



*"Making a Positive Difference"*

Office of Internal  
Auditing

David J. Bryant, CIA,  
CPA, CFE, CGFM, CGAP  
*Director*

Michèle A. Kiker, CGAP  
*Senior Auditor*

Justin B. Cook, CFE  
*Auditor*

Jeanne Pilgrim  
*Property Audit  
Specialist*

Jennifer Chinchar  
*Audit Administration  
Specialist*

75 N. Pace Blvd  
Room 403  
Pensacola, Florida  
32505

Call: 850-469-6272  
Fax: 850-469-6290

[http://escambia.k12.fl.us/  
iaudit](http://escambia.k12.fl.us/iaudit)

2012 District Health Insurance Plans  
Dependent Eligibility Audit

Audit Number 2012-002

Report Date: April 9, 2012  
Period Covered: 2012 Open Enrollment  
Fieldwork Dates: December 3, 2011 to April 6, 2012

We have substantially completed procedures related to our audit of the eligibility of dependents receiving health insurance benefits through the District. This report contains the results and recommendations of our audit.

**EXECUTIVE SUMMARY**

The District provides health benefits to its employees and their eligible dependents. The eligibility of a dependent for coverage is outlined in the District's Section 125 Flexible Benefits Plan. Dependent eligibility is further refined in the Flexible Benefits Plan Reference Guide provided to all employees. It is the responsibility of the Employee Benefit Trust Fund trustees to ensure benefits are provided only for those dependents who meet the eligibility criteria. The purpose of this audit was to aid the trustees in this responsibility.

During our audit, we attempted to test the eligibility of the dependents of all employees who elected either "+1" or "Family" coverage during open enrollment for the 2012 year; a 100% sample. Dual spouses were not included in our sample, unless their policy included other dependents. A total of 9 employees terminated employment during the audit, as such; their dependents were excluded from our sample. **In all, we tested the dependents of 1,396 employees.**

**During our audit, 33 employees (2.36%) removed a total of 43 dependents from coverage.** This number includes removal of dependents for traditional reasons, as well as removal of dependents during the "no questions asked" amnesty period. Although we are unable to determine the eligibility of the dependents removed, due to the "no questions asked" amnesty period, **we did become aware of 2 separate instances of ineligibility.** One instance involved the ineligibility of a dependent of an employee's domestic partner. The other instance involved the ineligibility of an employee's common law spouse.

**We were unable to verify the eligibility of the dependents of an additional 15 employees (1.07%).** These employees failed to provide the requested verification documentation, despite numerous attempts/interactions with the employees. The files for these employees have been forwarded to the Risk Management Department for a final determination on the dependents' eligibility and/or termination of coverage.

**We were able to verify the eligibility of the dependents of 1,348 employees (96.57%).** This verification included obtaining and auditing: marriage certificates, tax returns, birth certificates, adoption orders, and other various documents. **In all, we were able to verify the eligibility of 2,612 dependents.**

## **DETAILED RESULTS**

### **Background**

The District administers various health insurance plans in which employees can participate. These plans offer coverage for eligible dependents of employees as well. The eligibility of a dependent for coverage is outlined in the District's Section 125 Flexible Benefits Plan. Dependent eligibility is further refined in the Flexible Benefits Plan Reference Guide provided to all employees.

The receipt of premiums and payment of claims are managed through a dedicated trust known as the Employee Benefit Trust Fund. The Fund is managed by a board of trustees, and is governed by the Escambia School District Benefit Trust Agreement. This agreement mandates that the trustees shall discharge their duties, "solely in the interest of the employees covered under the Plan and their dependents and for the exclusive purpose of providing benefits to such persons."

In an effort to assist the trustees in ensuring benefits are only provided to dependents eligible for coverage, we elected to verify the eligibility of all dependents enrolled during the 2012 open enrollment. This audit only applies to eligibility for health coverage. The audit does not address eligibility for other benefits offered by the District, such as dental or vision.

### **Objective**

The objective of the audit was to verify the eligibility of all enrolled dependents, and to ensure those dependents met the guidelines as established in the District's Section 125 Flexible Benefits Plan and the Flexible Benefits Plan Reference Guide.

### **Scope**

The scope of the audit included all dependents enrolled during the 2012 open enrollment. We conducted pre-audit conferences with representatives from the Risk Management Department, Office of the General Counsel, Information Technology Department, and the employee unions. We acquired and reviewed various documents, including the District's Section 125 Flexible Benefits Plan, the Escambia School District Benefit Trust Agreement, the District's 2012 Flexible Benefits Reference Guide, and the Patient Protection and Affordable Care Act of 2010.

