



UNIVERSITY OF
TEXAS
ARLINGTON

DEPENDENT ELIGIBILITY AUDIT
AUGUST 23, 2012

INTERNAL AUDIT DEPARTMENT
BOX 19112
ARLINGTON, TX 76019-0112
817-272-0150
www.uta.edu/internalaudit



MEMORANDUM

TO: James D. Spaniolo
President

FROM: Ken Schroeder *Ken Schroeder*
Director of Internal Audit

DATE: November 14, 2012

SUBJECT: Dependent Eligibility Audit Report Dated August 23, 2012

Executive Summary

We have completed the Dependent Eligibility audit as included in our FY 2012 annual audit plan. The objective of this audit was to determine whether the University's Benefits Office has adopted the new dependent eligibility verification processes mandated by the Office of Employee Benefits (OEB) to verify the eligibility of all newly eligible dependents:

- 1) at the time of initial enrollment as the dependent of a newly hired employee or newly retired employee,
- 2) following a qualified change in status event during the plan year, or
- 3) during the annual enrollment period.

Our testing indicates that the Benefits Office is aware of the dependent eligibility verification processes mandated by OEB. There were no instances of ineligibility found in the sample of employees tested, for whom the dependent eligibility documents were available in the employee records. However, more than half of the employees tested did not have the OEB required documentation on file to support the eligibility of their dependents. Some of the employee files had alternate supporting documentation included, but this documentation was not one of the acceptable documents as listed by OEB (for example, verification of birth facts from the hospital vs. birth certificate as required by OEB). Retention of all the required documents is necessary to demonstrate that the Benefits Office is verifying the eligibility of all dependents enrolled in the UT self-insured plans in accordance with the OEB policies. As part of the audit, the Benefits Office followed-up with the employees who were missing dependent eligibility documentation in the audit sample and was successful in obtaining the required documentation from only 47% of these employees. We believe the recommendations included in this report will assist the Benefits Office in ensuring that it collects and retains required documentation to support the eligibility of all dependents enrolled in the UT self-insured plans.

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We appreciate the courtesy and cooperation we received from the staff of the Benefits Office throughout this audit.

If you have any questions, please contact me at extension 2-2018.

cc: Dr. Ronald L. Elsenbaumer, UT Arlington, Provost and Vice President for Academic Affairs
Ms. Kelly Davis, UT Arlington, Vice President for Business Affairs and Controller
Mr. John Hall, UT Arlington, Vice President for Administration and Campus Operations
Ms. Jean Hood, UT Arlington, Vice President for Human Resources
Ms. Eunice Currie, UT Arlington, Assistant Vice President for Human Resources Management & Development
Dr. Pedro Reyes, UT System, Executive Vice Chancellor for Academic Affairs
Mr. Alan Marks, UT System, Attorney – General Law Section
Mr. J. Michael Peppers, UT System, Chief Audit Executive *ad interim*
Ms. Moshmee Kalamkar, UT System, Audit Manager
Mr. Ed Osner, Legislative Budget Board
Mr. Jonathan Hurst, Governor’s Office of Budget, Planning and Policy
Internal Audit Coordinator, State Auditor’s Office
Mr. Joey Longley, Sunset Advisory Commission
Report File

Background Information

The Office of Employee Benefits (OEB) is authorized by the *State University Employees Uniform Insurance Benefits Act* to provide employee group insurance for The University of Texas (UT) System eligible employees, retirees and dependents. OEB centrally manages all eligibility data provided by the benefits offices of UT System’s 15 institutions and UT System Administration. OEB’s medical insurance program is called UT Select, which is a self-insured plan administered by Blue Cross and Blue Shield of Texas and Medco Health.

