

Audit Committee Meeting
March 24, 2017

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

**Phase Two: Ineffective Controls and
Plan Design Leaving the City Vulnerable
to Potential Benefit Abuse**

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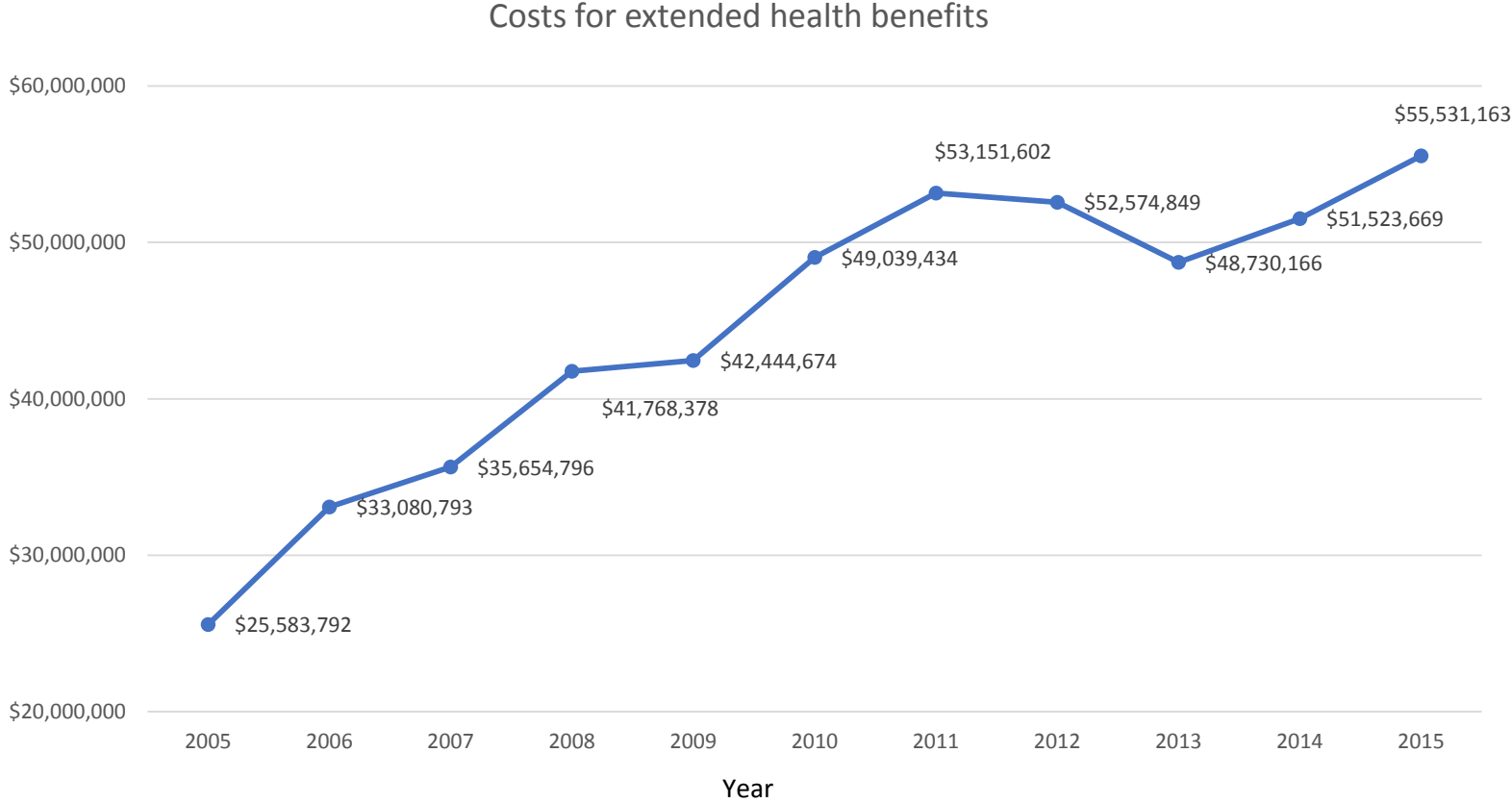


Auditor General's Office
Integrity, Excellence and Innovation

Background

- ▶ The City is self-insured
- ▶ Extended health care benefits cost \$56 million in 2015, up 68% from 2006
- ▶ 80,000 individuals eligible for benefits coverage
- ▶ Manulife has been the City's benefits administrator from 2000 to 2016