### **Methodology**

To determine our sample, we obtained the open enrollment file from United Health Care of all employees who elected either "+1" or "Family" during open enrollment. We excluded dual employees who had no other dependents. We also excluded employees who terminated employment during our audit. The remaining employees were available for sampling. Given the inherent ease of testing related to verifying eligibility, we elected to test the entire population, a 100% sample.

Employees and retirees were provided notification of the eligibility audit in mid-December 2011. They were provided a listing of what documents would be required to verify the eligibility of their dependents. These included items such as: marriage certificates, tax returns, birth certificates, adoption orders, and other various documents. Instructions were given on how to provide the documents and contact information should they have any questions. Employees and retirees were given 90 days to provide the documentation.

The District elected to establish a "no questions asked" amnesty period, during which employees could remove dependents that they determined were not eligible per District criteria. During the amnesty period

adjustments to payroll premium deductions are permitted. After the amnesty period, adjustment to payroll premium deductions are not permitted, as IRS regulations require elections to be irrevocable after 30 days.

As employees and retirees provided the required documentation, an auditor logged the information and conducted the initial testing of the documents. The files were then reviewed by a second auditor for final determination and quality control. Employees and retirees were contacted regarding missing documentation. Upon request, employees and retirees were notified when their files were completed.

Employees with incomplete files as of the deadline were contacted directly at their work location or telephoned. Retirees were telephoned and/or sent notice through the mail. These employees were given an additional 3 weeks to provide the required documentation.

Incomplete files as of the extended deadline were forwarded to the Risk Management Department for final determination on the dependents' eligibility and/or termination of coverage.

### **Conclusions/Results**

*We were able to verify the eligibility of the dependents of 1,348 employees (96.57%).* This verification included obtaining and auditing: marriage certificates, tax returns, birth certificates, adoption orders and various other documents.

*During our audit, 33 employees (2.36%) removed a total of 43 dependents from coverage.* This number includes removal of dependents for normal reasons, as well as removal of dependents during the "no questions asked" amnesty period. Although we are unable to determine the eligibility of the dependents removed, due to the "no questions asked" amnesty period, we did become aware of the following separate instances of ineligibility:

- One instance involved the ineligibility of a dependent of an employee's domestic partner.
- One instance involved the ineligibility of an employee's common law spouse.

*We were unable to verify the eligibility of the dependents of an additional 15 employees (1.07%).* These employees failed to provide the requested verification documentation, despite numerous attempts/interactions with the employees. The files for these employees have been forwarded to the Risk Management Department for a final determination on the dependents' eligibility and/or termination of coverage.

### **Recommendations**

1. We recommend the Risk Management Department terminate coverage for the known instances of ineligibility listed above.
  - Any claims incurred during 2012 for the ineligible dependents should be reversed.
  - Any premiums due to the District should be collected from the employee(s).
2. We recommend the Risk Management Department follow through with the remaining 15 employees with incomplete files. Coverage should be terminated for any dependents for which the required documentation has not been supplied.

3. We recommend the Risk Management Department require documentation similar to that required in this audit, when new hires are enrolled, as well as when current employees add dependents in the future, especially during the outsourced open enrollment period.
4. We recommend the Risk Management Department share the results of this audit with the third-party open enrollment firm, and conduct additional training with their representatives regarding the District's dependent eligibility definition and required documents.

**Noteworthy Accomplishments**

The Risk Management Department appears to have established effective procedures for ensuring health benefits are only provided the dependents eligible for coverage. The known instances of ineligibility noted above appear to be isolated events which resulted from either employee deception and/or third-party open enrollment staff deviating from established guidelines.

**Statement on Auditing Standards**

This audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors.



