



ARLINGTON COUNTY GOVERNMENT

INTERNAL AUDIT REPORT

CONTRACT COMPLIANCE

CIGNA HEALTH AND LIFE INSURANCE COMPANY

CONTRACT NO. 719-13-1

DEPARTMENT OF HUMAN RESOURCES

Report Date: February 22, 2021

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Our 2019 Risk-Based Internal Audit Work Plan identified contract administration as a potential risk area warranting audit coverage. We selected the Human Resources Department (HRD) contract #719-13-1 with CIGNA Health and Life Insurance Company for a contract compliance review. The objective of the contract compliance audit was to evaluate the contract administration processes in place to ensure the County and those who have entered into a contract with the County execute such contract in accordance with its terms and conditions.

CIGNA Contract No. 719-13-1 was originally executed on November 4, 2014 with its primary effort to assist the County in the administration of the medical and prescription drug health benefits plan sponsored by the County and to provide an Onsite Health Clinic. The current contract term is through June 30, 2021.

This report is organized as follows:

Executive Summary	This section provides a summary of the issues noted during this audit.
Details of Findings, Recommendations and Management Actions	This section gives a detailed description of the issues noted during this audit, recommended actions, and management's corrective action plan, including the responsible party and estimated completion date.
Scope and Objective	The review objectives and focus are expanded upon in this section.

We would like to express our appreciation to the HRD staff and all others involved with this review.

Respectfully Submitted,

Internal Audit
Department of Management and Finance

EXECUTIVE SUMMARY

CIGNA Contract No. 719-13-1's primary objective is to assist the County in the administration of the medical and prescriptions drug health benefits sponsored by the County and to provide for an Onsite Health Clinic. CIGNA administers the County's self-insured plans and in FY 2019, the County paid approximately \$38.5 million for health care expenses. This amount consists of approximately

- \$25 million in medical benefit claims,
- \$9.7 million in pharmacy benefit claims and vision benefit claims
- \$2.2 million in other health benefit expenses such as cost containment fees and behavioral fees,
- \$1.3 million in administrative expenses
- \$240 thousand for operating an on-site health clinic

The Human Resources Employee Services Division is responsible for managing the CIGNA contract. The HRD staff oversees CIGNA's administration of the County's health benefit program that includes effectively coordinating with employees and CIGNA representatives on a continual basis to ensure employees are provided the necessary benefit information, claims are processed timely and accurately, and issues are addressed effectively on a timely basis. This is a significant effort as over six thousand members are covered by the program (2,300 active employees 3,400 dependents, 360 retirees) and CIGNA processes over six thousand medical benefit claims per month amounting to over \$2 million. As part of this audit, we reviewed employee customer service reports and found the HRD staff to be very responsive to employee questions and concerns. In addition, CIGNA has conducted comprehensive quarterly briefings with County staff reporting overall contract performance and identifying process improvements for the program as required in the contract. Our review also found that CIGNA has reported that they have exceeded all performance metrics though this has not been validated (see Finding #1). The HRD staff also administer an annual comprehensive "open season" where employees are allowed to make changes to their benefit program.

As discussed above, the overall contract objective is being achieved, however, our review disclosed that there are several additional contract requirements that work to control the County's benefit costs and provide the assurance that the costs are reasonable. These additional requirements also assure the County that CIGNA maintains a high level of performance as measured by detailed performance measures specified in the contract. Our review disclosed that improvements are necessary in monitoring these additional contract requirements to ensure these objectives are being achieved. Our review also disclosed the lack of policies and procedures over other areas of contract administration.

A summary of the findings identified, and their relative risk ratings is provided below:

1. Lack of Detailed Contract Administration Policies and Procedures. High Risk Rating
 - a. The Contract contains numerous contract requirements and HRD does not have any detailed written contract management (or monitoring) policies or procedures in place for ensuring the contractor is fulfilling its requirements.
 - b. Lack of Written Procedures for Executing Complimentary Controls as Required by CIGNA's Annual Service Organization Controls (SOC) 1 Report. The SOC 1 report clearly states that the County is responsible for implementing and executing certain complimentary controls to ensure contract terms are effectively executed. Although some of the controls have been implemented, there is no written procedures describing on how to execute these controls. Some of the higher risk complimentary controls have not been sufficiently implemented.
 - c. Absence of Written Departmental Procedures for Approval of Contract Invoices. The County expends almost \$40 million per year for employee and family member benefits and CIGNA administrative costs and HRD has no written procedures for approving contract billings. Our review disclosed the actual procedures need improvement to protect the County's resources.
 - d. Lack of Policy and Procedures for Verifying Dependent Eligibility. HRD has not established sufficient policies and procedures for verifying dependent eligibility even though its clearly delineated as a County responsibility by CIGNA and represents a high-risk in the health care industry.
2. Failure to execute Audit Clause for Verifying Claim Amounts and Initiating Audits/Independent Verifications for Other Significant Billed and Rebate Amounts and other Contract Requirements. Due to the self-insurance nature of the policy, the contract provides for the County to conduct an annual audit of 225 claims - HRD has never executed this clause. We also found that HRD did not initiate any audits or independent verifications for other contract billed and reimbursement amounts to ensure they complied with the contract requirements. High Risk Rating

Relative risk factors have been assigned to each issue identified. This is the evaluation of the severity of the concern and the potential impact on the options. There are many areas of risk to consider in determining the relative risk rating of an issue, including financial, operational, and/or compliance, as well as public perception or 'brand' risk. Items are rated as High, Moderate, or Low.

