

Minutes
Greater Tompkins County Municipal Health Insurance Consortium
Audit Committee
March 21, 2013 - 3:00 p.m.

Attendees: Steve Thayer, Judy Drake, Chuck Rankin, Laura Shawley (arrived at 3:25 p.m.), Chantalise DeMarco, Michelle Pottorff; Don Barber, Jerry Mickelson, Steve Locey (via conference call)

Call to Order

Mr. Thayer called the meeting to order at 3:05 p.m.

Acceptance of Minutes

The minutes of the February 21, 2013 meeting were approved as submitted.

Overview of Work Performed by Consultant, Locey and Cahill

Mr. Locey said Locey and Cahill was charged with developing all of the plan documents. On an ongoing basis they continually review and update those documents to ensure they are compliant with Federal and New York State mandate changes and the Affordable Care Act. Once changes are made those documents are filed with the New York State Department of Financial Services.

Since the beginning of the Consortium they have been charged with putting together the benefit plans that are offered by the Consortium in terms of prescription drug copays, PPO copays, and different types of indemnity plans, etc. From a cost perspective they are charged with putting together the premium equivalent rates for the various plan options and making sure they are rated from an equitable perspective and seeing that the variance in the rate is commensurate with the benefit. In addition, they are charged with putting together the budget on an ongoing and annual basis. They collect financial data from the Consortium and paid claims data from the Prescription Benefits Manager and Excellus and analyze that on an ongoing basis. They look at claim trends, the difference between what was budgeted and actually paid out, and all the different cost variables within the Consortium to make sure it is meeting all of the expectations. They also put together claims lag reports, looking at paid and incurred data and are look at claims development models to make sure projections are still being done correctly based on what is happening in the market.

Mr. Locey said they also respond to daily questions in terms of eligibility and provide support to all of the Consortium's committees and the Board of Directors. They have also been involved in meetings with Cayuga Medical Center and Excellus concerning the Clinical Integration initiative. Locey and Cahill has also been working to provide necessary information to the Bonadio Group, Aquarius Capital, the external auditors, and the New York State Department of Financial Services for the State audit.

There was a discussion of the pharmacy expenses and Mr. Locey was asked if there is integration of the claims into the Stop Loss coverage. Mr. Locey said yes; when a person is

identified as being close to the Stop Loss deductible level at Excellus they get reporting from the PBM as well to make sure the Stop Loss carrier is getting all of the claims data related to that person.

Mr. Thayer asked how much Locey and Cahill looks at the actual paid claims activity at Excellus. Mr. Locey said right now they just look at data. For many of their other clients they provide a service called a Quality Assurance Audit where they will review a random statistically valid sampling of claims. They also do a catastrophic claim or large loss review at the same time. The focus for this is to: 1) make sure that claims are being processed in accordance with the plan document, normal business practices from a claims and insurance operations perspective, ensure compliance with state and federal mandates; and 2) look at how catastrophic claims are managed. This is something they are not currently contracted to do for the Consortium and he noted this is something that was mentioned in the 2011 independent auditor's report that should be done.

From a claims perspective what they are currently looking at is aggregate claims data for prescription drug and medical and are doing analysis through the data cube at Excellus based on catastrophic loss, trends, and anything that will help them better manage the Consortium from a financial perspective. They are not looking at the accuracy of claims payment. Mr. Locey said this is something most consortiums do and they recommend the Audit Committee consider making a recommendation to the full Board on this at some point in the future. Most consortiums focus primarily on the medical side and not on the prescription drug side; however, if prescription drug claims begin to veer from expectations it may trigger a need to audit the PBM to see what is going on.

Ms. Drake asked what committee would be reviewing the claims data and identifying where high claims are. Mr. Locey said up to this point they have been looking at that information internally and have not been charged with reporting it out to any one source. He noted that when looking at claims data it is important from a management perspective to get a handle on where expenses are going in terms of budgeting and planning for the future; however, he expressed caution in getting caught up too much in the data as there is not a lot you can do about some things but some data can be important from a wellness or disease management perspective. Items that are important to look at are the generic fill rate, mail order versus retail use, and treatable types of conditions such as high blood pressure, high cholesterol, and diabetes. Demographic analysis is also important. Mr. Locey said they can provide this information to the committee that would be looking at and evaluating this information.

