

AUDIT REPORT

Office of Human Resources **Self-funded Health Plan**

FEBRUARY 2024



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City and County of Denver



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AUDITOR'S LETTER

February 22, 2024

We audited the city's self-funded health plan managed by the Office of Human Resources to determine whether the office is effectively managing the plan. I now present the results of this audit.

The audit found the Office of Human Resources is not effectively monitoring the city's self-funded health plan to ensure only eligible dependents of city employees receive health insurance benefits and that third-party vendors adequately provide the services they were hired for. We also determined the office needs adequate policies and procedures to ensure proper operations of the self-funded health plan.

By implementing recommendations for stronger monitoring practices over third-party vendors and stronger policies, the Office of Human Resources will be better able to oversee the city's self-funded health plan and ensure only eligible dependents receive taxpayer- and city employee-funded health benefits. The office will also be better able to ensure claims are processed correctly.

This performance audit is authorized pursuant to the City and County of Denver Charter, Article V, Part 2, Section 1, "General Powers and Duties of Auditor." 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.

We appreciate the leaders and team members in the Office of Human Resources who shared their time and knowledge with us during the audit. Please contact me at 720-913-5000 with any questions.

Denver Auditor's Office

A handwritten signature in black ink, appearing to read "Timothy M. O'Brien".

Timothy M. O'Brien, CPA
Auditor



Self-funded Health Plan

FEBRUARY 2024

Objective

To determine whether the Office of Human Resources effectively manages the city's self-funded health plan by:

- Ensuring the data of insured employees and dependents is complete and accurate in the city's system of record.
- Sufficiently monitoring third parties' processes.
- Having complete policies and procedures to ensure effective operations.

Background

The Office of Human Resources offers health insurance to City and County of Denver employees through two insurance carriers: Kaiser Permanente and United Healthcare.

Since 2020, United Healthcare's health insurance has been a self-funded plan — meaning the city acts as its own insurer and is responsible for processing and paying all claims for medical care. The city's Employee Health Insurance Committee and two outside vendors help Human Resources administer the self-funded plan so it can function appropriately.

REPORT HIGHLIGHTS

The Office of Human Resources is not effectively overseeing the city's self-funded health plan

The office is not complying with a city ordinance that requires external audits every five years to ensure employees' dependents are eligible to be covered by the city's health insurance plans. Human Resources is also not effectively monitoring its third-party contractors to ensure:

- Only eligible dependents of city employees are receiving health insurance benefits.
- Officials annually review United Healthcare's claims administration process for any gaps or deficiencies the city should compensate for.
- Third-party vendors, including United Healthcare, adequately provide the services they have been hired for as part of administering the city's self-funded plan.

The Office of Human Resources lacks documented guidance to effectively support the city's self-funded health plan

The office does not have adequate policies and procedures to ensure staff:

- Review and approve invoices from United Healthcare that ask for the money the city needs to pay toward employees' medical claims.
- Implement and communicate changes to the benefits plan in a timely manner before the changes take effect.
- Review the levels of access Human Resources staff have to United Healthcare's online portal, which has sensitive city and employee data.
- Remove former city employees' health insurance coverage in a timely manner given they are no longer paying for the benefits.

WHY THIS MATTERS

Without effective monitoring, the Office of Human Resources cannot accomplish its goal of saving taxpayers and city employees money through the self-funded health plan, nor can it guarantee that its third-party vendors fulfill their contractual responsibilities in administering the plan.

Additionally, without adequate oversight, ineligible dependents of city employees could receive benefits they are not eligible for and claims might be processed incorrectly — both of which could cause unnecessarily higher premiums for city employees.

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BACKGROUND

Thousands of City and County of Denver employees receive health insurance benefits through the medical plans the city offers.¹ Employees and their eligible dependents rely on the city to make decisions about these health plans and to operate them effectively with the employees' best interests in mind.

Previously, all health plans offered to city employees were considered "fully insured," in that the city purchased health care coverage directly from the insurance companies. But in 2020, city leaders sought to save money and changed the medical plan offered by United Healthcare to a "self-funded" plan.

This self-funded — or "self-insured" — health plan allows the city to provide health insurance directly to employees while paying providers, such as doctors and hospitals, directly for medical claims. The employer acts as its own health care insurer.

The move to a self-funded plan placed all administrative responsibilities on the Office of Human Resources. This requires the office to ensure the United Healthcare plan operates effectively and that employees participating in the plan do not lose coverage or pay more than they should.

The Office of Human Resources

The Office of Human Resources serves city agencies with employee programs and initiatives to "attract, develop, and retain an engaged and high-performing workforce that delivers on Denver's vision."² In particular, the office oversees all career service employees and manages their benefits, wellness, and learning.³

The Office of Human Resources is an independent agency that reports to the Career Service Board; it is not an agency under the mayor's authority.⁴

The office's benefits and wellness team handles city-sponsored benefits

¹ City and County of Denver, "Mayor's 2023 Budget" (2023), accessed Oct. 30, 2023, <https://www.denvergov.org/Government/Agencies-Departments-Offices/Agencies-Departments-Offices-Directory/Department-of-Finance/Our-Divisions/Budget-and-Management-Office/City-Budget>.

² "About Us," Office of Human Resources webpage, City and County of Denver, accessed Oct. 18, 2023, <https://www.denvergov.org/Government/Agencies-Departments-Offices/Agencies-Departments-Offices-Directory/Office-of-Human-Resources/About-Us>.

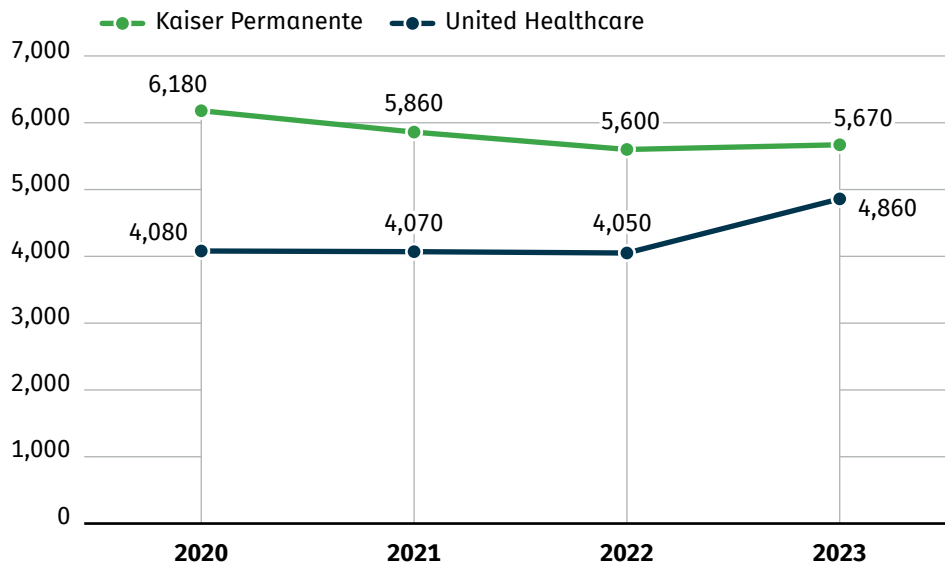
³ City and County of Denver, "Mayor's 2023 Budget" (2023), accessed Oct. 30, 2023, <https://www.denvergov.org/Government/Agencies-Departments-Offices/Agencies-Departments-Offices-Directory/Department-of-Finance/Our-Divisions/Budget-and-Management-Office/City-Budget>.

⁴ City and County of Denver, "Mayor's 2023 Budget."

such as medical, dental, and vision health insurance programs.⁵ The city uses two health insurance carriers – United Healthcare and Kaiser Permanente – to provide medical health plans to employees. Kaiser Permanente’s health plan is fully insured.

As of Jan. 1, 2023, about 10,530 city employees were covered under these health insurance plans. As shown in Figure 1, the number of employees covered by the self-funded health plan with United Healthcare increased by 810 employees from Jan. 1, 2022, to Jan. 1, 2023.

FIGURE 1. Number of employees covered by City and County of Denver health insurance plans



Source: Created by Denver Auditor’s Office staff using information from the Office of Human Resources.

In 2022, Human Resources’ benefits and wellness team merged with the Department of Public Safety’s benefits division so the Human Resources’ team now manages programs for all career service, police, sheriff, and fire employees as well as retirees.

Self-funded plans versus fully insured plans

The city’s transition to a self-funded plan was not unusual. About 67% of state and local government workers nationwide are insured by self-funded plans.⁶ Self-funded health plans can keep costs lower for an employer. Because an employer can customize its own health care plan, self-funded plans provide the city with more flexibility than fully insured plans.

⁵ City and County of Denver, “Mayor’s 2023 Budget,” 658.

