

**MARYLAND-NATIONAL CAPITAL PARK & PLANNING COMMISSION**

**Department of Human Resources and Management (DHRM)**

**Group Insurance Fund**

**Report Number: CW-003-2020**

**December 20, 2019**

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**Department of Human Resources and Management (DHRM)  
Group Insurance Fund**

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## **I. EXECUTIVE SUMMARY**

### **A. Background**

The Maryland-National Capital Park and Planning Commission (Commission) administers a Group Insurance Fund (the "Fund"). The Fund is used to collect all contributions made by the Commission and its employees, retirees, and COBRA participants for all benefits offered to employees (e.g., medical, prescription, dental, life, long-term disability). Premiums for the Commission's fully insured plans, and the fees and claims for the self-insured plans, are paid out of the Fund.

For fully insured plans, the Commission pays a fixed monthly premium cost for each employee, regardless of the total amount of claim expenses, thereby transferring risk to the insurance provider. Total monthly premiums paid by the Commission may fluctuate due to new hires and terminations.

For self-insured plans, the Commission pays all claim expenses instead of a fixed monthly premium. To minimize risk, the agency purchases stop loss insurance, which reimburses for claims exceeding a specified dollar amount. The Commission is also required to maintain a reserve equal to 10% of operating expenses.

The Employee Health and Benefits Office, within the Division of Human Resources, Department of Human Resources and Management is responsible for the overall administration of the Commission's benefit plans. The Employee Health and Benefits Office approves and processes invoice payments and ensures rates and cost share information are entered accurately into the Human Resources Information System to support required contributions (i.e. employer and employees).

The Finance Department's Accounting Division provides various accounting services to the Fund, including processing journal entries, developing revenue and expense projections twice per year and preparing year-end Fund financial statements. Accounting Division management also collaborates with Employee Health and Benefits to recommend rate setting and use of fund balances above reserve levels.

## **B. Objective, Scope and Methodology of the Audit**

### **Objective**

The purpose of the audit was to identify opportunities to strengthen internal controls, improve operational efficiencies and help ensure compliance with Commission policies and procedures. In addition, the audit scope was designed to identify possible fraud, waste or abuse within the process(es) being audited.

### **Scope**

The scope of the audit included, but was not limited to, the following audit procedures:

- Interviewed Health and Benefits and Finance personnel to obtain an understanding of Fund operations and administration;
- Reviewed Fund financial statements, dated as of March 31, 2019 and June 30, 2019; and
- Selected a judgmental sample of Fund transactions and tested for the following attributes:
  - Completeness of the fiscal year-end journal entry for allocating the retiree subsidy;
  - Proper authorization and approvals of invoices and refunds (e.g., premium and stop loss payments, and administrative fees paid to TPA's<sup>1</sup>);
  - Timeliness of transactions; and
  - Allowability of transactions.

The audit covered the period from July 1, 2018 – June 30, 2019.

### **Scope Limitations**

The audit scope and program were not designed to test or opine on:

- The selection of medical plan providers (e.g., United Healthcare, Kaiser Permanente), costs of the plans or services offered;
- Administration of the Commission's self-insured plans; and

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<sup>1</sup> Third Party Administrator (TPA) – UnitedHealthcare receives an administrative fee, stop loss premium, and any refunds up to the stop loss point.

- The operations and administration of the Commission's Worker Compensation Fund.

### **Methodology of the Audit**

Inquiry, observation, data analysis, and tests of transactions were performed to complete the audit objectives.

The audit was conducted in accordance with the *U.S. 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 the findings and conclusions based on the established audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**C. Major Audit Concerns**

The results of our evaluation and testing procedures indicated no major audit concerns.

**D. Overall Conclusions**

The results of our evaluation and testing procedures indicate no major weaknesses in the design or operation of internal controls for the administration of the Group Insurance Fund. On an overall basis, we consider the controls to be satisfactory. See the definition below.

We believe all weaknesses identified and communicated are correctable and that management's responses to all recommendations satisfactorily address the concerns. It is the responsibility of management to weigh possible additional costs of implementing our recommendations in terms of benefits to be derived and the relative risks involved.

We wish to express our appreciation to Employee Health and Benefits and Finance Department management and staff for their cooperation and courtesies extended during the course of our review.