Excellus provides a year-end utilization report and the PBM will provide a separate report. The information is also available through the Blues' data cube. Liz Karns has been provided with access to that data.

Ms. Shawley arrived at this time.

Ms. Drake asked how Locey and Cahill receive the financial information. Mr. Locey said they receive information from a number of sources. They receive information on a monthly

basis from David Squires in terms of receipts, revenues, and expenses. He also provides any accounts receivable, accounts payable information, and billing information. In addition, they have direct access into the Blues' data system and receive monthly reports from the PBM on claims data, and incurred and paid claims data from both Excellus and the PBM.

Mr. Thayer spoke of the changes that are coming from the federal level and asked how they will impact the Consortium. Mr. Locey said the Affordable Care Act has three taxes that will be implemented on January 1, 2014: 1) Health Insurance Fees that will be charged to health insurance companies (because the Consortium is self-insured this will not apply); 2) Transitional Reinsurance Program Tax (this will cost about \$5 per contract per month with the money paid to the federal government to fund a pool of money that will be used to help the State-run health insurance exchanges offset some of the bad risk they believe will come into the program during the first couple years of operation. This will be a temporary tax and should not run past 2016.; 3) Patients Outcome Research Trust Fund Tax. There is a not-for-profit being set up to analyze medical treatment protocols, devices, drug therapies, products, etc. They are supposed to report to the medical community on what they believe is effective in terms of treatment and cost to help treat illnesses and injuries more effectively. This tax will be \$1 per covered life per year for the first year, \$2 in the second year and after that will increase by an inflationary escalator. This should amount to less than \$5,000 of impact to the Consortium for the first year).

Update on New York State Department of Financial Services Audit

Mr. Squires reported he received a second bill in the amount of \$3,500; the expected total cost of the audit is \$10,000. Mr. Barber said the State will submit a draft report in April and a final meeting will be held prior to the release of the final report. At a meeting prior to the auditors leaving it was communicated that one concern they had was the lack of quorum at meetings of the Joint Committee on Plan Structure and Design. With regard the capitalization payments, he said the State now views this as an assessment and have asked that the Consortium inform the State when those funds are intended to pay back. He reported the Bonadio Group will be meeting in the next week with the Department of Financial Services to review the draft JURAT filing and he expects the filing to go smoothly. He said he would like this Committee to become familiar with enterprise risk management and then go through the process with the Board of Directors. He will be bringing information he receives at the NYMIR retreat over the summer.

Mr. Mickelson asked that the Bonadio Group be authorized to provide him with a copy of the preliminary draft. Mr. Barber will take care of this.

Ms. Drake asked for an update on the question concerning the 2,000 covered lives. Mr. Barber said the State was informed the Consortium had 24,012 covered lives for the entire year. When divided by 12 months it met the 2,000 per month covered life requirement and the State accepted this. He said the number of contracts is not an issue now that the City of Cortland and Town of Lansing have joined.

Ms. Drake asked if this Committee or the Board of Directors will be looking at bills being paid. Mr. Barber said the Board will be presented with an invoice at the Bonadio Group at its meeting next week. He will be asking that a process be developed as well for future invoices. Mr. Squires said he could submit the disbursement register on a regular basis; Mr. Barber suggested that be presented to the Finance Committee.

Review of Draft Charter

After review, the Committee approved the Charter below and will include a copy in the Board of Directors agenda packet. Ms. Shawley will provide the Committee's report as Mr. Thayer is unable to attend the Board meeting.

Greater Tompkins County Municipal Health Insurance Consortium Audit Committee Charter

On behalf of the Board of Directors of Directors, the Audit Committee is charged with:

- Reviewing financial reports and filings;
- Audit policies and procedures to be sure they are in compliance with Article 47 and the Certificate of Authority;
- Reviewing medical claims audit reports;
- Establishing a list of all reports due to the Board and regulators and the process and time line to insure accurate and timely reporting

The Audit Committee shall review with the external and internal auditors the financial statements, the financial reporting process, the system of internal controls, the audit process, and the Consortium's monitoring of compliance with laws and regulations. The Audit Committee shall report this information to the Board of Directors.