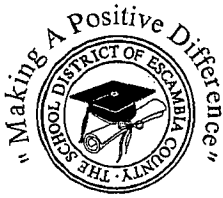
David J. Bryant, Director  
Office of Internal Auditing

**AUDIT TEAM**

Michèle Kiker, Senior Auditor  
Justin Cook, Auditor  
Jennifer Chinchar, Audit Administration Specialist  
Stephanie Taylor, Internal Auditing Intern

**DISTRIBUTION**

Audit Committee  
School Board Members  
Malcolm Thomas, Superintendent  
Norm Ross, Deputy Superintendent  
Terry St. Cyr, Assistant Superintendent – Finance and Business Affairs (Trustee)  
Alan Scott, Assistant Superintendent – Human Resources Services (Trustee)



---

## THE SCHOOL DISTRICT OF ESCAMBIA COUNTY

---

75 NORTH PACE BLVD.  
PENSACOLA, FL 32505  
PHONE (850) 432-6121  
<http://www.escambia.k12.fl.us>  
MALCOLM THOMAS, SUPERINTENDENT

*Risk Management*  
*Kevin T. Windham, CFE., Director*  
*(850)469-6218/Fax: (850)469-6293*

July 2, 2012

Mr. David Bryant, Director  
Internal Auditing

Re: 2012 District Health Insurance Plans-Dependent Eligibility Audit  
Audit Number 2012-002

Dear Mr. Bryant:

I would like to express my appreciation to you and your staff for the quality and professionalism maintained during the most recent audit of dependent eligibility. As always, I welcome any audit recommendations that could result in an improvement of efficiencies or a cost savings to the Employee Benefit Trust Fund and/or District.

The Risk Management and Benefits Department has always worked extremely hard in developing internal controls and processes to assure that only those employees and dependents eligible for benefits are participating and utilizing the medical plan. Any employee or dependent not eligible for these benefits would be an unauthorized cost for both employer and employee from premiums paid into the Trust Fund. While there is an added exposure to fraud and misuse by using an external enrollment company for our annual open enrollment, I am very confident that both employees and dependents enrolled in the medical benefit plan by Risk Management staff at the time of employment are all eligible for benefits at the time enrolled.

The problem areas that we have experienced during my tenure in this position, and even in my past position as an internal auditor, have dealt with changes occurring after the initial enrollment requiring timely employee response and notification or adding ineligible dependents during our annual open enrollment. The open enrollment period exposes the District to employees adding ineligible dependents since enrollment is occurring with agents, telephonically and even on-line. While these exposures exist, the Risk Management Department requires the enrollers to collect paperwork documenting any new dependent being added and we conduct enrollment follow-up on new dependents added. This process has been successful in the past to identify, chargeback or recover amounts paid for ineligible employees or dependents.

I have reviewed the report in its entirety and offer the following comments:

- 1) Of the 33 employees removing a total of 43 dependents from coverage. Response: Risk Management has terminated coverage on all 43 dependents back to 1/1/12 or the date requesting removal. The majority of these dependents were removed by the employee's request during the 1<sup>st</sup> quarter due to "normal" change in status request or other coverage existing.

We continue to review each case individually to ascertain whether these dependents had coverage in subsequent periods and make all appropriate charge back decisions for any claims paid for any periods not eligible.

- 2) Two employees were found with ineligible dependents. Response: We became aware of 2 separate instances of ineligibility of a dependent. Both of these ineligible dependents were added during the most recent open enrollment period. One instance involved the ineligibility of a dependent of an employee's domestic partner. The other instance involved the ineligibility of an employee's claimed common law spouse that was also an employee at the time of enrollment resulting in a dual spouse benefit and a lower premium that they were not entitled. The domestic partner's dependent was removed by the employee after not being able to verify eligibility. The other employee was brought in for disciplinary consideration and resigned in lieu of disciplinary consideration. The employee also involved was entitled to coverage as an employee and all back premiums were collected.
  
- 3) Unable to verify the eligibility of the dependents of an additional 15 Employees: Response: These employees failed to provide the requested verification documentation, despite numerous attempts/interactions with the employees. All 15 of these employees dependents coverage was terminated back to 12/31/11. We continue to review each case individually to ascertain whether these dependents had coverage in subsequent periods and make all appropriate chargeback decisions for any claims paid for any periods not eligible.

The Risk Management Department will continue to request documentation, when new hires are enrolled, as well as when current employees add dependents in the future, including the outsourced open enrollment period. We have already shared the results of this audit with the third party open enrollment firm, and agreed to conduct additional training with their representatives regarding the District's dependent eligibility definition and required documents.

I agree with the audit findings and accommodations that the Risk Management Department has established effective procedures for ensuring health benefits are only provided to dependents eligible for coverage. The known instances of ineligibility noted were isolated events which resulted from either employee deception and/or third-party open enrollment staff deviating from established guidelines.

Sincerely,



Kevin T. Windham, Director  
Risk Management