

Item # 6 A+B

**City of Carson City
Agenda Report**

Date Submitted: September 26, 2006

Agenda Date Requested: October 5, 2006
Time Requested: 10 minutes

To: Board of Supervisors

From: Sue Johnson, Internal Auditor

Subject Title: Action to approve a reimbursement agreement between the City of Carson City and Saint Mary's HealthFirst for overpaid insurance premiums for the period July 2003 through June 2006.

Staff Summary: Per request from the City's Director of Finance and Director of Human Resources, the Internal Auditor was asked to examine the monthly Saint Mary's HealthFirst invoices beginning with July 2003. The purpose of this review was to determine if the City of Carson City was being billed properly for policy holders based on their coverage classification, coverage type and status with the City. The audit revealed overpayments to Saint Mary's HealthFirst and a reimbursement due to Carson City in the amount of \$152,588.19.

Type of Action Requested: (check one)
 Resolution Ordinance
 Formal Action/Motion Other (Specify)

Does This Action Require A Business Impact Statement: Yes No

Recommended Board Action: I move to approve a reimbursement agreement between the City of Carson City and Saint Mary's HealthFirst for overpaid insurance premiums for the period July 2003 through June 2006.

Explanation for Recommended Board Action: See attached audit report for complete explanation of the recommended action.

Applicable Statute, Code, Policy, Rule or Regulation: N/A

Fiscal Impact: A reimbursement agreement has been drafted, in the amount of \$152,588.19, between the City of Carson City and Saint Mary's HealthFirst for the outstanding balance of overpaid insurance premiums. This amount is to be reimbursed to the City in thirty-two (32) monthly installments of \$4,768.38, beginning November 1, 2006 and ending June 1, 2006.

Explanation of Impact: Same as fiscal impact.

Funding Source: N/A

Alternatives: Not to accept reimbursement agreement.

Supporting Material: Reimbursement Agreement, Audit Report, and Attachments

Prepared By: Sue Johnson, Internal Auditor

Reviewed By: _____

Date: _____

(Department Head)

(City Manager)

(District Attorney)

(Finance Director)

Date: 9-26-06

Date: 9-26-06

Date: 9/26/06

Board Action Taken:

Motion: _____

1) _____

2) _____

Aye/Nay

(Vote Recorded By)

To: Mayor and Board of Supervisors

From: Sue Johnson, Internal Auditor

Date: October 05, 2006

Subject: **SAINT MARY'S HEALTHFIRST
MONTHLY INVOICE
JULY 2003 - JUNE 2006**

Per request from the City's Director of Finance (Tom Minton) and Director of Human Resources (Lisa Roth), I was asked to exam the monthly Saint Mary's HealthFirst invoices beginning with July 2003. The purpose of this review was to determine if the City of Carson City was being billed properly for policy holders based on their coverage classification, coverage type and status with the City. This review examined all active employees, as well as inside area retiree's with and without Medicare and outside area retirees with and without Medicare and individuals covered by Cobra. The emphasis of this review was to:

1. Examine the administrative procedures and flow of paper work employed by the City of Carson City and Saint Mary's HealthFirst as it pertains to adding, changing and removing policy holders from the monthly invoices based on a qualifying event.
2. Evaluate the effectiveness of current procedures with respect to the flow of documents, the timing of qualifying events and the financial impact on the monthly invoices.
3. Evaluate the monthly audit performed by the Human Resource department prior the monthly invoice being approved for payment.

This examination identified a select number of employees (9.3% of the total policy holders enrolled in the plan) that had a qualifying event take place that was not correctly reflected on subsequent monthly invoices for

the period July 2003 through June 2006. This resulted in a total overpayment by the City of Carson of \$232,769.67. As of September 30, 2006, a total of \$80,181.48 in premium adjustments have been applied to the City's July, August and September invoices. This results in a net overpayment due to the City of Carson City of \$152,588.19; (See Attachment A)

In addition, the exam has identified opportunities to leverage automation, enhance training, and strengthen internal procedures by developing and implementing a detailed monthly audit and reconciliation process thereby improving financial management for the City of Carson City.

