

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

Date: March 20, 2017

To: Audit Committee

From: Auditor General

Wards: All

REASON FOR CONFIDENTIAL INFORMATION

This report is about litigation or potential litigation that affects the City or one of its agencies or corporations.

SUMMARY

This report presents the results of the Auditor General's Phase Two audit on the City's employee extended health care benefits.

In 2015 the City spent approximately \$229 million to provide employee benefits including health, dental, long term disability and employee life insurance, of which approximately \$56 million was for extended health care benefits (excluding drug benefits).

Overall, we found the controls and monitoring of the City's benefit claims ineffective in identifying unusual patterns or potential frauds. Potential benefit abuse or fraud might not have been detected due to the lack of critical claim information and administrator forgoing a standard audit process for the City's claims.

City management, who retains overall responsibility for the program, should further strengthen its oversight by establishing clear understanding of the benefit administrator's actual adjudication practices, as well as performing more effective claim data analysis and implementing periodic third-party audits.

To reduce annual benefit cost and the risk of benefit abuse, we recommend several changes to the City's benefit plan design. As well, the City should establish reasonable quantity or price limits for items such as compression stockings and medical braces.

The audit provided 16 recommendations to help improve controls and benefit plan design, prevent and detect misuse, and reduce yearly costs while providing a reasonable level of benefit coverage to employees.

The City has recently contracted a new benefits administrator and this presents an opportunity to strengthen its benefits program and reduce its risk exposure moving forward.

RECOMMENDATIONS

The Auditor General recommends that:

1. City Council request the Treasurer to make a request to Manulife to input the provider information including the name of provider, location, and therapist registration number, for all City's health claims processed and reimbursed in the period 2013 to 2015 to enable proper analysis to be performed to confirm validity of claims.
2. City Council request the Treasurer to ensure the plan administrator has adequate tools, controls and adjudication processes in place to identify unusual trends and patterns, and to detect and prevent fraud and abuse at both the provider and individual plan member level. This should include establishing predetermined criteria with the plan administrator for identification of unusual trends and patterns, and requesting periodic reports back from the plan administrator on actions taken.
3. City Council request the Treasurer to ensure all key changes to the City's health benefits plan administration are clearly communicated and documented by City staff, and retained in accordance with the City record retention policy. When a major change to the benefit plan is made, the Treasurer should ensure the change is implemented by the benefits administrator according to the City's direction.
4. City Council request the Treasurer to:
 - a. review the instances of benefit overpayments identified in the Auditor General's Phase Two audit of extended health benefit claims;
 - b. where feasible identify other instances of overpayments; and
 - c. recover the overpayments from plan members or the Benefits Plan Administrator where feasible.
5. City Council request the Treasurer to consider establishing a reasonable quantity limit for orthotics and orthopedic shoes benefits for dependents aged 18 or younger and for medical braces.
6. City Council request the Treasurer to review and initiate changes to the City's extended health benefits provisions to ensure benefit plans clearly articulate what expenses are eligible and covered by the City, including the coverage for modifications to orthopedic shoes.

7. City Council request the Treasurer to ensure the City's employee health benefit provisions are implemented in accordance with City's intentions and collective agreements, and that the plan administrator's interpretation of benefit provisions is in line with City intentions.
8. City Council request the Treasurer to consider unifying, where possible, the employee health benefit provisions in various collective agreements such that both the City's oversight of benefits and the benefit administrator's claim adjudication can be performed in a more effective and efficient manner.
9. City Council request the Treasurer to consider setting a reasonable contractual limit or unit cost on health benefits, particularly when the Plan Administrator does not have a Reasonable and Customary charge in place.
10. City Council request the Treasurer to ensure that the current employee health benefit plan administrator's adjudication processes include an assessment on age reasonableness for health claims.
11. City Council request the Treasurer to assess the reasonableness and appropriateness of the City's physiotherapy benefit provisions, taking into account the financial impact and the City's comparability to other jurisdictions.
12. City Council request the Treasurer to put in place a written policy and procedure on granting of exception cases for employee health benefits. The reason, type of benefit, and period in effect should be documented and retained.
13. City Council request the Treasurer to engage an external auditor to conduct an initial audit on the new plan administrator's adjudication system to ensure the coding aligns with benefit provisions. Periodic audits should also be performed on the effectiveness of the administrator's adjudication and monitoring processes.
14. City Council request the Treasurer to conduct, on a regular basis, detailed reviews of health benefit claims history by high risk categories that are commonly subjected to misuse or abuse.
15. City Council request the Treasurer to ensure emerging risks and issues in the employee health benefits program are identified and adequately addressed by the benefits administrator in a timely manner.
16. City Council request the City Manager to forward this audit report to the respective Board of the Toronto Transit Commission and the Toronto Police Service for their review and consideration of the applicability of the audit recommendations in their own employee health benefit program.
17. City Council adopt the confidential recommendations contained in Confidential Attachment 1 to this report.

