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**Audit of  
Dependent Insurance  
Coverage Eligibility**

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December 5, 2017

Honorable Tom Barrett, Mayor  
The Members of the Common Council  
City of Milwaukee  
Milwaukee, WI 53202

Dear Mayor and Council Members:

The attached report summarizes the results of the audit of dependent insurance coverage eligibility. The scope of the audit included documentation requirements to establish employee dependent insurance coverage eligibility from March 2015 through March 2016. The preliminary audit objective was to:

1. Determine whether the appropriate controls and procedures are in place for properly establishing and documenting dependent insurance coverage eligibility.

The audit concluded that the internal controls in place over the Department of Employee Relations dependent insurance coverage eligibility processes are adequately designed and are operating effectively. However, for certain controls identified within this report, enhancements should be made to the control designs and operational processes over establishing and documenting evidence of eligibility. The audit report includes three recommendations and one observation to address these issues.

It is noted that for certain controls identified within this report department management proactively initiated mitigating actions necessary to address some of the issues encountered during the performance of the audit.

Audit findings are discussed in the Audit Conclusions and Recommendations section of this report, and are followed by management's response.

Appreciation is expressed for the cooperation extended to the auditors by the personnel of the Department of Employee Relations, Employee Benefits Division.

Sincerely,

Adam Figon, MBA, CRMA  
Audit Manager

ACF/rk

## I. Audit Scope and Objectives

The audit examined the Department of Employee Relations (DER), Employee Benefits Division processes for establishing and documenting evidence of City employee dependent insurance eligibility. The scope of the audit focused on the controls and procedures over establishing and documenting dependent insurance coverage eligibility. The time period under review was March 2015 through March 2016, and included documenting, tracking, obtaining and retaining proof of relationship documentation.

The objective of the audit was to:

1. Determine whether the appropriate controls and procedures are in place for properly establishing and documenting dependent insurance coverage eligibility.

The audit was conducted 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 the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for the audit's findings and conclusions based on the audit objectives.

### *Methodology*

The audit methodology included developing an understanding of the processes and controls over the establishment and maintenance of City employee dependent insurance coverage eligibility following an assessment of applicable risk and non-compliance with the Patient Protection and Affordable Care Act (ACA). This statutory requirement, and best practices, were used as a reference during the planning, program development, control testing, finding identification and recommendation development phases of this audit.

The audit procedures developed to evaluate the processes and controls to meet the audit objective included process walk-throughs, inspection of relevant control documentation and the testing of controls and compliance as follows:

- Reviewed internal policies, procedures, and guidelines.
- Assessed controls and processes in place surrounding dependent insurance eligibility requirements.
- Reviewed dependent insurance eligibility source documentation and data retention processes.
- Verified that evidence of eligibility was obtained prior to the provision of health and/or dental insurance coverage.
- Confirmed proof of relationship documentation was received within thirty-days (30) of the health and/or dental insurance enrollment date.
- Verified that correct dependent coverage codes were used for the type of dependent insurance coverage selected.
- Verified compliance with the ACA requirements.

## **II. Organization and Fiscal Impact**

The DER is comprised of Employee and Labor Relations, Compensation and Employee Benefits, Recruitment and Selection, and Worker’s Compensation and Safety. The DER mission is to recruit, develop, and retain a high performing and diverse workforce while delivering quality customer service to approximately 6,500 City employees. The DER goal is to deliver innovative human resource policies and programs that support the City’s mission including services to maintain and improve employee health and well-being while minimizing growth in health care costs. DER meets its goals while complying with state and federal employment laws and civil service rules.<sup>1</sup>

### *City of Milwaukee - Employee Dependent Insurance Coverage*

Generally, if an employer offers group health coverage to full-time employees, coverage must be offered to an employee’s legal spouse and dependent children. The City of Milwaukee provides employee dependent insurance coverage to eligible employee dependents as mandated by the State and Federal Government. The City also extends insurance coverage to unmarried domestic partners of employees and their children. Under the City’s health and dental coverage, employees

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<sup>1</sup> 2017 Plan and Budget Summary, City of Milwaukee – Department of Employee Relations, pg. 75

and their domestic partners must sign an affidavit of domestic partnership to establish that they are living together in a committed relationship, and intend to stay that way indefinitely. The purpose of the affidavit is to deter roommates or others who simply share living space from defrauding the insurer. In 2007, the DER started requiring employees enrolling in or adding a new dependent to their insurance benefit to provide evidence of eligibility. Proof of relationship must be verified prior to the provision of health and dental insurance coverage. DER management activities include the maintenance and monitoring of controls over dependent insurance coverage eligibility.

#### *Affordable Care Act - Requirements*

Under the Patient Protection and Affordable Care Act, group insurance plans are required to extend coverage to adult dependents through age 26, whether or not their employer offers coverage. In addition, employers may opt to extend health benefits to unmarried domestic partners of employees. Benefits offered to domestic partners must mirror the same coverage extended to employee spouses. A domestic partner can include same sex or opposite sex partners.

