



CITY AUDITOR'S OFFICE

Benefits Administration

January 16, 2019

AUDIT REPORT NO. 1913

CITY COUNCIL

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January 16, 2019

Honorable Mayor and Members of the City Council:

Enclosed is the audit report for *Benefits Administration*, which was included on the Council-approved FY 2018/19 Audit Plan. This audit was conducted to evaluate the cost-effectiveness of the City's benefits administration, including contract administration responsibilities.

Current procurement practices for benefit-related agreements did not follow the City's Procurement Code and lacked transparency and documentation. In addition, \$11,750 for deferred compensation plan administrative costs remains in the City's General Fund, and \$21,700 that was available to provide employee health and wellness programs was not used.

Further some benefit-related agreements do not fully address protection of personally identifiable information and protected health information, and contract administration can be improved.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

A handwritten signature in blue ink that reads "Sharron Walker".

Sharron E. Walker, CPA, CFE, CLEA
City Auditor

Audit Team:

Cathleen Davis, CFE, CIA – Senior Auditor

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AUDIT HIGHLIGHTS

Benefits Administration

January 16, 2019

Audit Report No. 1913

WHY WE DID THIS AUDIT

This audit was included on the Council-approved FY 2018/19 Audit Plan to evaluate the cost-effectiveness of the City's benefits administration, including contract administration responsibilities. The audit focused on administration of the City's most significant benefit contracts.

BACKGROUND

The Human Resources department is responsible for benefits administration among other programs and services. Benefits are provided to more than 2,500 FTE employees and include medical plans, dental plans, a vision plan, health spending accounts (HSA), flexible spending accounts (FSA), life insurance, disability insurance and deferred compensation, among others.

The Human Resources Manager for Benefits serves as Contract Administrator for most of the City's benefit agreements. Currently, the City contracts with Hays Companies as its medical benefits consultant and Innovest as its deferred compensation consultant.

Additionally, the City has agreements with:

- ASIFlex for FSAs and HSAs
- Cigna for third-party administration, short-term disability and life insurance
- Nationwide for deferred compensation administration
- Symetra for stop-loss insurance
- VSP for vision insurance

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WHAT WE FOUND

Procurement practices for benefit-related agreements can be improved.

- Use of benefit consultants to conduct the City's procurements is not specified in City Procurement Code and lacked transparency and documentation.
- The medical benefits consultant agreements did not specify that the consultant would conduct procurements.
- Some contract awards and extensions have not followed City Procurement Code or contract requirements.
- Some contract terms in the benefit consultant agreements are vague.

Protection of Personally Identifiable Information and Protected Health Information is not fully addressed in some benefit-related agreements.

- Three benefit-related agreements did not fully address requirements for protecting employee PII and/or PHI confidentiality.

Contract administration of third-party benefit agreements can be improved.

- The Benefits staff has not effectively monitored use of available Wellness/Health Improvement funds.
- The Contract Administrator does not maintain complete, organized contract administration files.
- One Human Resource department staff's access to Benefits shared network files was not based on the least privilege principle.

WHAT WE RECOMMEND

We recommend that Human Resources management should:

- Re-evaluate the use of consultants to conduct City procurements and involve the Purchasing department to ensure future procurements comply with City Procurement Code.
- Ensure future benefit-related agreements include clearly defined contract services and deliverables and language to reasonably ensure employee PII is adequately safeguarded.
- Maximize use of available funds to provide employee wellness each year and work with the City Treasurer's office to submit claims and properly direct the resulting reimbursements.
- Ensure contract files are organized, complete and easily accessible and network folders with PHI and PII are limited to staff with a business need.

MANAGEMENT RESPONSE

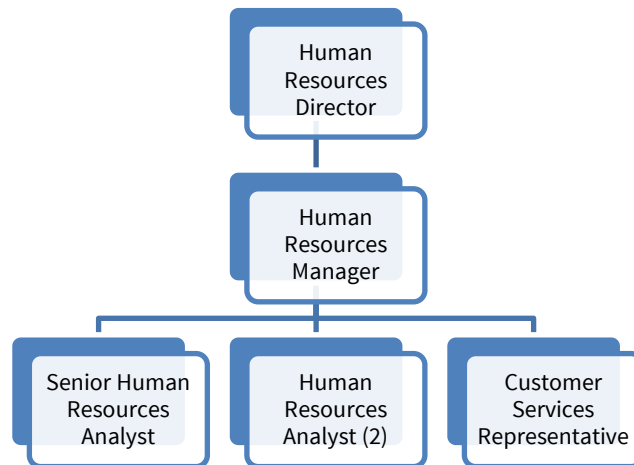
The Human Resources department agreed with the audit recommendations.

BACKGROUND

The City of Scottsdale Human Resources department provides programs and services including recruitment and selection, benefits administration, employee relations consultation and investigations, policy development, employee performance management system administration, classification and compensation, training and development, and a wellness program.

Benefits are provided to more than 2,500 full-time equivalent (FTE) employees and include medical plans, health savings accounts (HSA), flexible spending accounts (FSA), dental plans, a vision plan, life insurance, disability insurance, and deferred compensation as well as tuition reimbursement, holidays, vacation and medical leave, among others. The Benefits team is under the direction of the Human Resources Director and includes a Human Resources Manager, a Senior Human Resources Analyst and two Human Resources Analysts. A Customer Services Representative also reports to the Human Resources Manager for Benefits.