Included is an "Executive Summary" detailing the findings of this review and recommendations. There is consensus on the actions to be taken to eliminate any future occurrences.

I appreciate the cooperation and assistance I received from Linda Ritter, Tom Minton, Lisa Roth and their staff respectively. Their assistance aided this examination considerably and enhanced the recommendations provided.

EXECUTIVE SUMMARY

Due to external and internal issues, the City of Carson City has over paid their monthly insurance premiums to Saint Mary's HealthFirst for the period July 2003 through June 2006. The total over payment has been identified as \$232,769.67; after Saint Mary's has applied adjustments the remaining balance over paid is \$152,588.19; (See Attachment A).

✦ Saint Mary's HealthFirst (External)

Overview:

Saint Mary's HealthFirst is divided into two separate functions and departments; enrollment and billing.

The enrollment function handles all transactions and communications that involve an employee's initial enrollment and any changes such as type of coverage, address change, beneficiary change, termination of coverage, etc. All transactions processed through this function impact the monthly billing statement via Saint Mary's automated system.

The billing function handles only the processing, mailing out, and issuance of manual adjustments as it pertains to the monthly invoice.

Primary Issues Identified:

1. **System Limitations:** Saint Mary's enrollment function is a semi-automated process. Because they have an older system it does not allow them to use electronic mail and/or receive a system generated report when notifying them of an employee's change in status. All notification is handled manually by using fax correspondence.

EXECUTIVE SUMMARY

2. **Absence of Assigned Account Representative:** Rather than have an assigned "Account Representative" to handle all changes and communications, various individuals within the Saint Mary's enrollment function were assigned to receive and process all faxes sent. Overall, this method of communication, notification and tracking became confusing, cumbersome and resulted in the inconsistent and untimely handling of coverage changes for the City which directly impacted the monthly billing.

3. **Administrative Effectiveness:** Beginning with July of 2003 through June 2006, the audit revealed several errors in the processing of employee changes. Due to high turnover, inconsistent procedures and a lack of clear and concise communication within the Saint Mary's enrollment function, the rate of these errors increased over a period of time:

2003	11.1%	Transactions with errors
2004	15.2%	Transactions with errors
2005	33.7%	Transactions with errors
2006	71.42%	Transactions with errors

Since the inception of the City's relationship with Saint Mary's, July 2003, the City's Human Resource representatives had the understanding that all communication, including those pertaining to the *billing function should be* communicated to various representatives within the Saint Mary's enrollment function.

EXECUTIVE SUMMARY

In addition, it was not communicated to the Human Resource representative for the City that Saint Mary's system is limited to billing adjustments for sixty (60) days from the date of the qualifying event. This information is critical, as any changes not properly processed by Saint Mary's enrollment function that exceed the sixty (60) day period result in a manual adjustment. These manual adjustments must then be communicated and prepared by the billing function.

✦ City of Carson City (Internal)

Overview:

Carson City's Human Resource Department is responsible for the administration of the employee's health insurance plan. This encompasses all transactions and communications, both internally and externally, that involve an employee's initial enrollment and any changes in coverage such as address change, beneficiary change, termination of coverage, etc. In addition, this individual is responsible for making the determination that the change is a qualifying event. All transactions must be conducted within a defined timeline, with proper documentation, and within federal and state guidelines. The Human Resource Department serves as the liaison with the employee when there are administrative or coverage issues with Saint Mary's. In addition, the department is responsible for the monthly audit and authorization of payment of Saint Mary's monthly invoice.

The Finance Department is responsible for the processing and issuance of payment for the Saint Mary's monthly invoice.

