

**Performance Audit 17-04:  
Blue Cross Blue Shield Healthcare  
Contract**

**December 2017**

**City Auditor**

Stan Sewell, CPA, CGFM, CFE

**Senior Auditor**

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# OFFICE OF INTERNAL AUDIT

## Stan Sewell, City Auditor

December 13, 2017

To: Mayor Andy Berke  
City Council Members

Subject: Blue Cross Blue Shield Contract (Audit 17-04)

Dear Mayor Berke and City Council Members:

The attached report contains the results of our audit of the City's healthcare contract with Blue Cross Blue Shield of Tennessee (BCBST). Our audit found the contract and membership changes were administered well by the Benefits Division of the Human Resources Department and BCBST. However, we found delays in notification of employee terminations sometimes causes a delay in cessation of healthcare benefits. Also, the Benefits Division policy & procedure manual is out-of-date. In order to address the noted areas for improvement, we recommended termination forms be computerized, the Employee Benefits Office Operation Manual be updated and incorporated into a Human Resources Policy and Procedures Manual.

We commend the personnel of the Benefits Division and Blue Cross and Blue Shield of Tennessee for their excellent work in administering the City healthcare program.

We thank the management and staff of the Human Resources, Finance and Information Technology departments, as well as staff of Blue Cross Blue Shield of Tennessee, for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE

City Auditor

Attachment

cc:    **Audit Committee Members**  
      **Jim Arnette, Tennessee Local Government Audit**  
      **Stacy Richardson, Chief of Staff**  
      **Maura Sullivan, Chief Operating Officer**  
      **Daisy Madison, Chief Financial Officer**  
      **Tina Camba, Administrator, Human Resources**  
      **Madeline Green, Director of Benefits**  
      **Brent Messer, Chief Information Officer**  
      **Bethany Adkins, External Audit Coordinator, BCBST**

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## AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2017 Audit Agenda. The objectives of this audit were to determine if:

- The proper participants are insured;
- Blue Cross Blue Shield of Tennessee's (BCBST) methodology and practice of paying claims is sufficient; and,
- Human Resources provides sufficient oversight of the BCBST contract to protect the City's interest.

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## BACKGROUND

Employee healthcare insurance is the second largest expense for the City, after employee payroll. City sponsored health related employee benefits are health, behavioral health, dental, vision, group life, long-term disability insurance and the Employee Assistance Program. The City also provides an onsite medical clinic for those covered by the City's health insurance. Some benefits, such as the medical clinic and employee assistance program are funded entirely by the City. Others, including health insurance and vision, are funded by a combination of employee and employer contributions. The remainder, such as dental insurance and short-term disability are funded solely by the employee. The City of Chattanooga contracts with several companies to provide these health benefits for its employees.

The City of Chattanooga is self-insured for healthcare. Self-insured entities contract with an insurer to provide its expertise to pay insurance claims properly, as well as to benefit from the pricing of the insurers' network contracts with providers. The City reimburses the contractor each week for claims paid the prior week. A monthly administrative fee is paid based on a contracted amount per covered employee, plus a fee for stop-loss coverage for those employees. Management of healthcare contracts falls under the purview of the Benefits Division of the Human Resources Department (HR).

The City has contracted with Blue Cross and Blue Shield of Tennessee to provide administrative services for healthcare, pharmacy, dental, behavioral health, COBRA and stop loss insurance for the past ten years.

Individuals covered by the City health insurance policies have an average of 17,000 claims monthly with approximately \$2.2 million paid for those claims. Claims are received from providers and

processed by BCBST. Each Wednesday a file containing claims paid the previous week is forwarded to the City for reimbursement.

We performed extensive testwork during this audit and found no errors. We reviewed the contract with BCBST and the methods used by the Benefits Division staff to administer it. We matched records of those insured by BCBST (employees, retirees, outside agencies, dependents) to those of the City. We interviewed staff of both the City Benefits Division and Blue Cross Blue Shield of Tennessee. We tested administrative fee pricing and traced terminated employees to ensure they were taken off BCBST roles, and any charges after termination were reimbursed.

We also met with BCBST personnel and discussed and examined the payment methodology of BCBST and found them to be the same for insured and self-insured customers. We reviewed a non-statistical sample of paid claims and matched charges to the City. We also traced a sample of charges back to the BCBST claim system.

The tests we performed found the City Benefits Division, in conjunction with BCBST, does an excellent job managing the individuals insured and the administrative charges related to them, ensuring claim payments are correct and administering the healthcare program.

### Financial Information

#### Expenditures paid BCBST by Category 7/2012 – 6/2016

Fiscal Year	Health & COBRA Claims	Vision	Ins. - Pensioners	Ins-Retirees	Admin Expense.	Total
2012	14,174,641	\$ -	\$ 485,199	\$ 7,293,628	\$ 1,296,058	\$ 23,249,526
2013	14,145,513	60,432	239,634	7,601,240	1,514,929	23,561,748
2014	14,500,007	54,871	217,511	8,219,977	1,366,642	24,359,008
2015	14,805,575	55,763	166,458	6,861,627	1,282,447	23,171,869
2016	16,365,058	56,160	150,285	8,660,756	1,357,033	26,589,292
	<u>\$73,990,794</u>	<u>\$ 227,225</u>	<u>\$ 1,259,086</u>	<u>\$ 38,637,229</u>	<u>\$ 6,817,109</u>	<u>\$ 120,931,444</u>

Source: Oracle Financials

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## FINDINGS AND RECOMMENDATIONS

**A policy setting  
time  
requirements for  
the completion of  
Termination  
Reports is  
needed.**

Termination of City employees is currently a manual process. Upon initiation/notification of an employee's impending termination, the supervisor is responsible for providing the information to the pay clerk. The pay clerk manually completes the termination form and emails it to the HR and Payroll Departments. The forms would ideally be provided to HR, Payroll and IT when the employee turns in a notice, but they are often held until the employee ceases employment, or longer. The termination form is sometimes not received in HR for several months after the employee has ceased employment, either due to the supervisor not informing the pay clerk of the departure, or inattention of the pay clerk.

