorable Kathleen Hetherington, President, Howard Community College  
The Honorable Valerie Gross, President & CEO, Howard County Library System  
Howard County, Maryland

Pursuant to Section 212 of the Howard County Charter and Council Resolution 22-1985, we have conducted a review of health benefits provided to current and former employees and their dependents at Howard County Government, Howard Community College, and the Howard County Library System. The body of our report presents our findings and recommendations.

Our audit disclosed that required dependency documentation was not maintained for all beneficiaries. Our audit also disclosed several errors in calculating and deducting benefits. Our findings have been reviewed with the Chief Administrative Officer, and the Presidents of Howard Community College and the Howard County Library System, and we have included their responses at the end of the report. We wish to express our gratitude to the Department of County Administration, Howard Community College, and the Howard County Library System for the cooperation and assistance extended to us during the course of this engagement.

Craig Glendenning, CPA  
County Auditor

## **EXECUTIVE SUMMARY**

We conducted a performance audit of the health and dental benefits (generally referred to as health care benefits) provided to current and former County employees, retirees, and their dependents. The audit included participants at Howard County Government (HCGov), Howard Community College (HCC), and the Howard County Library System (Library). The objectives of our audit were to:

1. Determine whether internal controls are in place to ensure that only eligible current and former employees, retirees, and their dependents are enrolled in the health and dental benefit plans.
2. Review and assess the accuracy and propriety of health and dental care benefits and deductions provided to eligible participants.

### **Conclusions**

For our first objective, we found that policies have been established that require documentation of dependent status for spouses and children (such as marriage and birth certificates). However, as a result of our testwork we determined the following:

- HCGov, HCC, and the Library did not maintain all of the required dependency documentation on file.
- HCGov, HCC, and the Library have not performed reviews to ensure that documentation is on file for all employee dependents.
- HCGov has accepted uncertified copies of tax returns as evidence to support dependent eligibility.
- HCGov, HCC, and the Library have not implemented procedures to ensure the accuracy of health benefit information entered into its automated health benefit systems.
- We found several errors in calculating and deducting benefits.
- HCC did not always terminate COBRA benefits by the required end date.

With regards to our second objective, we noted that the County provided payments to certain employees for waiving health benefit coverage even when the employees' spouses received health benefit coverage through the County.

We also noted that HCGov, HCC, and the Library have successfully implemented procedures for removing child dependents when they reach the age of 26, and requiring retirees who turn 65 to obtain Medicare as their primary health insurance coverage.

## BACKGROUND

The County self-insures for health benefits and related costs. Contribution rates are based on historical costs and actuarial assumptions. Employees may enroll in medical and dental plans annually and can make changes during the year based on certain qualifying events (such as the birth of a child). As of September 30, 2013, the County provided health care benefits to approximately 7,700 employees, retirees and dependents (see Table 1 below). According to the County's accounting records, employee health and dental benefits claims totaled \$33.2 million in fiscal year 2014.

<b>Table 1 Persons Receiving Medical Insurance As of September 30, 2013</b>				
	<b>Employees / Retirees</b>	<b>Spouse/Domestic Partner</b>	<b>Children</b>	<b>Total</b>
Howard County Government (HCGov)	2,832	1,345	2,011	6,188
Howard Community College (HCC)	544	273	332	1,149
Howard County Library System (Library)	204	82	91	377
<b>Total</b>	<b>3,580</b>	<b>1,700</b>	<b>2,434</b>	<b>7,714</b>

Source: Automated Health Benefits System Reports as of September 30, 2013

## FINDINGS AND RECOMMENDATIONS

### Objective 1 – Internal Controls

**Finding 1**  
**HCGov, HCC, and the Library did not always maintain documentation to support dependent eligibility.**

We found that employee files did not always contain documentation such as marriage certificates and birth certificates that provide evidence to validate dependent eligibility. Our test of 164 dependents found that the required documentation was not on file for 22 (13%) dependents (see Table 2 below).

NOTE: The dependents selected for testing were added to employee health care coverage subsequent to the adoption of policies by HCGov, HCC, and the Library requiring submission of specific documentation as proof of dependent status (see Finding 2).

**Table 2  
Test of Documentation Supporting Dependent Status**

	Total Dependents Tested	Dependents Without Documentation	% of Dependents Without Documentation
HCGov	109	9	8%
HCC	38	5	13%
Library	17	8	47%
<b>Total</b>	<b>164</b>	<b>22</b>	<b>13%</b>

Note: HCGov includes employees of the Howard County Economic Development Authority whose health benefits information is maintained by HCGov.

