



AUDITOR GENERAL'S REPORT ACTION REQUIRED

Improving Reporting and Monitoring of Employee Benefits

Date:	June 12, 2012
To:	Audit Committee
From:	Auditor General
Wards:	All
Reference Number:	

SUMMARY

The City of Toronto and its Agencies, Boards and Commissions provide employee health care benefits for its employees and retirees, as well as to their spouses and eligible dependants. Pension, Payroll and Employee Benefits Division (PPEB) is responsible for administering the employee benefit plans including the City's Long Term Disability program (LTD), for those individuals employed directly by the City (i.e., Toronto Public Service) employees.

The City provides, through its benefit administrator, Manufacturer's Life Assurance Company (Manulife) extended health care, dental care and long term disability coverage on an Administrative Services Only basis. The City is self insured which means the City reimburses Manulife for the actual benefit claims paid to employees and pays administrative fees for their processing and adjudication services.

Administration of the City's Benefit Plans by Manulife includes prevention and detection of fraud and investigation services.

There is a need to improve Manulife's reporting to the City with respect to incidents of benefit fraud by employees and their dependants, that Manulife has investigated. Improved reporting by Manulife should include statistical data and reports to enable the City to consider trends and patterns which may indicate fraud or abuse of benefit claims. This will also enable the City to assess the performance of the benefit administrator, as it relates to its responsibility to prevent, detect and investigate benefit fraud including fraud related to the receipt of LTD benefits.

This report contains two recommendations to improve the reporting and monitoring of benefit fraud, along with a management response to each of the recommendations.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council request the Director Pension Payroll and Employee Benefits, in consultation with the City Solicitor, to formally request the City's benefit administrator to provide statistical data and reports related to suspected and actual incidents of benefit fraud by employees and/or their dependants that have been investigated by the benefit administrator.
2. City Council request the Director Pension Payroll and Employee Benefits, give consideration to the formal documentation of an annual evaluation of the benefit administrator performance as it relates to prevention, detection and investigation of benefit fraud including fraud related to the receipt of Long Term Disability benefits.

Financial Impact

The recommendations in this report have no financial impact.

ISSUE BACKGROUND

City Benefit Plans

Manufacturer's Life Assurance Company has been the City's benefit administrator for claim processing services since June 1, 2000. Further to a recommendation made by the Auditor General's Office in its 2007 "Employee Benefits Review" and pursuant to Council approval, for the first time the City partnered with Toronto Police Services Board and the Toronto Transit Commission to conduct a joint RFP for a new benefit administrator. Through this joint RFP process, Manulife was the successful proponent, for each of the 3 organizations, for a five year period, commencing from January 1, 2012 to December 31, 2016 resulting in significant efficiencies and cost savings.

The City's Pension Payroll and Employee Benefits Division is responsible for the oversight of benefit plans which are provided to City employees, in accordance with the applicable collective agreements and Council approved policies. The Toronto Police Services Board and the Toronto Transit Commission are responsible for the administration of benefit plans provided to their respective employees. The City of Toronto provides, through its benefit administrator, extended health care, dental care and long term disability coverage on an Administrative Services Only basis. The City is self-insured which means that the City is responsible for paying Manulife the amounts of the benefit claims themselves plus an administration fee for adjudicating and paying the claims. The City pays amounts, in addition to the administration fees, for certain aspects of the adjudication of LTD claims (e.g. Independent Medical Reports, Functional Assessments, Surveillance, etc).

2011 Fraud and Waste Hotline Complaints

The Auditor General's Forensic Unit operates the City's Fraud and Waste and Hotline Program (the Hotline Program). Collecting, monitoring and analyzing data on complaints received through the Hotline Program helps to identify areas of concern and issues that can point to more systemic problems, trends and emerging risk areas.

In 2011, we continued to receive complaints of benefit fraud and allegations respecting the eligibility of certain employees on LTD. Such complaints are forwarded to Manulife through the City's Pension Payroll and Employee Benefits Division for investigation and the results are reported back to the Auditor General's Office for review. Based on this review, a determination is made as to the adequacy of the information provided and whether additional action is required prior the Auditor General's Office closing the complaint file.

