Valley Health Plan

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Valley Health Plan
Internal Controls Audit of
Broker Contracting and Related Fiscal Activities

October 31, 2023

Assignment #: 10366

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Executive Summary

Background

Upon request of Finance Agency management, Internal Audit Division (IAD) performed an assurance audit of Valley Health Plan's (VHP) broker payment process, which was streamlined using a direct payment code. The process modification was required due to an increased volume in appointed brokers and business activities. This audit was initially included as part of IAD's approved Fiscal Year (FY) 2022-23 annual risk assessment and audit planning process.

Objective

The audit was performed to determine the following:

(1) operating effectiveness of the broker contracting process,

(2) adequacy of direct payment code process and related fiscal activities, and

(3) accuracy of broker commission and bonus payments according to contract terms.

Scope

The audit scope included operations from July 1, 2021 through June 30, 2023 and was limited to reviewing a sample of broker commission and bonus payments.

What We Found

Administration of Valley Health Plan's (VHP) broker payments comprise of staff from the Billing and Enrollment, Sales and Broker Relations (SBR) and Finance. VHP's recently updated on-line portal for their membership provides data for the broker database and corresponding payment calculations. VHP had experienced a steady increase in memberships which correlated with a higher volume in broker payments. A few accomplishments include:

- VHP implemented Epic's Tapestry system in March 2023 which will provide coordination between the County's hospitals and clinics, sophisticated medical management, case management and risk stratification functionality.
- Upon request of Covered California, VHP expanded their coverage area into Region 9 effective January 1, 2022, which is comprised of the San Benito, Monterey and Santa Cruz Counties. As a result, membership increased for their Individual and Family Plan and Employer Group Plan.
- The Sales and Broker Relations team hosted an Annual Virtual Broker Recognition event in September 2023 which highlighted the work brokers do supporting the communities they serve.

Overall, the department has good internal controls over their broker commission and bonus payment function and complies with applicable laws, regulations and County policies. To further strengthen current controls and improve their effectiveness, we identified <u>five</u> improvements in the areas summarized below and detailed in the ***Findings and Recommendations*** section of this report.

Operating Effectiveness - broker IT system has the following <u>three</u> findings:
- Database used for broker payments is outdated.
- Front-end of database is not frequently backed-up.
- The database disaster recovery plan needs updating.

Operating Effectiveness - broker supporting documentation has the following <u>one</u> finding:
- VHP's policies and procedures were not comprehensive or aligned with other sources.

Accuracy of broker payment amount has the following <u>one</u> finding:
- Broker payment file uploaded incorrectly into SAP.

Executive Summary

The chart below summarizes risk categories for each audited area by priority ratings.

#	Area	Priority Ratings			Total
		High (1)	Medium (2)	Low (3)	
1	Operating Effectiveness - broker IT system	2	1	-	3
2	Operating Effectiveness - broker supporting documentation	-	-	1	1
3	Accuracy of broker payments	-	-	1	1
	Total Findings	2	1	2	5

See **Appendix 1** for definition of priority ratings.

Audit reports are designed to assist management and provide constructive recommendations for improving their operations. As a result, the report generally does not elaborate on activities that are functioning effectively. The draft report was discussed with VHP management prior to final issuance. A total of seven recommendations were made for the five findings noted in the table above. Management agreed with all recommendations. Attached herein is their formal response. In accordance with professional auditing standards, IAD intends to perform a follow-up audit on the recommendations presented.

We conducted the audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

It is anticipated this report will be submitted to the Finance and Government Operations Committee in Winter 2023. This report is intended solely for the County and its stakeholders. However, this report is a matter of public record and its distribution is not limited.

We would like to thank VHP management and staff for their time, cooperation and assistance during this engagement.