EXECUTIVE SUMMARY

Primary Issues:

1. **Training:** In July of 2003, the City transferred their medical and prescription drug plans to Saint Mary's HealthFirst. Shortly after this transition began, September 2003, the administrator function for the City was replaced with new personnel. Prior to September 2003, this position had been vacated for a period of time. As with any "new responsibility" and any "new business relationship" there is a learning curve. Because there was limited transition of knowledge, information, and a lack of defined policies and procedures the training of the administrator function as it relates the Saint Mary's monthly invoice was essentially eliminated. This coupled with a new business relationship created inefficiencies in the administrative function. While there was a procedure in place for the approval of payment and a limited review, there was not a procedure in place for a detailed review prior to the authorization of payment. Essentially, the City paid their monthly invoice as billed in good faith relying on Saint Mary's enrollment function to make proper changes in a timely manner based on the faxes sent to them.
2. **Limited Review Process:** The City has two "Billing Accounts" with Saint Mary's. The first account represents insurance premiums for "out of area" retirees and the second account represents insurance premiums for "in area" retirees and active employees. Between these two accounts, there were twelve different coverage types for the over seven hundred (700) individuals enrolled in the City's plan. Although the monthly invoice was reviewed on a limited basis, due to the

EXECUTIVE SUMMARY

complexity of plan coverage and the complexity of the monthly invoice a comprehensive and detailed review process should have been in place to track all changes submitted by the City's administrator function to Saint Mary's enrollment function. A detailed review would have been extremely difficult for the City to conduct due to the human resource system that had significant limitations. A detailed review would have to verify the following information comparing the City's master records to Saint Mary's monthly invoice:

- Policy Holder
- Social Security Number
- Coverage Type

Due to system limitations and specific training, this information would have been extremely difficult to generate.

In addition, all retroactive premium adjustments (manual and system generated) processed by Saint Mary's should have been verified by the City for accuracy to identify potential errors.

3. **Clear Focus for System Implementation concurrent with the day to day responsibilities in the Human Resource**

Department: Beginning in May of 2005, the Human Resource Department began the implementation of the City's new system. This implementation required extensive customization of the software and extensive testing of the system's applications by personnel in the Human Resource department. Because of the considerable emphasis placed on the system implementation, there was a lack of balance to maintain the day to day responsibilities of the department. Ultimately, this increased workload further eroded the limited review of the Saint Mary's monthly invoice.

RECOMMENDATIONS

A series of specific actions have been recommended and implemented by the City of Carson City and Saint Mary's HealthFirst to collect the overpaid premiums and to eliminate this issue from reoccurring.

1. **Receivable & Collection of Over Billed Premium:** A reimbursement agreement has been drafted between the City of Carson City and Saint Mary's HealthFirst for the outstanding balance of \$152,588.19. This amount is to be reimbursed to the City in thirty-two (32) monthly installments of \$4,768.38, beginning November 1, 2006 and ending June 1, 2009. The Director of Finance has recorded a receivable on the Balance Sheet in the amount of \$152,588.19 prior to the close of the accounting period ending June 30, 2006.
2. **Leveraging Internal and External Automation to Formalize a Detailed Monthly Audit:** During the course of the HR System conversion, key personnel developed, and have implemented an automated audit report by type of policy holder. As of September 30, 2006 this audit report can be run on a monthly basis for active employees, inside area retirees with or without Medicare, outside retirees with or without Medicare and Cobra participants. These reports have been incorporated into the formalized monthly audit and reconciliation of Saint Mary's invoice; (See Attachments B1 - B3, & C). This reconciliation will be required prior to authorization for payment of the monthly invoice. All exceptions and discrepancies found during this monthly audit are then documented, researched, and resolved with the use of a monthly variance report; (See Attachment D). This monthly variance report is reviewed by the Human Resource Director, the Benefits Coordinator and the appropriate Saint Mary's personnel.

RECOMMENDATIONS

Due to Saint Mary's system's limitations, the City will remain on a manual submission of enrollment related transactions by submitting all paper work by fax transmission. However, a log will now be kept showing date, time and report transmission to Saint Mary's. In addition, the form has been revised to provide greater detail to Saint Mary's about the qualify event that will change the *individuals coverage*; (See Attachment E). This form will now be faxed per individual, per event rather than have several different individuals and qualifying events on a single fax. At some point in the future, it is *hoped* that Saint Mary's will be able to receive this information electronically.

