

FINDINGS REPORT

State of Kansas Dependent Eligibility Verification Audit

Audit Period: January 1, 2019 through December 31, 2019

Presented to

Kansas State Employee Health Plan

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Presented by



**CLAIM TECHNOLOGIES
INCORPORATED**

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INTRODUCTION

This *Specific Findings Report* contains information, findings, and conclusions from CTI’s dependent eligibility verification audit of State of Kansas employees who cover dependents on the State’s medical, dental and vision plans. The Government Finance Officers Association (GFOA), an entity that represents public finance officials throughout the United States, recommends employers consider strategies to save on employee health care costs such as implementing dependent verification reviews. Providing benefits to dependents that are no longer eligible drives up costs and diverts resources from other programs. Ineligible dependents include children who have reached the maximum age limit, divorced spouses or friends, roommates, or other relatives who are ineligible for coverage.

Industry best practices suggest public and private employers perform dependent eligibility verifications to ensure compliance with plan guidelines and to reduce health benefit costs. For public and private corporations, enactment of the Sarbanes-Oxley Act focused on increasing oversight as well as stringent controls and periodic verification of continued dependent eligibility is one way to demonstrate strong internal controls.

We base our audit findings on the data and information provided by State of Kansas. Their validity is reliant upon the accuracy and completeness of that information. While performing the audit, CTI complied with all confidentiality, non-disclosure, and conflict of interest requirements and did not receive anything of value or any benefit of any kind.

BACKGROUND

Dependent verification review is the process of verifying coverage eligibility of dependents enrolled in an employee or retiree plan. Verification can be performed as new dependents are enrolled as well as after enrollment to confirm continuous eligibility. Researchers in “*Controlling Health-Care Costs With Dependent Eligibility Audits¹*”, a study of 17 local governments (cities, counties and school districts), estimated one ineligible dependent costs a public entity \$3,500 per year and that on average, eight percent of covered dependents are ineligible for coverage.

The State of Kansas has specific documentation requirements for adding or removing eligible dependents that are defined on its State Employee Health Plan (SEHP) web site and in its employee communications. During enrollment and open enrollment, employees may cover lawful spouses and eligible dependent children. Definitions of eligible dependents are included in the State Employee and Non State Employer Group Guidebooks. Upon initial enrollment of dependents, employees must submit required documentation that includes:

1. Marriage License (for proof of spouse and stepchild eligibility)
2. Birth certificate or hospital birth announcement for newborns and dependent children including full name of the parent(s).
3. Petition for adoption or placement agreement for dependent child
4. Legal custody or guardianship document issued by the court including Judge’s signature and court date stamp.

¹ Government Finance Review. *Controlling Health-Care Costs With Dependent Eligibility Audits*. Mark Mack. June 2015

5. Court order for dependents who are not natural or adopted children of the primary member including Judge's signature and court date stamp.
6. Certificate of birth a notarized Dependent Grandchild Affidavit for children born to a covered dependent (grandchild) and copies of pages 1 and 2 from the current year's filed Federal tax return for proof of financial dependency and residency.
7. An Application for Coverage of Permanent and Totally Disabled Dependent Child affidavit for covered dependent children aged 26 or older and copy of current year's filed Federal tax return for proof of financial dependency and residency.
8. Copies of the current year's filed Federal tax return (for proof of spouse and step-child eligibility). The pages needed from the current year's filed Federal tax return depends on which Tax form was filed:
 - Form 1040—pages 1 & 2 containing the filer's name, the employee and spouse's signature, and a written signature date the employee and spouse each signed the form.
 - Form 1040A—pages 1 & 2 containing the filer's name, the employee and spouse's signature, and a written signature date the employee and spouse each signed the form.
 - Form 8879 (IRS *e-file*)—containing the date filed, the filer's name, the employee and spouse's signature, and a written signature date the employee and spouse each signed the form.
9. Divorce decree (Only the first and last page of the court document with date stamp by the court and the signature of the judge).
10. A copy of a military ID and privilege card with the expiration date is acceptable as proof of Tricare coverage and to document the end of Tricare coverage.
11. For dependent loss of other group health coverage, a letter or certificate of other creditable coverage, listing the name of the member and all dependents that were covered under a previous employer's insurance is required. The letter or certificate must identify the previous employer, and list the date in which coverage ended.