Robyn Rose, CPA, CICA
Internal Audit Manager
October 31, 2023

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Findings and Recommendations

OPERATING EFFECTIVENESS: BROKER IT SYSTEM

FINDING 1: Database used for broker payments is outdated.	
OBJECTIVE	To determine if broker commissions and bonuses calculated using an automated database are accurate.
CRITERIA	U.S. Government Accountability Office (GAO) Report to Congressional Requestors, Information Technology, Section 16-468 states in part "Agencies need to develop and implement modernization plans for critical legacy systems...The consequences of not updating legacy systems has contributed to, among other things, security risks, unmet mission needs, staffing issues and increased costs."
CONDITION	During the audit, we found Microsoft (MS) Access, the current database used to store broker data and calculate monthly and quarterly payments, is no longer supported by Microsoft Corporation and has limited capabilities for achieving management's objectives. VHP management stated they were concerned about continued functionality of the outdated database as the system is approaching its maximum storage/data size limit, which hinders its ability to function properly. VHP management is in the process of implementing a new broker database and payment system, Microsoft Dynamics; however, the replacement has been delayed due to limited IT resources. Microsoft Dynamics is a widely used front-end customer relationship management business application that is more robust and offers a broker portal options to reduce the number of monthly statements sent electronically to brokers. If the IT system or application used by the department is no longer accessible or not adequately functioning, there is a risk broker data will not be recoverable and payments are calculated inaccurately.
RECOMMENDATION	**1.1** Considering VHP is currently evaluating a new database, Microsoft Dynamics, and exploring enhancements for broker members, management should ensure all future IT systems and applications undergo appropriate business requirements and technical design reviews, such as: • Establishing a "Business Requirements" document to evaluate the capabilities of future IT systems objectively. • Conducting an operational assessment and document how a new database would impact internal controls throughout the broker commission payment process. • Consulting with assigned Business Relationship Manager to ensure new technology-based systems are fully aligned to County IT security, architecture, and privacy standards. • Requesting the County's ISO conducts a security assessment of the new database system to ensure new software meets current security standards.
PRIORITY/EXPECTED COMPLETION DATE	**High (1) – Within three months after issuance of the final audit report**
MANAGEMENT'S RESPONSE	Agreed

Findings and Recommendations

	FINDING 2: Front-end of database is not frequently backed-up.
OBJECTIVE	To determine if broker commissions and bonuses calculated using an automated database are accurate.
CRITERIA	County's Information Security Office (ISO) Handbook, Section 14.2.2 states "The frequency and extent of Backups shall be in accordance with the importance of the information and the acceptable risk as determined by each Department. If it is sensitive, back it up more frequently." Section 14.2.7 states, "Restoration from Back-up media shall be tested at least once per year, in non-emergency situations, to ensure that databases and system configuration files are in fact recoverable from the Back-up media."
CONDITION	During the audit, we found out-of-cycle broker payment corrections can occur anytime throughout the year. If a system back-up of MS Access does not occur until the regularly scheduled time, the adjustments might not be captured. MS Access retains all broker data and payment calculations, which were continuously updated along with the current record of each broker's account; however, the front-end data and logic was backed-up on a monthly and quarterly basis to align with the broker payment schedule. As noted in Finding 1, there is a possibility of losing data as MS Access is no longer supported by the vendor and is approaching its maximum storage size. Additionally, if a critical system was inaccessible for an extended period or the data available is not current, the department may not be able to perform the following tasks: • Paying broker commission and bonuses, • Processing new broker members and data, • Updating new and renewed contracts in the broker system and • Processing out-of-cycle payments.
RECOMMENDATIONS	**2.1** After the period audited, the frequency of back-ups on MS Access increased to daily; however, VHP management should prioritize replacement of the database which was halted due to other priorities. **2.2** VHP management should perform a restoration test at least once a year to ensure information can be recovered timely.
PRIORITY/EXPECTED COMPLETION DATE	**High (1) – Within three months after issuance of the final audit report**
MANAGEMENT'S RESPONSE	Agreed

