

Internal Audit Briefing

**Presented to the Port of Seattle
Audit Committee and Tay Yoshitani, CEO**

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Agenda

- **Audit Report**

1. Lease and Concession Audits

- None
- None

2. Operational Audits

- Central Processing System
 - None
- Comprehensive Operational Audit
 - None
- Limited Operational Audit
 - Third-Party Administration of Self-Insured Medical and Dental
 - Compliance Cost of Central Procurement Office (CPO) Policies and Procedures
- 3rd Party Audit
 - None

- **Briefing/Updates**

1. Risk-Based Audit Approach – Real Estate Portfolio Dept. Audit
2. Proposed 2013 Internal Audit Work Plan

Background

On May 11, 2010, the Commission adopted Resolution 3636, which authorized the self-insured medical and dental program. On November 5, 2010, the Port submitted its application to the state of Washington to become a self-insured public employer, which was approved.

The Port's self-insured medical and dental program began January 1, 2011, at which time the Port transitioned from a fully insured medical and dental program to a self-insured medical and dental program.

The Port's self-insured program was administered in 2011 and 2012, by Premera Blue Cross (medical) and Washington Dental Services (dental). In 2012, the Port conducted a competitive process for third-party administration of the medical and dental self-insured programs for 2013, awarding the administration to:

- Medical – Cigna
- Dental – WDS

Audit Objectives

The purpose of the audit was to determine whether:

1. Port management controls are adequate to ensure:
 - Proper processing and verification of claims billings
 - Proper processing and verification of administrative fee billings
 - Claims paid are valid and for eligible parties
 - Proper validation of dependents receiving medical and dental benefits
 - Compliance with legal requirements
2. Port management has complied with legal requirements related to annual reporting to the state

We reviewed information for the period January 1, 2011, through June 30, 2012.

Highlights and Accomplishments

- The self-insured medical and dental programs have resulted in decreased health care payments (claims and other related payments) by \$1 million (from 2010 to 2011).
- In 2012, the Port competitively bid third-party administration, which is projected to result in savings of \$750,000 in 2013.
- The self-insured medical and dental programs have allowed the Port greater flexibility in plan design and the coverage it provides to employees, and which also will facilitate compliance with federal health care reforms enacted in 2010.
- Through self-insurance, the Port has greater access to aggregated claims data that may be used to more effectively manage the program and support employee health.
- Starting in 2013, self-insurance will allow the program to more fully integrate elements of the Port's own wellness program with the health-care program to contain health-care payments.
- The first claims audit is expected to be conducted during 2013.
- Personal health information is protected under the Health Insurance Portability and Accountability Act (HIPAA).

Audit Result

- Two Findings
 - The Port's oversight of the self-insured medical and dental program can be improved.
 - The Port's process for determining eligibility of dependents to be covered by the Port's insurance benefit plans can be improved.

Background

The CPO oversees the following types of procurements:

- Service Agreements – contracts for personal and professional consulting services
- Major Public Works – contracts that are initially estimated to be in excess of \$300,000
- Small Works – contracts that are initially estimated to be less than or equal to \$300,000
- Fixed Price Goods and Service Contracts – contracts for recurring purchases of goods and services with pre-established terms and conditions
- Blanket Vendor Contracts – contracts for recurring purchases from a vendor in varying frequency and quantity
- One-time purchases – non-recurring purchases of goods and services

Audit Objectives

The purpose of the audit was to determine whether the Central Procurement Office (CPO) has sufficient controls to reasonably ensure:

1. CPO processes related to service agreement procurement are efficient, specifically:
 - Whether CPO-1 policy has significantly more requirements than state law.
 - Whether the CPO's controls provide an objective measure of the efficiency of the service agreement procurement process.
2. The Port is in compliance with requirements that prohibit splitting contracts and purchases to avoid requirements related to:
 - Service Agreements
 - Purchases of Goods and Services

We reviewed information for the period 2008 through 2012.

Highlights and Accomplishments

- Developed the Procurement and Roster Management System (PRMS) to maintain consultant rosters and advertise Port contracting opportunities.
- Engaged with the Continuous Process Improvement (CPI) initiative to develop a consensus evaluation process to shorten the evaluation timeline for service agreements.
- Formed advisory committees of stakeholders to share information regarding procurement policies and procedures
- Established an acquisition planning process to develop procurement strategy early in the process.

Audit Result

- One Finding
 - The Central Procurement Office's controls could be improved to provide an objective measure of the efficiency of the service agreement procurement process.

- Risk-Based Audit Approach – Real Estate Portfolio Dept. Audit
- Proposed 2013 Internal Audit Work Plan
 - ❖ See Attached