



Office of Inspector General
City of New Orleans

**Evaluation of City Employee Life
Insurance Benefits**

E. R. Quatrevaux
Inspector General

Final Report

February 7, 2012

OFFICE OF INSPECTOR GENERAL

CITY OF NEW ORLEANS



ED QUATREVAUX
INSPECTOR GENERAL

December 19, 2011

Re: Evaluation of City Employee Life Insurance Benefits

I certify that the inspector general personnel assigned to this project are free of personal or other external impairments to independence.

A handwritten signature in blue ink, appearing to read 'E.R. Quatrevaux', is positioned to the left of the typed name.

E.R. Quatrevaux
Inspector General

Evaluation of City Employee Life Insurance Benefits

OIG-I&E-10-017

Statement of Independence	i
Executive Summary	1
I. Objectives, Scope, and Methodology	3
II. Findings	4
Finding 1. The City overpaid for insurance by about \$250,000 over a four-year period because the Risk Management Division failed to calculate the number of employees eligible for benefits accurately.....	4
Finding 2. The City continued to overpay for group life/AD&D insurance after adjusting the calculation of eligible employees in March 2011	6
Finding 3. The City paid more than \$250,000 in commissions to two insurance agents	6
Finding 4. The City passed up an opportunity to pay a lower rate for group life/AD&D benefits by failing to follow through on a competitive procurement process in 2010.....	7
Finding 5. Personnel in the CAO’s Office destroyed records of the 2010 competitive procurement process, in violation of the Public Records Act	8
Finding 6. Law Department personnel bypassed safeguards that protect the integrity of the City’s purchasing system and budget.....	9
Finding 7. Information provided to City employees about their group life/AD&D benefit is inadequate.....	10

Finding 8.	Death benefit claims were not filed for six of the twenty-one City employees who died between January 1, 2009 and December 31, 2010	10
III.	Conclusion and Recommendations.....	11
A.	Conclusion	11
B.	Recommendations.....	11
Recommendation 1.	The City should consider shifting management responsibility of the group life/AD&D policy to the CAO's Employee Benefits Division.....	11
Recommendation 2.	The City should conduct a competitive selection process to obtain a competitive rate for group life/AD&D insurance	12
Recommendation 3.	The Law Department should ensure that vendor payments are made and approved through the City's electronic purchasing system.....	12
Recommendation 4.	The City should ensure that all City employees understand their responsibility to preserve and safeguard public records.	12
Recommendation 5.	The City should provide employees with information about coverage and claims procedures under the group life/AD&D policy .	12
Recommendation 6.	In the event of a City employee's death, the City should send benefit and claims information to the designated beneficiaries.....	13
	Official Response to the Internal Review Draft.....	14
	City of New Orleans Response to Internal Review Copy.....	15
	Comment on the City of New Orleans' Response.....	20

LIST OF FIGURES

Figure A.	Comparison of Expected Premium Payments vs. Actual Payments to Hartford	5
------------------	--	---

EXECUTIVE SUMMARY

The Office of Inspector General of the City of New Orleans (OIG) conducted an evaluation of the City's policies and practices relating to the procurement and management of group life insurance and accidental death and dismemberment (group life/AD&D) coverage for City employees. The policy has been provided through Hartford Life and Accident Insurance Company (Hartford) since 2003. The Risk Management Division within the Law Department is responsible for administering the policy, making monthly payments, and submitting the number of eligible employees to the provider.

The objectives of the evaluation were to determine if the group life/AD&D policy is being managed appropriately, ensure that the policy is only covering qualifying employees, and to determine whether best practices are being used for the management of the policy.

The OIG identified the following findings relating to management of the group life/AD&D policy:

- The City overpaid for insurance by approximately \$250,000 over a four-year period because the Risk Management Division failed to calculate the number of employees eligible for benefits accurately.
- The City continued to overpay for group life/AD&D insurance after adjusting the calculation of eligible employees in March 2011.
- The City paid more than \$250,000 in commissions to two insurance agents.
- The City passed up an opportunity to pay a lower rate for group life/AD&D benefits by failing to follow through with a competitive procurement.
- Personnel in the CAO's Office destroyed records of the 2010 competitive procurement process, in violation of the Public Records Act.
- Law Department personnel bypassed safeguards that protect the integrity of the City's purchasing system and budget.
- Information provided to City employees about their group life/AD&D benefits is inadequate.
- Death benefit claims were not filed for six of the twenty-one City employees who died between January 1, 2009 and December 31, 2010.

Recommendations:

Based on these findings, reviewers concluded that the City's Group Life/AD&D policy was not managed appropriately, coverage was extended to ineligible employees, and best practices were not employed. Although the City has implemented changes to its procedures during the course of this evaluation, there are still additional improvements that should be made. The OIG recommended the following:

- The City should consider shifting management responsibility of the group life/AD&D policy to the CAO's Employee Benefits Division.
- The City should conduct a competitive selection process to obtain a competitive rate for group life/AD&D insurance.
- The Law Department should ensure that vendor payments are made and approved through the City's electronic purchasing system.
- The City should ensure that all City employees understand their responsibility to preserve and safeguard public records.
- The City should provide employees with information about coverage and claims procedures under the group life/AD&D policy.
- In the event of a City employee's death, the City should send benefit and claims information to the designated beneficiary.

