OCTA

November 8, 2017

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Employee Health Benefits, Internal Audit Report No. 17-506

Overview

The Internal Audit Department has completed an audit of employee health benefits. Based on the audit, controls in place to ensure proper enrollment, accounting, and compliance with laws, regulations, policies, and procedures are generally adequate; however, recommendations were made to develop and implement procedures for verification of Health Savings Account contribution payments and for collection of insurance premiums in arrears. Also, management should consider clarifications to the policy governing health plan participation.

Recommendation

Direct staff to implement three recommendations provided in Employee Health Benefits, Internal Audit Report No. 17-506.

Background

The Benefits Section (Benefits) within the Human Resources Department is responsible for administration of all employee benefit and retirement programs. With regard to health insurance, Benefits is responsible for the annual open enrollment process, changes throughout the year due to qualifying events, and reconciliation and authorization of monthly invoices. Benefits also directs contributions to Health Savings Accounts (HSA) for participants enrolled in a high-deductible health plan, such as the Anthem Consumer Driven Health Plan (CDHP). For Anthem CDHP enrollees, the Orange County Transportation Authority (OCTA) contributed $1,300 for single participants and $2,600 for family plan participants in 2016. The contributions are made in the beginning of the year for participants who enroll during the open enrollment period. For new hires or mid-year enrollees to the Anthem CDHP, the contribution amount is pro-rated based on the participant's effective date of insurance.

Discussion

Two employees, hired mid-year, did not receive their OCTA-paid HSA contributions in accordance with the employee benefit plan documents. For mid-year enrollees, Benefits staff sends an e-mail to Payroll Section staff to direct the pro-rated HSA amount to be deposited. In these instances, there was no evidence that communications were made. There is also no secondary review process to verify payments. The Internal Audit Department (Internal Audit) recommended management develop and implement a verification process to ensure HSA contributions are made as required. Management responded that deposits for these two employees have been made and procedures will be developed and implemented.

Also during 2016, health benefit premiums for eight participants fell into arrears. Six of the participants ultimately cleared the arrears; however, it took between one and six months. One of the participants terminated in March 2016, and has a balance owing of $124.89. Another participant owed $1,336.40 as of December 2016, related to premiums from calendar years 2015 and 2016. Internal Audit recommended management develop written policy and procedures for collection of premiums in arrears. Management responded that $1,336.40 has been collected from the participant, and a written policy and procedure will be developed.

Under current policy, members of the Board of Directors (Board) may receive the same OCTA-subsidized health benefits as full-time employees, provided they do not also receive health benefits from the public entity they serve. The policy, as currently written, does not preclude members of the Board who receive cash in-lieu of health benefits from the public entity they serve from also receiving OCTA-subsidized health benefits. Internal Audit recommended management seek Board input and clarify the policy, as applicable. Management agreed and responded that clarifications to the policy will be considered with the next update to the Personnel and Salary Resolution.

Summary

Internal Audit completed the audit and offered three recommendations.

Attachment

A. Employee Health Benefits, Internal Audit Report No. 17-506

Prepared by:

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Principal Internal Auditor
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Approved by:

Janet Sutter
Executive Director, Internal Audit
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ATTACHMENT A

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT

OCTA

Employee Health Benefits

Internal Audit Report No. 17-506

October 19, 2017

Performed by: Ricco Bonelli, CIA, Principal Internal Auditor
Janet Sutter, CIA, Executive Director

Distributed to: Maggie McJilton, Executive Director, Human Resources and Organizational Development
Karen DeCrescenzo, Bea Maselli

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Employee Health Benefits
October 19, 2017

Table of Contents

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Employee Health Benefits
October 19, 2017

Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of employee health benefits. Based on the audit, controls in place to ensure proper enrollment, accounting, and compliance with laws, regulations, policies, and procedures are generally adequate; however, Internal Audit made recommendations to develop and implement procedures for verification of Health Savings Account (HSA) contribution payments and for collection of insurance premiums in arrears. Also, management should consider clarifications to the policy governing health plan participation.

Background

The Benefits Section (Benefits) within the Human Resources Department is responsible for administration of all employee benefit and retirement programs. Benefits is comprised of a section manager and two senior benefits analysts. Benefit programs include medical, dental, vision, HSA, Flexible Spending Accounts, life insurance, accidental death and dismemberment, short and long-term disability insurance, voluntary benefits, deferred compensation plans, and Orange County Employees Retirement System pension plan.

In 2016, the Orange County Transportation Authority (OCTA) began participating in the California State Association of Counties - Excess Insurance Authority (CSAC-EIA) pool for medical, dental, vision, life, accidental death and dismemberment, short and long-term disability, and voluntary life insurance coverage. CSAC - EIA is a risk sharing pool dedicated to finding cost effective insurance solutions.

Benefits is responsible for annual open enrollment, processing mid-year changes due to qualifying events, and reconciliation and authorization of monthly invoices. A qualifying event is a life change that affects benefit coverage — such as, getting married, having a baby, or losing health coverage — which allows an employee to enroll and/or change health insurance coverage outside the annual open enrollment period. To qualify for a special enrollment period, employees must request the change within 30 days of the date of the event and must provide documentation of the life event.

