



Office of the City Auditor  
Performance Audit  
December 2023

# City Paid Health Benefits of Ineligible Former Employees



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## Office of the City Auditor

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December 11, 2023

Honorable Mayor and Members of the City Council:

This audit of the Human Resources Department focuses on benefits termination of former employees. We reviewed invoices of monthly administrative fees and health claims to determine whether the city paid health benefits for former employees no longer eligible for city insurance.

The city continued to pay administrative fees and insurance claims for former employees no longer eligible for city insurance.

Between April 2021 and April 2023, 376 of 1,344 employees who left city employment appeared on a BlueCross BlueShield (BCBS) administrative fee invoice 30 days or more after their last day with the city. The city paid at least \$516,317 in administrative fees and about \$1,392,131 for health claims of former employees after they were no longer eligible for the city's insurance.

The process the Human Resources Department and BlueCross BlueShield established to communicate that employees were no longer eligible for city insurance did not always work as intended. This automated process did not always include all terminated employees. Even when communicated correctly to BCBS, invoices for employees on the city's insurance sometimes continued to include employees no longer eligible.

The Human Resources Benefits Division did not design procedures to monitor employee removal from the city's health insurance program. Prior to our audit, the Human Resources Benefits Division did not process invoices detailing who was on the city's insurance for a given month. As a result, they did not monitor whether the process to update health insurance enrollment was effective.

We make recommendations to seek recovery of incorrect payments of administrative fees and health claims paid by the city for former employees, report to the City Council when incorrect payments are reimbursed, fix the process to accurately communicate eligibility changes, and reconcile administrative fee invoices against city employee insurance enrollment information.

The draft report was sent to the director of human resources on November 09, 2023, for review and comment. Her response is appended. We would like to thank Human Resources and BlueCross BlueShield staff for their assistance and cooperation during this audit. The audit team for this project was Ruth Beyene and Jonathan Lecuyer.

A handwritten signature in blue ink that reads "Douglas Jones".

Douglas Jones, CGAP, CIA, CRMA  
City Auditor

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# City Paid Health Benefits of Ineligible Former Employees

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# Introduction

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## Audit Objective

*Has the city paid benefits for ineligible employees after the employee separated from the city?*

While the city contracts with several companies to administer employee health benefits, this audit focuses on the largest contract, BlueCross BlueShield (BCBS). To answer our objective, we:

- compared names of former city employees to BlueCross BlueShield invoices for employee administrative fees from April 2021 to April 2023 and health claims from May 2021 to April 2023;
- assessed the accuracy of the city's process to communicate benefits termination to BlueCross BlueShield; and
- interviewed city staff and stakeholders.

We conducted this audit in accordance with Government Auditing Standards.

See Appendix A for more information about the audit objective, scope, methodology, and compliance with standards.

During fieldwork for this audit, we informed the director of human resources about incorrect payments made to BCBS. We provided the director with a list of former employees that were still on BCBS invoices so the department could stop ongoing incorrect payments and initiate timely recovery of funds.

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## Background

### City Employees' Health Benefit Coverage

Kansas City self-insures health care for city employees and retirees through the Healthcare System Board of Trustees.<sup>1</sup> The city's Healthcare System Trust provides health insurance, dental insurance, and vision benefits. The Healthcare System Trust contracts with benefit plan administrators such as BlueCross BlueShield, Humana, and VSP Vision Care to provide these health plans for employees. BlueCross BlueShield administers employee health and dental plans and processes claim payments to providers for those services.

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<sup>1</sup> Code of Ordinances, Kansas City, Missouri, [Sec. 2-1390](#).

### **Invoice Payments for Health Benefits.**

Exhibit 1: Monthly Invoice Types



**Admin Fees**



**Claims**

Source: BlueCross BlueShield Invoices.

The city receives two types of invoices from BlueCross BlueShield. (See Exhibit 1.) The first is a monthly administrative fee. Each month the city pays an established fee per employee covered by the city's insurance. This invoice is itemized by each employee's name and the type of insurance for which the city is paying a fee (health and/or dental). The administrative fee invoice also includes a separate section to retroactively adjust past fees that were incorrectly billed.