A draft of this report was provided to the CAO's Office and the Law Department for review and comment prior to publication. The City's Response is attached to this report.

PART I. OBJECTIVES, SCOPE, AND METHODOLOGY

The Office of Inspector General of the City of New Orleans (OIG) conducted an evaluation of the City's policies and practices relating to the procurement and management of group life insurance and accidental death and dismemberment (group life/AD&D) coverage for City employees. The objective of the evaluation was to determine whether the City used best practices to provide this benefit to employees at the lowest cost.

The scope of this evaluation includes the City's group life/AD&D coverage with Hartford Life and Accident Insurance Company (Hartford). The OIG performed a review of the coverage from June 2003 through August 2011.

To conduct this evaluation, OIG staff interviewed City of New Orleans personnel from the City's Risk Management Division, the Chief Administrative Officer's (CAO) Office, Information Technology and Innovation, Bureau of Purchasing, and representatives from Hartford. The OIG reviewed documents provided by some of the aforementioned parties in response to requests for information issued pursuant to Sections 2-1120(18) and (20) of the Code of the City of New Orleans and state statute La. R.S. 33:9613. Specifically, the OIG obtained the following records:

- Insurance premium payment records provided by the City's Risk Management Division (January 2006 – November 2007, January 2010 – August 2011).
- Employee eligibility lists generated by the City's Information Technology and Innovation Department (April 2010 – August 2011).
- Claims reports provided by Hartford (2006 – 2011).
- United States Internal Revenue Service, Department of Labor, and Pension Benefit Guaranty Corporation Form 5500, Schedule A¹ (2003 – 2011).
- Records relating to the City's Request for Proposals (RFP) for Group Life/AD&D Insurance, issued in January 2010.
- Payroll records for deceased employees provided by the City's Information Technology and Innovation Department (January 2009 – December 2010).

The evaluation was conducted in accordance with the Principles and Standards for Offices of Inspector General for Inspections, Evaluations, and Reviews.² This report includes findings and recommendations to improve the administration of this employee benefit and to eliminate unnecessary costs.

¹ This document is filed annually by Hartford as required by the Employee Retirement Income Security Act to disclose all individuals and entities receiving commissions, fees, or other compensation in connection with an employee benefit program.

² Quality Standards for Inspections, Evaluations, and Reviews by Offices of Inspector General, *Principles and Standards for Offices of Inspector General* (Association of Inspectors General, 2004).

PART II. FINDINGS

The City of New Orleans purchases group life/AD&D coverage as a benefit to its employees. The City pays the premium for this coverage, which is provided at no cost to employees. All full-time active City employees who are citizens or legal residents of the United States are eligible for coverage. From June 1, 2003 through May 31, 2011, group life/A&D coverage provided a \$15,000 benefit to designated beneficiaries upon an employee's death or other qualifying event. The benefit amount was increased to \$20,000 in June 2011.³

Group life/AD&D coverage has been provided through Hartford since 2003. From 2003 until 2010, the City renewed the coverage with Hartford annually without seeking competitive proposals from other insurance providers. Between June 1, 2003 and May 31, 2011, the City paid premiums at a rate of \$0.27 per \$1,000 of life insurance benefits and \$0.03 per \$1,000 of AD&D benefits, for a total rate of \$0.30 per \$1,000 of benefits under the policy. According to records obtained by the OIG, the City paid Hartford approximately \$2.5 million between June 1, 2003 and August 31, 2011.

Going back to at least 1999, and reportedly before that time, group life/AD&D insurance has been procured and administered by the City's Risk Manager. The Risk Manager heads the Risk Management Division, located within the Department of Law. In general, risk management involves identifying potential losses resulting from accidents or other unforeseen events and instituting a program to transfer or minimize the impact of those losses. The City's Risk Manager is responsible for administering programs to protect the City from losses incurred as a result of flood or property damage, work-related injuries, automobile accidents, and other risks.

Employee group life/AD&D insurance is an employee benefit program, not a risk management program. We found no rationale for the decision to assign responsibility for this program to the City's Risk Manager rather than to the division within the CAO's Office that manages other employee benefits.

FINDING 1. THE CITY OVERPAID FOR INSURANCE BY ABOUT \$250,000 OVER A FOUR-YEAR PERIOD BECAUSE THE RISK MANAGEMENT DIVISION FAILED TO CALCULATE THE NUMBER OF EMPLOYEES ELIGIBLE FOR BENEFITS ACCURATELY.

Premiums for group life/AD&D insurance are calculated based on the number of insured employees. During the period we reviewed, the City made premium payments once a month. Every month, Risk Management Division personnel calculated the amount owed to Hartford by multiplying the number of covered lives times the insurance rate (\$0.30 per \$1,000 of benefit for the period from June 2003 through May 2011) Hartford did not send monthly invoices and relied on the City's monthly count of

³ According to a survey published by the Bureau of Labor Statistics, the \$20,000 life insurance benefit provided to City employees falls within the 50th percentile of state and local government workers nationwide – Bureau of Labor Statistics, U.S. Department of Labor, *National Compensation Survey: Employee Benefits in the United States, March 2011* (Washington, DC: Government Printing Office, 2011). Table 22.

eligible employees. Hartford did not request or receive documentation to verify the accuracy of the City's count. When a claim was made, the City provided documentation to prove that the employee was eligible to receive the benefit.

