CITY OF SAN ANTONIO

P.O. Box 839966
SAN ANTONIO TEXAS 78283-3966

December 14, 2022

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Councilman, District 10

SUBJECT: Audit of the Human Resources Department Health Benefits Third-Party Administration

Mayor and Council Members:

We are pleased to send you the final report for the Audit of the Human Resources Department Health Benefits Third-Party Administration. This audit began in June 2022 and concluded with an exit meeting with department management in November 2022. Management's verbatim response is included in Appendix B of the report. The Human Resources Department management and staff should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully Submitted,

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
City of San Antonio

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CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR

Audit of the Human Resources Department

Health Benefits Third-Party Administration

Project No. AU22-022

December 14, 2022

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Human Resources (HR) Department, specifically Health Benefits Third-Party Administration. The audit objectives, conclusions, and recommendations follow:

Determine if HR is properly managing and monitoring its third-party health insurance providers.

Overall, HR is properly managing and monitoring its third-party health insurance providers. The HR Benefits Division has effective procedures that ensure the accurate processing of payments to third-party administrators (TPA). They also manage relinquished FSA[1] funds accordingly. In addition, the HR Benefits Division ensures employees, and their dependents are appropriately enrolled. Finally, the HR Benefits Division has effective controls that ensure the security of personal information.

However, we observed administrative opportunities for improvement related to the contract monitoring process, specifically contract administrative plans, performance guarantees, and insurance requirements.

The Human Resources Department Management agreed with the audit finding and has developed a positive action plan to address it. Management's verbatim response is in Appendix B on page 6.

[1] An FSA is a Flexible Spending Account. The FSA is an arrangement that allows employees to set aside tax-free dollars which are then used to pay for out-of-pocket medical expenses.

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Background

The City of San Antonio (COSA) seeks to attract and retain a qualified and capable workforce to provide high-quality services to residents and visitors. To achieve this, COSA provides a competitive benefits package. Among all the benefits provided, a significant part is health benefits. Full-time civilian employees and their eligible dependents can participate in the Civilian Benefits Program.

A list of health benefit programs provided, along with the Third-Party Administrator (TPA) for calendar year 2022 include:

- Medical - Blue Cross and Blue Shield of Texas
- Dental - Delta Dental
- Vision - Vision Service Plan (VSP)
- Pharmacy - CVS/Caremark
- Life Insurance - Dearborn National Life Insurance
- Flexible Spending Account - Flexible Benefit Service Corporation/Flex
- Employee Assistance Program - Deer Oaks

The HR Benefits Division has over 20 employees that oversee the Health Benefits for more than 11,000 City employees. They manage TPA contracts with monthly costs totaling approximately $1.1 million. The TPAs invoice the City at different intervals, which include weekly, every two weeks, or monthly. The Contract Administrator is responsible for the monitoring of TPAs.

Additionally, the HR Benefits Division manages contracted service level agreements (SLA) and performance guarantees (PG) for each TPA. The TPA must meet agreed-upon contractual obligations such as account management, claims processing turnaround time, processing accuracy, and financial accuracy. TPAs typically provide quarterly performance guarantee updates and a final report at year-end.

Audit Scope and Methodology

The audit scope was fiscal years 2021 and 2022. However, health benefits follow the calendar year, so our primary focus was calendar year-end for 2021 and January to August 2022.

To establish criteria for testing, we interviewed HR Benefits Division management and staff members and reviewed documents to identify processes and controls relevant to third-party administration. Our testing criteria included contracts, City Administrative Directives, and HIPAA requirements.

As part of our testing procedures to confirm accuracy, we tested a sample of invoices and payments as well as FSA relinquishment transactions. We reviewed access controls related to personal or confidential information for appropriate security.

We reviewed TPA contracts for compliance to key contractual terms. We then reviewed contract administrative plans for appropriate monitoring of key TPA contractual requirements. We reviewed contracted service levels and/or performance guarantees to determine if they were met. Lastly, we reviewed insurance certificates for appropriateness.

We relied on computer-processed data in SAP to validate payments made to TPAs and to track FSA funds. Our direct testing included using SAP to obtain financial information. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. We do not believe that the absence of testing general and application controls affected the results of our audit.

We conducted this performance audit 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.

Audit Results and Recommendations

The HR Benefits Division has effective procedures that ensure the accurate processing of payments to third-party administrators (TPA). They also maintain accurate records of flexible spending account (FSA) transactions and fund transfers. This includes year-end transactions for calendar years 2020 and 2021, both processed in 2022 due to extensions enacted because of COVID-19.

In addition, the HR Benefits Division ensures that employees and their dependents are enrolled in selected benefit plans upon employment and removed when departing the City.

Overall, the HR Benefits Division has adequate controls that limit access to personal and confidential information, especially when sending and receiving information between COSA servers and TPA portals or servers that maintain employee data.

However, we identified opportunities related to the contract monitoring process.

A. Contract Monitoring

The HR Benefits Division had insufficient documentation of the TPAs performance guarantees. In addition, TPAs did not meet the insurance coverage required according to the contract.

We requested performance guarantee information for 5 TPAs. Performance guarantees included year-end for 2021 and two quarters from January 2022 through June 2022. The HR Benefits Division initially provided supporting documents for 2 of the 5 TPAs. The HR Benefits Division requested the remaining documents from the TPA during the audit. We reviewed support documentation which included customer reports, settlement statements, and applicable penalty payments and determined that TPAs met their performance guarantees or paid penalties.

We reviewed 5 TPA certificates of insurance (COI). We determined insurance types and amounts did not meet the contractual requirements for 2 of 5 contracts.

Per Administrative Directive 8.14 Contract Administration and Compliance, departments should monitor and document vendor performance issues and provide details to obtain resolution.

The HR Benefits Division's contract monitoring process is insufficient and does not adhere to AD 8.14. We reviewed five contract administrative plans (CAP) and determined that one TPA lacked a periodic contract review. In addition, we

identified that the CAPs did not include insurance requirements, and two did not include performance guarantees.

A lack of monitoring may lead to unsatisfactory TPA performance and increased liability to the City.

Recommendation

The HR Director ensures that all TPA contracts have a CAP and establish periodic monitoring for each. The CAP should include key contractual terms such as performance guarantees and insurance requirements as well as align with the contract and AD 8.14.

Appendix A – Staff Acknowledgement

Buddy Vargas, CPA, CIA, CFE, Audit Manager
Ken Lyssy, CFE, Auditor in Charge
Sabrina Salinas, Auditor
Yadira Valenzuela, Auditor

Appendix B – Management Response

CITY OF SAN ANTONIO
SAN ANTONIO TEXAS 78283-3966

November 16, 2022

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for Audit of the Human Resources Department Health Benefits Third-Party Administration

The Human Resources Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	**Description**	**Audit Report Page**	**Accept, Decline**	**Responsible Person's Name/Title**	**Completion Date**
1	**Contract Monitoring** The HR Director ensures that all TPA contracts have a CAP and establish periodic monitoring for each. The CAP should include key contractual terms such as performance guarantees and insurance requirements as well as align with the contract and AD 8.14.	**3**	Accept	Wanda Heard Assistant HR Director	11/10/2022
	Action plan: *HR has ensured that a CAP has been created for all TPAs and assure periodic monitoring for each. The most recent review took place on 11/10/2022. Each of the CAPS include all contractual terms such as performance guarantees and insurance requirements and align with the respective contract and AD 8.14.*				

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,

Renee Frieda
Director
Human Resources

12/1/22
Date

Ben Gorzell
Chief Financial Officer
City Manager's Office

12/1/2022
Date

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