Benefits also directs contributions to HSA, as outlined in the benefit plan packet provided to participants. An HSA is a tax-advantaged health savings account available to participants enrolled in a high-deductible health plan, such as the Anthem Consumer Driven Health Plan (CDHP) offered by OCTA. HSA funds may be used to pay for qualified medical expenses at any time without federal tax liability or penalty. For Anthem CDHP enrollees, OCTA contributed $1,300 for single participants and $2,600 for family plan participants in 2016. The contributions are made in the beginning of the year for participants who enroll during the open enrollment period. For new hires or mid-year enrollees to the Anthem CDHP, the contribution amount is pro-rated based on the participant's effective date of insurance.

Objectives, Scope, and Methodology

The objectives were to assess the adequacy of controls in place over enrollment, accounting, and payment for health benefits and to determine compliance with applicable laws, regulations, policies, and procedures.

The methodology consisted of identifying key functions and/or processes administered by Benefits, and assessing the adequacy of controls and testing for compliance with applicable policies and regulations. Internal Audit reviewed health benefit payments made by OCTA including testing of controls over the invoice review process and determining whether payments were properly supported and in compliance with applicable agreements. Internal Audit reviewed HSA contributions to assess compliance with policy and applicable Internal Revenue Service regulations. Missed employee health benefit contributions were reviewed to determine whether OCTA was being properly credited in a timely manner. Internal Audit also reviewed benefit enrollment changes made outside of the open enrollment period to assess compliance with policy. Finally, Internal Audit compared total payments made to medical plan providers to the total amount of employee and employer contributions and reviewed variances for reasonableness.

The scope was limited to health benefits for administrative employees, participating members of the Board of Directors (Board member), and employees represented by the Transportation Communications International Union. For invoice review and payment authorization testing, Internal Audit focused on medical benefits since it represented the largest portion of total health benefit premiums. For HSA testing, the scope was limited to recipients of employer provided HSA contributions and/or participants of the Anthem CDHP plan. Sampling was not utilized for tests performed; instead, Internal Audit tested 100 percent of the population, with the exception of the qualifying event test, which excluded events that did not result in a change in premium. The review period covered calendar year 2016.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we 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 obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Comments, Recommendations, and Management Responses

Verification of Health Savings Account Contributions

Two of nine employees that enrolled in the CDHP plan as mid-year new hires did not receive their OCTA-paid HSA contribution, as required. While the missed contributions only amounted to $325, the error exposes OCTA to the possibility of penalties for lack of payment.

Under the current practice, Benefits staff sends an e-mail to Payroll Section staff directing that HSA contributions be made. In these two cases, there is no evidence that the communications were made. There is also no secondary review process to ensure that required payments have been made.

Recommendation 1:

Management should develop and implement written procedures to ensure that all qualified HSA enrollees receive their employer-paid contribution. Further, OCTA should make the required HSA contributions, plus reasonable interest, to the employees identified in the audit.

Management Response:

The contributions have been remediated and processed to the two employee Health Savings Accounts. Reasonable interest will be calculated and deposited. As these transactions are processed as payroll earnings, benefits will work with payroll to establish written procedures.

Collection of Medical Premiums in Arrears

OCTA lacks a policy to ensure that participant premiums are collected in a timely manner when compensation amounts are insufficient to cover premium payments.

During 2016, health benefit premiums for eight participants fell into arrears. Six of the participants ultimately cleared the arrears; however, it took between one and six months. One of the participants terminated in March 2016, and has a balance owing of $124.89. Another participant owed $1,336.40 as of December 2016, related to premiums from calendar years 2015 and 2016. This participant continues to accrue arrears in 2017.

Recommendation 2:

Management should develop a written policy and procedures for collection of premiums in arrears.

Management Response:

The participant that owed $1,336.40 as of December 2016, has paid this amount to OCTA. Management will work on a written policy and procedure to collect unpaid medical premiums.

Policy on Board Member Benefit Eligibility

OCTA policy allows Board members to receive the same OCTA-subsidized health benefits as full-time employees, provided they do not also receive health benefits from the public entity they serve. For Board members that receive health benefits from the public entity they serve, OCTA will offer health benefits provided the Board member pays 100 percent of the OCTA premium, without subsidy.

The OCTA policy, as currently written, does not preclude Board members who receive cash in-lieu of health benefits from the public entity they serve from also receiving OCTA-subsidized health benefits.

Recommendation 3:

Management should seek Board member input and clarify the policy to address benefits eligibility for Board members that receive cash payments in-lieu of health benefits from the public entity they serve.

Management Response:

Management will consider revisions to the Fiscal Year 2018-2019 (FY19) Personnel and Salary Resolution (P&SR) to clarify the policy. The FY19 P&SR will be presented for Board of Directors approval in June 2018, along with the annual budget.

ATTACHMENT A

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INTERNAL AUDIT DEPARTMENT

Employee Health Benefits

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Table of Contents

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Employee Health Benefits
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