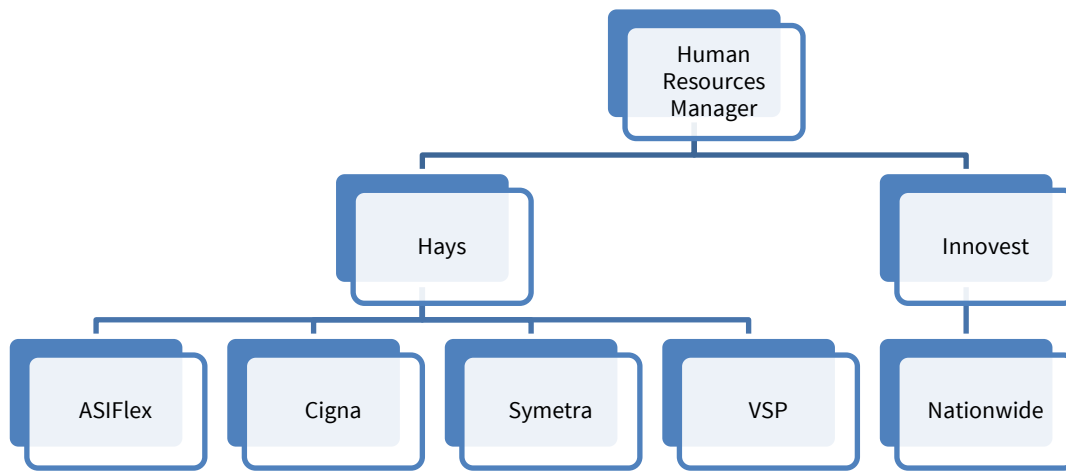
Figure 1. Human Resources Department - Benefits Section



SOURCE: Auditor analysis of department organizational structure.

The Human Resources Manager for Benefits serves as the Contract Administrator for most of the City's benefit agreements, including the most significant ones as shown in Figure 2 on page 4.

Figure 2. Select Benefit Contracts, FY 2018/19



Note: These are the City's largest benefit contracts.

SOURCE: Auditor analysis of benefit agreements.

Medical-Related Benefits

The Hays Group, Inc., dba Hays Companies (Hays), is the City's medical-related benefits consultant. The current Hays agreement started in November 2015 and includes the following select terms related to services to be provided:

- Track medical and dental claims experience using vendor claims reports and City data.
- Provide monthly reporting which includes an analysis of claims, administrative costs and funding estimates.
- Provide rates for each of the three medical plans and the PPO dental plan.
- Analysis of renewal findings and recommendations for any plan design changes together with the cost analysis of possible impact on the plan.
- Meet with necessary City staff to review projections and recommendations.
- Wellness and Disease Management program development.

As shown in Figure 3 on page 5, current medical-related benefit contracts include:

- Cigna Health and Life Insurance Company (Cigna), as the third-party administrator for the City's four self-funded medical plans, each of which includes prescription benefits coverage, and two dental plans. Cigna is also the provider for the City's employee assistance program (EAP), short-term disability insurance, and both City-paid and voluntary life insurance.
- Symetra Life Insurance (Symetra) provides the City's medical and prescription stop-loss insurance coverage at a \$325,000 deductible level.
- Application Software, Inc., dba ASIFlex, administers the employee Flexible Spending Account (FSA) benefit plan including Health Care and Dependent Care flexible spending accounts. In

addition, ASIFlex facilitates the employee Health Savings Accounts (HSA) plan in conjunction with Central Bank.

- Vision Service Plan Insurance Company (VSP) is an optional benefit available to employees for vision care coverage. Employees pay for 100% of the monthly contribution.

Figure 3. Medical-Related Benefit Agreements Procured by Hays Companies

Cigna	Symetra	ASIFlex	VSP
<ul style="list-style-type: none"> • Administer medical, pharmacy, dental, EAP and behavioral health benefits • Provide short-term disability insurance • Provide City-paid and optional employee-paid life insurance 	<ul style="list-style-type: none"> • Provide stop-loss insurance for individual medical claims above the \$325,000 deductible level 	<ul style="list-style-type: none"> • Administer optional employee-paid: <ul style="list-style-type: none"> • Health Care FSAs • Dependent Care FSAs • Health Savings Accounts (available with high deductible plan) 	<ul style="list-style-type: none"> • Provide optional employee-paid vision plan

SOURCE: Auditor analysis of benefit agreements.

Deferred Compensation (457(b) Plan) Benefits

Similarly, the Human Resources department contracted with Innovest Portfolio Solutions, Inc. (Innovest), a third-party investment consultant, to assist with procurement of the City’s deferred compensation plan and with fiduciary duties. This FY 2016/17 procurement resulted in the Nationwide Retirement Solutions, Inc. (Nationwide) contract.

This audit did not review the contract with the previous provider, ICMA-RC.

Figure 4. Deferred Compensation (457(b) Plan) Agreements

Innovest	Nationwide
<ul style="list-style-type: none"> • Design a statement of work, collect responses, narrow candidates to top five, summarize and analyze responses, present findings and recommendations, review and negotiate contract • Assist the City to comply with fiduciary duties in the areas of investments, vendor management and cost control 	<ul style="list-style-type: none"> • Provide non-discretionary recordkeeping and administrative services for the City's 457(b) plan, including plan document, participant enrollment, communication and education, participant contribution, account and distribution services

SOURCE: Auditor analysis of benefit agreements.