In addition, the Audit Committee shall provide its recommendations for action to be taken by the Board of Directors and management in order to strengthen the Consortium's controls, compliance procedures and financial reporting process.

The Audit Committee shall monitor management's progress in responding to the internal and external auditors' findings.

The Audit Committee shall be composed of no fewer than three and no more than five Board of Directors members. No member of the Audit Committee shall be an officer or employee of, or receive any compensation from, the Consortium. The Board of Directors treasurer may not serve on the Audit Committee. The Chair of the Board of Directors shall be an ex officio non-voting member of the Audit Committee. At least one member shall serve as the financial expert, defined as an individual professionally knowledgeable in business management and financial reporting. Ideally, the financial expert shall have specific experience with a similar Consortium.

Internal control

- Assuring that management is setting the appropriate tone in communicating the importance of internal controls and in establishing policies and procedures to mitigate risk;
- Determining whether internal control recommendations made by internal and external auditors have been implemented by management;
- Making certain that the internal and external auditors keep the Audit Committee informed about fraud, illegal acts, deficiencies in internal control and other audit-related matters;
- Determining which aspects of internal control and compliance procedures are being tested annually by the internal and external auditors; and
- Understanding the nature of significant deficiencies and material weaknesses reported with the financial statements and reportable findings under *Government Auditing Standards*

General

- Reviewing significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understanding their impact on the Consortium's financial statements; and
- Reviewing significant risks and exposures and the plans to minimize them

Annual financial statements

- Reviewing the annual financial statements and related footnotes and assessing whether they reflect appropriate accounting principles;
- Reviewing the Management Discussion and Analysis (**MD&A**) disclosures and concluding as to their reasonableness based on the Audit Committee's knowledge of the Consortium;
- Reviewing the management letter and monitoring the Consortium's compliance with its recommendations;
- Ascertaining whether the internal and external auditors have communicated issues and concerns to each other for appropriate follow-up and action;
- Verifying that the external auditors communicate all matters to the Audit Committee as required by their professional standards; and
- Review, as necessary, other monthly or quarterly financial statements for accuracy and timeliness

Compliance with laws and regulations

- Reviewing the effectiveness of the Consortium's system for monitoring compliance with laws and regulations; and
- Satisfying itself that all regulatory compliance matters have been considered in the preparation of the financial statements; and
- Reviewing the findings of any significant examinations by regulatory agencies; and
- Reviewing any state funding and reports filed

Internal audit

- Ascertaining that the organization has the appropriated structure and staffing levels to carry out its internal audit; and
- Confirming that health insurance claims are audited, internally as needed

External audit

- Selecting and retaining the Consortium's external auditors; and
- Approving the external auditors' fees; and
- Reviewing and approving the external auditors' proposed audit scope and approach; and
- Reviewing the performance of the external auditors and recommending their retention or discharge; and
- Reviewing and confirming the external auditors' assertion of their independence in accordance with professional standards; and
- Reviewing and approving the engagement of the external auditors to perform services, including consulting services, unrelated to the audit

Reporting responsibilities

- Reporting to the Board of Directors at least annually with appropriate recommendations regarding the Audit Committee's activities and any key external audit issues

Other responsibilities

- Meeting with the external auditors, internal auditors and management in separate executive sessions at least annually;
- Confirming that significant findings and recommendations made by the internal and external auditors are received, discussed, and acted upon appropriately and promptly;
- Reviewing and updating the Audit Committee Charter; and

- Reviewing and approving the Consortium's conflict-of-interest, code-of-ethics and whistleblower policies

Next Agenda Items (April 18, 2013)

The following items will be included on the next meeting agendas:

Overview of work completed by the Bonadio Group (April)
Approve Whistleblower/Fraud Policy
Review external audit report (May)
Review 1st quarter 2013 report (May)
Review results of State Audit (May)
Oversee development of Code of Ethics and Conflict of Interest Policy
Develop Request for Proposals for audit services
Reports to Board of Directors

Review of Whistleblower/Fraud Policy Samples

The Committee reviewed draft sample policies and accepted the Putnam/Northern Westchester Health Benefits Consortium's Fraud Policy as a sample template. Ms. Drake and Ms. Shawley agreed to work on this document and will have an updated draft included on the next agenda.

Adjournment

The meeting adjourned at 4:08 p.m.