

# Internal Audit Department

O R A N G E C O U N T Y  
6<sup>th</sup> Largest County in the USA

## SPECIAL REQUEST AUDIT: PERFORMANCE MEASURE VALIDATION AUDIT OF HUMAN RESOURCES DEPARTMENT - EMPLOYEE BENEFITS VENDOR, KAISER PERMANENTE

High  
Impact  
Audit

The annual premium for Kaiser in 2010 was \$42,319,069. The total amount of the annual premium at risk because it is based on Kaiser's achievement of their performance measures is \$846,381 or 2 percent.

We have completed a Performance Measure Validation Audit of Human Resources Department – Employee Benefits Vendor, Kaiser Permanente (Kaiser) to determine if Kaiser is accurately reporting its performance measure results.

We tested five out of Kaiser's twenty-three reported performance measures for 2010 and found that they were accurately reported and supported.

AUDIT NO: 1155

REPORT DATE: APRIL 11, 2012

Director: Dr. Peter Hughes, MBA, CPA, CIA  
Deputy Director: Eli Littner, CPA, CIA  
Senior Audit Manager: Alan Marcum, CPA, CIA

### RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach

 ORANGE COUNTY BOARD OF SUPERVISORS'  
**Internal Audit Department**

*GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010*

*Providing Facts and Perspectives Countywide*

**RISK BASED AUDITING**

**Dr. Peter Hughes** **Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF**  
Director Certified Compliance & Ethics Professional (CCEP)  
Certified Information Technology Professional (CITP)  
Certified Internal Auditor (CIA)  
Certified Fraud Examiner (CFE)  
Certified in Financial Forensics (CFF)  
E-mail: peter.hughes@iad.ocgov.com

---

**Eli Littner** **CPA, CIA, CFE, CFS, CISA**  
Deputy Director Certified Fraud Specialist (CFS)  
Certified Information Systems Auditor (CISA)

**Michael Goodwin** **CPA, CIA**  
Senior Audit Manager

**Alan Marcum** **MBA, CPA, CIA, CFE**  
Senior Audit Manager

**Autumn McKinney** **CPA, CIA, CISA, CGFM**  
Senior Audit Manager Certified Government Financial Manager (CGFM)

**Hall of Finance & Records**

12 Civic Center Plaza, Room 232  
Santa Ana, CA 92701

Phone: (714) 834-5475

Fax: (714) 834-2880

To access and view audit reports or obtain additional information about the  
OC Internal Audit Department, visit our website: [www.ocgov.com/audit](http://www.ocgov.com/audit)



**OC Fraud Hotline (714) 834-3608**



## Transmittal Letter



**Audit No.1155 April 11, 2012**

**TO:** Thomas G. Mauk  
County Executive Officer

**FROM:** Dr. Peter Hughes, CPA, Director  
Internal Audit Department

**SUBJECT:** Special Request Audit:  
Performance Measure Validation Audit of  
Human Resources Department – Employee  
Benefits Vendor, Kaiser Permanente

We have completed a Performance Measure Validation (PMV) Audit of Human Resources Department (HRD) – Employee Benefits Vendor, Kaiser Permanente. We performed this audit in response to a directive by the Board of Supervisors on November 8, 2011. Our final report is attached for your review.

The Office of the Performance Audit Director in their audit report of HRD, dated May 24, 2011 Finding #16 stated “There is no existing procedure/protocol for auditing the performance guarantee results that are self-reported by Employee Benefits vendors.” Chairman of the Board of Supervisors on June 7, 2011 established the HRD Audit Subcommittee to review the findings and recommendations of the Board-directed audit of HRD. In the Audit Subcommittee’s 2<sup>nd</sup> Report to the Board of Supervisors, dated November 8, 2011 in Attachment A, it was recommended that “Internal Audit conduct the first audit, and that its audit protocol and resulting audit results be used as a baseline for future audit by HRD.”

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

As always, the Internal Audit Department is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendations. Additionally, we will request your department complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

### ATTACHMENTS

Other recipients of this report are listed on the **OC Internal Auditor’s Report** on page 2.

# Table of Contents

*Special Request Audit:  
Performance Measure Validation Audit of  
Human Resources Department –  
Employee Benefits Vendor, Kaiser Permanente  
Audit No. 1155*

Transmittal Letter	i
OC Internal Auditor's Report	
<b>OBJECTIVES</b>	<b>1</b>
<b>RESULTS</b>	<b>1</b>
<b>BACKGROUND</b>	<b>2</b>
Summary Table – Validation Results	<b>3</b>



**Audit No. 1155**

**April 11, 2012**

TO: Thomas G. Mauk  
County Executive Officer

FROM: Dr. Peter Hughes, CPA, Director  
Internal Audit Department

SUBJECT: Special Request Audit:  
Performance Measure Validation Audit of Human Resources  
Department – Employee Benefits Vendor, Kaiser Permanente

## Audit Highlight

We have completed a Performance Measure Validation Audit of Human Resources Department – Employee Benefits Vendor, Kaiser Permanente (Kaiser) to determine if Kaiser is accurately reporting its performance measure results.

