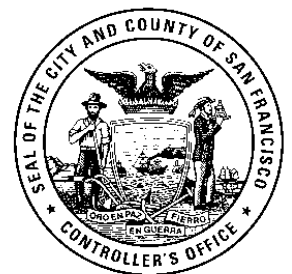


San Francisco Health Plan Properly Manages SF City Option Program Funds, but Program Improvements Are Needed to Address the Growing Balance of Employer-Contributed Funds

Department of Public Health

Under contract with the City's Department of Public Health (DPH), San Francisco Health Plan (SFHP) competently manages the funds of the SF City Option Program (City Option), but should increase outreach to employees and former employees of San Francisco businesses that have contributed to the program's fund to help their eligible employees meet their health care needs. Too many employees have not accessed the City Option funds intended for them. DPH should cause SFHP to take steps—that must be consistent with the program's intent—to reduce the large and growing balance in the contribution pool, which had reached \$359 million at the time of the audit. These steps should include outreach to those eligible to use the funds, program simplification so funds can be used more easily, and, if legally allowed, transferring some deactivated funds to DPH so they can be used for health care purposes. Also, monitoring of SFHP's third-party administrator's claims processing needs to improve, and SFHP should provide better information to DPH so it can improve its oversight of SFHP's performance.



October 13, 2020

City & County of San Francisco
Office of the Controller
City Services Auditor

About the Audits Division

The City Services Auditor (CSA) was created in the Office of the Controller through an amendment to the Charter of the City and County of San Francisco (City) that voters approved in November 2003. Within CSA, the Audits Division ensures the City's financial integrity and promotes efficient, effective, and accountable government by:

- Conducting performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of service delivery and business processes.
- Investigating reports received through its whistleblower hotline of fraud, waste, and abuse of city resources.
- Providing actionable recommendations to city leaders to promote and enhance accountability and improve the overall performance and efficiency of city government.

Team:

Winnie Woo, Senior Auditor

Consultant:

Sjoberg Evashenk Consulting, Inc.

Mark de la Rosa
Acting Director of Audits
Office of the Controller
City and County of San Francisco
(415) 554-7574

For media inquiries, please contact
con.media@sfgov.org.



<http://www.sfcontroller.org>



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Audit Authority

This audit was conducted under the authority of the San Francisco Charter, Section 3.105 and Appendix F, which requires that CSA conduct periodic, comprehensive financial and performance audits of city departments, services, and activities.



OFFICE OF THE CONTROLLER

CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

October 13, 2020

San Francisco Health Commission
101 Grove Street, Room 309
San Francisco, CA 94102

Dr. Grant Colfax
Director of Health
Department of Public Health
101 Grove Street, Room 308
San Francisco, CA 94102

Dear Commissioners and Dr. Colfax:

The Office of the Controller, City Services Auditor (CSA), Audits Division, presents its report of the employer-funded health care expenditures contributed to the SF City Option Program (City Option). The audit, conducted by Sjoberg Evashenk Consulting, Inc., (SEC), had as its objective to determine whether the San Francisco Health Plan (SFHP) complies with its contract with the City and County of San Francisco (City) by properly administering funds for City Option. SFHP is City Option's administrator on behalf of the City's Department of Public Health (DPH), operating the three City Option program components—Healthy San Francisco, SF Medical Reimbursement Account, and SF Covered Medical Reimbursement Account.

The audit concluded that SFHP properly administers and manages program funds in accordance with industry best practices, its agreement with the City, and the Health Care Security Ordinance. In the areas reviewed, the auditors found strong policies, diligent practices, and adequate controls over financial activities and fund management, eligibility and enrollment, and deactivated funds. However, areas for improvement exist. SFHP must:

- Improve its outreach to address the large and growing contribution pool balance and the fact that many employees are not accessing the money intended for them.
- Better monitor its third-party administrator's claims processing.
- Give better information to DPH for its oversight of SFHP's performance.

For its part, DPH needs to obtain legal clarification regarding the ownership, use, and transfer of deactivated funds.

The report includes 22 recommendations for DPH to improve City Option. The responses of DPH and SFHP are attached. CSA will work with the department to follow up every six months on the status of the open recommendations made in this report.

CSA and SEC appreciate the assistance and cooperation of all staff involved in this audit. For questions about the report, please contact me at mark.p.delarosa@sfgov.org or 415-554-7574 or CSA at 415-554-7469.

Respectfully,

A handwritten signature in dark ink, appearing to read "Mark de la Rosa", is positioned above the printed name.

Mark de la Rosa
Acting Director of Audits

cc: Board of Supervisors
Budget Analyst
Citizens Audit Review Board
City Attorney
Civil Grand Jury
Mayor
Public Library

City and County of San Francisco City Services Auditor

Performance Audit of San Francisco Health Plan's Administration of the SF City Option Program



September 2020



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Table of Contents

Table of Contents	i
Glossary	ii
Executive Summary.....	1
Introduction.....	6
Scope and Methodology	9
Section 1: SFHP’s Fiscal Management of City Option Is Strong.....	12
Section 2: SFHP Successfully Enrolls and Appropriately Manages City Option Participant Accounts.....	16
Section 3: DPH and SFHP Must Immediately Begin to Decrease the Large and Growing Balance in City Option’s Contribution Pool	21
Section 4: SFHP Has Effective Notification Practices for MRA Deactivated Accounts, but More Outreach and Clarifications Are Needed	26
Section 5: SFHP Should Strengthen Its Claims Management and Monitoring	32
Section 6: DPH Should Ask SFHP to Enhance Its Fiscal and Program Reports	35
Department Response.....	39
Recommendation and Response	40
Contractor Response: San Francisco Health Plan.....	46

Glossary

City	City and County of San Francisco
City Option	SF City Option Program
CMRA	SF Covered Medical Reimbursement Account
DPH	Department of Public Health
ESR	Employer Spending Requirement, the system SFHP uses to track and manage employer contributions, claims activity, and administrative fees
HSF	Healthy San Francisco
MRA/SFMRA	SF Medical Reimbursement Account
Ordinance	San Francisco Health Care Security Ordinance
SFHP	San Francisco Health Plan
WageWorks	SFHP's third-party claims administrator
UPID	Unique person identification

Executive Summary

The City and County of San Francisco (City) Office of the Controller's City Services Auditor engaged Sjoberg Evashenk Consulting, Inc., to conduct a performance audit of the employer-funded health care expenditures contributed to the SF City Option Program (City Option). The objective of the audit was to determine whether San Francisco Health Plan (SFHP) complied with its contract with the City by properly administering funds for City Option. Established in 2006 by the San Francisco Health Care Security Ordinance (the ordinance), City Option has experienced rapid growth over the past three years, with employer contributions topping \$1 billion and nearly 432,000 participants by the end of 2019. SFHP is City Option's administrator on behalf of the City's Department of Public Health (DPH), operating the three City Option program components—Healthy San Francisco (HSF), SF Medical Reimbursement Account (MRA), and SF Covered Medical Reimbursement Account (CMRA).

Overall, SFHP properly administers and manages program funds in accordance with industry best practices, its agreement with the City, and the ordinance. In the areas reviewed, we found strong policies, diligent practices, and adequate controls over financial activities and fund management, eligibility and enrollment, and deactivated funds. However, areas for improvement exist. There needs to be improved outreach to address growing cash balances and participants not accessing those funds, better monitoring of SFHP's third-party administrator's claims processing, and better information provided to DPH for oversight. Moreover, DPH needs to obtain legal clarification regarding the ownership, use, and transfer of deactivated funds.

The following sections summarize the audit's key results and recommendations. The recommendations in their entirety are listed at the end of each report section.

1. SFHP's Fiscal Management of City Option Is Strong

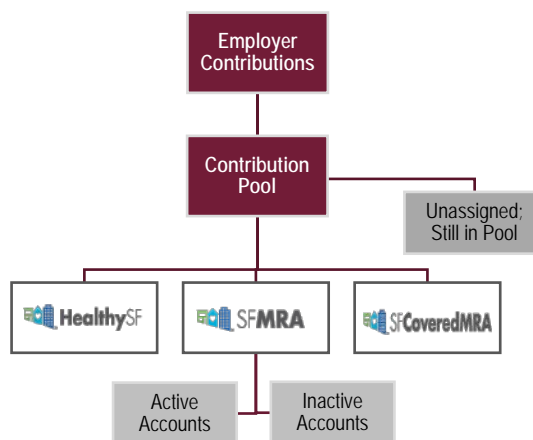


Fiscal management is critical to City Option's success, and SFHP meets its contractual duties in this area. City Option has a strong financial framework, adequate controls, and solid practices to secure employer contributions, manage program funds, pay expenditures, and track and account for transactions processed.

RESULTS:

- The fund structure adheres to the requirement in city law that City Option funds be separate from other operational funds.
- Good controls exist over financial activities to secure funds, accurately account for deposits and claims, separate conflicting responsibilities, and perform reviews and reconciliations. These controls include policies and procedures, automated systems, staff knowledge, and required authorizations.
- SFHP manages funds diligently to ensure employer contributions are safe, bank reconciliations are properly prepared, and vendor payments are well-managed.

FLOW OF FUNDS:



2. SFHP Successfully Enrolls and Appropriately Manages City Option Participant Accounts



With more than 400,000 participants enrolled since 2008, SFHP employs good practices to determine eligibility and enroll participants on a timely basis and appropriately manages and maintains funds.

RESULTS:

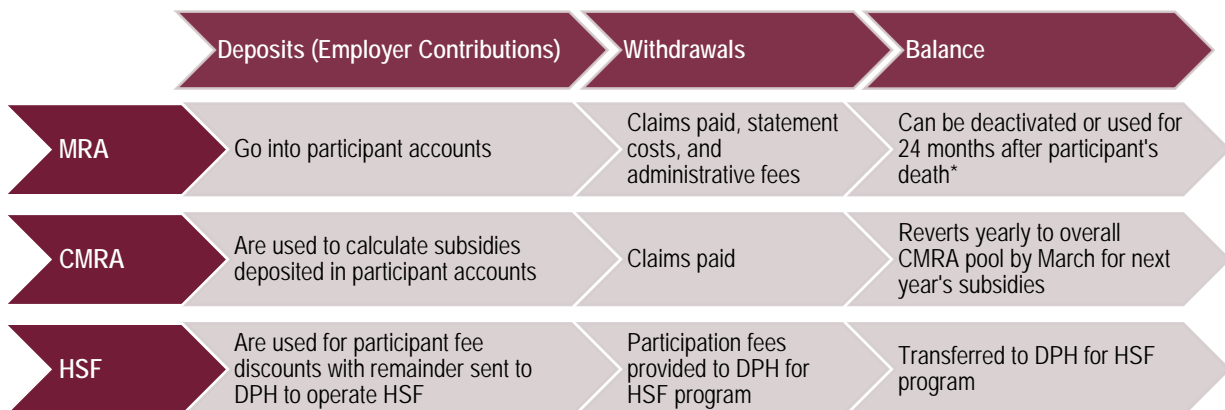
- SFHP determines eligibility within an average of nine days and enrolls participants in an average of less than one day after receiving applications, well within the timeframes in its policy.
- SFHP has solid eligibility and enrollment practices to ensure qualified employee participants receive employer contributions on time.
- SFHP accurately calculates and controls HSF program account fees in accordance with its policy.
- Effective practices exist to maintain participant accounts and track individual account activity through automated system controls over areas such as employer contributions, subsidy calculations, and program transfers.

RECOMMENDATION:

To improve the City Option enrollment process, DPH should work with SFHP to:

1. Consider creating a procedure to notify the City's Office of Labor Standards Enforcement when employees apply to enroll in City Option, but employers have not yet submitted their contributions.

PARTICIPANT ACCOUNT ACTIVITIES:



3. DPH and SFHP Must Immediately Begin to Decrease the Large and Growing Balance in City Option's Contribution Pool



Policies introduced in October 2016 require employees to apply before being enrolled in or having access to health care funds via City Option. Since 2016 SFHP has maintained employer funds in a “contribution pool,” where money awaits assignment to an individual. However, because few applications were received, the contribution pool grew and grew. Given that the pool’s balance had reached \$359 million by the end February 2020, DPH should work with SFHP to reduce this balance through outreach, simplification, and fund reversion.

RESULTS:

- Because few employees have applied for the City Option Program or scheduled appointments to determine their eligibility, the contribution pool's balance has grown dramatically since 2016, reaching \$359 million in February 2020, or more than one-third of the approximately \$1 billion in employer contributions submitted since 2008.
- Of the approximately 183,000 employees with funds in the pool in February 2020, only about 33,000 (18 percent) applied to enroll in City Option. The other 150,000 employees (82 percent) did not apply for enrollment, and their funds continue to go unused.
- SFHP created and followed a variety of policies and practices to track, secure, and assign funds in its contribution pool and exercised prudent controls to fiscally manage the funds.
- DPH and SFHP must immediately establish a plan and/or policies and procedures to make these funds available to participants for their health care use or determine whether the funds are eligible to revert to the City.

RECOMMENDATIONS:

To address the large balance and growing balance in the City Option contribution pool, DPH should work with SFHP to:

2. Establish policies and practices for outreach to pre-October 2016 participants to encourage them to apply for enrollment and use their employer health care contributions.
3. Implement recommendations from the marketing consultant's report, once available, for outreach strategies for all pool employees to apply for enrollment or re-enrollment.
4. Initiate outreach to target those active Medical Reimbursement Account participants who submitted claims in the most recent fiscal year and have pool funds to transfer to their existing accounts.
5. Determine whether SFHP needs additional resources to conduct enhanced outreach to increase enrollment.
6. Design and implement performance measures to gauge the effectiveness of SFHP's future outreach efforts that are intended to increase enrollment.
7. Further simplify the enrollment process for employees to access funds. As part of this, consider eliminating the need for participants to apply as a condition of enrollment.
8. Develop written policies addressing what should be done with money that remains in the contribution pool for a long time (a duration that DPH must define). Consider establishing a policy that allows funds to escheat or revert to the City when thorough participant outreach and due diligence efforts are unsuccessful.