Findings and Recommendations

FINDING 3: The database disaster recovery plan needs updating.	
OBJECTIVE	To determine if broker commissions and bonuses calculated using an automated database are accurate.
CRITERIA	County's ISO Handbook, Section 11.11.1, Information Technology (IT) Product and Service Contracts states in part "each department…shall develop a Disaster Recovery Plan (DRP)…" and "The DRP should focus on protecting and restoring the Department's technology infrastructure and other information assets".
CONDITION	A DRP helps maintain business continuity by focusing on restoring information stored in mission critical systems that are interrupted during an emergency or disaster by ensuring day-to-day operations can resume quickly and minimize economic impact. The DRP should include aspects related to prevention, mitigation, preparedness, training, response and recovery of information maintained in systems. Based on information received, we noted VHP's current DRP does not include the MS Access application for restoring broker data and payment information if an interruption or disaster were to occur. Not having a formal plan for a critical system would result in the inability to restore data timely and the need to process information manually.
RECOMMENDATION	**3.1** VHP management should update their current DRP to incorporate the system used for broker payment calculations and data, and address the following: • Testing an organization's security preparedness. • Checking for vulnerabilities in the IT systems and business processes. • Recommending steps to lower the risk of future attacks. • Keeping systems and policies updated. • Pinpointing the most pressing vulnerabilities to prioritize rapid improvement. • Ensuring management and staff are adequately trained to effectively execute disaster recovery tasks and activities.
PRIORITY/EXPECTED COMPLETION DATE	**Medium (2) – Within three to six months after issuance of the final audit report**
MANAGEMENT'S RESPONSE	Agreed

Findings and Recommendations

OPERATING EFFECTIVENESS: BROKER SUPPORTING DOCUMENTATION

FINDING 4: VHP's policies and procedures were not comprehensive or aligned with other sources.	
OBJECTIVE	To determine broker policies and procedures are comprehensive and effectively communicate both internally and externally to outside vendors.
CRITERIA	U.S. Government Accountability Office's Standards of Internal Controls in the Federal Government ("Green Book"), Principle 12 states "Management should implement control activities through policies. The policies should be documented in the appropriate level of detail to allow management to effectively monitor the control activity."
CONDITION	Based on review of VHP's "Agent Broker Record, Appointment and Compensation" policy, we noted the following information was not included or unclear: • Timeline for broker response of discrepancies on the monthly Premium Payment Report references a notification within five business days of any corrections prior to payment (Section V. Procedures, Sub-Section G.); however, the quarterly Brokers Earning Report does not include a similar timeline. • The broker commission payment tiers are included in the policies and procedures manual along with a general description of how the bonus may be calculated (Section V. Procedures, Sub-Section C & D); however, bonus payment tiers are excluded. • Internal policies and procedures should agree to external policies that are posted. For example, the requirements for a broker to qualify for a bonus compensation is not included in the policy, while the "2023 Broker Compensation Policy & Schedule" document posted online for brokers to reference includes examples of a Bonus Schedule and Calculation. The department could benefit from a more formal and comprehensive policies and procedures manual, which aligns with on-line available guidance for brokers to reference. Written policies and procedures that are unclear could lead to inconsistent and inefficient practices.
RECOMMENDATION	**4.1** VHP management should update the "Agent Broker Record, Appointment and Compensation" policy to ensure the following: • Internal policies and procedures are referenced to the external broker webpage for updated tiers and rates, as it is a constantly changing document. • Policies and procedures are reviewed on an annual basis and updated, if necessary. All staff should receive training on any updates, which will ensure there are no interruptions to operational processes.
PRIORITY/EXPECTED COMPLETION DATE	**Low (3) – Within six to 12 months after issuance of the final audit report**
MANAGEMENT'S RESPONSE	Agreed

Findings and Recommendations

ACCURACY OF BROKER PAYMENT AMOUNT

FINDING 5: Broker payment file uploaded incorrectly into SAP.	
OBJECTIVE	To determine broker payments are paid accurately.
CRITERIA	Green Book, Principle 10, states in part "A variety of control activities are used in information processing. Examples include edit checks of data entered; accounting for transactions in numerical sequences; comparing file totals with control accounts; and controlling access to data, files and programs."
CONDITION	Based on results of testing procedures, we noted VHP's broker commission and bonus payments file for the period of January to March 2023, quarter one (Q1), was incorrectly uploaded to the SAP financial system to pay for the April to June 2023 (Q2) payments. As a result, there were 126 overpayments totaling $14,244 and 375 underpayments totaling $83,325.
	VHP subsequently corrected the overpayments by deducting the amount due from the following quarterly commission or the broker paid by check, and the underpayments by sending an electronic funds transfer.
	As of August 2023, there are 12 outstanding broker payments totaling $380. VHP does not plan on writing off the remaining uncollected balance and is working with the brokers to collect. No timeline has been established on when reimbursements become uncollectable.
	Not thoroughly reviewing supporting documentation can lead to incorrect payments and increased workload for staff.
RECOMMENDATIONS	**5.1** VHP management should ensure data file uploads are reviewed against the supporting documentation for broker commission and bonus payments before uploading into SAP to prevent errors.
	5.2 For the outstanding overpayments, VHP management should establish a policy which provides a timeframe for capturing uncollectable balances and write-offs. The policy should be conveyed to staff and training provided as necessary.
PRIORITY/EXPECTED COMPLETION DATE	**Low (3) – Within six to 12 months after issuance of the final audit report**
MANAGEMENT'S RESPONSE	Agreed

