



**AUDITOR GENERAL'S  
REPORT  
ACTION REQUIRED**

**Management of the City's Employee Extended Health  
and Dental Benefits  
Phase One: The City Needs to Ensure Adequate  
Detection and Review of Potentially Excessive and  
Unusual Drug Claims**

<b>Date:</b>	October 24, 2016
<b>To:</b>	Audit Committee
<b>From:</b>	Auditor General
<b>Wards:</b>	All
<b>Reference Number:</b>	

**SUMMARY**

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The Auditor General's 2016 Audit Work Plan included an audit of the management of the City's employee extended health and dental benefits. The audit was divided into two phases. Phase One of the audit, which is the subject of this report, focused on drug benefit claims. A parallel audit has also been initiated for the Toronto Transit Commission's employee health benefits plans. Phase Two will focus on the remaining extended health benefits such as hospital, vision, and out-of-country medical, and may include dental benefits. A separate audit on the City's management of the Long Term Disability Benefits Program has been conducted by the Auditor General's Office.

The report provides 18 recommendations to help improve the City's oversight of claims administration services, prevent and detect potential misuse of the benefits, strengthen payment verification, and identify opportunities for cost savings and overpayment recovery. Immediate attention from City staff is required for findings related to potentially excessive claims for controlled substances, erectile dysfunction drugs, as well as unusual claim patterns.

## RECOMMENDATIONS

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### The Auditor General recommends that:

1. City Council request the Treasurer to review, identify, and verify with Manulife the validity of claims where excessive quantities of drugs were reimbursed, in particular, for the prescription opioids, sedatives, stimulants, and erectile dysfunction drugs, and, if appropriate, take steps to recover any overpayments.
2. City Council request the Treasurer to ensure the City only reimburses claimants with eligible expenses that are medically necessary for the treatment of sickness or injury in accordance with the City's policy. Actions to be considered include:
  - a. Ensuring the new plan administrator has adequate controls in place when adjudicating controlled substances and erectile dysfunction drugs in order to verify legitimacy of claims when total quantity dispensed exceeds a year's supply based on the maximum recommended dosages of the drug; and
  - b. Working with the new plan administrator to determine and agree on acceptable tolerance levels that will trigger further investigation on suspicious drug claims.
3. City Council request the Treasurer to undertake necessary steps to ensure the City's benefits plans are cost-effective and follow industry standards and best practice, including but not be limited to:
  - a. Consultation, on a regular basis, with industry experts and the new plan administrator to identify industry standards and acceptable practices for drug benefit coverage limits, particularly in areas where utilization by the City's members is significantly higher than industry standards or benchmarks; and
  - b. Recommending reasonable maximum plan coverages for the appropriate drugs with consideration for special circumstances.
4. City Council request the Treasurer to follow up with Manulife on the questionable claims and utilization patterns for prescription opioids, sedatives, and stimulants drugs, including requesting further investigation by Manulife where needed and taking steps to recover overpayments, where appropriate.
5. City Council request the Treasurer to ensure the new plan administrator assesses utilization patterns of claimants, in particular, with respect to prescription opioids, sedatives, and stimulants with agreeable predefined criteria and tolerance levels.

6. City Council request the Treasurer to regularly conduct detailed reviews of drug benefit claims history by high-risk drug categories that are commonly subjected to misuse or abuse, and on drug categories for which the City incurs significantly higher utilization and claims cost than industry standards.
7. City Council request the Treasurer to ensure the City only reimburses over-the-counter drug claims in accordance with City policies and to ensure cost effective reimbursement of over-the-counter drug claims. Steps should be taken but not be limited to:
  - a. Following up with Manulife to validate the eligibility of over-the-counter drug claims to ensure they meet the life sustaining requirements in the City's policies and recover any ineligible amounts paid;
  - b. Ensuring the new plan administrator has a process in place to obtain evidence of life sustaining purpose when reimbursing over-the-counter drugs in accordance with City policies; and
  - c. Working with the new plan administrator to develop ways to minimize the cost of dispensing fees for eligible over-the-counter drug claims.
8. City Council request the Treasurer to ensure the new benefits plan administrator reviews the status of physicians and pharmacists when adjudicating drug claims, and identifies claims where the drug was prescribed and/or are dispensed by physicians and pharmacists whose licenses have been revoked or suspended. The Treasurer should also ensure pharmacy names or pharmacy unique identifiers are part of the adjudication process for all drug claims.
9. City Council request the Treasurer to identify and review with Manulife all applicable claims where dispensing fees were paid above the \$9 plan limit and, if appropriate, recover overpayments.
10. City Council request the Treasurer to ensure the new employee health benefits plan administrator has proper controls in place to restrict dispensing fees to the coverage limit, and City staff undertake periodic reviews to ensure the City is only charged the dispensing fees up to the established limit.
11. City Council request the Treasurer to implement the Preferred Provider Network of pharmacists as authorized by the City Council in December 2013.
12. City Council request the Treasurer to ensure more effective coordination and sharing of drug benefits report information between the Pension, Payroll and Employee Benefits Division and the Employee Health and Rehabilitation team to facilitate development of wellness initiatives amongst City employees.

13. City Council request the Treasurer to review and identify, for the periods covered under the current and previous employee health benefits administration contracts with Manulife, all cases of billing reversals for health benefits claims where the City should receive a recovery, including those made for ineligible claims and/or result of errors. Where overpayments are identified, steps should be taken to ensure the City recovers all overpayments.
14. City Council request the Treasurer to require the City's new employee health benefits administrator to provide City staff with all necessary supplementary information to support invoiced amounts to assist the City's review of accuracy of invoiced amounts, reasonableness of billing reversals, and of the related recoveries.
15. City Council request the Treasurer to undertake a review of the City's records of eligible individuals for health benefits coverage to ensure accurate and complete information in the City's system. A review of the health benefit claim histories should be conducted on individuals with questionable or missing dates of birth. Where claim reimbursements were made for ineligible individuals, steps should be initiated to recover overpayments.
16. City Council request the Treasurer to ensure that all individuals eligible for the City's health benefits have up-to-date eligibility information in the City and the plan administrator's respective systems. A mechanism should be established to periodically reconcile eligibility information between the City and the plan administrator's system.
17. City Council request the Treasurer to ensure the performance standards agreement with the new benefits plan administrator comprehensively measures all the service areas to be delivered by the plan administrator.
18. City Council request the Treasurer to ensure that the new benefits plan administrator provides the City with the necessary supplementary information to enable the City to independently assess the administrator's performance, and consider engaging an independent auditor to assess the new plan administrator's performance. Clear provisions should be included in the contract to enable the City's Auditor General to conduct an independent audit of the administrator's performance.

### **Financial Impact**

Implementation of the recommendations in this report may result in cost savings. The exact amount of the cost savings is not determinable at this time.

## ISSUE BACKGROUND

The City of Toronto provides extended health and dental care coverage to its employees and retirees, as well as to their spouses and eligible dependents in accordance with collective agreements and City policies. Over the five-year period from 2011 to 2015, the City spent, in total, more than a quarter of a billion dollars for drug benefits.

The City is self-insured. This means the City pays for the benefit claim costs. Manufacturers Life Insurance Company (Manulife) is the City's current benefits administrator, which acts as the City's "agent" in processing and adjudicating employee benefits claims under an Administrative Services Only (ASO) contract. Manulife is also responsible for ongoing monitoring, issuance of claim payments to eligible claimants, prevention and detection of fraud or abuse, and investigative services. The City pays a benefit administrative fee to Manulife for services provided.

The City's Pension, Payroll and Employee Benefits Division (PPEB) is responsible for oversight of the employee benefits program, which includes extended health care and dental benefits. PPEB staff, however, are not involved in claims adjudication or the claims monitoring processes as these are the sole responsibilities of Manulife.

## COMMENTS

In accordance with section 179(2) of the *City of Toronto Act*, the Auditor General is entitled to access the records used by the City to perform her work. The Auditor General used the annual data dumps of claims information to perform an analysis of the claims adjudicated by Manulife, as she is authorized to do under the *City of Toronto Act*.

The Auditor General believes it is important and prudent to provide some of the key findings in this Phase One report for the following reasons:

- The current contract with Manulife will expire by the end of December 2016. City staff are currently developing a new contract with Green Shield Canada (Green Shield), which has been awarded a five-year contract as the City's new benefits administrator. Many of the audit findings will help strengthen the City's oversight of the new benefits administrator's processes and should be considered by City staff in developing the new contract.
- In our analysis of annual claims data provided to the City, we identified numerous potential "red flags" relating to quantities dispensed and claim patterns for certain controlled substances. In our view, these findings warrant immediate attention by City staff to follow up with Manulife, and to ensure adequate controls are in place in Green Shield's processes.
- Two of our findings relate to potential cost recoveries from Manulife. This needs to be reviewed and followed up by City staff prior to the expiry of the current contract with Manulife.

Implementation of the recommended changes from this report can potentially result in over \$0.9 million annual savings, and \$180,000 in a one-time cost recovery. Full implementation of recommendations for improving oversight and controls may potentially reduce the annual drug benefits cost for the City in the long term.

Audit findings and recommendations are contained in the report entitled “Management of the City’s Employee Extended Health and Dental Benefits – Phase One: The City Needs to Ensure Adequate Detection and Review of Potentially Excessive and Unusual Drug Claims”.

The audit report is attached as Appendix 1 along with a one-page summary. Management response to recommendations contained in the audit report is attached as Appendix 2.

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## **SIGNATURE**

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Beverly Romeo-Beehler, Auditor General

## **ATTACHMENTS**

Appendix 1: Management of the City’s Employee Extended Health and Dental Benefits – Phase One: The City Needs to Ensure Adequate Detection and Review of Potentially Excessive and Unusual Drug Claims

Appendix 2: Management response to recommendations in the Auditor General’s Report entitled “Management of the City’s Employee Extended Health and Dental Benefits – Phase One: The City Needs to Ensure Adequate Detection and Review of Potentially Excessive and Unusual Drug Claims”

**AUDIT  
AT A GLANCE****WHY THIS AUDIT MATTERS**

The City paid \$60 million for drug benefits in 2015. Over five years from 2011 to 2015, the City spent more than a quarter of a billion dollars for drug benefits. According to the Canadian Centre on Substance Abuse, prescription opioid pain relievers, sedatives, and stimulants are the three classes of controlled substances most commonly misused and have high tendencies for abuse and diversion. Proper oversight of drug benefits is imperative.

**BACKGROUND**

The City pays for extended health and dental benefits coverage to its employees, retirees, their spouses and eligible dependents. In 2015, 80,059 individuals were eligible for the City's health benefits. Manufacturers Life Insurance Company (Manulife) is the City's current benefits administrator, which acts as the City's contracted agent in processing and adjudicating employee benefits claims under an Administrative Services Only (ASO) contract. Phase One of the audit focused on drug benefits, and Phase Two will focus on other extended health benefits including hospital, vision, and out-of-country medical.

**BY THE NUMBERS**

- \$60 million for drug benefits in 2015
- \$3 million annually for prescription opioids, sedatives and stimulants
- \$1.9 million for erectile dysfunction drugs in 2015
- 18 recommendations from Phase One audit
- Identified cost savings opportunities totalling over \$0.9 million annually, and \$180,000 potential cost recovery
- Reversal and offsetting transactions totalling \$2 million are being reviewed and pending verification

**Management of the City's Employee Extended Health and Dental Benefits****Phase One: The City Needs to Ensure Adequate Detection and Review of Potentially Excessive and Unusual Drug Claims****What we found**

Based on the analysis of claims reimbursement data from 2013 to 2015, the audit identified the following instances of potentially excessive claims and reimbursement, and unusual claim patterns that require further follow-up:

**Controlled Substances**

- 16 claimants had an equivalent of two to five years' supply of oxycodone in at least one year.
- 32 claimants had an equivalent of 19 months to 6.7 years' supply of Fentanyl patches in at least one year.
- 44 claimants had the equivalent of two to six years' supply of prescription sedatives in at least one year.

**Erectile Dysfunction Drugs**

- The City has no maximum coverage limit for this type of drug.
- 37 claimants were each reimbursed over \$3,000 in 2015.
- Five were each reimbursed over \$5,000 in 2015.
- Annual cost savings of about \$750,000 could be realized if a \$500 annual benefits limit is established for this type of drug.

**Unusual Claims and Dispensing Patterns**

- 27 claimants were dispensed the same prescription opioid at different pharmacies on the same days.
- 237 claimants made a second drug claim for a controlled substance at a different pharmacy within 7 days of an earlier claim for the same class of drug. Both claims were for at least 30 tablets.
- 348 claimants were reimbursed for the same drug multiple times on the same dispensing days.

**Over-the-Counter (OTC) Drugs**

- About \$64,000 of OTC drugs that do not appear to have life sustaining purposes were reimbursed.
- 67 per cent of reimbursement for OTC drugs was for dispensing fees alone. The City could save approximately \$125,000 annually by developing ways to reimburse OTC drug claims without incurring dispensing fees.

**How Recommendations will Benefit the City**

Implementation of the 18 recommendations in the report can help improve the City's management and oversight of drug benefits, prevent and detect misuse of benefits, and identify opportunities for cost savings.

