

Management of the City's Long-Term Disability Benefits Phase One: Improving City Management to Address Growing Trends in Long-Term Disability Benefits

Audit Committee Meeting
October 23, 2015

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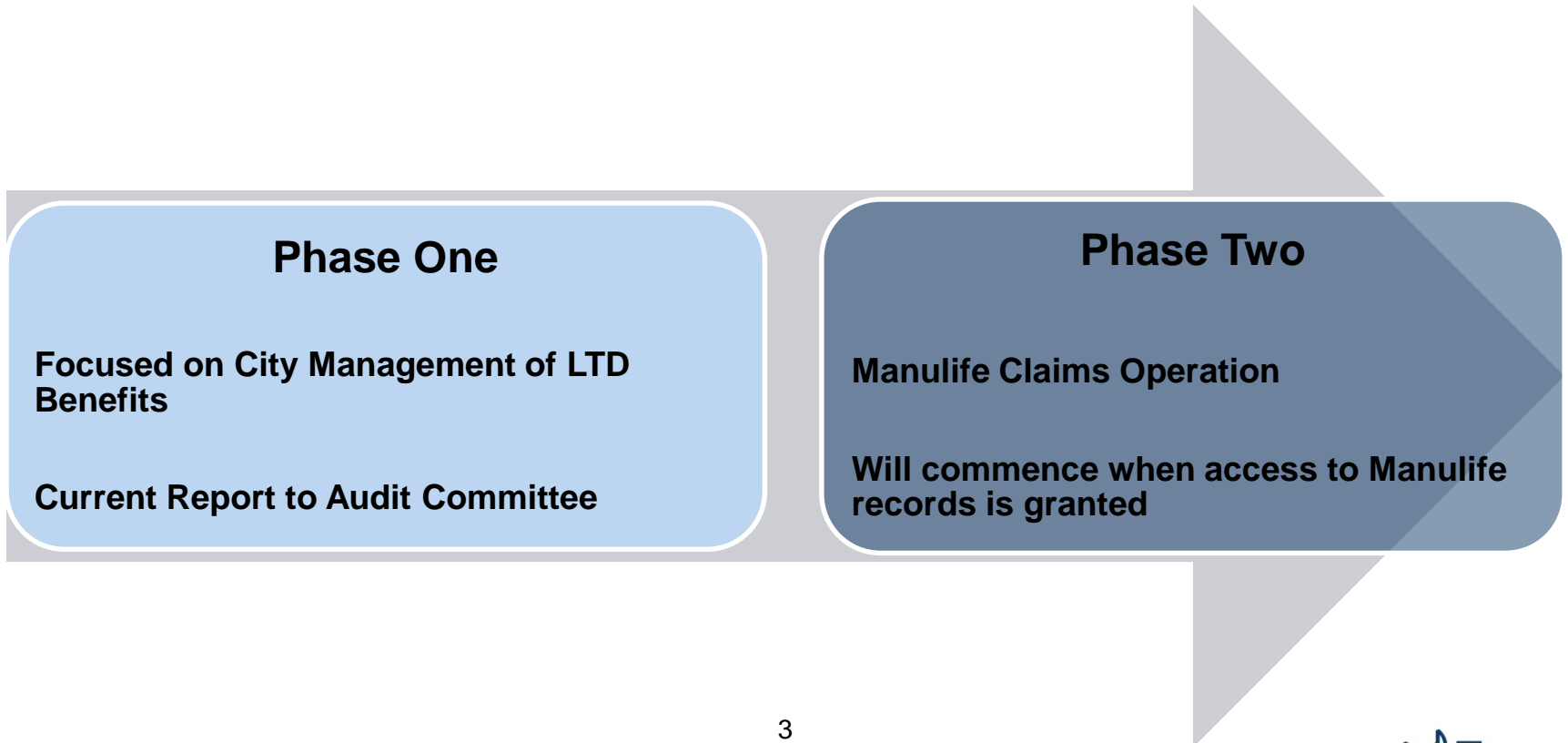
Background