⁶ Kaiser Family Foundation, “2022 Employer Health Benefits Survey” (2022), accessed June 21, 2023, <https://www.kff.org/report-section/ehbs-2022-section-10-plan-funding/>.

But a self-funded plan also comes with risks.

SELF-INSURED HEALTH PLAN – Self-insured employers are liable for paying all medical claims under the plan’s benefits, so the employer must be able to pay for all claims from employees and dependents participating in the plan.

To lower this risk, self-insured plans come with “stop-loss insurance.” This limits the amount the employer would have to pay for unusually large claims. For example, Denver’s stop-loss insurance pays up to \$400,000 for unusually large claims for each employee or dependent participating in the plan. United Healthcare must cover anything over that amount.

MEDICAL CLAIMS
A “claim” is a request for payment of a plan benefit. It can come from the city employee who is insured under the plan, their doctor, or another health care provider where the employee sought care.

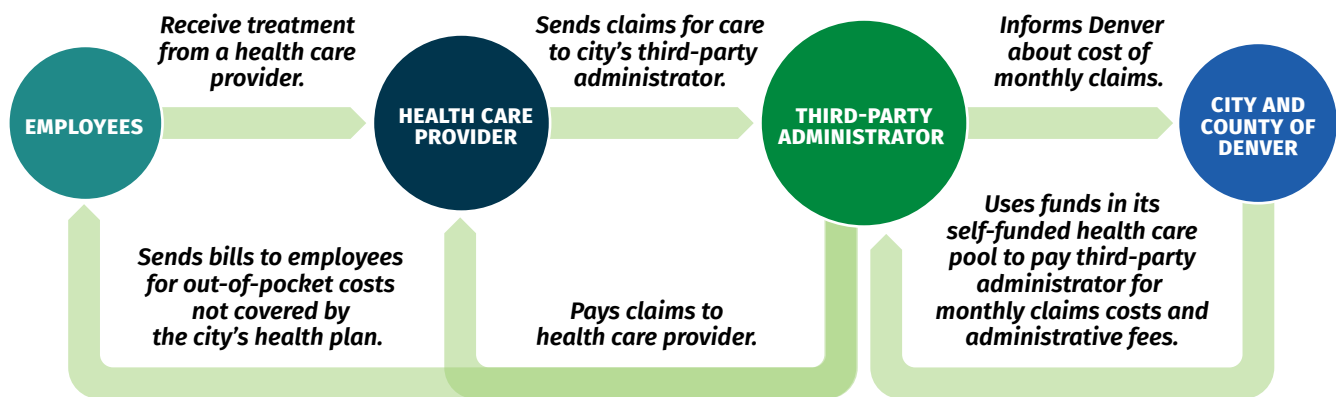
Self-funded employers typically hire a third-party administrator to manage these health care plans. This outside administrator can be contracted to:

- Pay providers for claims with the approval of the employer.
- Help set up the health plan and implement it.

The city’s overall monthly cost of a self-funded plan includes only administrative fees to its third-party administrator, fees for the stop-loss insurance, and payments for employee claims during the period. In cases where claims cost lower than expected, the city can save money.

Figure 2 shows how the city’s self-funded plan works. The city sets aside money to pay any possible upcoming claims. When an employee seeks medical care, their health care provider sends the bill to the city’s third-party administrator – which, in this case, is United Healthcare itself.

FIGURE 2. How the city’s self-funded health plan through United Healthcare works



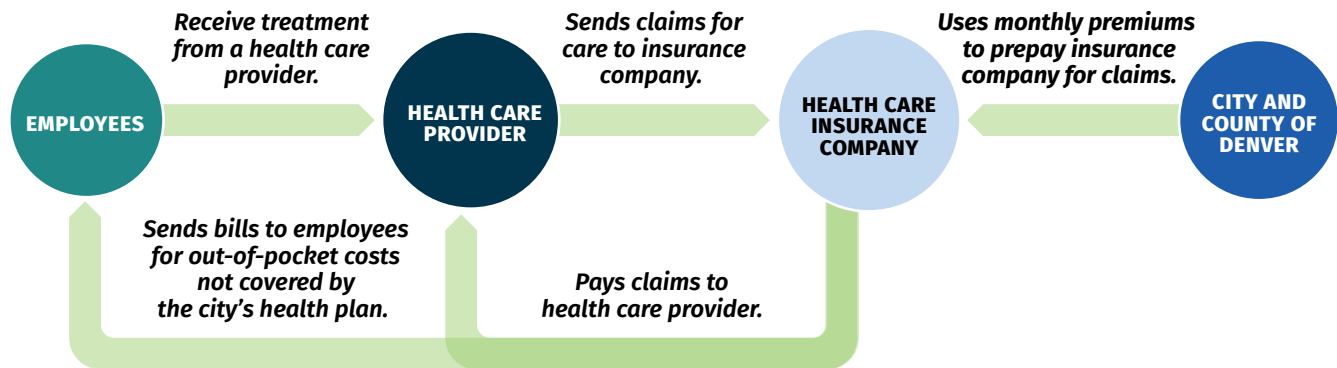
Source: Created by Auditor’s Office staff using information from industry guidance.

The administrator processes the bill as a “claim” by creating an invoice and sending that to the city – specifically the Office of Human Resources – for payment.

The city pays its portion of the invoice out of the money it put aside and authorizes United Healthcare, as its administrator, to pay the health care provider on the city’s behalf. The employee later receives a bill with their out-of-pocket portion that covers any remaining costs not covered by the city’s health plan.

FULLY INSURED HEALTH PLAN – In contrast to how the self-funded United Healthcare plan is set up, Figure 3 shows how the city’s fully insured health plan through Kaiser Permanente works: The city purchases health care directly from the insurance company.

FIGURE 3. How the fully insured health plan through Kaiser Permanente works



Source: Created by Auditor’s Office staff using information from industry guidance.

Fully insured plans are more rigid in the benefits they offer because they use a one-size-fits-all approach. But unlike a self-funded plan, the city carries no risk because Kaiser Permanente takes on all the risk involved with paying claims.

To cover these risks, Kaiser Permanente charges a set premium that does not factor in the actual costs from employees and dependents participating in the plan. Therefore, the company keeps any unspent money as profit.

Responsibilities for Denver’s self-funded health plan

The Office of Human Resources switched to a self-funded health plan with United Healthcare in 2020 as part of a recommendation the city’s external auditor made in 2018. The recommendation came two years after the city’s third-party insurance benefits consultant, Lockton, studied the effects of the city switching to self-funded health insurance.

Of the two health insurance companies the city contracts with, only United Healthcare offers the option for a self-funded health plan. The current term for the city's self-funded plan with United Healthcare started in January 2023 and ends in December 2025.

The Office of Human Resources works with the city's Employee Health Insurance Committee, Lockton, and United Healthcare to ensure appropriate administration and function of the self-funded plan. Each party has its own responsibilities.

- **OFFICE OF HUMAN RESOURCES** – The office submits payments for all plan benefits, administers the plan, and designs the type of coverage employees can get each year. The office also gives United Healthcare information on which employees and dependents are eligible to receive coverage.

Additionally, Human Resources is responsible for paying administration fees to United Healthcare and provides the money for United Healthcare to pay for all plan benefits, such as claims for medical costs. The office regularly presents plan information to the Employee Health Insurance Committee for the committee's review.

- **EMPLOYEE HEALTH INSURANCE COMMITTEE** – City ordinance authorizes the committee to advise the Office of Human Resources about city employees' needs for health insurance.⁷ In doing so, the committee reviews spending for the city's health plans, determines changes in plan premiums, and reviews contracts of all the city's insurance providers. The committee also picks the city's insurance providers when renewals are due. The committee consists of career service employees, representatives from the Denver police and sheriff departments, and retirees.
- **LOCKTON** – The insurance benefits consultant acts as an adviser for all insurances covering the city's career service, police, sheriff, and fire employees and its retirees. Lockton helps the Office of Human Resources maintain United Healthcare's self-funded health plan and comply with all federal and state requirements. The consultant regularly analyzes claims and examines how the plans are used to determine the financial impact of the city's two medical plans. Lockton presents its information to the Office of Human Resources and the Employee Health Insurance Committee.
- **UNITED HEALTHCARE** – United Healthcare provides the program services and stop-loss insurance for the city's self-funded health plan. The insurance company processes medical claims and manages the self-funded health plan for the city – acting as the third-party administrator while providing employees with access to health care providers.

United Healthcare must meet self-reported performance standards listed in its contract with the city, which are related to claims

⁷ Denver Revised Municipal Code § 18-184.

operations and customer service. If it does not meet these performance standards, it must pay penalties for noncompliance, which we discuss in [Finding 1](#). These standards are meant to give the city assurance that United Healthcare processes its claims in a timely manner and is responsive to phone calls from city employees and dependents participating in the plan.

