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Office of the County Auditor

Shelly A. Banks, C.P.A.

Cook County Auditor

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April 9, 2015

The Honorable Toni Preckwinkle, President
And Board of Cook County Commissioners
118 N. Clark Street, Room 537
Chicago, Illinois 60602

Dear President Preckwinkle and Board of Commissioners:

We have conducted an audit of the Employer-Sponsored Dental Insurance Benefits Contract administered by First Commonwealth, Inc. a wholly owned subsidiary of The Guardian Life Insurance Company. We conducted our examination in accordance with Government Auditing Standards where applicable as prescribed by the [Cook County Auditor Ordinance](#).

Our objectives for this examination were designed to evaluate compliance with certain terms of the contract signed with The Guardian Life Insurance Company. The scope of our work consisted of gathering, reviewing and testing applicable and adequate supporting documentation to reach a conclusion on our objectives.

Please refer to the following audit report for the results of the audit. The audit report contains three audit findings. The [Executive Summary](#) provides an overview of the audit with the main finding areas.

We express our appreciation for the assistance the Department of Risk Management extended to Ms. Afaf Qayyum during the course of our audit. We have discussed our findings with the Department of Risk Management staff and would be pleased to discuss our recommendations in greater detail in order to assist the Department of Risk Management with their implementation of our recommendations.

Respectfully Submitted,

Shelly A. Banks, CPA
Cook County Auditor

cc: Deanna Zalas, Director Risk Management
Ivan Samstein, Chief Financial Officer
Ammar Rizki, Deputy Chief Financial Officer



COOK COUNTY GOVERNMENT
OFFICE OF THE COUNTY AUDITOR

Employer-Sponsored Dental Insurance Benefits Contract

Internal Audit Report

Report Date: April 2015

Issued By:
Shelly A. Banks, County Auditor

Audit Conducted By:
Afaf Qayyum, Field Auditor IV
Nancy Campanella, Audit Supervisor

EXECUTIVE SUMMARY

We examined the records of the Employer-Sponsored Dental Insurance Benefits Contract as managed by First Commonwealth, Inc. a wholly owned subsidiary of The Guardian Life Insurance Company of America for the contract period ending November 30, 2014.

The scope and objectives of the Employer-Sponsored Dental Insurance Benefits Contract audit were designed to determine the quality of reports submitted to the County pertaining to the performance guarantees outlined in the contract and evaluate the policies and procedures of eligibility and claims processing.

We noted the following findings in regards to the internal control structure:

- Risk Management does not have a comprehensive system of controls in place in regards to verifying dependent eligibility.
- The Contractor did not comply with the reporting requirements and contract clauses as specified in the performance guarantee metrics section of the contract
- Deficiencies were noted in regards to the processing of claims and eligibility.

The findings noted were presented to the Department of Risk Management. Please refer to the [Findings](#) section for more detail with the management responses, corrective action plans, and estimated completion dates.

BACKGROUND

The Department of Risk Management (“Risk Management”) entered into a contract with First Commonwealth, Inc. a wholly owned subsidiary of The Guardian Life Insurance Company of America (“Contractor”) to provide Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) dental benefits to approximately 20,992 Cook County employees and their dependents.

The Cook County Board of Commissioners approved contract #11-87-011B on January 18, 2012, for the two year period ending November 30, 2013, with two one-year renewal options. The first renewal option was approved on December 3, 2013, extending the contract through November 30, 2014. The second and final renewal option was approved on November 19, 2014, extending the contract through November 30, 2015.

For FY 2013, approximately 11,962 employees were enrolled in the fully insured HMO plan at a cost of \$3,553,241.41, whereas approximately 9,030 employees were enrolled in the self-funded PPO plan at a cost of \$5,873,692.77. Both dental plans are provided at no cost to employees who may also choose to opt out of dental insurance. All new union employees must enroll in the HMO plan for at least one year.

The responsibilities of the Contractor related to providing dental insurance benefits include: submitting invoices to the County on a monthly basis, processing claims, preparing materials for County employees, securing updated eligibility files received from Risk Management, maintaining an online portal for both Risk Management and employees, providing customer support including a dedicated account manager, and preparing quarterly and annual reports including data analytics for submission to Risk Management to review the efficacy of the benefit administration.

Risk Management is responsible for verifying dependent eligibility, transmitting the electronic file to the Contractor, paying for premiums, claims and administrative services, and resolving any exceptions or conflicts.