Benefit Contract Expenditures

The City's agreements with the third-party administrators, insurance companies and consultants generally require the City to pay a fee for the administration or consulting service or the insurance provided. Table 1 shows the City's expenditures for the past four fiscal years and excludes claim payments along with any employee contribution or payment amounts.

Table 1. City Expenditures for Select Benefit-Related Contracts

	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
ASIFlex (third-party administration)	\$25,700	\$14,400	\$15,700	\$20,100
Cigna (third-party administration) ¹	\$361,300	\$445,500	\$437,600	\$428,200
Hays (consultant)	\$45,000	\$52,800	\$52,000	\$52,000
Innovest (consultant) ²	n/a	n/a	\$0	\$0
Nationwide (third-party administration) ³	n/a	n/a	n/a	\$0
Symetra (insurance provider)	\$695,700	\$553,000	\$573,200	\$591,300
VSP (insurance provider) ⁴	\$0	\$0	\$0	\$0
Total	\$1,127,700	\$1,065,700	\$1,078,500	\$1,091,600

¹ In FY 2014/15, a \$75,000 credit toward Cigna's third-party administration fees reduced these costs.

² Innovest fees are part of the plan's administrative costs paid by plan participants.

³ Nationwide fees are as part of the plan's costs paid by the 457(b) plan participants.

⁴ Employee-paid, optional vision plan.

SOURCE: Auditor analysis of accounting information in Reports Manager.

Benefit Claims Processing

In FY 2016/17 the City Auditor's office contracted with a specialist, Wolcott & Associates, Inc., to test medical and prescription benefit claims processing as detailed in Audit Report No. 1707 *Benefit Claims Processing*. Wolcott concluded that third-party administrator, Cigna, processed medical claims with a high degree of accuracy when compared with industry standards. However, Wolcott determined that prescription claim processing was not as accurate as industry standards, and the City's Summary Plan Description documents could be clarified.

Data Privacy and Confidentiality

The employee benefit programs involve particularly sensitive personal information. Certain requirements and guidelines have been established to help assure privacy and confidentiality.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) was enacted by Congress to protect health insurance coverage for workers and their families when jobs are lost or change, protect the privacy of medical information and encourage use of electronic data interchange in the health care system. Organizations subject to HIPAA ("covered entities") include health care providers, health care

clearinghouses and health plans. The City, which provides self-insured health related benefits to its employees and certain retirees, is considered a covered entity because of its health plan.

HIPAA's Privacy and Security Rules define the circumstances under which protected health information (PHI) may be disclosed by covered entities. PHI encompasses all individually identifiable health information held by or transmitted by the City's health plan. The Privacy Rule limits who can access or receive PHI, while the Security Rule identifies standards and safeguards necessary to secure the information in an electric format. The rules restrict PHI access to the minimum necessary and impose stringent requirements such as: privacy notifications for PHI use and disclosure, HIPAA training for staff and establishment of specific administrative, physical and technical safeguards to ensure the confidentiality and integrity of PHI.

In addition, the National Institute of Standards and Technology (NIST) provides guidelines for safeguarding all personally-identifiable information. The NIST's *Guide to Protecting the Confidentiality of Personally Identifiable Information (PII)* defines PII as:

“any information about an individual maintained by an agency, including:

- 1) any information that can be used to distinguish or trace an individual's identity, such as name, social security number, date and place of birth, mother's maiden name, or biometric records; and
- 2) any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information.”

Some PII is more sensitive and requires stricter handling guidelines as it could substantially harm an individual if lost, compromised or disclosed without authorization.

OBJECTIVES, SCOPE, AND METHODOLOGY

An audit of *Benefits Administration* was included on the City Council-approved fiscal year 2018/19 Audit Plan. The audit objective was to evaluate the cost-effectiveness of the City's benefits administration, including contract administration responsibilities.

To prepare for this audit, we reviewed related audit reports previously issued by this office including Audit No. 1707 *Benefit Claims Processing* and Audit No. 1010 *Compliance with Medical Privacy Requirements of the Federal Health Insurance Portability and Accountability Act (HIPAA)*, as well as related audit reports recently issued by other auditors. We also reviewed Administrative Regulation 215 *Contract Administration* to gain an understanding of authoritative policies.

To gain an understanding of the administration of the City's benefits program, we reviewed benefit plan descriptions, select benefit agreements and benefits-related expenditures.

To gain an understanding of benefit-related contract administration, we interviewed the Human Resources Manager and two Human Resources Analysts assigned to the Benefits group. In addition, we interviewed key personnel in the Purchasing, Accounting and Risk Management areas.

To evaluate the cost-effectiveness of the City's benefits administration, we:

- Compared City job descriptions and select benefit agreements to evaluate whether overlap of responsibilities existed.
- Reviewed the City's use of the Cigna Wellness/Health Improvement funds.
- Surveyed Valley jurisdictions' use of third-parties for employee benefit program consulting and services.

To assess contract administration of the City's benefits agreements, we:

- Reviewed the contract administration file to evaluate whether they were complete and organized, including a copy of the signed agreements, a copy of any required bonds and/or insurance certificates, and documentation pertaining to payment requests, issue resolution and other relevant correspondence.
- Reviewed available documentation to determine compliance with key administrative contract provisions.

We also reviewed data access controls for the Benefit group's network shared files and sensitive data, including contractual controls for personally identifiable information (PII) and protected health information (PHI) transmitted to third-parties.