*We recommend that HCGov, HCC, and the Library ensure that appropriate documentation is maintained for all qualified dependents added when new employees are hired, and for those dependents added during the year or at open enrollment for current employees.*

**Finding 2**

**HCGov, HCC, and the Library have not performed a comprehensive review of dependent eligibility status.**

Although HCGov, HCC, and the Library have adopted policies over the last several years requiring documentation to support dependent eligibility, they have not ensured that dependents enrolled in the health plans prior to policy adoption were properly supported by appropriate documents. HCGov and the Library adopted policies in March 2011 and HCC required documentation starting in 2010 for all dependents enrolled in the health plans subsequent to these dates.

NOTE: In response to the need to control health care costs, the Howard County Public School System (HCPSS) contracted in 2009 for an audit to validate dependent eligibility for all health plan enrollees. HCPSS estimated that it would save \$4 million in health care costs as a result of the audit.

*We recommend that HCGov, HCC, and the Library verify the eligibility of all enrolled health care program participants and their listed dependents. In addition, we recommend that they consider contracting with an outside vendor to perform this process.*

**Finding 3****HCGov accepted copies of tax returns as documentation to support dependent eligibility.**

HCGov policy allows the use of a copy of the first page of an employee's tax return showing the name of dependents as evidence of proof of dependent relationship. In our testing of documentation of dependent eligibility, we found that HCGov accepted copies of tax returns as sufficient proof for 8 out of 37 spouse dependents and 16 out of 72 child dependents tested in Finding 1 above. HCC, the Library, the Howard County Public School System, and other jurisdictions (such as the State of Maryland) do not accept copies of tax returns. Other jurisdictions allow the use of a tax return if it is certified as received by the Internal Revenue Service.

*We recommend that HCGov modify its existing policy and, at a minimum, require employees to submit evidence that a tax return was submitted to and accepted by the Internal Revenue Service to substantiate employee dependents.*

**Finding 4****Information entered into the automated health benefits system and related payroll deductions were not consistently verified by an independent employee.**

We found that HCGov, HCC, and the Library did not have a process in place to consistently ensure that information entered into the automated health benefits system and related payroll deductions was accurate. We found four instances (out of 110 tested) where either the information entered into the automated health benefits system or the related payroll deduction was inaccurate. Although the financial impact of these errors was not significant, it is critical that all health care data be accurate to ensure proper payment of related benefits. Human Resources employees are responsible for entering information related to qualifying events (such as marriages or births) that occur during the year.

*We recommend that HCGov, HCC, and the Library implement procedures to independently ensure that information entered into the automated health benefits system and related payroll deductions are accurate.*

**Finding 5****HCC did not always properly terminate COBRA benefits.**

Our test of employees receiving benefits under Federal COBRA provisions found that HCC did not always terminate health benefit coverage by the required end date. Our test of the nine HCC

COBRA participants included in the automated health benefits system as of September 30, 2013 disclosed that two of the participants should have been terminated prior to this date. HCC subsequently terminated the active status of both participants. We could not readily determine if any claims were paid on these participants' behalf between the dates when they should have been terminated and when they were actually terminated as the County does not receive claims data on an individual claimant basis. Our test of participants at HCGov and the Library did not disclose any similar errors. In addition, all persons tested paid the appropriate rate, including the required administrative fee.

*We recommend that HCC maintain accurate records of COBRA participant termination dates and appropriately terminate participants.*

## **Objective 2 – Accuracy and Propriety of Health Care Benefits**

### **Finding 6**

**HCGov, HCC, and the Library paid employees for waiving health benefits when the employees' spouses received health insurance through the County.**

County policy provides a monthly credit to employees who waive health insurance coverage when the employee is covered elsewhere (such as through a spouse's health care coverage). We found that the County provided this credit to employees even when the spouse received health insurance benefits from the County. According to information obtained from the automated health benefits system, HCGov, HCC, and the Library provided this credit to 60 employees at an annual cost of \$67,000. Subsequent to our audit field work, HCGov negotiated new contracts with three unions which will discontinue these medical opt out payments for members of these unions effective in fiscal year 2016.

*We recommend that HCGov, HCC, and the Library discontinue the practice of awarding medical opt out payments to employees who waive medical coverage if they are enrolled as a dependent under another County employee.*

### **Additional Findings**

We commend HCGov, HCC, and the Library for implementing procedures to ensure that they properly process certain health benefit transactions as detailed below:

- When dependent children reach age 26, federal law requires that they be removed from health coverage unless they are allowed to continue due to qualifying disability. We reviewed the employee files and the automated health benefits system for all dependents who reached age 26 during 2013 through September 30, 2013 and found that HCGov,

HCC, and the Library removed all child dependents that turned 26 or obtained proper documents to support continued coverage.

