

Office of Inspector General

City of New Orleans

Follow-up Report: Evaluation of City Employee Life Insurance

**E. R. Quatrevaux
Inspector General**

Final Report

April 9, 2014

OFFICE OF INSPECTOR GENERAL
CITY OF NEW ORLEANS



ED QUATREVAUX
INSPECTOR GENERAL

April 9, 2014

Re: **Follow-up Report: Evaluation of City Employee Life Insurance**

I certify that the inspector general personnel assigned to this project are free of personal or other external impairments to independence.

A handwritten signature in blue ink, appearing to read "E.R. Quatrevaux".

E.R. Quatrevaux
Inspector General

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Executive Summary.....	iv
I. Objectives, Scope, and Methodology.....	1
II. Introduction.....	2
III. Follow-up on Recommendations.....	3
Follow-up 1. This finding was partially resolved. The City shifted management responsibility of the group life/AD&D policy to the CAO's Employee Benefits Administration Division. The City refined the personnel report used to calculate life insurance premiums; however, additional adjustments are required.....	3
Follow-up 2. This finding was resolved. The City issued a Request for Proposals (RFP) in April 2012 and selected a new group life/AD&D insurance provider that resulted in savings of approximately \$8,000 per year.....	6
Follow-up 3. This finding was not resolved. The City continued to use the Request for Payment Voucher (RPV) method for generating premium payments to group life/AD&D insurance providers.	7
Follow-up 4. This finding was resolved. The City issued a policy memorandum to reaffirm the responsibility of all personnel to preserve and safeguard public records.....	8
Follow-up 5. This finding was resolved. The City provided employees with information about coverage and claims procedures under the group life/AD&D policy.....	8
Follow-up 6. This finding was resolved. The City developed a procedure to identify deceased employees and sent claims information to designated beneficiaries	9

List of Figures

Figure 1. Hartford and Unum Rate Comparison..... 7

EXECUTIVE SUMMARY

The Office of Inspector General (OIG) conducted a follow-up to its Evaluation of City Employee Life Insurance. Issued in February 2012, the original report found that the City:

- Paid life insurance premiums for ineligible retirees;
- Abandoned a competitive procurement that would have yielded cost savings;
- Destroyed public records; and
- Had inadequate procedures in place to assist beneficiaries of deceased employees with the claims process.

In light of these problems, the original report included recommendations to improve the City's administration of employee life insurance benefits. The purpose of this follow-up report was to determine if the City implemented the corrective actions to which they agreed. In addition, evaluators determined whether the deficiencies identified in the original report still existed.

Evaluators found that the City made improvements to its internal policies and procedures related to administering these benefits. Specifically, the City did not pay life insurance premiums for ineligible retirees, realized cost savings through a competitive procurement process, reminded employees of their responsibility to safeguard public records, and developed a procedure to assist beneficiaries file claims.

However, the City continued to make errors in how it calculated monthly premium payments. Evaluators found that the City:

- Paid life insurance premiums for 257 part-time employees who were ineligible for the benefit;
- Overpaid life insurance premiums for full-time employees over 70 years of age; and
- Did not pay monthly life insurance premiums for 170 full-time employees who were eligible for the benefit.

Although the magnitude of these errors was significantly smaller than the problems found in the original evaluation, additional improvements are necessary to calculate accurately the number of eligible employees for life insurance benefits.

I. OBJECTIVES, SCOPE, AND METHODOLOGY

The Office of Inspector General for the City of New Orleans (OIG) conducted a follow-up to its Evaluation of City Employee Life Insurance Benefits (February 2012). The objective of this follow-up report was to determine if the City improved its administration of the program and provided life insurance benefits only to eligible employees at the lowest possible cost.

The scope of this follow-up report included the City's group life and accidental death & disability (AD&D) coverage between March 2012 and June 2013. The Hartford (Hartford) and Unum provided insurance benefits to the City employees during this period.

Evaluators obtained documents from the CAO's Office, Bureau of Purchasing, and Office of Information Technology & Innovation (ITI) in response to requests for information issued pursuant to Sections 2-1120(18) and (20) of the Code of the City of New Orleans and state statute La. R.S. 33:9613. Specifically, evaluators obtained the following records:

- Group life/AD&D premium payment records provided by the CAO's Office (March 2012 to June 2013);
- Employee eligibility lists generated by ITI (March 2012 to June 2013);
- Records relating to the City's Request for Proposals (RFP) for group life/AD&D insurance, issued in April 2012;
- Group life/AD&D claims information submitted to Hartford and Unum (March 2012 to June 2013);
- Payroll records for part-time employees generated by ITI (March 2012 to December 2012);
- Payroll records for employees over 70 generated by ITI (March 2012 to June 2013); and
- Payroll records for deceased employees generated by ITI (January 2012 to August 2013).