# **AUDITOR GENERAL'S REPORT**

## **Management of the City's Employee Extended Health and Dental Benefits**

### **Phase One: The City Needs to Ensure Adequate Detection and Review of Potentially Excessive and Unusual Drug Claims**

**October 24, 2016**

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**Beverly Romeo-Beehler, CPA, CMA, B.B.A., JD, ICD.D**  
**Auditor General**





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## EXECUTIVE SUMMARY

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*Approximately 80,000 individuals were covered under the City's health benefit plans*

The City of Toronto (City) provides extended health and dental benefits coverage to its employees and retirees, as well as to their spouses and eligible dependents, in accordance with City policies and collective agreements. For the year 2015, 80,059 individuals were eligible for the City health benefit plans.

*Of the total \$229 million in benefits costs in 2015, \$60 million was for drug benefits*

In 2015, the City spent approximately \$229 million to provide employee benefits, which comprised of health, dental, group life insurance and long term disability benefits coverages. Of this amount, \$116 million was for extended health benefits including \$60 million for drug benefits and \$56 million for hospital, vision, out-of-country medical, and other extended health benefits.

*Approximately a quarter of a billion spent on drugs over 5 years*

Over the five-year period from 2011 to 2015, the City spent, in total, approximately a quarter of a billion dollars for drug benefits. It is, therefore, imperative that the City ensures adequate oversight and management of the benefits.

*Manulife is the City's current benefits administrator until December 31, 2016*

Manufacturers Life Insurance Company (Manulife) is the City's current benefits administrator, which acts as the City's contracted agent in processing and adjudicating employee benefits claims under an Administrative Services Only (ASO) contract. The City pays for the benefit claims costs, along with a benefit administration fee to Manulife.

*This audit was part of the Auditor General's 2016 audit plan*

The Auditor General's Office initiated an audit of the management of the City's employee health and dental benefits claims in accordance with the Auditor General's 2016 Audit Work Plan. A parallel audit has also been initiated for the Toronto Transit Commission's employee benefits plans.

*Phase One of the audit focuses on drug benefits*

Our audit is divided into two phases. Phase One of the audit, which is the subject of this report, focuses on drug benefits claims. Phase Two will focus on the remaining extended health benefits and may include dental benefits. A separate audit on the City's management of the Long Term Disability Benefits Program has been conducted by the Auditor General's Office.

***The City contracts Manulife to act as the City's agent in processing City health and dental benefit claims***

Manulife is the City's current contracted "agent" in processing and adjudicating employee benefits claims. As part of the ASO contract, Manulife is required to provide the City with annual data dumps of claims information. The Auditor General used the claims information, which Manulife provided to the City's Pension, Payroll and Employee Benefits (PPEB) Division in accordance with the contract, to perform an analysis of the claims adjudicated by Manulife, as permitted under the *City of Toronto Act, 2006*. Section 181 of the Act requires the Auditor General to preserve secrecy in the course of her duties.

***Auditor General conducted the audit under the City of Toronto Act using claims data provided to the City's PPEB***

In accordance with subsection 179(2) of the *City of Toronto Act, 2006*, the Auditor General is entitled to access the records belonging to or used by the City to conduct the audit. The Auditor General, under the *City of Toronto Act*, has the statutory authority to conduct an independent audit of the City's management of health benefit claims and claim records.

***Auditor General continues to work with all parties to access relevant claims information***

To date, the Auditor General has not been able to access the claim files for drug benefits. Initially in the Long Term Disability Audit, there were also difficulties in accessing the actual claim files but these were resolved with Manulife.

It is important to note that claims data analyzed by the Auditor General's Office contained no personal identifier information. In our follow-up inquiries to Manulife, we did not request Manulife to provide any personal information to us.

***Manulife has provided audit staff with certain general controls information***

In keeping with the standard audit procedures of the Auditor General's Office, audit staff have been providing their audit findings to Manulife throughout the audit process for its review and comment. Audit staff also invited Manulife to attend their meeting to discuss the preliminary audit findings. Over the course of our audit, Manulife has provided audit staff with certain information of its general control processes in drug claims adjudication.

***The Auditor General has a duty to report to City Council on audit findings***

The Auditor General, under the *City of Toronto Act, 2006*, is required to conduct objective and independent audits and provide the findings to City Council. After a careful review of the audit findings accumulated to date and their potential impact, the Auditor General believes it is important and prudent to provide some of the key findings in this Phase One report for the following reasons:

- The current contract with Manulife will expire by the end of December 2016. City staff are currently developing a new contract with Green Shield Canada (Green Shield), which has been awarded a five-year contract as the City's new benefits administrator. Many of the audit findings will help strengthen the City's oversight of the new benefits administrator's processes and should be considered by City staff in developing the new contract.
- In our analysis of claims data provided to the City, we identified numerous potential "red flags" relating to quantities dispensed and claim patterns for certain controlled substances. In our view, these findings warrant immediate attention by City staff to follow up with Manulife, and to ensure adequate controls are in place in Green Shield's processes.
- Two of our findings relate to potential cost recoveries from Manulife. This needs to be reviewed and followed up by City staff prior to the expiry of the current contract with Manulife.

When the Auditor General is successful in obtaining access to the claims information, the Auditor General will conduct further work and issue a supplementary report in 2017.

Our key audit findings are summarized as follows:

**Potentially excessive claims and reimbursements for controlled substances**

*Manulife is required to analyze and identify unusual claims trends, and detect service providers that over-prescribe medications*

Under the current ASO contract, Manulife is required to have "sophisticated tools to analyze and identify unusual claims trends indicating possible fraud or abuse." In particular, it is required "to have the ability to monitor claims history for individual insureds as well as the ability to detect service providers who may be over-prescribing medications and/or treatments to insureds." It will also provide "proactive advice and information specific to trends (i.e. costs, claims experience)" to the City.

***City paid over \$3 million annually for prescription opioids, sedatives and stimulants***

Over the past three years, the City paid about \$2 million annually for reimbursements of prescription opioids, including Oxycodone and Fentanyl; \$0.5 million for prescription sedatives; and \$0.7 million for prescription stimulants.

Using the maximum recommended daily dosages per drug monographs or the equivalent of a daily dose of 200 mg of morphine as the basis for comparison, our analysis of 2013 to 2015 claims and reimbursements found that:

***Two or more years' supply of Oxycodone in one year***

- 16 claimants were reimbursed an equivalent of 2 years or more supply of Oxycodone and/or its brand name drugs (e.g., OxyNEO, Oxycocet) within a one-year period. The annual quantities reimbursed for several claimants were at least four times the maximum annual supply.
- In particular, seven claimants (all of whom were under active employee benefits plans) were reimbursed more than a 2 years' supply of Oxycodone and/or its brand name drugs in each of the three years 2013 to 2015.

***A number of claimants were reimbursed large quantities of Fentanyl patches in a year***

- 32 claimants (28 were under the active employee benefits plans and four were retirees) were reimbursed more than 18 months' supply of Fentanyl (25 mgc/hour) patches in at least one year. The annual quantity of patches reimbursed to these individuals ranged from 19 months to 6.7 years of supply.
- 44 claimants were reimbursed an equivalent of at least a two-year of supply of prescription sedatives (e.g. benzodiazepines) within a year. Three of these claimants, in particular, were reimbursed annual quantities equivalent to four to six years of supply.
- Six claimants were reimbursed at least 18 months' supply of the top three commonly used attention deficit disorder drugs within a one-year period.

While we recognize that the above cases may possibly be medically justified, verification of this will require access to claim files held by Manulife.

## **Potentially excessive claims and reimbursement for erectile dysfunction drugs**

***City paid \$1.9 million in 2015 for erectile dysfunction drugs***

In 2015 the City paid approximately \$1.9 million for reimbursement of erectile dysfunction drugs. The benefits cost for this type of drug increased 18 per cent from 2013 to 2015. The City's benefits plans do not have an annual maximum limit for this type of drug.

In our review of the claims data between 2013 and 2015, we noted numerous instances, which, in our view, City staff should follow up further with Manulife. Examples of these instances are:

***Instances include claiming 600 tablets of once-a-day tablets in one year***

- For the 5 mg once-a-day Cialis, 16 claimants were reimbursed an annual quantity between 395 (i.e. 13 months' supply) and 600 tablets in at least one of the three years we reviewed. A number of them also claimed and were reimbursed on-demand erectile dysfunction drugs in the year they claimed the once-a-day drug.
- Cialis on-demand drugs are not recommended for continuous daily use according to the manufacturer's drug monograph. However, using the maximum strength dosage as the basis of analysis, 41 claimants were reimbursed a total of 180 to 360 tablets each within a one-year period. Four of these claimants had more than 180 tablets in each of the years 2014 and 2015.

***360 or more on-demand tablets within a year***

- Combining the various types of on-demand drugs (e.g. Cialis and Viagra), using the maximum strength dosage of each type of drug as the basis of analysis, 65 claimants were reimbursed an annual quantity of 180 tablets or more in at least one-year. Five were reimbursed 360 tablets or more within a year.

It is possible that the large quantities of drugs reimbursed may be medically justified. However, it is important that City staff follow up with Manulife.

***Potential \$750,000 annual cost savings if a benefits cap at \$500 is established***

Since the City has not established a maximum benefits coverage for erectile dysfunction drugs, a small number of individuals' claims contributed to more than a quarter of the total reimbursement for this type of drug in 2015. In 2015, 37 claimants were each reimbursed over \$3,000 for these drugs. An annual cost savings of about \$750,000 could be realized if an annual limit of \$500 is established by the City.

### **Numerous cases of unusual claims and dispensing patterns**

***Multiple prescription opioids on the same day and unusual dispensing patterns***

- 27 claimants were dispensed the same prescription opioid (methadone, Methadose, Suboxone, and buprenorphine-naloxone) at different pharmacies on the same days.
- According to the Canadian Medical Association, a prescription controlled substance is considered potentially inappropriate if over 30 tablets are filled twice within 7 days at different pharmacies. Our analysis noted that in a total of 303 instances, 237 claimants made a second drug claim for a controlled substance at a different pharmacy within seven days of an earlier claim for the same class of drug. Both the first and second claims were for at least 30 tablets.

***Red flags for potential “double-doctoring”, prescription forgery, or duplicate billing***

- When an individual is dispensed the same drug multiple times on the same day, it could be indicative of potential misconduct such as “double-doctoring”, prescription forgery, or duplicate billing. We identified 1,871 claims, made by 348 claimants, that were reimbursed for the same drug multiple times on the same dispensing days either from the same pharmacy or from multiple pharmacies. The total reimbursement for these 1,871 claims was \$2.6 million over the years 2013 to 2015. Claims for prescription opioids that can be dispensed more than once a day and out-of-country drug claims were excluded from our analysis.

While there may be legitimate reasons for the reimbursement of the above claims, in our view, it will be prudent for City staff to follow up on these instances with Manulife.



### **Reimbursement for non-life sustaining over-the-counter drugs**

*Reimbursement for over-the-counter drugs that do not appear to have life-sustaining purposes*

According to the City's policies, reimbursement can only be made for over-the-counter drugs that have a life sustaining purpose. In 2015, the City reimbursed approximately \$189,000 for over-the-counter drugs. Our analysis found that approximately 12 per cent, or \$22,400, were for over-the-counter drugs for treating skin conditions, miscellaneous eye disease, allergy, sunscreen agents, and cough and cold. It is important to verify that these drugs were dispensed for a life sustaining purpose.

### **Potential savings from reducing dispensing fees for over-the-counter drugs**

*Dispensing fees account for a large percentage of over-the-counter drugs costs*

Over-the-counter drugs are medications that can be purchased without a prescription such as off-the-shelf Aspirin. However, in order to have purchases reimbursed under the benefits plan, Manulife requires that the purchases be processed by licensed pharmacists following the same claim submission process for prescribed medication. As a result, each over-the-counter claim will incur a drug dispensing fee. From 2013 to 2015, the City paid a total of \$564,590 for over-the-counter drugs. Sixty-seven (67) per cent, or \$375,906, of this cost was for dispensing fees.

### **Potential recoveries from overpayment of dispensing fees**

*City possibly overpaid \$180,000 in dispensing fees in the past 3 years*

Under the plans for active employees, their spouses and dependents, as well as for four specific groups of retirees, the majority of drugs are subject to a maximum dispensing fee coverage of \$9. Based on our review of 2013 to 2015 claims data, 22,269 drug claims were reimbursed for dispensing fees higher than the \$9 maximum per claim. The total dispensing fees that could be overpaid and related administrative fee amount to potentially \$180,000 over the three years. We have provided our analysis results to City staff for verification with Manulife.

**Potential billing error involving reversal and offsetting entries**

In our review of claims data, we noted that when Manulife reversed a claim payment due to reasons such as ineligible claims or adjusting for errors, frequently, an offsetting entry was also made to net out the reversal amount. This resulted in a zero credit to the City in the year that the reversal was made. However, the reasons of the reversal and offsetting transactions are not specified.

*Further clarification on the reversal transactions is needed*

Based on our analysis, for the three-year period from 2013 to 2015, the reversal transactions in question totaled approximately \$2 million. There may be various explanations for these reversal and offsetting records. At the time of finalizing this report, we continue to work with Manulife to clarify these transactions in question. We have also provided our analysis results to City staff to follow up with Manulife.