Our audit found that procurement practices for benefit-related agreements can be improved. Also, PII and PHI protection is not fully addressed in some benefit-related agreements, and contract administration can be improved.

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. Audit work took place from June to December 2018.

FINDINGS AND ANALYSIS

1. Procurement practices for benefit-related agreements can be improved.

Current procurement practices for benefit-related agreements are not included in City Procurement Code and lack transparency, oversight and documentation. Further, agreements with the medical-related benefit consultant do not require outsourced procurement and other local jurisdictions do not contract out procurement of benefit-related agreements.

- A. The Human Resources Benefits group used two benefit consultants to conduct the City's benefit provider procurements. The medical-related benefits consultant procured the medical, dental and pharmaceutical plan provider, the stop-loss insurance provider, and the flex spending account provider. A second consultant procured the employee deferred compensation (457(b)) plan provider.

This procurement method is not specified in the City's Procurement Code. Further, one consultant's contract also did not specify this responsibility, and neither contract required a transparent public process.

1. The Procurement Code does not provide for private companies to perform City procurements. Further, the Purchasing Director has little, if any, involvement in procurement of benefits contracts. In contrast, when the City uses contracts procured by other governmental agencies, the Procurement Code requires assurance that "... such purchases conform to the purpose and spirit of this Code." To comply, the Purchasing Director confirms that he has determined that the solicitation conducted and awarded by the other governmental agency conforms to the City Procurement Code requirements. However, this type of due diligence was not conducted for benefits agreements procured by the two private benefit consultants.

The Purchasing Code makes the Purchasing Director responsible for:

- Procuring all materials, services and construction required by any department in accordance with the City's Procurement Code.
- Obtaining as full and open competition as possible on all purchases.

Procurements of over \$25,000 are generally required to be made in accordance with the City's Procurement Code's formal procedures. In formal procurements, the City issues an invitation for bid (sealed bids) or a request for proposal (RFP) when competitive sealed bidding is determined not to be practicable or advantageous to the City. The City's RFP process includes:

- Adequate public notice of the solicitation
- Public opening of proposals
- Proposal evaluations
- Award of contract

The Procurement Code establishes informal procedures for purchases of \$25,000 or less, which are to be as competitive as is practicable under the circumstances.

Two benefit provider agreements exceeded \$25,000 in costs and would have been formal procurements under the City's Procurement Code. The other agreements cost less than \$25,000 and would have been considered informal procurements.

2. Using a third-party consultant to conduct procurements lacks both transparency and documentation.
 - The City's Procurement Code provides for a formal process with public notice, publicly opened bids and proposals, and public notice of contract award. However, by using a third-party to conduct the City's procurement, this transparent public process does not occur.
 - Further, the City's Human Resources and Purchasing departments do not maintain records related to the agreements that are procured by the benefit consultants. At times, vendor selection may be based on qualitative factors rather than lowest price. However, justification for the selection cannot be verified when solicitation and proposal evaluation documentation is not retained. City staff is unable to reference these records as needed, and the public is unable to obtain the records through a public records request.

The Arizona State Library, Archives and Public Records sets public record retention periods. Contract and lease records, including recap sheets, scores, awards, bonds, certificates of insurance, W-9 forms, and other related records are required to be retained for six years after the fiscal year the contract is fulfilled, canceled or revoked.

3. The medical-related benefits consultant agreements with Hays did not require the consultant to perform the City's medical-related provider procurements.

Specifically, the initial Hays agreement, in force December 7, 2010 through November 25, 2015, included the following term:

"If the City deems it necessary to submit any portion of the employee benefits program to a competitive proposal process, the consultant **may assist the City to draft RFPs** that provide complete information for Offerors that result in responses that are meaningful to the City. The Consultant **may also be asked to participate in the analysis of proposals and vendor selection.**" (emphasis added)

Similarly, the current Hays agreement, effective since November 26, 2015, states in part:

"The City has eight more years left in the current medical and dental contract. If the City deems it necessary to submit any portion of the employee benefits program to a competitive proposal process, the consultant **shall, if requested by the City, assist the City to prepare the Request for Proposals and vendor selection.** The City **may also request the consultant to assist in other Request for Proposals for other vendors** as necessary." (emphasis added)

As well as not being provided in Procurement Code, terms and condition of the specific consultant contract do not require the company to perform the City's procurement responsibilities.

Based on our recent inquiries, most other local jurisdictions do not contract out procurement of their benefit contracts. Generally, as summarized in Figure 5 on page 14, they use consultants to assist in RFP development and proposal evaluation. These

responsibilities are in line with the terms of Scottsdale’s consultant contract. Two other jurisdictions have recently begun using their consultants to procure their provider contracts.

4. The two deferred compensation consultant contracts were unique procurements, therefore, the “atypical” procurement method was used. However, for the second contract, some requirements for the atypical procurement were not documented.

The second agreement was unique because the City defined the service requirements, but the deferred compensation plan provider would be paying the consultant contract as a plan cost.¹

The Procurement Code requires that atypical procurements have authorization from the Purchasing Director, a determination that the price is fair and reasonable and in the best interest of the City, and quotes in writing. However, the Purchasing department does not have any records related to this procurement.