The second monthly invoice BlueCross BlueShield sends to the city details employee insurance claims. The claims invoice includes total health and drug claims made by individuals covered by the city's insurance. This invoice does not include itemized employee information. The only other information on the invoice is a summary about the total number of active employees within each health plan.

### **Human Resources Department Manages Employee Health Benefits**

The Human Resources Benefits Division coordinates benefits for eligible city employees. The Benefits Division handles the administration of city benefits programs by processing qualifying benefit change events, processing payments for benefits-related vendors, updating benefits-related systems in the human resources management system, and preparing COBRA<sup>2</sup> packets for former employees.

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<sup>2</sup> COBRA Continuation Coverage gives former employees and dependents the opportunity to continue health coverage in the event of losing employer-based coverage.

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## Findings and Recommendations

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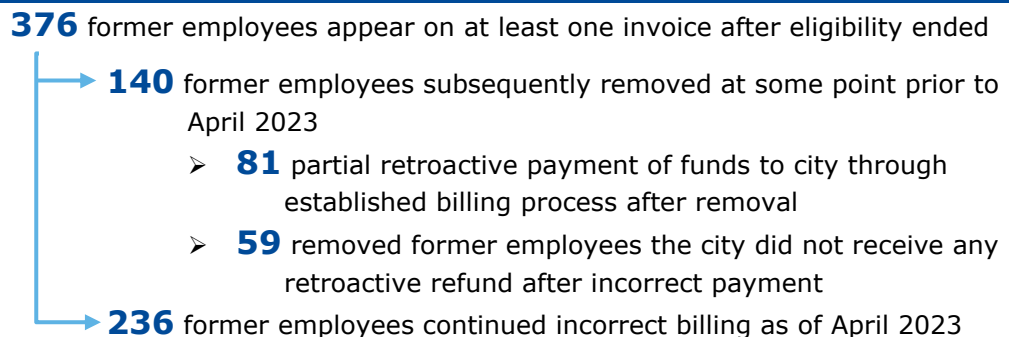
### City Paid at Least \$1.9 million in Error for Former Employees' Health Benefits

#### City Paid at least \$516,000 in Error for Former Employees' Administrative Fees

The city continued to pay administrative fees for former employees no longer eligible for city insurance. BlueCross BlueShield's (BCBS) monthly administrative fee invoice charges the city a set fee for each active employee enrolled in the city's health insurance program. An employee's active status in the program should end on the last day of the month in which the employee's last day occurs. For example, if an employee leaves employment on January 10<sup>th</sup>, they are no longer an active enrollee in the city's health insurance on February 1<sup>st</sup>. The city should no longer pay an administrative fee for former employees after this time.

Administrative fee invoices inaccurately included some former employees<sup>3</sup> as active enrollees after their insurance coverage with the city should have ended. Between April 2021 and April 2023, 376 of 1,344 employees who left city employment appeared on a BCBS administrative fee invoice 30 days or more after their last day with the city. (See Exhibit 2.)

Exhibit 2: Invoices Including Former Employees April 2021-April 2023



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**\$516,317** net incorrect payments for administrative fees

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Sources: BlueCross BlueShield Invoices, Human Resources Employment Data, and City Auditor's Office analysis.

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<sup>3</sup> A former employee is a person who ends city employment through retirement, voluntary resignation, or involuntary termination.

Exhibit 3: Ineligible Employees Included on April 2023 Invoices by the Number of Months After Employee Left City

Months	Former Employees
1-3	52
4-6	26
7-12	83
13-18	13
18-24	62
<b>Total</b>	<b>236</b>

Sources: Human Resources Employment Data, BlueCross BlueShield Invoices, and Office of the City Auditor's analysis.

Some employees appeared on invoices for only one or two months beyond their last day and then were correctly removed. The city received a partial refund for 81 of the 376 former employees incorrectly billed. The city routinely receives refunds to correct clerical mistakes on invoices. Refunds received for the 81 employees did not always cover all month's former employees continued to appear on invoices after their insurance should have ended with the city.<sup>4</sup>

As of April 2023, the BCBS administrative fee invoice continued to include at least 236 former employees who were ineligible to receive city insurance.<sup>5</sup> Some former employees had incorrectly appeared on monthly invoices for the entire 24-month timeframe. (See Exhibit 3.)