**Potential Savings and Cost Recovery**

Implementation of the recommended changes from this report can potentially result in over \$0.9 million annual savings and approximately \$180,000 in a one-time cost recovery:

<b>Recommended Changes</b>	<b>Annual Savings</b>	<b>Cost Recoveries</b>
Annual Coverage Limit for Erectile Dysfunction Drugs at \$500 per person	\$ 750,000	\$ -
Reduced Dispensing Fees for Over-the-Counter Drugs	125,000	-
Dispensing Fees Paid only up to the Maximum Plan Limit	60,000	180,000
<b>Total</b>	<b>\$ 935,000</b>	<b>\$ 180,000</b>

Full implementation of the recommendations in this report may potentially result in additional savings and reduced annual drug benefits cost for the City in the long term.

## Conclusion

### *18 recommendations to help improve the City's oversight of drug benefits*

This Phase One report focused on drug benefits. The report provides 18 recommendations to help improve the City's oversight of claims administration services, prevent and detect potential misuses of the benefits, strengthen payment verification, and identify opportunities for cost savings and overpayment recoveries. Immediate attention from City staff is required for findings related to potentially excessive claims for controlled substances, erectile dysfunction drugs, as well as unusual claim patterns.

Implementation of the recommended changes from this report can potentially result in over \$0.9 million annual savings and approximately \$180,000 in a one-time cost recovery. Additional savings are possible following full implementation of the recommendations in this report.

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## BACKGROUND

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### *The City provides health benefits to its employees, retirees, and their spouses and eligible dependents*

The City of Toronto (City) provides extended health and dental care benefits coverage to its employees and retirees, as well as to their spouses and eligible dependents in accordance with City policies and collective agreements.

According to the City's policies, eligible dependents are unmarried children who are 21 years of age and under, between 21 years of age and 25 and are full-time students (between 22 and 26 for members of the firefighters association), or dependents with a disability who are incapable of self-support.

For the year 2015, 80,059 individuals were eligible for the City health benefits plans. Table 1 shows the breakdown of these eligible individuals.

**Table 1: Number of Individuals Covered under the City Benefits Plans for Year 2015 <sup>2</sup>**

*Approximately 80,000 individuals were eligible for employee health benefits coverage*

	<b>Number of Individuals</b>	<b>Percentage of Total</b>
Employees <sup>1</sup>	25,506	32%
Spouses	23,986	30%
Dependents	21,442	27%
<b>Subtotal –individuals under active employees health plans</b>	<b>70,934</b>	<b>89%</b>
Retirees	9,125	11%
<b>Total number of eligible individuals</b>	<b>80,059</b>	<b>100%</b>

<sup>1</sup> Individuals who work on a part-time basis have an option to join the benefits plans by paying the full benefit premiums. Only those who joined the benefits plans are included in this number.

<sup>2</sup> The data dumps for dependents and spouses used for calculation of the number of eligible dependents were obtained as of June 30 of each year by the City’s Pension, Payroll and Employee Benefits Division.

*Different waiting periods and coverage for employees*

Non-union permanent employees, firefighters, and elected officials are entitled to employee health benefits on the first day of employment. Employees under different unions have various waiting periods before they are entitled to employee health benefits. Those who retired prior to the City’s amalgamation are covered under different grandfathered plans and have non-drug health benefits coverage for life. Those who retired after amalgamation have extended health benefits coverage up to the age of 65, with the exception of those employees who were eligible for grand-parented post-65 retiree benefits from their former municipalities.

Who is responsible for claims management

*The City is self-insured and has an Administrative Service Only contract with a benefits administrator*

The City is self-insured and has an Administrative Service Only (ASO) contract with a benefits administrator, who acts as the City’s contracted ‘agent’ in administering its employee benefits claims.

Under the ASO contract, the City pays an administrative fee to the benefits administrator for services that include claims adjudication, ongoing monitoring, and issuance of claim payments to eligible claimants, as well as prevention and detection of fraud or abuse, and investigative services. Through a funding float, the City pays the benefit claim payments issued to its benefits plan members.

***Manulife is the City's benefits administrator until December 31, 2016***

Manufacturers Life Insurance Company (Manulife) is the City's current benefits administrator. It has been the City's benefits administrator since June 1, 2000.

In response to a recommendation made by the Auditor General's Office in its 2007 report entitled "Employee Benefits Review," the City partnered with the Toronto Transit Commission and the Toronto Police Services Board to issue a joint Request for Proposal (RFP) for benefit plans administration in 2010. Manulife was the successful proponent of the RFP and was awarded the current five-year ASO contract covering the period January 1, 2012 to December 31, 2016. Under the current ASO contract, the administrative service fee is 1.65 per cent of total claims paid.

***Green Shield will be the City's new health benefits administrator effective January 1, 2017***

In July 2016, City Council awarded a new five-year health benefits ASO contract to Green Shield Canada covering the period January 1, 2017 to December 31, 2021. At the time of our audit, the terms and conditions of this new ASO contract are still being finalized.

***City staff oversee the benefits administration but are not involved in claims adjudication***

The City's Pension, Payroll and Employee Benefits Division (PPEB) is responsible for oversight of the employee benefits program, which includes extended health care and dental benefits. PPEB staff, however, are not involved in claims adjudication or the claims monitoring processes as these are the sole responsibilities of Manulife.

#### Benefit plan enrolment process

***Employees, spouses and dependents are eligible under the benefits plans***

To enroll for employee health benefits, City employees are required to complete a benefits enrolment form indicating spousal, dependent, and co-insurance information. No further documentation is required to substantiate information completed on the form, except for cases of adoption or legal guardianship, proof of student status for dependents over 21 and under 25 years of age, and dependents with disabilities. The same process is followed for changes including marriage and newborns. Manulife updates its system based on a weekly update on enrolment information received from PPEB.

### Drug claims submission process

***The majority of drug claims are submitted through pay direct drug cards***

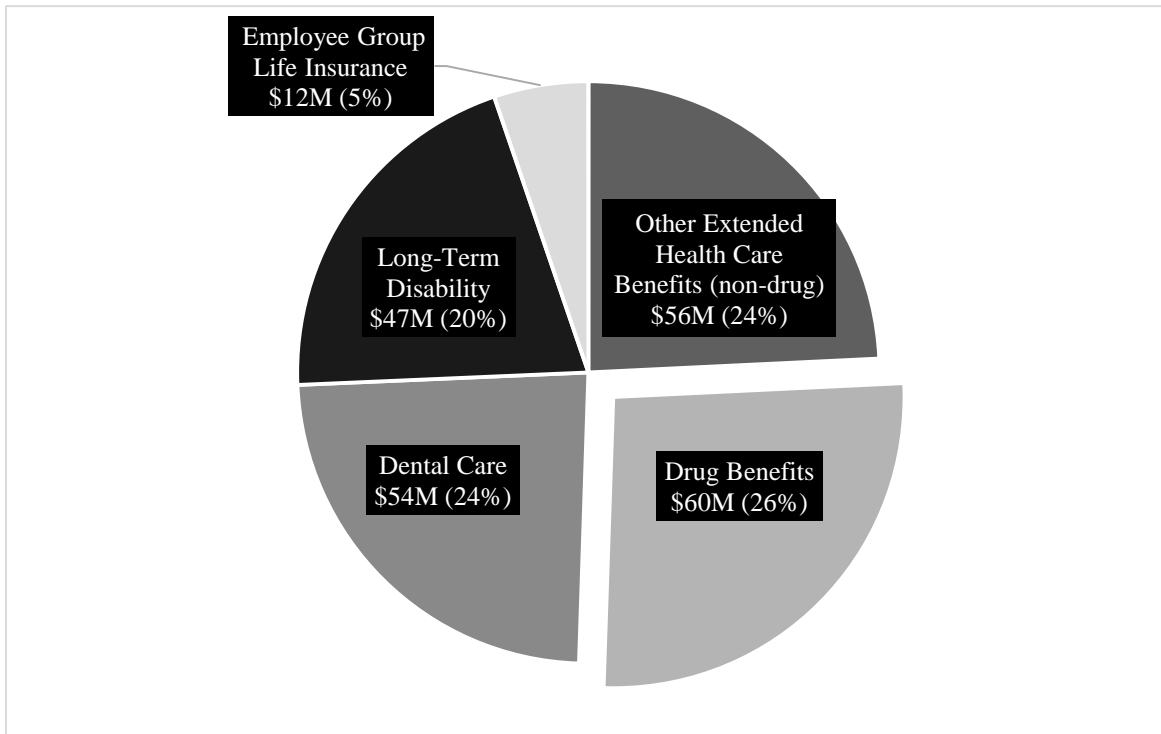
Claimants can submit claims to Manulife for adjudication through a pay direct drug card, provider eClaims, and paper claims. Provider eClaims is a new submission method launched on March 1, 2014 for paramedical services where the practitioners submit claims directly for claimants. The majority of drug claims are submitted directly by pharmacists through a claimant's pay direct drug card, whereas the majority of paramedical services claims are submitted via paper submissions.

### Cost of various health benefits

***2015 overall employee benefits cost \$229 million***

In 2015, the City spent approximately \$229 million to provide employee benefits including health, dental, group life insurance and long-term disability benefits coverage. Of this amount, \$116 million was for extended health benefits which cover such items as drugs, hospital, medical services and supplies, private duty nursing services, paramedical services, vision, out-of-country medical, and emergency travel assistance. Drug benefits represent more than half of the extended health care benefits payments, totaling \$60 million (i.e. \$54 million for drug expenditures and \$6 million for taxes and administrative fee) in 2015. Figure 1 shows the proportions of spending on these benefits in 2015.

**Figure 1: Percentage Spent on Various Benefit Cost Categories (including taxes and administrative fees) in 2015**



Source: Administrative Services Only (ASO) Report (2015) provided by PPEB

### Rising trend of drug benefits costs

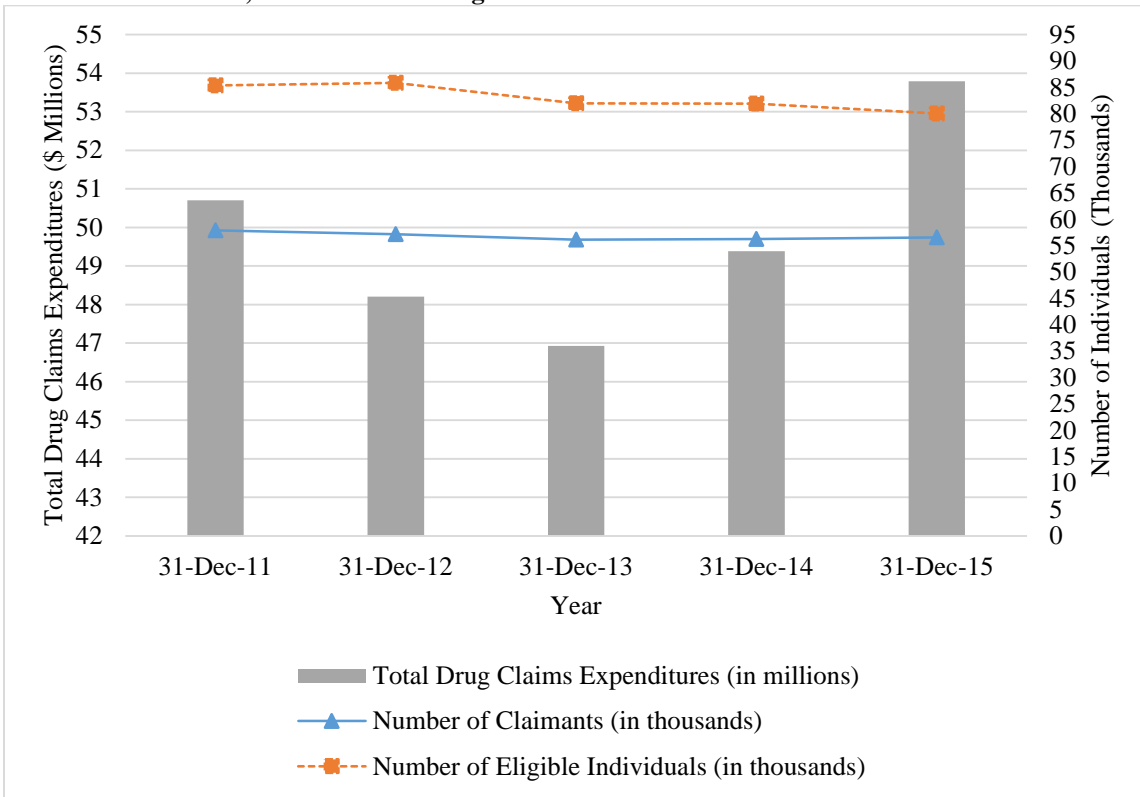
***Drug benefits increased 22 per cent over the past 10 years***

Over the past 10 years, cost of drug benefits, including prescription drugs and life sustaining over-the-counter drugs, increased 22 per cent, or \$11 million, from \$49 million in 2006 to \$60 million in 2015.

Figure 2 shows trends in drug benefits expenditures (excluding taxes and administrative fees) and eligible individuals from 2011 to 2015. Over the past five years, the number of eligible individuals and the number of claimants have not changed significantly. The drug claims expenditures have decreased from 2011 to 2013 due to factors including the introduction of the dispensing fee cap (discussed in section G of the report) but started increasing after 2013.

In the past five years, the average drug claim reimbursement per claimant increased 9 per cent from \$875 in 2011 to \$951 in 2015; the average number of drug claims increased from 13 claims per claimant in 2011 to 14 claims per claimant in 2015.