Background



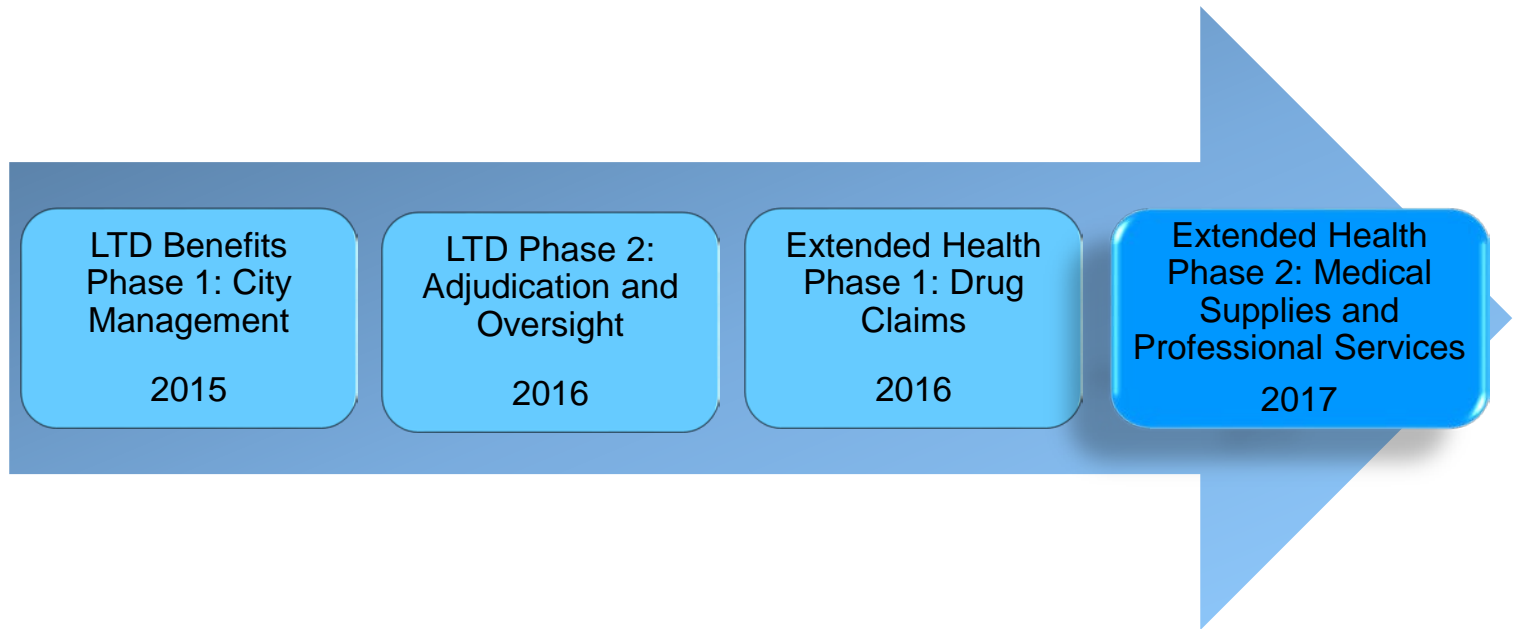
Source: City PPEB Division

Background

Top Extended Health Benefits in 2015


- Physiotherapy - \$11M
- Vision - \$8M
- Orthotics/orthopedics - \$7M
- Massages - \$6M
- Stockings - \$3M

Audit Timeline




Two Components of Program Management

Plan Design

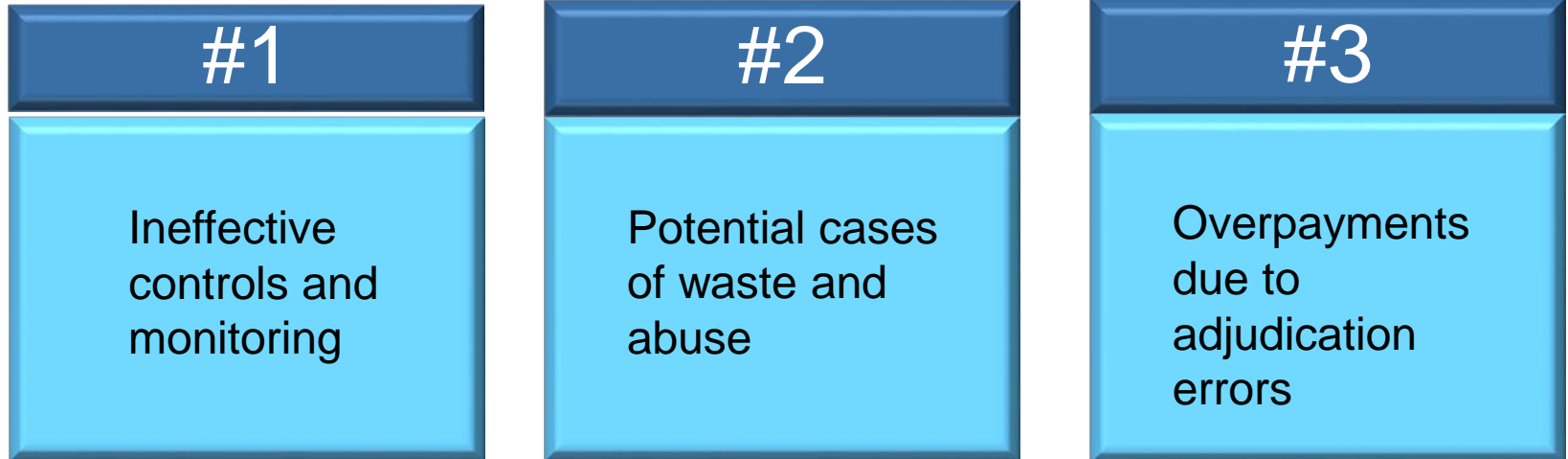
- Responsibility of PPEB management (with advice from administrator)
- Based on the Collective Agreements 
- Dictate the eligible benefits coverage limits, and required documentation
- Limit opportunity for waste and abuse