- LTD Audit Originally included in 2013 Audit Work Plan
- Deferred in light of improvements being initiated by staff and Manulife
- Audit was included in AG's February 2015 Audit Work Plan

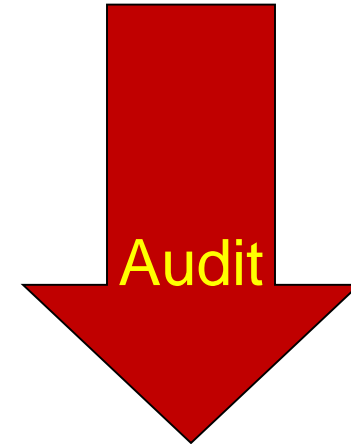
Audit Goal

To help ensure the benefit fund is:

- administered with **due diligence**, and
- the City's LTD benefit program is **integrated with best practices**, including **prevention, early intervention, claims assessment and monitoring**, as well as **accommodating employees** to return to work.



Audit Scope



Overview of Phase One

Audit Objective

To assess whether the City has adequate and effective controls in managing LTD benefits

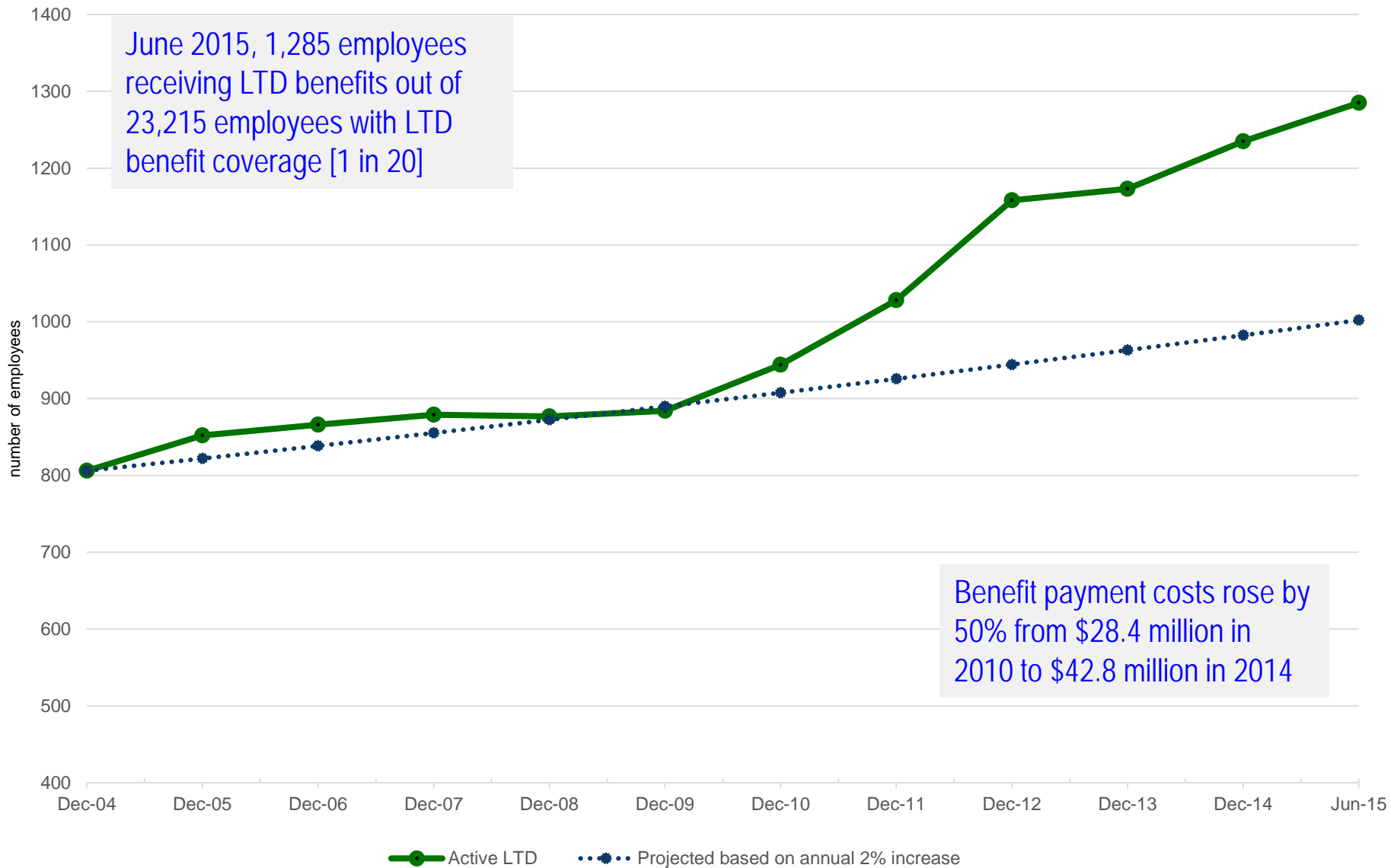
Recommendations

- **12 recommendations – Public Report**
- **4 recommendations – Confidential Attachment**

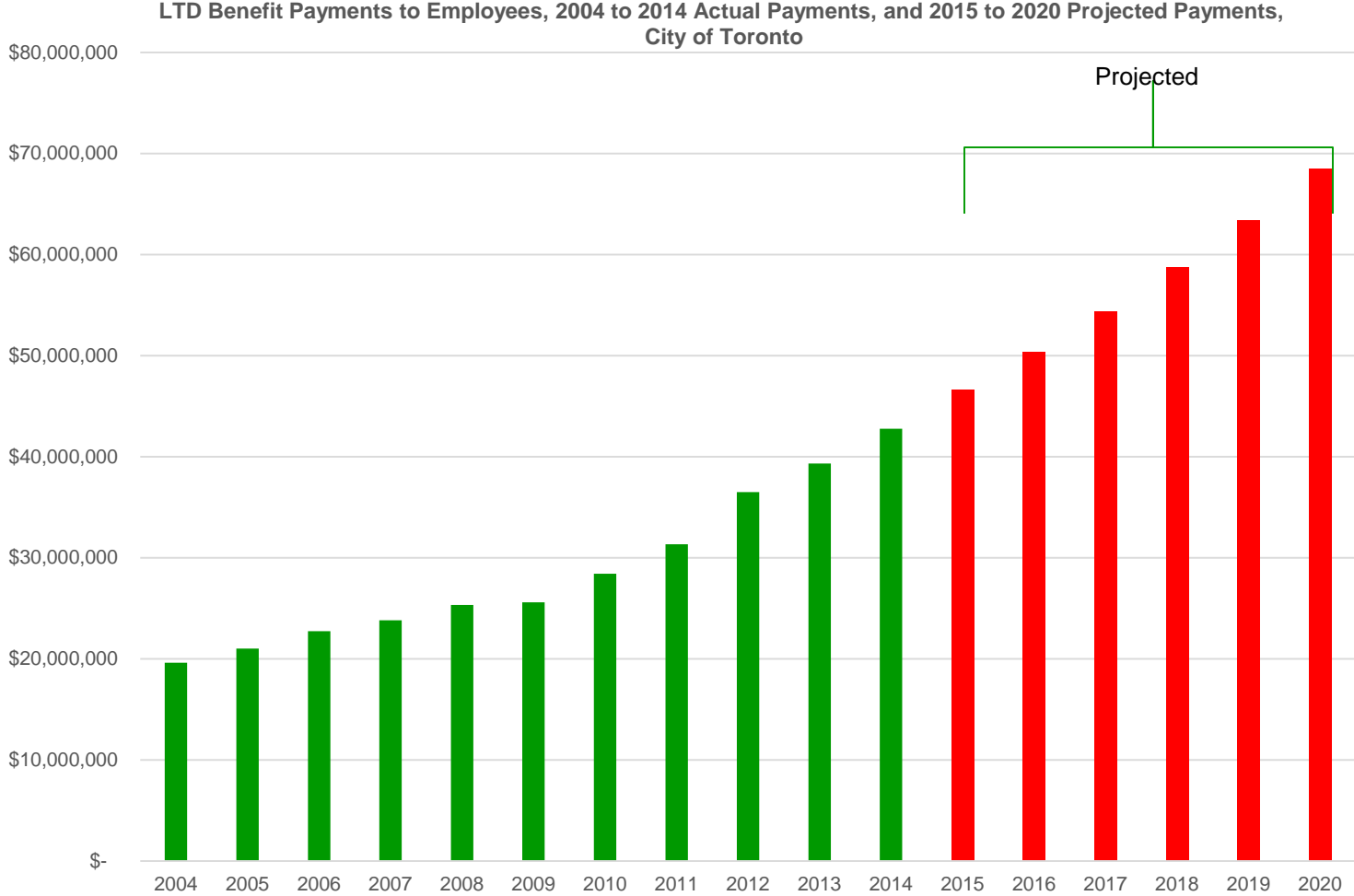
Management has agreed with all recommendations