**Figure 2: Drug Claims Expenditures (excluding taxes and administrative fees), Number of Claimants, and Number of Eligible Individuals**



Source: City’s Payroll and Employee Benefits Division and Annual ASO Statements for 2011 to 2015

Our access to claims records processed by Manulife

***Phase One of the audit focuses on drug benefits***

Our audit is divided into two phases. Phase One of the audit, which is the subject of this report, focuses on drug benefits claims. Phase Two will focus on reviewing the drug claim files and the remaining extended health benefits and may include dental benefits. A separate audit on the City’s management of the Long Term Disability Benefits Program has been conducted by the Auditor General’s Office.

***Auditor General conducted audit under the City of Toronto Act using claims data provided to the City’s PPEB***

In accordance with subsection 179(2) of the *City of Toronto Act, 2006*, the Auditor General is entitled to access the records belonging to or used by the City to conduct the audit. The Auditor General, under the *City of Toronto Act*, has the statutory authority to conduct an independent audit of the City’s management of health benefit claims and claim records.



*Auditor General continues to work with all parties to access relevant claims information*

To date, the Auditor General has not been able to access claims files to review supporting documentation. Initially in the Long Term Disability Audit, there were also difficulties in accessing the claim files but these were resolved with Manulife.

It is important to note that the claims data analyzed by the Auditor General's Office contained no personal identifier information. In our follow up inquiries to Manulife, we did not request Manulife to provide any personal information to us.

*Manulife has provided audit staff with certain general control information*

As per standard audit procedures of the Auditor General's Office, audit staff have been providing their audit findings to Manulife throughout the audit process for its review and comment. Audit staff also invited Manulife to attend their meeting to discuss the preliminary audit findings. Over the course of our audit, Manulife has provided audit staff with certain information of its general control processes in drug claims adjudication.

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## **AUDIT RESULTS**

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This section of the report contains the findings from our audit work followed by specific recommendations.

### **A. POTENTIALLY EXCESSIVE CLAIMS AND REIMBURSEMENTS FOR CONTROLLED SUBSTANCES**

*City has comparatively higher percentage of claim expenditures and claim number in five disease categories*

Based on the 2013 to 2015 quarterly and annual claims reports Manulife provides to the City's PPEB, for the active employee plans, the City had higher percentages of expenditures and/or percentages of claims when compared to other organizations administered by Manulife in the following disease categories:

- Erectile dysfunction
- Hepatitis C
- HIV/AIDS
- Pain narcotic analgesics, and
- Preventative vaccines.

In particular, for erectile dysfunction drugs, the City's percentages of total reimbursements and total number of claims were four times that of those organizations administered by Manulife for each of the year from 2013 to 2015. For the remainder of disease categories, the City's percentage of total reimbursement costs or percentage of the number of claims were double the percentages of those organizations.

The variations between the City and other organizations administered by Manulife could be partly due to the different plan designs, coverages, and restrictions.

The three most commonly misused or abused controlled substances

Certain medications have a high tendency for misuse due to their psychoactive or mind-altering properties and the associated risk for psychological and physical dependence. Misuse of medication is commonly defined by medical professionals as use by people other than those to whom the medication is prescribed or used in a manner or for a purpose contrary to what is intended.

***Prescription opioids, sedatives, and stimulants have high tendencies for misuse and diversion***

According to the Canadian Centre on Substance Abuse, opioid pain relievers, sedatives, and stimulants are the three classes of controlled substances most commonly misused and have high tendencies for abuse and diversion. Long term use of these drugs can “lead to the development of tolerance, which serves to reduce the effects of the drug and prompts users to increase the dose to reinstate the desired effects.”

Table 2 below shows the purpose and effects of these drugs, and examples of common generic and brand name drugs under these categories.

**Table 2: Purpose, Effect, and Examples of Drugs for Prescription Opioids, Sedatives, and Stimulants and the Average Annual Benefits Cost Reimbursed by the City for these Drugs**

<b>Drug Class</b>	<b>Examples of drug</b>	<b>Drug purpose</b>	<b>Sample effects of drug use</b>	<b>Average annual benefits cost <sup>1</sup></b>
Opioid pain reliever	Methadone, Methadose, Morphine, Oxycodone, OxyNEO, Fentanyl	Prescription opioids are primarily used to treat acute and chronic pain, but they can be used to control persistent cough or diarrhea. They can also be used to treat opioid addiction under the supervision of a trained healthcare practitioner.	Reduce pain and improve function. Can produce a feeling of well-being or euphoria (“high”).	\$1.93 million
Sedatives <sup>2</sup>	Benzodiazepines: Clonazepam, Rivotril, Lorazepam, Ativan Non-benzodiazepine: Imovane Barbiturates: Nembutal, Amytal	Prescription sedatives are central nervous system depressants and are mainly used to relieve anxiety, nervousness, and assist with sleep problems.	Relieve mild to moderate anxiety and have a calming and relaxing effect.	\$515,790
Stimulants <sup>2</sup>	Methylphenidate, Ritalin, Concerta, Adderall	Prescription stimulants act to increase the level of activity of the central nervous system and are most commonly used to treat individuals diagnosed with attention-deficit hyperactivity disorder.	These medications are in the same drug class as cocaine and methamphetamine, and increase alertness, energy and attention.	\$680,954

Source: Canadian Centre on Substance Abuse

<sup>1</sup> This column is not from the Canadian Centre on Substance Abuse. It was calculated by the Auditor General Office using the City’s 2013 to 2015 claims data.

<sup>2</sup> Tampering of the pill (i.e. changing the form of the medication or route by which it is taken, or both) can produce euphoric effects.

### How we conducted our analysis

***Analysis based on the maximum recommended daily dosages***

For each of the above classes of controlled drugs, we compared the utilization of the frequently claimed drugs to the maximum recommended daily dosages under the prescribing guidelines of the manufacturers’ drug monographs.

For prescription opioids where there are no strict upper limits set by the manufacturer (e.g. Oxycodone, OxyNEO, Oxycocet), our comparison was performed against the equivalent of 200 mg morphine daily dose, which is considered a watchful dose for individuals without cancer according to the Canadian Guideline for Safe and Effective Use of Opioids for Chronic Non-Cancer Pain. We consulted the Ontario Pharmacists Association to ensure this is an appropriate method of comparison.

***Numerous cases of potentially excessive and unusual claims***

In our analysis of all drug claims for the years 2013 to 2015, we identified numerous cases of potentially excessive and unusual claims. We recognize that certain health conditions are complex and that safe and responsible prescribing, dispensing and patient education is important in order to prevent misuse.

We consulted staff of the Drug Information and Resource Centre (DIRC) of the Ontario Pharmacists Association on our findings. According to senior staff of the Association, while there may be legitimate reasons for what appears to an unusually high drug issuing pattern in certain cases, where such cases exist, it may be prudent to confirm whether the clinical condition justifies what appears to be high usage.

For the instances included in the following sections, we recognize that there may be possible medical reasons for obtaining and reimbursing the quantities of drugs in the cases we have observed. These unusual claims patterns, however, need to be followed up. When the Auditor General is able to access the claim files, she will conduct a further review of supporting documentation to assess the legitimacy of these claims.

**A.1. Potentially Excessive Claims and Reimbursements for Prescription Opioids**

Claims and reimbursements for Oxycodone

The City paid about \$2 million in annual reimbursements for prescription opioids. The common ones claimed by City plan members are OxyNEO, Oxycocet, Oxycodone, Methadose, methadone, Lenoltec, Suboxone, Fentanyl, and Tylenol No. 3.

***16 claimants were reimbursed an equivalent of 2 or more years' supply of Oxycodone within one year***

Based on our analysis of reimbursed claims, 16 claimants were reimbursed annual quantities equivalent to two or more years of Oxycodone and/or its brand name drugs (e.g., OxyNEO, Oxycocet) in at least one year between 2013 and 2015. The annual quantities reimbursed for several claimants were four times the maximum annual supply or higher.

In particular, seven claimants (all under the active employee benefits plans) were reimbursed for more than a two-year supply of Oxycodone and/or its brand name drugs in each of the three years 2013 to 2015.

#### Claims and reimbursements for Fentanyl

***Fentanyl is a potent drug and can be easily misused***

Fentanyl is a painkiller 100 times more potent than morphine and 750 times stronger than codeine. Fentanyl patches are designed to provide hours of steady relief for people suffering from severe chronic pain. However, they can be easily misused by chewing cut-up pieces of the patch, scraping out the gel in the patch to smoke, or through injections. Along with Oxycodone, it is also one of the most common prescription opioids used by members under the City employee benefits plans.

For those City plan members who were reimbursed Fentanyl, the majority of them claimed the Fentanyl (25 mgc/hour) patches. According to the drug monograph, Fentanyl patches are, in general, effective up to 72 hours. Based on this, a general yearly supply would be 122 patches per individual.

***32 claimants were reimbursed an equivalent of more than 18 months of Fentanyl supply within a one-year period***

Based on our analysis, 32 claimants (28 of them were under active employee benefits plans and four were retirees) were reimbursed annual quantities equivalent to more than 18 months' supply (i.e. more than 183 patches) of Fentanyl (25 mgc/hour) patches in at least one year between 2013 and 2015. The annual quantity of patches reimbursed to these individuals ranged from 19 months to 6.7 years of supply. Of these 32 claimants, seven had more than 18 months' supply in each of the three years, and all were under the active employee benefits plans at the time of the claims.

Using the equivalent of 200 mg morphine daily dose of Fentanyl (50 mcg/ hour or 2 patches per day) as the basis of our analysis, 14 individuals (13 under the active employee benefits plans) were reimbursed for more than 18 months' supply (i.e. more than 366 patches) in at least one year during the three-year period. The annual quantity reimbursed to these individuals ranged from 19 months to over 3 years' supply. Of these 14 individuals, four had more than 366 patches in each of the three years.

## **A.2. Potentially Excessive Claims and Reimbursements for Prescription Sedatives and Stimulants**

Based on 2013 to 2015 data, the City paid an annual average of \$515,790 for prescription sedatives, and \$680,954 for prescription stimulants. Prescription sedatives and stimulants are among the many classes of controlled substances that the federal government has "*categorized as having a higher than average potential for abuse or addiction.*"

*44 claimants were reimbursed 2 or more years supply of prescription sedatives within a year*

We assessed the utilization of the top five benzodiazepines and two non-benzodiazepine sedative drugs. A total of 44 claimants were reimbursed an equivalent of two or more years supply within a one-year period. Three claimants, in particular, were reimbursed annual quantities equivalent to four to six years of supply.

*6 claimants were reimbursed at least an 18-month supply of prescription stimulants within a year*

Similarly, our analysis of the top three attention deficit disorder (ADD) drugs found that six claimants were reimbursed an equivalent of 18 months' or more supply of at least one of the ADD drugs within a year.

According to Manulife, similar to all other drug claims, the claims for prescription sedatives and stimulants are subject to Manulife's general controls and audits process.

### **A.3. Efforts to Determine Legitimacy of these Claims**

***Manulife is required to analyze and identify unusual claims trends, and detect service providers over-prescribing medications***

Under the current ASO contract, Manulife is required to have “*sophisticated tools to analyze and identify unusual claims trends indicating possible fraud or abuse.*” In particular, it is required “*to have the ability to monitor claims history for individual insureds as well as the ability to detect service providers who may be over-prescribing medications and/or treatments to insureds.*” It will also provide “*proactive advice and information specific to trends (i.e. costs, claims experience)*” to the City.

***City staff have no knowledge of Manulife’s tolerance levels to trigger investigations or how it controls or monitors high risk drugs***

In addition, Manulife indicated in its bid proposal to the City that it analyzes “*narcotics utilization over a period of time with predefined assessment criteria*” to provide a “*risk-based score*” on multiple factors. This allows Manulife to “*identify individuals that display behaviors that are potentially suggestive of abuse or overuse of narcotics.*”

We were informed by PPEB management that the City does not have detailed information on Manulife’s controls or information on tolerance levels set by Manulife to trigger investigations. The City also did not play a role in establishing the tolerance levels.

***Manulife advised that it has a comprehensive program for drug claims adjudication and monitoring***

In response to our inquiries, Manulife indicated that it has a comprehensive program that includes system controls and analytics to adjudicate drug claims.

***Need to review claims files to confirm accuracy***

Furthermore, City staff indicated that Manulife requires a pre-authorization form prior to reimbursement for certain drugs, including prescription opioid drugs. The prescribing physician completes the medical information section of the form indicating the drug strength, dosage and medical history of the individual. However, without access to review the claim files, we could not verify the accuracy of these claims.

*The Provincial Narcotics Monitoring System is not designed to monitor the City's claims*

A new Ontario Narcotics Monitoring System became effective May 2012. According to the Ontario Pharmacists Association, although the System helps identify and alert pharmacies of potential misuse of monitored drugs, it is intended to be a tool to assist stakeholders, and it is not the responsibility of the System to monitor City of Toronto's claims. As a community, we all need to be vigilant and raise a concern if there appears to be unusual patterns of claims.

*Potential "red flags" warrant further follow up by City staff with Manulife*

We recognize that there could be medical conditions requiring a large quantity of drugs as observed in the above cases. We also recognize that Manulife, according to the information it has provided for the audit, has put in place certain controls on drug claims. However, we cannot at present determine whether the above claims are medically justified without further claim information. Given the frequency and the potentially excessive level of controlled substances dispensed and the tendency for misuse, in our view, they constitute potential "red flags" that warrant further follow up by City staff with Manulife.