3. Adequate Training for Key Personnel:

Key personnel with the City's Human Resource Department that are responsible for maintaining adequate records, tracking all employee changes through our insurance provider's monthly invoice, auditing the monthly invoice and authorizing payment will receive adequate training of the revised policies and procedures that have been implemented. Key personnel will be responsible to keep written policy and procedures current as the business environment changes. In addition, the Saint Mary's organization has assigned a designated representative for the City of Carson City to handle the workload as it pertains to their enrollment function and the volume of changes submitted. Personnel in Saint Mary's billing function have also been trained to better understand the business environment of the City to improve communications.

RECOMMENDATIONS

4. **Clear Focus for System Implementation concurrent with the day to day responsibilities in the Human Resource Department:**

Over the course of the past six months, the workload in Human Resources has increased due to testing and implementation of the new Human Resource System. At the same time, there has been no additional staff or resources allocated in this area. It is important to review staffing levels and prioritize workloads to support a large project such as the Human Resource System conversion as well as maintaining a high level of service of the day to day responsibilities of key personnel.

CONCLUSION

This comprehensive examination of Saint Mary's HealthFirst identified opportunities to improve financial management, leverage the newly implemented Human Resource System, enhance training of key personnel, create detailed written procedures, create a detailed monthly audit process, and an opportunity to prioritize workloads for staff to support large projects as well as maintain a high-level of service for the day to day responsibilities of key personnel within the Human Resource Department.

City of Carson City
St. Mary's HealthFirst
Internal Audit Report
July 2003 - June 2006

ATTACHMENTS

- * **A Overpayment Recap**
- * **B-1 Active Employee - Audit Report**
- * **B-2 Inside Area Retiree - Audit Report**
- * **B-3 Outside Area Retiree - Audit Report**
- * **C Monthly Invoice Reconciliation Form**
- * **D Monthly Variance Report**
- * **E Fax Form**

City of Carson City
St. Mary's HealthFirst
Internal Audit Report
July 2003 - June 2006
Premium Overpayment Recap

ATTACHMENT A

<u>Description</u>	<u>Total</u> <u>Overpayment</u>	<u>Adjustments</u> <u>Applied</u>	<u>Outstanding</u> <u>Overpayment</u>
Active Employee - Policy Holders	\$184,142.08	(\$31,553.89)	\$152,588.19
Inside Area - Retirees	\$33,764.61	(\$33,764.61)	\$0.00
Outside Area - Retirees	\$14,862.98	(\$14,862.98)	\$0.00
Total	\$232,769.67	(\$80,181.48)	\$152,588.19

**City of Carson City
St. Mary's HealthFirst
Internal Audit Report
July 2003 - June 2006**

ATTACHMENT B - 1

Active Employee
Benefit Coverage for Verification with Saint Mary's Bill
September 2006 Invoice

<u>Plan Code</u>	<u>Name</u>	<u>Government Code</u>	<u>Coverage Code</u>	<u>Premium Start Date</u>
MED-POS	Aaaaaa, John	000-00-0000	EMPLOYEE + FAM	23-Jun-06
	Abbbbb, William	000-00-0000	EMPLOYEE + FAM	23-Jun-06
	Accccc, Salvador	000-00-0000	EMPLOYEE + FAM	10-Oct-03
	Adddd, Cheryl	000-00-0000	EMPLOYEE + FAM	30-Oct-79
	Agggg, Kevin	000-00-0000	EMPLOYEE ONLY	6-Sep-02
	Aguuuu, Megan	000-00-0000	EMPLOYEE ONLY	21-Jul-06
	Ahhhr, John	000-00-0000	EMPLOYEE + ONE	23-Jun-06
	Akkk, Albert	000-00-0000	EMPLOYEE + FAM	14-Feb-92
	Atttt, Sally	000-00-0000	EMPLOYEE + ONE	14-May-04
	Baaaa, Anthony	000-00-0000	EMPLOYEE + ONE	28-Mar-97
	Bannnn, Sheila	000-00-0000	EMPLOYEE ONLY	23-Jun-06
	Barnhurst, Vickie	000-00-0000	EMPLOYEE + ONE	19-Apr-04
	Beeee, John	000-00-0000	EMPLOYEE + FAM	3-May-93
	Etc.....			