The Purchasing Director noted that the purchase requisition is what normally starts the procurement process for atypical procurements. However, in this situation, the City is not paying the contract; therefore, there was no purchase requisition or purchase order. As a result, there was no written Purchasing Director authorization, determination that the price is fair and reasonable and in the best interest of the City, or quote documentation.

(continued on next page)

¹ In effect, plan participants then pay for the fiduciary services contract as part of plan costs that reduce investment returns.

Figure 5. Valley Area Medical-Related Benefit Consultants and Third-Party Claim Administrators

City of Scottsdale	<ul style="list-style-type: none">• Cigna Health and Life Insurance Company• Hays Companies solicits proposals and recommends the City's benefits contractors
City of Chandler	<ul style="list-style-type: none">• Blue Cross Blue Shield of Arizona• The Segal Company assists the City with its procurement
Town of Gilbert	<ul style="list-style-type: none">• Aetna• Willis Towers Watson solicits proposals and recommends the Town's benefits contractors
City of Glendale	<ul style="list-style-type: none">• Blue Cross Blue Shield of Arizona• Hays Companies assists the City with its procurement
Maricopa County	<ul style="list-style-type: none">• United HealthCare Services & Cigna Healthcare of Arizona• Mercer Health & Benefits LLC assists the County with its procurement
City of Mesa	<ul style="list-style-type: none">• Cigna Health and Life Insurance Company• Buck Consulting assists the City with its procurement
City of Peoria	<ul style="list-style-type: none">• Blue Cross Blue Shield of Arizona• Hays Companies assists the City with its procurement
City of Phoenix	<ul style="list-style-type: none">• Blue Cross Blue Shield of Arizona & Cigna Health and Life Insurance Company• Mercer Health & Benefits LLC solicits proposals and recommends the City's benefits contractors
City of Tempe	<ul style="list-style-type: none">• Allegiance Benefit Plan Management• Hays Companies assists the City with its procurement

SOURCE: Auditor interviews of other jurisdictions' purchasing and human resources staff.

B. Without the Purchasing department’s typical oversight, some benefit contracts have not followed the City’s Procurement Code or the contract requirements.

1. Some benefit contracts were not formally awarded in accordance with Procurement Code.

City Procurement Code Sec. 2-201 *Award of contract* provides that the City Council shall award all contracts for construction and professional services exceeding the formal procurement limit, and that all other contracts exceeding the formal procurement limit shall be awarded by the Purchasing Director. Contracts that are administratively awarded are publicly posted on the City’s website; those submitted for Council approval are publicly posted on Council meeting agendas.

However, three benefit agreements were not submitted for Council approval and also did not follow the public notification process for being administratively awarded.

- The City’s current stop-loss insurance agreement with Symetra, procured by the medical-related benefits consultant, was not submitted for Council approval. Although the contract was signed by the HR Manager, the Purchasing Director, the Risk Management Director and the City Attorney’s Office, this award was not included on the administrative bid report that is posted publicly on the City’s website.

During FY 2017/18, the City paid Symetra \$591,300, much greater than the \$25,000 formal procurement limit.

- As summarized in Table 2, two other benefits agreements, ASIFlex and Innovest, were not submitted for Council approval nor publicly awarded.

In contrast, as also shown in Table 2, the Hays agreement was administratively awarded and the Cigna, Nationwide and VSP agreements were Council-approved.

Table 2. Benefit Agreements Award Method

Benefit Agreement	Award Method	FY 2017/18 Expenses
ASIFlex	Not publicly awarded	\$20,100
Cigna	Council-approved	\$428,200
Hays	Administratively awarded	\$52,000
Innovest	Not publicly awarded	\$0
Nationwide	Council-approved	\$0
Symetra	Not publicly awarded	\$591,300
VSP	Council-approved	\$0

Note: Nationwide and Innovest fees are paid by the 457(b) plan participants. VSP provides an optional employee-paid vision plan.

SOURCE: Auditor analysis of procurement records and accounting records related to select benefit agreements.

2. Some benefit contract extensions were not timely renewed and fully documented to show compliance with contract terms.

The initial Cigna, Hays and Symetra agreements provided additional one-year extensions upon the recommendation of the Contract Administrator and concurrence of the Purchasing Director. As well, the Symetra agreement allowed annual pricing adjustments after the Contract Administrator’s analysis and Purchasing Director approval. As summarized in Table 3, the analysis and reasoning for these requirements were not documented although the contract extensions were signed in most instances.

For example, the stop-loss insurance premium rate increase averaged about 5% for both family and individual for FYs 2016/17 and 2017/18. However, Contract Administrator analysis and Purchasing Director approval were not documented. Further, the family rate increased by almost 17% for FY 2018/19, again without documented analysis and approval. Family accounts for about 65% and individual for 35% of enrollment.

Further, as summarized in Table 3, only 3 of 9 contract extensions were timely renewed.

Table 3. Benefit-Related Agreement Extensions

Vendor	Timely Renewed Extensions?	Documentation of:		
		Contract Administrator Approval?	Purchasing Director Concurrence?	Pricing Adjustment Analysis & Approval?
Cigna	1 out of 3	No	No	n/a
Hays	2 out of 3	No	No	n/a
Symetra	0 out of 3	No	No	No

n/a – not applicable to this contract.

SOURCE: Auditor analysis of select benefit agreements, Contract Administrator records and Purchasing department records.

- C. Some aspects of the Hays and Innovest agreements contained vague contract terms. Without clear terms agreed-to between the parties on the scope and timing of service deliverables, both pricing and successful service delivery may be adversely affected.