## **B. POTENTIALLY EXCESSIVE CLAIMS AND REIMBURSEMENTS FOR ERECTILE DYSFUNCTION DRUGS**

*The City paid approximately \$1.9 million for erectile dysfunction drugs in 2015*

Reimbursement for erectile dysfunction drugs was approximately \$1.9 million in 2015. The annual benefits payment for this type of drug increased 18 per cent from 2013 to 2015.

The top two drugs alone (Cialis and Viagra) accounted for 79 per cent of the total erectile dysfunction drugs cost. Table 3 shows the dosage and administration, and the intended usage of Cialis and Viagra, as well as their average cost per tablet (including dispensing fee) based on the 2015 claims data.



**Table 3: Administration, Intended Usage, and Average Cost of Cialis and Viagra**

<b>Drug Name</b>	<b>Drug Administration</b>	<b>Duration of Drug Effectiveness<sup>1</sup></b>	<b>Intended Treatment</b>	<b>Yearly quantity based on maximum recommended dosing frequency</b>	<b>Average Cost per Tablet <sup>2</sup></b>
Cialis (once-a-day)	Daily-Use	Continuous up to 24 hours	Treatment of erectile dysfunction and/or benign prostatic hyperplasia	365	\$5
Cialis	On-Demand <sup>3</sup>	Up to 36 hours	Treatment of erectile dysfunction	Not recommended for continuous daily use	\$18
Viagra	On-Demand <sup>3</sup>	Up to 4 to 5 hours	Treatment of erectile dysfunction	365	\$11

Source: *Cialis Product Monograph, March 15, 2016; Viagra Product Monograph, May 26, 2015*

<sup>1</sup> Harvard Health Publications, Harvard Medical School – Harvard Men’s Health Watch: Which drug for erectile dysfunction, June 2014

<sup>2</sup> AGO calculated from 2015 claims data

<sup>3</sup> Drugs that are supposed to be taken as needed. The maximum recommended dosing frequency is once per day.

While there are different dosages and forms of erectile dysfunction drugs, the majority of them have a maximum daily dosage. Therefore, in general, a claimant should not be reimbursed for more than a year’s worth of supply within a one-year period unless it is for exceptional reasons such as vacation supply, lost drugs, or when the drug is used for off-label purposes (i.e. for conditions different from the one that is officially approved).

Instances of large quantities of drug dispensed

***16 individuals were reimbursed more than 13 months’ supply of once-a-day Cialis***

For the 5mg once-a-day Cialis, 16 claimants were reimbursed more than 13 months’ supply (i.e. more than 395 tablets) in at least one year between 2013 and 2015, with the highest annual quantity of 600 tablets. Several of these individuals were also reimbursed on-demand erectile dysfunction drugs in the same year they claimed the once-a-day Cialis.

***65 individuals were reimbursed 180 or more tablets of on-demand erectile dysfunction drug***

In addition, using the maximum strength dosage as the basis of analysis, 65 claimants were reimbursed an annual quantity of 180 or more tablets of different on-demand erectile dysfunction drugs in at least one year between 2013 and 2015. Five of these claimants were reimbursed 360 or more tablets in a year.

We noted patterns of claimants obtaining a large quantity of the same, or combination of, different erectile dysfunction drugs from different pharmacies within a one-year period.

***Certain claims for on-demand erectile dysfunction drugs appear to be excessive in quantity***

In particular, the Cialis on-demand drugs are not recommended for continuous daily use according to the manufacturer's drug monograph. However, using the maximum strength dosage as the basis of analysis, 41 claimants were reimbursed a total of 180 to 360 tablets within a one-year period. Four of these claimants had more than 180 tablets per year in two consecutive years.

Assessing the need for an annual coverage limit

***The City's plans have no benefits cap for erectile dysfunction drugs***

Currently, the City's benefits plans do not have a maximum annual coverage limit on erectile dysfunction drugs. Table 4 shows the distribution of claimants by amounts reimbursed.

**Table 4: Percentage of Claimants by Average Reimbursement Amounts**

<b>Average Reimbursement per Year</b>	<b>Percentage of Total Claimants (average number of claimants)</b>
Below \$500	61% (1,879 claimants)
\$500 - \$1,000	20% (625 claimants)
Above \$1,000	19% (570 claimants)

***Most claimants were reimbursed less than \$500 in a year***

*Source: AGO calculated from 2013 to 2015 claims data*

***Claims from a small number of individuals account for more than a quarter of the total cost for this type of drug***

The majority of claimants were reimbursed for less than \$500 of erectile dysfunction drugs in a year. However, 261 claimants received over \$1,000 in reimbursement of this type of drug for each of the years from 2013 to 2015. In 2015, this small number of claimants alone accounted for 27 per cent, or nearly \$0.5 million, of the total cost for this type of drug.

*More individuals were claiming large amounts of these drugs since 2014*

In addition, the number of individuals claiming a high amount of this type of drug has increased substantially in the past three years. In 2013, none of the claimants claimed more than \$3,000 in erectile dysfunction drugs. However, in 2014, 21 claimants were reimbursed for more than \$3,000, and this increased to 37 claimants in 2015. Of the 37 individuals, five claimed, and were reimbursed, more than \$5,000 each in 2015 for either a single or a variety of on-demand erectile dysfunction drugs or a combination of on-demand and once-a-day drugs.

*Annual potential savings if a benefits cap is established*

By establishing an annual benefits coverage limit of \$1,000 for erectile dysfunction drugs, the City may realize potential annual savings of \$300,000. For a maximum limit at \$500, the annual potential savings could be \$750,000.

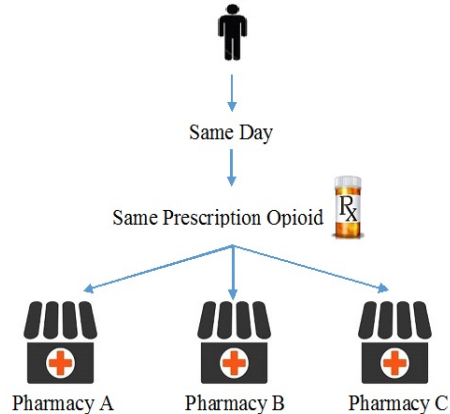
**Recommendations:**

- 1. City Council request the Treasurer to review, identify, and verify with Manulife the validity of claims where excessive quantities of drugs were reimbursed, in particular, for the prescription opioids, sedatives, stimulants, and erectile dysfunction drugs, and, if appropriate, take steps to recover any overpayments.**
- 2. City Council request the Treasurer to ensure the City only reimburses claimants with eligible expenses that are medically necessary for the treatment of sickness or injury in accordance with the City's policy. Actions to be considered include:**
  - a. Ensuring the new plan administrator has adequate controls in place when adjudicating controlled substances and erectile dysfunction drugs in order to verify legitimacy of claims when total quantity dispensed exceeds a year's supply based on the maximum recommended dosages of the drug; and**
  - b. Working with the new plan administrator to determine and agree on acceptable tolerance levels that will trigger further investigation on suspicious drug claims.**

3. **City Council request the Treasurer to undertake necessary steps to ensure the City’s benefits plans are cost-effective and follow industry standards and best practice, including but not be limited to:**
  - a. **Consultation, on a regular basis, with industry experts and the new plan administrator to identify industry standards and acceptable practices for drug benefit coverage limits, particularly in areas where utilization by the City’s members is significantly higher than industry standards or benchmarks; and**
  - b. **Recommending reasonable maximum plan coverages for the appropriate drugs with consideration for special circumstances.**

## C. UNUSUAL CLAIMS AND DISPENSING PATTERNS

### C.1. Prescription Opioids Dispensed at Different Pharmacies on the Same Days



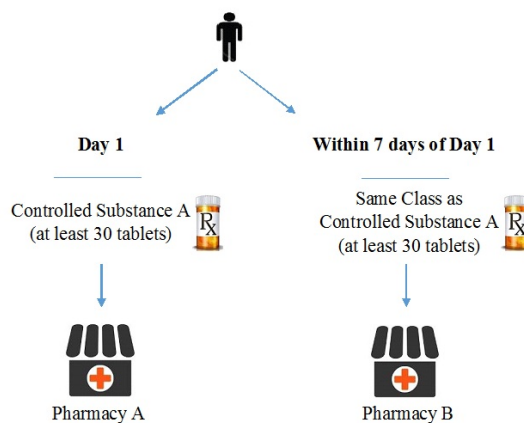
***Methadose and methadone can be dispensed more than once a day but should be dispensed from the same pharmacy***

Some prescription opioids, such as Methadose and methadone, can be dispensed more than once a day (i.e., dispensed one witnessed dose that is to be taken at the pharmacy and other carrier doses dispensed to take home). Our review of the literature indicated that the witnessed and take home doses should be dispensed from the same pharmacy in order for effective treatment against opioid dependence, and to prevent misuse and diversion.

***Claimants obtained the same prescription opioid at different pharmacies on the same day***

However, we noted that 27 claimants were dispensed the same prescription opioid (methadone, Methadose, Suboxone, and buprenorphine-naloxone) at different pharmacies on the same days. In total, these 27 claimants made 1,008 such claims. For example, in one particular case, a claimant had seven occasions within a year where Methadose was obtained from three different pharmacies on the same day.

## **C.2. Controlled Substances Dispensed at Different Pharmacies within Seven Days**



***Potentially inappropriate prescription if it was filled within seven days***

According to the Canadian Medical Association, for controlled substances (i.e., prescription opioids, sedatives, and stimulants), a prescription was “*deemed potentially inappropriate if it was dispensed within 7 days of an earlier prescription and was for at least 30 tablets of a drug in the same class as the earlier prescription, but originated from a different physician and a different pharmacy.*”

***237 claimants’ claim patterns for controlled substances require further follow-up***

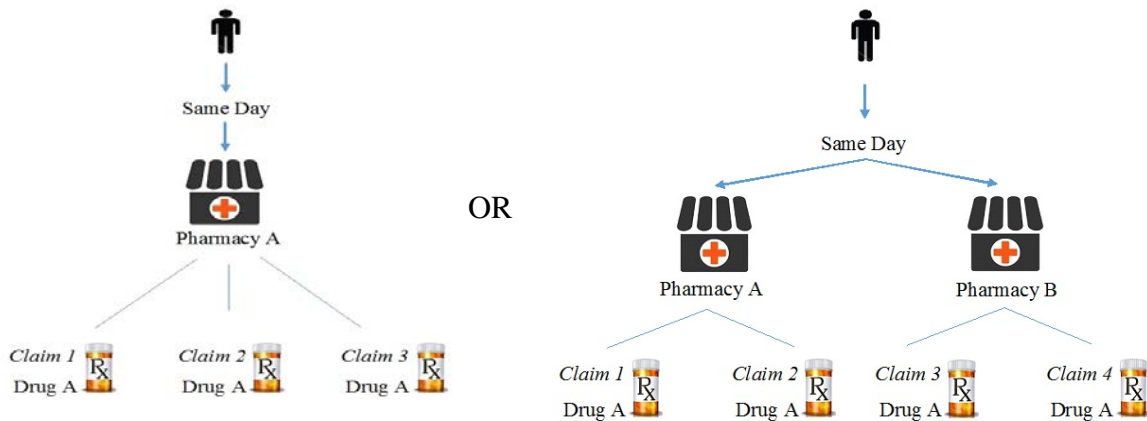
From our analysis of prescription opioids, sedatives, and stimulants drug claims over the three-year period from 2013 to 2015, 237 claimants had a total of 303 instances where the second drug claim for the controlled substance was made at a different pharmacy within seven days of an earlier claim for the same class of drug. Both the first and second claims were for at least 30 tablets. Table 5 shows the breakdown of these instances.

**Table 5: Number of Instances Where the Second Drug Claim Was Made within 7 Days of an Earlier Claim for the Same Class of Drug**

	Number of Instances	Number of Claimants
Prescription opioids	278	216
Prescription sedatives	11	8
Prescription stimulants	14	13
<b>Total</b>	<b>303</b>	<b>237</b>

Source: AGO calculated from the 2013 to 2015 drug claims data

### C.3. Multiple Claims and Reimbursements for the Same Drug on the Same Day



*Obtaining the same drug multiple times on the same day could be a potential “red flags”*

When an individual is dispensed the same drug multiple times on the same day, it could be indicative of potential misconduct such as “double-doctoring” (obtaining multiple prescriptions from multiple physicians without informing them of the other prescriptions received within the past 30 days), prescription forgery, or duplicate billing.

*Claimants were reimbursed the same drug multiple times on the same day*

After excluding those drugs that can be dispensed multiple times on the same day, such as methadone and its brand name drugs, Suboxone, buprenorphine-naloxone, and the DIN that is used for out-of-country drug claims, we identified 1,871 claims, made by 348 claimants, that were reimbursed for the same drug multiple times on the same dispensing days. The total reimbursement for these 1,871 claims was \$2.6 million over the years 2013 to 2015.

These claims were mostly for Hepatitis C, high blood pressure, high cholesterol, and cardiovascular disease. The claims for Hepatitis C alone accounted for about \$2 million as the drugs for treatment of Hepatitis C are expensive. Table 6 below shows that most of the claims were made at the same pharmacies.