In addition, Risk Management is responsible for reviewing quarterly and annual reports to monitor the cost and administration of dental insurance benefits.

During 2011, Risk Management granted an amnesty period to allow County employees to remove ineligible dependents. According to Risk Management, this initiative led to the removal of hundreds of ineligible dependents due to disqualifying events occurring after initial enrollment. The previous amnesty period was performed in 2007 and led to a similar result.

AUDIT SCOPE AND OBJECTIVES

Our audit was designed to determine if the Contractor adhered to the obligations as specified in the contract including verifying the accurate and timely processing of claims and determining if the deliverables specified in the contract were fulfilled. The scope of our work consisted of reviewing the policies and procedures of the Contractor and Risk Management, as well as reviewing Contractor reports regarding scope of services and performance guarantees.

Specific objectives were:

- Determine that the Contractor established an adequate internal control environment and associated procedures to support the successful processing and payment of the County's dental claims in an accurate and timely manner.
- Determine that the Contractor has appropriate documentation to support payments for claims.
- Determine that the process for verifying eligibility is effective.
- Determine that all Contractor quarterly and annual reports have been submitted in a timely manner and meet the needs of Risk Management.
- Verify that there is proper oversight of the Contractor.

FINDINGS

Finding #1:

Risk Management does not have a comprehensive system of controls in place in regards to verifying dependent eligibility. Risk Management has controls to ensure initial dependent eligibility, but additional controls could be implemented to verify dependent eligibility on a continual basis to ensure any ineligible dependents are removed after initial enrollment due to a disqualifying event. Currently, the responsibility to ensure updated dependent eligibility is with each County employee with the exception of the age out dependent disqualification, which is incorporated automatically into the database. The coverage of ineligible dependents causes a financial burden to the County.

Recommendation:

We recommend Risk Management implement additional controls to help prevent abuse or errors occurring with ineligible dependents remaining covered.

The additional controls could consist of the following:

- Institute an annual verification/certification for dependent eligibility by each County employee.

- Annual verification could be built into the current Risk Management System where employee checks a box electronically that certifies accurate dependent reporting. For employees without an online benefits account, a dependent verification affidavit form can be emailed or mailed for the employee to manually certify dependent eligibility. Any employees that do not certify would receive an email with language stating possible consequences of not certifying dependent eligibility within a certain time period.
- Inform employees of the consequences and seriousness of not removing ineligible dependents.
- Institute a policy within the relevant laws and regulations to assess penalties for failing to remove dependents after a grace period. Penalties could include fees, requiring payback for insurance coverage paid by County during the time dependent was ineligible, and/or requiring payback of any claims paid for ineligible dependents. Penalties and consequences should be communicated to employees.
- Perform cross-referencing of the electronic eligibility list with databases, such as the Social Security Death Index, for an added layer of detection.
- Formalize all controls in written policies and procedures.

Management Response

Although Cook County employees bear responsibility to inform Risk Management of any changes in dependent status, Risk Management realizes a regular review of enrollment is necessary for the management of all County health plans. Therefore, Risk Management worked with its benefits consultant to establish a strategy to verify dependent eligibility. Risk Management considered options such as an affirmative enrollment plan for Plan Year 2015. However, the uncertainty surrounding labor negotiations and the assumed impact on Cook County's grandfather status did not make this option feasible. Risk Management decided a dependent eligibility verification audit was the best option to protect the County against fraudulent claim expenditures and obtain savings. A third party vendor will verify the legitimacy of every dependent claimed by employees for employee benefits coverage. Dependents not verified during the audit will be ineligible for coverage following the audit. Risk Management highlighted the planned dependent eligibility verification audit during its 2015 Budget Hearings presentation.

Estimated Completion Date

Dependent Verification Audit is on schedule for completion by September 2015.

Finding #2:

The Contractor did not comply with the reporting requirements and contract clauses as specified in the performance guarantee metrics section of the contract:

- An annual report for the plan year ended November 30, 2013, was not submitted as stipulated in the contract under "Performance Guarantees." Risk Management has stated that the November 30, 2014 annual report was submitted on time.
- Quarterly reports were not submitted by the Contractor during the 2013 plan year. The first quarter report for the 2014 plan year was provided by the Contractor after requested. Risk Management has stated that constant communication is maintained with the Contractor throughout the plan year.
- Performance guarantee metrics as defined in the contract that were not included in the Annual Benefits Discussion Report include: Financial payment, Payment incidence accuracy, First call resolution, and Grievance reporting.
- The time frames by which performance guarantees metrics were measured in the Annual Benefits Discussion Report were not consistent within the report.