This report was performed in accordance with *Principles and Standards for Offices of Inspector General for Inspections, Evaluations and Reviews*.¹

¹ "Quality Standards for Inspections, Evaluations, and Reviews by Offices of Inspector General," *Principles and Standards for Offices of Inspector General* (Association of Inspectors General, 2004).

II. INTRODUCTION

The Office of Inspector General (OIG) issued an Evaluation of City Employee Life Insurance Benefits in February 2012. The original report included the following major findings:

1. The City overpaid for life insurance by approximately \$250,000 over a four-year period, because the Risk Management Division failed to calculate accurately the number of employees eligible for the benefit.
2. The City failed to follow through with a competitive procurement, potentially missing the opportunity to pay a lower rate for group life and accidental death and disability (AD&D) benefits.
3. Personnel in the CAO's Office destroyed records of the 2010 competitive procurement process, a violation the Louisiana Public Records Act.
4. Death benefit claims were not filed for six of the 21 City employees who died between January 1, 2009 and December 31, 2010.

Evaluators made a total of six recommendations to address these and other deficiencies found during the course of the project. The purpose of this follow-up report was to determine if the City implemented the corrective actions with which they agreed in February 2012. In addition, evaluators sought to determine whether the deficiencies identified in the original report still exist.

OIG evaluators were assisted in the preparation of this report by the full cooperation of City employees and officials.

III. FOLLOW-UP ON RECOMMENDATIONS

Recommendation 1: The City should consider shifting management responsibility of the group life/AD&D policy to the CAO's Employee Benefits Division. If the Risk Management Division maintains management of the group life/AD&D policy, ITI should make additional efforts to ensure that the employee eligibility report is accurate.

Recommendation Accepted by City. "The City agrees and this change was part of the Mayor's budget submission in the fall of 2011. The change became effective January 1, 2012. As noted under Finding 1, the City will refine the personnel report for use in calculating premiums for this policy to comply with the coverage terms of the policy."

Follow-up 1: The City shifted management responsibility of the group life/AD&D policy to the CAO's Employee Benefits Administration Division. The City refined the personnel report used to calculate life insurance premiums; however, additional adjustments are required.

Our original report found that the City overpaid approximately \$250,000 over a four-year period for group life/AD&D benefits, because the Risk Management Division did not accurately calculate the number of eligible employees. The City paid premiums for retirees who were ineligible for the benefit and paid a higher than necessary premium rate for active employees over 70 years of age.

Evaluators concluded that these errors occurred largely because risk management departments do not typically manage the verification of employee eligibility and recommended that the City's Employee Benefits Administration Division ("Benefits Administrative Division") administer the benefits.

The City shifted management responsibility of the group life/AD&D policy to the Benefits Administration Division as of January 1, 2012. The City notified human resources personnel across all departments of this change via email on January 10, 2012.

The City made multiple efforts to refine the personnel reports it used to calculate life insurance premiums. It successfully removed the primary driver of overpayments found in the original report (ineligible retirees). However, evaluators found that the City continued to make errors in how it calculated monthly premium payments.

Shortly after assuming management responsibility for the group life/AD&D policy in early 2012, the Benefits Administration Division began using a monthly report of classified and unclassified employees (“Civil Service Report”) to calculate monthly premium payments. This report did not include retirees that were ineligible for the benefit. The Benefits Administration Division’s Chief Operations Manager stated that her department based their monthly premium calculations on the Civil Service Report until December 2012.

Evaluators identified the following issues with the Civil Service Report during the course of this follow-up report:

Inaccurate Invoice Calculations – Although the Chief Operations Manager stated that monthly premium calculations were based on the Civil Service Report, evaluators found that the number of employees listed on the report and the monthly invoices did not match. These errors resulted in approximately \$6,900 in overpayments between March and October 2012.²

Part-time Employees – The group life/AD&D policy did not provide coverage to employees who worked less than 30 hours per week. However, the City included part-time employees in its premium calculation when it used the Civil Service Report to calculate monthly premiums between March 2012 and December 2012.³ Evaluators used payroll data to determine that the City had an average of 257 part-time employees per month during this period who were ineligible for the benefit. The City’s inclusion of these part-time employees resulted in an overpayment of approximately \$13,870.

Employees Over 70 Years Old – According to the group life/AD&D insurance policy, employees over 70 years of age are only eligible for 50 percent of the total life insurance benefit, thus, their premium calculation should be reduced by half. However, the Benefits Administration Division did not take the necessary steps to identify employees over 70 years old and pay the lower premium amount between March 2012 and December 2012.⁴ Evaluators found that the City made approximately \$860 in overpayments during this period, because it did not make adjustments for 35

² The Chief Operations Manager stated that personnel in the Benefits Administration Division experienced difficulties downloading the Civil Service Report in November and December 2012. As a result, the number of employees from the October 2012 invoice was used to calculate premium payments in November and December 2012.