Current State and Trend Analysis

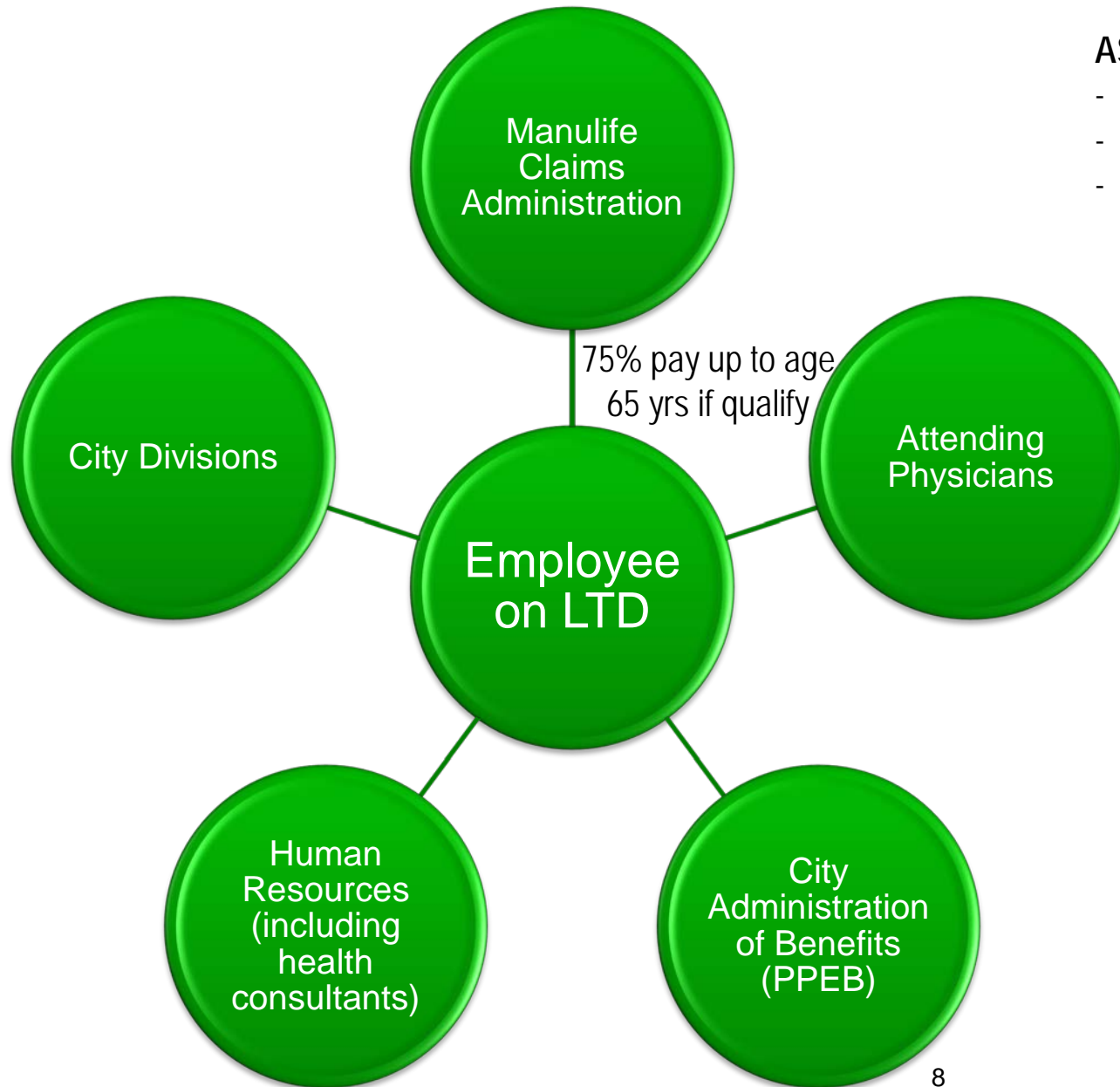
Number of Employees with Approved LTD Benefits, December 2004 to June 2015, City of Toronto