The State of Tennessee requires employers provide a former employee a Separation Notice within 24 hours of termination of employment.<sup>1</sup> HR requests the termination form be submitted within 24 hours of separation. However, no HR (or Citywide) policy requires timely submission of termination reports.

The City reports all additions/deletions/changes in healthcare coverage to BCBST weekly. All termination data for the past week should be included in HR records at that time. Delays in the termination process slows the delivery of COBRA notices to former employees.

If performed properly, the lag between end of employment and termination of benefits with BCBST should be no greater than one week. We tracked employee terminations who had healthcare coverage through the system. One termination was not completed for four months. This results in unnecessary administrative work tracking refund of administrative fees and claims paid to BSBST since the date of employee separation. Pharmacy claims are point-of-sale, and therefore any payments made after the last day of employment are not refundable.

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<sup>1</sup> Rule 0800-09-01-.02 of the Tennessee Employment Security Law

When termination reports are received in a timely fashion the information can also be used by IT to remove access to logins, building entrance, etc.

HR intends to hold a “termination summit” in the near future, including individuals from Benefits, Payroll, Human Resources and pay clerks to discuss these issues.

### **Recommendation 1:**

We recommend HR work with IT to facilitate information related to employee terminations being electronically forwarded to Benefits and Human Resources.

***Auditee Response (HR):** We concur with the audit finding and recommendation.*

***Auditee Response (IT):** We concur with the audit finding and recommendation.*

### **Recommendation 2:**

We recommend The *Employee Information Guide* be revised to include the timeframe required for reporting an impending termination.

***Auditee Response (HR):** We concur with the audit finding and recommendation.*

## **Human Resources policies and procedures manuals need to be created/updated.**

In the course of our audit, we discovered the Employee Benefits Office Operation Manual has not been updated since 2001. A review of the manual found the policies and procedures were out-of-date and provide little usable guidance related to the current handling of benefits. We also noted there is no complete set of policies and procedures for the Human Resources Department.

Current Management appears sufficient due to the long term employment of staff in the Benefits Division. If employee turnover occurs and the manual is not updated, the Division may be left incapable of functioning effectively.

Component 1, Control Environment of *The Internal Control and Compliance Manual for Governmental Entities and Other Audited Entities in Tennessee* requires each entity “develop a manual that provides sufficient documentation of internal control to communicate



to personnel their responsibilities as well as to monitor and evaluate the controls”. Policies, procedures, internal control design and activities should be written, up-to-date, easily accessible by employees and regularly updated to address the changing risks and procedures.

Benefits personnel state they have been in the process of rewriting their portion of the manual for several years. However, other work takes priority and little progress has been made towards completion.

### **Recommendation 3:**

We recommend the Employee Benefits Office Operation Manual be updated to incorporate current policies and procedures. This was recommended previously in Audit 11-13, Personnel Department Benefit Payment and Premium Collections.

***Auditee Response:** We concur with the audit finding and recommendation.*

### **Recommendation 4:**

We recommend the Human Resources Department create a comprehensive policy and procedure manual. This was recommended previously in Audit 11-13, Personnel Department Benefit Payment and Premium Collections.

***Auditee Response:** We concur with the audit finding and recommendation.*

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## APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers the healthcare contract with Blue Cross Blue Shield of Tennessee (BCBST) from July 1, 2016 to June 30, 2017. When appropriate, the scope was expanded to meet the audit objectives. Source documentation was obtained from the Benefits Division, Attorney's Office and BCBST. Original records as well as copies were used as evidence and verified through physical examination.

To achieve the audit's objectives, reliance was placed on computer-processed data contained in the Oracle HR and general ledger, as well as BCBST's claim processing system. We reviewed the 2016 Statement on Standards for Attestation Engagements 16 prepared by Ernst & Young related to BCBST system. We assessed the reliability of the data contained in the two systems and conducted sufficient tests of the data. Based on these assessments and tests, we concluded the data was sufficiently reliable to be used in meeting the audit's objectives.

The sample size and selection were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

To develop our recommendations, we reviewed the contract with BCBST, as well as the methodology used by BCBST and the City for administration. We interviewed staff of the City Benefits Division and BCBST. We inspected claim payment flowcharts of BCBST and tested the workflow. We traced claim payments through the BCBST network to determine proper claim pricing. We traced terminated employees benefits to ensure cutoff was on the proper day and no further payments were allowed. Credited claims were reviewed to ensure the amount matched original charges.

We conducted this performance audit from April 2017 to December 4, 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **City of Chattanooga Fraud, Waste, and Abuse Hotline**

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To make a report, call 1-877-338-4452 or visit our website:  
[www.chattanooga.gov/internal-audit](http://www.chattanooga.gov/internal-audit)