³ According to ITI, all employees listed as ‘A’ (active), ‘E’ (extended leave without pay), ‘L’ (leave without pay), or ‘W’ (workers’ compensation) are listed on the Civil Service Report. Thus, an active part-time employee would appear in the Civil Service Report.

⁴ The City paid \$5.40 per month for each of these individuals instead of the adjusted amount of \$2.70.

employees over the age of 70. The Benefits Administration Division took immediate steps to correct these errors after evaluators informed them of the problem.

Beginning in January 2013, the Benefits Administration Division began calculating the number of eligible employees for group life/AD&D benefits by using a report that tracked employee deductions per pay period (“deduction register”). The rationale behind switching to this report was that it only included active, full-time employees who received paychecks. The Benefits Administration Division used the deduction register and paid for an average of 3,955 employees per month between January 2013 and June 2013.

Weekly Payees – The Benefits Administration Division calculated monthly premiums using the deduction register that tracked deductions for employees that the City paid every-other-week.⁵ However, the City also paid a small number of its full-time employees on a weekly basis. Deductions for these weekly payees were tracked by a separate report that was not used by the Benefits Administration Division. Evaluators used payroll data from ITI to determine that the City underpaid Unum by approximately \$5,360, because it did not pay monthly life insurance premiums for an average of 170 full-time weekly payees between January 2013 and June 2013.

Employees Over 70 Years Old – The Benefits Administration Division did not account for employees over 70 years of age after switching to the deduction register to calculate monthly premium payments. Evaluators found that the City made approximately \$490 in overpayments between January 2013 and June 2013 because it did not make adjustments for 33 employees over the age of 70. The Benefits Administration Division took steps to correct these errors after evaluators informed them of the problem.

Active Employees on Leave – The deduction register, used by the Benefits Administration Division beginning in January 2013, included full-time employees who received wages on a bi-weekly basis. However, this report excluded active employees who were on temporary leave and did not receive a check through the City’s payroll system. As a result, the City did not pay group life/AD&D insurance premiums between January 2013 and June 2013 for employees who were on leave without pay, received workers’ compensation payments, or enrolled in the employee assistance program.⁶

⁵ The City pays personnel from the Police and Fire Departments on a biweekly basis. Most remaining City employees are paid on the alternate biweekly cycle.

⁶ Injured employees receive workers’ compensation wages through the City’s third party administrator.

Although the magnitude of these errors is significantly smaller than the problems found in the original evaluation, additional improvements are necessary to calculate accurately the number of eligible employees for group life/AD&D benefits.

Recommendation 2: The City should conduct a competitive procurement process to obtain a competitive rate for group life/AD&D insurance.

Recommendation Accepted by City. "The City agrees and has already begun preparations for this RFP. The RFP will be released by March 1, 2012."

Follow-up 2: The City issued a Request for Proposals (RFP) in April 2012 and selected a new group life/AD&D insurance provider that resulted in savings of approximately \$8,000 per year.

During the initial review, evaluators found that the City did not follow through with a procurement that would have reduced group life/AD&D premium costs by almost 25 percent.

The City issued an RFP soliciting bids for group life/AD&D coverage on April 25, 2012 (RFP No. 2275-01303). The RFP instructed respondents to submit rate quotations for group life/AD&D coverage based on two benefit scenarios (\$25,000 maximum benefit or annual salary up to \$50,000) for 4,602 full-time employees.

The RFP selection committee selected Unum's proposal at the \$25,000 maximum benefit level as most advantageous to the City.⁷ Unum's proposal included a rate quotation of \$0.210 per \$1,000 of group life/AD&D benefits.⁸ This rate was approximately 22 percent lower than what the City paid The Hartford until December 31, 2012.⁹ These rates are summarized in Figure 1.

⁷ The City received proposals from the following respondents: 5 Star Life Insurance Company, Cigna, Dearborn National, Humana, Minnesota Life Insurance Company, Sun Life Financial, The Hartford, The Standard, and Unum.

⁸ The rate proposals submitted by respondents for the \$25,000 benefit level ranged from \$0.180 to \$0.250.

⁹ The previous group life/AD&D policy provided by The Hartford cost \$0.270 per \$1,000 of benefits with a maximum benefit of \$20,000.