1. The Hays agreement contains vague contract terms, including such requirements as duties related to the City’s wellness programs, attending meetings, and availability during normal service hours.

For example, the current agreement stated, in part, that the benefits consulting firm would provide “Wellness and Disease Management program development.” However, there is not additional explanation of what this deliverable should provide, in either quantitative or qualitative terms. Further complicating the matter, the City also had a full-time Training and Wellness Instructor and the Cigna agreement provides for a designated Health and Wellness Lead to assist in development and execution of health promotion strategies.

Additionally, the agreement requires that for billing, time spent for each task is to be recorded and submitted to the Contract Administrator. However, rather than providing detail of the services rendered, Hays invoices simply note “monthly installment” as the description and bill one-twelfth of the annual fee.

2. The initial Innovest agreement was a one-page document with a list of services to be provided, such as the following, without further description of the requirements or deadlines.
 - Design a customer questionnaire statement of work
 - Collect responses from vendors and narrow candidates to top five
 - Summarize and analyze responses of up to five candidates

Further, the agreement did not contain the City’s standard terms and conditions.

Vague contract terms increase the risk that the parties understand differently the expected services, which may cause differences in agreeing when service deliverables are completed. Having contract terms that are specific, measurable and include time parameters would help ensure that resources provided by City staff and contractors are coordinated and effective.

- D. When the City engaged a deferred compensation consultant, the contract fees were to be paid from Plan funds set aside for administrative costs. In September 2016, the existing 457(b) Plan provider paid the City \$23,500 to cover the Innovest contract fee. The City recorded the \$23,500 as recovery of expense in the General Fund and then paid half of the fee (\$11,750) to the consultant.

In July 2018, the Contract Administrator forwarded the second Innovest invoice to the new 457(b) Plan provider to pay from administrative service funds it received from the former Plan provider. Therefore, \$11,750 for deferred compensation administrative costs remains in the City’s General Fund.

Recommendations:

Human Resources management should:

- A. Re-evaluate the use of consultants to conduct City procurements and involve the Purchasing department to ensure future procurements comply with City Procurement Code. Further, obtain and retain the documentation of the process and proposals for procurements conducted by consultants.
- B. Work closely with the Purchasing department to ensure that contracts are publicly awarded and extended in accordance with the City’s Procurement Code and the contract’s terms. Specifically, ensure documentation is retained of the Contract Administrator’s analysis and recommendations and the Purchasing Director’s concurrence when applicable.
- C. Ensure future benefit-related agreements include clearly defined contract services and deliverables, with specific, measurable and time-based descriptions.
- D. Transfer the \$11,750 to the current 457(b) Plan provider to be used for administrative fees.

2. **Protection of Personally Identifiable Information and Protected Health Information is not fully addressed in some benefit-related agreements.**

Three benefit-related agreements do not contain requirements for protecting employee's personally identifiable information (PII) and/or protected health information (PHI) or do not fully address confidentiality guidelines.

While the Nationwide Retirement Solutions, Inc. agreement states that "Nationwide agrees to maintain all information obtained from or related to all Plan participants as confidential", it does not specifically detail how information will be kept confidential and what would happen if a breach occurred. Further, the Innovest and ASIFlex agreements do not have any language related to safeguarding employee PII. The National Institute of Standards and Technology (NIST) *Guide to Protecting the Confidentiality of Personally Identifiable Information (PII)* states, when sharing PII with external systems or parties:

"... the organization should implement the appropriate documented agreements for roles and responsibilities, restrictions on further sharing of the information, requirements for notification to each party in the case of a breach, minimum security controls, and other relevant factors. Also, Interconnection Security Agreements (ISA) should be used for technical requirements as necessary. These agreements ensure that the partner organizations abide by rules for handling, disclosing, sharing, transmitting, retaining, and using the organization's PII."

Additionally, NIST guidance provides that understanding how disclosure could potentially harm individuals or the organization is affected by the purpose for which PII is collected, stored, used, processed, disclosed or disseminated.

Further, through the City's benefit plans, ASIFlex receives PHI from employees with a health care flexible spending account. The Health Insurance Portability and Accountability Act of 1996 (HIPAA) requires that privacy of medical information be protected. HIPAA rules restrict PHI access and include privacy notifications for PHI use and disclosure along with safeguards to ensure the confidentiality and integrity of PHI.

Participation in the City's 457(b) and flexible spending plans is optional to employees. However, Nationwide and ASIFlex are bound to work within the contractual terms set by the City. Requiring appropriate contract language specifying how third-parties will secure employee PII and PHI clarifies responsibilities and decreases the risk that employee PII and PHI will not be adequately safeguarded. For example, the City could require vendors to send breach notifications if employee data is lost or stolen, specify timeliness of breach notifications, and describe other actions to be taken when a breach occurs.

Recommendation:

Human Resources management should ensure applicable third-party agreements contain language to reasonably ensure employee PII and PHI is adequately safeguarded.

3. Contract administration of third-party benefit agreements can be improved.

Approximately \$21,700 in Wellness/Health Improvement funds were not used and better organized contract administration files would assist in monitoring third-party benefit agreements. Also, access to shared network files with sensitive information should be adequately restricted.

A. The Benefits staff has not adequately monitored use of available Wellness/Health Improvement funds.

1. The Benefits staff did not use \$21,700 that was available to provide employee health and wellness programs from FY 2014/15 to 2017/18.