As a result of employees incorrectly appearing on administrative invoices, the city paid at least \$516,317 in administrative fees for former employees who were ineligible for insurance coverage.

We reported this information to the director of human resources on July 7, 2023. The director stated they have notified Blue Cross Blue Shield of incorrect charges and have requested a refund of those charges.

### City Paid at least \$1.4 million in Error for Former Employees' Health Claims

The city also continued to pay some former employees' health claims after their eligibility for insurance coverage should have ended.<sup>6</sup> The city receives a monthly invoice summarizing the total employee health claims to be paid. An employee's active status in the program should end on the last day of the month in which the employee's last day occurs. The city should only pay insurance claims of covered employees.

Between May 2021 and April 2023, the city paid about \$1,392,131 for over 3,600 claims of 217 former employees after they were no longer eligible for the city's insurance. Paying insurance claims for individuals no longer employed by the city increases total health care expenses paid by the city, potentially causing higher premiums for current city employees.

<sup>4</sup> The contract states that BCBS will not make any retroactive adjustments without written approval from the city and that no retroactive adjustments will be made beyond 60 days unless BCBS is at fault.

<sup>5</sup> Note, some employees may continue receiving health coverage through COBRA or as a retiree. These individuals' administrative fees should not be charged to the city as an active employee.

<sup>6</sup> The city's Healthcare Trust does pay claims for former employees who enroll in coverage through COBRA or retirement health plan. We excluded covered retirees' and COBRA enrollees' claims from our analysis.

Recommendation The director of human resources should seek recovery of incorrect administrative fees and claims payments made to BlueCross BlueShield and report to the City Council when incorrect payments are reimbursed.

**City Processes to Remove Employees from Health Insurance Coverage Need Improvement**

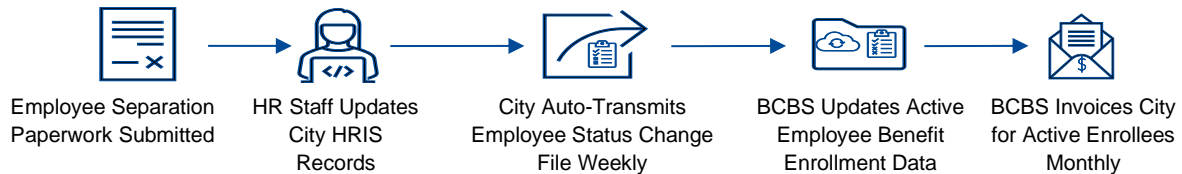
The Human Resources Department and BlueCross BlueShield’s established process did not always correctly remove all former employees from the city’s insurance as intended. The Human Resources Department should have an effective process in place to ensure the city only pays health insurance coverage for active employees and their dependents. This requires the city and BCBS to implement processes that accurately communicate eligibility changes between the two and monitor these processes to ensure they are working properly.

**Benefit changes data not always communicated or acted upon.** The city established a process meant to terminate an employee’s health benefits. This includes notifying the employee of their last day of coverage and an automated process that should communicate to BCBS a change in the employee’s health insurance status.

Either a department or an employee initiates the benefits termination process when they submit separation paperwork to Human Resources. (See Exhibit 3.) Human Resources then enters this information into the city’s Human Resources Information System (HRIS). This should trigger an automated process in HRIS that generates what is referred to as a ‘change file’.

The HRIS system should automatically transmit the ‘change file’ to BCBS every Tuesday. This should result in BCBS updating their list of individuals covered by the city’s health insurance. Subsequent administrative fee invoices and claims sent to the city should not include individuals no longer covered by the city’s insurance. (See Exhibit 4.) City staff stated this process was developed cooperatively between BCBS and the city.