4. SFHP Has Effective Notification Practices for MRA Deactivated Accounts, but More Outreach and Clarifications Are Needed



Following policy, SFHP deactivates MRA accounts with no activity for 24 months. (Participants with these accounts maintain the right to reactivate them at any time.) SFHP uses strong practices to ensure funds are secured and not inappropriately deactivated. Despite this, the contribution fund balance had grown to nearly \$60 million by February 2020. Thus, DPH should work with SFHP to encourage participants to reopen their accounts and use the funds designated for their health care needs. DPH should also clarify the appropriate use of deactivated funds transferred to it by SFHP.

RESULTS:

- SFHP has sufficient controls in its processes to identify inactive accounts and to notify participants before account deactivation.
- With \$60 million in deactivated MRA accounts as of February 2020, SFHP needs to increase its outreach efforts to reengage participants and encourage them to access the funds available.
- Although DPH complied with contract terms in transferring \$17.5 million of deactivated funds from participant accounts to the City, legal clarifications are needed to ensure the appropriateness and transparency of future transfers.
- SFHP should simplify and clarify the deactivation notice so recipients can more easily understand its purpose.

RECOMMENDATIONS:

To reengage inactive City Option participants and encourage them to use their accounts, DPH should work with SFHP to:

9. Establish and conduct regular outreach activities to participants with deactivated accounts to remind them of the balances available for their health care needs and inform them of how to activate their accounts.
10. Consider using a skip tracer service to locate and contact participants, researching public databases to identify deceased participants and permanently close accounts related to deceased persons, and launching a communication campaign to notify the public of unclaimed health care funds and how to access them.
11. Obtain formal written clarification from the City Attorney on the legal ownership of participants' deactivated City Option funds. Based on the ownership status, the advice should explain the permitted transfer of funds to the Department of Public Health and the allowed uses of the transferred funds.
12. Modify deactivation notices to simply and clearly state the intent to deactivate funds due to inactivity and the methods available to participants to keep their accounts in active status.

DPH should:

13. Document the use of deactivated funds transferred to it to ensure the expenditure of these funds benefit City Option and are not spent on unrelated departmental functions.
14. Develop a plan on how to replenish deactivated funds if enough participants exercise their right to reactivate their accounts that insufficient funds remain to cover additional participant requests.

5. SFHP Should Strengthen Its Claims Management and Monitoring



SFHP uses a vendor, WageWorks, to process participant claims. WageWorks processed more than 2 million claims totaling \$580 million in 2015 through 2019. Although SFHP has policies to manage and process claims and although its contract with WageWorks has an audit clause, SFHP does not monitor WageWorks to ensure it pays claims accurately and in a timely manner. WageWorks incorrectly processed 5 (17 percent) of 30 claims we tested.

RESULTS:

- SFHP's third-party claims administrator, WageWorks, incorrectly processes some claims.
- In a nonstatistical sample of 30 claims, WageWorks approved an ineligible expense, denied an eligible expense, or approved a claim without sufficient support in 5 instances, or 17 percent of the sample.
- Despite the contract's audit clause, SFHP does not monitor WageWorks' claim processing.

RECOMMENDATIONS:

To mitigate financial risk with its third-party claims processor (WageWorks) and strengthen practices over claims management, DPH should require SFHP to:

15. Review WageWorks' claims processing procedures to determine whether they align with SFHP's guidance and, to the degree they do not, make adjustments accordingly.
16. In addition to the contractually required deliverables, ask WageWorks for additional data such as the results of its claims quality process audits and the corrective actions it has taken on any issues identified by the audits.
17. Establish and implement claims monitoring procedures for WageWorks to ensure they comply with contract provisions and perform as expected.

6. DPH Should Ask SFHP to Enhance Its Fiscal and Program Reports



SFHP works closely and collaboratively with DPH, sharing and discussing information and policies related to City Option. Also, SFHP provides contractually required data at the stated frequency to DPH for oversight of the program. Nonetheless, a few improvements can strengthen DPH's monitoring of the program by having SFHP supplement data provided to identify trends, highlight important areas, and explain the data provided.

RESULTS:

- Although SFHP complies with requirements in its reporting to DPH, the contract's reporting provisions lack specificity.
- A few improvements can enhance the content SFHP reports to DPH.
- The data SFHP reports to DPH is generally supported, but certain methodologies and data-support protocols should be adjusted. For instance, reporting reopened accounts with current employer contributions conflates and complicates the contribution amounts.

RECOMMENDATIONS:

To enhance SFHP reporting and provide meaningful information for oversight, DPH should work with SFHP to:

18. Determine the type of report data and narrative needed to provide better oversight and clarify contract language for reporting to include specific data and information to be provided.
19. Enhance reporting by including better explanations of results and/or impacts to the program and more narrative surrounding data and tables to highlight importance or patterns/trends.
20. Refocus the annual report executive summaries to describe progress on City Option's goals, highlight successes and challenges, provide a snapshot of financial status, and feature areas that require DPH consideration or attention.
21. Explain any methodology changes, retroactive adjustments, or discrepancies between reports to enhance continuity and avoid apparent inconsistencies between reporting periods.
22. Remove reopened account values from the employer contribution amounts reported to DPH and maintain backup data to support the information and statistics reported to DPH.

Introduction

In August 2006, the City and County of San Francisco (City) Board of Supervisors adopted the Health Care Security Ordinance (the ordinance) to improve health care service delivery to uninsured San Francisco residents. The ordinance requires employers of a certain size to contribute to the cost of their employees' health care and created a program, the Health Access Program, which comprises Healthy San Francisco and medical reimbursement accounts to provide uninsured San Franciscans access to comprehensive health care services. As codified in San Francisco Administrative Code Chapter 14, the ordinance identifies the City's Department of Public Health (DPH) as the program's administrator, with a goal to maximize participants' overall access to health care services. In response, DPH created the SF City Option Program (City Option) as one way employers can comply with the ordinance.

Administration and Oversight

To manage the complexity and need for immediate implementation of the ordinance, DPH contracted with San Francisco Health Plan (SFHP) to be City Option's third-party administrator. Established in 2005 as part of a joint powers agreement between the San Francisco Health Authority and San Francisco Community Health Authority, SFHP was created as a government entity and licensed community health plan that provides affordable and high-quality health care to low-income individuals and families and supports safety net providers. SFHP's activities are governed by a board largely composed of DPH representatives and local safety net providers.

Through its contract with DPH, SFHP provides City Option's day-to-day administrative and program functions, including determining eligibility, enrolling participants, managing program finances, including participant fees and monetary transfers to DPH, and conducting outreach. Although SFHP administers City Option and proposes program policies and features, DPH is responsible for approving changes and making decisions on City Option's operations. However, neither DPH nor SFHP is responsible for ensuring compliance with the ordinance and has no control over whether employers submit their contributions in accordance with the ordinance. Rather, the San Francisco Office of Labor Standards Enforcement is charged with enforcing the obligations of employers under the ordinance.




City Option's Three Program Components

If they choose to comply with the ordinance through City Option, employers submit employee rosters to SFHP and deposit money into a contribution pool administered by SFHP on behalf of the employer's employees. SFHP tracks the employer funds in a contribution pool until employees apply to SFHP, which is how participants are assigned to a City Option program component and can begin to access funds. Based on specific program eligibility rules and information applicants provide on their applications, SFHP enrolls employees in one of three City Option program components:

- Healthy San Francisco (HSF)
- SF Covered Medical Reimbursement Account (CMRA)
- SF Medical Reimbursement Account (MRA).

Each component has its own benefits and rules, as shown in Exhibit 1.

EXHIBIT 1. CITY OPTION HAS THREE COMPONENTS

RULES, ENROLLMENT & FUND BALANCES	 HealthySF OUR HEALTH ACCESS PROGRAM	 SFCoveredMRA HELP WITH YOUR HEALTH INSURANCE	 SFMRA YOUR ACCOUNT FOR HEALTH COSTS
Description	Access to health care through medical homes	Provides Covered California health insurance premium assistance and subsidy	Available to reimburse eligible health care expenses incurred by participant
Eligibility	<ul style="list-style-type: none"> • SF resident • Uninsured for at least 90 days • Ineligible for Medi-Cal or Medicare • Age 18 or over 	<ul style="list-style-type: none"> • SF resident • Income does not exceed 500% of federal poverty level • Enrolled in Covered California • Age 18 or over 	<ul style="list-style-type: none"> • No residency restrictions • No income restrictions • No age restrictions
Employer Contributions	Amounts used for participant fee discounts, with remainder to DPH to operate HSF program	Amounts used to calculate subsidies that go into participant accounts	Amounts go directly into participant accounts
Dependents Allowed?	No	Yes	Yes
Cost Sharing	Discounted participation fees and point-of-service fees assessed by medical homes	None; subsidy calculated for Covered California insurance with amounts deposited into account for participant	None; all employer contributions go into account for participant
Participant Account Fees	None	\$3.50/month	\$2.75/month
Allowable Costs	Primary and preventive health care through medical homes	Eligible out-of-pocket health care expenses beyond those typically allowed in federal flexible spending accounts	Eligible out-of-pocket health care expenses beyond those typically allowed in federal flexible spending accounts
Claims Submitted?	N/A	Yes	Yes
Availability of Funds	N/A	Calendar year only; expire in March each subsequent year	Deactivated after 24 months of inactivity, but always available
Number Enrolled	976 (0.9 percent)	245 (0.2 percent)	107,490 (99 percent)
Fund Balances	\$2.2 million	\$2.2 million	\$143 million

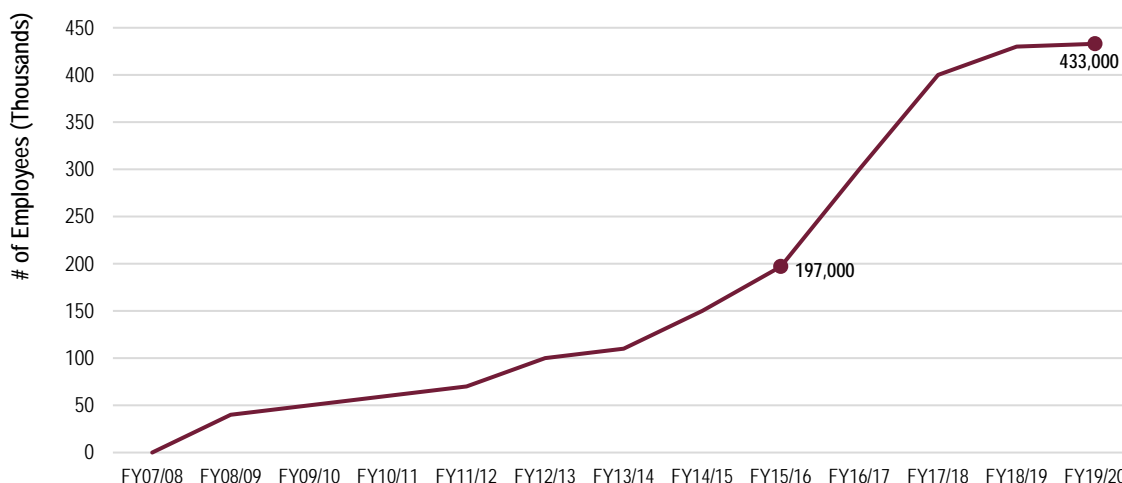
Source: City Option Benefits and Eligibility presentation dated October 16, 2019; Great Plains financial system balance sheet of February 29, 2020; SFHP data.

Since City Option's inception, employers have contributed more than \$1 billion, with the vast majority (94 percent) of employees enrolled in the MRA program component.

Program Growth and Transformation

From fiscal year 2015-16 to 2019-20, participation in City Option skyrocketed, from approximately 197,000 employees to nearly 433,000 employees who received employer contributions, as shown in Exhibit 2.

EXHIBIT 2. EMPLOYEE GROWTH IN CITY OPTION SINCE INCEPTION



Source: Transformation of City Option Presentation to Office of the Controller, January 2019.

Part of the skyrocketing growth was attributed to the Board of Supervisors' renewal of the ordinance after warding off unsuccessful litigation attempts as well as the likely momentum from the City's examination of the federal Affordable Care Act's implementation and integration with the ordinance in 2015.

In light of that growth, SFHP proposed to DPH changes to modernize and transform City Option to better meet users' needs and allow it to operate more like a separate line of business. SFHP realized that it needed resources to implement enhanced services, such as monitoring to detect account fraud, to stay current on the legal and tax implications associated with the MRAs, to comply with banking and finance industry rules and standards, and to perform audit and claims oversight. As such, SFHP reported that it increased its risk management-related activities to protect thousands of employees' personal and private information and prevent identity theft and fraudulent activity, in addition to providing enhanced financial oversight required to manage employer contributions, secure funds until employees enroll, and track participants' active and inactive accounts.

Scope and Methodology

Sjoberg Evashenk Consulting, Inc., was engaged by the City Services Auditor of the City's Office of the Controller to conduct a performance audit to determine whether SFHP complied with its contract with the City by properly administering funds for City Option. The audit period was generally 2015 through 2019, although statistics were updated through February 2020. Specifically, the audit's objectives were to:

1. Assess whether general financial controls and good practices exist to track and secure City Option funds.
2. Evaluate whether funds are appropriately handled to ensure employer contributions are routed to participants and accounts are properly managed.
3. Ascertain whether SFHP appropriately monitors its third-party claims administrator.
4. Determine whether SFHP complies with the City's Health Care Security Ordinance as codified in San Francisco Administrative Code Chapter 14, its contract with the Department of Public Health, and internal policies and procedures.
5. Review whether DPH receives sufficient information to fulfill its responsibilities to oversee SFHP as City Option's administrator.