Dependents represent a significant portion of total plan enrollment. In Fiscal Year (FY) 2011, total enrollment of employees, retirees and dependents in the self-insured plans for UT System was 177,146, of which 75,710 (or 42.7%) were dependents. When

<i>Total UT System Subscribers and Dependents</i>			
Members	2011	2010	2009
Subscribers*	101,436	98,152	96,365
Dependents*	75,710	75,838	73,571
Total	177,146	173,990	169,936
*Provided by the Office of Employee Benefits			

compared to the prior fiscal year, dependent enrollment decreased by 128 members (or 0.2%). Though the change in number of dependents was relatively flat, the total number of UT Select members (dependents and subscribers combined) increased by 3,156 (or 1.8%). In addition, total plan benefits paid have increased. Over the last two fiscal years, total plan benefits paid (including member benefits paid through co-pays, deductibles and co-insurance) had risen by \$77.2 million for FY 2010 and \$55.4 million for FY 2011.

In addition to addressing rising health care costs, UT System must meet a significant Internal Revenue Service (IRS) requirement. To maintain a cafeteria plan in compliance with the IRS Department of Treasury Regulation §1.125, UT System is responsible for verifying dependent status changes that support mid-year enrollment changes. Adequate internal controls over dependent eligibility are essential to controlling health care costs and maintaining compliance with federal regulations.

This audit was conducted as part of the FY 2012 Audit Plan and at the request of UT System Audit Office. Similar internal audits are underway at other UT institutions. The results of this audit and the other institutional audits will be combined by the UT System Audit Office and reported to UT System management and OEB. The combined results may be used by UT System management and OEB to determine whether engaging a third-party to perform a 100 percent eligibility audit is cost-effective.

Objective

The objective of this audit was to determine whether the University’s Benefits Office has adopted the new dependent eligibility verification processes mandated by OEB to verify the eligibility of all newly eligible dependents:

- 1) at the time of initial enrollment as the dependent of a newly hired employee or newly retired employee,
- 2) following a qualified change in status event during the plan year, or
- 3) during the annual enrollment period.

Scope and Methodology

Our examination was conducted in accordance with the guidelines set forth in the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and *Generally Accepted Government Auditing Standards*. The *Standards* set criteria for Internal Audit departments in the areas of independence, professional proficiency, scope and performance of audit work, and management of the internal auditing department. UTS 129 titled "Internal Audit Activities" requires that we adhere to the *Standards*.

To achieve the audit objective, we reviewed the relevant sections of the OEB Administrative Manual that dictate the dependent eligibility verification process, and compiled information about the University Benefits Office's dependent eligibility verification process through interviews and an internal control questionnaire. The scope of this audit included dependents of UT Arlington subscribers (employees and retirees) enrolled in the UT Select plan for the period from September 1, 2007 through April 30, 2012.

Audit Results

Dependent Eligibility Verification Process

This audit was based on the criteria set by the following three sections of OEB's Administrative Manual:

- 1) Section 230 - Dependent Eligibility and Enrollment,
- 2) Section 231- Special Dependent Application Process, and
- 3) Section 310 - Change in Status

OEB had recently revised its policy, effective September 1, 2010, by requiring that Benefits Offices at UT Institutions and System Administration be responsible for verifying the eligibility of all newly eligible dependents 1) at the time of initial enrollment as the dependent of a newly hired employee or new retired employee, 2) following a qualified change in status event during the plan year (e.g., birth, marriage, adoption), or 3) during the annual enrollment period. Prior to this revision, Benefit Offices were not required to perform dependent eligibility verification, with the exception of enrollment of special dependents and enrollment as a result of a qualifying event.

According to Section 230, eligible dependents of employees and retired employees of the UT System may participate in the UT self-insured plans. Eligible dependents are an eligible employee's/retiree's:

- Spouse -- not of same sex, entered into ceremonial or a common law marriage;
- Unmarried child(ren) under age 26 -- includes stepchildren, adopted children, children for whom the employee/retiree is the legal guardian;
- Unmarried grandchild(ren) under age 25 -- if the child qualifies and is claimed as a dependent for federal tax purposes;
- Certain children over age 26 who are determined to be medically incapacitated and are unable to support themselves.

