

## Continuous Controls Monitoring Program: Opportunities to Reduce Cost of Dental Benefits

**Date:** October 8, 2020

**To:** Audit Committee

**From:** Auditor General

**Wards:** All

### SUMMARY

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The objective of the Continuous Controls Monitoring Program is to use data analytics techniques to provide reports for management to proactively monitor financial transactions, detect unusual expenses and identify areas where internal controls could be strengthened.

The City of Toronto (City) provides extended health and dental benefits coverage to its employees and retirees, their spouses and eligible dependents in accordance with City policies and collective agreements. In 2019 the City spent \$152 million to provide employee health benefits. Dental benefits amounted to \$51.9 million.

Testing of controls to ensure claims are reasonable and legitimate and reviewing plan design provides assurance to City Council that the City is receiving the best value. We did not conduct an audit, but used extensive data analytics techniques combined with selective testing to form an assessment of how the City is doing in this area. We followed-up all observations with the plan administrator and discussed with the management to form our assessment.

#### What we found:

Overall, we found the plan administrator has good controls in place.

1. Pension, Payroll & Employee Benefits Division (PPEB) has followed the AG's past recommendations to include strong upfront controls for benefits management.
2. Controls appear to be working.
3. Although we identified some claims would benefit from further review, nothing came to our attention that would suggest fraud. Our findings are consistent with an independent third-party audit conducted by PPEB.

4. Where we identified some claims for a deeper review, in some cases the plan administrator had already picked up the items for review themselves. This is good news and it provides us with confidence that the controls are in place and operating.

5. Employees would benefit by having better training on using benefits and how to verify services being charged by dentists. Enhancing the continuous review of trends and expenses using advanced data analytics will help to control costs. These measures will continue on a go-forward basis to help ensure the long-term sustainability of plan.

### **There are also opportunities for savings.**

We have identified cost saving opportunities through analyzing data and benchmarking with other levels of government. The City should consider:

1. exploring plan design changes, such as, harmonization of benefit plans among various groups of staff for major dental services.
2. having annual maximum allowable amounts on basic and comprehensive dental services categories.
3. when negotiating future employment agreements, whether there is an opportunity to reduce dental costs by establishing some co-insurance payments by plan members. This measure appears to be in line with other public service plans. The savings could be further enhanced if these measures are extended to other health benefits and across the City Agencies and Corporations.

Our recommendations are related to the following three areas:

#### **1. Exploring options for plan design changes to reduce the dental benefit costs.**

The City pays 100 percent of basic and comprehensive basic dental procedures. We have identified cost saving opportunities, for example, considering co-insurance payments by plan members and having annual maximum allowable amounts on dental services.

#### **2. Improving controls through ongoing review of atypical benefit claims.**

Enhancing the continuous review of trends and expenses using advanced data analytics would help control costs. These measures will continue to help ensure the long-term sustainability of the benefit plans.

**3. Improving awareness among City plan members of dental services and related charges.** This will help plan members understand their dental coverage and common dental services and related fees. An informed review by plan members of the charges billed by practitioners will complement other recommended controls.

We have made four recommendations. Implementation of the recommended changes discussed in this report could result in significant annual savings. We have provided potential savings in various plan design change scenarios. The realized savings will be reported after plan design changes are evaluated and implemented.

## RECOMMENDATIONS

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The Auditor General recommends that:

1. City Council request the Controller in consultation with the Benefits Plan Administrator, Chief People Officer and the City Solicitor to undertake a review of dental benefit plan coverages and industry standards and best practices to consider opportunities for changes to the City's coverage to provide cost effective dental benefits. A process should be established for:

- Consultation, on a periodic basis, with industry experts and the benefits plan administrator to identify industry standards and acceptable practices for dental benefits coverage limits, particularly in areas where use by the City's plan members is significantly higher than industry standards or benchmarks; and
- Recommending reasonable maximum plan coverages for the appropriate services, such as the benchmark averages provided by the benefits plan administrator and examples provided by the Auditor General. Consideration for special circumstances, should be provided, where necessary.

