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

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

**Audit No:** 1155

**Report Date:** April 11, 2012

**Director:** Dr. Peter Hughes, MBA, CPA, CIA

**Deputy Director:** Eli Littner, CPA, CIA

**Senior Audit Manager:** Alan Marcum, CPA, CIA

---

**RISK BASED AUDITING**

- American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government
- GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management
- 2009 Association of Certified Fraud Examiners’ Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays
- 2008 Association of Local Government Auditors’ Bronze Website Award
- 2005 Institute of Internal Auditors’ Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach

---

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

Old Orange County Board of Supervisors

Internal Audit Department


Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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

OC Fraud Hotline (714) 834-3608
Transmittal Letter

Audit No.1155  April 11, 2012

TO:  Thomas G. Mauk  
County Executive Officer

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

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

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

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

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

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

ATTACHMENTS

Other recipients of this report are listed on the OC Internal Auditor’s Report on page 2.
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Special Request Audit:  
*Performance Measure Validation Audit of Human Resources Department – Employee Benefits Vendor, Kaiser Permanente Audit No. 1155*

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## OC Internal Auditor's Report

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

The objectives of this audit were to:

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

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

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

We tested five (5) out of Kaiser’s twenty-three (23) reported performance measures for 2010 and found that they were accurately reported and supported.

Objective #2: Develop an audit approach for the Human Resources Department to conduct future audits of benefits vendors to determine that the vendors are accurately reporting their performance measure results.
The Internal Audit Department worked with HRD to develop procedures to conduct future audits of benefits vendors to determine that the vendors are accurately reporting their performance measure results.

**BACKGROUND**

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

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

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

**Acknowledgment**

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

**Attachments**

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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

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