Recommendation

We recommend Risk Management strengthen controls over its contract monitoring activities. The following are some recommended improvements to strengthen the process:

- Require the Contractor to submit reports by the contract deadlines that contain data collected in the same time span for uniformity and comparative purposes.
- Monitor performance guarantee metrics for compliance and to ensure any associated penalties are applied as stated in the contract.
- Require the Contractor to document mandatory meetings held between Risk Management and the Contractor to review the time/data-intensive quarterly and annual reports. Documenting key meetings will help ensure the Contractor is meeting requirements and that any efficiencies identified or possible opportunities for reducing the cost of dental claims are pursued.
- Ensure deliverables and performance guarantees as stated in the contract meet Risk Management's needs for monitoring vendor performance.
- Develop and implement written policies and procedures to effectively monitor the contract deliverables and ensure the Contractor's compliance with contract terms and conditions.

Management Response

Risk Management realizes the importance of Guardian's performance guarantees and uses them, alongside other vendor management tools, to measure Guardian's performance. Risk Management also notes the performance guarantees reviewed by the auditor do include all performance guarantees with the potential for payout as reflected in the contract. Thus, Risk Management would note that Guardian has not breached its performance guarantees.

Risk Management realized the time frames for the performances guarantees between the HMO and PPO plan were not consistent and requested an alignment between the two plans. Effective with the December 1, 2014 contract amendment, the performance guarantees have been updated to reflect meaningful measurements for both HMO and PPO.

Risk Management has maintained constant communication with Guardian via telephone, email and in person meetings despite Guardian's period of transition when its long-term account manager retired on April 1, 2014. Risk Management agreed to defer its 2014 annual meeting to June 2014 to allow the new account team time to familiarize themselves with the County and our Dental benefit program. Risk Management noted twelve documented conference calls or in person meetings with Guardian between July 2013 to October 2014. Furthermore, Guardian responds regularly to customer service inquiries from Benefits staff and works on an annual rate renewal process with Risk Management and their benefits consultant. Guardian staff also participated in the spring Health Fairs and Open Enrollment sessions. In 2014, Guardian also contributed to the ERP systems upgrade process and cooperated in the development of proposals for collective bargaining.

Estimated Completion Date

Performance Guarantees updated effective December 1, 2014. Account management remains in progress with a request to the vendor to document future quarterly meetings.

Finding #3:

During the course of our audit, we identified control deficiencies in regards to the processing of claims and eligibility:

- A County employee requested and received an Insured Predetermination of Benefits form from the Contractor prior to services rendered in order for the employee to determine what portion of the procedure would be covered by insurance. The employee subsequently received an Insured

Explanation of Benefits form from the Contractor stating that the dental procedure was performed along with a check issued in the employee's name for over \$400.00. The employee confirmed that the dental procedure was never performed.

- In a separate incident, a newly subscribed employee received a membership card listing an additional unauthorized dependent.

These two discrepancies were within the same office with a small staff size, which creates the concern that these exceptions are occurring more frequently and not reported or identified. Risk Management was notified of the discrepancies by our Office with the request to contact the Contractor for an explanation of the errors. Risk Management stated that the Contractor could not explain the reason for the discrepancies but assured Risk Management that the errors had been rectified.

Recommendation

We recommend that the Contractor be required to submit to Risk Management detailed control procedures to ensure that the proper controls are in place to prevent or detect errors or abuse. The procedures should include a quality assurance review process to periodically sample claims along with any supporting documentation to ensure the claims are properly processed and that controls are in place and functioning. Risk Management should require the Contractor to sign off on and provide a detailed report on the results of the quality assurance reviews.

In addition, we recommend that Risk Management require the Contractor to provide a written cause and explanation for the discrepancies noted above.

Management Response

Risk Management took this finding very seriously. Guardian identified the discrepancies as processing errors and corrected the errors immediately after they were identified. Risk Management communicates with Guardian regularly to discuss employee concerns. Guardian is working with Risk Management to further improve its control procedures.

Estimated Completion Date

Account management remains in progress with a request to the vendor to review internal claims processing procedures. Risk Management anticipates this briefing from Guardian to occur no later than July 1, 2015.