According to the group life/AD&D certificate of insurance, full-time, active City employees were eligible for coverage. Since at least 2003, however, the City's Risk Management Division provided monthly employee counts to Hartford that were significantly higher than the actual number of active City employees. Because the premium payments were based on employee counts that were higher than the actual number of covered employees, the City paid more than it should have for this insurance. In order to determine the magnitude of miscalculated payments, reviewers compared payments made to Hartford from June 2007 through May 2011 with the amount the City should have paid, based on the actual number of active employees.

The data used for this comparison was obtained from ERISA Forms 5500, prepared each year by Hartford, and data from the City's Operating Budget, which listed the number of full time equivalents (FTEs) between 2007 and 2011.⁴ The data from Hartford corresponds to the annual policy period which covers June 1st through May 31st of the following year. Because the City's annual budget is based on a calendar year, we adjusted the data by calculating the average number of FTE's over the corresponding two-year period. The results of the comparison are shown in Figure A.

Figure A: Comparison of Expected Premium Payments vs. Actual Payments to Hartford

Year	Eligible Employees (FTEs from 2011 CNO Budget)	Expected Annual Premium (calculated based on FTEs)	Employee Count Used to Calculate Premiums	Actual Amount CNO Paid (from ERISA 5500)	\$ Variance
June 2007 - May 2008	4325	\$233,550.00	6617	\$357,367.91	\$123,817.91
June 2008 - May 2009	4429	\$239,166.00	4769	\$257,568.87	\$18,402.87
June 2009 - May 2010	4530	\$244,620.00	6544	\$353,386.71	\$108,766.71
June 2010 - May 2011	4531	\$244,674.00	5997	\$323,841.08	\$79,167.08
TOTAL					\$330,154.57
<i>Credit</i>				\$80,013.55	
TOTAL					\$250,141.02

As shown in Figure A, the City overpaid by \$250,141 for the period from June 2007 to May 2011 because Risk Management did not calculate the number of covered employees accurately.

We conducted interviews with the City's Risk Manager and one of her staff to determine how the employee counts were determined and why the numbers provided to Hartford were higher than the

⁴ ERISA Form 5500 was filed annually by Hartford as required by the Employee Retirement Income Security Act to disclose all individuals and entities receiving commissions, fees, or other compensation in connection with an employee benefit program.

actual number of active full-time employees. Risk Management Division personnel told us that employee counts were based on monthly reports generated by the City's Information Technology and Innovation Department (ITI), using report parameters from the Risk Management Division. For several years, these monthly reports included retirees, who were not eligible for coverage under the policy. The overpayments to Hartford were the result of using employee counts that included ineligible retirees.

In March 2011, the Risk Manager was informed by staff in the CAO's Office that the employee counts used to calculate premiums were too high. The Risk Manager subsequently re-calculated the number of eligible employees, eliminating ineligible retirees from the count. At the Risk Manager's request, Hartford agreed to grant the City a credit of \$80,013.55 for the premium overpayments for that policy year.

FINDING 2. THE CITY CONTINUED TO OVERPAY FOR GROUP LIFE/AD&D INSURANCE AFTER ADJUSTING THE CALCULATION OF ELIGIBLE EMPLOYEES IN MARCH 2011.

Reviewers also found that the City paid more than necessary for insurance coverage because the Risk Management Division did not accurately calculate a premium reduction for active employees who were 70 or older. Hartford reduces the life insurance benefit by 50% for active employees when they become 70 years old. Because premiums are based on potential benefits, premiums for these older employees should be reduced by half. But the Risk Management Division paid premiums for these older individuals at the higher rate until August 2011. The impact on the overall cost was small because the City does not have a large number of active employees over 70. In September 2011, the Risk Manager stated that this problem was corrected.

A more serious problem involved payments for disabled retirees. As of September 2011, the Risk Management Division still included disabled retirees in the monthly premium calculation. In April 2011, when revising the eligibility list, the Risk Manager instructed ITI to keep disabled retirees in the monthly report. The City's group life/AD&D policy, however, provided coverage only to active employees.⁵ According to data reviewed, an average of 418 disabled retirees was listed in the employee count each month between April 2011 and August 2011. The individuals were not eligible to receive benefits under the policy and including them in the count added approximately \$2,100 per month to the City's cost for life/AD&D coverage.

FINDING 3. THE CITY PAID MORE THAN \$250,000 IN COMMISSIONS TO TWO INSURANCE AGENTS.

Records provided by Hartford show that two insurance agents have received commissions totaling 10% of the premium amount for the City's group life/AD&D insurance since 2003. Based on testimony from employees in both the CAO's Office and the Risk Management Division, these agents did not perform any services for City employees or the City of New Orleans. The Risk Manager has been in her position

⁵ An employee's coverage under the policy terminates on the date he or she is no longer actively at work, unless a specific continuation provision applies. The continuation provisions in the policy do not include coverage for disabled retirees.

since 2008. She did not know of any services provided by the agents nor did she call upon them for any assistance; she had direct communication with Hartford regarding the policy and claims made by City employees or their beneficiaries. Despite the lack of services, the annual reports provided by Hartford show that each agent received over \$125,000 in eight (8) years, averaging over \$15,500 per year.⁶

FINDING 4. THE CITY PASSED UP AN OPPORTUNITY TO PAY A LOWER RATE FOR GROUP LIFE/AD&D BENEFITS BY FAILING TO FOLLOW THROUGH WITH A COMPETITIVE PROCUREMENT PROCESS IN 2010.

