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<sup>††</sup> Audit Committee Member

**Employer Healthcare  
Expenses Audit**

November 20, 2020



**City of Fort Worth  
Department of Internal Audit**

200 Texas Street  
Fort Worth, Texas 76102

**Audit Staff**

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**The Employer Healthcare Expenses Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2020 Annual Audit Plan.**

### **Audit Objectives**

The objectives of this audit were to:

- determine whether invoices were paid in accordance with contracted prices;
- ensure that payments were not duplicated; and,
- ensure that expenses were limited to current or former City of Fort Worth employees, retirees and their dependents.

### **Audit Scope**

Our audit included a review of invoices for the period October 1, 2018 through September 30, 2019. Activity beyond this period was reviewed as deemed necessary.

### **Opportunity for Improvement**

Verification of amounts billed prior to payment

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## **Executive Summary**

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As part of the Fiscal Year 2020 Annual Audit Plan, the Department of Internal Audit conducted an Employer Healthcare Expenses Audit of invoices billed to the City by Employer Direct Healthcare, LLC (EDH). Due to limited information on vendor invoices and the Human Resources Department's known lack of invoice verification prior to vendor payment, the Human Resources Director requested that Internal Audit verify the accuracy of the invoices.

Internal Audit verified compliance with the following sections of the City's Personnel Rules and Regulations:

- general benefits information;
- medical benefits for active employees;
- effective date of benefits;
- proof of dependent eligibility; and,
- benefits after employment termination.

Based on our audit test results, EDH complied with the City contract. Invoices were paid in accordance with contracted prices, and no duplicate payments were identified.

The invoice verification weakness/concern brought to our attention by the Human Resources Department is discussed in further detail within the [Detailed Audit Finding](#) section of this report. In addition to the detailed audit finding, we identified the following issues that were not considered findings, but were deemed necessary to include in this report.

The City pays EDH for patients and one accompanying person to be transported to provider locations, and lodged during episodes of care. However, the contract does not specify a threshold and/or acceptable distance or cost for travel services, including lodging.

Additionally, the contract with EDH is not clear regarding coverage for an episode of care that continues after an employee terminates employment. We identified one case where a former employee received follow up care over two months beyond the employee's eligibility period (i.e., after the end of the month in which the employee terminated employment). Resolution required contacting the vendor to determine whether the follow up was included in the episode of care. Internal Audit was informed that the follow up care was related to a procedure performed during the employee's eligibility period.

# Table of Contents

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Background ..... 1

Objectives ..... 2

Scope..... 2

Methodology..... 2

Overall Risk Evaluation ..... 4

Detailed Audit Finding ..... 5

Acknowledgements..... 7



## Background

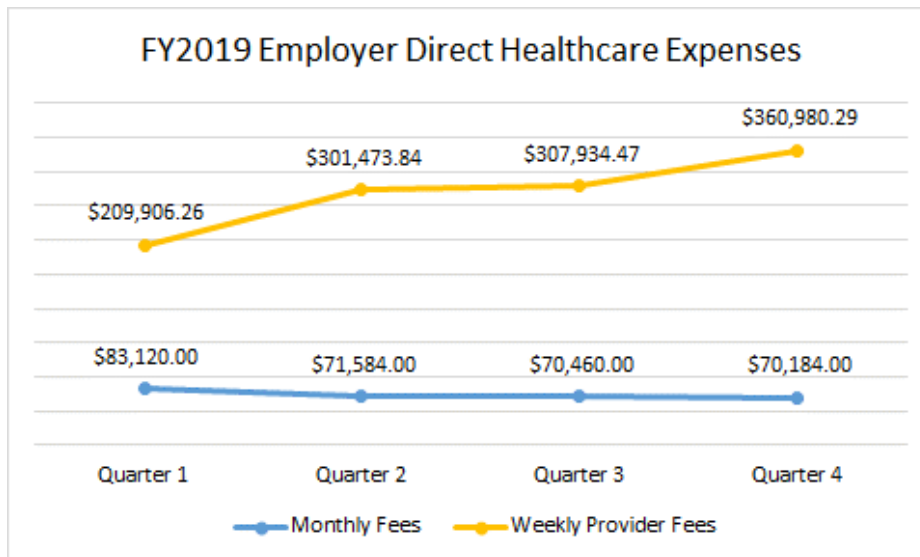
The City of Fort Worth currently offers a variety of benefits to eligible employees, retirees and their eligible dependents. In FY2017, the City contracted with Employer Direct Healthcare, LLC (EDH) to coordinate network surgical services by providing administrative functions, case management and a travel allowance for surgeries for City of Fort Worth health plan participants. EDH negotiates the medical service providers' costs before surgery, and processes employee deductibles and coinsurance. EDH also takes measures to hire medical board-certified surgeons.

The City of Fort Worth's Human Resources Department manages the health insurance contract with EDH. EDH is provided a weekly file that lists eligible employees, retirees and their dependents participating in the City's health plan. EDH reviews the eligibility file to ensure that services are only provided for eligible employees, retirees and their dependents.

The Employee Benefits and Wellness Division of the City's Human Resources Department is responsible for reviewing and paying medical vendors invoices.

- EDH invoices the City of Fort Worth, each month, for healthcare management fees. The monthly healthcare management fee is a charge, per employee, for each employee enrolled in the City's health benefits plan. The per employee charge is based on the number of eligible employees from the previous month.
- EDH also invoices the City, weekly, for covered services pertaining to medical procedures performed. The weekly invoices are for provider fees and travel services.

