

City of Brampton HR Benefits Audit – Audit Report
Private & Confidential

Audit Name	City of Brampton, HR Benefits Audit (Phase 2)		
Sponsor	Sandeep Aujla, Director, Human Resources		
Business Unit	Human Resources	Date Issued:	April 7, 2021

1.0 Executive Summary

Audit rating: Improvement required by management to strengthen oversight of its providers. See **Appendix 3** for the criteria for audit report rating.

The inherent risk was evaluated as high due to the significant cost associated with extended health benefits (drug, dental and vision care).

During our review, we observed the following strengths within the Human Resources (HR) division relating to group benefits:

- The HR division prioritizes the privacy and confidentiality of all employee information;
- The HR Benefits team has a strong experience and understanding of the different plans;
- Strong compliance to corporate procurement policies;
- HR has been proactive and worked closely with the City's other divisions in rolling out the revised benefits plans for internal staff; and
- HR staff has been very forthcoming during the entire audit process and accommodated the audit in meeting deadlines.

Internal Audit discussed the following improvement opportunities with HR Management:

- Strengthen oversight over plan changes implemented by the Benefit Plan Provider;
- Strengthen controls over the review of Administrative Services Only (ASO) benefit invoices to ensure accuracy and compliance; and,
- Ensure stronger clauses for City of Brampton audit rights for ASO benefits.

In the "Other Matters" section of this report we note an opportunity for cost savings and other issues observed in the audit, posing no or low future risk, but which should still be considered by Management.

2.0 Background, Objectives, and Scope

Background

The City of Brampton ("City") provides a wide range of benefits to employees, retirees, their spouses, and eligible dependents as part of employees' compensation plans. Employee benefits include Group Health (extended health, dental, vision), Disability (short and long term), Life Insurance, and Accidental Death and Dismemberment (AD&D). Benefit coverage varies by employee group.

The Compensation and Benefits group in the Human Resources Division is responsible for the day-to-day management, administration, and oversight of the employee benefits program.

Group health benefits are delivered through an Administrative Services Only (ASO) agreement between the City and the Benefits Plan Provider ("Plan Provider"). In this type of arrangement, the City funds its benefits plan, but hires an outside firm, the Plan Provider, to perform specific administrative services. The Plan Provider is responsible for the administration, review, processing, adjudication, and payment of benefit claims to eligible plan members on behalf of the City. The Plan Provider then charges the City for the cost of all paid claims plus pre-determined administration fees.

The City also has a contract with a Benefits Consultant. Some of the services provided by the Benefits Consultant include benchmarking, day-to-day support, review, and analysis of claims data. The Benefits Consultant also provides assistance in negotiating contracts and provides bargaining support with the Plan Provider.

Total claims paid in the current audit period (Jan 1, 2018- June 30, 2020) for drugs, dental and vision care were \$32M (drugs - \$16.2M, dental - \$13M, vision care - \$2.6M).

Scope Limitation

We were not able to independently validate the completeness and accuracy of pharmaceuticals claims. We conducted a detailed analysis of the claim data from our review period to identify potential outliers/ exceptions to the policy and requested the Plan Provider provide supporting documents (such as redacted invoices and prescriptions) for a selected sample of claims. As per the Plan Provider, they outsource to a pharmacy benefit manager (PBM) and their arrangement does not allow the Plan Provider to request and obtain any claim information due to privacy agreements. Consequently, we could not comment on whether there are any missing supporting documents or irregularities on invoices, and observations were made solely based on data analysis and additional clarifications provided by the Plan Provider.

Objectives

The objective of this engagement was to assess and determine whether the processes, procedures, and controls for drugs, dental, and vision care benefits are operating effectively and to ensure that:

1. Benefit Plans are administered and managed in a cost-effective, efficient, and timely manner;
2. Plan costs and payments to the Plan Provider are accounted for accurately, are timely and in accordance with the terms of the plan and contract;
3. Current practices are in compliance with the contract, plan provisions, City of Brampton and HR Division policies, procedures, applicable regulations, and statutory requirements;
4. Practices are in place to manage the contract, monitor and assess vendor performance, and take appropriate timely actions where requirements are not being met; and
5. Information and data is complete, accurate, secure, confidential, and access is limited.

Scope

Our audit covered activities related to specific employee benefits (drugs, dental, vision care and AD&D) during the period from January 1, 2018 to June 30, 2020.

The following areas were **not** included in the scope of this audit:

- Benefit plan design, including the nature and extent of Plan coverage;
- Detailed review of the Benefits Plan Provider internal processing and control activities related to claim review, claim adjudication, and fraud investigations;
- Compliance with the WSIB Act, the Occupational Health and Safety Act, the Labour Relations Act, or the Employment Standards Act;
- Retirement benefit provided through OMERS;
- Employee and Family Assistance Program (EFAP);
- Benefits relating to the Mayor and City Councillors; and
- Detailed technology review of the PeopleSoft application.