**Table 6: Number of Claims for the Same Drug on the Same Day Made at the Same Pharmacies or at Different Pharmacies from 2013 to 2015**

<b>Common Disease Category</b>	<b>Claims Made at the Same Pharmacy</b>	<b>Claims Made at Different Pharmacies</b>
Hepatitis C	285	-
High blood pressure	172	58
High cholesterol	98	30
Cardiovascular disease	95	7
Others	911	215
<b>Total</b>	<b>1,561</b>	<b>310</b>

*Source: AGO calculated from 2013 to 2015 drug claims data*

In response to the City and our questions about the legitimacy and accuracy of these claims, Manulife indicated that it has controls in place to prevent processing of duplicate claims, and that reasons such as vacation supplies may justify an individual submitting multiple claims for the same drug on the same day. We have asked City staff to follow up and verify the legitimacy of these claims.

**Recommendations:**

- 4. City Council request the Treasurer to follow up with Manulife on the questionable claims and utilization patterns for prescription opioids, sedatives, and stimulants drugs, including requesting further investigation by Manulife where needed and taking steps to recover overpayments, where appropriate.**
- 5. City Council request the Treasurer to ensure the new plan administrator assesses utilization patterns of claimants, in particular, with respect to prescription opioids, sedatives, and stimulants with agreeable predefined criteria and tolerance levels.**

#### **C.4. Efforts to Review Effectiveness of Claims Administration Services Need Improvement**

*High-level analysis is performed on data*

On an annual basis, Manulife provides the City with claims data in the form of a data dump, from which a PPEB staff member performs a high-level analysis, including overall trend analysis and utilization cost by City division groups.

As part of the annual analysis, the PPEB staff member identifies claimants with high claim amounts in drugs, extended health, and dental benefits. A list of claimants with high reimbursements is then forwarded to Manulife, who then provides responses to PPEB.

*Analysis should be performed on high risk drug and disease categories*

In our view, PPEB's analysis could be more effective if it includes additional analysis of high risk drugs or disease categories, particularly for those which the City incurred higher claimed amounts than industry benchmarks.

#### **Recommendation:**

- 6. City Council request the Treasurer to regularly conduct detailed reviews of drug benefit claims history by high-risk drug categories that are commonly subjected to misuse or abuse, and on drug categories for which the City incurs significantly higher utilization and claims cost than industry standards.**

### **D. REIMBURSEMENTS FOR OVER-THE-COUNTER DRUGS**

#### **D.1. Ensuring Evidence to Support the Claim Reimbursements**

*Over-the-counter drugs are covered by the benefits plan if they are for life sustaining purposes*

In addition to coverage for prescription drugs, the City's benefit plans also cover certain life sustaining over-the-counter drugs.

In 2015, the City reimbursed about \$189,000 for over-the-counter drugs. The majority of this amount (\$166,000) was for nonsteroidal anti-inflammatory drugs (NSAIDs) for analgesic, fever-reducing, anti-inflammatory, or blood thinning purposes to prevent strokes. The drugs under this category include Entrophen 325 mg or 81 mg, Aspirin regular strength or 81 mg, and Asaphen.



*Certain over-the-counter drugs reimbursed do not appear to be life-sustaining*

A small amount of over-the-counter drug reimbursements, approximately \$64,205 over three years (and approximately \$22,400 in 2015), were for skin conditions, miscellaneous eye disease, allergy, sunscreen agents and cough and cold that do not appear to have a life sustaining purpose.

Manulife indicated that it has controls in place to ensure supporting documents (where needed) are obtained prior to reimbursing these claims. Further follow up will be needed to assess the legitimacy of these claims.

## **D.2. Large Proportion of Reimbursements Are for Dispensing Fees**

Over-the-counter drugs are medications that can be purchased without a prescription such as off-the-shelf Aspirin. However, in order to have the purchases reimbursed under the benefits plan, Manulife requires that the purchases be processed by licensed pharmacists following the same claim submission process for prescribed medication.

As a result, each over-the-counter claim will incur a drug dispensing fee under the current Manulife process. Of the over-the-counter drug claim costs paid by the City, a large proportion was for dispensing fees rather than the cost of the drug itself.

*67% of the reimbursement for over-the-counter drug claims was for dispensing fees*

From 2013 to 2015, the City paid a total of \$564,590 for over-the-counter drugs, in which about 67 per cent, or \$375,906, was for dispensing fees. For instance, in 2015, a number of claimants who obtained Aspirin were reimbursed, on average, \$14 for each claim, in which \$9 was for the dispensing fee, and only \$5 was for the medication.

In our view, it may be worthwhile for the City to work with its next benefits administrator to develop ways to reimburse over-the-counter drug claims without incurring dispensing fees.

**Recommendation:**

- 7. City Council request the Treasurer to ensure the City only reimburses over-the-counter drug claims in accordance with City policies and to ensure cost effective reimbursement of over-the-counter drug claims. Steps should be taken but not be limited to:**
  - a. Following up with Manulife to validate the eligibility of over-the-counter drug claims to ensure they meet the life sustaining requirements in the City's policies and recover any ineligible amounts paid;**
  - b. Ensuring the new plan administrator has a process in place to obtain evidence of life sustaining purpose when reimbursing over-the-counter drugs in accordance with City policies; and**
  - c. Working with the new plan administrator to develop ways to minimize the cost of dispensing fees for eligible over-the-counter drug claims.**

**E. PHYSICIAN AND PHARMACY INFORMATION SHOULD BE PART OF ADJUDICATION**

*Physicians and pharmacists are key in the drug claims adjudication process*

Physicians play a key role in controls over drug benefit claims because the drugs dispensed and reimbursed should be in accordance with physicians' prescriptions. Pharmacists also play a key role as they are responsible for dispensing the drugs in accordance with the Standards of Practice developed by the National Association of Pharmacy Regulatory Authorities.

There have been reported cases of pharmacist misconduct in the news media, such as cases where pharmacists made claims to a province's drug program for dead patients; created fake prescriptions; submitted claims with incorrect information on prescribing physicians whose license had been revoked; submitted claims for patients who stopped using the drugs, and billed multiple claims.

It is crucial that a drug claims adjudication process verifies both the physician's and pharmacist's license statuses to identify claims that were prescribed by physicians or dispensed from pharmacists whose licenses have been revoked or suspended.

***Physician and pharmacist license information is publicly available***

The College of Physicians and Surgeons of Ontario maintains a public registry that includes information about every doctor licensed to practice medicine in Ontario. The public register contains information of allegations of professional misconduct or incompetence, and results from Discipline Committee Hearings.

The status of a pharmacist can be obtained from the Ontario College of Pharmacists. The disciplinary files of pharmacists are maintained and posted at the Canadian Legal Information Institute.

Recording of physician, pharmacist, and pharmacy information in a claims management system is key to detecting potential errors or misuses such as double-doctoring, and billing errors from pharmacies.

Over the three years from 2013 to 2015, there were 12,884 drug claims with a total payment of \$323,933 with neither the pharmacy name nor a pharmacy identification number indicated. In addition, there were 46,945 drug claims without a pharmacy name, but had a pharmacy identification number, which appeared to be a general number to indicate the province in which the pharmacy was located. These claims had a total payment of \$3.5 million.

**Recommendation:**

- 8. City Council request the Treasurer to ensure the new benefits plan administrator reviews the status of physicians and pharmacists when adjudicating drug claims, and identifies claims where the drug was prescribed and/or are dispensed by physicians and pharmacists whose licenses have been revoked or suspended. The Treasurer should also ensure pharmacy names or pharmacy unique identifiers are part of the adjudication process for all drug claims.**

**F. DISPENSING FEES OVER THE PLAN COVERAGE  
MAXIMUM WERE PAID**

The City's benefits plans include coverage for drug dispensing fees to a maximum limit. The benefits administrator should reimburse dispensing fees according to the maximum limit stipulated in each benefit plan.

*Most active employees' claims are subjected to a maximum dispensing fee of \$9*

For active employees, their spouses and dependents, and certain groups of retirees, the majority of drugs are subject to a maximum dispensing fee of \$9 under the City's benefit plans. Exceptions to this limit are either compound drugs for which a pharmacist combines, mixes or alters ingredients of a drug to create a medication tailored to the need of the individual, or an exception approval is granted to allow a higher dispensing fee amount.

*From 2013 to 2015, 22,269 claims were reimbursed for above the allowable dispensing fee limit*

As part of our audit, we reviewed dispensing fees reimbursed by Manulife for active employees and their spouses and dependents, and retirees subject to the \$9 maximum reimbursement limit. We noted that a total of 22,269 drug claims were reimbursed for dispensing fees higher than the \$9 maximum. These claims were for specific drugs (e.g., erectile dysfunction, birth control, depression) with specific Drug Identification Numbers (DIN), and therefore, are unlikely to be for compound drugs. DIN is a unique identifier assigned by Health Canada to a drug product prior to it being marketed in Canada.

*Estimated \$180,000 excess dispensing fee reimbursed over 3 years*

Based on our review results and subject to the receipt of further information from Manulife, the additional dispensing fee reimbursed (above the \$9 maximum), and the related administrative fees, amount to approximately \$180,000 over the three years from 2013 to 2015.

**Recommendations:**

- 9. City Council request the Treasurer to identify and review with Manulife all applicable claims where dispensing fees were paid above the \$9 plan limit and, if appropriate, recover overpayments.**
- 10. City Council request the Treasurer to ensure the new employee health benefits plan administrator has proper controls in place to restrict dispensing fees to the coverage limit, and City staff undertake periodic reviews to ensure the City is only charged the dispensing fees up to the established limit.**

**G. OPPORTUNITIES TO REDUCE DRUG BENEFITS COSTS**

**G.1. More Cost Containment Strategies Needed for Drug Benefits**

*Two major changes to drug benefits over the past 10 years*

Cost containment strategies are ways to help control the growth of benefits expenditures. Over the past 10 years, the City has made two major changes to the drug benefits.

*Significant cost savings from dispensing fee cap*

First, the City introduced a \$9 dispensing fee cap effective in 2012 for unionized members, and in 2013 for non-unionized members and members of the firefighters association. According to PPEB management, this initiative achieved significant cost savings for the City.

*Potential savings from mandatory generic drugs*

Second, the change from generic prescription to mandatory generic prescription effective May 2016 for unionized members and January 2017 for non-unionized members. Since the mandatory generic prescription provision has just been recently implemented for unionized members, the related cost savings is unknown at the time of our audit.

*City has yet to initiate Preferred Provider Network of pharmacists*

In December 2013, City Council authorized City staff to enter into agreements with pharmacists for the purpose of implementing a Preferred Provider Network (the Network) of pharmacists. The Network aims at reducing the administrative costs associated with dispensing drugs. Such a Network was to be implemented in the latter part of 2014 and if proven successful, City staff would evaluate expanding the network to cover other health services.

At the time of our audit, the Network has not yet been implemented.

## **G.2. Better Usage of Drug Benefits Information for Health Promotion**

***Manulife provides quarterly claims reports to PPEB outlining trends and common areas of drug claims***

Manulife provides PPEB staff with quarterly claims reports. These reports contain useful information on drug claims such as trend information, top drugs by amount or by number of claims, and common health areas where drugs were being reimbursed. This information could help the City identify potential areas of health concerns for City employees.

Based on the 2013 to 2015 claims data, the top five health problems encountered by City employees, their spouses and dependents were consistent over the three-year period from 2013 to 2015. Table 7 below shows these top five health problems, some of which relate to lifestyle and individual behaviors.

These health problems, accounted for about one-third of the total drug costs in these three years, are consistent with the information contained in the quarterly claims reports provided by Manulife to PPEB.

***Top 5 health problems accounted for about one-third of total drug cost***

**Table 7: Top Five Health Problems of City’s Employees, Spouses and Dependents under the Active Employees Benefit Plan from 2013 to 2015 (Ranking Based on Number of Claims in 2015)**

1.	High blood pressure
2.	Pain narcotic analgesics
3.	Infections
4.	Depression
5.	High cholesterol

*Source: AGO calculated from 2013 to 2015 claims data*

***Report on common health problems may be useful for the City’s wellness programs***

PPEB staff advised that, currently, the report for common health problems is not shared with the City’s Employee Health and Rehabilitation team. This information could be valuable to City staff in planning and developing effective employee wellness programs.

**Recommendations:**

- 11. City Council request the Treasurer to implement the Preferred Provider Network of pharmacists as authorized by the City Council in December 2013.**
- 12. City Council request the Treasurer to ensure more effective coordination and sharing of drug benefits report information between the Pension, Payroll and Employee Benefits Division and the Employee Health and Rehabilitation team to facilitate development of wellness initiatives amongst City employees.**

The findings in the following sections are not exclusively for drug claims benefits, but pertain to overall extended health benefits and were derived as part of our audit work initially focusing on drug claims.

## **H. REVERSAL, OFFSETTING ENTRIES AND ELIGIBLE INDIVIDUALS**

### **H.1. Potential Errors Relating to Billing Reversal and Offsetting Entries**

*Various reasons for which Manulife may need to reverse a paid claim*

After Manulife processes and reimburses a claim, it can later make a transaction entry to reverse it for various reasons, for example:

- Ineligible claims, including cases where lifetime maximums have been met; the claimed expense is not covered under the plan; altered receipts; and inadequate information to process the claim
- Adjusting entries for human or pharmacy errors, including reassessment of claims resulting in revised reimbursement, and replacement cheques.

According to Manulife, reversals are commonly done for out-of-country claims.

*The City should be credited for certain billing reversals*

Depending on the reason for the reversal, in some cases, a claim credit should be issued to the City due to ineligible claims. In other cases, a refund to the City would not be warranted such as in the cases of replacement cheques.

***Reversing entries were made for claims paid years ago***

From our analysis of the 2013 to 2015 claims data, the majority of reversal and offsetting entries were for non-drug health claims, such as vision and orthotic. Many of the reversing entries were for claims initially reimbursed years ago, some dating back to year 2000.