Eligibility of employees' dependents

All full-time and part-time City and County of Denver employees are eligible for employee benefits.⁸ Employees can also enroll eligible dependents on their health insurance plans. An eligible dependent includes a spouse, children up to 26 years old, and children of any age who have a disability.

All employees seeking to enroll a dependent must provide supporting documentation in the city's system of record, Workday. The type of documentation depends on who the dependent is, and it is used to prove the dependent's eligibility and relationship to the city employee. This includes coverage for:

- **A SPOUSE** – Requires a copy of the marriage certificate or an affidavit of common law marriage, and a copy of the couple's most recent tax return.
- **CHILDREN** – Requires a copy of the child's birth certificate.
- **STEPCHILDREN** – Requires a copy of the child's birth certificate and documents for the spouse.
- **CHILDREN WITH A DISABILITY** – Requires a copy of the birth certificate and a form for "disabled dependent certification."⁹

City employees can add dependents during open enrollment, as a newly hired employee, or after "qualified life events" during the calendar year. A qualified life event includes getting married or divorced, gaining or losing other health coverage, or having a child.

Employees and their dependents cannot have "dual coverage" – that is, they cannot be covered as both an employee and a dependent on the city's health plans.¹⁰

To ensure the Office of Human Resources administers city health benefits properly, city ordinance requires the office to conduct "an audit of eligible dependents at least once within every five years."¹¹ An outside firm last audited the dependents' eligibility in 2018 – meaning the next external audit was due in 2023.

⁸ City and County of Denver, "2023 Employee Benefits Guide" (2023), accessed June 6, 2023, https://www.denvergov.org/files/assets/public/v/2/job-center/documents/benefits/benefitsguide_2023.pdf.

⁹ City and County of Denver, "2023 Employee Benefits Guide."

¹⁰ City and County of Denver, "2023 Employee Benefits Guide."

¹¹ Denver Revised Municipal Code § 18-172(4).

United Healthcare's service provider report

A service provider report — or what is otherwise called a “system and organization controls” report — provides an organization with insight on whether its contractor has designed effective processes and procedures for its operations.

According to the service provider report for United Healthcare, this kind of evaluation of a contractor's processes and procedures is vital for organizations like the City and County of Denver because it tells them about gaps in their service providers' processes. This knowledge enables organizations to ensure their own processes are properly designed to accommodate and compensate for those deficiencies.

In this instance, United Healthcare is the city's service provider because it provides claims administration services for the city's self-funded plan. The city — specifically the Office of Human Resources — must therefore have processes and procedures that complement United Healthcare's claims administration process to ensure:

- The city tells United Healthcare about any changes to the benefits plan in a timely manner.
- Data submitted about participating employees and their dependents is complete, accurate, and submitted in a timely manner.
- Only authorized Human Resources staff have access to United Healthcare's online portal.
- Payments for claims are authorized, complete, and made in a timely manner.
- United Healthcare's administration fee is based on an accurate number of employees and dependents participating in the plan.
- Any financial data for United Healthcare that is accessible on the online portal is complete and accurate.
- The city analyzes paid claims to determine financial impacts to the city and assess how the plan is being used.

United Healthcare's service provider report says it is the city's responsibility to evaluate the information in the report so city managers and staff understand and can assess any risks in the city's own processes.

FINDING 1 AND RECOMMENDATIONS

The Office of Human Resources is not effectively overseeing the city's self-funded health plan

The Office of Human Resources is not providing adequate oversight for the city's self-funded health plan to ensure it functions as intended. We found the office is not complying with city ordinance, and we identified several gaps where the office lacks sufficient procedures to ensure it and its two contractors — Lockton and United Healthcare — comply with city ordinance and other city policies regarding contract oversight.

Human Resources does not effectively monitor Lockton's and United Healthcare's processes for the self-funded plan. Specifically, we found:

- The office lacks effective oversight processes to ensure only eligible dependents of city employees receive city-funded health insurance benefits, as city ordinance requires.
- The office does not have documented procedures to review United Healthcare's service provider report and ensure all necessary work outsourced to United Healthcare is done appropriately.
- The office also has no procedures to ensure United Healthcare and Lockton meet their contractual obligations with the city.

The city's Executive Order No. 8 emphasizes that "contracts are considered one of the highest administrative priorities with the City," and it requires all city agencies to "ensure contract compliance throughout the life of [each] contract."¹²

Without sufficient Human Resources oversight to monitor the contractors that help administer the self-funded health plan, the plan will not operate effectively. This can increase costs for city employees who participate in the plan, and it risks ineligible dependents receiving taxpayer-funded benefits.

The Office of Human Resources does not verify dependents' eligibility as city ordinance requires

Human Resources is not complying with city ordinance because it is not rechecking whether only eligible dependents of city employees are receiving city-funded health insurance benefits aside from the initial review during enrollment. The office is also not properly ensuring dependents meet eligibility requirements.

By not ensuring employees' dependents are truly eligible and that only

¹² Exec. Order No. 8, City and County of Denver (2020), accessed Aug. 8, 2023, <https://www.denvergov.org/content/dam/denvergov/Portals/executiveorders/8-Contracts-Other-Written-Instruments-CCD.pdf>, 1.

eligible dependents are on the city’s health plan, the Office of Human Resources risks needlessly increasing city employees’ health insurance premiums.

NONCOMPLIANCE WITH CITY ORDINANCE – City ordinance requires the Office of Human Resources to “conduct an audit of eligible dependents at least once every five years.”¹³ The last audit of employees’ dependents was done in December 2018 by an external auditor.

But as of December 2023, the office had not contracted with an external audit firm to conduct the next required audit of employees’ dependents. Because five years have passed, the office is failing to comply with the city ordinance requirement to ensure only eligible dependents receive health care benefits.

During the city’s 2018 audit, the external auditor could not verify the eligibility of 13.8% of enrolled dependents. That resulted in Human Resources removing 962 unverified dependents from the city’s health insurance plans. The office only verifies dependents’ eligibility upfront during enrollment.

But changes in a dependent’s status can happen at any time whenever a city employee experiences a “qualified life event” such as getting divorced. Because Human Resources relies solely on employees to inform the city about any updates, the city’s process to verify dependents’ eligibility checks only for newly enrolled dependents.

When we asked Human Resources officials why the office is not complying with city ordinance, officials claimed audits of dependents’ eligibility are not cost-effective and they said these reviews lower employee morale. Officials also said they find the process of auditing dependents difficult to manage.

Federal guidance says cost alone is not an acceptable reason for managers to avoid implementing processes. The guidance says managers must consider costs versus benefits when designing and implementing processes.¹⁴

We acknowledge that audits of dependents are time consuming because an external auditor must contact every employee enrolled in any of the city’s health plans and require them to submit documentation that verifies the eligibility of the employee’s dependents.¹⁵ But leading practices say that, in the long run, such audits help keep costs down for the city employees who participate in the plan.¹⁶

The office is failing to comply with the city ordinance requirement to ensure only eligible dependents receive health care benefits.

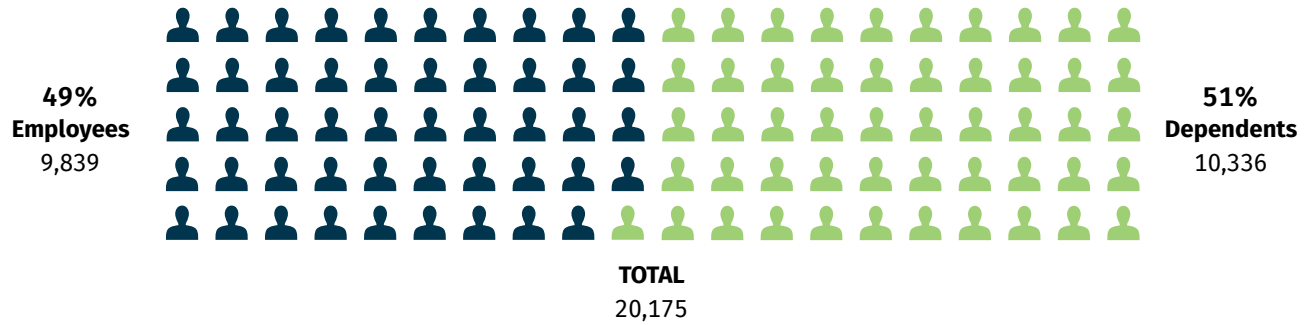
¹³ Denver Revised Municipal Code § 18-172(4).