Exhibit 4: Human Resource Process to Remove Former Employee From City Insurance<sup>7</sup>

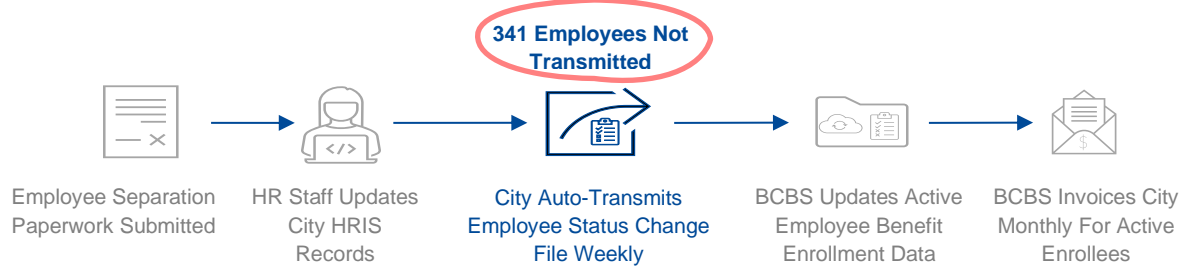


<sup>7</sup> Sources for Exhibits 4-6: Human Resource Benefits Divisions, City Change File Data, City Master File Data, Human Resource Employment Records April 2021-April 2023, General Services Information Technology Division, BlueCross BlueShield Invoices, and Office of City Auditor Analysis.



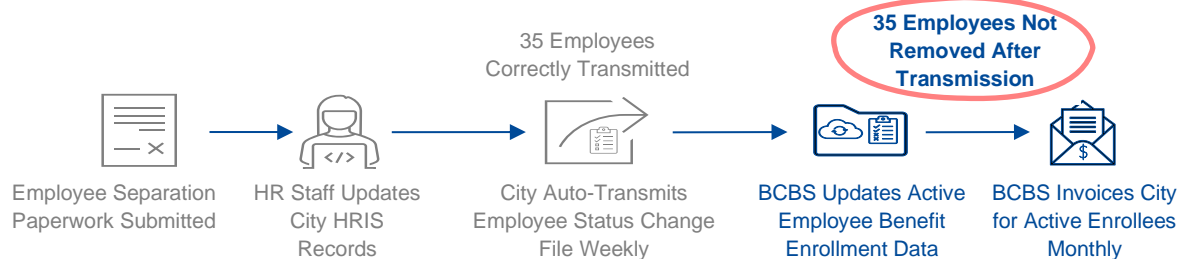
The city's 'change file' did not always include data for individuals leaving city employment. Out of the 376 former employees appearing on administrative fee invoices after their insurance with the city ended, 341 were not sent as expected on any 'change file' between May 2021 and April 2023. (See Exhibit 5.)

Exhibit 5: 'Change File' Not Transmitting All Employees Leaving City Insurance<sup>7</sup>



BlueCross BlueShield did not remove some employees from the administrative fee invoice after the city's 'change file' correctly communicated data for individuals leaving city employment. The 'change files' correctly communicated 35 employee health benefit terminations to BCBS out of the 376 former employees appearing on administrative fee invoices after their insurance with the city ended. BCBS continued to include those employees on administrative fee invoices after notification of health benefit terminations. (See Exhibit 6.)

Exhibit 6: BlueCross BlueShield Not Always Removing Employees After 'Change File' Notification<sup>7</sup>



The breakdown of this process contributed to the city's incorrect payment of health administrative fees and insurance claims.

**Recommendation**

To ensure former employees are correctly removed from city insurance, the director of human resources should fix the 'change file' process so that it accurately transmits data of employees leaving the city's insurance and results in accurate insurance changes.

**City departments did not design procedures to monitor employee removal from the city’s health insurance program.**

The Benefits Division should monitor whether the process to update health insurance enrollment is effective. Ongoing monitoring includes regular comparisons, reconciliations, and other routine actions to directly test whether BCBS enrollment data is accurate. The administrative fee invoice contains the employees BCBS has currently enrolled in the city’s insurance each month. Because of this, the city can compare employees appearing on each month’s invoice to the enrollment changes sent to BCBS to verify the change process is working as intended.