***Offsetting entry was made to net out reversal of a claim, resulting in a zero credit to the City***

In our review of claims transaction data, we noted that frequently, when Manulife made a reversing entry to remove the original claim from the City's claim history, Manulife also made an offsetting entry to net out the reverse claim amount in the year the reversal was performed. This resulted in a zero credit to the City even though the City had already paid for the original claim submitted in the past. In most cases, the reasons for making the reversing and the offsetting entries were not specified.

City staff and our Office continue to obtain further information from Manulife to enable us to identify reverse entries due to ineligible claims or processing errors from which the City should receive recoveries.

***The City is not provided with detailed information to support invoiced amounts and reversals made***

Manulife does not regularly provide PPEB staff with detailed list of reversal and offsetting entries. Detailed information pertaining to reversals, such as reasons for the reversals and related offsetting entries, and amounts recovered from claimants by Manulife, would assist City staff in reviewing the accuracy of the invoiced amounts. Without detailed billing information, we are concerned that City staff cannot ensure that all ineligible claims and errors are identified and reported back to the City, and that the correct and complete amounts are recovered by the City. This is of particular concern since the current contract with Manulife will expire by the end of 2016.

***Further clarification on the reverse transactions is needed***

Based on our analysis, for the three-year period from 2013 to 2015, the reversal transactions in question totaled approximately \$2 million. There may be various explanations for reversals and the manner in which they are undertaken by Manulife.



At the time of this report, Manulife has not provided all of the requested details to allow us to determine the correctness of making such reversal and offsetting entries. Hence, we were not able to determine whether the City overpaid any reversal transactions without further information from Manulife. We have provided our analysis results to City staff to follow up with Manulife.

At the same time, we also continue to work with Manulife to clarify the reversal and offsetting transactions in question.

**Recommendations:**

- 13. City Council request the Treasurer to review and identify, for the periods covered under the current and previous employee health benefits administration contracts with Manulife, all cases of billing reversals for health benefits claims where the City should receive a recovery, including those made for ineligible claims and/or result of errors. Where overpayments are identified, steps should be taken to ensure the City recovers all overpayments.**
- 14. City Council request the Treasurer to require the City's new employee health benefits administrator to provide City staff with all necessary supplementary information to support invoiced amounts to assist the City's review of accuracy of invoiced amounts, reasonableness of billing reversals, and of the related recoveries.**

## **H.2. City and Manulife Do Not Have Complete Eligibility Information for Plan Members**

***Important to have complete and accurate eligibility data in managing the claims***

The City, as the plan sponsor, and Manulife, as the plan administrator, should have accurate and complete eligibility information for all eligible individuals under the benefits plans to ensure benefits coverage is only provided to eligible individuals.

The current enrolment process to the benefits plans requires employees to complete an enrolment form with information on spouses, dependents and co-insurance. No other supplementary information is required. This information is then input into the City's system and then to the Manulife's system through a weekly update.

Accurate information on the age of each eligible dependent and spouse is key to both the City's and Manulife's systems. This is because the City's benefits coverage to dependents are age-specific. Dependents are only eligible for benefits coverage if they are unmarried children who are under 21 years of age; are over the age of 21 and under 25 who are in school; or are over 25 and have a disability. Accurate information on ages of spouses also allows City staff and Manulife to assess the reasonableness of claim coverage and detect instances where notice of a deceased spouse may not have been received.

### Lack of accurate dates of birth in benefits plan systems

***32 spouses under the benefits plans are 100 years or older***

Based on our review of the 2013 to 2015 eligibility information generated from the City's system, 32 spouses with active benefits coverage have a date of birth of 1915 to as early as 1901 (i.e. older than 100 years as of 2015).

***14 spouses under the benefits plan whose date of birth are not recorded***

In addition, in the City's benefits system, 14 spouses have a date of birth of January 1, 1900, which is the default date of birth when this information was not obtained at the time of enrolment to the benefits plan.

***Discrepancies of eligibility information between the City and Manulife's systems***

In following up with Manulife regarding these 14 individuals (who have no dates of birth record in the City system), we found that:

- For seven of these individuals, Manulife's system has their records of dates of birth. As a result of the audit, the City inputted the dates of birth for these seven individuals into its system.
- For the remaining seven individuals for which neither the City nor Manulife has their dates of birth records, Manulife advised that four of them have not submitted any claim thus far. For the remaining three individuals, Manulife declined to respond to our inquiry.

***Employees were allowed to directly enroll spouses and dependents at a pharmacy***

The discrepancy between the City and Manulife's systems is a result of the City allowing an employee to directly enroll new spouses and dependents into the benefits plan at a pharmacy. This information was transmitted to Manulife's system, but not communicated to PPEB to obtain verification.

According to a memorandum from the Executive Director, Human Resources, on August 5, 2016, this enrolment practice was "*inadvertently continued by managers and supervisors even when earlier collective agreement changes came into effect.*" As a result of recent ratification of the new collective agreements, this practice is required to cease no later than September 6, 2016.

**Claims reimbursed for individuals with questionable age or missing eligibility information**

***Two claimants were older than 100; one of them was 105 and another was 110***

Among the claims reimbursed between 2013 and 2015, one spouse was 105 years old, and the other was 110 when they made the claim in 2015 according to the system records. The total reimbursements made to these two claimants was about \$1,100 over the three-year period. Given that the City's records are incomplete and that spouses or dependents can be directly enrolled into benefit plans from pharmacies without informing PPEB, the legitimacy of claims reimbursed to these individuals should be further reviewed.

***Reimbursement  
was made for  
individuals with  
no eligibility  
information***

In addition, Manulife's system contains no dates of birth for six dependents whose claims were reimbursed between 2013 and 2015. For two other individuals for which no dates of birth was found in Manulife's system and who were reimbursed during the same time period, there was also no defined relationship status (i.e., unknown if the individual is an employee, spouse, or dependent).

**Recommendations:**

- 15. City Council request the Treasurer to undertake a review of the City's records of eligible individuals for health benefits coverage to ensure accurate and complete information in the City's system. A review of the health benefit claim histories should be conducted on individuals with questionable or missing dates of birth. Where claim reimbursements were made for ineligible individuals, steps should be initiated to recover overpayments.**
- 16. City Council request the Treasurer to ensure that all individuals eligible for the City's health benefits have up-to-date eligibility information in the City and the plan administrator's respective systems. A mechanism should be established to periodically reconcile eligibility information between the City and the plan administrator's system.**

# **I. MONITORING PERFORMANCE OF THE PLAN ADMINISTRATOR**

## **I.1. Better Measures to Assess Performance of the Plan Administrator**

Manulife is required to deliver the following administrative services under the contractual document with the City:

- Adjudication of claims;
- Management reporting;
- Customer service; and
- Analysis and identification of unusual claims trends that indicate possible fraud or abuse.

In addition to the ASO contract, the City has a Performance Standards Agreement with Manulife that lays out the administrative service expectations, including standards on claims turnaround time, accuracy of claims processed, call answer timing, and delivery of regular and ad hoc reports.

*Performance standards do not assess all of Manulife’s administrative services*

However, we found that these standards are only for assessing the performance of Manulife in delivering the first three service areas outlined above. There is no specific measure established in the Performance Standards Agreement to assess Manulife’s performance in analyzing and identifying unusual claims trends for possible fraud or abuse. Examples of such measures include detection and the timeliness and results of follow up on red flags identified, overpayment and underpayment of claims, and results of fraud detection.

## **I.2. Incorporate an Audit Clause for Third-Party Audits in the Contract with the New Plan Administrator**

*The City has not exercised its right to engage an independent auditor to verify effectiveness of claims administration services*

According to the contractual document, the City “shall have the right to audit its RFP Carrier’s [Manulife] claims operation through a third person and have access to the claims systems for that purpose.” The City has not exercised its right to engage an independent auditor to audit Manulife’s claims operation to verify effectiveness of claims administration services and performance as stipulated in the ASO contract.

***The TTC has exercised its rights to engage a third-party audit***

In comparison, in the 2010 joint RFP, the Toronto Transit Commission (TTC) included a specific mandatory requirement for the benefits administrator to annually engage a third-party firm to audit and report on the administrator's administration of the TTC's health, dental, and out-of-country claims. The TTC's RFP clauses specified that the fee for the annual third-party audit was to be paid by the administrator and included in the ASO fees. As a result of this mandatory requirement, an annual audit on Manulife's administration of TTC benefit claims has been conducted by a third-party firm.

In our view, an administrator-funded audit requirement is beneficial in ensuring contract compliance.

In addition, City staff should ensure that the future contract with the next benefits administrator includes provisions supporting the Auditor General to conduct an independent audit of the administrator's performance.

**Recommendations:**

- 17. City Council request the Treasurer to ensure the performance standards agreement with the new benefits plan administrator comprehensively measures all the service areas to be delivered by the plan administrator.**
- 18. City Council request the Treasurer to ensure that the new benefits plan administrator provides the City with the necessary supplementary information to enable the City to independently assess the administrator's performance, and consider engaging an independent auditor to assess the new plan administrator's performance. Clear provisions should be included in the contract to enable the City's Auditor General to conduct an independent audit of the administrator's performance.**

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## CONCLUSION

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*18  
recommendations  
to help improve  
City oversight of  
drug benefits*

This audit report contains 18 recommendations to help improve the City's management of drug benefits through strengthening payment verification, improving accuracy and completeness of eligibility information for members, improving oversight of claims administration services, identifying opportunities for cost savings, and overpayment recovery. Our findings relating to potentially excessive claims for controlled substances and erectile dysfunction drugs, as well as unusual claim patterns, require immediate attention from City staff.

*\$0.9 million  
annual savings  
may be realized  
from  
implementing the  
recommended  
changes*

Implementation of the recommended changes from this report can potentially result in approximately \$0.9 million annual savings, and \$180,000 in a one-time recovery. In addition, full implementation of recommendations for improving oversight and controls may potentially reduce the annual drug benefits cost for the City in the long term. The exact amount of savings is not quantifiable at this time.

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## AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

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*This audit was part of the Auditor General's 2016 audit plan*

The Auditor General's Office initiated an audit of the management of the City's employee health and dental benefits claims in accordance with the Auditor General's 2016 Audit Work Plan. A parallel audit has also been initiated for the Toronto Transit Commission's employee health benefits plans.

*Under the authority of the City of Toronto Act, the Auditor General conducted an analysis of claims data*

In accordance with subsection 179(2) of the *City of Toronto Act, 2006*, the Auditor General is entitled to access the records belonging to or used by the City to perform her work. The Auditor General, under the *City of Toronto Act*, has the statutory authority to conduct an independent audit of the City's management of health benefits claims and claim records.

*Due to difficulties accessing records the audit is divided into two phases*

There have been delays in accessing records from Manulife, resulting in a scope limitation for this audit. As a result of the delays, we divided the audit into two separate phases. Phase One of the audit, which is the subject of this report, focused on drug benefits. Phase Two of the audit will focus on the other extended health care benefits and may include dental benefits.

*Phase One focused on drug benefits*

The objective of Phase One was to assess whether the City's Pension, Payroll and Employee Benefits Division (PPEB) has effective systems and procedures in place to:

- Manage employee drug benefits in a cost effective manner,
- Ensure the City receives effective and timely claims administrative services for drug benefits; and
- Monitor the benefits plan administrator's performance for effectiveness and compliance with the contract.



The audit included work in the following areas:

- Drug claims data and statistics;
- City policies, procedures, guidelines, negotiated agreements, Request for Proposal and contract agreements relating to drug benefits;
- Management and oversight of benefit plans and performance of Manulife;
- Administrative fees and other charges paid to Manulife; and
- Manulife's claims adjudication and ongoing monitoring processes in documents supplied to City staff.

Phase One includes an analysis of claims data over three years from January 2013 to December 2015.

***Audit methodology***

The audit methodology included:

- Review of the City's policies and benefits plans;
- Review of relevant legislative policy requirements and guidelines;
- Review of literature and studies, and other audit reports relating to employee health benefits;
- Review of drug monographs and relevant information on utilization of specific drugs;
- Analysis of drug claims and reimbursements;
- Analysis of payments made to Manulife;
- Meetings and interviews with staff of Pension, Payroll and Employee Benefits Division, and Human Resources Division;
- Meetings with Manulife staff;
- Consultations with staff of the Toronto Transit Commission involved in managing employee health benefits;
- Review of related literature and consultation with other agencies and associations.

We wish to thank staff of the Ontario Pharmacists Association's Drug Information and Resource Centre (DIRC) for providing their expert advice and sharing information with us.

***Scope Limitation***

The Auditor General's inability to access claims data has limited certain aspects of this engagement. Our findings, conclusions and recommendations are based on our analysis of annual claims data provided to the City by Manulife.

***Compliance with  
generally accepted  
government  
auditing standards***

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.