We tested five out of Kaiser's twenty-three reported performance measures for 2010 and found that they were accurately reported and supported.

## OBJECTIVES

We have completed a Performance Measure Validation (PMV) Audit of Human Resources Department (HRD) – Employee Benefits Vendor, Kaiser Permanente (Kaiser). We performed this audit in response to a directive by the Board of Supervisors on November 8, 2011. Our audit was conducted in conformance with the Institute of Internal Auditors – *International Standards for the Professional Practice of Internal Auditing*.

The objectives of this audit were to:

1. Determine if a selected Human Resources Department Employee Benefits vendor, Kaiser, is accurately reporting its performance measure results.
2. Develop an audit approach for the Human Resources Department to conduct future audits of benefits vendors to determine that the vendors are accurately reporting their performance measure results.

## RESULTS

Objective #1: Determine if a selected Human Resources Department Employee Benefits vendor, Kaiser is accurately reporting its performance measure results.

We tested five (5) out of Kaiser's twenty-three (23) reported performance measures for 2010 and found that they were accurately reported and supported. To determine that the performance measures were supported, we reviewed documentation internally generated by Kaiser and where possible documentation generated by external third parties, e.g., the National Committee for Quality Assurance (NCQA) and the HEIDS 2011 Compliance Audit, conducted by Dunwoody Technology Group, LLC – Healthcare Performance Auditors. On page 3, we have provided a table (Summary Table – Validation Results) that lists each performance measure tested, the reported results, and the results of our validation.

Objective #2: Develop an audit approach for the Human Resources Department to conduct future audits of benefits vendors to determine that the vendors are accurately reporting their performance measure results.

# OC Internal Auditor's Report



The Internal Audit Department worked with HRD to develop procedures to conduct future audits of benefits vendors to determine that the vendors are accurately reporting their performance measure results.

## BACKGROUND

The Office of the Performance Audit Director in their audit report of HRD, dated May 24, 2011 Finding #16 stated "There is no existing procedure/protocol for auditing the performance guarantee results that are self-reported by Employee Benefits vendors." Chairman of the Board of Supervisors on June 7, 2011 established the HRD Audit Subcommittee to review the findings and recommendations of the Board-directed audit of HRD. The Audit Subcommittee's 2<sup>nd</sup> Report to the Board of Supervisors, dated November 8, 2011, Attachment A recommended that "Internal Audit conduct the first audit, and that its audit protocol and resulting audit results be used as a baseline for future audit by HRD."

The County of Orange, effective January 1, 2008, contracted with Kaiser Foundation Health Plan, Inc. (Kaiser) to provide Health Maintenance Organization (HMO) benefits to County retirees. The contract term was for one year, with the option to extend it up to two, one year periods by mutual agreement. The contract was extended twice, expiring on December 31, 2010. A new contract with Kaiser was approved by the Board, effective January 1, 2011, and will be in effect for a period of three years.

The contract with Kaiser contains a set of performance measures in the areas of member service, member satisfaction, account management and quality of care. Each of the twenty-three (23) performance measures is assigned a performance level, and a penalty percent that Kaiser pays the County if the performance level is not achieved. The annual premium for Kaiser in 2010 was \$42,319,069. The total amount of the annual premium at risk because it is based on Kaiser's achievement of their performance measures is \$846,381 or 2 percent. The penalty percent range for each performance measure is from .08% to .1% of the annual premium or \$33,855 to \$42,319 in dollars.

## Acknowledgment

We appreciate the courtesy extended to us by the Human Resources Department during our audit. If we can be of further assistance, please contact me directly; or Eli Littner, Deputy Director at 834-5899; or Alan Marcum, Senior Audit Manager at 834-4119.

## Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors  
Members, Audit Oversight Committee  
Bob Leys, Assistant Director, Human Resources Department  
Barbara Voelkel, Senior Manager, HRD/Employee Benefits  
Barbara Gondo, Finance Manager, HRD/Employee Benefits  
Foreperson, Grand Jury  
Susan Novak, Clerk of the Board of Supervisors



## SUMMARY TABLE – VALIDATION RESULTS

Category Title	ID	Performance Measure	Penalty Threshold	Annual Result	Internal Audit Validation
Member Services	1	Member services calls answered within 30 seconds	80%	81%	Verified Without Exception
Member Services	4	Eligibility information accessible to medical group within 8 business days	93%	99%	Verified Without Exception
Member Satisfaction	7	NCQA: CAHIPS Overall satisfaction with health plan (4.0 Q# 42, % 8-10)	65%	82%	Verified Without Exception
Account Management	12	Account manager responsiveness to client calls within one business day	Meet Measure	MET	Verified Without Exception
Quality of Care	17	Controlling High Blood Pressure	64%	84%	Verified Without Exception