Wanda King, MBA  
Assistant Inspector General



Renee M. Kenney, CPA, CIA, CISA  
Inspector General

December 20, 2019

**Conclusion Definitions**

<b>Satisfactory</b>	No major weaknesses were identified in the design or operation of internal control procedures.
<b>Deficiency</b>	A deficiency in the design or operation of an internal control procedure(s) that could adversely affect an operating unit's ability to safeguard assets, comply with laws and regulations, and ensure transactions are properly executed and recorded on a timely basis.
<b>Significant Deficiency</b>	A deficiency in the design or operation of an internal control procedure(s) which adversely affects an operating unit's ability to safeguard assets, comply with laws and regulations, and ensure transactions are properly executed and reported. This deficiency is less severe than a material weakness, yet important enough to merit attention by management.
<b>Material Weakness</b>	A deficiency in the design or operation of an internal control procedure(s) which may result in a material misstatement of the Commission's financial statements or material impact to the Commission.

## II. DETAILED COMMENTARY AND RECOMMENDATIONS

### 1. Reconcile Fully Insured Fund Revenues and Premium Expenses

**Issue:** Employee Health and Benefits does not reconcile contribution revenues and paid premium expenses for the fully insured funds<sup>2</sup>.

During discussions with Employee Health and Benefits, management explained discrepancies between revenues and expenses are primarily attributed to timing differences in system updates to Infor for employee related fluctuations such as new hires with benefit elections, terminations and qualifying events. Management further noted, due to limited resources, the department is unable to investigate and identify these ongoing employee related events, which mainly contribute to the discrepancies.

**Criteria/Risk:** Best business practices support timely identification and resolution of significant reconciliation differences. Failure to resolve outstanding differences may lead to undetected errors. The results may have a negative impact on Commission operations and financial statements.

**Recommendation:** The Office of the Inspector General (OIG) recognizes that the use of resources required to reconcile revenues and expenses, and investigate differences, may not always be practical or cost effective. We recommend that Employee Health and Benefits, in collaboration with the Finance Accounting Division, perform the following:

- Complete periodic reconciliations to ensure the revenues and expenses match.
- Develop a variance percentage (%) standard that management considers as an acceptable difference between revenues and expenses on the financial statements.
- If the difference between revenues and expenses exceeds the established variance percentage, Finance should investigate the posted revenues to identify any errors or anomalies. Employee Health and Benefits should perform the same exercise for expenses, including the identification of significant employee events, and correct the differences.
- Any significant differences should be documented, escalated and formally communicated to senior management.

**Issue Risk:** High

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<sup>2</sup> Note: Reconciliation of self-insured funds is not practicable due to unpredictable fluctuations of incurred claim expenses.

**Management Response:** The Health & Benefits office within DHRM, in collaboration with the Finance Department, will investigate variances between revenues and expenses that exceed ten percent (10%) for each plan reported in the group insurance fund. Finance will research writing a query to interface with benefits enrollment reports and the vendor invoices. The query will compare the detail from the Lawson payroll system to the Lawson benefits enrollment and deduction reports, BN230 and BN320.

**Expected Completion Date:** March 2020

**Follow-Up Date:** April 2020

## **2. Document Internal Standard Operating Procedures**

**Issue:** Employee Health and Benefits and the Finance Accounting Division do not have documented internal standard operating procedures (SOPs) for the operation and administration of the Group Insurance Fund.

Management and staff appear knowledgeable of their operational and administrative responsibilities for the Fund. However, as the Fund's operations require a collaborative effort between both departments, management should formally document the roles and responsibilities for each department.

**Criteria/Risk:** Formal documentation provides guidance to employees and mitigates the risk of errors.

**Recommendation:** We recommend that Employee Health and Benefits and Finance Accounting Division management formally document and distribute SOPs to applicable staff. Management should also include SOPs developed for managing Fund reconciliations, as recommended in audit issue # 1.

**Issue Risk:** Medium

**Management Response:** Standard operating procedures will be developed to formally document the roles and responsibilities of both the Health & Benefits office and the Finance department for managing the group insurance fund. The SOPs will also include the investigation of differences between expenses and revenues that exceed 10% and reconciliation thereof. These SOPs will be distributed to all applicable staff.

**Expected Completion Date:** March 2020

**Follow-Up Date:** April 2020