Current State and Trend Analysis



Key Stakeholders LTD Benefits Administration



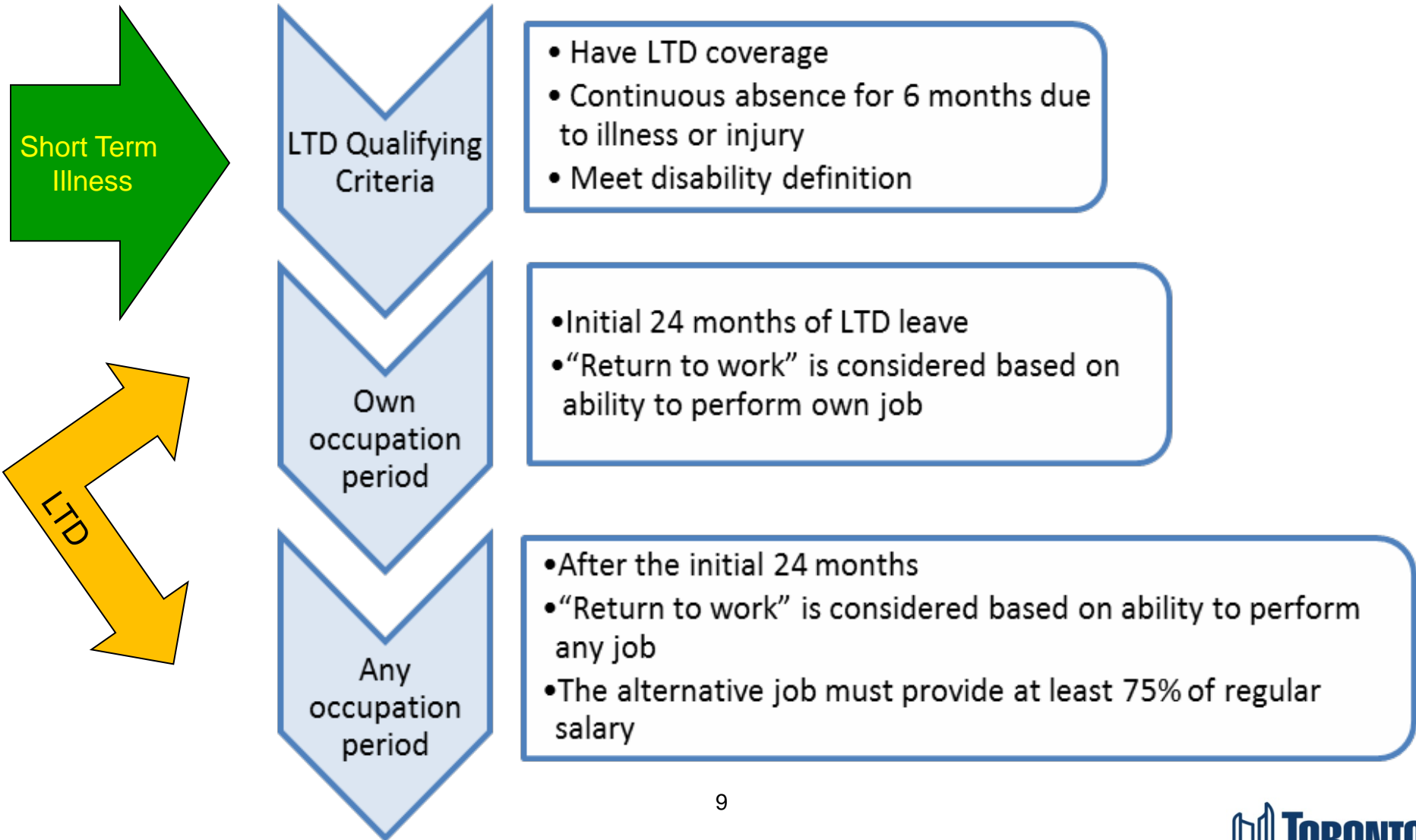