¹⁴ U.S. Government Accountability Office, GAO-14-704G, Standards for Internal Control in the Federal Government (2014), accessed July 19, 2023, <https://www.gao.gov/assets/gao-14-704g.pdf>, Principle 4 and para. 4.07.

¹⁵ Mark Mack, “Controlling Health-Care Costs with Dependent Eligibility Audits” (2015), accessed Aug. 8, 2023, https://gfoaorg.cdn.prismic.io/gfoaorg/0c823cab-c8b4-4aa4-82d4-2605b7f6ecbd_615GFR32.pdf.

¹⁶ Mark Mack.

FIGURE 4. Number of employees and dependents enrolled in Denver’s health insurance plans



Note: These amounts represent averages for 2020 through 2022 across all city health plans with Kaiser Permanente and United Healthcare.

Source: Created by Auditor’s Office staff using Office of Human Resources data.

Across the City and County of City’s health plans, dependents make up over half of all participants. As shown in Figure 4, the city’s health plans with Kaiser Permanente and United Healthcare averaged a combined 20,175 participants for 2020 through 2022. Out of that average, 10,336 were dependents and 9,839 were city employees.

Because dependents are a majority of participants in the city’s health plans, verifying their eligibility can have a significant financial impact.¹⁷

One study found that on average “roughly 8% of dependents enrolled in [government employee] health care plans are ineligible [or unverified] for coverage.”¹⁸ That means the results from Denver’s last external audit of dependents’ eligibility in 2018 were roughly 6 percentage points higher than would be expected.

Although Human Resources implemented processes to verify eligibility upfront, managers cannot provide assurance that no ineligible dependents are enrolled in any of the city’s health plans because an audit of dependents’ eligibility has not occurred since 2018.

Furthermore, United Healthcare bases its monthly administration fees on the number of employees participating in the self-funded plan. Therefore, the city pays more when more individuals are enrolled. An audit verifying dependents’ eligibility could save money for both the city and for all employees who pay health insurance premiums to participate in the city’s self-funded plan.

INELIGIBLE DEPENDENTS – Because the Office of Human Resources is not complying with city ordinance, we reviewed samples of employees’ dependents to assess for ourselves whether they were eligible. We found missing documentation for dependents with disabilities and identified some individuals who were covered as both a dependent and an employee.

The city’s last external audit of dependents’ eligibility found 13.8% of dependents were ineligible, which is about 6 percentage points higher than would be expected.

¹⁷ Mark Mack.

¹⁸ Mark Mack, 2.

Although our sampling was not statistically representative of all insured employees, our results reveal areas of risk to the city.

As we mentioned in the background, employees must provide documentation to establish that their dependents are eligible when they enroll them for city benefits. Additionally, an individual cannot be insured as both a dependent and an employee at the same time.

To conduct our own analysis of dependent eligibility, we first obtained the population of 6,800 city employees and their 3,000 dependents who were insured by the self-funded plan from Jan. 1, 2020, through Aug. 1, 2023. We then:

- Verified the documentation that the Office of Human Resources had on file for a random sample of 22 dependents to see whether they were eligible.
- Compared the list of employees and the list of dependents to identify any instances of dual coverage.
- Calculated when child dependents would turn 26 to identify instances when employees should have submitted appropriate documentation for the child’s physical or mental disability.
- Randomly sampled 21 employees who had changed their coverage during a year — plus one employee who had made two changes in a year — to ensure the changes were for qualified life events.

CHECKING DEPENDENTS’ ELIGIBILITY

See the appendix for more details on how we independently reviewed samples of city employees’ dependents to confirm their eligibility.

The Office of Human Resources had appropriate documentation to establish eligibility for each of the individuals in our samples for dependents’ documentation and for qualified life events. But we identified five instances where someone listed as a dependent was also working for the City and County of Denver for as long as 15 months.

As we noted in the background, the city’s overall monthly cost includes administration fees to United Healthcare, and this is calculated by the number of employees enrolled. As a result, the city paid additional administration fees for employees dually enrolled as both an individual and a dependent under another employee’s benefits plan.

In addition, the employees who were dually enrolled paid double premiums for each month they had dual coverage. As an example, if an employee were enrolled as both an individual and separately as a dependent on another employee’s benefits plan — such as a spouse, both employees would pay premiums rather than one premium for the one employee who claimed the other dependent. Therefore, the employees we identified most likely overpaid.

Meanwhile, the city covers a large percentage of premium costs itself. Therefore, when an employee is covered both as an employee and as a dependent of another employee, the city pays additional premiums it does

not have to — which wastes taxpayer money.

Human Resources officials were uncertain why the individuals we identified had received health insurance coverage as both an employee and a dependent. Officials said they have a process to check for dual coverage among employees, but no process exists to test for dual coverage between employees and dependents.

The Office of Human Resources traditionally relied on notifications from its insurance companies when duplicate records came up during the enrollment process. But when the city switched to the self-funded health plan for United Healthcare, United Healthcare stopped this process — and the responsibility shifted to Human Resources to check for dual coverage. United Healthcare ensures only that claims are not paid twice.

Human Resources acknowledged the city's system of record, Workday, has limited functionality to review dependents' documentation and check for instances of dual coverage.

Our analysis also identified two instances where eligibility documentation was incomplete and did not sufficiently establish whether child dependents over 26 years old had a physical or mental disability that would allow them to remain eligible to be covered as a dependent. Human Resources officials said this happened because of a loophole in Workday that allowed city employees to make these enrollment selections without first getting approval from Human Resources staff.

To lessen the chance that Human Resources might overlook ineligible dependents, leading practices recommend that organizations implement regular processes — such as spot-checks — as an additional safeguard to confirm eligibility.¹⁹

Although the City and County of Denver covers thousands of dependents under its self-funded health plan, Human Resources relies solely on employees to report changes in their dependents' statuses. By not independently verifying or periodically re-verifying dependents' eligibility, the city risks allowing ineligible dependents to continue receiving benefits, which means the city will pay unnecessarily more for the self-funded health plan. Meanwhile, city employees enrolled in the self-funded plan will also pay unnecessarily higher costs.

Furthermore, because city ordinance mandates an audit of dependents' eligibility every five years, the Office of Human Resources must prioritize compliance with this ordinance and implement sound practices to review dependents' eligibility.

¹⁹ Joanne Sammer, "Health Care: Tips for Auditing Dependent Eligibility" (2008), accessed July 27, 2023, <https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/auditingdependenteligibility.aspx>.

1.1**RECOMMENDATION****Comply with city ordinance**

To ensure compliance with the city ordinance that requires an external audit of dependents' eligibility every five years, the Office of Human Resources should — as soon as possible — follow the city's procurement process and hire an external audit firm qualified to assess the eligibility of all dependents on the city's health plans. The office should then take the necessary steps to resolve any issues noted by the audit to ensure only eligible dependents receive benefits from the city's self-funded health plan.

AGENCY RESPONSE – AGREE

As OHR did in 2011 and 2018, we will conduct a dependent audit in 2024 to ensure dependents maintained eligibility following their initial enrollment with verified documents. OHR will begin the competitive process to find an external vendor first quarter 2024, with a competition date of no later than 12/31/2024. In addition to the dependent audit, the benefits team will continue to verify dependent documents for each enrollment.

— Office of Human Resources

IMPLEMENTATION EXPECTED BY DEC. 31, 2024

1.2**RECOMMENDATION****Develop, document, and implement procedures to review eligibility**

The Office of Human Resources should develop, document, and implement procedures to regularly review the eligibility of employees' dependents — especially in instances where automated processes are limited in the city's system of record, Workday. The office's processes should, at a minimum:

- Ensure the city obtains all required documentation from employees about their dependents and keeps those records in Workday, including documentation to show the disability status of applicable dependents.
- Work with the city's Technology Services agency, or other agencies as necessary, to obtain data from Workday about the employees and dependents participating in the city's self-funded health plan.
- Use employee participant and dependent data in Workday to regularly check for instances of dual coverage where an individual is receiving benefits as both an employee and a dependent.
- Document the results of the review and the actions to resolve any ineligible dependents found.

AGENCY RESPONSE – AGREE

The OHR will work with our internal HRIS team to determine the appropriate Workday functionality to create a new work flow. This may mean employees will be required to submit all required dependent documents, including disability documents, prior to making benefit elections.

OHR will twice annually audit for employees or dependents with dual coverage. OHR will document the results of the audit and contact the impacted dependent/employee to determine which coverage should be terminated.

— Office of Human Resources

IMPLEMENTATION EXPECTED BY JUNE 30, 2024

The Office of Human Resources has not reviewed United Healthcare’s service provider report for potential gaps

We learned the Office of Human Resources has not reviewed United Healthcare’s annual service provider reports since implementation of the self-funded health plan in 2020. These reports are meant to give the city insight into how effective United Healthcare’s claims administration process is for the self-funded health plan so the city can compensate for any gaps or deficiencies.