All dependent documentation is to be uploaded to the membership administration portal (MAP) and must be accompanied by an enrollment or change request form when adding or removing eligible individuals.

AUDIT OBJECTIVE

The audit examined the State Employee Health Plan of the Kansas Department of Administration's process for establishing and documenting evidence of employee dependent insurance eligibility. The objective of the audit was to determine if the State has appropriate controls and procedures in place for properly establishing and documenting dependent insurance coverage eligibility.

The audit was conducted in accordance with generally accepted auditing standards to determine insurance coverage eligibility that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives.

AUDIT SCOPE

The scope of the audit covered spouses and dependent children who were covered on the State of Kansas employees' medical, dental and visions plans during 2019. Employees without a participating spouse or dependent were not included in the audit.

AUDIT METHODOLOGY

During the audit planning period, the parameters of the audit were established and refined. A document model audit, in which employees are required to provide a legal document that verifies the relationship between the employee and the enrolled dependent was selected. CTI worked with State Employee Health Plan Membership Services to set the audit timeline, develop a communication plan, and identify the documents that would be accepted as verification of eligibility for each type of dependent.

The methodology for the audit was to select a sample of dependents to test the effectiveness of the State's enrollment and eligibility processes to validate these individuals were eligible for coverage, or if ineligible, should be removed from coverage.

We constructed two samples for the dependent eligibility verification audit using a list provided by SEHP and the two samples did not contain any duplication of employees. The methodology for selecting samples was:

- A statistically valid random sample of 200 employees with a dependent covered by the plan during the audit period.
- A targeted sample of 200 employees with a dependent who had medical or prescription drug claims paid by the plan during the audit period.

Regardless of the number of dependents a selected employee had covered on their plan, they were asked to verify the eligibility of the one selected dependent.

The audit was conducted between October 1, 2020 and December 28, 2020. Letters were mailed to employees on October 1, 2020 requesting they provide supporting documentation to verify current eligibility of the sampled dependent within 21 days. The accepted documentation employees could return to verify the eligibility of their dependent included:

- An SEHP Permanent Totally Disabled Dependent Child Application;
- Copies of the 2019 federal tax return (Form 1040 and 8879);
- An SEHP Dependent Grandchild Affidavit with a 2019 federal tax return to show the grandchild is a dependent; and a
- Step-Child Affidavit for step-children not claimed on income taxes.

The document request stated that if the requested documentation wasn't submitted by the deadline, coverage for the dependent may be terminated. See the Appendix for a copy of the letter.

Employees could return their documentation by mail in a courtesy reply envelope provided with the letters or upload it to a secure web site that was available 24/7. For the secure web site uploads, employees were issued a unique identification number and their date of birth in the yyyyymmdd format was their password (Example 19620210 for February 10, 1962.). Documentation returned by mail was scanned and the hard copy was shredded. Documentation uploaded to the web site was saved to a secure folder. After review of each employee submission, a confirmation email was sent acknowledging receipt, completion of review and that no further action was needed. In cases where documentation

submitted was incomplete or missing, for example, an email or letter was sent requesting the missing information.

Second and final request letters were mailed on November 2 and November 20, 2020, respectively, to employees who hadn't returned documentation.

A toll-free number was included in the letters for employees to call with questions or for help to complete the audit. CTI staff were available to speak with employees who called from 8:00 a.m. to 5:00 p.m. Monday through Friday with a voice mailbox for messages left after business hours. Staff responded to 122 calls and voicemail messages from employees with questions about the audit and the requested documentation.