- Federal law requires that retirees who reach age 65 obtain Medicare as their primary health insurance coverage. These retirees are allowed to retain additional health coverage through the County. Our test of all retirees and their spouses who reached age 65 during 2013 as of September 30, 2013 found that, in all cases, HCGov, HCC, and the Library properly notified the retirees of Medicare requirements and options and properly updated the automated health benefits system for the decisions made by the retirees to retain or cancel their insurance.



## **AUDIT SCOPE, OBJECTIVES AND METHODOLOGY**

We conducted a performance audit of enrollment in the health and dental benefit plans provided to active, inactive, and retired employees and their dependents. We included participants from Howard County Government (HCGov), Howard Community College (HCC), and the Howard County Library System (Library) in our audit. We reviewed enrollment in health and dental benefit plans as of September 30, 2013.

We conducted our audit in accordance with generally accepted government auditing standards prescribed by the Comptroller General of the United States. Those standards require us to 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 we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of our audit were to:

1. Determine whether established internal controls are in place to ensure that only eligible current and former employees, retirees, and their dependents are enrolled in the health and dental benefit plans.
2. Review and assess the accuracy and propriety of health and dental care benefits and deductions provided to eligible participants.

To accomplish our objectives, we met with personnel at the County's Office of Human Resources, and appropriate personnel at HCC and the Library to document the internal controls and procedures over enrollment in health benefit plans and processing the related data. We also tested compliance with established internal controls and procedures by reviewing enrollment records, payroll reports and supporting documentation. We also reviewed data from the County's automated health benefits system. We performed various tests of the relevant data and determined that it was sufficiently reliable for the purposes the data was used for during the audit.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

We conducted our field work from October 2013 to February 2014. HCGov, HCC, and the Library's responses to our findings and recommendation are included in this report.

**HEALTH BENEFITS AUDIT REPORT**  
**Howard County Government**  
**Administration's Responses**

**Finding 1**

***Recommendation***

*We recommend that HCGov, HCC, and the Library ensure that appropriate documentation is maintained for all qualified dependents added when new employees are hired, and for those dependents added during the year or at open enrollment for current employees.*

**Administration's Response**

The Administration concurs with this recommendation. Documentation to validate and support dependent eligibility will be maintained for all qualified dependents.

**Finding 2**

***Recommendation***

*We recommend that HCGov, HCC, and the Library verify the eligibility of all enrolled health care program participants and their listed dependents. In addition, we recommend that they consider contracting with an outside vendor to perform this process.*

**Administration's Response**

The Administration concurs with this recommendation. Howard County will conduct a comprehensive review of dependents eligibility status to ensure all dependents that are enrolled in the health plan have the required documentation to support dependent eligibility.

**Finding 3**

***Recommendation***

*We recommend that HCGov modify its existing policy and, at a minimum, require employees to submit evidence that a tax return was submitted to and accepted by the Internal Revenue Service to substantiate employee dependents.*

**Administration's Response**

The Administration concurs with this recommendation. Employees who do not have other documentation to validate and support dependent eligibility status will be able to submit a tax return that has been submitted to and accepted by the Internal Revenue Service to substantiate employee dependents.

#### **Finding 4**

##### ***Recommendation***

*We recommend that HCGov, HCC, and the Library implement procedures to independently ensure that information entered into the automated health benefits system and related payroll deductions are accurate.*

##### **Administration's Response**

The Administration concurs with this recommendation. The current procedures for checking and cross-checking data entries will continue to be performed and verified by the benefits chief and the benefits assistant who cross-check data entries for each other.

#### **Finding 6**

##### ***Recommendation***

*We recommend that HCGov, HCC, and the Library discontinue the practice of awarding medical opt out payments to employees who waive medical coverage if they are enrolled as a dependent under another County employee.*

##### **Administration's Response**

The Administration concurs with this recommendation. However, the Unions have asked to discuss this change during the upcoming negotiations. The County believes it is within management's rights to implement this change, but will honor each Union's request to discuss this change at the negotiation table. Howard County will discontinue the practice of awarding medical opt out payments to employees who waive medical coverage if they are enrolled as a dependent under another County employee no later than January 1, 2016.