Provider fees include medical costs and processing fees assessed on each claim at a flat rate of \$1.20, \$2.45 or \$3.55 (depending on the claim date), plus 3.12% of member deductibles paid. In FY2019, the City of Fort Worth paid EDH \$1,180,295.00 in provider fees charged weekly, of which \$25,390.00 was for travel services. The City also paid EDH \$295,348.00 in monthly healthcare management fees.



Source: EDH invoices



## Objectives

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The objectives of this audit were to:

- determine whether invoices were paid in accordance with contracted prices;
- ensure that payments were not duplicated; and,
- ensure that expenses were limited to current or former City of Fort Worth employees, retirees and their dependents.

## Scope

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Our audit scope included a review of invoices from October 1, 2018 through September 30, 2019. Activity beyond this period was reviewed as deemed necessary.

## Methodology

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To achieve the audit objectives, the Department of Internal Audit performed the following:

- interviewed Human Resources Department personnel to obtain an understanding of the City's employees benefits process and related eligibility requirements;
- verified that billed surgeries (e.g., knee replacement, gastric bypass, etc.) were allowed per the contract;
- identified eligible employees, retirees, and their dependents from within the PeopleSoft Human Resources/Payroll system;
- verified that EDH invoices were billed in accordance with the contract;
- reviewed reports produced by EDH;
- reviewed the City of Fort Worth's Personnel Rules and Regulations, Administrative Regulations, the Human Resources Department's standard operating procedures, and applicable contracts;
- completed required training to ensure compliance with the Health Insurance Portability and Accountability Act (HIPAA); and,
- evaluated internal controls related to health benefits.

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.

Chapter XXVIII of the Fort Worth City Charter established the City of Fort Worth's Department of Internal Audit. Our department was established independent of management, reporting directly to the Fort Worth



City Council. We utilized the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework when evaluating internal controls. The following internal control components and corresponding principles were considered significant to the audit objectives.

| <b>Internal Control Component</b> | <b>Principles</b>  |
|-----------------------------------|--|
| Control Environment               | Managerial oversight, integrity, ethics and responsibility; staff recruitment, development, retention, performance and accountability          |
| Risk Assessment                   | Clearly-defined objectives to identify risks, define risk tolerances, and implement necessary controls (e.g., written policies and procedures) |
| Control Activities                | Policies, procedures and systems   |
| Information and Communication     | Communicate the necessary quality information  |
| Monitoring                        | Monitor and evaluate the effectiveness of internal controls  |



## Overall Risk Evaluation

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| High   | Medium | Low |
|--|--------|-----|
| <a href="#">Non-verification of vendor invoices prior to payment</a> |        |     |



## Detailed Audit Finding

### **Vendor invoices were not verified for accuracy prior to payment.**

As noted in the [Executive Summary](#) section of this report, the Human Resources Department recognized that EDH weekly provider fee healthcare invoices were not being reviewed for accuracy prior to vendor payment, due to a lack of identifying information. Internal Audit, therefore, commends the Human Resources Department for recognizing this internal control weakness and seeking an opportunity to improve controls over the EDH billing process. It should be noted that the Human Resources Department verified monthly healthcare management fees. Monthly healthcare management fees were based on a per employee count.

Since EDH invoices contained limited identifying information (i.e., neither employee names nor ID numbers were provided to support billings), Human Resources Department staff could not verify the accuracy of weekly invoices. However, during our audit, we were able to obtain claim information via secured communication channels that allowed us to verify billing accuracy. We also concluded that the 139 completed medical procedures (processed by EDH in CY2019) were for active employees, retirees and/or their dependents. As previously stated in the [Background](#) section of this report, the City of Fort Worth paid over \$1 million in weekly provider fees during FY2019.

Section 4.4 of the City's Administrative Regulation for General Accounts Payable guidelines states that prior to releasing payment the invoice information is verified. Non-verification of vendor invoices, prior to payment, increases the risk of erroneous payments.

**Recommendation A:** *The Human Resources Director should require that weekly invoices be detailed to include employee ID numbers associated with each claim, and that such information only be submitted to the City of Fort Worth via a secure file (to ensure compliance with HIPAA) as determined by the Information Technology Solutions Department. The Human Resources Director should then require invoice verification prior to payment.*

**Auditee's Response:** Concur.

**Target Implementation Date:** November 30, 2020

**Responsibility:** Nathan Gregory, Interim Human Resources Director

**Applicable Department Head:** Nathan Gregory, Interim Human Resources Department Director

**Applicable Deputy City Manager:** Jay Chapa

**Recommendation B:** *The Human Resources Director should ensure that proper and timely guidance, related to verifying EDH invoices (e.g., standard operating procedures) is provided to Human Resources Department staff.*

**Auditee's Response:** Concur.

**Target Implementation Date:** November 30, 2020

**Responsibility:** Nathan Gregory, Interim Human Resources Director





**Applicable Department Head:** Nathan Gregory, Interim Human Resources Department Director

**Applicable Deputy City Manager:** Jay Chapa



## Acknowledgements

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The Department of Internal Audit would like to thank the Human Resources Department and Employer Direct Healthcare, LLC for their cooperation and assistance during this audit.