To meet the audit's objectives, we performed the following steps:

- Met with DPH's Director and Manager of Managed Care and SFHP's Chief Financial Officer, Officer and Director of Policy Development and Coverage Programs, Manager and Program Managers of City Option, Senior Coverage Programs Project Manager, and Supervisor of City Option Relationship Management to understand City Option's practices, perspectives, and environment.
- Reviewed and assessed the ordinance (Administrative Code Chapter 14) and SFHP's contract with DPH.
- Obtained and analyzed data for the audit period related to the number, dollar amounts, and particular City Option components (HSF, CRMA, MRA) for employer contributions, applications, participants enrolled, unassigned employees in contribution pools, claims paid, denied claims, and deactivated accounts.
- Evaluated policies, procedures, guidelines, handbooks, processes, and controls related to employer contributions, contribution assignments, the fund request validation process, deactivated accounts, participants, benefit transitions, deceased participants, refunds, subsidies, reopened accounts, transfers, and audits for each of the three City Option components.
- Assessed system user guides related to SFHP's Employer Spending Requirement (ESR) system, which is used to track and manage employer contributions, claims activity, and administrative fees and the portal its third-party claims administrator, WageWorks, uses to pay participants' claims.
- Studied reports of prior City Option audits and reviews to identify relevant patterns or problems requiring further investigation or affecting the scope of our audit and to determine whether SFHP addressed past recommendations and implemented corrective actions.

- Reviewed customer complaints, tracking logs, annual reports, and call sheets to identify the general nature of complaints and any relevant patterns or problems requiring further investigation or affecting the scope of our audit.
- Reviewed budgets, financial reports, systems used, balance sheets, the general ledger account structure, and financial system queries to understand the flow of money and transactions among employers, SFHP, WageWorks participant accounts, and DPH to assess activities against industry practices and authoritative guidance.
- Conducted a high-level assessment of the fiscal control environment, risk assessment, control activities, communication, and monitoring efforts, including processes for approving, reviewing, reconciling, and reporting transactions in addition to safeguarding assets and separating conflicting duties over the audit areas.
- Evaluated and tested five monthly bank reconciliations conducted from July 2019 through January 2020 that were available on site, including underlying bank statements, fiscal records, and journal entry support for employer contributions and claims paid. Tested for accuracy, support, reconciled items, review, and appropriate monitoring.
- Selected and traced a random, nonstatistical sample of 10 employer contributions from 2015 through 2019 for individual employees through the ESR system to WageWorks Portal accounts to test whether contributions were correctly reflected in participant accounts.
- Selected and tested a random, nonstatistical sample of 10 MRA participant claims from 2015 through 2019 from claim payment reports submitted as part of monthly WageWorks invoices to review whether payments were correctly deducted from WageWorks Portal accounts and the ESR system.
- Selected and tested a nonstatistical sample of 30 claims submitted from 2015 through 2019 from activity reports submitted with monthly invoices to review underlying claim reimbursement detail—such as medical billings, receipts, and provider statements—and assess whether WageWorks accurately processed claims according to City Option criteria for eligible expenses in a timely manner. We used a judgmental sampling approach to select a broad representation of claims based on different factors, including different dates, dollar amounts, participants with many claims, submission types (mail, fax, mobile application, and web application), expense or service types claimed, and claim results (denied, approved, and partially approved).
- Assessed the automated and manual processes for HSF participant billing and the application of credits, waivers, and ESR system discounts in SFHP's premium billing system for sufficiency of controls over employer contributions and participant fee payments.
- Reviewed fund transfers from HSF and the deactivated accounts pool to DPH and underlying data including transfer methodologies, balance sheet accounts, journal entries in the financial system, calculations, and budgets.
- Selected and tested a nonstatistical sample of 12 vendor payments recorded in August through October 2019 that were available on site for support, reasonableness, accuracy, approval, and compliance with vendor contracts by reviewing fiscal records, fund requests, payment processes, and required reports.

- Selected and tested a nonstatistical sample of 20 employer contributions received between 2016 and 2019 to determine whether SFHP transferred employer contributions from the contribution pool to employees within reasonable timeframes by reviewing ESR system data and queries, outreach letters and packages, program finder forms, and participant accounts in the WageWorks and ESR system portal.
- Reviewed outreach efforts through welcome letters, packets, and other methods to reach potential participants and considered challenges encountered in determining eligibility and enrolling employees.
- Assessed processes for deactivating accounts by reviewing the length of time funds were held, ESR system deactivation reports, notices, automated call scripts, user guides, account deactivation files, account closure mailing lists, reconciliation reports, and general ledger accounts.
- Evaluated SFHP's contract with WageWorks and its monitoring of WageWorks' employee claims processing in terms of its accuracy, timeliness, and decisions on the allowability of claims. Also considered SFHP's monitoring of WageWorks' reported data and contract compliance.
- Assessed data and reports provided to DPH for accuracy, sufficiency, frequency, and relevance of the information to enable oversight. Also considered the reported data's support by financial records, ESR system data, and participant accounts.

Sjoberg Evashenk Consulting 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.

Section 1: SFHP's Fiscal Management of City Option Is Strong

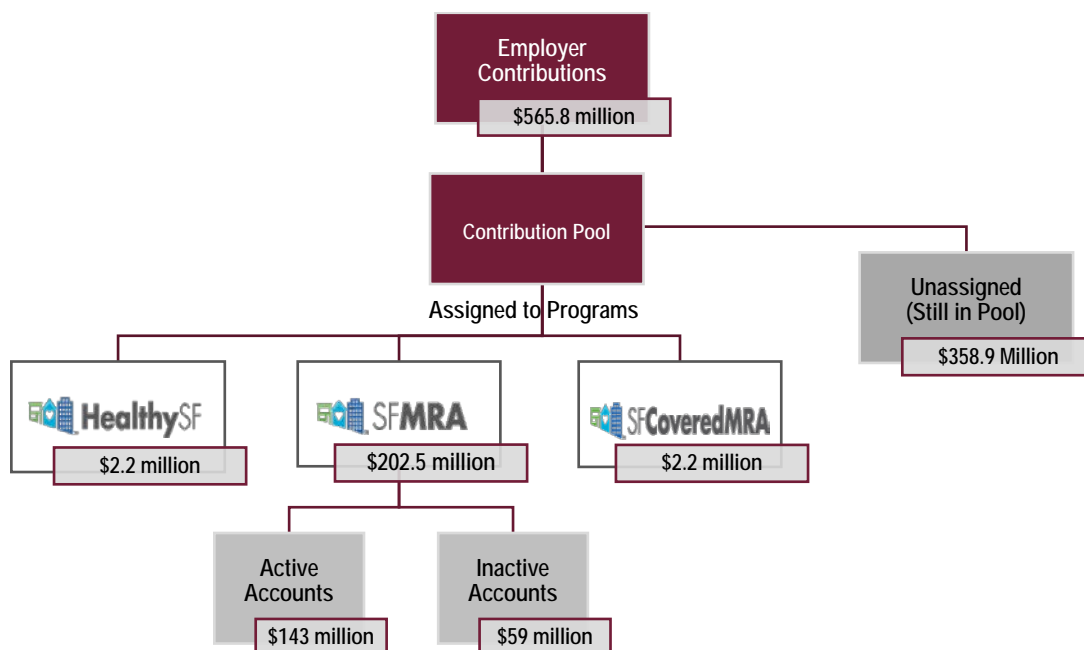
SFHP is responsible for managing funds for City Option so that participants can use the program's health care benefits. As part of its fiscal responsibilities, SFHP manages funds, maintains an accounting system, prepares bank reconciliations, bills participation fees, calculates subsidies, manages vendor procurement and program expenditures, and monitors provider payment processing.

Because solid fiscal management is critical to the success of City Option, we tested SFHP's practices in this area and found that SFHP meets its contractual duties and has a strong financial framework, adequate controls, and solid practices to secure employer contributions, manage program funds, pay expenditures, and track and account for transactions processed.

Fund Structure Adhered to City Law

As required by San Francisco Administrative Code Section 14.2, SFHP maintains City Option funds separate from its other operational funds. SFHP uses more than 20 accounts in its financial system to distinctly track and manage various City Option activities. Separate accounts are used for employer contributions, each City Option component, unassigned contributions, and deactivated MRAs, among other categories. In February 2020 nearly \$359 million was in the contribution pool waiting to be assigned to a program account, as shown in Exhibit 3.

EXHIBIT 3. CITY OPTION ACCOUNT BALANCES ON FEBRUARY 29, 2020



Source: Great Plains financial system balance sheet as of February 29, 2020.

SFHP Has Good Internal Controls Over City Option Financial Activities

Employing a strong control environment over fiscal activities is critical to the success of any program. We found SFHP management exudes a tone at the top that clearly communicates SFHP's philosophy of participants having access to their health care funds, commitment to competence and controls, and sincere emphasis on staff integrity and accountability. SFHP also demonstrated its commitment to improvement by commissioning its own internal audit and preparing a strategic road map to implement recommendations with status and activity, priority assigned, and estimated implementation schedule dates.

We found SFHP built a prudent control framework over City Option by creating policies and practices to secure employer and participant funds, accurately accounting for deposits and claims, appropriately separating conflicting responsibilities, and performing timely reviews and reconciliations of data that give integrity to the financial results of City Option's activities. The following are examples of these sound practices:

- ✓ Written policies and procedures cover many areas, such as employer refunds, contribution assignment, not-sufficient-funds processing, invoice payments, deactivated accounts, and bank reconciliations.
- ✓ SFHP manages transactions using its Great Plains financial system, which undergoes an annual independent financial audit to evaluate controls, test individual transactions, and validate account balances.
- ✓ The Employer Spending Requirement system used for tracking employer contributions and participant data uses user roles to prevent inappropriate access and automatically interfaces with the financial system to enhance the accuracy of transactions.
- ✓ SFHP regularly reviews and reconciles data between the ESR system and the WageWorks portal for employer contributions, participant claims, and account fees.¹
- ✓ Employees demonstrate knowledge of policies and management directives and have the information they need to perform their responsibilities.

Further, SFHP has implemented sufficient controls over authorization of transactions and activities, segregation of duties to reduce opportunities for any one person to be in a position to both perpetrate and conceal errors or illegal acts in the normal course of the individual's duties, safeguards for accessing and using assets and records, documentation and records to ensure proper recording of transactions, and independent checks on activities and amounts.

SFHP Manages City Option Funds Diligently and in Compliance With Its DPH Contract

Its contract with DPH requires SFHP to conduct fiscal activities that include reconciling bank activity, managing fund transfers, processing provider payments, managing data transmission and funding of

¹ WageWorks, acquired by Health Equity in August 2019, provides claims administration services for MRA and CMRA participant accounts.

MRAs, managing deactivated accounts, and routine financial reporting.² We found SFHP fulfills these contractual fiscal duties and diligently manages City Option funds, as described below.

Employer Contributions Are Secured

With individual employer contributions that ranged from \$3 to \$1.7 million, SFHP exercises appropriate controls, whether employers submit funds by check or electronic funds transfer. The latter method is more secure than check payments because the employer submits funds electronically into the ESR system that transfers the money directly to the bank and automatically records the transaction in the financial system. However, we found no issues with funds paid by check, as different SFHP finance unit employees receive and record the checks in the ESR system with adequate segregation of duties as a control.

Bank Reconciliations Are Properly Prepared

Each month, SFHP prepares reconciliations between its financial system and bank statements capturing activity related to employer contributions, payment of claims, and vendor payments. We selected and tested five monthly bank reconciliations from July 2019 through February 2020 and found they were supported by underlying documentation, accurately reconciled, and reviewed and approved by management in a timely manner.

Vendor Payments Are Well-Managed

SFHP uses four external vendors to assist with City Option's functions, with WageWorks being the primary vendor as the program's third-party claims administrator. We selected and tested 12 invoices for services from the external vendors from August 2019 through October 2019 and found:

- SFHP properly reviewed and approved the invoices.
- The invoices are accurate.
- The costs are supported with underlying documentation.
- SFHP verified that the invoices adhere to contract provisions.
- SFHP obtained approvals from program staff indicating that services had been rendered before recording and approving payment in the financial system.

For instance, SFHP adequately reviewed and paid five types of invoices from WageWorks consistent with its contract and with underlying support, as follows:

1. **Weekly MRA Claims Reimbursement:** Invoices are supported by claim extract files from the WageWorks portal that SFHP reconciled with the ESR system. SFHP validated data to flag potential duplicate claim payments or amounts that did not match those in the ESR system.
2. **Monthly MRA Administrative Fees:** Invoices are supported by a list of accounts from the WageWorks portal that SFHP reconciled with the ESR system.
3. **Monthly MRA Participant Statement Fees:** Invoices are supported by a list from SFHP of individuals requesting paper statements.

² We also tested SFHP contract compliance related to fund transfers, participant accounts, deactivations, and reporting. These areas are discussed in other sections of this report.

4. **Weekly CMRA Claims Reimbursement:** Invoices are supported by claim extract files from the WageWorks portal that SFHP reconciled with the ESR system and validated data to flag potential duplicate claim payment or amounts that did not match those in the ESR system.
5. **Monthly CMRA Administrative Fees:** Invoices are supported by a list of accounts from the WageWorks portal, which SFHP reconciled with the ESR system.