The Benefits Division did not reconcile the administrative fee invoices prior to the start of this audit. At that time the General Services Department, rather than Human Resources, received and paid these invoices. As of May 2023, the Benefits Division began processing payments of administrative fee invoices for health benefits. Benefits Division management states they have established procedures to check and reconcile administrative fee invoices against city benefits data.

Reconciling the administrative fee invoice is important because it can help detect problems with the change file and prevent incorrect payments for former employee fees and claims. Out of the 217 former employees the city paid claims for, all but one continued to appear on the administrative invoice after they should have.

Recommendation

To ensure city processes that remove former employees from city insurance programs are accurately updating external parties and the city does not make incorrect payments, the director of human resources should continue to reconcile BlueCross BlueShield administrative fee invoices against city employee insurance enrollment information prior to payment.

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**Recommendations**

1. The director of human resources should seek recovery of incorrect administrative fees and claims payments made to BlueCross BlueShield and report to the City Council when incorrect payments are reimbursed.
2. The director of human resources should fix the ‘change file’ process so that it accurately transmits data of employees leaving the city’s insurance and results in accurate insurance changes.
3. The director of human resources should continue to reconcile BlueCross BlueShield administrative fee invoices against city employee insurance enrollment information prior to payment.

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## **Appendix A: Objective, Scope and Methodology, and Compliance Statement**

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We conducted this performance audit of Separated Employee Benefits Termination under the authority of Article II, Section 216 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the city auditor's primary duties.

A performance audit provides "objective analysis, findings, and conclusions to assist management and those charged with governance and oversight with, among other things, improving program performance and operations, reducing costs, facilitating decision making by parties with responsibility for overseeing or initiating corrective action, and contributing to public accountability."<sup>8</sup>

### **Why We Did This Audit**

The city plans to spend nearly \$95 million on health-related benefits for fiscal year 2024 to cover about 9,500 employees and their dependents (excluding retirees). A total of 466 employee terminations were processed in fiscal year 2023. Assessing processes to terminate separating employees' benefits and benefit payment data can help ensure the city pays benefits for only eligible employees.

### **Audit Objective**

This report is designed to answer the following question:

- Has the city paid benefits for ineligible employees after the employee separated from the city?

### **Scope and Methodology**

Our audit focuses on separated employees' benefits termination. Our audit methods included:

- Comparing administrative invoices of active employees to termination reports from April 2021-April 2023.

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<sup>8</sup> Comptroller General of the United States, [Government Auditing Standards](#) (Washington, DC: U.S. Government Printing Office, 2018), pp. 10, 11.

- Identifying retroactive adjustments for separated employees on administrative invoices to remove from total overpayments calculated.
- Communicating with HR Retirement and BCBS to identify former employees covered by COBRA or enrolled in the city's retirement program and exclude their claims from out date set.
- Comparing itemized employees claims dates to 30 days after employee termination dates from May 2021- April 2023 to identify potentially ineligible claims.
- Reviewing potentially ineligible employee's claims to verify they were not covered by a spouse employed by the city or had the same name as another active city employee.
- Reviewing BlueCross BlueShield contract with the city to understand applicable terms and conditions.
- Interviewing city staff, Human Resources Management, and IT developers to understand development of interface files and processes.
- Searching interface files to identify whether separated employees appear as expected.

We did not include spouses or dependents in our claims data analysis.

During fieldwork for this audit, we informed the director of human resources about incorrect payments made to BCBS. We provided the director with a list of former employees that were still on BCBS invoices so the department could stop ongoing incorrect payments and initiate timely recovery of funds. Subsequently, we provided a list to director of all employees appearing on any invoice or claim after their eligibility should have ended.

### **Statement of Compliance with Government Auditing Standards**

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. No information was omitted from this report because it was deemed confidential or sensitive.

### **Scope of Work on Internal Controls**

We assessed internal controls relevant to paid benefits for ineligible employees after separation from the city. This included assessing the design, implementation, and operation effectiveness of the interface files communicating information correctly to BlueCross BlueShield. We identified internal control deficiencies that are discussed in the body of the report.