Cigna's agreement with the City states that it will establish a \$150,000 Wellness/Health Improvement Fund each year for five years. The City can then use these monies to defray the cost of and reward participation in Cigna-sponsored employee health and wellness programs, such as biometric screenings and flu shots. According to the contract, Cigna must pre-approve the Wellness/Health Improvement Fund uses and unused monies cannot be rolled forward to the next year.

The Contract Administrator was unable to locate an internal accounting of the City's use of the Wellness/Health Improvement funds. Therefore, she requested and received related information from Cigna. We summarized this information in Table 4 and reviewed supporting documentation for FY 2017/18.

Table 4. Wellness/Health Improvement Fund, FY 2014/15 to FY 2017/18

Fiscal Year	Wellness/Health Improvement Fund	Reimbursed	Unused
2014/15	\$150,000	\$97,857	\$52,143*
2015/16	\$150,000	\$202,143	(\$52,143)
2016/17	\$150,000	\$128,276	\$21,724
2017/18	\$150,000	\$149,971	\$29
Total	\$600,000	\$578,247	\$21,753

* The unused amount of \$52,143 was rolled over to FY 2015/16.

Note: FY 2017/18 reimbursements were confirmed to internal supporting documentation. FYs 2014/15 to 2016/17 amounts are based on Cigna's report to the Contract Administrator.

SOURCE: Auditor analysis of available records related to the Wellness/Health Improvement Fund.

Only in two of the four years did the City fully use the available Wellness/Health Improvement funds. Although not required by its contract, Cigna allowed the City to roll \$52,000 from FY 2014/15 to FY 2015/16 for use during the subsequent fiscal year. As a result, the City did not use approximately \$21,700 from just one year, FY 2016/17.

Not monitoring use of the Wellness/Health Improvement Fund increases the risk that the available benefits are not maximized each year.

2. Benefits staff created Wellness/Health Improvement Fund invoices and received reimbursements directly from Cigna.

We requested supporting documentation for the FY 2017/18 fund's reimbursement claims.² For 11 of these 32 claims (34%), a Benefits staff member created invoices on Human Resources' letterhead, bypassing the City's Accounting department and requesting the reimbursements be sent directly back to him. (See Figure 6 on page 21 for an example invoice.) These 11 invoices, ranging from \$513 to \$28,920, totaled \$47,953. For the other 21 claims, Benefits staff sent Cigna copies of invoices from third-party vendors for wellness-related services, such as yoga classes and cooking demonstrations.

Administrative Regulation (AR) 269 *Miscellaneous Accounts Receivable* states:

“All payments will be directed to and processed by the City's Remittance Processing office. Payments should not be mailed to the attention of City staff or other City departments, nor should City staff create or issue invoices for City receivables without the express permission from the City Treasurer's office.”

Creating invoices and receiving payments outside of the City's established processes increases the risk of error and loss or misappropriation.

(continued on next page)

² Contract-related documents, such as reimbursement documents, are not maintained in a central file. Therefore, we only requested one year (FY 2017/18) to verify amounts requested for reimbursement from Cigna.

Figure 6. Example Wellness Program Invoice



Human Resources
 9191 E. San Salvador Drive
 Scottsdale, AZ 85258

PHONE 480-312-2491
 FAX 480-312-9096
 WEB www.ScottsdaleAZ.Gov

**Wellness Program
 INVOICE**

Payee: City of Scottsdale-Human Resources
 Address: 9191 E. San Salvador Dr.
 Scottsdale, AZ 85258
 Phone, (480) 312- [REDACTED] @scottsdaleaz.gov

Bill To: Cigna ATTN: [REDACTED] [REDACTED] Phoenix, AZ 85054	Contacts: [REDACTED] Contact Phone: 480-312- [REDACTED]
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PROGRAM NAME	DESCRIPTION	Quantity	Amount	TOTAL AMOUNT
Wellness Fund/Incentive reimbursement	Health Risk Assessment Incentive – 10/6/2017	241	\$120	\$28,920
				Total=\$28,920

Signature: _____
 Date: 6/7/18

SOURCE: Invoice copy from HR Manager’s files.

- B. The Contract Administrator does not maintain complete, organized contract administration files.

AR 215 *Contract Administration* requires the Contract Administrator to “maintain the signed contract, any required bonds and insurance certificates, all documents pertaining to requests for payments and, in the case of revenue contracts, evidence of receipt of payments, and other applicable documents pertaining to contract related activity.” Further, the AR requires the Contract Administrator to keep “a record in the contract file of all correspondence, conversations and other data pertinent to the contract.”

Specifically, the Contract Administrator had difficulty producing records of all correspondence, conversations and other data pertinent to the contract. Further, the Contract Administrator did not maintain a copy of the benefits-related contractors’ insurance, which is required by most of the agreements.

Throughout the audit, the Contract Administrator was able to locate and provide copies of other documents and correspondence on an ad hoc basis covering a range of issues as requested.

The Contract Administrator's ability to monitor contract terms and conditions and facilitate the agreements can be affected by file organization and maintenance. Better organization would also facilitate delegating some Contract Administrator duties and allowing others to fulfill required duties in the Contract Administrator's absence.

- C. One Human Resource department staff's access to the Benefits shared network files was not based on the least privilege principle.