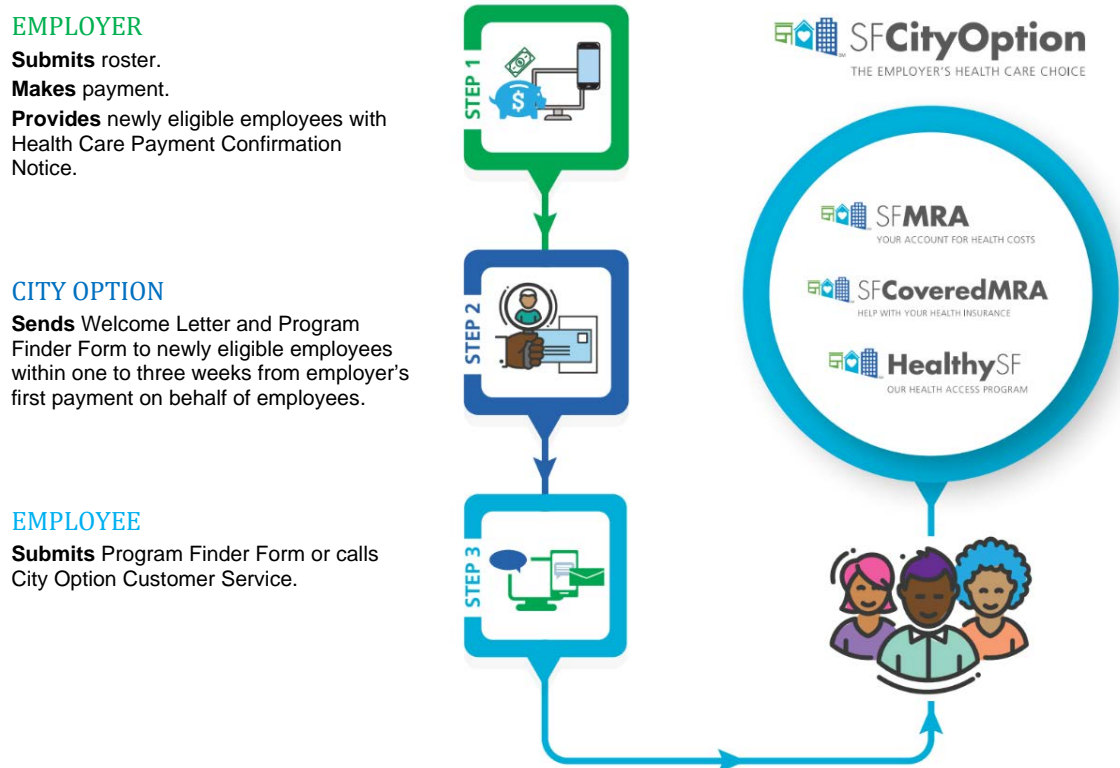
Section 2: SFHP Successfully Enrolls and Appropriately Manages City Option Participant Accounts

With more than 431,000 participants enrolled in City Option since 2008, it is critical that SFHP fulfill its responsibilities to determine participant eligibility, enroll eligible candidates, and manage funds in participant accounts effectively so balances are accurate and participants can access their health care funds as needed. We found that SFHP employs good practices to determine eligibility and enroll participants on a timely basis and appropriately manages and maintains funds.

SFHP Determined Eligibility and Enrollment in Accordance With Policy Timeframes

As shown in Exhibit 4, the process for joining City Option involves employer contributions, employee applications, and participant enrollment.

EXHIBIT 4. THE CITY OPTION ELIGIBILITY AND ENROLLMENT PROCESS



Source: City Option Systems Overview Presentation dated April 2019.

Before October 1, 2016, SFHP's Employer Spending Requirement system automatically assigned employees and enrolled them into either the Healthy San Francisco program or a Medical Reimbursement Account after an employer made a contribution on their behalf.³ With the launch of the Covered MRA program, SFHP changed the process such that the application must contain supplemental information to

³ Using SFHP's internal ESR system, employers submitted roster and contributions, staff enrolled employees, and SFHP monitored participant activity.

aid in eligibility determinations. Once an employer contribution arrives, SFHP policy requires staff to send a welcome letter and application to the participant with instructions and place automated calls to the participant within 1 to 3 weeks after the contribution clears the bank. Per SFHP policies, once a participant applies, staff must determine eligibility, provide a results letter, and enroll the participant.

We found that SFHP sends the required outreach materials, determines eligibility, and enrolls participants within 1 to 3 weeks, as required by its policy. We selected and tested a sample of 20 employer contributions for participants enrolled in 2015 through 2019 and found that SFHP sent welcome letters and application forms to participants within 9 business days, on average, well within policy timeframes. Once it received the related application, SFHP assessed eligibility and enrolled participants within a day, on average. The results of our testing are shown in Exhibit 5.

EXHIBIT 5. SFHP PROCESSED TESTED CITY OPTION ELIGIBILITY AND ENROLLMENTS WITHIN POLICY GUIDELINES

Sample	Date of Contribution	Date Welcome Letter Sent	Business Days Between	Date Application Received	Date Enrolled & Result Letter Sent	Business Days Between
1	05/04/2016	05/18/2016	10	12/15/2016	12/16/2016	1
2	10/25/2016	11/04/2016	8	11/03/2016	11/04/2016	1
3	10/24/2016	11/06/2016	9	12/20/2016	12/21/2016	1
4	11/08/2016	11/18/2016	7	11/20/2016	11/21/2016	0
5	10/31/2016	11/10/2016	8	11/15/2016	11/16/2016	1
6	01/27/2017	02/08/2017	8	02/03/2017	02/04/2017	0
7	04/12/2017	04/26/2017	10	04/17/2017	04/18/2017	1
8	04/24/2017	05/04/2017	8	06/22/2017	06/23/2017	1
9	08/11/2017	08/23/2017	8	08/30/2017	08/31/2017	1
10	11/16/2017	11/30/2017	9	01/05/2018	01/06/2018	0
11	01/19/2018	02/02/2018	10	03/28/2018	03/29/2018	1
12	04/30/2018	05/10/2018	8	05/15/2018	05/16/2018	1
13	02/09/2017	02/21/2017	7	09/27/2018	09/28/2018	1
14	05/02/2019	05/14/2019	8	05/31/2019	06/01/2019	0
15	11/15/2019	11/23/2019	5	11/16/2019	11/17/2019	0
16	04/15/2013 ^A	04/24/2013	7	NA ^B	NA ^B	NA ^B
17	04/27/2018	05/11/2018	10	08/13/2018	08/16/2018	3
18	04/25/2013 ^A	05/28/2013	23 ^C	11/29/2016	12/02/2016	3
19	09/19/2019	10/01/2019	8	10/09/2019	10/09/2019	0
20	05/27/2015 ^A	06/08/2015	8	NA ^B	NA ^B	NA ^B
Average			8.95			0.89

Notes:

^A Sample was selected from active participant accounts with claims submitted in 2015 through 2019, but some initial employer contributions were made as long ago as 2013.

^B SFHP's system automatically enrolled these employees in MRA as part of a set of employees grandfathered into the program without needing to apply due to their non-San Francisco residency, which made them ineligible for CMRA and HSF.

^C One outlier received a welcome letter outside the guideline of 1 to 3 weeks (in this instance, after more than 3 weeks).

Source: ESR system administrative portal.

Although SFHP was able to successfully enroll or confirm enrollment for an average of 82 percent of the nearly 43,000 participants that applied from 2016 through 2019, there were reasons outside of SFHP's control that delayed or stopped some enrollments. The remaining 18 percent of applications submitted during that same time did not result in an enrollment because of incomplete application data submitted, missing employer contributions, or the need for an in-person appointment.

According to SFHP, it reached out occasionally to informally encourage employers to submit contributions if a roster or an application had been submitted, but SFHP does not have the authority to enforce the Health Care Security Ordinance. Rather, the City's Office of Labor Standards Enforcement is responsible for employer compliance with the ordinance. Program enrollment over a four-year period is shown in Exhibit 6.

EXHIBIT 6. MORE THAN 80 PERCENT OF CITY OPTION APPLICANTS WERE ENROLLED; UNENROLLED APPLICANTS OFTEN COULD NOT BE ENROLLED DUE TO CIRCUMSTANCES BEYOND SFHP'S CONTROL

Application Result	2016		2017		2018		2019		Totals
	Number Submitted	Percent Submitted	Number Submitted	Percent Submitted	Number Submitted	Percent Submitted	Number Submitted	Percent Submitted	
Enrolled*	3,583	82.8%	12,680	83.6%	9,496	81.2%	9,351	80.1%	35,110
Unable to Enroll:									
Need In-Person Appointment	584	13.5%	1475	9.7%	901	7.7%	918	7.9%	3,878
Fraudulent Information	0	0%	0	0%	29	0.2%	27	0.2%	56
No Contributions	123	2.8%	904	6.0%	1197	10.2%	1325	11.4%	3,549
Unable to Process	35	0.8%	110	0.7%	75	0.6%	47	0.4%	267
Totals	4,325		15,169		11,698		11,668		42,860
Average Percentage of Applications Enrolled:									81.9%

Note: * Includes employees who applied although they were already enrolled.

Source: SFHP, Program Finder Form Application data.

SFHP Has Effective Practices to Manage Participant Accounts

SFHP uses several systems to manage participant accounts: the ESR system, Great Plains financial system, and its claims administrator (WageWorks) portal system. SFHP systems have appropriate controls, checks, and access restrictions to secure and appropriately manage accounts. Also, SFHP created and follows policies and procedures for account activities related to contribution assignments, subsidy calculations, the transfer process, and fund request validations. Further, SFHP compares and reconciles activity recorded in the various systems.

Adequate Automated Systems Controls Exist

As one of three primary systems used to manage participant funds, the ESR system, which is used for eligibility and enrollment, requires minimal manual input and incorporates controls such as unique identifiers and role-based profiles to prevent unauthorized access and better secure transactions. Also, SFHP staff regularly review for accuracy to identify any anomalies in application data and summary reports in addition to MRA and CMRA enrollment data. Specifically:

- After an employer contributes funds related to its employee roster, the ESR system creates a unique person identification (UPID) number for each person on the roster. When an employee subsequently applies for City Option, the system compares the application against the employer's roster and the employee's UPID to appropriately match participants with their funds. The ESR system also captures funds for participants with multiple accounts. Although all individuals have unique UPIDs, the system allows multiple accounts under one UPID. Additionally, system features automatically calculate CMRA subsidies before transferring amounts to a participant's account for use in making payments for health insurance premiums or other health care needs.
- SFHP relies on the WageWorks system to track and pay claims for MRA and CRMA participants. Just as for the ESR system, WageWorks policies requires controls to prevent unauthorized access

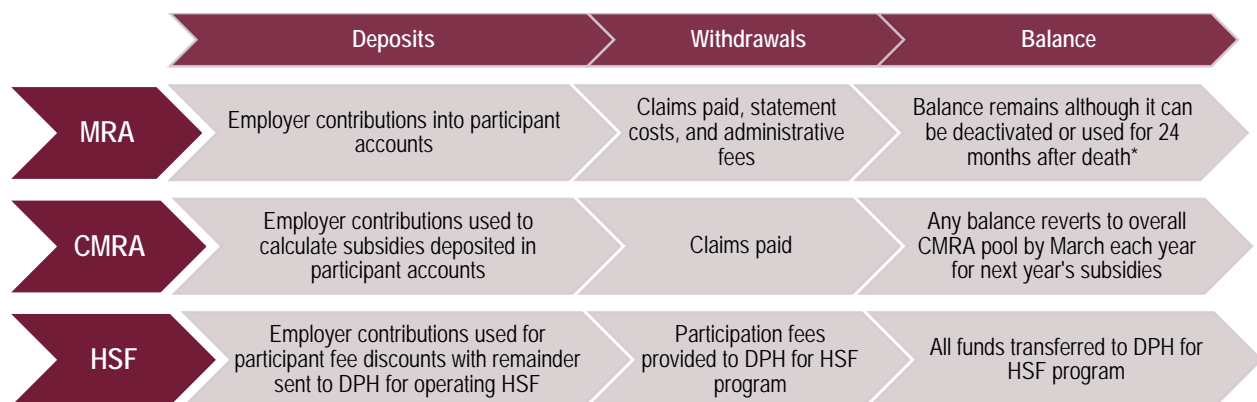
to participant accounts, including two-factor authentication and queries to identify potential identification theft, other fraudulent activities, or unusual patterns. SFHP regularly reconciles individual account data between its ESR system and the WageWorks system to manage and track the accuracy of account contribution, claim, and fee activity.

- In 2017, SFHP uncovered an instance of identity theft and unauthorized account access, and in February 2018, WageWorks discovered misconduct by one of its contractors. According to SFHP, the fraudulent and inappropriate activities resulted in a loss of less than \$100,000, which WageWorks covered with no cost impact to City Option. In response, SFHP and WageWorks made several changes to the WageWorks and ESR systems to add controls such as two-factor authentication and identity verification processes. Further, SFHP hired a consultant to review the incident, conduct a security risk assessment, and provide insights for vendor management and claims processing. Recommendations provided relate to establishing expectations and contract language with WageWorks for data security and privacy, implementing a compliance program framework at SFHP for securing and safeguarding sensitive information, improving vendor accountability, and starting routine auditing activities.
- As of February 2020, SFHP had hired another consultant to assist in its systems risk management and reported that it planned to add several controls to its third-party claims processor contract but was still developing a formal account monitoring program.

Individual Participant Account Activity Is Well-Tracke

Using the various automated systems, SFHP tracks funds deposited into participant accounts from employer contributions, subsidy calculations, and participant fees. It also tracks funds withdrawn from participant accounts for claims processed. Exhibit 7 shows the types of deposit and withdrawal activity for each City Option program type.

EXHIBIT 7. City Option Participant Account Activity: Deposits and Withdrawals, by Program Type



Note: * If a participant with an MRA account dies, eligible dependents may be able to use the funds.
Source: Auditor-generated based on review of SFHP policies and procedures and interviews with staff.

For MRA and CMRA participants, SFHP tracks individual participant accounts through its ESR system and reconciles activity with its WageWorks vendor portal. Established policies and procedures include processes for staff to find data in the ESR system to research and resolve high-level issues that participants may have related to eligibility, employer contributions, and claims. These procedures include monthly formal reconciliations to verify that withdrawals from individual accounts were appropriate.

Although WageWorks manages MRA and CMRA user accounts on a day-to-day basis by troubleshooting claims processing issues and account balance information, SFHP also has access to the WageWorks portal to compare information between the two systems and check for discrepancies. More importantly, SFHP minimizes its financial risk by not transferring employer contributions to WageWorks for deposit in participant accounts; rather, SFHP maintains control of funds and reimburses its vendor weekly for claims paid.

To test the accuracy of participant accounts and SFHP's management of them, we reviewed a nonstatistical sample of 10 employer contributions and claims deducted from participant accounts in 2015 through 2019 and found that both the ESR system and WageWorks portal accurately reflect account activity. In each case reviewed, the amounts were correct and agreed between the systems.

HSF Account Fees Are Accurately Calculated and Controlled

For the HSF program, SFHP sends employer contributions to DPH to offset costs of medical homes providing health care service to eligible participants. Thus, although SFHP tracks employer contributions by participant UPID, these participants do not have accounts reflecting their individual employer contributions. SFHP uses its Premium Billing System for HSF participant accounts to track and manage required participation fees. Much of the HSF fee process is now automated through the Premium Billing System, so transactions require minimal manual intervention.