**City of Caron City
St. Mary's HealthFirst
Internal Audit Report
July 2003 - June 2006**

ATTACHMENT B - 3

Outside Area Retirees

Benefit Coverage for Verification with Saint Mary's Bill
September 2006 Invoice

<u>NAME</u>	<u>SSN</u>	<u>DOB</u>	<u>Plan</u>	<u>Coverage</u>	<u>One With Medicare</u>
BEEEE, THEODORE	000-00-0000	11/9/1938	PPO	S	Y
PAAA, RICHARD D.*	000-00-0000	02/11/32	PPO	S	Y
SMMM, MARGURITE T.*	000-00-0000	03/08/17	PPO	S	Y
STTTT, MAYNARD	000-00-0000	04/11/19	PPO	S	Y

<u>NAME</u>	<u>SSN</u>	<u>DOB</u>	<u>Plan</u>	<u>Coverage</u>	<u>Without Medicare</u>
BAAA, DONALD*	000-00-0000	06/01/44	PPO	S	N
BUUUU, LOUIS	000-00-0000	12/25/1948	PPO	1	N
CRRR, PAULA*	000-00-0000	07/04/52	PPO	S	N
SOOOO, MITCHELL D.	000-00-0000	05/28/58	PPO	S	N
WAAAA, ROBERT*	000-00-0000	04/26/27	PPO	S	N

Note: Coverage Type S = Single
Coverage Type 1 = Two Party
Coverage Type 2 = Family

**City of Carson City
St. Mary's HealthFirst
Internal Audit Report
July 2003 - June 2006**

ATTACHMENT B - 2

Inside Area Retirees
Benefit Coverage for Verification with Saint Mary's Bill
September 2006 Invoice

<u>NAME</u>	<u>SSN</u>	<u>DOB</u>	<u>Plan</u>	<u>Coverage</u>	<u>Both With Medicare</u>
CAAAA, JERRY	000-00-0000	10/21/1938	POS	1	YB
CUUUU, DARREL	000-00-0000	11/12/28	POS	1	YB
DUUUU, RAYBURN	000-00-0000	8/30/1939	POS	1	YB
FRRRR, JACK	000-00-0000	10/07/28	POS	1	YB
HOOOOO, GARY R.	000-00-0000	08/12/39	POS	1	YB
HLLL, KEITH	000-00-0000	02/05/32	POS	1	YB
RRRR, VIRGINIA	000-00-0000	04/15/23	POS	1	YB
SUUUUU, JACK	000-00-0000	09/27/33	POS	1	YB
THHHHH, THEODORE	000-00-0000	5/9/1928	POS	1	YB

<u>NAME</u>	<u>SSN</u>	<u>DOB</u>	<u>Plan</u>	<u>Coverage</u>	<u>One With Medicare</u>
CAAAA, JERRY	000-00-0000	07/28/36	POS	S	Y
CUUUU, DARREL	000-00-0000	11/11/34	POS	S	Y
DUUUU, RAYBURN	000-00-0000	11/30/21	POS	S	Y
FRRRR, JACK	000-00-0000	05/11/40	POS	S	Y
HOOOOO, GARY R.	000-00-0000	12/11/27	POS	S	Y
HLLL, KEITH	000-00-0000	08/05/46	POS	1	Y
RRRR, VIRGINIA	000-00-0000	04/20/31	POS	S	Y
SUUUUU, JACK	000-00-0000	07/09/30	POS	S	Y
THHHHH, THEODORE	000-00-0000	07/20/35	POS	S	Y
Etc.....					

<u>NAME</u>	<u>SSN</u>	<u>DOB</u>	<u>Plan</u>	<u>Coverage</u>	<u>Without Medicare</u>
CAAAA, JERRY	000-00-0000	05/11/45	POS	1	N
CUUUU, DARREL	000-00-0000	12/31/47	POS	S	N
DUUUU, RAYBURN	000-00-0000	03/05/43	POS	S	N
FRRRR, JACK	000-00-0000	10/24/53	POS	1	N
HOOOOO, GARY R.	000-00-0000	04/27/46	POS	S	N
HLLL, KEITH	000-00-0000	7/19/1943	POS	S	N
RRRR, VIRGINIA	000-00-0000	07/18/52	POS	1	N
SUUUUU, JACK	000-00-0000	02/29/52	POS	S	N
THHHHH, THEODORE	000-00-0000	12/27/53	POS	2	N
Etc....					