Adjudication and Monitoring

- Primary responsibility of benefits administrator (with oversight from City management):
 - Verify eligibility and accuracy of claims 
 - Ongoing monitoring to determine emerging trends and issues
- Prevent and detect fraud

Audit Findings

Three major types of findings:



#1 – Ineffective Controls and Monitoring

- ▶ No systematic tracking of provider information
 - Lack of ability to conduct basic analysis
 - Limited capacity to identify unusual trends and patterns to detect abuse and fraud
- ▶ AGO identified two providers with suspicious activities from a limited sample

#1 – Ineffective controls and monitoring (cont'd)

- ▶ A prepayment audit process was not applied to the City since 2006
 - This was part of the benefits administrator's standard controls
 - As a result, the City could be exposed to risk of paying inappropriate or fraudulent claims for 10 years

Basic Types of Benefit Fraud

- ▶ Provider fraud
- ▶ Plan member fraud
- ▶ Provider and plan member collusion
- ▶ For example, the latest TTC fraud involving a health supply provider

#2 – Potential Cases of Waste and Abuse

Orthotics and Orthopedic Shoes:

Unlimited coverage for dependents aged 18 and under

- 41 dependents claimed between 6 and 10 pairs of orthotics in a year → \$3,000 and \$5,000 per year



- One dependent claimed modifications on 7 pairs of orthopedic shoes and 4 pairs of orthotics in 2015 → \$5,800 in a year
- One employee with three dependents claimed close to 60 pairs of orthotics for the dependents and another 6 pairs for the couple → \$31,500 over three years

#2 – Potential Cases of Waste and Abuse

Compression Stockings

- ▶ Plan limit of up to 4 pairs per person per year



9 families made claims for each of their 3+ members, each family receiving between \$7,000 and \$12,000 over the three-year period

124 dependents aged 18 or younger were reimbursed for compression stockings

#2 – Potential Cases of Waste and Abuse

Medical Braces

- ▶ Plan limit has unlimited coverage



9 families appeared to claim an unusually large number of medical braces, receiving between \$13,000 and \$38,000 over three years

- In one family, the employee claimed 7 braces, the spouse claimed 5, and each of the two dependents claimed 4 over the three years → \$38,000 in benefit payments

#2 – Potential Cases of Waste and Abuse

Physiotherapy

- ▶ Most employees are limited to \$2,000 per year. Three groups had unlimited coverage.
- ▶ 17 individuals claimed \$10,000 or more within a year
- ▶ A family of five each submitted claims for every member, receiving \$70,000 over 3 years
- ▶ A family where the employee and spouse both claimed:
 - The employee → ~145 visits/year → \$34,000 over 3 years
 - The spouse → ~110 visits/year → \$25,000 over 3 years

#2 – Potential Cases of Waste and Abuse

Other Professional Services

- ▶ 55 families of five or more members each claimed the same service on the same day



A family of six each received massage therapy totalling 5.5 hours on the same day, all signed off by the same therapist. This occurred six times within 10 weeks, totalling \$3,000.

- ▶ 13 individuals claimed 3+ types of services (e.g. massage, physiotherapy, chiropractic and/or osteopathy) on the same day

Audit Findings – Overpayments

- ▶ Overpayments found from a limited sample

Benefit Categories	Amount
Orthotics & orthopedics	\$12,700
Compression stockings	4,000
Professional services	58,000
Total Overpayment	\$74,700

- ▶ More instances likely remain undetected

Summary – Going Forward

- ▶ Clarify the City's provisions and strengthen communication with the benefits administrator;
- ▶ Perform more effective claim analysis; and
- ▶ Continue to reduce the City's risk exposure by tightening its plan design

Conclusion

- ▶ Management has agreed to all 16 recommendations
- ▶ Previous Auditor General's recommendations were considered by City management when it elected the new benefits administrator for the 2017 to 2021 contract.