✓ High - Observation presents a high risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of high importance to business success / achievement of goals and improve its internal control structure. Action should be taken immediately.

✓ Moderate - Observation presents a moderate risk (i.e., impact on financial statements,

internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of moderate importance to business success / achievement of goals and improve its internal control structure. Action should be in the near term.

✓ Low - Observation presents a low risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of low importance to business success / achievement of goals and internal control structure.

Management Response

We want to reiterate that the audit found that HR staff coordinates effectively with Cigna to ensure employees are provided the necessary benefit information, claims are processed timely and accurately, and issues are addressed effectively on a timely basis – and “the overall contract objective is being achieved.” While we recognize the need for written policies and procedures, the fact that the overall contract objective is being achieved with 6,000+ members and \$38.5M annually in claims is a positive for the County. Additionally, as part of the next RFP evaluation process, we will carefully review and evaluate the language pertaining to the varying contract requirements (e.g., performance guarantees) in conjunction with the CAO and discuss with the selected vendor how those requirements of the contract can be effectively monitored and documented.

DETAILED FINDINGS, RECOMMENDATIONS AND MANAGEMENT ACTIONS

Issues	Risk Rating
1. Lack of Detailed Contract Administration Policies and Procedures	HIGH
a. Lack of policies and procedures for ensuring contractor compliance with contract terms	
<p>The HRD has no written contract administration policies and procedures and we were unable to determine if the contractor is satisfactorily complying with significant contract terms. As stated in the Executive Summary, the HRD staff oversees CIGNA’s administration of the County’s health benefit program that includes effectively coordinating with employees and CIGNA representatives on a continual basis to ensure employees are provided the necessary benefit information, claims are processed timely and accurately, and issues are addressed effectively on a timely basis. This is a significant effort as over six thousand members are covered by the program and CIGNA processes over six thousand medical claims per month amounting to over \$2 million. However, there are numerous other contract requirements to ensure that the County is paying reasonable benefit costs and CIGNA administers/performs at a high level. The Human Resources Division (HRD) does not have any detailed written contract management policies and procedures for ensuring the contractor is fulfilling these requirements. Although some of the requirements are being monitored by the HRD</p>	

staff, there is no formal monitoring program in place that would ensure all key contract requirements are being met. Detailed below are some examples of where we found weaknesses in the monitoring program. It appeared that HRD relies on CIGNA, without verifying, for contractor compliance with certain contract terms.

- Contract Clause Exhibit A, Task 5 and Exhibit B-2 – Performance Guarantees, provides that services will be monitored on a monthly or quarterly basis and if the Contractor fails to perform the required services to the satisfaction of the County (as defined in the contract), the contractor shall upon receipt of request from the County Project Officer, pay to the County the Guarantee amount as specified in the contract. There is no formal monitoring that CIGNA is complying with these requirements. As part of this audit, we requested the performance guarantee reports from CIGNA. We obtained the reports for FYs 2018, FY 2019 and YTD 2020. We verified that CIGNA is reporting on most performance measures, but we could not verify that they are reporting on all. For those reported on, CIGNA has met or exceeded all performance measures. As a matter of reference, there are over 30 performance guarantees that CIGNA is required to report on in its monthly or quarterly report. One example, is “claims processing.” CIGNA is required to process 98% of claims within 30 calendar days or pay the county \$2200 per quarter if they do not meet the performance metric. We verified that CIGNA has consistently reported that they have exceeded this metric. However, we also found that there is no independent verification or supporting data provided that verifies these performance metrics reported by CIGNA. The reports do not include backup or evidence to support the performance guarantees reported. HRD has not provided any evidence of an independent verification of this data. Without an independent verification, we are unable to determine the validity of these reported measures and contractor compliance.
- Contract Clause Exhibit A, Task 5 requires CIGNA to perform internal audits of its claim payments. There was no evidence that that this requirement was being accomplished or monitored. As part of this audit, we requested CIGNA to provide evidence of these internal audits such as audit results and corrective actions. CIGNA denied this request and stated that this data is proprietary. We question the value of this clause if the County cannot verify it’s being performed or is able to obtain the audit results as the contract pricing included consideration for this requirement.
- Contract Clause Exhibit B-1 – Discount Guarantees, requires the contractor to achieve a certain level of discounts from its providers. If the contractually required discount amounts are not achieved, the contractor will pay the County \$6 per covered employee per month. The HRD is not formally monitoring or documenting evidencing CIGNA is complying with these requirements (or achieving these guaranteed discounts). As part of this audit, we requested the performance guarantee reports from CIGNA. We obtained the reports for FYs 2018 and 2019 for medical; however, the contractor has not provided the guarantee amounts for the prescription drugs as required by contract. The reports show that CIGNA is achieving the contractual required guarantees for the medical benefits however, the HRD staff does not perform any independent review or analysis to verify the data CIGNA is reporting is accurate.