Because United Healthcare functions as the city’s third-party administrator for the self-funded health plan and manages the claims process for the Office of Human Resources, it is essential that Human Resources understands the company’s processes.

In addition to informing on United Healthcare’s procedures, the service provider reports would give the Office of Human Resources insight into the processes and procedures it needs to ensure United Healthcare’s claims administration process functions appropriately.

For example, if a report showed a deficiency with one of United Healthcare’s processes, the office would know to adjust its own procedures to address the risk.²⁰ Without knowing potential problems or gaps with United Healthcare’s claims processes, the city cannot respond and protect city employees and their dependents from any negative impacts such as claims being processed incorrectly.

During our audit, we learned Human Resources officials were unaware the service provider reports existed, what the reports contained, and the importance of this information.

Despite the nature and purpose of United Healthcare’s service provider reports, Human Resources officials have not prioritized obtaining the necessary training on how to use and apply the information they contain.

Because of this, the Office of Human Resources does not have

²⁰ Information Systems Audit and Control Association, “Managing Third-Party Risk” (2018), accessed Aug. 2, 2023, <https://store.isaca.org/s/store#/store/browse/detail/a2S4w000004KoHPEA0>.

Human Resources officials were unaware the service provider reports existed, what the reports contained, and the importance of the information.

documented procedures to effectively support United Healthcare’s claims administration processes. We discuss this in more detail in Finding 2 beginning on [page 23](#).

Federal guidance says that while an organization might hire a third party for contracted work, the organization — in this case, the Office of Human Resources — is still responsible for the work performed by the third party. Accordingly, city managers must understand how a third party has designed and implemented internal controls for the work it performs. Documentation of internal controls is a necessary aspect of effectively monitoring third parties.²¹

Because the city hired United Healthcare to administer the city’s self-funded health plan, the Office of Human Resources has a duty to monitor how effectively United Healthcare’s claims administration processes operate. As part of that, reviewing and understanding

United Healthcare’s annual service provider report is essential because it would enable Human Resources managers to be aware of problems with the company’s processes and compensate for any that may exist.

We reviewed United Healthcare’s service provider report for 2022 and found no gaps in United Healthcare’s claims administration processes that would negatively impact city employees and their dependents.

Nevertheless, if the city does not have effective processes in place, then United Healthcare’s processes may not compensate for weaknesses that could increase risks for the city. Potential risks could range from claims being processed incorrectly to other errors that would increase costs for the thousands of city employees enrolled in the self-funded health plan.

INTERNAL CONTROLS

According to the U.S. Government Accountability Office, internal controls are “the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the [organization].” They serve “as the first line of defense in safeguarding assets” and “help managers achieve desired results through effective stewardship of public resources.”

1.3

RECOMMENDATION

Obtain training on reading service provider reports

Before implementing Recommendation 1.4, the Office of Human Resources should obtain training on how to read and implement the contents and results of United Healthcare’s service provider report. This training should enable the office to:

- **Identify the processes and procedures that complement United Healthcare’s claims administration process.**

²¹ U.S. Government Accountability Office, GAO-14-704G, Standards for Internal Control in the Federal Government (2014), accessed July 19, 2023, <https://www.gao.gov/assets/gao-14-704g.pdf>, Principle 4 and paras. 4.01 and 4.08.

- Identify control deficiencies and gaps in United Healthcare’s claims administration processes.
- Understand what processes the city needs to implement to accommodate and compensate for those deficiencies and gaps.

AGENCY RESPONSE – AGREE

OHR will determine if such training is available from our current partners, including any purchasing groups or benefit foundations. If such training is unavailable, OHR will conduct an RFP with our purchasing department.

— Office of Human Resources

IMPLEMENTATION EXPECTED BY JUNE 28, 2024

1.4	RECOMMENDATION	Obtain and review United Healthcare’s service provider report
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The Office of Human Resources should annually obtain and review United Healthcare’s service provider report. The office should develop a policy and procedure to ensure this task is completed every year, and it should identify the staff member who should perform this duty.

AGENCY RESPONSE – AGREE

OHR will develop a policy and assign a staff member by March 29, 2024 for an annual review of the service provider report.

— Office of Human Resources

IMPLEMENTATION EXPECTED BY MARCH 29, 2024

The Office of Human Resources does not monitor work performed by third-party contractors

The Office of Human Resources is not reviewing the work of its benefits insurance consultant, Lockton, or its third-party claims administrator, United Healthcare, to ensure that both companies are meeting their contractual obligations with the city.

Each company’s contracted scopes of work include deliverables key to the operational success of the self-funded health plan such as:

- Providing accurate reports.
- Analyzing the plan’s financial impact and giving that analysis to the Employee Health Insurance Committee.
- Complying with performance guarantees related to processing claims and providing customer service.

The city's Executive Order No. 8 requires agencies to monitor and verify the work prepared by third parties to ensure these outside contractors are following the terms of their contracts.²²

Although only agencies under the mayor are required to follow executive orders, Human Resources officials said they follow Executive Order No. 8 by allowing companies to bid on medical contracts when they are open for renewal. Because Human Resources is already complying with aspects of Executive Order No. 8, the office should follow all guidance listed in the order.

For example, the Office of Human Resources is responsible for ensuring that United Healthcare pays employees' claims in a timely manner, that employees and dependents participating in the plan receive adequate customer service, and that decisions about the health plan are based on accurate and complete data.

HEALTH PLAN PERFORMANCE – The city's insurance benefits consultant, Lockton, was hired to assist the Office of Human Resources in:

- Maintaining the self-funded health plan.
- Presenting health plan information to the Employee Health Insurance Committee.
- Helping the city comply with federal and state requirements.
- Analyzing the financial impact of changes to the health plan — including analyzing paid claims and how the city's medical plans are used.

The Employee Health Insurance Committee regularly discusses Lockton's work during its meetings to determine city employees' health insurance premiums and make other recommendations for employee benefits. Lockton also presents financial performance information for each health plan during an annual meeting with the committee.

Because the information Lockton provides is vital for maintaining the self-funded health plan, we asked Human Resources officials for procedures they use to review Lockton's results. Officials said they have none and simply rely on Lockton's expertise and resources to produce accurate results.

Additionally, we learned officials do not have a good understanding of the work Lockton performs — specifically related to its review procedures for United Healthcare's contractual performance metrics.

As we said, federal guidance says managers are responsible for any work outsourced to a third party.²³ Therefore, Human Resources managers should have documented processes for how they monitor the work

Human Resources officials said they have no procedures to review Lockton's results and simply rely on Lockton's expertise and resources to produce accurate results.

²² Exec. Order No. 8, City and County of Denver (2020), accessed Aug. 8, 2023, <https://www.denvergov.org/content/dam/denvergov/Portals/executiveorders/8-Contracts-Other-Written-Instruments-CCD.pdf>.

²³ U.S. Government Accountability Office, GAO-14-704G, "Standards for Internal Control in the Federal Government" (2014), accessed July 19, 2023, <https://www.gao.gov/assets/gao-14-704g.pdf>, Principle 4 and para. 4.01.

outsourced to Lockton.²⁴

PERFORMANCE GUARANTEES – Meanwhile, United Healthcare administers the city’s self-funded health plan by managing the claims process, providing customer service to employees and dependents who participate in the plan, and providing employees and their dependents with access to health care providers.

In its contract with the city, United Healthcare guarantees specific performance metrics for its contracted responsibilities. For example, it promises to process claims within 10 days and answer 100% of phone calls from employees who participate in the self-funded plan.

United Healthcare also committed to assessing itself each year on how well it is meeting those performance metrics. The company compares its actual performance with its expected performance and reports the results to the city.

If United Healthcare were to not meet one of these contractual standards, the company is supposed to pay the city a penalty as listed in the contract. For example, the 2022 performance metric requires United Healthcare to process 94% of total claims within 10 days; otherwise, a maximum penalty of \$15,500 is due. Based on the performance report, United Healthcare said it processed over 98% of total claims within 10 days.

We obtained United Healthcare’s self-assessment reports for 2020 through 2022 and found all of United Healthcare’s self-reported results were in line with the contract. But because these results from United Healthcare are self-reported, they are less reliable than if the city independently verified the company’s claims of performance.

We asked Human Resources officials how they verify United Healthcare’s self-reported performance guarantees. They said they do not review anything and claimed Lockton performs a review. But when we asked Lockton employees, we found this was not the case.