As previously stated, the City paid Hartford \$0.30 per \$1,000 benefit for a \$15,000 group life/AD&D policy from June 2003 through May 2011. The City renewed its policy with Hartford annually from 2003 until 2010 without seeking competition.

In January 2010, the Chief Operations Manager for Employee Benefits (the Benefits Manager), who works in the CAO's Office, issued an RFP for group life/AD&D coverage. The Benefits Manager acknowledged that this insurance policy was historically managed by the Risk Management Division, but wanted to seek competitive rates. The Benefits Manager was named in the RFP documents as the primary contact for the procurement. The City's Risk Manager was consulted as the RFP was being drafted and provided written comments on a draft version.

The RFP was issued on January 11, 2010, and sought competitive proposals directly from insurers. The RFP specified that no commission, bonus, or compensation could be paid to any producer, insurance agent, broker, or salesman.

The City received at least three responses from competing insurers and a staff member in the CAO's Office conducted a comparison of rates proposed. Based on an analysis of the responses, Hartford submitted the lowest rate at \$0.227 per \$1,000 for group life/AD&D coverage based on a \$25,000 benefit amount. This rate was guaranteed for 24 months, according to the summary created by CAO personnel and provided to reviewers in lieu of providing copies of the actual responses to the 2010 RFP. Hartford's competitive rate was approximately 24% lower than the \$0.30 rate the City was paying the same insurer for its then current coverage based on a \$15,000 benefit.⁷

⁶ Weeks prior to renewing the policy in June 2011, the Risk Manager contacted Hartford to discuss eliminating the commissions in order to reduce the cost of the insurance to the City. The City's current policy, which runs from June 2011 through May 2012, includes no sales commissions. As a result of eliminating these commissions, the City's rate was reduced by 10%.

⁷ Although the \$0.227 rate and the \$0.30 rates from Hartford were based on different benefit levels – \$25,000 vs. \$15,000 – only a small portion of the rate difference appears to be related to the difference in benefit amount. After the City scrapped the competitive proposal process, the Risk Manager resumed the City's prior practice of simply renewing the annual Hartford policy without seeking competitive prices. Hartford submitted its annual policy renewal rates to the City in May 2011 for group life/AD&D coverage at the \$15,000 and \$25,000 benefit levels. The difference in Hartford's rates for \$15,000 and \$25,000 benefit amounts was only about 1.5%. It therefore appears that the 24% rate reduction offered by Hartford in its 2010 proposal resulted primarily from the competitive pressure imposed by the RFP process and elimination of commissions to agents.

Despite receiving a proposed rate that was 24% lower than the City's then-current rate, the City did not award a contract through this RFP process. Neither the Benefits Manager nor the Risk Manager could tell us who made this decision or why the procurement process was terminated. After abandoning the competitive process, the City continued to pay Hartford the \$0.30 rate for another year, until June 2011. The Risk Manager told the OIG that she did not know Hartford had offered a lower rate in response to the RFP.

In May 2011, the City's Risk Manager asked Hartford to provide proposed rates for renewing the policy for June 2011 through May 2012, eliminating the 10% commission, and increasing the benefit from \$15,000 to \$20,000. Hartford offered the City a rate of \$0.27 per \$1,000 for a \$20,000 life insurance/AD&D benefit, which constituted a 10% rate reduction from the prior year. The City accepted this offer and renewed the policy with Hartford for another year, which will end on May 31, 2012.

Although the City reduced the cost of the coverage by 10% for the current year by eliminating commission payments, the current rate is significantly higher than the rate Hartford offered in response to the competitive RFP process in 2010.

FINDING 5. PERSONNEL IN THE CAO'S OFFICE DESTROYED RECORDS OF THE 2010 COMPETITIVE PROCUREMENT PROCESS, IN VIOLATION OF THE PUBLIC RECORDS ACT.

Reviewers made several requests for documentation related to the January 2010 RFP for group life/AD&D insurance via formal letter and email, as well as during formal and informal interviews. We initially requested the records from the Risk Manager, who informed us that the Risk Management Division had no records of this procurement. We then directed our request to the Benefits Manager, who provided a few documents, including a one-page analysis, prepared by CAO personnel, comparing rates proposed by three insurance companies in response to the RFP. When we asked for copies of additional documents, including the proposals the City received from insurers, the Benefits Manager informed us that the records were not available because CAO staff had destroyed them. According to the Benefits Manager, the proposals were shredded during the summer of 2010, just months after the City received them.

According to the Louisiana Public Records Act,⁸ any proposals received by City officials in response to RFPs, RFQs, and Invitations for Bids are considered public records under the broad definition provided by the State Legislature. The primary purpose of the Public Records Act is to ensure that public business is subject to public scrutiny. For this reason, the law requires public entities to develop a records retention policy. In the absence of a policy, state law requires records to be preserved for a minimum of three years.

The destruction of the records documenting the RFP process violated both the Public Records Act and a policy set forth in CAO Policy Memorandum No. 92, which states:

⁸ La. R.S. 44:1 *et seq.*

Unless a special provision of law requires expungement of a particular record, all persons and public bodies having custody or control of any public record (other than conveyance, probate, mortgage, or other permanent records required by existing law to be kept for all time) shall exercise diligence and care in preserving the public records for at least three years from the date on which the public record was made, or from the date on which a particular program or project was completed or closed out.