- To monitor and control the costs of prescription drugs, Contract Clause Exhibit A, Task 8 Prescription Drug Benefit Services, requires CIGNA to establish maximum allowable costs for prescription drugs. The clause also allows the County to conduct a market check on the prices to ensure the prices the County is paying for the prescription drugs are reasonable compared to market pricing. We attempted to test compliance by requesting evidence that CIGNA was establishing and executing maximum allowable costs for prescription drugs. Based on our inquiry, CIGNA responded by stating that Maximum Allowable Cost schedules are developed to achieve competitive pricing based on market dynamics, however, the methodology and process is proprietary. CIGNA stated that these MAC prices are strictly monitored, and proper controls are in place to meet Sarbanes Oxley compliance. We were unable to obtain any evidence on compliance with this requirement. Our review also disclosed that HRD has not initiated a market check over the past 6 years of the contract or conducted any risk assessment as to the value of executing this provision. If the County chose to execute this market check, the contract clause requires CIGNA to contribute \$10,000 towards this effort. Due to the volatile pricing of prescriptions, this may be a prudent use of resources and an effective control to ensure the County is paying market pricing for prescription drugs.
- Contract Clause Exhibit B.5 requires CIGNA to administer cost containment programs. The clause requires the County to pay CIGNA a certain percentage of reported savings for administering these programs. For example, for the period of April 2018 through March 2019, we found that CIGNA reported that they saved \$1.4 million and therefore billed the county \$261,000 for administering the programs that achieved these savings. We requested backup support for the reported savings. CIGNA referred to the audit clause in the contract allowing the County to initiate a separate audit.
- Contract Clause Exhibit B, 2.a requires CIGNA to reimburse the County 100% of prescription or manufacturer rebates it receives on a semi-annual basis. We did not find any evidence that HRD was monitoring contractor compliance with these requirements. For January – June 2019, we verified that the County received \$923,000 in rebates. As part of this audit, we requested backup for this amount to verify it represented 100% of the rebates received by CIGNA for the County claims. CIGNA stated that the detailed data is proprietary and stated a separate audit would be required.
- There are other contract clauses requiring CIGNA to produce or make available reports to the County for monitoring CIGNA's efforts for contract compliance. The HR staff demonstrated some reports to us that were accessible through CIGNA's secure on-line portal. However, there were some contract requirements/reports where the HR staff was either unaware of or did not make use of as part of the monitoring effort. We were unable to ascertain if the use of these reports would improve the monitoring or contract execution since we were not provided access to them. We recommend these contract requirements be re-assessed as to the value of these requirements and ensure future solicitations do not include nonvalue added requirements for which the County is paying for as part of the monthly billings.

In accordance with the contract administration instruction, the project officer should implement appropriate contractor supervision to ensure the contractor is meeting the terms and conditions of the contract. Since this contract is for administering the medical and prescription plans for the County, the audit focused on what efforts are being performed as part of contract surveillance to ensure the contractor is properly administering the medical and prescription plans as required by the contract terms. A key internal control to ensure proper and adequate contract administration is establishing detailed policies and procedures when a complex contract is involved. Without the establishment of this key control, the HRD cannot sufficiently monitor CIGNA's compliance with key contract terms and conditions. Establishing and documenting procedures are essential. Procedures provide all personnel clear communication and comprehensive instructions and guidelines. Establishing written procedures helps ensure the consistent compliance and application needed to achieve high levels of integrity and accuracy.

We found the last time the HRD Employee Services Division received the DMF contract administration training was in 2016. It is recommended that project managers receive refresher training on an annual basis. The HRD staff was scheduled to take training this FY; however, the training was cancelled due to COVID, but is being scheduled in the 1st quarter of CY 2021.

Recommendations

We recommend that HRD develop written contract administration policies and procedures necessary to effectively monitor the contract performance to ensure the contractor is successfully fulfilling the contract requirements. The policies and procedures will provide a key internal control for effective contract management and provide assurance that the contractor is complying with contract requirements and that the County is paying the accurate amount per contract terms. HRD should consider the creation of necessary Standard Operating Procedures (SOPs) related to administering the CIGNA contract. On at least an annual basis all SOPs should be reviewed to ensure they remain current and effectively manage the contract. At a minimum, procedures should be developed for effectively monitoring and documenting contract compliance with:

- **Performance Guarantees.** We recommend that the project officer establish a monitoring process to ensure CIGNA is submitting these reports for the time periods required and documenting the contractor is performing as required by the contract or paying the guaranteed amounts if performance falls below the contracted performance level. We recommend procedures be established to independently verify the contractor reported data is accurate. We also recommend that the project officer ensure that CIGNA reports on all performance guarantees as required by contract. If it is determined that a contract performance guarantee is no longer required, the project officer should consider a contract amendment removing the guarantee with the appropriate consideration offered by the contractor. (See Finding #2)
- **Internal Audits.** We recommend the project manager coordinate with the CAO and ascertain if the County has a right to the CIGNA internal audits required by contract terms. If so, the contract administration policy should require periodic monitoring of this contract requirement consisting of receiving and reviewing the audit results to ascertain the impact of these audits on the county operations. If it's determined that we do not have rights to the access to these reports, HRD should determine how they are ensuring CIGNA is complying

with this contract requirement and consider the value of this contract requirement.