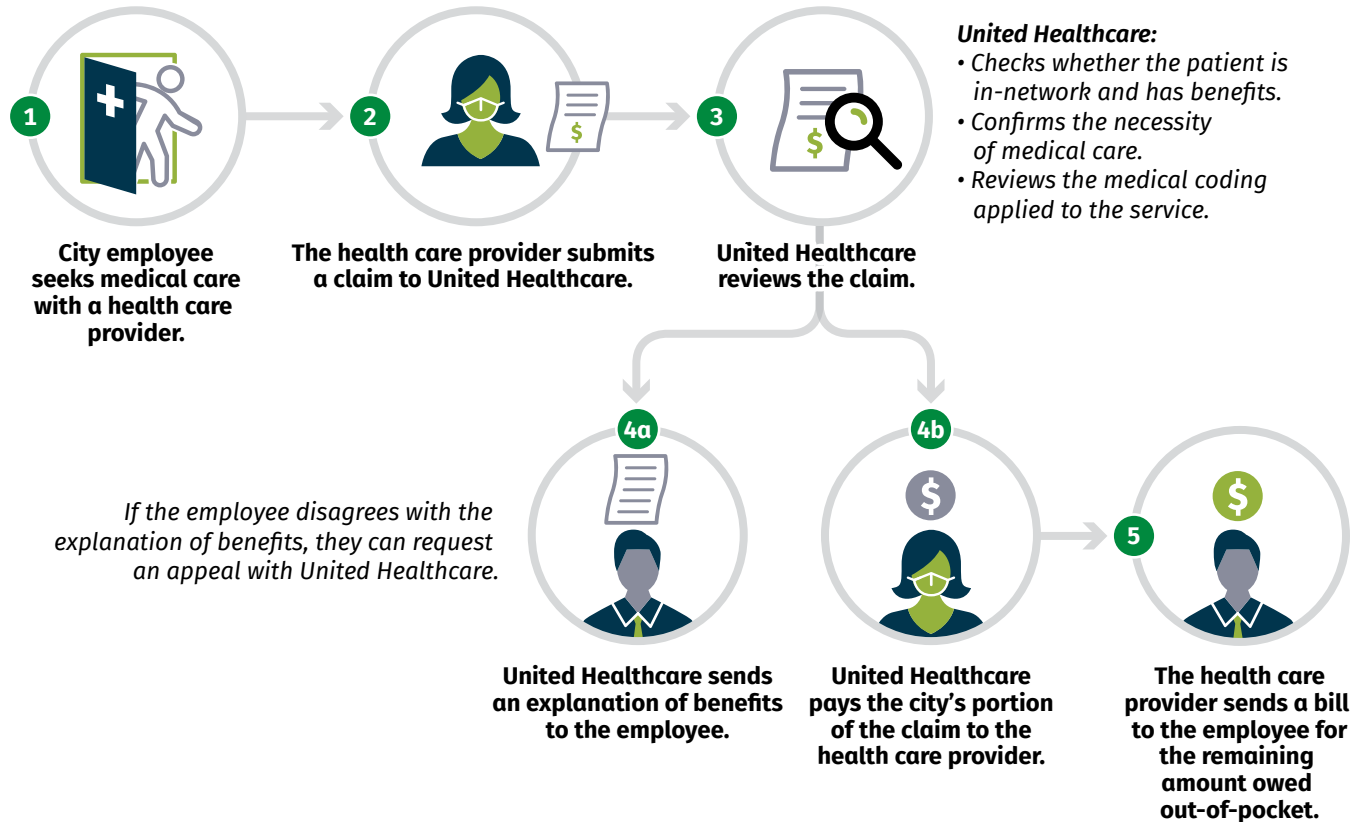
Lockton employees said Human Resources officials were confusing United Healthcare’s claims operations and customer service performance guarantees with the metrics Lockton frequently reviews regarding pharmacies.

CLAIMS PROCESSING – Part of United Healthcare’s contractual duties relates to claims administration. As shown in Figure 5 on the next page, United Healthcare determines what benefits apply to a city employee who has sought medical care. United Healthcare then determines the amounts covered by the self-funded health plan and the amount due out-of-pocket from the employee.

When an employee appeals a claim, United Healthcare performs internal reviews to ensure the claim was decided appropriately.

²⁴ U.S. Government Accountability Office, para. 4.08.

FIGURE 5. United Healthcare’s claims process for Denver’s self-funded health plan



Source: Created by Auditor’s Office staff.

Despite this significant responsibility, Human Resources managers are unaware of the status and results of United Healthcare’s claim appeals processes. Officials were unaware of any requests for United Healthcare to re-review an employee’s claim for medical care.

But we obtained evidence from United Healthcare showing that internal reviews are done often. For example, from January 2023 through July 2023, United Healthcare reviewed 274 appeals from City and County of Denver employees. Of those 274 appeal cases, 81 were overturned or partially overturned.

According to both federal guidance and the city’s Executive Order No. 8, the Office of Human Resources has a responsibility to ensure contracted work is performed as intended.²⁵ Without an awareness of United Healthcare’s claims processes, Human Resources officials could remain unaware of possible problems affecting employees’ and dependents’ claims and the administration of the self-funded health plan.

²⁵ U.S. Government Accountability Office, para. 4.01; Exec. Order No. 8, City and County of Denver (2020), accessed Aug. 8, 2023, <https://www.denvergov.org/content/dam/denvergov/Portals/executiveorders/8-Contracts-Other-Written-Instruments-CCD.pdf>.

EXTERNAL AUDIT OF MEDICAL CLAIMS – Although not required, the contract with United Healthcare allows the city to hire an external auditor to perform a medical claims audit on an annual basis. If the city took advantage of this, it would allow the Office of Human Resources to effectively monitor United Healthcare’s contractual duties by assessing whether claims are being processed according to the terms of the health plan and Human Resources could possibly uncover root causes of process errors.²⁶

The contract specifies that if Human Resources officials choose to perform this external audit, they can review data only for the year the audit is done and the prior year. For example, if the city decided to hire an external auditor to perform a medical claims audit in 2024, the external auditor would be able to review data only for 2024 and 2023.

We asked Human Resources officials whether they had assessed the need for such an audit. Officials said they intend to conduct an audit once sufficient claims data is available; they said they are waiting until 2025 so that the collective data from 2020 through 2024 is subjected to a medical claims audit.

But this would violate the contract terms, which say data only from the year the audit takes place and the prior year can be used. As the self-funded health plan has been operating since 2020, Human Resources officials are needlessly delaying an external audit of medical claims data.

Leading practices say an external auditor can review third-party processes such as claims data and performance guarantees during a medical claims audit.²⁷ This would enable the city to independently assess many of United Healthcare’s processes.²⁸

A formal needs assessment can assist Human Resources in first determining whether and in what way such an audit should take place.²⁹ According to federal guidance, a needs assessment would help the office understand:

- Key stakeholders and beneficiaries who may be affected.
- The severity, gravity, or urgency of any issues.
- The timing of any issues or problems.
- Perpetuating factors that give rise to any issues.
- How key stakeholders are affected.

²⁶ Marc Stein, “Is it Time for a Third-Party Administrator Check-Up” (March 2016), accessed Aug. 7, 2023, <https://www.withum.com/resources/time-third-party-administrator-check-self-insured-employers>.

²⁷ International Foundation of Employee Benefit Plans, “How to Plan and Design Thorough Health Care Claims Audit” (2018), accessed Aug. 7, 2023, <https://www.ifebp.org/inforequest/ifebp/0201040.pdf>.

²⁸ Marc Stein, “Is it Time for a Third-Party Administrator Check-Up” (March 2016), accessed Aug. 7, 2023, <https://www.withum.com/resources/time-third-party-administrator-check-self-insured-employers>.

²⁹ U.S. Department of State, Program Design and Performance Management Toolkit, (December 2018), accessed Sept. 20, 2023, <https://www.state.gov/wp-content/uploads/2018/12/Program-Design-and-Performance-Management-Toolkit.pdf>.

The answers to these five categories form the results of the needs assessment and would give Human Resources a fuller understanding of whether to pursue the optional medical claims audit.³⁰

Meanwhile, by not reviewing and effectively monitoring third-party processes that directly relate to the self-funded health plan, the Office of Human Resources is not ensuring the Employee Health Insurance Committee has the accurate and reliable information it needs to make good-faith decisions and recommendations for the city's over 10,500 employees. Human Resources also cannot know whether United Healthcare is managing its claims process effectively and providing city employees with the level of customer service the city would expect.

According to federal guidance the Office of Human Resources must obtain reliable and accurate data from United Healthcare to effectively monitor and evaluate United Healthcare's performance.³¹ If Human Resources is unaware of what work United Healthcare is performing, officials cannot determine whether processes are operating as expected and whether city employees and dependents are receiving adequate services.