### **Data Reliability**

We used a query created by Benefits Division staff on the city's Human Resources Information System to identify the last day of former employees. We assessed the reliability of the data by checking whether fields were complete, as expected, and within our time frame. To verify the accuracy of employees' last days we sent all records where a fee was paid after an employee's last day to Human Resources to ensure they agreed. We had no way to determine whether we identified the entire population of former employees. We found the data to be sufficiently reliable to make conclusions about payments made for former employees and the health benefit termination process.

## Appendix B: Director of Human Resource’s Response



### Inter-Departmental Communication

Human Resources Department

RECEIVED

DEC 04 2023

**Date:** December 4, 2023

**To:** Douglas Jones, City Auditor

CITY AUDITOR'S OFFICE

**From:** Teri Casey, Director of Human Resources

**Subject:** Response to Performance Audit: *City Paid Health Benefits of Ineligible Former Employees*

The Human Resources Department appreciates the dedicated work of the City Auditor’s staff and we are grateful for their audit of Health Benefits payments to BlueCross BlueShield. The City currently pays \$900,000 per month in administrative fees, and approximately \$6.5 million per month in claims reimbursement. During the time period audited, the City paid BlueCross BlueShield over \$21 million in administrative fees, and approximately \$156 million in claim reimbursements. As the Human Resources Department has taken over paying these invoices from the General Services Department in May 2023, we appreciate the Auditor’s recommendations to minimize error and improve stewardship of taxpayer dollars. Our response to the three recommendations presented by the City Auditor follows.

- 1. The director of human resources should seek recovery of incorrect administrative fees and claims payments made to BlueCross BlueShield and report to the City Council when incorrect payments are reimbursed.***

Agree. We have already recovered \$255,689.86 in administrative fees and \$163,000 in claims payments.

We are continuing to review the invoices and will be seeking refund of administrative fees and claims payments for individuals for whom we were billed after they:

- Appeared on termination change files sent to BCBS;
- Did not appear on eligibility files sent to BCBS documenting all employees who should appear on BCBS rolls with their insurance selections following Open Enrollment April 2021, April 2022, and April 2023; or
- Did not appear on eligibility files sent to BCBS in August 2022 and August 2023 (files sent at BCBS’s request).

During a recent meeting with representatives of BlueCross BlueShield, we conveyed our concerns about employees remaining on BCBS rolls even after a new eligibility file was sent to them following Open Enrollment. We also informed BCBS that we will be reviewing every file sent to them to determine when the employee should have been removed from their files and requesting reimbursement from that time.

**2. The director of human resources should fix the 'change file' process so that it accurately transmits data of employees leaving the city's insurance and results in accurate insurance changes.**

Agree. The City's IT division is currently reviewing the change file. The IT division is expected to determine whether minor fixes are possible, or if a complete system reformation is required to correct the change file process. We expect that IT will work with the BlueCross BlueShield technical experts to configure the process into a useful and accurate tool to update member rolls. Additionally, during a recent meeting with representatives of BCBS, we established a new process where both parties will ensure that terminated employees do not remain on BlueCross BlueShield's rolls. That new process is being implemented this month.

**3. The director of human resources should continue to reconcile BlueCross BlueShield administrative fee invoices against city employee insurance enrollment information prior to payment.**

Agree. Upon receiving the responsibility of paying the BlueCross BlueShield invoices in May of 2023, the Human Resources Department implemented processes to reconcile the invoices. Since taking over responsibility for paying the invoices, we have found 184 individuals who should have been removed from the BlueCross BlueShield files, amounting to refunds of \$36,586 in administrative fees. The assignment to Human Resources to pay the BCBS invoices and our subsequent reconciliation of the invoices occurred outside the audit period.

We recently met with BlueCross BlueShield representatives and discussed the billing process. Together we have developed a process so that we receive an accurate monthly bill. December 2023 will be the first month with the new process. However, we will continue to reconcile the administrative fee invoice. We have also requested (and BCBS representatives agreed to provide) an itemized claims bill so that we can reconcile the claims invoice going forward. While we hope the technical process changes will result in very few errors, we intend to continue the manual reconciliation process to ensure accurate billing and appropriate payments to BlueCross BlueShield.

cc: Brian Platt, City Manager