- Discount Guarantees. We recommend the project officer establish specific reporting periods for CIGNA to submit the performance guarantee reports and document that the HRD is monitoring this activity to ensure the contractor is performing as required by the contract or paying \$6 per covered employee per month if the guaranteed discounts are not being achieved. We also recommend that HRD require the contractor to report the discount guarantees achieved from the prescription drug program as required by contract terms. We also recommend an independent audit be performed to verify the contractor is achieving the discounts reported. (See Finding #2).
- Prescription Drug Pricing. We recommend the contractor provide a demonstration evidencing that they are executing a maximum pricing schedule as required by contract terms and provide interim reports on the progress of this program. The project officer should document their monitoring effort over this program. We also recommend an independent audit be performed to verify the contractor is effectively executing this provision to protect the County resources. (See Finding #2). We will also recommend the County consider executing the contract requirement for a price check for prescription drugs to protect the County's resources. (See Finding #2).
- Cost Containment Program. We recommend that the project officer establish a process for reviewing the cost containment reports and documenting the contractor is complying with the requirement and the County is being billed the correct amount. We also recommend an independent audit be performed to verify the savings and billed amounts are correct. (See Finding #2).
- Contract Rebates. We recommend that the project officer establish a process for reviewing the rebate reports and documenting the contractor is complying with the requirement and the County is being reimbursed the correct amount. We also recommend an independent audit be performed to verify these amounts are correct. (See Finding #2).
- Additional Key Contract Requirements. We recommend that other contract requirements/reports that are not being utilized be reassessed as it is unreasonable and not in the County's best interests to continue to pay for these requirements when they are not value added.

We also recommend that the HRD Employee Services Staff take the DMF Contract Administration training that is being re-scheduled for the first quarter in CY 2021.

Management Response

Despite the absence of written procedures, a team of three HRD Benefits staff does manage and monitor the Cigna contract. We monitor employee and County premium contributions, claims expenses and administrative fees, maintain a cost report, and reconcile this information with the General Ledger. In addition, we meet quarterly with Cigna to review claim trends, high cost claims, and other factors impacting County medical and pharmacy costs.

Cigna is not unique among the major health insurance carriers in the information considered proprietary and Cigna willingly provided a copy of their audit attestation from PwC, who is their

external auditor. Cigna is also accredited by the National Committee for Quality Assurance (NCQA). NCQA is an independent organization that evaluates how well a health plan manages its entire delivery system and administrative services, keeps members healthy, controls costs, and meets regulatory and purchaser requirements. This is regarded in the industry as the “gold standard” for health care providers.

The discounts and costs at the start of the contract were determined to be reasonable. Cigna was selected for the contract with assistance from outside Benefit program consultants who conducted detailed analyses against other benchmarks for success in this area. The prescription drug market does experience greater fluctuations than that for medical services. For that reason, it is worth noting that Cigna is the only one of the four major health carriers in the area to be accredited by URAC for their Pharmacy Benefit Management program. This accreditation from an independent organization requires regular evaluation of both quality and cost measures.

Since DMF has included an audit of Cigna medical and prescription drug claims and cost controls and prescription drug rebates in its FY21 Internal Audit Work Plan, those aspects should not be included as action items for HRD, but we can assist as needed and as resources are available.

HR staff has complied with all DMF contract administration training requirements in effect at the time of the audit. Annual training was not available for a period due to the transition of the Procurement Division Chief. When new training was offered, HR staff was scheduled for training, but it was postponed until June, and then cancelled due to COVID.

1. Develop draft of written procedures for administration of the contract that will include:
 - Monitoring of performance guarantees, cost containment programs, and pharmacy rebates
 - Reporting on medical and pharmacy discount guarantees
 - Documentation of contract compliance
 - Monitoring compliance with other prescription drug clauses (e.g., maximum pricing schedule)

Responsible Party: Employee Services Division Chief and Health/Welfare Benefits Manager
Estimated Completion Date: April 2021

2. Discuss with CAO whether the County has a right to the CIGNA internal audits required by contract terms.
Responsible Party: Employee Services Division Chief
Estimated Completion Date: March 2021

b. Lack of Written Procedures for Executing Complementary Controls as Required by the CIGNA’s Annual Service Organization Controls (SOC) 1 Report

We found that the Human Resources Division has not developed and documented Compensating Controls as called for by the annual Price Waterhouse Coopers (PWC) Service Organization Controls (SOC) 1 Report on CIGNA. Since CIGNA is defined as a service organization, it is

subject to a “Service Organization” independent audit that opines on the controls over the claims administration system. This audit examined the report that was completed by PWC for the period October 1, 2018 through September 30, 2019. The annual reports have included several qualifications. One standard qualification states that the opinion does not extend to the subservice organizations. During our audit, we asked CIGNA for its evaluation of its subservice organizations. CIGNA employs subcontractors to assist in its eligibility processing and transcribing manually submitted claims. CIGNA stated that they perform their audit evaluations of these organizations, however, the results of these evaluations are proprietary. They did provide us a statement affirming that they perform quality reviews and review the results of other audits performed over these subservice organizations and “have not noted any deficiencies or qualifications in the reports that lead us to believe we cannot rely on the internal controls in place at these subservice organizations.”