**Management’s Response to the Auditor General’s Review of  
Management of the City’s Employee Extended Health and Dental Benefits –  
Phase One: The City Needs to Ensure Adequate Detection and  
Review of Potentially Excessive and Unusual Drug Claims**

Rec No.	Recommendations	Agree (X)	Disagree (X)	Management Comments: <i>(Comments are required only for recommendations where there is disagreement.)</i>	Action Plan/Time Frame
1.	City Council request the Treasurer to review, identify, and verify with Manulife the validity of claims where excessive quantities of drugs were reimbursed, in particular, for the prescription opioids, sedatives, stimulants, and erectile dysfunction drugs, and, if appropriate, take steps to recover any overpayments.	X		<p>During the course of this audit, the City has not obtained information from Manulife to address questions and clarification inquiries with regard to the claims related data.</p> <p>As a result, without this additional background information we are unable to establish with any certainty the existence of any issues and the degree of the issues.</p> <p>It is possible that many of the items will be removed from the list if City staff or Auditor General's staff has access to Manulife's information, and can review these matters with Manulife staff.</p>	<p>The Director of Pension, Payroll &amp; Employee Benefits will meet with Manulife, through the use of an Audit Agreement if necessary, in an effort to review the data and ensure the validity of the drug claim reimbursements.</p> <p>Should any overpayments be identified, appropriate steps will be taken to recover the funds.</p>

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2.	<p>City Council request the Treasurer to ensure the City only reimburses claimants with eligible expenses that are medically necessary for the treatment of sickness or injury in accordance with the City's policy. Actions to be considered include:</p> <p>a. Ensuring the new plan administrator has adequate controls in place when adjudicating controlled substances and erectile dysfunction drugs in order to verify legitimacy of claims when total quantity dispensed exceeds a year's supply based on the maximum recommended dosages of the drug; and</p> <p>b. Working with the new plan administrator to determine and agree on acceptable tolerance levels that will trigger further investigation on suspicious drug claims.</p>	X		<p>During the course of this audit, the City has not obtained information from Manulife to address questions and clarification inquiries with regard to the claims related data.</p> <p>As a result, without this additional background information we are unable to establish with any certainty the existence of any issues and the degree of the issues.</p> <p>It is possible that many of the items will be removed from the list if City staff or Auditor General's staff has access to Manulife's information, and can review these matters with Manulife staff.</p>	<p>a) and b) Q2, 2017 The Director, Pension, Payroll &amp; Employee Benefits will meet with the new benefits carrier to review and document the audit and system controls, and tolerance levels, and ensure these are monitored with any exceptions investigated on a timely basis.</p> <p>This will be done for all claim types and applies to recommendation 2a) and b), 5, 7b) and c),</p>

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3.	<p>City Council request the Treasurer to undertake necessary steps to ensure the City's benefits plans are cost-effective and follow industry standards and best practice, including but not be limited to:</p> <p>a. Consultation, on a regular basis, with industry experts and the new plan administrator to identify industry standards and acceptable practices for drug benefit coverage limits, particularly in areas where utilization by the City's members is significantly higher than industry standards or benchmarks; and</p> <p>b. Recommending reasonable maximum plan coverages for the appropriate drugs with consideration for special circumstances.</p>	X			<p>Q3, 2017</p> <p>The Director of Pension, Payroll &amp; Employee Benefits, in consultation with Employee &amp; Labour Relations, Occupational Health &amp; Safety and Legal Services will:</p> <p>a. Undertake a review of benefit plan coverages and industry comparators in 2017 and at least every five years thereafter, to consider opportunities for change to the City's coverage to provide cost-effective benefit plans.</p> <p>b. Where opportunities are identified, determine the appropriate steps and action required to adjust plans, in accordance with the collective agreements, City policies and legal requirements.</p>

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4.	City Council request the Treasurer to follow up with Manulife on the questionable claims and utilization patterns for prescription opioids, sedatives, and stimulants drugs, including requesting further investigation by Manulife where needed and taking steps to recover overpayments, where appropriate.	X		<p>During the course of this audit, the City has not obtained information from Manulife to address questions and clarification inquiries with regard to the claims related data.</p> <p>As a result, without this additional background information we are unable to establish with any certainty the existence of any issues and the degree of the issues.</p> <p>It is possible that many of the items will be removed from the list if City staff or Auditor General's staff has access to Manulife's information, and can review these matters with Manulife staff.</p>	<p>Q2, 2017</p> <p>The Director of Pension, Payroll &amp; Employee Benefits will meet with Manulife, through the use of an Audit Agreement if necessary, in an effort to review the data and ensure the validity of the drug claim reimbursements and they are paid within the City's benefit plan provisions.</p> <p>Should any overpayments be identified, appropriate steps will be taken to recover the funds.</p>
5.	City Council request the Treasurer to ensure the new plan administrator assesses utilization patterns of claimants, in particular, with respect to prescription opioids, sedatives, and stimulants with agreeable predefined criteria and tolerance levels.	X			Same as action plan for recommendation # 2.

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6.	City Council request the Treasurer to regularly conduct detailed reviews of drug benefit claims history by high-risk drug categories that are commonly subjected to misuse or abuse, and on drug categories for which the City incurs significantly higher utilization and claims cost than industry standards.	X			<p>Q2, 2017</p> <p>The Director, Pension, Payroll &amp; Employee Benefits will meet with the new benefits carrier to ensure that appropriate data are provided to the City on a periodic basis, to allow analysis of:</p> <ul style="list-style-type: none"> <li>- Spending for high risk drug categories, and</li> <li>- Identification of any unusual drug utilization patterns</li> </ul>

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7.	<p>City Council request the Treasurer to ensure the City only reimburses over-the-counter drug claims in accordance with City policies and to ensure cost effective reimbursement of over-the-counter drug claims. Steps should be taken but not be limited to:</p> <p>a. Following up with Manulife to validate the eligibility of over-the-counter drug claims to ensure they meet the life sustaining requirements in the City's policies and recover any ineligible amounts paid;</p> <p>b. Ensuring the new plan administrator has a process in place to obtain evidence of life sustaining purpose when reimbursing over-the-counter drugs in accordance with City policies; and</p> <p>c. Working with the new plan administrator to develop ways to minimize the cost of dispensing fees for eligible over-the-counter drug claims.</p>	X		<p>During the course of this audit, the City has not obtained information from Manulife to address questions and clarification inquiries with regard to the claims related data.</p> <p>As a result, without this additional background information we are unable to establish with any certainty the existence of any issues and the degree of the issues.</p> <p>It is possible that many of the items will be removed from the list if City staff or Auditor General's staff has access to Manulife's information, and can review these matters with Manulife staff.</p>	<p>a) Q2, 2017 The Director of Pension, Payroll &amp; Employee Benefits will meet with Manulife, through the use of an Audit Agreement if necessary, in an effort to review the data and ensure the validity of the over-the-counter drug claim reimbursements were for life sustaining purposes.</p> <p>Should any overpayments be identified, appropriate steps will be taken to recover the funds.</p> <p>b) &amp; c) Q2, 2017 Same as action plan for recommendation # 2.</p>



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8.	City Council request the Treasurer to ensure the new benefits plan administrator reviews the status of physicians and pharmacists when adjudicating drug claims, and identifies claims where the drug was prescribed and/or are dispensed by physicians and pharmacists whose licenses have been revoked or suspended. The Treasurer should also ensure pharmacy names or pharmacy unique identifiers are part of the adjudication process for all drug claims.	X			Q2, 2017 The Director, Pension, Payroll & Employee Benefits will meet with the new benefits carrier to discuss the appropriate systems and processes to allow for the pharmacy name and identifier to be part of the claims process and that there is a process to monitor the licence status of physicians and pharmacists.
9.	City Council request the Treasurer to identify and review with Manulife all applicable claims where dispensing fees were paid above the \$9 plan limit and, if appropriate, recover overpayments.	X		<p>During the course of this audit, the City has not obtained information from Manulife to address questions and clarification inquiries with regard to the claims related data.</p> <p>As a result, without this additional background information we are unable to establish with any certainty the existence of any issues and the degree of the issues.</p> <p>It is possible that many of the items will be removed from the list if City staff or Auditor General's staff has access to Manulife's information, and can review these matters with Manulife staff.</p>	<p>Q2, 2017 The Director of Pension, Payroll &amp; Employee Benefits will meet with Manulife, through the use of an Audit Agreement if necessary, in an effort to review the data and ensure the dispensing fees were paid in accordance with the City's \$9.00 cap.</p> <p>Should any overpayments be identified, appropriate steps will be taken to recover the funds.</p>

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10.	City Council request the Treasurer to ensure the new employee health benefits plan administrator has proper controls in place to restrict dispensing fees to the coverage limit, and City staff undertake periodic reviews to ensure the City is only charged the dispensing fees up to the established limit.	X			Same as action plan for recommendation # 2.
11.	City Council request the Treasurer to implement the Preferred Provider Network of pharmacists as authorized by the City Council in December 2013.	X			<p>Q4, 2016 PPEB will be completing the implementation of a drug preferred provider network of three organizations that responded to the City's RFEOI in that regard.</p> <p>Q3, 2017 In addition, the Director, Pension, Payroll &amp; Employee Benefits will meet with the new benefits carrier to discuss opportunities available to implement a broader preferred provider program through the carrier's network.</p>

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12.	City Council request the Treasurer to ensure more effective coordination and sharing of drug benefits report information between the Pension, Payroll and Employee Benefits Division and the Employee Health and Rehabilitation team to facilitate development of wellness initiatives amongst City employees.	X			Q1, 2017 The Director, Pension, Payroll & Employee Benefits will meet with the Director, Occupational Health & Safety to discuss and implement a process to regularly share appropriate drug information with Employee Health & Rehabilitation.
13.	City Council request the Treasurer to review and identify, for the periods covered under the current and previous employee health benefits administration contracts with Manulife, all cases of billing reversals for health benefits claims where the City should receive a recovery, including those made for ineligible claims and/or result of errors. Where overpayments are identified, steps should be taken to ensure the City recovers all overpayments.	X		<p>During the course of this audit, the City has not obtained information from Manulife to address questions and clarification inquiries with regard to the claims related data.</p> <p>As a result, without this additional background information we are unable to establish with any certainty the existence of any issues and the degree of the issues.</p> <p>It is possible that many of the items will be removed from the list if City staff or Auditor General's staff has access to Manulife's information, and can review these matters with Manulife staff.</p>	<p>Q2, 2017 The Director of Pension, Payroll &amp; Employee Benefits will meet with Manulife, through the use of an Audit Agreement if necessary, in an effort review the data and ensure that the City is correctly receiving all applicable credits.</p> <p>Should any overpayments be identified, appropriate steps will be taken to recover the funds.</p>

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14.	City Council request the Treasurer to require the City's new employee health benefits administrator to provide City staff with all necessary supplementary information to support invoiced amounts to assist the City's review of accuracy of invoiced amounts, reasonableness of billing reversals, and of the related recoveries.	X			Same as action plan for recommendation # 2.

15.	<p>City Council request the Treasurer to undertake a review of the City's records of eligible individuals for health benefits coverage to ensure accurate and complete information in the City's system. A review of the health benefit claim histories should be conducted on individuals with questionable or missing dates of birth. Where claim reimbursements were made for ineligible individuals, steps should be initiated to recover overpayments.</p>	X			<p>Q1, 2017, In-Progress:  Through the transition to the new benefits carrier, PPEB will be using the information in the City files to communicate with all employees and retirees. Where the information is incorrect, the employee and retiree will advise PPEB of the changes so that the City records are updated. This information will then be provided to the new carrier so the records with the City and the carrier are consistent.</p> <p>Effective September 2016, all changes to spouse and/or dependent information must be made through PPEB, who will then provide the changes to the benefits carrier (positive enrolment). Enrolment of new dependents through the pharmacy directly to the carrier will not be permitted.</p> <p>The Director of Pension, Payroll &amp; Employee Benefits will meet with Manulife in an effort to review the data and ensure that the drug claim reimbursements were made to eligible dependents.</p> <p>Should any overpayments be identified, appropriate steps will be taken to recover the funds.</p>
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16.	City Council request the Treasurer to ensure that all individuals eligible for the City's health benefits have up-to-date eligibility information in the City and the plan administrator's respective systems. A mechanism should be established to periodically reconcile eligibility information between the City and the plan administrator's system.	X			<p>Q1, 2017, In-Progress: Effective September 2016, all changes to spouse and/or dependent information must be made through PPEB, who will then provide the changes to the benefits carrier (positive enrolment). Enrolment of new dependents through the pharmacy directly to the carrier will not be permitted.</p> <p>When adding new spouses and/or dependents through PPEB, employees must also provide proof of eligibility for the new dependents.</p>
17.	City Council request the Treasurer to ensure the performance standards agreement with the new benefits plan administrator comprehensively measures all the service areas to be delivered by the plan administrator.	X			<p>Q2, 2017 The Director, Pension, Payroll &amp; Employee Benefits, in consultation with Legal Services, will meet with the new benefits carrier to ensure that comprehensive performance standards are included in the contract and that there is a process in place to effectively monitor those standards.</p>

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18.	City Council request the Treasurer to ensure that the new benefits plan administrator provides the City with the necessary supplementary information to enable the City to independently assess the administrator's performance, and consider engaging an independent auditor to assess the new plan administrator's performance. Clear provisions should be included in the contract to enable the City's Auditor General to conduct an independent audit of the administrator's performance.	X			<p>Q2, 2017</p> <p>The Director, Pension, Payroll &amp; Employee Benefits, in consultation with Legal Services, will meet with the new benefits carrier to ensure that appropriate data and information are provided to the City to effectively monitor compliance with the standards.</p> <p>Provisions were included in the current RFP to allow for the City to arrange for periodic audits, including by the Auditor General. The Director, Pension, Payroll &amp; Employee Benefits will ensure that regular audits, as appropriate, are done during the five (5) year contract.</p>