**HEALTH BENEFITS AUDIT REPORT**  
**Howard Community College**  
**Management Responses**

**Finding 1**

***Recommendation***

*We recommend that HCGov, HCC, and the Library ensure that appropriate documentation is maintained for all qualified dependents added when new employees are hired, and for those dependents added during the year or at open enrollment for current employees.*

**Howard Community College Response**

Currently dependent documentation is requested from new hires and existing employees with a life status change. It has typically been more difficult to obtain documentation for newborns that do not have birth certificates immediately and must be followed up with after the initial notice to add to insurance. HCC will comply with this recommendation to ensure documentation is received for all qualified dependents by maintaining a checklist of steps in the process when making benefit changes including dependent documentation. Other strategies may be researched after discussion with HCGov and the Library.

**Finding 2**

***Recommendation***

*We recommend that HCGov, HCC, and the Library verify the eligibility of all enrolled health care program participants and their listed dependents. In addition, we recommend that they consider contracting with an outside vendor to perform this process.*

**Howard Community College Response**

HCC began asking for documentation for dependents for new employees and those making benefit changes effective January 1, 2010. This is a current practice in place for new employees and those making changes throughout the year, including open enrollment. HCC will explore the feasibility of conducting a full eligibility audit in conjunction with HCGov and the Library. We will also need to explore the parameters and costs for contracting with an outside vendor to conduct this process.

**Finding 4**

***Recommendation***

*We recommend that HCGov, HCC, and the Library implement procedures to independently ensure that information entered into the automated health benefits system and related payroll deductions are accurate.*

### **Howard Community College Response**

HCC maintains an automated health benefits system with Benelogic and payroll deductions are processed through Ellucian Colleague. This process requires new employees to enter data in the Benelogic system and Human Resources to enter data in Colleague. For existing employee changes, Human Resources enters data into both systems. HCC created a checklist in September 2014 due to the volume of activity to ensure all steps of the process are met. HCC will continue to use this method while researching other possible methods such as a file transmission between the two systems.

### **Finding 5**

#### ***Recommendation***

*We recommend that HCC maintain accurate records of COBRA participant termination dates and appropriately terminate participants.*

### **Howard Community College Response**

The data for COBRA participants is maintained in two places: the automated benefits system, Benelogic, and on a manual spreadsheet. The Benelogic system recently enabled technology to allow custom reporting. HCC is utilizing this technology to run a report showing the active enrolled COBRA participant information. HCC has scheduled this report to run and uses the data to balance the COBRA participant activity each month. HCC will explore methods to monitor the accurate termination date as there is no space to enter this information in Benelogic.

### **Finding 6**

#### ***Recommendation***

*We recommend that HCGov, HCC, and the Library discontinue the practice of awarding medical opt out payments to employees who waive medical coverage if they are enrolled as a dependent under another County employee.*

### **Howard Community College Response**

HCC normally follows the practices of HCGov on our management of medical and dental benefits and opt out payments. HCC will consult with HCGov on this recommendation and consider adoption of any changes the HCGov makes to their plans.

**HEALTH BENEFITS AUDIT REPORT**  
**Howard County Library System (HCLS)**  
**Management Responses**

**Finding 1**

***Recommendation***

*We recommend that HCGov, HCC, and HCLS ensure that appropriate documentation is maintained for all qualified dependents added when new employees are hired, and for those dependents added during the year or at open enrollment for current employees.*

**HCLS Response**

We request dependent documentation for all new hires and all existing employees who add dependents as a result of a qualifying event or life status change. HCLS will continue to follow this recommendation to ensure documentation is received for all qualified dependents.

**Finding 2**

***Recommendation***

*We recommend that HCGov, HCC, and the HCLS verify the eligibility of all enrolled health care program participants and their listed dependents. In addition, we recommend that they consider contracting with an outside vendor to perform this process.*

**HCLS Response**

HCLS began asking for documentation for dependents for new employees and existing employees making benefit changes effective January 1, 2010. This process is in place for all new employees and for those making changes throughout the year. This includes open enrollment. HCLS will explore the feasibility of contracting with an outside vendor to perform this process.

**Finding 4**

***Recommendation***

*We recommend that HCGov, HCC, and HCLS implement procedures to independently ensure that information entered into the automated health benefits system and related payroll deductions are accurate.*

**HCLS Response**

HCLS was informed all of our information audited was input correctly. We will continue the procedures currently in place.

**Finding 6**

***Recommendation***

*We recommend that HCGov, HCC, and HCLS discontinue the practice of awarding medical opt out payments to employees who waive medical coverage if they are enrolled as a dependent under another County employee.*

**HCLS Response**

HCLS plans to implement this recommendation.

**AUDIT TEAM**

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