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3.0 Detailed Audit Findings and Proposed Management Actions

Ref #	Audit Findings	Finding Rating	Audit Recommendations	Management Response and Due Date	Responsible Party
1	<p><u>Management oversight of plan changes</u></p> <p>In June 2020, the Plan Provider identified drug benefits plan changes that had not taken effect as scheduled. The Plan Provider took appropriate action by notifying the City, performed an investigation and then provided a credit for \$2.4M in October 2020.</p> <p>Both the Plan Provider and management have controls to manage plan changes, however, the controls in place failed to detect that the plan changes had not taken effect as scheduled during the audit period.</p> <p>Our review also noted the credit issued by the Plan Provider did not include a refund of pooling premiums paid during that time.</p> <p><u>Potential Exposure</u></p> <p>There is a potential for financial loss. The controls in place failed to detect that the plan changes had not taken effect.</p>	P2	<ol style="list-style-type: none"> 1. Management should work with the Plan Provider to obtain a credit for the overpayment of pooling premiums. 2. Management, working with the Plan Provider and the City's Benefit Consultant, should develop post-implementation validation procedures to ensure that plan changes work as intended. 	<ol style="list-style-type: none"> 1. Agreed. A meeting with the Plan Provider will be set up once the audit review is finalized. 2. Management has an established practice to verify all benefit program changes are implemented accurately by the Benefits Provider. Additionally, the Benefits Consultant performs a thorough 'book to plan' audit (at renewal), along with fulsome verifications of plan changes. All changes were communicated and reflected accurately in all benefit booklets and contracts. The error occurred in the backend of the Benefit Provider's system updates. <p>Management has already briefed the new Benefits Consultant on the Voluntary Generic details history along with the requirement to monitor voluntary drug program to ensure compliance. The Consultant will also work to identify any further outstanding payments. Benefit Consultant will complete an audit on the</p>	Sr. Mgr., Talent Acquisition & Total Compensation

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				<p>expected changes to the plan as well as the charges to ensure its reflective of the changes.</p> <p>Due Date: Early Q3</p>	
2	<p><u>Gaps in group benefit invoice review</u></p> <p>In November 2019, the Plan Provider identified that the City had been over-billed on the monthly ASO invoices starting in January 2019. A credit for the full amount of \$156K was provided on the November 2019 statement.</p> <p><u>Potential Exposure</u> There is a potential of financial loss. The invoicing controls did not detect that the City was being charged a higher rate than agreed.</p>	P2	<ol style="list-style-type: none"> 1. Management should review City processes intended to ensure that correct billing rates are applied and to detect over-billing. <ul style="list-style-type: none"> • The review should include the “fee per cheque breakdown” report from the Plan Provider to ensure health and dental transaction fees are as per the contract. 2. Management should maintain auditable records that demonstrate the invoices were assessed for completeness and accuracy. The record should include reviewer and manager signatures. 	<ol style="list-style-type: none"> 1. Management has an established practice to review the monthly invoices, using the applicable rates to calculate the costs. This ensures costs are reflected accurately. The ‘fee per cheque’ has been requested by benefit consultant to be added feature to the current process to ensure there are no unverified charges. 2. Management will add ‘reviewer’ and ‘approver’ information, along with dates, to the existing monthly validation process to establish an auditable record. <p>Due Date: Early Q2</p>	Sr. Mgr., Talent Acquisition & Total Compensation

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3	<p><u>Service performance reviews</u></p> <p>The City's ASO contract with the Plan Provider specifies that at least twice a year, the parties will review the service levels and make adjustments to them as appropriate. See section 4 of the ASO. Management confirmed that performance reports are sent to the City once a year.</p> <p><u>Potential Exposure</u> The City may not become aware of service issues in a timely manner.</p>	P3	Management should utilize the twice yearly option to review service levels.	<p>Agreed. Last review completed in Feb 2021.</p> <p>Due Date: Sept 2021 (semi-annually).</p>	Sr. Mgr., Talent Acquisition & Total Compensation

4.0 Other Matters	
Ref #	Observations and Comments
1	<p><u>Potential Savings - Pooling Charge Premiums</u></p> <p>The City is currently engaged in a pooling agreement with the Plan Provider. Management may be able to negotiate a more favourable rate or lower costs by reviewing the impact of lowering the current premiums by raising the stop loss limit, and, by benchmarking proposed rates with those paid by other comparable municipalities. A stop loss limit, also referred to as “pooling threshold” or “pooling limit”, is a form of excess risk coverage that provides protection for the employer against a high claim on any one individual. The renewal date for the pooling agreement is May 2021.</p>
2	<p><u>Blank Service Provider ID</u></p> <p>Our review of claims data for health claims (dental & vision) noted that 2,315 vision claims did not show the provider ID. This limits the analysis that can be performed by Internal Audit on dental and vision claims based on service providers.</p> <p>The Plan Provider indicated the extended health provider ID control was introduced in 2017, and extended to vision claims in June 2019. Since the implementation of the control, there has been a declining trend in the number of claims processed without capturing the ID.</p>
3	<p><u>Potential Savings - Review impact of internal service standards</u></p> <p>Management may be able to identify savings by reviewing the Plan Provider's internal service standards and assessing the overall financial impact of those service standards.</p> <p>Our analysis identified drug and dental claim duplicates and payments that exceeded plan limit for vision care; however, the total of confirmed instances meet the Plan Provider's internal service standards and we did not report the exceptions as a finding. The details are available to management on request.</p>

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