At UT Arlington, the insurance coverage for employees and dependents is processed in a system called BAS (Benefits Administration System). It is a UT System web-based application that contains all benefits information for an employee. In the case of both initial enrollment for new hires and change in status, the dependent eligibility verification process is essentially the same. An employee has 31 days after being hired or if he/she has a change in his/her status to notify the Benefits Office of such change. An employee completes according insurance forms and provides the required documentation to the Benefits Office. The Benefits Office staff then processes the form in BAS. During annual enrollment, the Benefits Office receives a report from OEB of any dependent changes and, consequently, they further request documentation from the employees as needed.

Validation of Dependent Eligibility Verification Process

The UT System Audit Office made a statistically-based calculation of the sample size based on the population of employees with dependents at the University. For UT Arlington, that sample size was determined to be 73 employees. Within the 73 employees selected by the UT System Audit Office, 4 employees could not be tested as they were misclassified in the OEB System and consequently were outside the scope of this audit. The remaining 69 employees yielded a sample of 100 dependents, as shown below:

Sample of Employees and their Dependents Added Between September 1, 2007 – April 30, 2012		
Enrollment Period	Employees Added to UT Select	Dependents of the Employees Added to UT Select
New Hire	14	25
Mid-Year Change in Status	48	66
Annual Enrollment	7	9
Total	69	100

For each employee in the sample, we requested the Benefits Office to provide the supporting documentation that sufficiently establishes the eligibility of the dependent, and we compared it to the list of acceptable documents under Section 230. Our testing noted that 38 out of the 69 employees did not have the required documentation to support the eligibility of their

dependents. Among these 38 employees, there were 51 dependents. The following is the summary of the errors noted in our testing:

Enrollment Period	Dependents Tested	Dependents without Supporting Documents or with Inadequate or Incomplete Supporting Documents	Error Rate
New Hire	25	12	48.0%
Mid-Year Change In Status	66	37	56.0%
Annual Enrollment	9	2	22.2%
Totals	100	51*	51.0%

*13 of the 51 dependents had unofficial supporting documents such as verification of birth facts from the hospital, hospital discharge papers, spouse's loss of insurance coverage from their previous employer, etc. However, these documents are unacceptable for the purpose of this audit per OEB policies.

The above overall error rate of 51% indicates that more than half of the audit population tested did not have adequate supporting documents to evidence their insurability. However, this does not mean that they were not eligible for insurance coverage under UT Select. The Benefits Office appears to be the most effective with retaining supporting documentation of dependents added during the annual enrollment timeframe as this was the enrollment period that had the lowest error rate. The Benefits Office needs to ensure that it is retaining all required supporting documentation to demonstrate eligibility for all dependents. Lack of proper verification of eligibility of the dependents could lead to ineligible dependents being covered under the UT Select plan, thereby adding to the financial liability of the University in addition to non-compliance with the OEB policies.

Recommendation:

We recommend the Benefits Office strengthen its current dependent enrollment process to ensure that it obtains and retains adequate supporting documentation for all dependents enrolled in the UT System self-insured plans in accordance with OEB's policies. Additionally, the Benefits Office needs to provide the staff appropriate training on OEB's documentation requirements.

Management Response:

Human Resources concurs with this recommendation. Supporting dependent documentation had been required for all active dependent enrollment since Sept 1, 2011, but the Benefits Office found procedural changes were required when (1) OEB updated their policy in July 2012 and added the list of acceptable documentation for dependent eligibility and (2) the results of the Dependent Eligibility Audit based upon current OEB Policy that confirmed procedural changes were required.

The dependent enrollment process has been strengthened with the July 2012 Annual Enrollment; dependent enrollment is not processed without the required documentation provided with the appropriate insurance paperwork and required documentation meets

OEB policy. The Benefits Staff received additional training through the Live Web Meetings OEB provided in May and June 2012.