75% pay up to age 65 yrs if qualify

ASO Contract

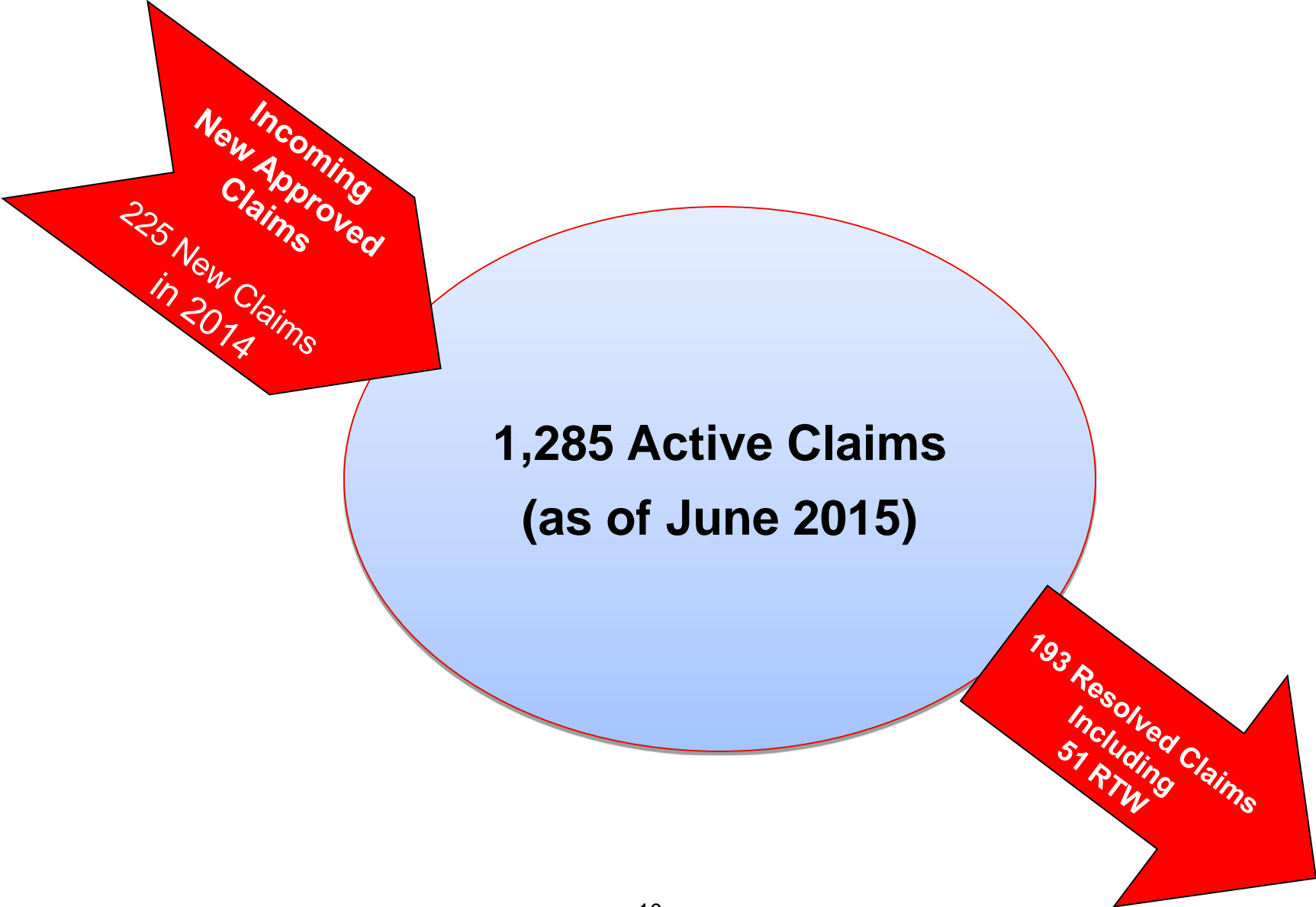
- Processes LTD claims
- Adjudicates claims
- Assesses RTW potential