Human Resources' lack of oversight can result in:

- City employees over- or underpaying for their medical claims.
- Benefits being used by ineligible employees or dependents.
- Employees receiving inadequate customer service from United Healthcare.
- The city overpaying for services or not receiving penalties it may be owed when United Healthcare falls short on its contractually required performance.

Ultimately, the higher costs caused by Human Resources' lack of oversight will land on City and County of Denver employees who must pay potentially higher health insurance premiums for the self-funded plan.

1.5

RECOMMENDATION

Assess the need for a medical claims audit

The Office of Human Resources should design and complete a formal and documented needs assessment to evaluate whether it should pursue a medical claims audit – and if so, how often and for what scope of time, in compliance with its contract with United Healthcare. The assessment should include a risk assessment of third-party processes, and it should serve as the foundation for managers' annual decision-making on whether to seek a medical claims audit.

³⁰ U.S. Department of State.

³¹ U.S. Government Accountability Office, GAO-14-704G, "Standards for Internal Control in the Federal Government" (2014), accessed July 19, 2023, <https://www.gao.gov/assets/gao-14-704g.pdf>, para. 13.04 and 13.05.

AGENCY RESPONSE – AGREE

OHR has already agreed to a partnership with a purchaser organization we are a member of to both store our claims data and to audit claims data.

— Office of Human Resources

IMPLEMENTATION EXPECTED BY DEC. 31, 2024

1.6

RECOMMENDATION

Create and implement policies and procedures for monitoring third parties

The Office of Human Resources should establish and implement policies and procedures for how it will monitor Lockton’s and United Healthcare’s procedures related to the self-funded health plan so the office can ensure health plan decisions are made using correct information.

AGENCY RESPONSE – AGREE

To ensure that both companies are meeting their contractual obligations, OHR will assign a staff member no later than April 30, 2024 to annually review each contract to ensure both companies monitor and verify the work performed follows their contract terms.

— Office of Human Resources

IMPLEMENTATION EXPECTED BY APRIL 30, 2024

FINDING 2 AND RECOMMENDATION

The Office of Human Resources lacks documented guidance to effectively support the city's self-funded health plan

The Office of Human Resources has several responsibilities in ensuring United Healthcare effectively administers claims for the city's self-funded health plan. But we found Human Resources uses incomplete procedures in some cases, and it has multiple versions of the process to approve city funding for insured employees' and dependents' medical claims.

Additionally, we learned the office has no procedures for updating the city's benefits plans or evaluating which Human Resources staff should have access to United Healthcare's online portal that contains sensitive city and employee data.

Human Resources' failure to fulfill and consistently review these responsibilities can potentially affect the self-funded health plan at a broader level. Without the foundational documentation outlining these responsibilities, Human Resources lacks the ability to guarantee that it performs all of its duties related to employee claims administration. If these responsibilities are not carried out in full, city employees and dependents participating in the plan risk having their coverage paused.

To make the most effective use of United Healthcare's services and ensure that all insured employees and dependents maintain their coverage, the Office of Human Resources must have adequate guidance for its managers and staff.

United Healthcare's annual service provider report says the Office of Human Resources has a responsibility to support the company in the claims administration process.³² But Human Resources lacks adequate guidance for four of its responsibilities. Specifically, the office has no policies and procedures for:

- Reviewing and approving invoices from United Healthcare, which ask for the money the city needs to pay toward employees' medical claims.
- Implementing changes to the benefits plans in a timely manner before the changes take effect.
- Reviewing staff's access to United Healthcare's online portal.
- Removing health insurance coverage in a timely manner for employees who no longer work for the city.

³² Those shared responsibilities are detailed in the service provider report as "complementary user entity control considerations."

REVIEW AND APPROVAL OF CLAIMS FUNDS INVOICES – Every week, United Healthcare sends a summary of that week’s claims costs to the Office of Human Resources. The office then creates an invoice and sends it to the city’s Finance Department so the city’s portion of claims for employee benefits can be paid with city funds.

As of September 2023, the Office of Human Resources had two documents describing this funding process, but only one of them was finalized. And neither of these documents had adequate detail to ensure new or existing Human Resources staff can follow the process effectively.

We also found different staff listed as the required approvers of claims invoices. Human Resources officials said employee turnover contributed to the differences in the procedural documents.

To assess whether claims were paid accurately and in a timely manner, we obtained weekly claims fund requests, fund invoices, and bank statements for three months in 2023: February, April, and June. We identified two instances where the office’s funding invoices did not match the claims costs United Healthcare reported.

The invoice on April 7, 2023, was \$180,000 over the requested amount, while a second was 80 cents short. When we reviewed the bank statement, we found Human Resources corrected the \$180,000 error before paying the claims, but the other went unresolved. When we asked what review procedures Human Resources had to address inaccurate claims payments, Human Resources officials said they had none.

Despite the immateriality of the unresolved amount, the office should still have processes to ensure claims payments are accurate.

Federal guidance says it is crucial for organizations to have documented policies and procedures that are designed with a sufficient level of detail to allow staff to thoroughly understand a process and effectively perform the procedure.³³

United Healthcare and Human Resources share a bank account that is used to pay employees’ and dependents’ medical claims. As outlined in the city’s contract with United Healthcare, Human Resources must maintain a minimum amount in this bank account. If the office did not ensure there was enough money to cover United Healthcare’s withdrawals for claims costs, the contract grants United Healthcare the right to pause city employees’ insurance coverage.

Therefore, reviewing the accuracy of claims payments would help Human Resources ensure it maintains the required minimum balance so that employees do not lose insurance coverage.

TIMELY IMPLEMENTATION OF BENEFITS CHANGES – The Office of Human Resources also has a duty to process any changes to employees’ health

When we asked what review procedures Human Resources had to address inaccurate payments, Human Resources officials said they had none.

³³ U.S. Government Accountability Office, GAO-14-704G, “Standards for Internal Control in the Federal Government” (2014), accessed July 19, 2023, <https://www.gao.gov/assets/gao-14-704g.pdf>, para. 12.04.

Having undocumented procedures increases the risk of errors in employees' benefits, potentially resulting in increased and unnecessary health care costs for employees.

benefits in a timely manner and communicate those changes to United Healthcare before the changes take effect.

Human Resources officials said these adjustments occur infrequently, and when changes do happen, the office typically approves the changes and communicates them through email to United Healthcare if there is no associated increase in costs.

Although this procedure exists, it is informal and undocumented. The office could not provide a written process to guarantee benefits changes are made and communicated in a timely manner before taking effect. Having undocumented procedures increases the risk of errors in employees' benefits — potentially resulting in increased and unnecessary health care costs for employees.

REVIEW USER ACCESS – Human Resources uses United Healthcare's online portal to manage the city's self-funded plan. This platform gives Human Resources staff access to invoices for administrative fees, insured employees' files to verify eligibility, and the financial data Lockton uses for its analysis.

Human Resources staff said only one person in the office controls who has access to the portal and that they can remove access when staff leave. But officials could not give us a written policy or process that identifies what user access specific Human Resources staff should have for the portal. Such a policy would help protect Human Resources from financial or reputational loss if an unauthorized user gained access to the portal.

Lacking these cybersecurity measures, the Office of Human Resources risks unauthorized individuals gaining access to the portal and reaching sensitive data about the city's self-funded health plan and the employees who participate in it.

TIMELY REMOVAL OF EMPLOYEES' COVERAGE – As of September 2023, Human Resources had not finalized a policy for how to address coverage for city employees who leave their jobs. Officials said the merger of the office's benefits and wellness team with the Department of Public Safety's benefits division required updating existing policies and procedures — and Human Resources is delayed in finalizing these updates because officials are still working to combine the two teams' procedures.

Not having documented processes that are approved and implemented can lead to inefficiencies and inconsistencies in managing how the city funds its portion of employees' medical claims. Federal guidelines recommend organizations establish comprehensive policies and procedures for all internal processes to address the risks of such inefficiencies and inconsistencies.³⁴

For the health plan to operate effectively, the Office of Human Resources must have written and approved policies that describe how it will:

³⁴ U.S. Government Accountability Office, GAO-14-704G, "Standards for Internal Control in the Federal Government" (2014), accessed July 19, 2023, <https://www.gao.gov/assets/gao-14-704g.pdf>, paras. 12.03 and 12.04.

Not having documented processes that are approved and implemented can lead to inefficiencies and inconsistencies in managing how the city funds its portion of employees' medical claims.

- Fully fund the city's payments for employees' medical claims.
- Properly authorize city funds for these payments.
- Communicate any changes to the plan with United Healthcare.
- Remove coverage for employees who no longer work for the City and County of Denver.
- Review which Human Resources staff should have access to United Healthcare's online portal.