Each quarter, SFHP programs its Premium Billing System to calculate discounts or waivers from standard participation fees, depending on income levels and whether the participant had related employer contributions. SFHP indicates that it routinely checks for unapplied discounts due to matching errors in the system's coding and is working on recoding the system to avoid those infrequent discrepancies. The system also has controls to automatically generate invoices, interface with participant payments the bank receives, and verify amounts recorded in the financial system.

Another strong practice SFHP follows before generating participant invoices is to check the Great Plains financial system for any unapplied payments that may be used to offset invoice amounts. If a participant has overpaid, SFHP either applies the excess amount to a future invoice or processes a refund upon request. The refund issuance process has appropriate controls to support the refund, including the need to receive approval from SFHP's Finance unit, which generates the refund check. SFHP uses its Premium Billing System to track HSF-designated employer contributions and receivables from participant fees to be transferred to DPH. Based on our cursory review of HSF participant accounts in the Premium Billing System, it appears that SFHP follows its processes as designed.

Recommendations

To improve the City Option enrollment process, the Department of Public Health should work with San Francisco Health Plan to:

1. Consider creating a procedure to notify the City's Office of Labor Standards Enforcement when employees apply to enroll in City Option, but employers have not yet submitted their contributions.

Section 3: DPH and SFHP Must Immediately Begin to Decrease the Large and Growing Balance in City Option's Contribution Pool

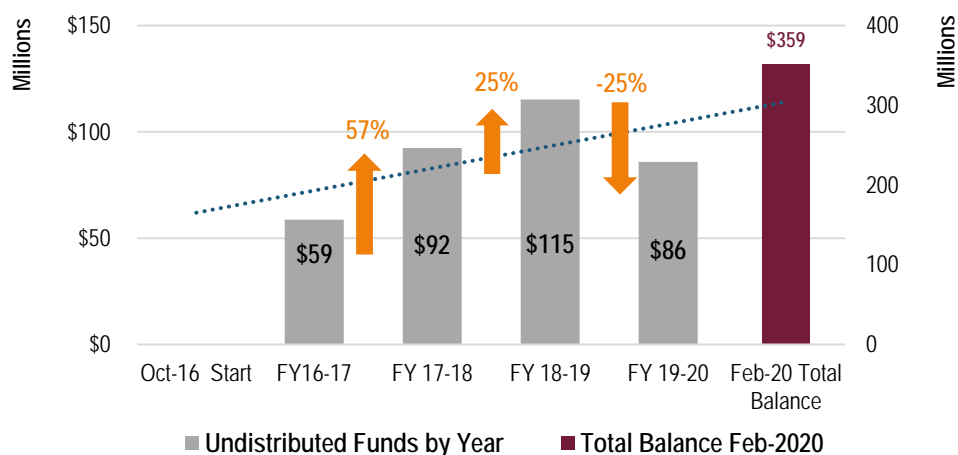
Since 2016, SFHP policy has required participants to apply for enrollment before SFHP can determine eligibility and enroll participants into one of the three program components in City Option. Before it receives applications from an employer's employees, SFHP maintains employer funds in a "contribution pool" where they await assignment to individual employees. However, relatively few applications have been submitted, so a significant and growing contribution pool now exists. Specifically, in February 2020, employers had put nearly \$359 million into the contribution pool for approximately 150,000 employees that had not been claimed by participants. This amount represents 85 percent of all employer contributions received by SFHP since October 2016.

The longer the pool balance exists, let alone increases, the longer employees (and former employees) are not using the health care funds designated for them. Also, the large and longstanding balance increases the risk of a negative public perception that there are unreasonable barriers to accessing the funds and, ultimately, that City Option is seriously flawed. Although our testing reveals that SFHP appropriately manages the undistributed funds, SFHP may be able to increase participants' access to the health care funds intended for their use through targeted outreach to encourage employees to apply for enrollment or by simplifying the process for employees to access the funds.

The Contribution Pool Began in 2016 and Grew Quickly

Initially, SFHP created the contribution pool as a holding account until SFHP determined eligibility, assigned employees to one of the three programs, and distributed employer contributions into accounts. According to SFHP, it was also a mechanism to minimize the account fees WageWorks assessed on individual participant accounts by consolidating funds until participants applied and SFHP formally enrolled them in accounts for which the third-party management fees are assessed. Although the contribution pool balance continually changes as employers make deposits and participants enroll in programs, transferring funds to pay claims, the balance in the pool was \$359 million in February 2020, as shown in Exhibit 8.

EXHIBIT 8. THE CONTRIBUTION POOL HAD A LARGE BALANCE AS OF FEBRUARY 2020



Source: ESR system, generated from Datamart reporting tool on February 12, 2020; bank balance as of February 29, 2020.

The growth in the pool balance mainly resulted from employees not submitting a program application or not scheduling the required in-person eligibility determination appointment for enrollment in the HSF or CMRA program components. We did not find that the growth was due to any SFHP processing backlogs.

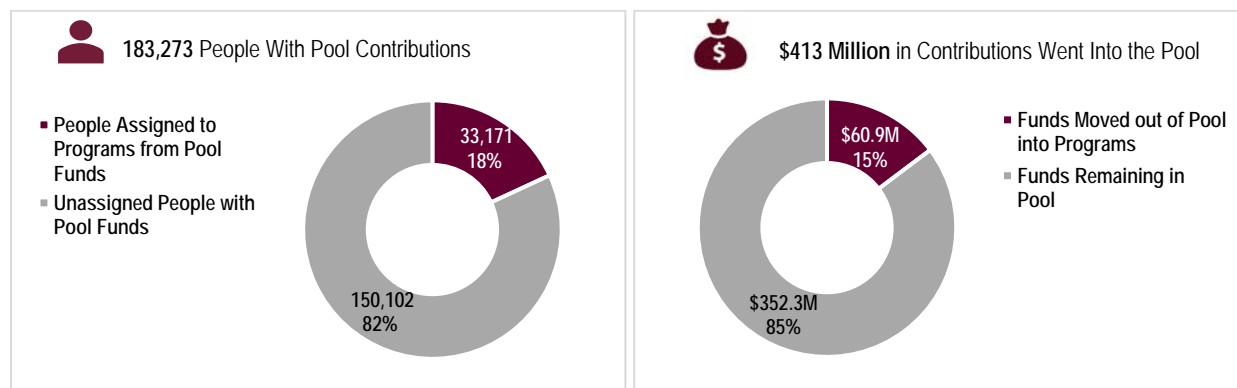
Before October 1, 2016, City Option offered two choices—either SFHP found the participant qualified for HSF or SFHP enrolled the participant into an MRA by default. With the creation of the CMRA program component that same year, SFHP sent notices to all participants stating they would need to reapply to City Option for SFHP to enroll them in one of the three programs—HSF, CMRA, or MRA. The notice explained that SFHP would not move existing employer funds already allocated to an existing MRA but that all new employer contributions, as of October 1, 2016, were affected.⁴

As a result of the change, approximately 37,600 participants needed to apply to be reenrolled but did not do so. Thus, as of October 2016, employer contributions made on their behalf went into the pool. Contributions of \$118 million were from these 37,600 participants who had not applied through February 2020.⁵

For Unknown Reasons, Fewer Than 20 Percent of Employees With Pool Contributions Submitted Applications; SFHP Is Seeking to Find Out Why

Between October 1, 2016, and February 13, 2020, SFHP received approximately \$413 million in employer contributions deposited into the contribution pool. However, only 18 percent, or approximately 33,000, employees applied to move their funds from the pool to an assigned program. Those 33,000 participant applications moved nearly \$61 million, or 15 percent, out of the pool and into one of the three program components in City Option. The vast majority (82 percent) of employees did not apply to access the \$352 million of available funds, which grew to \$359 million by the end of February 2020. The contribution pool statistics for this period are shown in Exhibit 9.

EXHIBIT 9. CONTRIBUTION POOL STATISTICS FROM OCTOBER 1, 2016, THROUGH FEBRUARY 13, 2020



Source: ESR system generated by Datamart reporting tool on February 13, 2020.

⁴ Although the new policies also affected existing HSF participants, SFHP provided HSF employer contributions directly to DPH for the overarching HSF program and did not deposit them in individual participant accounts.

⁵ Thousands of other existing participants did not apply after October 2016, but they did not have subsequent employer contributions, so no funds contributed on their behalf are in the pool.

The reasons participants did not apply to access health care funds are unknown, but could include that participants are:

- Unaware of the contributions made on their behalf.
- Confused by unclear welcome materials or application forms.
- Cannot easily schedule an in-person appointment to determine their eligibility for the HSF or CMRA programs.

Recognizing the issues surrounding the contribution pool balance and lack of submitted applications, in December 2019 SFHP established a pilot program to send approximately 10,000 postcards encouraging participants to apply. Also, SFHP hired a consultant to conduct focus groups, interviews, and surveys to garner feedback from employers and employees on why they had not taken steps to enroll and what their perspectives were, in general, on City Option. Using results from the consultant's report, which was expected for completion in the summer of 2020, SFHP stated it expects to create an employee outreach plan to increase awareness, access, and use of the programs. As part of its plans to address these known issues and increase outreach, SFHP could also take more immediate steps to:

- Identify all active MRA participants with activity (an employer contribution or submitted claim) in the most recent fiscal year who also have pool funds.
- Contact those participants and offer individualized assistance.
- Work with these participants to transfer pool funds to their new accounts.

Although SFHP Acknowledges That Program Rules Are Complicated, Its Streamlining Proposal Would Not Eliminate the Need for Applications

SFHP has acknowledged that CMRA program rules are complicated and too few employees with pool deposits have converted their money into a benefit. Consequently, SFHP recently proposed to DPH a simplification and affordability program to increase participants' account utilization. The simplification proposal would end HSF and CMRA as City Option benefits and solely use MRAs as the benefit. However, SFHP also proposed continuing the requirement that participants start in the contribution pool and then apply to be enrolled.

Although the proposed approach would reduce program complexity, it does not directly address the backlog of unassigned money in the pool. For this approach to be effective, it would need a huge and successful outreach effort—which has not yet been shown to be feasible—to get participants to apply for enrollment. Thus, as DPH works with SFHP to consider these changes, it should further consider streamlining the enrollment process by automatically linking participants with the MRA benefit and eliminating the need for participants to complete and submit applications.

The second part of the simplification proposal addresses affordability. Participants would still receive an MRA benefit but could also apply for an affordability component at their own discretion. We caution DPH and SFHP not to make the proposed affordability program overly complicated, which would be contrary to the efforts to simplify City Option.

As of June 2020, DPH had not approved SFHP's proposal, and many of its elements still need to be finalized, including those concerning eligibility rules and benefit amounts.

SFHP Has Policies to Manage the Pool, But Action Is Needed to Address Its Large Balance

SFHP exercises prudent controls to fiscally manage pool monies employers submit and transfer funds in a timely manner into a designated program once participants apply for enrollment. DPH approved a variety of SFHP policies and practices to track, secure, and assign funds in the contribution pool, and we found that SFHP follows these policies and practices. Specifically, SFHP:

- Follows its policies on determining eligibility and transferring funds into and out of the pool.
- Maintains pooled funds in a separate account in its financial system that it reconciles monthly to bank account balances.
- Complies with the provision of its contract that requires it to distribute welcome materials and assist in targeted outreach, as directed by DPH.

However, despite the considerable contribution pool balance, SFHP did not conduct nor did DPH request other types of outreach to encourage participants to apply to enroll and move monies out of the contribution pool and into a specific program. Part of the challenge may stem from the fact that the number of employees receiving contributions nearly doubled over the last three years, from approximately 197,000 in fiscal year 2015-16 to 433,000 by fiscal year 2019-20.⁶ According to SFHP, it did not have the framework or resources to accommodate this rapid growth in participants or the program's greater complexity.

Because of the large contribution pool balance, representing more than one-third of the approximately \$1 billion in employer contributions submitted since 2008, DPH and SFHP must increase their efforts to contact and inform employees about the pool funds available to them. This should be done both at an individual level and more globally, and should be done in concert with the development of schedules for ultimately escheating or reverting funds back to the City. According to DPH, a contribution pool policy would need to include criteria for defining inactivity regarding employees who do not apply but on whose behalf SFHP continues to receive employer contributions.

Recommendations

To address the large and growing balance in the City Option contribution pool, the Department of Public Health should work with San Francisco Health Plan to:

2. Establish policies and practices for outreach to pre-October 2016 participants to encourage them to apply for enrollment and use their employer health care contributions.
3. Implement recommendations from the marketing consultant's report, once available, for outreach strategies for all pool employees to apply for enrollment or re-enrollment.
4. Initiate outreach to target those active Medical Reimbursement Account participants who submitted claims in the most recent fiscal year and have pool funds to transfer to their existing accounts.
5. Determine whether SFHP needs additional resources to conduct enhanced outreach to increase enrollment.

⁶ Amounts through February 2020.

6. Design and implement performance measures to gauge the effectiveness of SFHP's future outreach efforts that are intended to increase enrollment.
7. Further simplify the enrollment process for employees to access funds. As part of this, consider eliminating the need for participants to apply as a condition of enrollment.
8. Develop written policies addressing what should be done with money that remains in the contribution pool for a long time (a duration that DPH must define). Consider establishing a policy that allows funds to escheat or revert to the City when thorough participant outreach and due diligence efforts are unsuccessful.