Appendix

APPENDIX 1: DEFINITION OF PRIORITY RATINGS FOR AUDIT RECOMMENDATIONS

Priority Ratings	Definition of Priority Ratings and Suggested Implementation Timeframe
High / Priority One (1)	Priority One recommendations are assigned to the highest assessed level of risk. For these recommendations, internal controls are considered poor or insufficient, which results in the likelihood of financial loss, waste, misappropriation of assets, or errors for the area(s) evaluated. Priority One recommendations also include issues related to non-compliance with laws, regulations or policies and procedures. Management should urgently implement these recommendations within one to three months after issuance of the final audit report to avoid risk exposure.
Medium / Priority Two (2)	Priority Two recommendations are assigned to the moderately assessed level of risk. For these recommendations, internal controls provide reasonable assurance that the County program(s) or area(s) evaluated are protected from potential financial loss, waste, misappropriation of assets, or errors; however, additional action is needed to strengthen current practices. Management should promptly implement these recommendations within three to six months after issuance of the final audit report to improve internal control processes.
Low / Priority Three (3)	Priority Three recommendations are assigned to the lowest assessed level of risk. For these recommendations, internal controls are operating as designed to ensure the County program(s) or area(s) evaluated are protected from potential financial loss, waste, misappropriation of assets, or errors. These recommendations are desired actions to enhance current practices. Management should consider implementing these recommendations within six to 12 months after issuance of the final audit report to provide additional confidence in the internal control system.

Appendix

APPENDIX 2: INTERNAL CONTROLS FRAMEWORK

We utilized guidance in the U.S. Government Accountability Office's *Standards of Internal Controls in the Federal Government* ("Green Book") to evaluate best practices for internal controls within government entities. Internal controls are processes used by management to help achieve their goals and objectives related to operations, reporting, and compliance.

Standards in the "Green Book" comprise of the following five internal control components and corresponding 17 principles that work together in an integrated framework:

Components	Principles
Control Environment	1. The oversight body and management should demonstrate a commitment to integrity and ethical values. 2. The oversight body should oversee the entity's internal control system. 3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve its objectives. 4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals. 5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.
Risk Assessment	6. Management should define objectives clearly to enable the identification of risks and define risk tolerances. 7. Management should identify, analyze, and respond to risks related to achieving the defined objectives. 8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks. 9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.
Control Activities	10. Management should design control activities (i.e., policies and procedures) to achieve objectives and respond to risks. 11. Management should design the information system and related control activities to achieve objectives and respond to risks. 12. Management should implement control activities through policies.
Information and Communication	13. Management should use quality information to achieve its objectives. 14. Management should internally communicate the necessary quality information to achieve its objectives. 15. Management should externally communicate the necessary quality information to achieve its objectives.
Monitoring Activities	16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results. 17. Management should remediate identified internal control deficiencies on a timely basis.

[1] Source: https://www.gao.gov/greenbook

Appendix

## APPENDIX 3: PROGRAM BACKGROUND AND METHODOLOGY

PROGRAM BACKGROUND

VHP is a Knox-Keene licensed, Accreditation Association for Ambulatory Health Care, Inc. health maintenance organization, operated by the County. VHP has been serving the community for almost 40 years. Based in San Jose, VHP offers affordable health plans in Monterey, San Benito and Santa Clara counties, along with a wide range of health care benefits under their Employer Group Plan, Individual & Family Plan and publicly available plan options through Covered California.