As of October 2018, eight individuals in the Human Resources department had access to the Human Resources/Benefits shared network folder. However, one of the individuals, who works in the Staffing Services area, did not appear to have a day-to-day business need to access protected health information and personally identifiable information. Human Resources has since removed this staff member's access.

Not limiting access to only those individuals with a valid business purpose increases the risk of inappropriate exposure of employees' PHI and PII.

Recommendations:

Human Resources management should:

- A. Ensure staff monitor use of the available Wellness/Health Improvement Fund to maximize employee wellness programs provided each year. In addition, work with the City Treasurer's office to submit the claims and properly direct the resulting reimbursements.
- B. Ensure the Contract Administrator maintains organized, complete and easily accessible contract files, including correspondence, conversation notes, issue resolution and other data pertinent to the contract.
- C. Ensure access to network folders containing PHI and PII is limited to only those staff with a business need to access the information for their day-to-day job duties.

MANAGEMENT ACTION PLAN

1. Procurement practices for benefit-related agreements can be improved.

Recommendations:

Human Resources management should:

- A. Re-evaluate the use of consultants to conduct City procurements and involve the Purchasing department to ensure future procurements comply with City Procurement Code. Further, obtain and retain the documentation of the process and proposals for procurements conducted by consultants.
- B. Work closely with the Purchasing department to ensure that contracts are publicly awarded and extended in accordance with the City's Procurement Code and the contract's terms. Specifically, ensure documentation is retained of the Contract Administrator's analysis and recommendations and the Purchasing Director's concurrence when applicable.
- C. Ensure future benefit-related agreements include clearly defined contract services and deliverables, with specific, measurable and time-based descriptions.
- D. Transfer the \$11,750 to the current 457(b) Plan provider to be used for administrative fees.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

Human Resources utilizes the expertise of benefits consultants, because of their in-depth knowledge of group insurance and employee benefit options to ensure fair and reasonable pricing for City employees.

There was an incorrect assumption that formal extensions were not needed, since our medical carrier rates receive City Council approval annually. Although it was mentioned in the Audit Findings that "...the Procurement Director has little, if any, involvement in the procurement of benefits contracts", historically the Purchasing Director was made aware of the procurement practices of the benefits consultants and has signed all of the contracts. Moving forward, the Contract Administrator will:

- work closely with the Purchasing Department to ensure the City's procurement rules are followed;
- ensure required documentation for all solicitations are properly maintained internally and provided to the Purchasing Department, for records retention and public records requests;
- obtain and retain required extension letters;
- maintain documentation of the communication with the Purchasing Director, as required;
- ensure service deliverables in the benefit consultant contracted services are clearly defined with specific, measurable and time-based descriptions; and
- with the aid of Accounting, complete the transfer of \$11,750 received from ICMA-RC to Nationwide to be used for administrative fees, which will be accomplished by January 31, 2019.

RESPONSIBLE PARTY: Lauran Beebe, HR Manager and Contract Administrator

COMPLETED BY: 01/01/2019

2. Protection of Personally Identifiable Information (PII) and Protected Health Information (PHI) is not fully addressed in some benefit-related agreements.

Recommendation:

Human Resources management should ensure applicable third-party agreements contain language to reasonably ensure employee PII and PHI is adequately safeguarded.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

The City's Information Technology (I.T.) Department reviewed Nationwide's responses to the "Software as a Service (SaaS) Solicitation Questions" prior to integration. This included how Nationwide protects the City's data along with how Nationwide would handle a cyberattack. We will ensure future contract language and agreements contain security protocols related to PII (and PHI) requirements and standards.

Innovest's contract ends in June 2019, and we are currently going through the formal solicitation process with Purchasing for a deferred compensation investment consultant. We will ensure the awarded contract contains the standard (and approved) procurement language.

RESPONSIBLE PARTY: Lauran Beebe, HR Manager and Contract Administrator

COMPLETED BY: 01/01/2019

3. Contract administration of third-party benefit agreements can be improved.

Recommendations:

Human Resources management should:

- A. Ensure staff monitor use of the available Wellness/Health Improvement Fund to maximize employee wellness programs provided each year. In addition, work with the City Treasurer's office to submit the claims and properly direct the resulting reimbursements.
- B. Ensure the Contract Administrator maintains organized, complete and easily accessible contract files, including correspondence, conversation notes, issue resolution and other data pertinent to the contract.
- C. Ensure access to network folders containing PHI and PII is limited to only those staff with a business need to access the information for their day-to-day job duties.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

- In the process of transitioning wellness coordinator responsibilities to the new HR Analyst/Wellness Coordinator, wellness billing records were not easily accessible. During this audit process, requested invoices were accounted for. Recently, an HR standard operating procedure was created and instituted to document the *Wellness Incentives and Billing* process to ensure future compliance.

- The Wellness and benefits-related contract files have been updated, are easily accessible, and secure. A matrix (Renewals and Contracts spreadsheet) was developed for each of the benefits contracts to clearly define the deliverables and will be completed by January 31, 2019.
- The one non-HR/Benefits employee that had access to the Benefits electronic folder (V drive), had a business need to review medical files for the Public Safety Personnel Retirement System (PSPRS) local board meeting, since she is the Board Secretary and a member of the HR Team. But, due to the recommendations in this audit, her access was removed, and a separate PSPRS file will be made available to her.

RESPONSIBLE PARTY: Lauran Beebe, HR Manager and Contract Administrator

COMPLETED BY: 01/31/2019

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