The majority of the questions concerned the legitimacy of the audit, needed tax documentation to provide, especially when electronically filed, as well as confidentiality. We assured callers we'd been contracted by SEHP to conduct the audit. For the questions about the documentation to provide, we verified the correct tax form or affidavit to be returned for the sampled dependent. Callers concerned about the personal information on their tax returns were assured of confidentiality and told they could redact Social Security numbers and income information as the critical information for the audit was the spouse and dependent children information. Several employees with unique personal situations also called to discuss needed documentation. Examples of employees' unique situations included:

- Married couples who filed their taxes separately;
- Employees who hadn't filed taxes since 2019 or earlier;
- Visiting employees from other countries who hadn't yet filed taxes in the U.S.; and
- Tax returns that were destroyed or inaccessible.

When questions were posed by employees that we were unable to answer, we took their contact information, checked with our SEHP contact and called them back with answers.

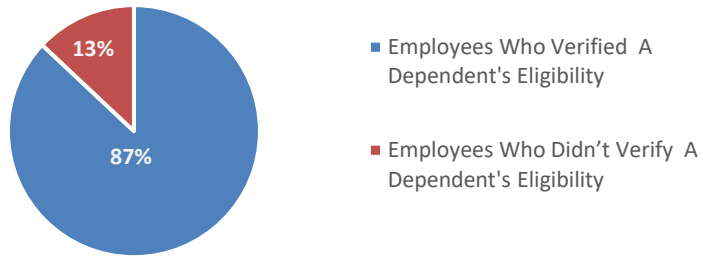
FINDINGS

The following figures summarize the result of the dependent verification review of the 400 employees sampled in the audit in aggregate and by sample.

Overall Audit Findings

The pie chart below shows 87 percent (348 out of 400) of the employees selected for the audit provided documentation of their dependents' continued eligibility.

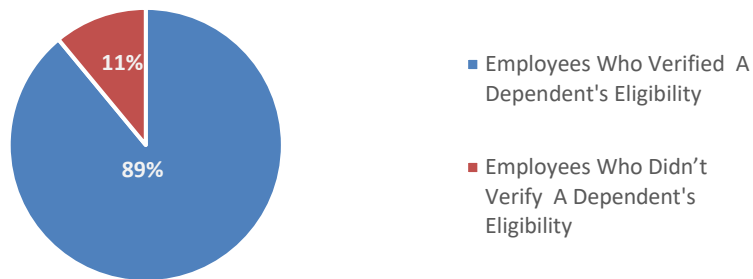
Overall Findings for The 400 Employees Asked to Verify Dependent Eligibility



Random Sample Findings

The following pie chart shows eighty-nine percent (178 out of 200) of the employees selected at random verified their dependent was eligible based on the documentation they returned to CTI or by SEHP.

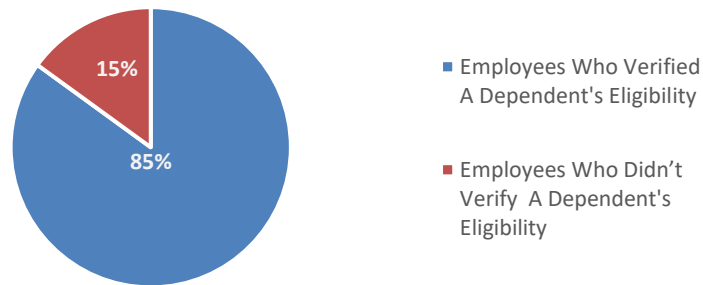
Findings for The 200 Random Sample Employees Asked to Verify Dependent Eligibility



Targeted Sample Findings

The following pie chart shows eighty-five percent (170 out of 200) of the employees in the targeted sample verified their dependent was eligible based on the documentation they returned to CTI or by SEHP.

Findings for The 200 Targeted Sample Employees Asked to Verify Dependent Eligibility



Employees who didn't verify their dependents either didn't respond or failed to submit sufficient paperwork to CTI. The names of the employees with dependents not verified were provided to State Employee Health Plan Membership Services for review.