Figure 1: Hartford and Unum Rate Comparison

Provider	Employees Covered ¹⁰	Benefit Amount	Life Rate	AD&D Rate	Combined Annual Cost ¹¹
Pre-RFP (Hartford)	4602	\$20,000	\$0.240	\$0.030	\$298,210
Post-RFP (Unum)	4602	\$25,000	\$0.180	\$0.030	\$289,926
Annual Cost Savings					\$8,284

As a result of performing a competitive procurement process, the City will save approximately \$8,000 per year while providing an additional \$5,000 in group life/AD&D insurance coverage for each of its full-time employees.

Recommendation 3: The City should ensure that vendor payments are made and approved through the City's electronic purchasing system (BuySpeed).

Recommendation Rejected by City. "Agency funds do not require an additional budget in the City's Great Plains/BuySpeed systems and thus payments are processed using the Request for Payment Voucher (RPV) method."

Follow-up 3: The City continued to use the Request for Payment Voucher (RPV) method for generating premium payments to group life/AD&D insurance providers.

This topic was the subject of a subsequent OIG report that was issued in October 2012.

Recommendation 4: The City should ensure that all employees understand their responsibility to preserve and safeguard public records.

Recommendation Accepted by City. "The City strongly agrees, and will provide additional training to employees regarding the preservation of the public record in accordance with State statutes."

¹⁰ The City instructed respondents to submit rate proposals for 4,602 eligible employees.

¹¹ Monthly premium costs are calculated using this formula: ((lives covered x benefit amount)/1000 x rate).

Follow-up 4: The City issued a policy memorandum to reaffirm the responsibility of all personnel to preserve and safeguard public records.

During the initial review, evaluators found that City personnel destroyed records related to the January 2010 RFP that would have reduced premium rates by almost 25 percent. This action constituted a violation of CAO Policy Memorandum No. 92 and the Louisiana Public Records Law.¹²

The City issued CAO Policy Memorandum No. 127 on June 26, 2013, approximately sixteen months after the original report was issued. The purpose and intent of the policy memo was to reaffirm that each department, board, agency, and commission of the City is responsible for the preservation and maintenance of its public records.

Recommendation 5: The City should provide employees with information about coverage and claims procedures under the group life/AD&D policy.

Recommendation Accepted by City. "The City agrees and will include information on this important benefit in an update to the employee handbook that is already in development."

Follow-up 5: The City provided employees with information about coverage and claims procedures under the group life/AD&D policy.

During the initial review, evaluators found that the City did not provide employees and their beneficiaries with sufficient information about the group life/AD&D policy and claims process. The lack of adequate information increased the risk that employees and their beneficiaries might not receive the benefits to which they are entitled under the terms of the policy.

Although the City did not issue an employee handbook as stated in their response, they sent multiple emails to City departments to inform employees about the policy.¹³ Specifically, these emails included the following information:

- Amount of coverage provided by the group life/AD&D insurance policy;
- Eligibility information such as effective date of coverage and eligible employees; and
- Instructions how to update beneficiary designation forms.

¹² La. R.S. 44:1 *et seq.*

¹³ The emails were sent on March 1, 2012, March 19, 2012, and December 10, 2012.

In addition, the Benefits Administration Division provided employees with a certificate of coverage that outlines the group life/AD&D coverage provided by Unum (effective January 1, 2013). This information was disseminated to human resource managers on January 28, 2013. The Benefits Administration Division sent additional emails with the policy information and claim forms on February 6, 2013 and June 18, 2013.

Recommendation 6: In the event of a City employee's death, the City should send benefit and claims information to the designated beneficiaries.

Recommendation Accepted by City. "The City agrees, and the CAO's Office will develop a communication protocol for City departments and agencies to use."

Follow-up 6: The City developed a procedure to identify deceased employees and sent claims information to designated beneficiaries.

During the initial review, evaluators found that death benefit claims were not filed for six of the twenty-one City employees who died between January 1, 2009 and December 31, 2010. The City's failure to communicate with employees and their beneficiaries about their right to benefits undermined its intention to provide employees with the benefit.

After the report was issued, the Benefits Administration Division began using weekly termination reports from the City's payroll system to identify deceased employees. The Benefits Administration Division then sent notification letters to designated beneficiaries with instructions for initiating the claims process.

Evaluators used payroll data that identified all deceased employees between March 1, 2012 and March 30, 2013 to determine if death benefit claims were filed for all eligible beneficiaries.¹⁴ The reports identified a total of seven full-time employees who died during this period. The Benefits Administration Division provided documentation that showed claims were filed on behalf of the seven deceased individuals' designated beneficiaries.

¹⁴ Evaluators did not include the entire follow-up period (March 1, 2012 to June 30, 2013) in this analysis because designated beneficiaries may file claims up to 90 days after the employee's date of death.