

## Office of the Internal Auditor



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# AUDIT REPORT

## Self-Insured Health Plan

March 27, 2018

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# Executive Summary

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## Background

Effective January 2017, Citizens transitioned from a fully insured medical and prescription plan to a self-insured plan. The self-insured health care funding arrangement provides certain financial and strategic advantages, such as containing future health care cost increases for both Citizens and employees as well as the potential to reduce administrative costs. The estimated annual savings of the self-insured plan compared to a fully insured plan is \$2.2 million.

In a self-insured arrangement, an organization funds their employee insurance health plan and hires an external 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 was purchased to provide protection and reimbursement in the event losses incurred for catastrophic or large claims exceed contractually specified levels. Florida Blue provides administrative services including enrolling eligible individuals in the health plan, supplying identification cards, providing benefit plan descriptions, and processing claims. Mercer, a benefit consulting firm, advises Citizens in matters related to group insurance and employee benefits as well as performing periodic reviews of benefit and claim performance designed to identify improvement opportunities. Mercer also performs actuarial services to support the recording and monitoring of Citizens' financial obligations related to the plan including projecting claim costs, estimating reserves, and calculating loss ratios.

## Audit Objectives and Scope

The objective of this audit was to evaluate the adequacy and effectiveness of controls in place related to managing the self-insured health plan revenue and expenditures. The scope of the audit included an assessment of controls and compliance with regulatory requirements for the following areas:

- Reasonableness of process to estimate reserves
- Accuracy and timeliness of recording expenses
- Invoice reconciliation
- Member eligibility processes including timeliness of additions, changes, and terminations
- Security of data exchanged to and from Florida Blue

## Audit Opinion

The overall effectiveness of the controls evaluated during the audit of the self-insured health plan is rated as **Satisfactory**. The self-insured health plan is adequately managed with effective internal and external controls over financial accounting, reserving, member eligibility, and reconciliation of invoices.

Many key controls to manage the inherent risk of the self-insured plan are dependent on a third party vendor. As the self-insured plan continues to mature, management is encouraged to consider the following OIA suggestions to strengthen the efficiency and effectiveness of vendor monitoring controls and employee education to further mitigate risks:

- During the review, OIA noted key controls in Mercer's processes that Citizens relies on to effectively manage the self-insured health plan. To ensure the ongoing effectiveness of Mercer's controls, Human Resource management should obtain and review the annual Service Organization's Control 1 (SOC) Type 2 reports issued by an independent CPA firm.

## Executive Summary

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- In the event the benefit consulting contract is re-solicited, OIA collaborated with Human Resource management to proactively document key controls for consideration in future vendor selection.
- Ensure claims utilization analysis is performed periodically by Mercer. An in-depth analysis of claims utilization is scheduled to begin in March pending the receipt of a full year of claims experience. Claims analysis may identify potential opportunities to reduce costs by revealing trends of any excessive claims amounts. The results of the analysis may be useful in decision making for benefit plan changes, limitations, and targeted educational efforts related to preventative health measures.
- Claim details provided to Citizens are limited in order to protect patient identifiable health information. While necessary for safeguarding information, the restricted information limits the tracking that can be performed to identify claims overpayments and to ensure stop loss credits are received. As the plan continues to evolve, management should consider engaging Mercer to perform claims audits of Florida Blue when cost effective. The purpose of the audit is to identify claims overpayments and claims that exceeded the stop loss thresholds to ensure any credits were returned to the plan timely. In addition, the SOC 1 Type 2 reports for Florida Blue claims processing system should be obtained and reviewed annually. Internal control weaknesses noted in the SOC report impacting the administration of the self-funded plan should be monitored with the vendor and addressed.
- Effective January 2018, changes were made to both the claims and prescription platforms. The changes were thoroughly analyzed by an independent consulting firm prior to implementation to ensure minimal disruption to plan participants. Employees were made aware of the changes through various communication methods. Human Resources is encouraged to continue efforts to strengthen employee education regarding any future health and prescription plan benefit changes as well as promoting any educational resources available to employees such as cost comparison tools for medical procedures and prescriptions.

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

# Appendix 1

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## Definitions

### Audit Ratings

#### Satisfactory:

The control environment is considered appropriate and maintaining risks within acceptable parameters. There may be no or very few minor issues, but their number and severity relative to the size and scope of the operation, entity, or process audited indicate minimal concern.

#### Needs Minor Improvement:

The number and severity of issues relative to the size and scope of the operation, entity, or process being audited indicate some minor areas of weakness in the control environment that need to be addressed. Once the identified weaknesses are addressed, the control environment will be considered satisfactory.

#### Needs Improvement:

The audit raises questions regarding the appropriateness of the control environment and its ability to maintain risks within acceptable parameters. The control environment will require meaningful enhancement before it can be considered as fully satisfactory. The number and severity of issues relative to the size and scope of the operation, entity, or process being audited indicate some noteworthy areas of weakness.

#### Unsatisfactory:

The control environment is not considered appropriate, or the management of risks reviewed falls outside acceptable parameters, or both. The number and severity of issues relative to the size and scope of the operation, entity, or process being audited indicate pervasive, systemic, or individually serious weaknesses.

## Appendix 2

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### Distribution

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The External Auditor

### Audit Performed By

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*Under the Direction of Joe Martins  
Chief of Internal Audit*

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