The second major qualification states, that the PWC opinion is only valid if the user (i.e., the County) has effectively implemented complementary controls. Our audit disclosed that HRD has not established any written policies and procedures for the establishment of these complementary controls. The report identifies the following complementary controls that should be established by the County.

- Determine which plan provisions are required and notify Cigna HealthCare of the specifics of the selected plan
- Review binding agreements and notify Cigna Healthcare of any discrepancies before returning the signed agreement.
- Review the Benefit Summary exhibit and notify Cigna HealthCare of any discrepancies.
- Notify, review and authorize additions or updates to plan provisions on a timely basis.
- Distribute plan and benefit information to employees so they can provide Cigna HealthCare with adequate documentation to process claims accurately, completely, and on a timely basis.
- Provide complete and accurate eligibility information to Cigna HealthCare on a timely basis.
- Review all eligibility related communications from Cigna HealthCare and provide required information to resolve all fallout.
- Develop appropriate controls to secure confidential information on a need-to-know basis.
- Communicate problems reported by customers to Cigna HealthCare on a timely basis.
- Provide and maintain sufficient controls to physically and logically protect system resources used to access Cigna HealthCare systems.
- Review net issued claim, paid claim, reversal, and voided check data included in the banking reconciliation packages and compare to ADVISE financial experience reports and notify Cigna HealthCare of any material discrepancies in form outside of timing differences.
- Review “Minimum Premium Summary Worksheet” (if applicable) that details the trigger point, claim activity and any claims Cigna paid in excess of the trigger point and inform Cigna HealthCare of any discrepancies.

- Maintain authorized personnel lists, keep them up to date and communicate changes to Cigna HealthCare.
- Review and monitor new client set-ups and account maintenance activity and communicate discrepancies to Cigna HealthCare. Monitor and review claim submissions and corresponding payments

As part of this audit, we attempted to evaluate if the applicable complementary controls above are operating even though there was no written policy or procedure. We were able to test and conclude the majority of these controls are operating, although not written, except for the determination of eligibility and reviewing claim data, bank reconciliation and claim submissions and corresponding payments. We were unable to test the controls relating to protecting system resources and ensuring only authorized personnel have access to the systems due to COVID-19.

Recommendation

HRD should develop written policies and procedures for documenting these complementary controls and how they should be executed to protect the County’s interests. Monitoring activities should be developed to ensure the controls are operating as designed and as intended. HRD procedures should include obtaining and reviewing CIGNA’s annual SOC report and ascertaining if any revisions to the contract administration process is necessary based on the results of this annual report.

Management Response

As noted above, complementary controls are in place and operating, despite the absence of written procedures. As explained in our response to finding 1a, we are unable to verify the accuracy of individual claim payments due to the complexity and automated nature of health care billing and the proprietary nature of Cigna’s agreements with individual providers.

1. We will review the vendor’s Service Organization Controls (SOCs) and incorporate them into our standard operating procedures.

Responsible Party: Health and Welfare Benefits Manager

Estimated Completion Date: October 2021

c. Absence of Written Departmental Procedures - Approval of Contract Invoices

HRD has no written procedures in place for assuring contract payments are accurate and comply with contract terms. Our review disclosed that the actual procedures employed should be strengthened to ensure contract payments are accurate. There are three separate components of the contract billings as discussed below:

1. Monthly Funding Billing. Each month CIGNA submits a reimbursement request to fund the CIGNA bank account to pay the claims to providers on behalf of the county. The average monthly amount approximates \$3.2 million and the request must to be approved within 24 hours. It is approved by the project manager prior to payment. The only

documentation in PRISM is a copy of the funding request without any approval. At the commencement of our audit, we found that no formal review or reconciliation process was being performed to the actual detail of claims paid out. The actual claims paid out are detailed in a monthly check register. The project manager stated that attempts were made in the past to reconcile these amounts, but it was not possible due to the amounts in the check register being based on checks issued not cleared. We performed a comparison for FY 2019 and found a variance of approximately \$150 thousand. Starting in FY 2020, the project manager met with CIGNA and revised the funding amount to represent claim checks cleared vs. claim checks issued. The project manager also began performing a reconciliation of the monthly funded amount back to the check register on a post-payment process. We reviewed these reconciliations from October 2019 through March 2020 and found the variance to be relatively insignificant.