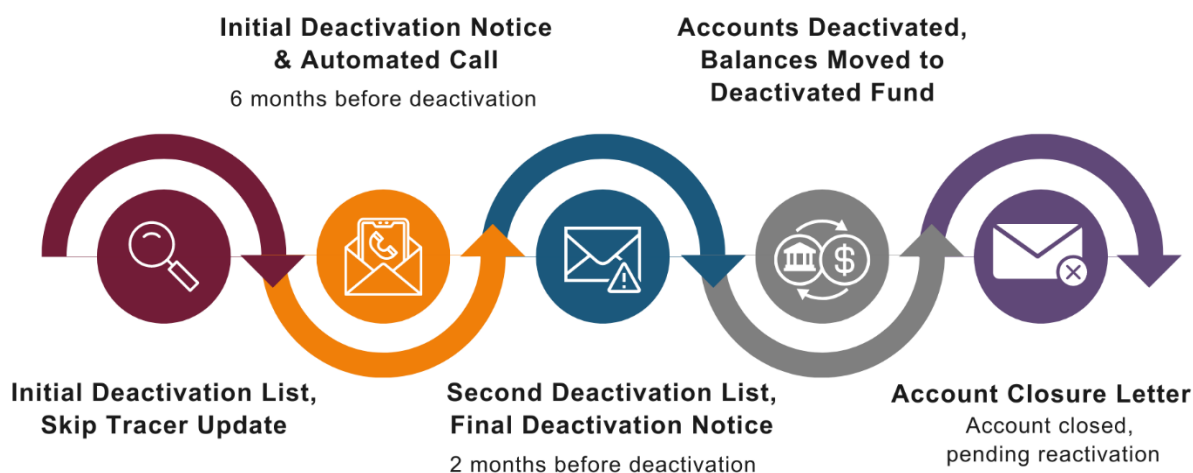
Section 4: SFHP Has Effective Notification Practices for MRA Deactivated Accounts, but More Outreach and Clarifications Are Needed

DPH and SFHP's policy allows participants access to the Medical Reimbursement Account (MRA) program funds with no expiration, although accounts with inactivity for 24 months or longer are deactivated.⁷ SFHP employs strong policies and practices over the MRA deactivated accounts and uses adequate tracking protocols and systems to ensure funds are not inappropriately deactivated and remain secure. However, with MRA deactivated account balances reaching \$59.3 million in February 2020, DPH needs to work with SFHP to engage participants through outreach efforts to use their health care funds. Also, DPH should work with SFHP to clarify policy decisions related to potential uses of long-term deactivated funds and formally document legal arguments related to fund use and ownership.

SFHP's Process Involved Sufficient Controls Before Account Deactivation

Officially established in October 2016, DPH and SFHP's deactivation policy was meant to reduce administrative fees associated with inactive accounts paid to the MRA claims vendor, preserve participants' available balances for eligible health care expenses, and establish a process allowing MRA participants to reopen their accounts when requested. In general, the policy involves a three-pronged approach of identification, outreach, and deactivation and includes several controls, as shown in Exhibit 10.

EXHIBIT 10. PROTOCOLS SFHP FOLLOWS BEFORE ACCOUNT DEACTIVATION



Source: Auditor-generated based on review of SFHP policies and procedures, interviews with SFHP, and observations.

SFHP protocols involved identifying potential accounts for deactivation from its Employer Spending Requirement system portal biannually. System-generated reports flag accounts with inactivity, such as no employer contributions or no participant claims submitted. For participants with multiple MRA accounts, the

⁷ Inactivity status may be declared due to no claim requests, no employer contributions for the past 24 months, and no extension requests from the participant to keep the account open. Applied only to MRA participant accounts. SFHP does not deposit HSF program funds directly into a participant's account because medical homes provide the participant's health care services. SFHP deposits subsidies for CMRA program funds into participant accounts, but any unused funds expire every March as that program is linked to the Covered California plan year.

ESR system has a control to automatically keep participants' accounts open if there has been activity in at least one MRA account. This control avoids erroneous deactivation of one or more of a participant's other accounts.

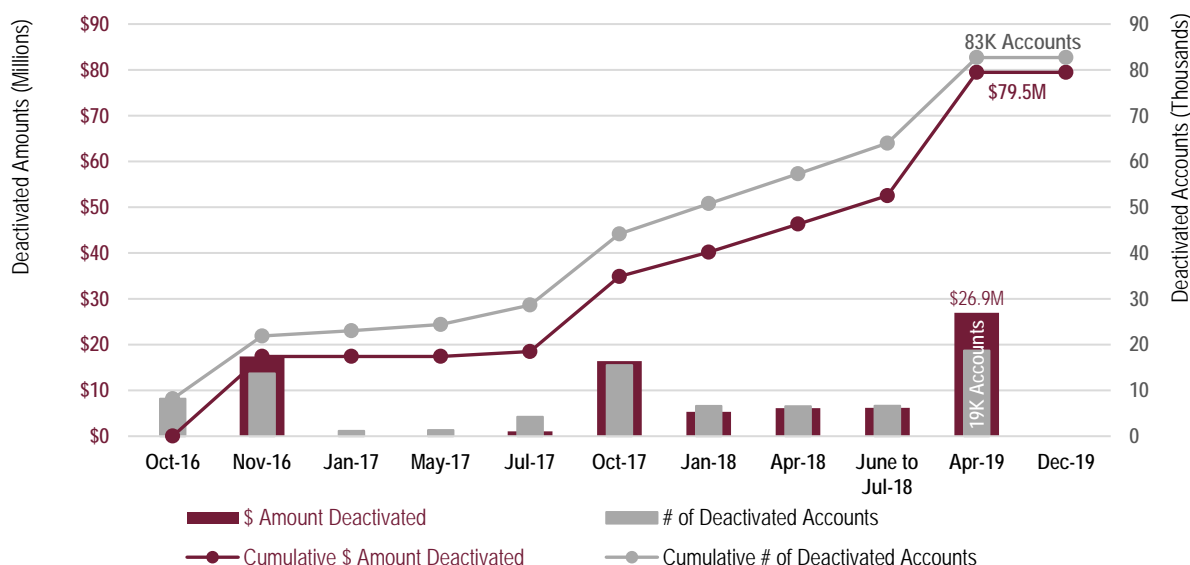
Based on the system reports we reviewed, SFHP sends a series of three outreach notices more than six months before scheduling the account for closure. To ensure notices reach the intended participants, SFHP uses a skip-tracing vendor to obtain the most recent, accurate, and reliable contract information. Also, SFHP makes automated calls to participants with balances of more than \$25 to inform them of the pending closure. Finally, as part of the last protocol, SFHP sends a final notice to participants when the funds are transferred to the deactivated account.

We found that before closure, SFHP management approves the deactivation lists from the ESR system, then sends the lists to WageWorks for it to deactivate accounts in the WageWorks portal. SFHP then generates a system reconciliation report comparing the closure file sent to WageWorks and the file returned to SFHP. The reconciliation report identifies discrepancies between SFHP and WageWorks' reported participant account balances and demographic information. SFHP and WageWorks review the report for accuracy and reasonableness to avoid improper closures. After review, SFHP management notifies staff that deactivated funds are ready for transfer from the MRA general ledger account to the MRA deactivated general ledger account.

Due to Large Deactivated Balances, SFHP Must Increase Outreach Efforts to Reengage Participants to Access Funds Available to Them

After SFHP sent account deactivation notifications to participants and deactivated their accounts, it did not conduct subsequent outreach to regularly inform participants of available balances or to encourage them to reactivate accounts and access their funds. From 2016 through 2019, SFHP deactivated approximately 83,000 participant accounts, totaling \$79.5 million in deactivated MRA balances, as shown in Exhibit 11.

EXHIBIT 11. MRA DEACTIVATIONS, 2016 THROUGH 2019



Source: Fiscal data from Great Plains financial system; account data from ESR system, generated using Datamart reporting tool.

Participants reactivated 7 percent (\$5.9 million) and SFHP transferred another 18 percent (\$13.9 million) to DPH, leaving a balance of \$59.6 million in December 2019 in approximately 83,000 accounts. (The balance had dropped slightly to \$59.3 million as of February 2020.)⁸

Because deactivated accounts are available to participants if they make a reactivation request, DPH should have SFHP reach out to the affected participants and engage them in accessing their accounts. SFHP's contract with DPH requires SFHP to conduct "external communication and outreach activities" and to assist DPH "in developing and implementing alternate outreach methods to MRA account holders," but the contract does not specify the type of outreach required.

SFHP stated that it was aware of the need for more outreach to deactivated account participants and planned to use the results of its outreach consultant's efforts, which it expected to receive in June 2020, to craft a participant outreach plan. Interim efforts could include using skip tracer services to locate and periodically contact deactivated account holders, researching public databases to identify deceased participants and permanently closing related accounts, and/or launching a wider public service campaign to notify the public of potential unclaimed health care funds that may be able available.

The Ownership and Allowed Uses of MRA Deactivated Balances Should Be Clarified

DPH and SFHP's deactivation policy focused on three goals: (1) increasing value to participants by reducing WageWorks active account fees, (2) identifying sufficient funding for startup, implementation, and ongoing maintenance of CMRA, and (3) investing unused funds to support City Option and to reduce reliance on the City's general fund. However, unclear and conflicting guidance over the ownership and use of deactivated funds exists.

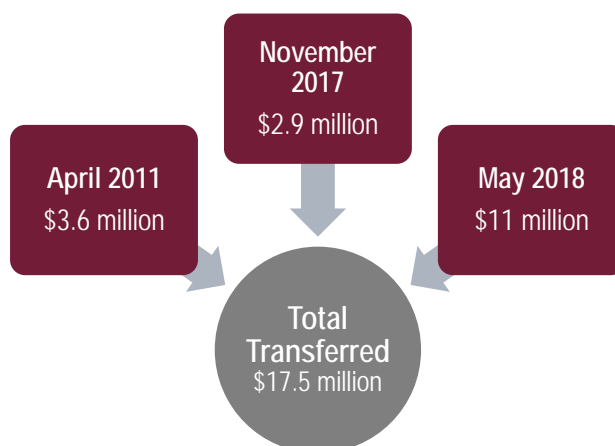
SFHP Transferred \$17.5 million of Deactivated Amounts to DPH, but Fund Usage is Not Documented

SFHP's contract with DPH allows transfers of deactivated funds to DPH for presumed use in other health areas. From program inception through February 2020, SFHP transferred approximately \$17.5 million to DPH. Specifically, the contract required SFHP to "remit available deactivated funds consistent with the deactivated fund policies agreed to between DPH and SFHP."

In March 2011, SFHP first closed approximately 5,200 deactivated accounts with no activity for 18 months, as requested by DPH, totaling more than \$3.6 million, as shown in Exhibit 12. However, SFHP's policy states it will reopen any deactivated account upon a participant's request or claim submission. In July 2016, responding to feedback from the San Francisco Office of Labor Standards Enforcement, DPH approved exceptions to the deactivation policy that extended the inactive period to 24 months and allowed participants to keep inactive accounts open indefinitely. Since then, SFHP transferred another \$2.9 million in November 2017 and \$11 million in May 2018, for a total of \$17.5 million of deactivated funds transferred.

⁸ In addition to the \$13.9 million SFHP had transferred to DPH from 2016 through February 2020, it also transferred \$3.6 million in 2011. Thus, as of February 2020, DPH had received \$17.5 million from deactivated accounts since program inception.

EXHIBIT 12. SFHP TRANSFERS OF DEACTIVATED FUNDS TO DPH AS OF FEBRUARY 2020



Source: Great Plains financial system, journal entry and bank postings, SFHP calculations, and City Option Deactivated Funds and Reserve presentation dated October 23, 2017.

According to SFHP, transfers were not always linked to individual deactivated accounts. Rather, SFHP submitted quarterly balance sheets to DPH, including the amount of deactivated funds available to transfer as determined by the SFHP methodology approved by DPH, and DPH instructed SFHP on the specific amount and timing of transfers. The methodology involves a series of calculations to reserve part of the deactivated account balances to cover: 1) City Option's sustainability and operations and 2) subsidy shortfalls in the CMRA and potential restored balances if participants reopen accounts. The methodology then arrives at "surplus" amounts available for transfer. According to DPH, the department decided to transfer only part of the total available deactivated funds to ensure there were sufficient funds remaining to support the new CMRA program.

Although the DPH contract allows transfers, DPH did not discretely track the transferred amounts or related expenditures. With no tracking of the uses of funds, DPH cannot be assured that they benefitted City Option. Documenting the nature of the expenditures of deactivated funds will help avoid the possibility that employer contributions could be inappropriately used for unrelated DPH functions.

Formal Legal Clarification Is Needed on the Allowed Use of Deactivated Funds

Unclear and conflicting guidance exists over the ownership and use of deactivated funds. One perspective, from the San Francisco Universal Healthcare Council, is that "once an employer pays the City, the funds belong to and are unilaterally controlled by the City."⁹ This position is partially supported by San Francisco Administrative Code Section 14.2(g), which allows payments from employers "to establish and maintain MRA accounts," which implies that funds may be available for operational expenses. However, the MRA deactivation policy gives participants the right to access their deactivated accounts in perpetuity by allowing them to reopen accounts at any time after deactivation and restore their full account balance.

Allowing participants access to their deactivated funds at any time seems to indicate that participants own the funds in their accounts, which appears to contradict the view that the funds belong to the City and may

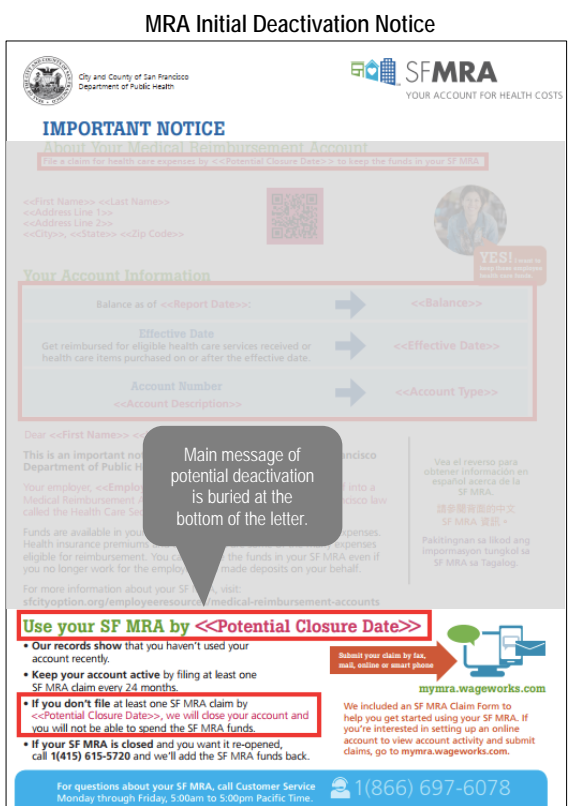

⁹ Universal Healthcare Council, October 24, 2013, meeting minutes. In 2013, the Universal Healthcare Council was reconstituted to engage stakeholders in a data-driven process to examine San Francisco's implementation of the federal Affordable Care Act and its integration with the San Francisco Health Care Security Ordinance.

be used for its operational needs. Thus, DPH should obtain formal legal advice (a written opinion from the City Attorney) surrounding the appropriate ownership and use of deactivated funds and modify related policies, as warranted. Although there are now millions of dollars of deactivated funds and it is unlikely that this amount would be exhausted all at once, DPH should plan for how it will replenish the funds if so many participants exercise their right to reactivate accounts that insufficient funds remain to cover participants' requests.