On certain complaints the Auditor General's Office has requested additional information to clarify the investigation findings and the scope of the investigative work conducted. In some cases, we have requested additional investigative work be conducted which has resulted in employees, who had been on LTD for a number of years, returning to the workplace.

The complaints investigated by Manulife have raised issues with the City's ability to access information respecting investigations conducted and with Manulife notifying the City of suspected benefit fraud involving employees or their dependants.

COMMENTS

Access to Information

Administration of the City's Benefit Plans by Manulife includes prevention and detection of fraud and investigation services.

Manulife has a fraud prevention program to review claims for unusual patterns and red flags any unusual or suspicious claims. Manulife investigates incidents of suspected fraud or misuse of claims and where the evidence is strong enough, takes appropriate action including notifying law enforcement and "may advise" the City of its findings.

As a result of concerns expressed by the Auditor General's Office, there have been discussions with PPEB, City Legal Services and Manulife regarding their investigations of suspected benefit fraud and the amount of information Manulife provides the City or that the City has a right to access.

As a private sector organization, Manulife is subject to federal and provincial privacy legislation that governs the collection, use and disclosure of personal information. Manulife has advised that this legislation restricts its ability to provide the City with access to information related to the investigation of suspected benefit fraud involving employees or their dependants, including restricting access to the Auditor General's Office. In doing so, the City is precluded from relying on this information for other purposes including to pursue recovery of fraudulent benefits paid out through civil proceedings or for labour proceedings involving the employee that defrauded the City.

Based on our recent discussions with Manulife, PPEB has consulted with the City Legal Services and requested advice as to the City's right to access certain information that Manulife currently does not provide. For example, Manulife does not provide the City with any information regarding actual benefit fraud committed by employee dependants.

Reporting and Monitoring

Under the terms of the City's agreement with Manulife, section 3:13 entitled "Reporting Requirements and Access to Data", Manulife must provide the City with various monthly, quarterly and annual reports regarding claims experience, trending and related financial information. The City may also request additional reports, on an as needed basis, respecting "claims administration, financial reporting, claim experience and so on."

The agreement is silent on the requirement to provide statistical data related to suspected and actual incidents of benefit fraud. Manulife is required under section 3:12 of the agreement, entitled "System Requirements", to have systems which "can detect, analyze and report on unusual trends and patterns which may indicate fraud or abuse."

While Manulife is required to have systems in place to provide information related to fraud or abuse, to date, the City has not requested or received any such reports or statistical data. Consequently, the City is currently not in a position to assess Manulife's performance in this area.

The City, however, does assess Manulife's performance in the area of claims administration, pursuant to a Performance Standard Agreement with Manulife and receives reports with statistical data regarding processing turnaround times and financial accuracy relating to the administration of benefit claims.

As such, there is a need to improve Manulife's reporting to the City with respect to incidents of suspected or actual fraud by employees or their dependants that Manulife has investigated. Improved reporting should also include providing statistical data and reports to enable the City to consider trends and patterns which may indicate fraud or abuse of benefit claims. This will also enable the City to assess the performance of the benefit administrator, as it relates to its responsibility to prevent, detect and investigate benefit fraud including fraud related to the receipt of LTD benefits.

CONCLUSION

As a result of concerns expressed by the Auditor General's Office, there have been discussions with Pension, Payroll and Employee Benefits Division, City Legal Services and Manulife, the City's benefit administrator, regarding the investigation of suspected incidents of benefit fraud by Manulife and the amount of information Manulife provides or that the City has a right to access.

The Auditor General's Office has identified a need to improve Manulife's reporting to the City and a need to assess the performance of the benefit administrator, as it relates to its responsibility to prevent, detect and investigate benefit fraud.

This report contains two recommendations to improve the reporting and monitoring of benefit fraud. Management's response to each of the recommendations is attached as Appendix 1.

CONTACT

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SIGNATURE

Jeff Griffiths, Auditor General

Appendix 1: Management's Response to the Auditor General's report entitled
Improving Reporting and Monitoring of Employee Benefits