2. Monthly Check Register. The monthly check register submitted by CIGNA represents the actual medical claims expense that CIGNA paid on behalf of the County approximating over \$2 million per month, plus numerous other billed amounts including \$800 thousand in pharmacy and vision benefit claims, as well as \$200 thousand in expenses such as cost containment fees and behavioral fees. There is no process for verifying the accuracy of any of these amounts. These claimed amounts are accepted without any verification. During the audit, we traced a sample of medical expense claim amounts back to source documents – an employee’s explanation of benefits and found no exceptions. For billings other than claims, we were able to trace some of the entries to summary reports provided by CIGNA. To verify the reported data, we requested detail behind these reports, however, that would require the County initiating a separate audit. We believe that the lack of any procedures for verifying or reviewing amounts on the check register to be a significant lack of internal controls. We understand that the data is voluminous, however some sampling and analytical testing should be performed on a monthly basis to ensure the county is paying accurate amounts compliant with contract terms.
3. Monthly Administration Costs. CIGNA submits a monthly billing for the cost of administering the healthcare program. The County pays the contract rate per covered employee. The monthly billing approximates \$100,000 per month. We verified the per employee rate to the contract. Additionally, the project manager demonstrated her review by verifying the covered employee amount to the internal County reports. They are off slightly as there are probably timing difference as its ever changing with new employees and employees that change plans or leave the county. We performed an analysis that shows the variance goes up and down and is within reasonable limits. No exceptions taken to the invoices. However, there is no written procedure for performing the review and the documentation in PRISM does not evidence any review was performed of the invoice. Additionally, there is a lack of segregation of duties as HRD’s policy is to only have one level of review. It should be noted that there was no County policy that required this level of documentation or approval. At the time of the issuance of this report, HRD already revised its processes for requiring two levels of review and approval.

4. Monthly Health Clinic Billing. CIGNA submits a monthly billing for operation of the on-site clinic. We verified this amount to contract terms. We also verified that the monthly invoice is approved by two persons. However, this approval is not uploaded into PRISM.

The lack of written policies and procedures covering the approval of contract payments and the lack of evidence that invoices are appropriately reviewed are major internal control weaknesses especially when dealing with significant dollar amounts and complex billings.

Written procedures not only protect the County's interests but also demonstrate management's commitment to effectively maintaining accountability over County funds.

Establishing written procedures helps ensure consistent compliance and application needed to achieve high levels of integrity and accuracy.

Recommendations

We recommend HRD develop detailed policies and procedures and SOPs covering the proper review of CIGNA payments. Effective policies and procedures will achieve the following objectives:

- Formally document the internal control processes and procedures for invoice payments.
- Provide employees the proper awareness and expectations to execute their roles and responsibilities within these processes, minimize ambiguity, and firmly establish management expectations.
- Facilitate transitioning of roles and responsibilities when staff leave.

The policies and procedures should include requirements for:

- A monthly reconciliation be performed within 14 days of claim funding to claims paid per contract check register
- Documentation being included in PRISM demonstrating dual approval of invoices
- Sampling or test checking amounts contained in the check register for assurance payment amounts comply with contract terms

Management Response

As noted above, HRD staff demonstrated early in the audit that it was not possible to reconcile the check register using any available reports because a) funding was provided on a weekly, rather than monthly basis, and b) funding was being provided based on checks issued, rather than checks cleared. Because of recent changes – including a shift to monthly funding and funding based on checks cleared – we now have greater ability to perform regular reviews of the check register and monthly funding requests. There are between 5,000 – 10,000 lines of data on the check register each month and there will always be some variance between it and the funding request because of timing of claim submissions and claim payments. With current staff capacity, we will consider our review complete if the register and funding request are within \pm \$10,000 (0.3%) over a two-month period of timing due to the aforementioned timing issues in healthcare delivery and administration.

HRD Benefits and administrative staff performing accounts payable functions have complied with all DMF procedures in effect at the time. During the audit, the requirement to

save documentation of approval in PRISM was not in place. We have complied with that requirement since it was changed. We also have two levels of review prior to submission for payment. HRD staff have been and continue to be trained on their duties. We are confident that employees involved in the process understand their roles and responsibilities and take pride in their work on administering complex programs that cover both active and retired members.

1. Develop written policies and procedures regarding the review and payment of invoices (as part of larger task noted in Finding #1a)
Responsible Party: Health & Welfare Benefits Manager
Estimated Completion Date: April 2021
2. Commence monthly review of check register with claims funding requests
Responsible Party: Health & Welfare Benefits Manager and Benefits Analyst
Estimated Completion Date: March 2021

d. Lack of Policy and Procedures for Verifying Dependent Eligibility

We found that HRD lacks sufficient policies and procedures for verifying dependent eligibility. The CIGNA claims being paid include benefits paid for employees and their claimed dependents. At the initiation of this audit, HRD did not perform any verification of dependent eligibility. HRD would accept an employee's application for covering a dependent without any verification. During our audit, in December 2018, the project manager initiated a new process where new applicants are now required to submit evidence of dependent eligibility such as a marriage certificate, tax return or birth certificates. However, there is no process in place for assuring that dependents for employees hired prior to this new process are all eligible dependents. Additionally, there is no audit performed on a recurring basis to check for continued eligibility due to possible change in marital status or child dependency. Additionally, the SOC 1 report discussed in finding #1 specifically calls out the responsibility for the entity (County) to have specific complementary user controls in place ensuring current, accurate and complete eligibility information. Therefore, it is the responsibility of the County to establish and implement these controls.

We performed a limited test of 19 employees hired prior to the HRD policy change (December 2018) and 8 employees hired after December 2018. For the employees hired prior to the new process, we requested that these employees provide proof of dependents by providing a tax return and birth certificates (if claiming children). For the newer hires, we verified that HRD obtained the required information at the time of covering the employee based on their new requirements. For the employees that have been employed with the County prior to December 2018, we verified 12 out of the 19 samples items. Seven or 43% did not provide complete verification. The project manager stated that she followed up on each of the requests and still did not receive a response.