#### *Affordable Care Act - Compliance*

Per the ACA, the City is required to monitor employee eligibility for medical benefits coverage and in 2016 report to both employees and the Internal Revenue Service (IRS) regarding coverage. The DER contracts Health e(fx), a third party vendor that specializes in healthcare compliance, to track health coverage offered to employees in 2015 and report to the federal government beginning in 2016.<sup>2</sup> The contract helps DER to track eligibility, workforce management, employee notification, on-going compliance, 1094 forms filing, 1095 form distributions, meet all the ACA reporting requirements accurately and correctly and avoid significant penalties for non-compliance.

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<sup>2</sup> 2016 Plan and Budget Summary, City of Milwaukee – Department of Employee Relations, pg. 78

### **III. Audit Conclusions and Recommendations**

The internal controls developed and implemented by DER over dependent insurance coverage eligibility requirements provide management with assurance that processes and controls are performed consistently and are in compliance with policy, procedure, ACA requirements and best practice.

The audit concluded that the internal controls in place over the Department of Employee Relations dependent insurance coverage eligibility processes are adequately designed and are operating effectively. However, for certain controls identified within this report, enhancements should be made to the control designs and operational processes over establishing and documenting evidence of eligibility. The audit report includes three recommendations and one observation to address these issues.

This audit report identifies the following three recommendations to improve internal controls:

1. Enhance acquisition and retention controls over dependent insurance eligibility documents.
2. Perform periodic audit/review of dependent insurance eligibility requirements.
3. Develop and implement procedures for the dependent insurance coverage eligibility requirement process.

This report includes one observation related to the ACA evidence of eligibility requirements. An observation may not constitute a recommendation, however, its implementation is advised for alignment with best practice.

It is noted that for certain controls identified within this report department management proactively initiated mitigating actions necessary to address some of the issues encountered during the performance of the audit.

Additional details regarding the recommendations for improvement are provided in the remaining sections of this report.

## **A. Dependent Eligibility Controls**

### *Evidence of Eligibility*

DER responsibilities include the monitoring and enforcement of dependent insurance eligibility requirements in the interest of eligible participants and eligible dependents, the suppression of rising health insurance costs and risk minimization regarding non-compliance with federal requirements and the Internal Revenue Code. Monitoring evidence of eligibility includes verifying new and/or current employees and new dependents enrolling in health and dental benefits via proof of relationship documentation.

Per the City's health and dental enrollment requirements, new employees and current employees experiencing a life changing event must submit proof of relationship documentation within thirty (30) days prior to the provision of health or dental insurance. The City's "thirty-day rule" is applied regarding the following:

- New employee start date;
- The birth of a child;
- Marriage for existing employees;
- The marriage of a City employee to another City employee; and
- City Management employees whose spouse is employed by another governmental agency.

Enrollment and changes to enrollment must be processed through the City's Human Resource Management System (HRMS) within this time period though some existing employees still use manual health and dental forms to add or enroll new dependents. Per the City's health and dental requirements non-compliance with the thirty-day rule may expose employees to additional costs.

### *City Health Insurance & Thirty-day Rule Requirements*

When adding or enrolling a new dependent, proof of relationship documentation must be submitted. A City employee married to another City employee can only carry one health and one dental plan between them. If the marriage is not reported, a financial penalty could be imposed. City Management employees whose spouse is employed by another governmental agency may



only be enrolled in family coverage with the City or through their spouse's employer, but not both. Domestic Partners and their children are also eligible for insurance benefits through the City; however, the City employee must be in a registered Domestic Partnership.

DER personnel are to request proof of relationship documentation from employees to satisfy the thirty-day rule. As part of the audit, evidence of eligibility through proof of relationship documentation was reviewed and verified. However, audit procedures demonstrated that proof of relationship documentation was not always acquired, was not always acquired timely and was not always retained.

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**Recommendation 1: Enhance acquisition and retention controls over dependent insurance eligibility documents.**

To enhance current dependent insurance eligibility enrollment processes and compliance with the thirty-day rule, Management should strengthen the controlled processes used to obtain and/or retain required evidence of eligibility supporting documentation for all dependents.

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*Dependent Eligibility Audit – Periodic Review*

Best practice indicates that a comprehensive periodic audit/review of dependent eligibility preserves the integrity of a benefit plan on an ongoing basis by verifying the eligibility of all dependents enrolled in the plan. Verification of dependent eligibility is an effective and organized method to ensure all dependents remain eligible for health and dental insurance benefits. Periodic review of dependent eligibility is designed to review the eligibility requirements of a health care plan and verify that all dependents currently receiving benefits under the plan are eligible to receive such benefits. In addition, under the ACA, the City is required to monitor eligibility for medical benefit coverage.