Federal guidance emphasizes the importance of well-documented policies and procedures to help guarantee the accuracy of information, minimize fraud, and enhance accountability and effectiveness.³⁵ In addition, procedures should contain an adequate level of detail — including the “who, what, when, where and why” — and be easy for managers to oversee and for staff to follow.³⁶

Without documented and approved policies and procedures:

- United Healthcare could contractually pause insurance coverage for employees and dependents participating in the city's self-funded health plan if the city fails to maintain a minimum fund balance.
- Unauthorized individuals might gain access to United Healthcare's online portal, endangering sensitive city and employee data.
- Former employees could continue receiving benefits they no longer pay premiums for, costing the city money.
- Incomplete health plan changes could cause errors in employees' coverage, resulting in increased and unnecessary health care costs for city workers.

2.1

RECOMMENDATION

Develop, implement, and finalize policies and procedures

In addition to its existing documents, the Office of Human Resources should develop, implement, and finalize policies and procedures that provide the sufficient level of detail described in federal standards for internal controls and ensure:

- **Funding requests are properly authorized and reviewed for completeness.**
- **Changes to benefits plans are implemented and communicated in a timely manner and with sufficient advanced notice before the changes take effect.**
- **A staff member is designated as being responsible for granting Human Resources staff access to United Healthcare's online portal and that only authorized Human Resources staff have access.**
- **Former employees are removed from the city's health insurance plans in a timely manner.**

³⁵ U.S. Government Accountability Office, para. 12.03.

³⁶ U.S. Government Accountability Office, paras. 3.09 and 3.10.

AGENCY RESPONSE – AGREE

Since the workflow in Workday requires payment requests to be verified by DOF staff, the OHR will continue to work with our DOF partners to audit accuracy of weekly payments. OHR will implement and communicate plan changes implemented by the Employee Health Insurance Committee. A designated OHR staff member will manage access to the portal on a quarterly basis. There already is a process to monitor and terminate employee's coverage.

– Office of Human Resources

IMPLEMENTATION EXPECTED BY APRIL 30, 2024

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

To determine whether the Office of Human Resources effectively manages the city's self-funded health plan by:

- Ensuring the data of insured employees and dependents is complete and accurate in the city's system of record.
- Sufficiently monitoring third parties' processes.
- Having complete policies and procedures to ensure effective operations.

Scope

The audit assessed the operational effectiveness of how the Office of Human Resources manages the city's self-funded health plan with United Healthcare. We reviewed and analyzed the office's policies and procedures as well as data of employees and employees' dependents who participate in the health plan.

We reviewed data and information from Jan. 1, 2020, through Aug. 1, 2023.

Methodology

We used several methodologies to gather and analyze information related to the audit objectives. The methodologies included but were not limited to:

- Interviewing staff from:
 - The Office of Human Resources.
 - United Healthcare.
- Observing:
 - Documentation about dependents' eligibility that a city employee uploaded in Workday to change their benefits.
 - Documentation about dependents' eligibility during a qualified life event, which was uploaded by a city employee in Workday.
 - United Healthcare invoices requesting the money the city needs to pay toward employees' medical claims.
 - United Healthcare's census report files and the Office of Human Resources' reconciliation file.
- Reviewing:
 - The U.S. Government Accountability Office's "Standards for Internal Controls in the Federal Government."
 - City ordinances.
 - The City and County of Denver's Executive Order No. 8.

- Leading practices and guidance from the International Foundation of Employee Benefit Plans on audits of health care claims.
- Leading practices and guidance on medical claims reports from:
 - The Employee Benefit Plan Services.
 - Lexology.
- Leading practices and guidance on reviewing system and organization controls reports from:
 - The Information Systems Audit and Control Association.
 - Deloitte.
- Leading practices and guidance on vendor performance reviews from the National Association of Insurance Commissioners.
- Leading practices and guidance on audits of employees' dependents from:
 - The Government Finance Review.
 - The Society for Human Resource Management.
- Contracts between the City and County of Denver and Lockton, and between the City and County of Denver and United Healthcare.
- The 2023 city budget.
- The City and County of Denver's 2023 Employee Benefits Guide.
- Weekly claims fund requests from February 2023, April 2023, and June 2023.
- Census reconciliation of employees and dependents participating in the self-funded plan for June 2023 and July 2023.
- Results of UnifyHR's 2018 dependent audit of the city's health plans.
- Various documents provided by the Office of Human Resources including:
 - United Healthcare and Workday census reports for June 2023.
 - Enrollment verification and reporting steps.
 - Emails of discrepancy reports between the Office of Human Resources and United Healthcare.
 - Data reports from Workday about the employees and dependents participating in the city's self-funded plan from 2020 through 2023.
- Various documents provided by United Healthcare including:
 - Audits of hospital bills performed in 2022 and 2023.
 - Focused reviews of claims performed 2022 and 2023.
 - A rebate payment summary report for July 2023.
 - Cases of appealed claims from January 2023 through July 2023.
 - The 2022 System and Organization Controls, Type 1 Report.
 - An administrative fee invoice from June 2023.
 - Monthly bank account statements.
- Various documents provided by the City and County of Denver including:
 - A memo on the Employee Health Insurance Committee's process for selecting 2018 employee benefits.
 - Meeting minutes of the Employee Health Insurance Committee from January 2019, April 2019, and May 2019.

- A monthly financial report from Lockton for May 2023.
- Analyzing:
 - United Healthcare’s performance guarantees for 2020 through 2022.
 - Health plan claims data for the City and County of Denver from Jan. 1, 2019, through March 1, 2023, as prepared by Lockton.
 - United Healthcare’s service provider report that covered the period from Jan. 1, 2022, through Sept. 30, 2022.
 - Eligibility documentation for employee dependents who are 26 years and older, instances of dual coverage, and instances of qualified coverage — as discussed in [the appendix](#).
 - United Healthcare’s medical rebate payment to the city for the third quarter of 2022.
 - The composition of United Healthcare’s administrative fee.
 - Policies and procedures from the Office of Human Resources on:
 - Changes to benefits plans.
 - New hire processes.
 - Processes for employees who no longer work for the City and County of Denver.
 - Claims funding processes.
 - Census reconciliation.

APPENDIX

Analyzing data for the city's self-funded health plan

We reviewed supporting documentation for city employees and their dependents who are insured under the city's self-funded health plan. This appendix explains how we identified each sample to test.

The Office of Human Resources provided us with monthly reports from the city's system of record, Workday. The reports included data about the self-funded health plan for all career service employees and police staff from Jan. 1, 2020, through Aug. 1, 2023.

We combined each monthly report into a single dataset for our analysis. This dataset contained 271,054 rows of information tied to 6,831 unique employees. Each row of data recorded an employee's monthly health plan information such as their demographic information and their type of health coverage.

To identify a sample of dependents covered by the health plan:

1. We filtered the data to include only employees with a dependent.
2. We filtered the data further to include only dependents listed in the 2020 monthly reports and in the 2023 reports.
3. We identified the list of dependents that were on an employee's plan in both 2020 and 2023. This left 3,011 unique dependents to sample from.
4. Of these, we randomly sampled 22 dependents to review.

To identify a sample of employees who had reported a qualified life event outside the city's open enrollment period:

1. We filtered the data to include health plan information only from April through September for each year in our testing period: 2020, 2021, 2022, and 2023.
2. We grouped the data by employee identification number, year, and the employees' type of health coverage.
3. We flagged all employees who had more than one type of coverage in a single year. This resulted in 268 instances in which an employee made a single change, and one instance where an employee made two changes to their coverage.
4. We randomly selected 21 employees who had made one change to their coverage — and also used our professional judgment to include the one employee who had made two changes.

To identify whether an employee had overlapping coverage as both an employee and a dependent:

1. We created a unique identifier for each employee and for their dependents using individuals' full names and birth dates.
2. Using the unique identifiers, we merged the list of employees with the list of dependents.
3. We flagged instances where an employee was listed as a dependent under another employee's health plan for the same period of coverage.

To identify whether an employee had an enrolled dependent older than 26:

1. We filtered the data to include only employees with a child listed as their dependent.

2. We calculated the date each child would turn 26 using their date of birth. We then added 60 days to account for the time in which an ineligible dependent child should be removed from an employee's health plan.
3. We flagged instances where the effective date of the monthly reports was greater than the date each ineligible 26-year-old should have been removed from the plan.

We requested supporting documentation for each employee and dependent in the testing groups. We discuss the results of our review in Finding 1, beginning on [page 10](#).

Office of the Auditor

The **Auditor** of the City and County of Denver is independently elected by the residents of Denver. He is responsible for examining and evaluating the operations of city agencies and contractors for the purpose of ensuring the proper and efficient use of city resources. He also provides other audit services and information to City Council, the mayor, and the public to improve all aspects of Denver's government.

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