The identified cost saving opportunities should also be considered for other benefit plans and implemented across the City and its Agencies and Corporations.

2. City Council request the Controller in consultation with the Benefits Plan Administrator to review the identified exceptions and select the instances (outliers) that require a detailed review including obtaining records from the service providers. Results of the review should be documented for corrective actions. These actions may include:

- a. recovery of cost where applicable,
- b. communicating instances with practitioners/service providers and patients,
- c. identifying potential new systematic controls and developing management information reports for ongoing monitoring.

Any findings and realized savings should be documented to inform future Benefit Plan design.

3. City Council request the Controller in consultation with the Benefits Plan Administrator develop an information guide and online training for plan members to understand their dental plan coverage and common dental treatment services and related fees. Plan members should be advised to review and assess the fees charged for their services at the time of each visit.

4. City Council request the City Manager to forward this report on as needed basis to selected Agencies and Corporations and request that they review and consider implementing similar controls recommended in this report that are relevant to their respective organizations.

## FINANCIAL IMPACT

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The report identifies areas where controls can be improved, and savings can be achieved. The extent of the resources required cannot be determined at this time. The Auditor General will update Council through Audit Committee of any savings realized by implementing the recommendations in this report.

## DECISION HISTORY

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The Auditor General's 2020 Annual Work Plan included data analytics project on analysis of employee dental claims data to identify areas for improved management, controls and monitoring of employee benefit costs.

The Auditor General's work plan is available at:

<https://www.toronto.ca/legdocs/mmis/2019/au/bgrd/backgroundfile-138873.pdf>

The Auditor General has also performed audits on employee drug and other health benefits during 2016 and 2017. Given the issues identified in these audits, the Auditor General extended her work to analyze dental benefits. The previous reports are available at:

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

<https://www.toronto.ca/legdocs/mmis/2017/au/bgrd/backgroundfile-102168.pdf>

The Auditor General will continue to perform her reviews and report the progress of implementation of reported recommendations to the Audit Committee and Council.

## COMMENTS

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Since its inception in 2011, the Continuous Controls Monitoring (CCM) program has expanded and included various City expenses and payments for ongoing monitoring, such as:

- Overtime and standby pay
- Absenteeism for short-term illness, ill-dependent leave and bereavement leave
- Mileage reimbursements
- Telecommunication expenses
- Accounts Payable.

This is our first Continuous Controls Monitoring (CCM) report on dental benefit claims.

This is not an audit. We used extensive data analytics techniques combined with selective testing. We followed-up all observations with the plan administrator and discussed with the management to form our assessment. It is management's responsibility to validate the data and the results.

We believe controls are in place and operating and we have recommended the City undertake a plan design review and implement changes to reduce dental benefit costs.

We understand that plan design changes throughout the City may not be immediately possible due to existing collective or employment agreements, but this report provides information for further consideration. To be clear, we are not suggesting going outside of these agreements. What we are suggesting is for management to work with unions and management going forward to determine if there is an opportunity to help relieve the City's financial pressures.

A high-level summary of the key findings is provided in the Data Analytics at a Glance attached with the report.

The attached report provides the Audit Committee and members of Council with the detailed results of our analysis and recommendations together with management's response. Management has agreed to all four recommendations.

Finally, we would like to thank the Ontario Dental Association for assistance and providing names of dental experts. We used a dental expert who operates a professional practice and has experience with adjudicating dental claims for the insurance industry. The Auditor General also appreciates the benefits plan administrator, who was very cooperative in responding to our queries. We also acknowledge the PPEB Division management and staff who assisted with coordinating our requests with the benefits plan administrator.

## **CONTACT**

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**SIGNATURE**

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Beverly Romeo-Beehler  
Auditor General

**ATTACHMENTS**

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Attachment 1: Continuous Controls Monitoring Program: Opportunities to Reduce Cost of Dental Benefits