Target Implementation Date: *Implemented as of August 31, 2012*

Responsible Party: *HR Representative III*

Follow-Up

The Benefits Office followed-up with all of the 38 employees who did not have the required supporting documentation as noted previously. Among these 38 employees, there were 51 dependents for whom the supporting documentation was required. The follow-up yielded the following results:

- 6 employees, who accounted for 8 dependents out of the 51, were no longer employed at the University. It was, therefore, irrelevant for the Benefits Office to follow-up with them.
- 15 employees responded with adequate documentation and we were able to establish the eligibility of 22 more dependents out of the 51 dependents noted above, without exception.
- The remaining 17 employees did not respond to the follow-up requests. Among these 17 employees, there were 21 dependents whose eligibility could not be adequately verified due to the missing supporting documentation.

The following is a summary of the results after follow-up.

Enrollment Period Tested	Total Dependents Tested	Dependents without Supporting Documents after 1st Review	Error Rate	Dependents without Supporting Documents after Follow Up	Error Rate after Follow Up
New Hire	25	12	48.0%	4	16.0%
Mid-Year Change in Status	66	37	56.0%	16	24.2%
Annual enrollment	9	2	22.2%	1	11.1%
Totals	100	51	51.0%	21	21.0%

Recommendation:

The Benefits Office needs to follow-up with the 17 employees who did not respond to their emails and obtain the required documentation for the dependents of these 17 employees. The list of employees pending documentation from this audit has already been communicated to the Benefits Office.

Management Response:

Human Resources concur with the recommendation and will continue efforts to obtain required missing documentation. Efforts to obtain documentation were hindered by summer timing.

Target Implementation Date: December 31, 2012

Responsible Party: HR Representative III

As noted above, the overall error rate decreased from 51% to 21% after follow-up. Since supporting documentation was not consistently maintained for all dependents tested, the eligibility of all currently enrolled dependents could not be determined. However, through the audit testing and follow-up procedures, there were no instances of ineligibility found in the sample tested. Additionally, the audit does not cover periods prior to September 1, 2007, and as such, supporting documents were not regularly requested prior to this date. It is likely, therefore, that there is no documentation maintained at the Benefits Office to support the eligibility of dependents currently enrolled in the self-insured plans and added to the plans prior to September 1, 2007. Therefore, a full review of all employee files would be beneficial to the University.

Recommendation:

The Benefits Office should consider conducting a 100% review of all employee records to determine whether there is adequate documentation to support the eligibility for all the dependents currently enrolled in the UT Select insurance plan.

Management Response:

Human Resources concur with the recommendation to conduct a 100% review of all employee records to determine if there is documentation to support dependents eligibility. However, considerable time is needed to implement this recommendation to allow for the conversion of the PeopleSoft Human Resources module and restructuring of business practices incurred with the conversion. The Benefits conversion impacts the payroll system and at this time we do not know whether it will run correctly or not. The Benefits staff will be tied up with testing and once we go live in April 2013, the staff will be very much involved with that. Right now there are only 2 full time benefits staff members.

Target Implementation Date: Taking into consideration the PeopleSoft conversion, review will begin January 1, 2013 and estimated to be completed by December 31, 2013.

Responsible Party: HR Representative III

Conclusion

Our testing indicates that the Benefits Office is aware of the dependent eligibility verification processes mandated by OEB. There were no instances of ineligibility found in the sample of employees tested, for whom the dependent eligibility documents were available in the employee records. However, more than half of the employees tested did not have the OEB required documentation on file to support the eligibility of their dependents. Some of the employee files had alternate supporting documentation included, but this documentation was not one of the acceptable documents as listed by OEB (for example, verification of birth facts from the hospital vs. birth certificate as required by OEB). Retention of all the required documents is necessary to demonstrate that the Benefits Office is verifying the eligibility of all dependents enrolled in the UT self-insured plans in accordance with the OEB policies. As part of the audit, the Benefits Office followed-up with the employees who were missing dependent eligibility documentation in the audit sample and was successful in obtaining the required documentation from only 47% of these employees. We believe the recommendations included in this report will assist the Benefits Office in ensuring that it collects and retains required documentation to support the eligibility of all dependents enrolled in the UT self-insured plans.

We appreciate the courtesy and cooperation we received from the staff of the Benefits Office throughout this audit.