For the new hires, we verified that HRD obtained the necessary dependent information at the time of covering the new employee with no exceptions.

Recommendations

HRD should establish a policy and procedure that would require a periodic audit be performed to ensure continued eligibility as part of a system of internal controls. A significant risk exists for the employees hired prior to December 2018 as these employees were never required to provide evidence of dependent eligibility. Additionally, situations change (e.g., marital status) and there should be a process in place to periodically sample employees for dependent eligibility. HRD should establish actions to be taken for when employees refuse to provide evidence

Management Response

As mentioned above, HRD proactively implemented procedures to obtain documentation supporting dependent eligibility for new hires and those adding dependents as a result of a life event. Following the Open Enrollment period in May 2020, we required documentation supporting dependent eligibility for 95 active employees and 29 retirees who added dependents to the plan. Of those contacted, 8 either did not have or were not willing to provide the required documentation. In those instances, the dependent enrollment was reversed.

Processes have long been in place to ensure that children who “age out” are given a COBRA notice and removed from the plan.

It should be noted that HRD previously considered a comprehensive dependent audit and sought funding which at the time was not available.

HRD Benefits staff does not currently have the capacity to conduct a full dependent audit given that we cover 5,500 dependents between actives and retirees on all of our health plans. We also believe such an audit would be better received by employees if conducted by an outside entity. Employees often have concerns about sharing personal information with their employer.

HRD will explore the possibility and cost of hiring a third-party to conduct a dependent audit following Open Enrollment in May 2021. If we are unable to do this, HRD Benefits Staff will again require documentation for Open Enrollment changes as well as institute periodic random audits.

1. Explore hiring of a third-party to conduct a dependent audit following Open Enrollment in May 2021.

Responsible Party: Employee Services Division Chief

Estimated Completion Date: May 2021

2. Failure to execute Audit Clause for Verifying Claim Amounts and Initiating Audits/Independent Verifications for Other Significant Billed and Rebate Amounts and other Contract Requirements

HIGH

We found that HRD has not exercised the claims audit clause or performed any independent verifications of certain contract reported data. The County is self-insured and therefore pays the claims submitted by the providers (thru CIGNA) subject to the amounts negotiated between CIGNA and its providers. Due to the self-insurance nature, contract clause Exhibit A, Task 11, II allows the County to conduct a claims audit on an annual basis. (This clause is over and above the standard County right to audit clause due to the self-insurance nature of this contract that basically makes this contract cost reimbursable, hence the need for this separate clause.) Since the inception of this contract in 2014, the HRD has not executed this contract clause. All claims have been paid (based on what CIGNA submits without any audit verification. Based on discussions with other audit firms, “claim audits” typically include verifying a sample of claimed amounts back to actual amounts paid by CIGNA to providers based on CIGNA’s agreements with providers. Additionally, we believe this a significant risk since CIGNA has denied us access to its own internal audits even though they are required by the contract (see Finding #1).

As discussed in Finding #1, there are several other contract requirements where the County relies on a CIGNA report as evidence of compliance without any independent audit or other supporting data verifying the reported data. When we requested certain supporting documentation, CIGNA indicated the data was proprietary. Since all costs and reimbursement amounts are not fixed by contract terms and subject to CIGNA’s own analysis, we believe there should be some independent audit to verify the amounts reported are accurate.

The Contract (in part) requires CIGNA to “retain all books, records and other documents for at least five years after final payment. The County or its authorized agents shall have full access to and the right to examine any documents”. The County has not exercised its right to examine such documents.

Recommendations

We recommend a claims audit be commenced immediately. The County is expending millions of dollars per month with little independent verification that the amounts are correct. Additionally, we recommend that an independent audit or some other type of independent verification of the following items being reported by CIGNA;

- Performance Guarantees
- Discount Guarantees
- Maximum Allowable Cost – Prescription Drugs Program
- Savings and Cost Containment Fees
- Prescription Drug Rebates

Additionally, as stated in Finding #1, Contract Clause Exhibit A, Task 8 Prescription Drug Benefit

Services, allows the County to conduct a market check on the prices to ensure the prices we are paying for the prescription drugs are reasonable compared to market pricing. The County has not executed this provision for the life of the contract (2014). Based on our research, due to the volatility of prescription drug pricing, this would be a prudent use of resources and an internal control to ensure the County is paying market pricing for prescription drugs. We recommend the County consider executing this contract requirement to protect the County's resources, especially, considering that CIGNA is not willing to provide any evidence assuring us that they are executing the maximum pricing schedule.

Management Response

As indicated in our response to Finding #1, despite the absence of written procedures, the HRD Benefits staff does manage and monitor the Cigna contract. As mentioned, we monitor employee and County premium contributions, claims expenses and administrative fees, maintain a cost report, and reconcile this information with the General Ledger. In addition, we meet quarterly with Cigna to review claim trends, high cost claims, and other factors impacting County medical and pharmacy costs.

