

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

The City's spending on employee extended health care benefits has increased 68 per cent over the 10 years from \$33 million in 2006 to \$56 million in 2015. The Canadian Life and Health Insurance Association estimates that 2 to 10 per cent of all health care dollars are lost to fraud each year. This audit is the latest component in the AGO's multi-year plan to assist the City in achieving value for money in its employee benefits program.

BACKGROUND

The City is self-insured so it bears the cost of benefit claims. It also pays the benefits administrator (Manulife for the period audited) a fee equal to a percentage of claims paid. Manulife, acting as an agent for the City, was responsible for claims processing and adjudication, monitoring, and prevention and detection of fraud or abuse. This report focuses on extended health benefits for medical supplies, equipment, and professional services.

BY THE NUMBERS

- 80,059 employees, retirees, spouses and dependents eligible for coverage
- Average 400,000 extended health claims processed annually
- Top five benefits in 2015: Physiotherapy (\$10.9M), Vision (\$7.9M), Orthotics and Orthopedic Shoes (\$6.8M), Massages (\$6.4M), and Stockings (\$3.3M)
- Less than 0.5 per cent of the 70,000 City claimants were subjected to post-payment review over 3 years
- 2 suspicious providers, identified from a small audit sample, were referred to Manulife for investigation
- \$75,000 identified in overpayments due to adjudication errors; likely additional overpayments outside of audit sample

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**What we found****Ineffective Controls to Detect Abuse and Fraud**

- Manulife did not systematically track provider information when processing City's claims. This limited Manulife's ability to analyze unusual trends or claim patterns to detect abuse and fraud.
- Manulife did not apply a standard prepayment claim audit process to all City's claims. Potential benefit abuse or fraud might not have been detected.

Instances of Potential Benefits Waste or Abuse

The following instances of potential benefits waste or abuse were identified based on our analysis of 2013 to 2015 claims reimbursement data. While these claims might be legitimate, they represent high-risk cases that should have been subjected to a closer review:

- Dependents aged 18 and under have unlimited orthotics and orthopedic shoes coverage:
 - 41 dependents of this age group claimed between 6 and 10 pairs of orthotics in a year, each receiving between \$3,000 and \$5,000 per year.
 - One dependent, in particular, was reimbursed approximately \$3,800 for modifications on seven pairs of orthopedic shoes and \$2,000 for 4 pairs of orthotics in 2015.
 - One employee with three dependents was reimbursed \$28,500 for close to 60 pairs of orthotics for the dependents over three years. The employee and spouse were also reimbursed for 6 pairs of orthotics, totalling \$31,500 in benefit reimbursements during the 3 years.
- 124 dependents aged 18 or younger were reimbursed for compression stockings.
- 9 employees and their family members appeared to claim an unusually large number of medical braces receiving between \$13,000 and \$38,000 over the three years.
- 3 City employee groups have unlimited physiotherapy coverage:
 - 17 individuals each received \$10,000 or more for physiotherapy reimbursement within a year.
 - A family of 5 (an active employee and 4 family members) each submitted physiotherapy claims and in total received about \$23,000 each consecutive year, totalling \$70,000 over the 3 years.
 - An employee submitted claims for approximately 145 treatment visits and was reimbursed over \$10,000 each consecutive year, totalling approximately \$34,000 over three years. The spouse also claimed an average of 110 physiotherapy visits per year, receiving a total of \$25,000 during the same period.

How Recommendations will Benefit the City

Implementation of the 16 audit recommendations can help improve controls and plan design of the City's extended health benefits, prevent and detect benefits misuse, and reduce yearly benefit costs while providing a reasonable level of coverage to employees.