Note: Coverage Type S = Single
Coverage Type 1 = Two Party
Coverage Type 2 = Family

**City of Carson City
St. Mary's Health First
Internal Audit Report
July 2003 - June 2006**

ATTACHMENT D

Active Employee Variances
As of September 1, 2006

<u>Notes</u>	<u>Policy Holder Name</u>	<u>Social Security #</u>	<u>Comment</u>	<u>Status</u>
ACTIVE ✓			Verified to City's Internal Audit Report of the month of July 2006. No exceptions noted.	
A	Annnn, Jennifer	000-00-0000	Employee is correctly not showing on Sept. audit list as she was termed 8/18/06 Employee is showing on St. Mary's Sept. Invoice as active, single coverage. HR will verify fax was sent to St. Mary's notifying them of termination. Helen in St. Mary's billing department was notified and will issue credit for Sept. premium charge on the Oct. invoice	Pending Oct. Adj. Pending HR \$383.72
B	Baaaa, Lorraine G	000-00-0000	Employee retired effective 9/1/06. Retiree status should be inside retiree, singl without Medicare. St. Mary's was notified and adjustment for active premium for Sept. in the amount of \$383.72 will be issued in October. October will also show an adjustment for Sept. premium for retiree, single, without medicare.	Pending Oct. Adj.
C	Beeee, Judie	000-00-0000	Coverage should be Inside Area Retiree; Without Medicare; Single St. Mary's is showing as Active; POS; Single for July & Aug. Premiums St. Mary's correctly issued credit for July & Aug. premiums on the Sept. invoice St. Mary's shows individual as retiree, inside area, single without Medicare on Sept. invoice and correctly shows adjustment for retiree premiums for July & Aug.	Closed
D	Bbbbb, Victoria	000-00-0000	Employee is not listed on Sept. audit list as she was terminated 8/23/06. St. Mary's Sept. invoice is currently showing individual premium for Sept. as active, two party coverage. HR will verify with enrollment that individual has been terminated and St. Mary's will issue a credit on the Oct invoice for Sept. premiums	Pending Oct. Adj. Pending HR 803.23

Note: The following Variance Reports will also be prepared monthly based on the classification of coverage:

- * Outside Area Retiree
- * Inside Area Retiree - With Medicare
- * Inside Area Retiree - Without Medicare
- * Inside Area Retiree - Both With Medicare
- * Cobra

REIMBURSEMENT AGREEMENT

This reimbursement agreement is executed by and between the City of Carson City, Nevada, and Saint Mary's HealthFirst on this fifth day of October, 2006.

1. Saint Mary's HealthFirst promises to reimburse the City of Carson City the principal sum of one hundred fifty-two thousand, five hundred eighty-eight and nineteen hundredths (\$152,588.19) in overpaid insurance premiums for the period July 2003 through February 2006 for "Active" status policy holders.
2. This reimbursement will be repaid in 32 consecutive monthly installments of \$4,768.38 each on the first day of each month commencing November 1, 2006. This reimbursement will be shown as a manual adjustment on the monthly invoice for each of the consecutive 32 months.
3. Notwithstanding anything to the contrary in this Agreement, if defaults in the performance of this obligation occur under this Agreement, then the City of Carson City may declare the principal amount due at that time to be immediately payable.
4. This Agreement will be construed in accordance with and governed by the laws of the State of Nevada.
5. All costs, expenses and expenditures including, and without limitation, the complete legal costs incurred by enforcing this Agreement as a result of any default by Saint Mary's HealthFirst will be added to the principal amount then outstanding and will immediately be paid by Saint Mary's HealthFirst.
6. The obligations of this Agreement are binding on the successors and permitted assignees of Saint Mary's HealthFirst and the City of Carson City.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date written above.

CARSON CITY, A Consolidated Municipality

Marv Teixeira, Mayor

SAINT MARY'S HEALTHFIRST



Dave Challis, Vice President/COO

Attest:

Alan Glover, Clerk-Recorder