We monitor claims expenditures at a high level. We cannot, however, easily determine the accuracy of individual claim payments due to the complexity and lack of transparency in health care costs throughout the industry, as well as the proprietary nature of Cigna's agreements with individual providers. This was discussed at the outset of the audit.

98% of claims are "auto-adjudicated," meaning that the claims are processed without human intervention, intending to greatly reduce errors. In talking with our peers and global HR consultants, we have found that claims audits are not frequently performed as a result because few errors are found, and little money is recouped when compared to the cost of the audit.

As noted in Finding #1, Cigna is audited annually by PwC and Cigna provided a copy of their attestation letter. As previously mentioned, Cigna is the only one of the four major health carriers in the area to be accredited by URAC for their Pharmacy Benefit Management program. This accreditation from an independent organization requires regular evaluation of both quality and cost measures and gives us confidence in their management of our prescription drug benefits.

DMF separately had conversations with RSM, the County's external auditor, who indicated they regularly perform claims audits. DMF has retained RSM's services to conduct an audit of claims, prescription drug rebates and other cost control measures, and these audits are included in the FY21 Internal Audit Work Plan. Executing these audits should therefore not be included as an action item for HRD but we can assist as needed and as resources are available.

As part of the next RFP, we will carefully review and evaluate the language pertaining to performance guarantees, discount guarantees, cost containment programs, prescription drug market pricing checks, and prescription drug manufacturer rebates, again in conjunction with the CAO. Discussions with the vendor will take place regarding how, and if, those aspects of the contract may be monitored and documented given the proprietary nature of this information.

1. Based on available resources, the HRD will attempt to independently verify the data being reported by CIGNA to ensure that CIGNA is complying with contract requirements related to:

1. Performance Guarantees
2. Discount Guarantees
3. Maximum Allowable Cost – Prescription Drugs Program
4. Savings and Cost Containment Fees
5. Prescription Drug Rebates

Responsible Party: Employee Services Division Chief and Health & Welfare Benefits Manager

Estimated Completion Date: Plan developed for independent verification of data by July 2021.

IMPROVEMENT OPPORTUNITY (UNRATED)

1. Contract Clause Exhibit A, Task 7 Standard/Core Wellness Programs requires the contractor to provide wellness programs and also reimburse the County for any wellness programs it runs up to \$50,000 per year. We recommend more emphasis be placed on ensuring we utilize the contractor's annual funds. Our review disclosed that we have not consistently used the total \$50,000 per year. When funds are not used, CIGNA allows us to rollover the funds to the next calendar year. Currently, we have about \$39 thousand rolled over from FY 2018 and FY 2019 and have not used any funds from FY 2020. A concern exists that if this fund is not actively managed over the next fiscal year, the funds will no longer be available as the contract expires at the end of FY 2021.

Management Response: As an update, our records indicate that we used nearly \$46,000 in FY19 and the full \$50,000 in FY20. We agree that better accounting for the Cigna Wellness dollars is required from staff. Cigna's payments to the County contain no detail as to which expenses are being reimbursed. In addition, it can take 6 months or more for reimbursement requests to be processed, which further complicates reconciliation from one year to the next. Staff have been directed to request detail from Cigna for each payment received going forward to enable better tracking of the wellness dollars.

2. Internal Audit understands the HRD will be issuing a Request for Proposal (RFP) later this year for the future requirements. As stated in Finding #1, we recommend the existing contract requirements be reviewed to ensure they are value-added, and the County can verify that they are being met effectively. As noted in our review, we found some contract requirements and reports that are not being used and therefore are potentially non-value added. As also stated in Finding #1, Contract Clause Exhibit A, Task 5 requires CIGNA to perform internal audits of its claim payments. There was no evidence that that this requirement was being accomplished or monitored. As part of this audit, we requested CIGNA to provide evidence of these internal audits such as audit results and corrective actions. CIGNA denied this request and stated that this data is proprietary. It is unsure the value of this clause if the County cannot verify its being performed or is able to obtain the audit results. The contracting pricing included consideration for this requirement and a question exists as to whether the County is receiving any value. As part of the new solicitation, we recommend HRD re-assess the value of this clause or ensure the new solicitation will require the County access to the internal audit results to assist in the management of the contract performance.

SCOPE AND OBJECTIVE

This audit was designed to evaluate the design and operating effectiveness of the internal controls and policies and procedures covering contract compliance to include contract administration/monitoring for compliance with County policy and terms and conditions. The overall objectives were as follows:

- Determine that policies and procedures are adequate, in place, and operating effectively to ensure contract compliance,
- Obtain, review and test key contract administration policies and procedures, including surveillance over contractor billings to ensure they are accurate for the services performed and in accordance with contract terms,
- Identify the monitoring controls in place over the vendor and accountability for goods and services provided,
- Assess that monitoring controls are designed and operating effectively,
- Identify control gaps, opportunities for process improvement, and efficiency gains,
- And evaluating any assessment made for the continued reasonableness of claim rates at the contract renewal stage (July 2018).

The audit initially covered the First Quarter of FY 2019 (July- September 2018). However, the audit was expanded to cover FY 2019 and the first quarter of FY 2020 for some testing of controls. The audit covers field work performed from November 2018-May 2020.