VHP partners with local brokers to help enroll individuals and families into a plan. Brokers assist with Covered California applications as well as the VHP Individual & Family Plan applications. VHP provides brokers with tools and information needed to do business with them and increase their earning potential with opportunities for commissions and bonuses that are paid quarterly.
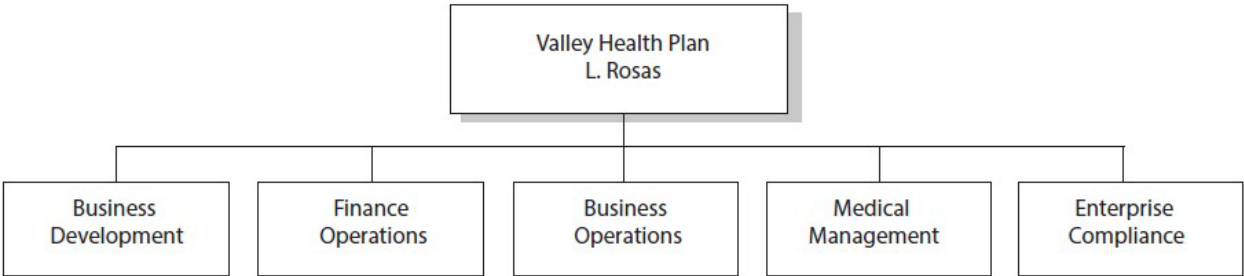
Due to the increase in memberships and associated increase in payments to brokers, VHP management requested commission and bonus payments to be made using a direct pay code instead of a purchase order (PO). This process was implemented to reduce the effort required for creating a PO, which became operationally heavy as the number of appointed brokers and business volume grew. The direct payment list was updated and approved by the Board of Supervisors on October 5, 2021 to include a code for paying VHP broker commissions and bonuses as a result of selling Covered California and Individual & Family Plans to newly enrolled or renewed members.

Below is a chart of VHP's annual membership growth for the past four years:
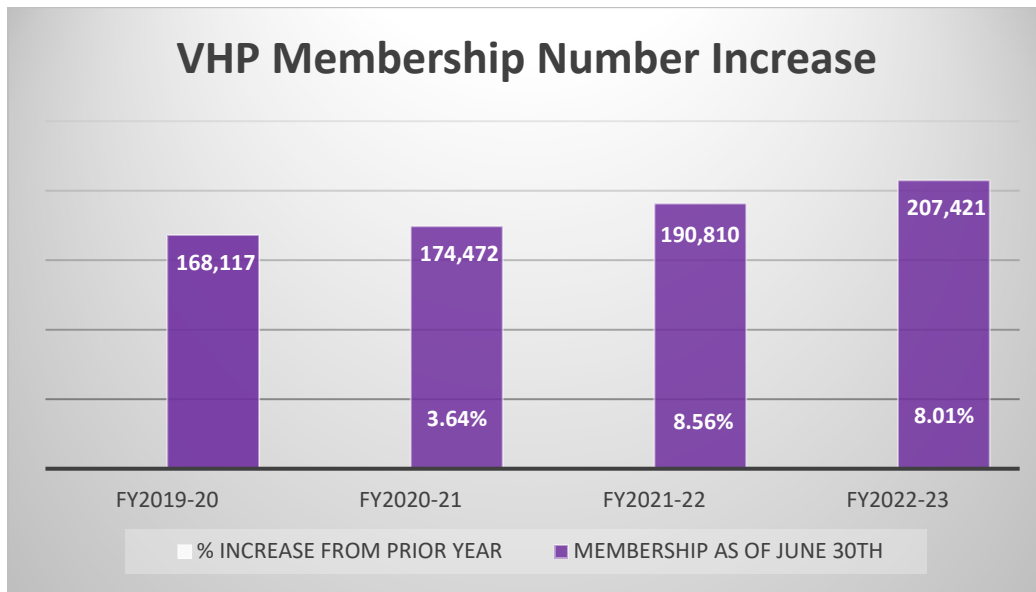
Appendix

Below is VHP's high-level organizational chart:

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                    │    Valley Health Plan    │
                    │        L. Rosas          │
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                                 │
   ┌──────────┬──────────┬───────┴────────┬──────────────┐
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│ Business ││ Finance  ││ Business ││   Medical    ││  Enterprise  │
│Development││Operations││Operations││  Management  ││  Compliance  │
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METHODOLOGY

To achieve our audit objectives, IAD performed the following procedures:

- Reviewed applicable laws, regulations, policies, and procedures.
- Reviewed monthly, quarterly, and annual reports presented to the Health and Hospital System Committee, Board of Supervisors, state, and other agencies.
- Reviewed broker contracts for payment terms.
- Reviewed direct pay (DPC H65) payments from July 1, 2021 to June 30, 2023 for accuracy, timeliness, proper documentation, and approvals.
- Analyzed operational revenue and expenditures to benchmark against other County-operated health plans.
- Performed walkthroughs and interviewed key personnel.

Date: November 14, 2023

To: Robyn Rose, Internal Audit Manager

From: Laura Rosas, VHP Chief Executive Officer

Subj: **RESPONSE TO THE INTERNAL AUDIT REPORT #10366 VALLEY HEALTH PLAN INTERNAL CONTROLS AUDIT OF BROKER CONTRACTING AND RELATED FISCAL ACTIVITIES**

Valley Health Plan has reviewed Internal Audit Report #10366 and agrees with the five recommendations to the department.

Valley Health Plan appreciates the time and resources by the County Internal Auditor dedicated to thoroughly review and assess the current operations of the Plan and provide insight in process improvements and increased efficiency to the broker contracting and payment process.

The following are Valley Health Plan's response to each recommendation.

RECOMMENDATIONS and RESPONSES

Recommendation 1.1   Considering VHP is currently evaluating a new database, Microsoft Dynamics, and exploring enhancements for broker members, management should ensure all future IT systems and applications undergo appropriate business requirements and technical design review, such as:

      • Establishing a "Business Requirements" document to evaluate the capabilities of future IT systems objectively.

      • Conducting an operational assessment and document how a new database would impact internal controls throughout the broker commission payment process.

      • Consulting with assigned Business Relationship Manager to ensure new technology-bases systems are full aligned to County IT security, architecture, and privacy standards.

      • Requesting the County's ISO conducts a security assessment of the new database system to ensure new software meets current security standards.

VHP Response: The Department agrees with this recommendation.

Recommendation 2   **2.1** After the period audited, the frequency of back-ups on MS Access increased to daily; however, VHP management should prioritize replacement of the database which was halted due to other priorities.

      2.2 VHP management should perform a restoration test at least once a year to ensure information can be recovered timely.

VHP Valley
Health Plan

VHP Response:	The Department agrees with this recommendation.

Recommendation 3.1   VHP management should update their current DRP to incorporate the system used for broker payment calculations and data, and addresses the following:
> • Testing an organization's security preparedness.
> • Checking for vulnerabilities in the IT systems and business processes.
> • Recommending steps to lower the risk of future attacks.
> • Keeping systems and policies updated.
> • Pinpointing the most pressing vulnerabilities to prioritize rapid
improvement.
> • Ensuring management and staff are adequately trained to effectively
execute disaster recovery tasks and activities.

VHP Response: The Department agrees with this recommendation.

Recommendation 4.1   VHP management should update the "Agent Broker Record, Appointment and Compensation" policy to ensure the following:
> • Internal policies and procedures are referenced to the external broker
webpage for updated tiers and rates, as it is a constantly changing document.
> • Policies and procedures are reviewed on an annual basis and updated,
if necessary. All staff should receive training on any updates, which will ensure
there are no interruptions to operational processes.

VHP Response: The Department agrees with this recommendation.

Recommendation 5   **5.1** VHP management should ensure data file uploads are reviewed against the supporting documentation for broker commission and bonus payments before uploading into SAP to prevent errors.
5.2 For the outstanding overpayments, VHP management should establish a policy which provides a timeframe for capturing uncollectable balances and write-offs. The policy should be conveyed to staff and training provided as necessary.

VHP Response: The Department agrees with this recommendation.