Reviewers did not determine whether the CAO personnel responsible for the destruction of these records were aware that their actions violated state law and the City's policy. The intentional destruction of public records constitutes a criminal offense.

FINDING 6. LAW DEPARTMENT PERSONNEL BYPASSED SAFEGUARDS THAT PROTECT THE INTEGRITY OF THE CITY'S PURCHASING SYSTEM AND BUDGET.

Reviewers requested payment records from the Risk Management Division to verify monthly payments to Hartford. We attempted to compare these records to requisitions posted through the City's electronic purchasing system. Sporadic payments were recorded in 2006 and 2007, but it was apparent that many of the monthly payments to Hartford had not been recorded in the purchasing system. When asked about the payment process, the Risk Manager deferred to an administrator within the Law Department, who provided a payment report for 2010 and 2011 showing deductions from the City's general ledger system.

Rather than entering requisitions into the electronic purchasing system and following the established protocol, the Law Department administrator manually submitted hard copies of Request for Payment Voucher forms directly to Finance Department personnel on a monthly basis. Finance Department personnel generated payment checks through the City's general ledger system and sent them to the Risk Management Division for disbursement to Hartford.

Internal controls are built into the City's electronic purchasing system to protect against fraud and to safeguard the integrity of the City's budget. These controls require approvals at the departmental level, the Budget Office, and the Bureau of Accounting within the Department of Finance before a purchase order is issued. Once approved by these entities, the requisition is flagged as "Ready for Purchasing" and sent to the designated Buyer within the Bureau of Purchasing. The Buyer will issue a purchase order if all legal requirements have been met. These safeguards ensure that the requisition has been approved by an authorized individual, there are sufficient funds in department's budget to make the payment, and that legally required procurement procedures were followed. The City's electronic purchasing system also provides an audit trail for the transaction.

The Law Department administrator uses a process which side-steps a system of safeguards by failing to follow the City's purchasing procedures.

FINDING 7. INFORMATION PROVIDED TO CITY EMPLOYEES ABOUT THEIR GROUP LIFE/AD&D BENEFITS IS INADEQUATE.

Employees are required to sign many documents upon hire with the City of New Orleans. One of the documents included in the packet given to new employees is a Beneficiary Designation Form from Hartford. The newly hired employee is required to submit personal information and designate the primary and contingent beneficiaries of the policy.

In the event that an employee dies or suffers a qualifying injury, it is up to the employee or the beneficiary to initiate the claims process by contacting the Risk Management Division. Employees and their beneficiaries are not, however, provided with information about the benefits available under the policy or the claims process. The lack of adequate information creates a risk that employees and their beneficiaries may not receive the benefits to which they are entitled.

FINDING 8. DEATH BENEFIT CLAIMS WERE NOT FILED FOR SIX OF THE TWENTY-ONE CITY EMPLOYEES WHO DIED BETWEEN JANUARY 1, 2009 AND DECEMBER 31, 2010.

In order to determine how often life insurance benefits were not claimed by beneficiaries, the OIG obtained a list of all claims filed with Hartford between January 2009 and September 2011. The information from Hartford was compared to a list of full-time employees flagged as deceased in the City's payroll system from January 1, 2009 through December 31, 2010.⁹ According to the data, life insurance claims were not filed for six of twenty-one City employees who died during this period.

Under the terms of the policy, a person with a right to claim a death benefit must give Hartford written notice of a claim within 30 days after the date of death. The policy also states that if notice cannot be given within that time, it must be given as soon as reasonably possible after that. Beneficiaries of the six deceased employees identified in our review did not provide notice to Hartford within the time frame contemplated by the policy, but may be able to file belated claims if they receive the information they need to do so. We do not know whether the delay in filing claims in these cases will have an impact on their eligibility for benefits.

⁹ This analysis was limited to employees who died in 2009 and 2010 since it is possible that claims have not yet been filed for employees who have died in 2011.

PART III. CONCLUSION AND RECOMMENDATIONS

This evaluation found that the failure of City employees to devote adequate attention to the management of insurance policies resulted in approximately \$250,000 in overpayments over a four-year period. It also found that the City could have lowered its premium costs by as much as 24% by eliminating unnecessary commissions and requiring insurance companies to compete directly for the City's business. These are vital lessons for City officials faced with the need to reduce wasteful spending in City operations.

The evaluation also revealed lapses in compliance with the Public Records Act and with internal controls that safeguard the City's purchasing system and budget. In addition, we found that almost 30% of potential death benefit claims arising in 2009 and 2010 were not filed, suggesting that the City's failure to communicate with employees and their families about their right to benefits has undermined the effectiveness of this insurance program.

The City has partially corrected one of the most important deficiencies described in this report by developing a more accurate count of employees covered by the group life/AD&D policy, but additional actions are needed to remedy problems identified in the findings. The following recommendations are offered to improve the administration of this program and capture the benefits of the competitive marketplace for insurance.

RECOMMENDATION 1. THE CITY SHOULD CONSIDER SHIFTING MANAGEMENT RESPONSIBILITY OF THE GROUP LIFE/AD&D POLICY TO THE CAO'S EMPLOYEE BENEFITS DIVISION.