RECOMMENDATIONS

The procedures developed and implemented by SEHP for dependent insurance coverage provide assurance that the processes and controls are performed consistently and are in compliance with policy, procedure, ACA requirements and best practices. Acceptable documentation of eligibility is clearly presented and accessible on the SEHP web site and referred to in health plan communications such as the Enrollment Guide. We recommend continuing the controls and processes currently in place to verify dependent eligibility at initial enrollment, open enrollment and through regular audits to ensure dependents continue to be eligible and the plan remains competitive, cost effective and preserves its benefit dollars for only eligible participants. To ensure the safeguards in place continue to be effective, spot tests of documentation can help ensure no one slips through the cracks and let employees know they could be asked to show proof of dependent eligibility at any time.

During the audit, we fielded several questions from employees who requested confirmation that they weren't being phished for identity theft purposes. Although the letters were printed with SEHP letterhead and sent in envelopes with SEHP's return address, they were postmarked in Des Moines, Iowa and understandably, that raised questions. To alleviate phishing concerns, we recommend enhanced communications for future audits that include:

- A communication, either electronic or hard copy, to each participant selected for audits from SEHP or a trusted source to announce the audit and to introduce the vendor partner in advance of requests for documentation.
- A communication to human resources staff in the State agencies where sampled participants are employed. Several employees said they asked their local human resources contacts about the audit and reported their contacts were unaware of it.
- If possible, include a frequently asked questions (FAQs) document or a link to an online piece participants and State agency human resources staff can reference that answers questions that we were asked such as:

- Why the State is verifying eligibility of someone who's been covered for several years?
 - Is the process confidential?
 - What happens to the documentation after the review?
 - How is review of documentation handled?
 - What, if any, information on tax returns can be redacted?
 - How will I know when the review of my documentation is complete?
 - What happens if documentation isn't provided by the deadline?
 - When was the last audit conducted and when is the next one scheduled to occur?
 - Will I be asked to verify eligibility again next year?
 - Who should I contact with questions?
- As with many things in 2020, the start of the audit was delayed due to the COVID pandemic and as a result, it overlapped with the 2021 open enrollment period. The timing raised questions among participants as they were unsure if the dependent eligibility verification was a part of or separate from open enrollment. If possible, we recommend future audits or spot tests of eligibility not occur near or during annual open enrollment periods.

CONCLUSION

We consider it a privilege to have worked for, and with, your staff. Thank you for choosing CTI.

APPENDIX – FIRST REQUEST LETTER





October 1, 2020

«EmpFName» «EmplName»

«Address_1»

«Address_2»

«City», «State» «Postal»

RE: Documentation of Continued Eligibility for «ClmtFName» «ClmtLName»

Dear «EmpFName»:

The State of Kansas is conducting the annual dependent eligibility audit to reverify the eligibility of employees' dependents for coverage under the State Employee Health Plan. The State Employee Health Plan partner for this audit is Claim Technologies Incorporated (CTI). As part of this audit, we are verifying the eligibility of «DepFirst_Name» «DepLast_Name».

To complete the eligibility verification process, you must provide a copy of one of the supporting document(s) listed on the next page. You must send a copy of the document(s) with page three in the enclosed envelope to CTI within 21 days of the date of this letter. The information will be kept confidential and only used to verify «DepFirst_Name» «DepLast_Name»'s eligibility for coverage under the health plan.

If you prefer, you may also upload scanned documents to CTI's secure website. To upload your documents, go to the website listed below and enter your assigned User ID number and password.

CTI's Secure Site: www.ctisecureupload.com/KS

Your User ID Number: «IDNO»

Password: Your date of birth in mmddyyyy format. (Example 02101962 for February 10, 1962)

PLEASE NOTE: If you do not submit the requested information within 21 days of the date of this letter, «DepFirst_Name»'s coverage will be terminated on December 31, 2020.

If you have questions about returning your documents, please call CTI at 888-220-2445, extensions 222 and 243.

Thank you for your cooperation.

