

Office of the Internal Auditor

AUDIT REPORT

June 2022

Self-Funded Benefit Plan



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Background

Citizens moved from a fully insured health insurance plan to a self-insured plan beginning January 1, 2017. A self-funded group medical plan is one in which the employer assumes the financial risk for providing health care benefits to its employees. More specifically, self-insured employers pay incurred claims instead of paying a fixed premium to an insurance carrier, which is known as a fully insured plan. The transition from fully insured to self-funded was initiated based on advice and input from employee benefit consultants and approved by the Board of Governors in 2016. A self-funded medical plan is just one component of the overall strategy to provide comprehensive health care benefits with an emphasis on wellness at the best possible value for Citizens and employees.

In a self-funded arrangement, an organization funds the employee insurance benefit plans and hires a third party to perform specific administrative services. Citizens is responsible for the financial risk and obligation to pay enrolled participants covered medical and prescription claims. Stop-loss insurance coverage is purchased to provide protection and reimbursement in the event losses incurred for catastrophic or large claims exceed contractually specified levels.

Objectives and Scope

The objective of the audit is to evaluate the adequacy and effectiveness of controls in place to manage the self-insured health plan. The scope includes a review of the following areas:

- Compliance with regulatory requirements
- Security of health-related data
- Quarterly reserve calculations and related journal entries
- Stop-loss claims reimbursement
- Member eligibility

In addition, Internal Audit will assess vendor performance and the alignment of self-funded health care strategy with corporate objectives.

Brief Program Overview

Currently, Blue Cross Blue Shield of Florida is the contracted provider of administrative services, which include enrolling eligible individuals in the health plan, supplying identification cards, providing benefit plan descriptions, and processing claims. Mercer, a health and benefits brokerage, and consulting firm, advises Citizens in matters related to group insurance and employee benefits as well as performing periodic reviews of benefits and claim performance designed to identify improvement opportunities. Additionally, Mercer performs actuarial services to support the recording and monitoring of Citizens' financial obligations related to the plan, including projected claim costs, monetary reserves, and calculating loss ratios.

Mercer, in coordination with Human Resources Management and a cross-functional workgroup, developed a five-year benefits strategic plan, which was reviewed and approved by the Executive Leadership Team (ELT). The objective of the five-year plan was to incorporate consumerism, maintain healthy physical, emotional, and financial wellbeing, and manage dollars for employees and Citizens. While the transition from fully insured to self-funded was a major component to this strategy,



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other changes were considered including plan design, employee contributions, health management, and vendor management. In 2018, a consumer-driven health plan (CDHP) was created, which allowed Citizens to offer a more affordable health benefits option to employees. Then in 2020, in alignment with Citizens' strategic plan to provide comprehensive health care benefits for employees, Citizens discontinued offering the Capital Health Plan, a health maintenance organization (HMO) plan. The Capital Health Plan was a fully insured health plan available only to Tallahassee-based employees, which did not provide flexible plan design options. These changes align with the overall goal to provide quality medical benefits at an affordable cost for employees and Citizens.

Historically, approximately 93% of employees enroll in one of the medical plans. Citizens currently offer employees three medical plans, each with the same network coverage, through Florida Blue: Exclusive Provider Organization (EPO), Preferred Provider Organization (PPO), and High Deductible Health Plan (HDHP). All three plans include prescription drug coverage.

In 2016, the final year of the fully insured plan, Citizens incurred approximately \$14.7 million in health care premiums and expenses. Upon transition from fully insured to self-insured, Citizens immediately recognized an annual cost savings of approximately \$2.6 million, which was a result of eliminating administrative expense associated with a fully funded plan. Over the past five years, Human Resources Management has been able to maintain annual cost savings through the organization's healthcare strategy, while contending with rising health care costs and the increase in employees. For 2021, total medical plan expenses were approximately \$13.5 million, and Internal Audit estimates that for 2022 Citizens will incur approximately \$13.3 million in medical plan expenses. This is approximately 8% and 9% less, respectively, than in 2016, the final year of the fully insured plan.

Additionally, the contract with Blue Cross Blue Shield of Florida ends on December 31, 2022. Therefore, management has initiated the procurement process and recently issued an Invitation to Negotiate (ITN No. 21-0022), which seeks to identify and engage one or more vendors to provide a medical plan and prescription drug coverage administrative services. Currently, management is in the negotiation phase and has a public award meeting scheduled for June 1, 2022.

Results

Results from the audit work indicate that there are effective business processes and controls in place to ensure adequate management of the Citizens' self-insured health care benefits plan. Internal Audit performed various testing to ensure the controls over the following process are in place and working as intended. Specifically, Internal Audit found that:

- Human Resources has identified compliance champions, who act as liaisons between HR and Compliance. The compliance champions seek clarification from corporate legal in all legal compliance matters. Additionally, HR management stays current with compliance reporting and any changes through consultation with Mercer.
- Transmission of data between Citizens and Blue Cross Blue Shield is adequately secured.
- Accounting provides adequate support for the self-insured health benefits plan and records the quarterly liability reserve calculations as determined by Mercer's actuarial estimate to maintain adequate reserves to pay claims.



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- Stop-loss coverage plan benefits are in place and validated Citizens was appropriately reimbursed for claims greater than \$200,000.
- Human Resources obtains adequate support to validate only eligible individuals are added to the health plan, and credits are received for terminated employees and/or dependents.

Furthermore, Internal Audit validated the self-funded health care strategy aligns with corporate objectives. The alignment is accomplished through an annual process where group health plan benefits are reviewed and analyzed, in consultation with Mercer, by a cross-functional workgroup. Mercer provides consulting services, including guidance and analysis, to Citizens on the plan design and proposed changes. In addition to plan performance, historical review, enrollment summary, and proposed changes with potential financial impact for the next benefit year, Mercer also provides detailed benchmarking data comparing costs to both the insurance industry and government industry. The workgroup then considers the information with related recommendations and prepares a draft plan that is shared with the Executive Leadership Team (ELT) for feedback and approval. The annual process has maintained strategic alignment year after year.

During the audit, we noted one minor observation, relating to vendor systems and organization controls (SOC) reports. SOC reports for key vendors should be obtained and reviewed annually. This observation was shared with management, and process enhancements are underway.

We would like to thank management and staff for their cooperation and professional courtesy throughout the audit.



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The Honorable Ashley Moody, Attorney General
The Honorable Nikki Fried, Commissioner of Agriculture
The Honorable Wilton Simpson, President of the Senate
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