Some Deactivation Notices Should Be Improved

DPH should work with SFHP to simplify the initial and final deactivation notices mailed to MRA participants to improve readability and conciseness, while still ensuring they are complete. The initial MRA deactivation notice is cluttered with information, making it difficult to understand its main message, which is that the recipient's account is subject to closure. Unlike the more easily readable CMRA reminder notice, the cluttered MRA initial deactivation notice buries its main message, as shown in Exhibit 13.

EXHIBIT 13. COMPARISON OF MRA INITIAL DEACTIVATION NOTICE WITH CMRA REMINDER NOTICE

MRA Initial Deactivation Notice	CMRA Reminder Notice
	

Sources: MRA Initial Deactivation Notice and SF Covered MRA Reminder Notice.

We also found the MRA initial and final deactivation notices omit an option available to participants to keep their accounts active and avoid closure. These notices should mention that MRA participants can keep their accounts open by calling an SFHP customer service representative to request an extension.

Recommendations

To engage or reengage participants with their accounts and reduce the deactivated funds balance, the Department of Public Health should work with San Francisco Health Plan to:

9. Establish and conduct regular outreach activities to participants with deactivated accounts to remind them of the balances available for their health care needs and inform them of how to activate their accounts.
10. Consider using a skip tracer service to locate and contact participants, researching public databases to identify deceased participants and permanently close accounts related to deceased persons, and launching a communication campaign to notify the public of unclaimed health care funds and how to access them.
11. Obtain formal written clarification from the City Attorney on the legal ownership of participants' deactivated City Option funds. Based on the ownership status, the advice should explain the permitted transfer of funds to the Department of Public Health and the allowed uses of the transferred funds.
12. Modify deactivation notices to simply and clearly state the intent to deactivate funds due to inactivity and the methods available to participants to keep their accounts in active status.

The Department of Public Health should:

13. Document the use of deactivated funds transferred to it to ensure the expenditure of these funds benefit City Option and are not spent on unrelated departmental functions.
14. Develop a plan on how to replenish deactivated funds if enough participants exercise their right to reactivate their accounts that insufficient funds remain to cover additional participant requests.

Section 5: SFHP Should Strengthen Its Claims Management and Monitoring

Because of the complexity of rules surrounding claims administration and the workload involved in managing thousands of Medical Reimbursement Account and Covered Medical Reimbursement Account participants, SFHP engaged an external vendor, WageWorks, to process claims as a third-party administrator. From 2015 through 2019, WageWorks processed more than 2 million claims totaling approximately \$580 million. WageWorks is responsible for validating requested claims, which must be for allowable expenses, and ensuring that participants have enough money in their accounts to cover the claims.

Although SFHP and WageWorks have policies and guidelines for managing and processing participant claims, SFHP does not monitor WageWorks to ensure it pays claims accurately, timely, or for allowable purposes. WageWorks incorrectly processed 5 (17 percent) of 30 participant claims in our nonstatistical sample of claims paid from 2015 through 2019. WageWorks' errors included approving ineligible expenses, denying eligible expenses, and approving claims without the required support.

Further, SFHP has not enacted audit provisions in its contract with WageWorks where monitoring efforts could minimize issues with claims processing errors. According to SFHP, one reason it has not monitored WageWorks' claims processing is that SFHP relies on an informal agreement it has with WageWorks that requires the vendor to audit a sample of its own claims and report the results to SFHP. However, WageWorks' self-audit reports provide only high-level statistics of claim processing accuracy and do not include supplementary details. Without more robust claims monitoring, SFHP cannot be assured its vendor accurately processes claims and appropriately handles funds.

SFHP's Third-Party Claims Administrator Incorrectly Processes Some Claims

SFHP and WageWorks created several policies and guidelines related to eligible expenses, and claim submittal, processing, and review. If followed, these provide a framework to help ensure claim transactions are properly authorized, sufficiently documented, and appropriately paid. However, it appears that WageWorks does not always follow the policies and guidelines. Of our nonstatistical sample of 30 claims, 5 (17 percent) were incorrectly processed, including instances in which WageWorks approved an ineligible expense, denied an eligible expense, or approved a claim with insufficient support, as shown in Exhibit 14.

EXHIBIT 14. REASONS FOR CLAIMS INACCURATELY PROCESSED BY WAGeworks

Type of Expense	Claim Amount	Payment Error Amount	Ineligible Expense Paid	Inaccurate Partial Payment	Insufficient Documentation
1 Massage Chair	\$8679.99	\$8,196.68	✓		
2 Weight Loss Supplements	\$487.08	\$73.93			✓
3 Over-the-Counter Medication	\$1,302.64	\$1.46	✓		
4 General Dental	\$527.35	\$14.01		✓	
5 Chiropractic	\$3,863.00	\$2,080.00		✓	✓

Source: WageWorks, including data on medical billings, receipts, and provider statements.

We reviewed one claim for chiropractic services that should have been denied in its entirety because no proof was provided that the claimant had paid for the chiropractic services. WageWorks approved partial payment of this claim. In another instance, WageWorks approved a claim for a massage chair although SFHP had removed that item as an eligible expense before the claim was processed. Although WageWorks has its own protocols for approving or denying claims, DPH should work with SFHP to ensure these protocols align with SFHP guidance, to identify the claims processors' training needs, and to provide the needed training to increase consistency and adherence to the claims processing protocols.

SFHP Does Not Monitor WageWorks' Claims Review and Reporting Accuracy

Although its contract with WageWorks includes an audit clause related to participant payments or other data related to contract performance, SFHP does not monitor WageWorks' claims processing for accuracy or validate the data WageWorks uses in its annual reporting to DPH. According to SFHP, it did not implement the audit clause because SFHP was still working on developing a claims monitoring program as part of its strategic roadmap. Without a program to monitor WageWorks' processing of millions of dollars of claims, SFHP increases the risk of improper claims processing and improper handling of participants' sensitive data.

As part of its claims monitoring effort, SFHP could ask WageWorks to provide results of its internal audits for further analysis. According to WageWorks, although not required to do so by its contract with SFHP, WageWorks self-audits at least 10 percent of all claims as well as performs a secondary review of all claims over \$2,000. WageWorks provided high-level statistics on claim accuracy and the most common types of processing errors, but did not provide details on its self-audit results or what corrective actions it needed to employ. Thus, SFHP should request the details to identify consistency issues, performance problems, data integrity concerns, and additional guidance needed.

According to SFHP's strategic roadmap for fiscal year 2019-20, a planned action item was to "identify and document the operational and analytical data needed from WageWorks." Moreover, a 2019 report from a consultant reviewing vendor management and claims processing, among other areas, also recommended that SFHP regularly monitor and audit WageWorks' claims administration and review. According to SFHP, it recognizes the need to monitor WageWorks claims processing activities and is working on establishing monitoring protocols to ensure transactions are accurate and contract provisions are met.

Specifically, in collaboration with WageWorks, SFHP created an Account Monitoring Program in 2017 that flagged suspicious activity and removed account access until participants take further action to prove their identity. SFHP reports that, since August 2017, it has identified 18 incidents resulting in identify theft outside of City Option and WageWorks, froze 140 accounts, and sent 160 unusual activity notices. In the future, SFHP expects its Account Monitoring Program will involve audits of claims data and is in the process of determining the appropriate volume of data to review, developing data-pull logic, and defining a data review process to confirm integrity, surface issues, and identify trends as the monitoring program matures. According to SFHP, DPH authorized new positions in SFHP's budget, which SFHP intends to use as part of its monitoring program later in 2020.

Recommendations

To mitigate financial risk with its third-party claims processor (WageWorks) and strengthen practices over claims management, the Department of Public Health should require San Francisco Health Plan to:

15. Review WageWorks' claims processing procedures to determine whether they align with SFHP's guidance and, to the degree they do not, make adjustments accordingly.
16. In addition to the contractually required deliverables, ask WageWorks for additional data such as the results of its claims quality process audits and the corrective actions it has taken on any issues identified by the audits.
17. Establish and implement claims monitoring procedures for WageWorks to ensure they comply with contract provisions and perform as expected.

Section 6: DPH Should Ask SFHP to Enhance Its Fiscal and Program Reports

DPH and SFHP work closely, sharing and discussing information and policies related to City Option. Although SFHP provides contractually required data to DPH so it can oversee City Option, SFHP should supplement that data by identifying trends or patterns, highlighting the most important areas, and explaining the more complex data to help DPH better oversee SFHP's activities in administering City Option.

Although SFHP's Reporting Fulfills Requirements, the Contract Lacks Specificity About Report Content

SFHP's contract with DPH lists services to be provided, nearly 50 specific deliverables, and annual reporting requirements. We found that SFHP complies with its contractual reporting requirements by preparing and providing to DPH all of the listed types of reports at the frequency specified for each. However, the contract does not specifically describe the content SFHP should provide in its reports to DPH.

The contract specifies that SFHP is to deliver to DPH:

- 8 monthly summary reports
- 3 quarterly operations reports
- 1 annual operations report
- Quarterly cash transfer and balance sheet reports

However, the contract does not describe the data SFHP should include in the reports, leaving content decisions up to SFHP. For instance, the contract lists categories of administrative functions—such as program enrollment services and participant billing—that SFHP must include in its quarterly operations reports, but the contract does not list or further describe the type of information required within these categories. As with any relationship between a contracting entity and a contractor, it is not ideal to let the contractor choose the data it provides for oversight purposes because the contractor has an incentive to include only data that is favorable to it and to omit data that may indicate subpar performance.

The lack of specificity in the contract's reporting requirements may have been caused by the evolving nature of City Option at the time the contract was written or because of the collaborative relationship between SFHP and DPH, which may have caused the parties to perceive that more descriptive requirements were not needed. Although SFHP informed us that it regularly communicates with DPH on possible report improvements, without some level of reporting expectations stated in the contract or elsewhere in writing, DPH may not get the information needed to most effectively oversee SFHP's program performance and may not be aware of some issues that need its attention.

SFHP Should Add an Analytical Narrative to Its Reports to Better Enable DPH to Monitor Program Performance

As required by the contract, SFHP provided significant information in its DPH reports related to areas such as customer service calls and outreach, enrollment appointments, and employer and participant activity.

However, to ensure DPH receives sufficient information to oversee SFHP's administration of City Option, SFHP can improve its reports by including an analytical narrative component that summarizes, explains, or emphasizes results, patterns, trends, or important takeaways.

SFHP's reports to DPH present a substantial quantity of data but little analysis of the data, as shown in Exhibit 15.

EXHIBIT 15. CONTENT PROVIDED AND IMPROVEMENTS NEEDED, BASED ON SFHP'S FISCAL YEAR 2018-19 REPORT

Report Area	Data Presented	Suggested Additions
Executive Summary	Narrative highlights (bullet points)	<ul style="list-style-type: none"> Standardized reporting categories for amount of employer contributions and participant status by program for the reporting period. Graphics illustrating the flow of funds and participant status for the reporting period. Highlight a limited number of key challenges and successes for that period Include an 'Items to be Considered' section for DPH for possible action steps
Budget Summary	Budget-to-actual expenditures, by function	<ul style="list-style-type: none"> Narrative and reasons for any significant spending shortfalls or overages
Employer Contributions	Amounts per program and in pool, by quarter	<ul style="list-style-type: none"> Trends, patterns, comparison with prior year and program annual averages Graphics showing change over time for contribution pool and narrative on whether balance are growing or declining and importance of results
MRA Deactivation	Number and count deactivated and reopened	<ul style="list-style-type: none"> Trends, patterns, comparison with prior year and program annual averages for deactivated accounts and reopened accounts Graphics showing change over time and narrative on whether activity and balance are growing or declining and importance of results
Employee Activity	Count enrolled by quarter	<ul style="list-style-type: none"> Change in number and percent over time and how that affects City Option Data on number of employees that have not yet applied and value of accounts, change over prior year, and steps taken to assign employees
MRA Claims Activity	Count and amount of paid, partially paid, or denied	<ul style="list-style-type: none"> Trends, patterns, changes over time and importance for City Option
CMRA Claims Activity	Count and amount of paid, partially paid, or denied	<ul style="list-style-type: none"> Trends, patterns, changes over time and importance for City Option Comparisons of subsidies per participant with prior year and over time as well as impact on trends and patterns on how overages or shortfalls result
MRA Enrollment Audits	Description of process	<ul style="list-style-type: none"> Specific results from audit and how compared since started in March 2017
Customer Services	Volume, origination, abandonment rate	<ul style="list-style-type: none"> Nature of inquiries, calls, and resolutions, in addition to significant items
Employee Feedback	Number received	<ul style="list-style-type: none"> Nature of feedback and actions taken, in addition to significant items
General Account Balances	No data provided	<ul style="list-style-type: none"> Balances for each program, contribution pool, and deactivated accounts discussing trends and patterns over time

Source: SF City Option Annual Operations Report, Fiscal Year 2018-19.

The quantitative data in each SFHP monthly, quarterly, and annual report is somewhat repetitive. Although some repetition among these reports is to be expected, what is missing is an overarching analytical narrative to guide DPH on how to interpret the meaning of the data presented, or even how to recognize the most important highlights. That is, the reports do not address the impact the data has on City Option's functioning.