This group life/AD&D insurance benefit does not fall within the typical scope of activities managed by a risk management department. The group life/AD&D insurance coverage has more in common with healthcare and other voluntary benefits offered to City employees than any insurance matters handled by the Risk Management Division.

The Employee Labor Relations and Benefit Administration division within the CAO's Office manages the City's self-funded group healthcare, vision, and dental plan for active employees, dependents, and retirees. In addition, this department manages other voluntary benefits such as long/short term disability and flexible spending accounts. Effective management of these programs requires close attention to eligibility of individuals covered. According to the department's Benefits Manager, monthly termination reports are run to ensure that individuals who are no longer City employees are not receiving healthcare and other benefits. Verification of employees eligible for group life/AD&D coverage falls within the scope of these monthly processes performed by staff within this division. For this reason, the OIG recommends transferring management of the policy to the CAO's Office.

Regardless of whether the management of the group life/AD&D policy is transferred to the CAO's Office or retained by the Risk Management Division, additional adjustments should be made to the employee eligibility report generated by ITI. Approximately 418 disabled retirees are ineligible for

coverage under the policy, but as of September 1, 2011, the City continued to include them in monthly payments to Hartford. These individuals should be removed from the eligibility list.

RECOMMENDATION 2. THE CITY SHOULD CONDUCT A COMPETITIVE SELECTION PROCESS TO OBTAIN A COMPETITIVE RATE FOR GROUP LIFE/AD&D INSURANCE.

The City has not conducted a competitive selection process for group life/AD&D benefits since at least 2003. By scrapping the RFP process in early 2010, the City missed an opportunity for cost savings by not accepting the lower rate offered by Hartford. Although the Risk Manager achieved some reduction by removing commissions in May 2011, the current rate is still approximately 16% higher than the rate Hartford proposed in response to the January 2010 RFP.

The current group life/AD&D insurance policy with Hartford expires on May 31, 2012. The City should solicit competitive bids from insurance providers rather than simply renewing the policy again. The RFP should specify that the City will not pay commissions.

RECOMMENDATION 3. THE LAW DEPARTMENT SHOULD ENSURE THAT VENDOR PAYMENTS ARE MADE AND APPROVED THROUGH THE CITY'S ELECTRONIC PURCHASING SYSTEM.

Premium payments to Hartford, along with all other vendor payments, should be processed through the City's electronic purchasing system. City employees should not circumvent this process by submitting voucher requests directly to the Department of Finance for processing because this practice undermines internal controls and puts City funds at risk.

RECOMMENDATION 4. THE CITY SHOULD ENSURE THAT ALL CITY EMPLOYEES UNDERSTAND THEIR RESPONSIBILITY TO PRESERVE AND SAFEGUARD PUBLIC RECORDS.

The City should ensure that all employees are aware of the City's records retention policies and the Public Records Law requirements for preservation of records. City employees who violate this law may be subject to criminal penalties.

RECOMMENDATION 5. THE CITY SHOULD PROVIDE EMPLOYEES WITH INFORMATION ABOUT COVERAGE AND CLAIMS PROCEDURES UNDER THE GROUP LIFE/AD&D POLICY.

City employees received very little information regarding the group life/AD&D coverage. At a minimum, the City should provide every employee with the policy number, a description of the coverage provided, and instructions for submitting questions or benefit claims. All eligible employees should be advised to retain this important information, give a copy to their beneficiaries, and place it with their life planning documents.

RECOMMENDATION 6. IN THE EVENT OF A CITY EMPLOYEE'S DEATH, THE CITY SHOULD SEND BENEFIT AND CLAIMS INFORMATION TO THE DESIGNATED BENEFICIARIES.

The OIG found that life insurance claims were not filed for six employees who were flagged as deceased in the City's payroll system between January 1, 2009 and December 31, 2010. We have provided the names of these deceased employees to the City. The City should immediately contact the designated beneficiaries and provide the necessary information and assistance to help them pursue all benefits they are entitled to receive.

In our limited sample, nearly 30% of potential death benefit claims were not filed. This shows that the risk of unclaimed benefits is both real and substantial. In addition to taking immediate action on behalf of the individual employees we have identified, the City should institute standard procedures to ensure that benefits do not go unclaimed in the future. Every newly hired employee provides a beneficiary designation form for the group life/AD&D policy. The Benefits Manager receives regular termination reports and should have the information needed to track employee deaths. The City should make it a regular practice to contact beneficiaries upon the death of every City employee to provide claim information.

OFFICIAL RESPONSE TO THE INTERNAL REVIEW DRAFT

The Office of Inspector General provides an internal review draft to any person or entity that is the subject of report findings or recommendations. Any written response submitted by a subject within 30 days after receiving the draft will be included in the final public report.

The OIG provided a review draft of this report to the City's Chief Administrative Officer and the City Attorney on December 19, 2011, and offered to meet with these officials to discuss the report findings prior to finalizing the public report. OIG staff subsequently met with personnel from the CAO's Office and the Law Department. The City's response is included in its entirety in this section.

This public report reflects corrections and other changes made to the review draft based on the responses received from the report subjects.

CHIEF ADMINISTRATIVE OFFICE
CITY OF NEW ORLEANS

MITCHELL J. LANDRIEU
MAYOR
January 27, 2012

ANDREW D. KOPPLIN
FIRST DEPUTY MAYOR & CAO

Mr. Edouard Quatrevaux
Inspector General
Office of the Inspector General
525 St. Charles Avenue
New Orleans, Louisiana 70130

Dear Mr. Quatrevaux:

Re: OIG Report on City Employee Life Insurance Benefits

We thank you and your staff for this review of city employee life insurance benefits for the period from 2003 to mid-2011.