3.3% admin fee + expenses

Qualifying and Return To Work Criteria



Current State



Phase One Audit Public Report

| | City | TPS | TTC |
|--|------|------|------|
| Incidence rate: Number of 2014 approved new claims per 100 employees | 1% | 0.1% | 1% |
| Prevalence rate: Number of active claims per 100 employees as of June 2015 | 5.5% | 0.8% | 2.5% |
| Return to work (RTW) rate: Percentage of active LTD claimants returned to work in 2014 | 4% | 8% | 18% |

Going Forward ...

Immediate – Improving
Internal Controls



Short-term – Contract
Improvements



Long-term - Benefit Plan
and Integrated Approach

Immediate – Improving Internal Controls

Ensure Adequate Payment Approval Process

- Charges were not verified before payment
 - City had been paying for an incorrect charge since 2003
 - Manulife agreed to refund \$1.9 million (including interest and taxes)
- Supporting documentation or cost breakdowns not obtained for over \$2 million of charges

Refund from Manulife

| | Fees | Interest | Taxes | Refund |
|---|--------------|------------|------------|--------------|
| City | \$ 1,439,582 | \$ 220,139 | \$ 197,238 | \$ 1,856,959 |
| Toronto Public Library | \$ 50,625 | \$ 7,741 | \$ 6,875 | \$ 65,241 |
| Toronto Zoo | \$ 8,845 | \$ 1,353 | \$ 1,231 | \$ 11,429 |
| Community Centres and Arenas | \$ 3,147 | \$ 481 | \$ 470 | \$ 4,098 |
| The Board of Governors of Exhibition Place | \$ 2,806 | \$ 429 | \$ 384 | \$ 3,620 |
| Total | \$ 1,505,005 | \$ 230,143 | \$ 206,198 | \$ 1,941,346 |

Immediate – Improving Internal Controls

Minimize Overpayments to Claimants

- Over \$600,000 overpayment balance as of August 2015 from 68 claimants
- Delays in notifying Manulife of employee changed status
- Delays in establishing recovery plans with claimants
- Seek better cooperation from CPP and WSIB to identify other sources of benefits

Short Term – Contract Improvements

Strengthen Contract and RFP Requirements

- Substantial delays in finalizing the formal agreement with Manulife
- Explore other options for admin fee cost structure
- No explicit audit clause to enable the AG to undertake an audit
- City has not had a third-party audit

Long-term - Benefit Plan and Integrated Approach

An end-to-end review to be included in Phase Two

Enhance the City “return to work” processes

- Has not developed or tracked performance indicators
- Enhance staff awareness and knowledge of prevention, early intervention and accommodation

NEXT STEPS

- **Audit Committee and City Council**

- **Auditor General's Office**
 - **Phase Two Results - Mid 2016**
 - **Phase One Follow-up Results - Mid 2017**

- **City – Action plan**