According to SFHP, the format and content of the reports has changed over time, as has the data available from departments and systems. SFHP can help DPH monitor the program and prioritize its efforts by:

- Enhancing the reports' executive summaries to better highlight results and impacts on program functionality.
- Providing additional narrative on data presented to comment on trends and patterns.
- Focusing on items that need immediate attention.

To make these reports as useful as possible for program oversight, DPH must work with SFHP to identify the specific content that should be in each report.

Reported Data Is Generally Supported, but SFHP Should Adjust Its Methodology and Support Protocols

In general, SFHP has underlying data from its ESR and financial systems to support the content of its reports to DPH that we reviewed. This includes data on participants enrolled and account balances. Although SFHP was ultimately able to show us how it calculated employer contribution data from a reconciliation between its ESR system and financial system, SFHP's effort to reconstruct the reported numbers for one month appeared to be onerous.¹⁰ Also, SFHP unnecessarily complicated the calculation by adjusting employer contributions for accounts that were reopened, rather than simply reporting the amount of employer contributions net of refunds and voids.

According to SFHP, although it was aware of changes needed to ensure data quality, substantial program growth in a short period adversely affected the organization of information in its reports to DPH. To better support the data it reports to DPH, SFHP should maintain supporting records for the reported figures in a centralized location that can be easily accessed by the staff who compile the reports and may be called upon to retrieve the support. DPH must be assured that the information SFHP reports can be relied upon for decision-making.

According to the U. S. Government Accountability Office, management should use quality information to achieve the entity's objectives.¹¹ Quality information is appropriate, current, complete, accurate, accessible, and provided on a timely basis. Complying with this practice and improving accuracy and accessibility of reported data will help DPH adopt a more proactive monitoring approach.

¹⁰ Reconciled items between the ESR system and Great Plains financial system were mostly due to employer refunds, checks returned for not-sufficient-funds, and reopened deactivated accounts.

¹¹ *Standards for Internal Control in the Federal Government*, 2014, p. 59.

Recommendations

To enhance SFHP reporting and provide meaningful information for oversight, the Department of Public Health should work with San Francisco Health Plan to:

18. Determine the type of report data and narrative needed to provide better oversight and clarify contract language for reporting to include specific data and information to be provided.
19. Enhance reporting by including better explanations of results and/or impacts to the program and more narrative surrounding data and tables to highlight importance or patterns/trends.
20. Refocus the annual report executive summaries to describe progress on City Option's goals, highlight successes and challenges, provide a snapshot of financial status, and feature areas that require DPH consideration or attention.
21. Explain any methodology changes, retroactive adjustments, or discrepancies between reports to enhance continuity and avoid apparent inconsistencies between reporting periods.
22. Remove reopened account values from the employer contribution amounts reported to DPH and maintain backup data to support the information and statistics reported to DPH.

Department Response

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City and County of San Francisco
London N. Breed
Mayor

San Francisco Department of Public Health

Grant Colfax, MD
Director of Health

September 11, 2020

Mark de la Rosa
Acting Director of Audits
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Subject: San Francisco Health Plan Properly Manages SF City Option Program Funds, but a Few Improvements Could Enhance Program Oversight

Dear Mr. de la Rosa,

Thank you for the opportunity to review the audit report entitled "*San Francisco Health Plan Properly Manages SF City Option Program Funds, but a Few Improvements Could Enhance Program Oversight*". The Department of Public Health (DPH) has read the report and partially concurs with recommendation #13 and concurs with the remaining recommendations in the report. Please refer to the attached Audit Recommendation and Response Form for a plan of action to address the identified issues and the expected implementation dates.

This is a self-audit that DPH initiated with the Controller's Office starting in late 2017. We truly value the partnership and expertise of the Controller's Office and the information and recommendations in this audit report. We are committed to continually improving our services and operations for the SF City Option Program.

If you have any questions or need additional information, please do not hesitate to contact Stella Cao, Director of Managed Care at stella.cao@sfdph.org.

Sincerely,

DocuSigned by:
A handwritten signature in black ink that reads "Greg Wagner".
38527524752949F...

Greg Wagner
Chief Operating Officer

CC: Stella Cao, Director of Managed Care, Department of Public Health
Sumi Sousa, Officer, Policy Development & Coverage Programs, San Francisco Health Plan

SFDPH | 101 Grove Street, Room 308, San Francisco, CA 94102

Recommendation and Response

For each recommendation, the responsible agency should indicate in the column labeled *Agency Response* whether it concurs, does not concur, or partially concurs and provide a brief explanation. If it concurs with the recommendation, it should indicate the expected implementation date and implementation plan. If the responsible agency does not concur or partially concurs, it should provide an explanation and an alternate plan of action to address the identified issue.

Recommendation	Agency Response	CSA Use Only Status Determination*
The Department of Public Health should work with San Francisco Health Plan to:		
1. Consider creating a procedure to notify the City's Office of Labor Standards Enforcement when employees apply to enroll in City Option, but employers have not yet submitted their contributions.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur DPH, through its program third party administrator San Francisco Health Plan (SFHP), will engage in discussions with OLSE regarding the feasibility of implementing a notification process by June 30, 2021. Should OLSE be open to this reporting structure, a formal reporting mechanism will be put in place to OLSE in a timeframe convenient for both SFHP and OLSE.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
2. Establish policies and practices for outreach to pre-October 2016 participants to encourage them to apply for enrollment and use their employer health care contributions.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur Strategy and implementation for outreach to participants enrolled prior to October 2016 will be implemented by June 30, 2022.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
3. Implement recommendations from the marketing consultant's report, once available, for outreach strategies for all pool employees to apply for enrollment or re-enrollment.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur The American Institutes for Research (AIR) issued a report to SFHP on June 30, 2020 with 32 recommendations regarding enhancing user outreach and experience, which will help increase benefit utilization and conversion from pool. SFHP and DPH will create a roadmap and timeline for prioritization and implementation of recommendations by June 30, 2021.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested

* Status Determination based on audit team's review of the agency's response and proposed corrective action.

Recommendation	Agency Response	CSA Use Only Status Determination*
4. Initiate outreach to target those active Medical Reimbursement Account participants who submitted claims in the most recent fiscal year and have pool funds to transfer to their existing accounts.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur Practices and policies for participants who were enrolled prior to October 2016, but who now have funds in pool will be created and implemented in consideration with the program's larger outreach strategy as noted in the response to recommendation #2. In development of this strategy, consideration will be given to claims submissions, amongst other factors, so that participants are being effectively targeted. Strategy and implementation for outreach to participants enrolled prior to October 2016 will be implemented by June 30, 2022	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
5. Determine whether SFHP needs additional resources to conduct enhanced outreach to increase enrollment.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur SFHP will perform analysis around the need for additional resources and present findings to DPH by 12/31/2020. SFHP will continue to monitor additional needs on an ongoing basis.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
6. Design and implement performance measures to gauge the effectiveness of SFHP's future outreach efforts that are intended to increase enrollment.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur SFHP will build a dashboard to monitor key program metrics which will provide insight into the effectiveness of key program initiatives, including outreach, by 6/30/2022.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
7. Further simplify the enrollment process for employees to access funds. As part of this, consider eliminating the need for participants to apply as a condition of enrollment.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur SFHP will perform analysis around eliminating the need for participants to apply as a condition of enrollment and share findings and conclusions with DPH by 6/30/2022.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested

* Status Determination based on audit team's review of the agency's response and proposed corrective action.

Recommendation	Agency Response	CSA Use Only Status Determination*
8. Develop written policies addressing what should be done with money that remains in the contribution pool for a long time (a duration that DPH must define). Consider establishing a policy that allows funds to escheat or revert to the City when thorough participant outreach and due diligence efforts are unsuccessful.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur Once a formal document is obtained under Recommendation #11 below, SFHP will work with DPH to develop policies for money that remain in the contribution pool for a substantial period by 6/30/2022.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
9. Establish and conduct regular outreach activities to participants with deactivated accounts to remind them of the balances available for their health care needs and inform them of how to activate their accounts.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur SFHP will perform regular, ongoing outreach to participants with deactivated accounts by 6/30/2022.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
10. Consider using a skip tracer service to locate and contact participants, researching public databases to identify deceased participants and permanently close accounts related to deceased persons, and launching a communication campaign to notify the public of unclaimed health care funds and how to access them.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur DPH and SFHP will collaborate and develop deceased participant outreach policies and procedures by 6/30/2022.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
11. Obtain formal written clarification from the City Attorney on the legal ownership of participants' deactivated City Option funds. Based on the ownership status, the advice should explain the permitted transfer of funds to the Department of Public Health and the allowed uses of the transferred funds.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur DPH will work with SFHP to obtain clarification from the City Attorney on the legal ownership of participants' deactivated City Option funds by 6/30/2022.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
12. Modify deactivation notices to simply and clearly state the intent to deactivate funds due to inactivity and the methods available to participants to keep their accounts in active status.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur SFHP will review current language and make modifications to messaging by 12/31/2020.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested

* Status Determination based on audit team's review of the agency's response and proposed corrective action.

Recommendation	Agency Response	CSA Use Only Status Determination*
13. Document the use of deactivated funds transferred to it to ensure the expenditure of these funds benefit City Option and are not spent on unrelated departmental functions.	<input type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input checked="" type="checkbox"/> Partially Concur DPH is working with City Attorney for clarification regarding the parameters around ownership and treatment of deactivated funds. Once those parameters are further clarified, DPH will develop appropriate documentation.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
14. Develop a plan on how to replenish deactivated funds if enough participants exercise their right to reactivate their accounts that insufficient funds remain to cover additional participant requests.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur DPH currently directs SFHP to hold a portion of deactivated funds as a reserve to replenish deactivated accounts that are reactivated. DPH will work with SFHP to develop a plan on how to replenish deactivated funds if the reactivated accounts exceed the reserve by 6/30/2021.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
15. Review WageWorks' claims processing procedures to determine whether they align with SFHP's guidance and, to the degree they do not, make adjustments accordingly.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur SFHP will obtain and review WageWorks' claims processing procedures and determine alignment or required modifications by 3/31/2021.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
16. In addition to the contractually required deliverables, ask WageWorks for additional data such as the results of its claims quality process audits and the corrective actions it has taken on any issues identified by the audits.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur SFHP will obtain and review WageWorks' claims processing quality audits by 3/31/2021 and ongoing thereafter.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
17. Establish and implement claims monitoring procedures for WageWorks to ensure they comply with contract provisions and perform as expected.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur SFHP will implement claims monitoring procedures over WageWorks by 6/30/2021.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested

* Status Determination based on audit team's review of the agency's response and proposed corrective action.

Recommendation	Agency Response	CSA Use Only Status Determination*
18. Determine the type of report data and narrative needed to provide better oversight and clarify contract language for reporting to include specific data and information to be provided.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur SFHP and DPH will collaborate to determine data enhancements required in reporting to further meet objectives. Based upon these discussions, improvement and adjustments will be made to the first quarterly report due to DPH for FY 21/22 which is due October 31, 2021. SFHP and DPH will make note to enhance clarity and specificity of contract language for reporting when renewing contracts for FY 25/26 (the next contract to be signed) and beyond.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
19. Enhance reporting by including better explanations of results and/or impacts to the program and more narrative surrounding data and tables to highlight importance or patterns/trends.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur SFHP and DPH will collaborate to determine data enhancements required in reporting to further meet objectives. SFHP has increased staffing to provide more resourcing to better analyze patterns and trends in the SF City Option Program. While updates are made on an ongoing basis to reporting, SFHP and DPH will collaborate on where adjustments are most urgent so that adjustments are prioritized by first quarterly report due to DPH for FY 21/22, which is due October 31, 2021.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
20. Refocus the annual report executive summaries to describe progress on City Option's goals, highlight successes and challenges, provide a snapshot of financial status, and feature areas that require DPH consideration or attention.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur SFHP will review and modify the annual report executive summary for next fiscal year, which is due to DPH by 7/31/2021.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested

* Status Determination based on audit team's review of the agency's response and proposed corrective action.

Recommendation	Agency Response	CSA Use Only Status Determination*
21. Explain any methodology changes, retroactive adjustments, or discrepancies between reports to enhance continuity and avoid apparent inconsistencies between reporting periods.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur SFHP will explain any methodology changes, retroactive adjustments, or discrepancies between reports to enhance continuity and avoid apparent inconsistencies between reporting periods when sharing information with program stakeholders, including DPH, in all future reporting.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested
22. Remove reopened account values from the employer contribution amounts reported to DPH and maintain backup data to support the information and statistics reported to DPH.	<input checked="" type="checkbox"/> Concur <input type="checkbox"/> Do Not Concur <input type="checkbox"/> Partially Concur Effective FY 19/20, reopened account values have been removed from employer contribution amounts. During this same timeframe, SFHP has increased its ability regarding to maintain backup data to support information and statistics. To improve consistency between reporting, SFHP will create standardized business definitions by March 31st, 2021. Subsequently, all existing reports will be assessed, modified, and supplemented to align with business definitions by December 31st, 2021. This will enable streamlined and consistent reporting to DPH.	<input checked="" type="checkbox"/> Open <input type="checkbox"/> Closed <input type="checkbox"/> Contested

* Status Determination based on audit team's review of the agency's response and proposed corrective action.

Contractor Response: San Francisco Health Plan

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August 24, 2020

Mark de la Rosa
Acting Director of Audits
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

RE: SF CITY OPTION AUDIT REPORT

Dear Mr. de la Rosa,

This letter is to confirm our receipt of the audit report entitled "San Francisco Health Plan Properly Manages SF City Option Program Funds, but a Few Improvements Could Enhance Program Oversight". San Francisco Health Plan has read the report and we value the information and recommendations to improve our operations, services, and oversight of the SF City Option Program.

If you have any questions, please do not hesitate to contact me at 415-615-5121 or ssousa@sfhp.org.

Sincerely,

DocuSigned by:

Sumi Sousa

Sumi Sousa

Officer of Policy Development & Coverage Programs

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