As part of our comprehensive review of the city's operations, the Landrieu Administration had been assessing whether the administration of life insurance benefits for city employees should remain in the Law Department or would be better placed in the Chief Administrative Office (CAO) where other employee benefits are already managed, and this report confirms the conclusion we made during the 2012 budget development process that the CAO's office is the preferred location. Accordingly, we made this change effective as of January 1, 2012.

The Landrieu Administration has already acted to address many of the issues raised in this report. The employee life insurance contract has been renegotiated to achieve greater value by eliminating the 10% cost of agent commissions while also raising from \$15,000 to \$20,000 the value of life insurance benefits for city employees.

Following are our responses to the specific findings in your report.

Finding #1: THE CITY OVERPAID FOR INSURANCE BY ABOUT \$330,000 OVER A FOUR-YEAR PERIOD BECAUSE THE RISK MANAGEMENT DIVISION FAILED TO ACCURATELY CALCULATE THE NUMBER OF EMPLOYEES ELIGIBLE FOR BENEFITS.

As the report notes, the practice with this city-provided insurance policy was for the city to self-report the number of employees on which premiums were paid. The personnel reports used to calculate the premiums included people that were not eligible under the policy, primarily retirees. The city agrees that overpayments were made because people who were ineligible were included in the city's calculations, and notes that city staff under the Landrieu Administration had begun the process of correcting this issue in early 2011 when this error was identified, and we successfully negotiated and

1300 PERDIDO STREET | SUITE 9E06 | NEW ORLEANS, LOUISIANA | 70112
PHONE 504.658.8600 | FAX 504.658.8648

1



received an offset for a significant portion of the overpayment in the 2011-2012 cycle, in the amount of \$80,013.55.

In addition to eliminating ineligible individuals from our reports as we did in 2011-2012 to ensure no overpayments are being made, we will also refine the personnel report that is used in calculating premiums for this policy to comply with the coverage terms in the policy so that the report excludes ineligible people from this point forward

Finding #2: THE CITY CONTINUED TO OVERPAY FOR GROUP LIFE/AD&D INSURANCE AFTER ADJUSTING THE CALCULATION OF ELIGIBLE EMPLOYEES IN MARCH 2011.

The city agrees that a small overpayment of premiums may have been made due to the inclusion of employees age 70 and older in the count used to calculate premiums without the appropriate premium reduction being taken. The monthly premium calculation is being amended to reflect the number of employees age 70 and older so they are easily identified when premium calculations are being made.

On the issue of including disabled retirees, and after further consultation with the insurance carrier, the city agrees that coverage under the policy does not extend to retirees, even if an employee was disabled in active status and subsequently retires. A CAO memo issued in 2003 that noted that disabled employees would have coverage under the life insurance policy, as well as the terms of the policy itself, may have been interpreted at the time the premium calculation process was developed to mean that life insurance policy did cover disabled retirees, a practice that continued until recently. It has now been ended.

The CAO will issue a memo clarifying the eligibility for this city-provided insurance policy by March 1, 2012.

Finding #3: THE CITY PAID MORE THAN \$250,000 IN COMMISSIONS TO TWO INSURANCE AGENTS WHO PROVIDED NO SERVICES.

The city paid premiums to its life insurance carrier during these years, and the carrier made commission payments to its insurance agents, as is a typical industry practice for compensation. In renegotiating the terms of the policy for 2011-2012, the Landrieu Administration asked the carrier to eliminate this compensation and to pass the savings on to taxpayers, which the carrier agreed to do.

Finding #4: THE CITY PASSED UP AN OPPORTUNITY TO PAY A LOWER RATE FOR GROUP LIFE/AD&D BENEFITS BY FAILING TO FOLLOW THROUGH WITH A COMPETITIVE PROCUREMENT PROCESS IN 2010.

An RFP process was initiated in early 2010 and did not result in any final award of a contract. Although the proposal submitted by the Hartford insurance company in early 2010 did propose lower rates than those which were then prevailing, the proposal explicitly stated on its face that it was only valid until April 25, 2010. Thus, Hartford's proposal expired before Mayor Landrieu took office and therefore presented no opportunity to the Landrieu administration. As we previously noted, the Landrieu Administration successfully negotiated a reduction in premiums and an increase in benefits for city employees under this policy in the summer of 2011, and we will issue a new RFP for life insurance benefits in the spring of 2012.

Finding #5: PERSONNEL IN THE CAO'S OFFICE DESTROYED RECORDS OF THE 2010 COMPETITIVE PROCUREMENT PROCESS, IN VIOLATION OF THE PUBLIC RECORDS ACT.

The City confirms that we could not locate the original RFP responses that were received in early 2010. Nevertheless, included with the city's response to this report are copies obtained from two of the three insurance responders. Based on an affidavit submitted by the employee who was custodian of these public records, the city believes any destruction of them was inadvertent and unintentional, although it was nonetheless unacceptable.

The city has addressed this matter with the employee in question in an appropriate disciplinary manner and will provide additional training to all city employees regarding the legal mandates for the preservation of public records in accordance with State statutes.