State Employee Health Plan Membership Services



Appropriate Supporting Dependent Documentation

The following items are appropriate supporting documentation that is required when adding or removing other eligible individuals:

- For Coverage of Permanent and Totally Disabled Dependent Child age 26 and older, an SEHP Permanent Totally Disabled Dependent Child Application available at the Employee Health Plan Member portal and a copy of the most recently filed federal tax return for proof of financial dependency and residency. The federal tax return must be signed and dated by all filers. See below for pages needed.
- Copies of the most recently filed federal tax return for proof of dependent eligibility for spouses, step-children and grandchildren. For a grandchild, an SEHP Dependent Grandchild Affidavit must also be submitted. The affidavit is available at the State Employee Health Plan Member portal at <https://sehp.member.hrissuite.com> for active State and Non State employees and https://sso.cobraguard.net/seer_login.php for employees at ESU, KSU, KU, KUMC or PSU. The federal tax returns must be signed and dated by all filers unless they were filed electronically. Income information may be whited out prior to sending to CTI. The pages needed from the filed 2019 federal tax return depends on which tax form was filed:
 - Form 1040—pages 1 and 2 containing the filer’s name, the employee and spouse’s signature, dependents claimed and date the employee and spouse each signed the form.
 - Form 8879 (IRS *e-file*)—containing the date filed, the filer’s name, the employee and spouse’s signature, dependents claimed and date the employee and spouse each signed the form.
- The Step-Child Affidavit for step-children not claimed on your taxes which is available at the State Employee Health Plan Member portal at <https://sehp.member.hrissuite.com> for active State and Non State employees and https://sso.cobraguard.net/seer_login.php for employees at ESU, KSU, KU, KUMC or PSU.



Return to Claim Technologies Inc. with your documentation in the enclosed envelope or upload to www.ctisecureupload.com/KS using the user ID and password on the accompanying letter.

«EFirst_Name» «ELast_Name»
 «Address_1»
 «Address_2»
 «City», «State» «Postal»
 User ID Number: «IDNO»

Documentation of Continued Eligibility for «DepFirst_Name» «DepLast_Name» *Mark the Items Enclosed*

| Supporting Dependent Documentation | |
|------------------------------------|---|
| <input type="checkbox"/> | <ul style="list-style-type: none"> For coverage of a Permanent and Totally Disabled Dependent Child age 26 and older, an SEHP Permanent Totally Disabled Dependent Child Application* and a copy of the most recently filed federal tax return for proof of financial dependency and residency. The federal tax return must be signed and dated by all filers. See below for pages needed. <p style="text-align: center;"><i>*Available at the Employee Health Plan Member portal</i></p> |
| <input type="checkbox"/> | <ul style="list-style-type: none"> Copies of the most recently filed federal tax return for proof of dependent eligibility for spouses, step-children and grandchildren. For a grandchild, an SEHP Dependent Grandchild Affidavit, available at the Employee Health Plan Member portal, must also be submitted. The federal tax returns must be signed and dated by all filers unless they were filed electronically. Income information may be whited out prior to sending to CTI. The pages needed from the filed 2019 federal tax return depends on which tax form was filed: <ul style="list-style-type: none"> ➤ Form 1040A—pages 1 & 2 containing the filer’s name, the employee and spouse’s signature, and date the employee and spouse each signed the form. ➤ Form 8879 (IRS e-file)—containing the date filed, the filer’s name, the employee and spouse’s signature, and date the employee and spouse each signed the form. |
| <input type="checkbox"/> | |
| <input type="checkbox"/> | <ul style="list-style-type: none"> Step-Child Affidavit* for step-children not claimed on your taxes. <p style="text-align: center;"><i>*Available at the State Employee Health Plan Member portal at https://sehp.member.hrissuite.com for active State and Non State employees and https://sso.cobraguard.net/seer_login.php for employees at ESU, KSU, KU, KUMC or PSU.</i></p> |

 «EFirst_Name» «ELast_Name» Signature

 Date

 Daytime Telephone Number

 Email

Return Within 21 Days of The Date on The Accompanying Letter



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