18. City Council authorize the public release of the Confidential Recommendations and information contained in Confidential Attachment 1 to this report at the discretion of the City Solicitor in consultation with the City Manager.

FINANCIAL IMPACT

As part of the audit, we have identified and confirmed with Manulife approximately \$75,000 in overpayments due to adjudication errors which we have recommended the City to pursue for recovery. Due to the lack of critical claims information and our small sample size, there are likely to be additional overpaid claims that have not been identified.

In addition, from our limited sample, we have identified two medical supplies and equipment providers with suspicious activities. They have been referred to Manulife for investigation according to our audit agreement. There may be significant financial impact depending on the investigation results.

Implementation of the recommendations in this report will improve controls and plan design of the City's employee extended health benefits program, help ensure the City is receiving effective monitoring services from the plan administrator, and reduce the risk of adjudication errors or misinterpretations of benefit provisions. These will potentially result in future cost savings, but the amount is not determinable at this time.

ISSUE BACKGROUND

The City's annual cost on employee extended health care benefits (excluding drug benefits) has increased 68 per cent over the 10 years from \$33 million in 2006 to \$56 million in 2015. This audit is the latest component in the Auditor General's multi-year plan to assist the City in achieving value for money in its overall benefits program.

The Auditor General's 2016 Audit Work Plan included a review of the City's Processing and Management of Dental and Health Benefits Claims. The audit was divided into separate phases. Phase One focused on the drug claims, and was presented to the Audit Committee in October 2016:

<http://www.toronto.ca/legdocs/mmis/2016/au/bgrd/backgroundfile-97612.pdf>

Phase Two, which is the subject of this report, focuses on non-drug claims under the City's employees extended health care benefits program. Manulife was the City's benefit plan administrator for the period under the audit.

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

For the period 2012 to 2016, Manufacturers Life Insurance Company (Manulife) was the City's benefits administrator, which acted as the City's "agent" in adjudicating and monitoring employee benefits claims under an Administrative Services Only (ASO)

contract. The City paid for the benefit claims costs, along with a benefit administration fee to Manulife.

The City's Pension, Payroll and Employee Benefits Division (PPEB) is responsible for oversight of the employee benefits program but its staff are not involved in claims adjudication or monitoring processes.

COMMENTS

This report presents the results of our Phase Two audit on the City's employee extended health benefits.

Effective claims monitoring should include the ability to identify red flags for different kinds of potential benefits waste, abuse, and fraud from plan members, providers, as well as plan member-provider collusion.

During the audit we observed that the benefits administrator did not systematically track critical claims information, and relied heavily on manual processes to review and monitor the City's claims. This not only increased the risk of overpayments, but limited the administrator's ability to detect red flags of fraud through analysis of trends and claim patterns. Some of the administrator's control processes were also inadequately performed, or not applied at all.

Numerous instances of unusual claim activities were identified during the audit that were potentially indicative of waste and abuse, particularly in areas of orthotics and orthopedic shoes, compression stockings, and paramedical services. Two providers with suspicious activities have been identified and referred for further investigation by Manulife.

The Canadian Life and Health Insurance Association estimates that two to ten per cent of all healthcare dollars are lost to fraud each year.

While the primary responsibility to adjudicate and monitor claims lies with the administrator, the City still retains ultimate responsibility for oversight of its employee benefits program. City staff needs to undertake a closer examination of information or lack of information from its plan administrator in ensuring the City receives effective benefit adjudication and monitoring from the plan administrator.

The audit report, titled "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" is attached as Attachment 1. Management responses to recommendations contained in the audit report are also included in Attachment 1.

Confidential Attachment 1 to this report contains confidential information pertaining to litigation or potential litigation that affects the City or one of its agencies or corporations. Management response to audit recommendations in Confidential Attachment 1 is also included in the Attachment.

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SIGNATURE

Beverly Romeo-Beehler, Auditor General

ATTACHMENTS

Attachment 1: 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

Confidential Attachment 1: Confidential Information