Dependent eligibility audit consultants estimate that, on average, “potentially” 5-8% of enrolled dependents can be identified as ineligible. With annual health care costs ranging from \$3,000 to

\$5,000 per dependent, these ineligible dependents can add a significant cost to an organizations benefit plan each year.<sup>3</sup>



Periodic dependent eligibility audits/reviews identify plan participants who should be purged from the rolls because they no longer qualify for benefits. Examples often include divorced spouses, adult children who age-out of eligibility (26 and older), and nieces or nephews living with an employee. By making use of these periodic audits/reviews, organizations can enhance their control over the rising costs of employee benefits, while protecting programs from purposeful fraud or accidental waste. The average potential cost savings of conducting a periodic dependent coverage eligibility audit/review, using estimated dependent and average cost data (for example), is presented in Table 1.

**“Potential” Cost Savings of a Dependent Eligibility Audit/Review**

Estimated Number of Dependents in a Benefit Plan*	Estimated Ineligible Percentage	Average Cost per Dependent per Year*	“Potential” Cost Reduction/Savings
10,000	5%	\$4,570	\$2,285,000
10,000	6%	\$4,570	\$2,742,000
10,000	7%	\$4,570	\$3,199,000
10,000	8%	\$4,570	\$3,656,000
*Employers must consider their <u>actual</u> number of dependents and <u>actual</u> average cost per dependent when calculating potential savings to benefit plans.			

Table 1 (reference also Figure 1)

While dependent audits/reviews are primarily seen as a cost control measure, at the core, they are also a fiduciary responsibility per IRS regulations. Any employer, whether subject to the Employee Retirement Income Security Act or not, is obligated to administer their plan according

<sup>3</sup> Consova, Client Services, Eligibility Verification, <http://consova.com/services/eligibility-verification>

to the rules stated in their plan documents. However, human resource and benefits professionals typically conduct periodic audits/reviews to receive immediate short-term returns; generate a potential recovery of funds; and to drive longer-term health/benefit plan objectives. Thus, the benefits of a periodic audit/review are both tangible and intangible for an organization and its employees, per Figure 1.

### **Tangible and Intangible Benefits of a Periodic Dependent Eligibility Audit/Review<sup>4</sup>**



Figure 1

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### **Recommendation 2: Perform periodic audit/review of dependent insurance eligibility requirements.**

To ensure dependents are, and remain, compliant with insurance and ACA benefit requirements Management should perform periodic audits/reviews of employee benefit/insurance files and documentation to verify dependent eligibility.

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<sup>4</sup> Mercer, Dependent Audits: An Easy Way To Save On Healthcare Costs, <https://www.mercer.us/our-thinking/dependent-audits-an-easy-way-to-save-on-healthcare-costs.html>

## B. Procedures

In accordance with best practice, including the *2013 COSO Framework–Principle 12*: Management should implement control activities through policies that establish what is expected and in procedures that put policies into action.

Written policies and procedures should be: developed and enforced for all operations; made accessible and communicated to all personnel; and, reviewed and updated as needed. Well-defined policies, procedures and processes outline current requirements, operations, interdependencies, risks and controls, and they can help identify improvement opportunities. Per best practice:

- Policies contain high-level principles or requirements that a certain department or functional area of the organization must follow, as formally agreed upon by management.
- Procedures are affiliated with particular policies and define lower-level processes, such as daily, weekly or quarterly functions and job activities.
- Processes are contained within procedures, defining in detail how regular business functions are performed whether on a repeating or as-needed basis, and show interrelationships and dependencies with other processes, organizational areas or technologies.

Documented policies and procedures provide insight into standardized functions, key risks and controls that need to be monitored, and simplify risk assessments, risk mitigation and audit efforts.

The DER, Employee Benefits Division does not have comprehensive, formal documented procedures to support the policy in place for the dependent insurance eligibility requirements processes.

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**Recommendation 3: Develop and implement procedures for the dependent insurance coverage eligibility requirement process.**

Management should develop, document, and communicate formal, comprehensive procedures to enhance governance over the critical processes and requirements for dependent insurance coverage eligibility as follows:

- New and/or current employees enrolling or adding new dependents (i.e. child, spouse, domestic partner, domestic partner child).
- City employees, new or current, enrolling or adding a spouse who is an active City employee.
- Management Employees, new and/or current, enrolling or adding a spouse who is employed by another governmental agency.
- Tracking the due date for proof of relationship documentation to ensure that it is received within 30 days of the enrollment date (to satisfy the thirty-day rule).
- Tracking the age of, and monitoring, employee adult dependent children to ensure dependent status removal at the end of the calendar year in which they turn age 26.

Management should ensure that the procedures are stored in an accessible location and should be updated as needed.

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**C. Observation**

Under ACA guidance and direction, the City is required to monitor eligibility for medical benefits coverage. During the audit, it was noted that the DER implemented a policy change on September 25, 2007 requiring employees adding or enrolling new dependents to their insurance benefits to provide evidence of eligibility through proof of relationship.

However, audit procedures determined that dependents added or enrolled before September 25, 2007, had not been required to validate proof of eligibility prior to the provision of insurance benefits and eligibility has not been verified.

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**Observation 1: Require evidence of eligibility via proof relationship documentation for dependents enrolled prior to September 25, 2007.**

Management should require proof of relationship documentation to ensure all dependents covered under the City's benefits plans meet the City's defined eligibility requirements.

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