Finding #6. LAW DEPARTMENT PERSONNEL BYPASSED SAFEGUARDS THAT PROTECT THE INTEGRITY OF THE CITY'S PURCHASING SYSTEM AND BUDGET.

The vast majority of payments made by city departments are processed using a purchase order being issued, via our BuySpeed or AFIN systems, after appropriate approvals are obtained.

In some cases, an alternative method to purchase orders is used, that has appropriation, budget, and procurement controls. The Law Department personnel followed the payment processing instructions provided by the Finance Department for these life insurance premiums. Life insurance premiums are transferred from each department's approved personnel budget each pay period to an agency fund. The agency fund is then used to pay the city's premium to the insurance company. Agency funds do not require an additional budget in the city's Great Plains/BuySpeed system and thus payments are processed using the Request for Payment Voucher (RPV) method.

The city will review CAO Policy Memo 24 R to ensure that all payment processes that use the RPV method, such as refunds, travel reimbursements, and payments from agency funds, are clearly identified and that appropriate oversight and controls are in place for each of them.

Finding #7: INFORMATION PROVIDED TO CITY EMPLOYEES ABOUT THEIR GROUP LIFE/AD&D BENEFITS IS INADEQUATE.

The city agrees and will include information on this important benefit in an update to the employee handbook that is already in development, and which will be issued by the CAO's office not later than July 1, 2012.

Finding #8. DEATH BENEFIT CLAIMS WERE NOT FILED FOR SIX OF THE TWENTY-ONE CITY EMPLOYEES WHO DIED BETWEEN JANUARY 1, 2009 AND DECEMBER 31, 2010.

The city deeply regrets the oversight in not providing this important benefit to all affected beneficiaries in a timely manner. The city is actively communicating with all remaining beneficiaries in order to ensure this benefit is provided to them.

As part of the transfer of responsibilities for the life insurance program from the Law Department to the CAO's office, discussed under recommendation 1, the city has already acted to integrate the processes undertaken when an employee dies, including paying life insurance benefit, to ensure that no such oversights occur in the future.

Recommendation 1: THE CITY SHOULD CONSIDER SHIFTING MANAGEMENT RESPONSIBILITY OF THE GROUP LIFE/AD&D POLICY TO THE CAO'S EMPLOYEE BENEFITS DIVISION

The city agrees and this change was part of the Mayor's budget submission in the fall of 2011. The change became effective January 1, 2012.

As noted under Finding 1, the city will refine the personnel report for use in calculating premiums for this policy to comply with the coverage terms in the policy.

Recommendation #2: THE CITY SHOULD CONDUCT A COMPETITIVE SELECTION PROCESS TO OBTAIN A COMPETITIVE RATE FOR GROUP LIFE/AD&D INSURANCE.

The city agrees and has already begun preparations for this RFP. The RFP will be released by March 1, 2012.

Recommendation #3: THE LAW DEPARTMENT SHOULD ENSURE THAT VENDOR PAYMENTS ARE MADE AND APPROVED THROUGH THE CITY'S ELECTRONIC PURCHASING SYSTEM.

The city uses the Request for Payment Voucher method for Agency Fund payments such as life insurance premiums. Current policies will be reviewed and updated to ensure that all similar situations are clearly identified and that proper oversight and controls for them are in place. The city notes that the current arrangement of having two accounting systems, that are not well integrated, leads to alternative payment processes such as these. The implementation of an integrated single new accounting system will streamline all payments under one control framework.

Recommendation #4: THE CITY SHOULD ENSURE THAT ALL CITY EMPLOYEES UNDERSTAND THEIR RESPONSIBILITY TO PRESERVE AND SAFEGUARD PUBLIC RECORDS.

The city strongly agrees, and will provide additional training to employees regarding the preservation of the public record in accordance with State statutes.

Recommendation #5: THE CITY SHOULD PROVIDE EMPLOYEES WITH INFORMATION ABOUT COVERAGE AND CLAIMS PROCEDURES UNDER THE GROUP LIFE/AD&D POLICY.

The city agrees and will include information on this important benefit in an update to the employee handbook that is already in development.

Recommendation #6: IN THE EVENT OF A CITY EMPLOYEE'S DEATH, THE CITY SHOULD SEND BENEFIT AND CLAIMS INFORMATION TO THE DESIGNATED BENEFICIARIES.

The city agrees, and the CAO's office will develop a communication protocol for city departments and agencies to use.

Sincerely,


Andrew D. Kopplin
First Deputy Mayor / Chief Administrative Officer
City of New Orleans

Comment on the City of New Orleans' Response

This evaluation began in May 2011. Initial document requests were submitted soon thereafter, and the first request was sent to the Risk Manager at that time. After weeks of delay, a follow up request was sent to the Risk Manager and the City Attorney. Reviewers also contacted the Purchasing department on more than one occasion in an attempt to obtain copies of the proposals. After still more weeks of questioning, it was finally disclosed that the proposals were destroyed. Hartford also was unresponsive to OIG requests for a copy of its proposal.

The City was able to obtain a copy of Hartford's proposal and another proposal when compiling its response to the Internal Review copy of this report. Hartford's proposal states it is only valid until April 25, 2010; however, it does not change the finding that the competitive process solicited a better rate for the City. Further, the proposal also states the rate is "guaranteed for 2 years" which indicates that the rate is not volatile to the extent that comparable rates should be available for up to two years.