

Minutes
Greater Tompkins County Municipal Health Insurance Consortium
Audit Committee
May 16, 2013 - 3:00 p.m.
Ithaca Town Hall

Attendees: Steve Thayer, Judy Drake, Chuck Rankin, Don Barber, Jerry Mickelson, Mimi Theusen, Michelle Pottorff
Excused: Chantalise DeMarco, Laura Shawley

Call to Order

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

Acceptance of Minutes

The minutes of the April 18, 2013 meeting were approved as submitted.

Approval of Whistleblower/Fraud Policy

It was unanimously approved by voice vote by members present, to present the following policy to the Board of Directors for approval:

**Greater Tompkins County Municipal Health Insurance Consortium Policy for
Disclosing Possible Wrongful Conduct (Whistleblower Policy)**

Overview

The Greater Tompkins County Municipal Health Insurance Consortium was established to provide cost effective health and other related insurance benefits for the employees and retirees of member municipalities and their dependents. The aggregate cost of the program affects the future benefits of all members. Ultimately, the true payers of these benefits are the taxpayers of the municipalities in which these employers are located. It is, therefore, incumbent upon everyone involved to ensure that any wrongful acts, such as theft, fraud, waste or abuse are properly reported.

Disclosure Policy

It is the policy of the Consortium that all individuals involved in the administration of the plan, as well as all members who receive benefits provided by the plan abide by the plan documents and all applicable state and federal laws and regulations. Any expected acts of theft, fraud, waste or abuse should be reported to the Consortium's Audit Committee or directly to the Attorney-in-fact¹ (John G. Powers of Hancock Estabrook LLP) for further investigation. Such investigation shall be commenced within 30 days. A written report of findings shall be submitted to the Board of Directors within 60 days.

¹ Municipal Cooperative Agreement; Section E. Board of Directors (18)

Anti-Discrimination Policy

Any employee who discloses an alleged act of theft, fraud, waste or abuse shall not be discriminated or retaliated against by his/her employer or by any representative of the Consortium. In fact, all disclosures or complaints shall be kept confidential to the maximum extent possible. Disclosures or complaints submitted anonymously shall receive the same treatment as those submitted with identification. Any acts of discrimination or retaliation due to an individual's disclosure of theft, fraud, waste or abuse shall be reported to the Consortium's Audit Committee or directly to the Attorney-in-fact. Reports of discrimination shall be investigated within 30 days. A written report of findings shall be submitted to the Board of Directors within 60 days.

Distribution

This policy shall initially be distributed to each member municipality, each member of the Board of Directors, and the Joint Committee on Plan Structure and Design. A copy shall also be posted in a conspicuous location at each member municipality facility, and on the Consortium's website.

Review

This policy shall be reviewed by the Board of Directors at least once every three (3) years.

Review Recommendation from New York State Department of Financial Services

Mr. Thayer said the agenda packet contained two questions raised by the Department of Financial Services along with a response from Steve Locey.

1. Has the Board ever requested certification from independent CPA that the responsible parties have implemented the procedures adopted by the Board. If yes, provide.

Mr. Barber said this is something that will come out of this Committee's discussion in looking at the financials and the claims and making sure the process is operating correctly. He said it would be good to find someone who can ensure that it is done properly, he Board 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. Barber said before the Consortium began a Request for Proposals (RFP) was put together but was never sent out because the Consortium began working with Locey & Cahill and they provided a lot of what was needed. Mr. Thayer suggested the RFP that was initially drafted by Jackie Kippola be reviewed by the Committee at its next meeting. Mr. Mickelson asked if this would be more procedural and above the claims audit. Mr. Barber said it could be

part of it as this would be process and the claims audit would be product. Mr. Mickelson said there would be a level of efficiency by doing both together.

2. Has the Board ever requested from the Plan's attorney a statement that the Plan's current claims adjudication procedures, including those set forth in the current claims manual, are in accordance with applicable statutes, rules and regulations?

Mr. Barber said this has not been done. He said the Department of Financial Services is looking at all the risks that may exist and how the Consortium is operating. He said Excellus has been handling all appeals up to this point and the Consortium has not been notified that there have been any appeals, however, the Department has reported there was one appeal and a request for additional information has been made. Ms. Drake questioned what the claims manual is. Mr. Thayer said additional information needs to be requested from Excellus on what process is used for appeals. He agreed to contact Excellus to get information on the entire process beginning from the initial claim.

Update on New York State Audit

Mr. Squires reported the Consortium has received invoices to date in the amount of \$20,000. Mr. Barber said there are a few items that are still being prepared for the Department of Financial Services. Once they are in the State will compile a draft report and will meet with at least one representative of the Consortium; however, he will invite the Audit Committee to participate in that meeting. They will inform the Consortium of what will be in the final report and will provide a period of time to respond. They will then make an official ruling on it and make the audit a final public document.

Review of Draft External Audit

Mr. Mickelson presented two documents in addition to the draft Audit Report:

Communication Letter: Communicates the Firm's understanding of the Plan and that the annual report has been audited as submitted and the official report. The letter addresses Qualitative Aspects of Accounting Practices and states no new accounting policies were adopted and the application of existing policies was not changed during 2012. Certain accounting estimates, specifically the Incurred But Not Reported Liability which is statutory at 12%, has an actuarial report that supports the 12% is appropriate as the actual experience has been somewhat less than that. There was one material correction of financial information as a result of the audit as an additional \$874,662 in Stop Loss recoveries which are difficult to predict. That dramatically increased the Consortium's net position; those reimbursements are based on claims that were processed in 2012.

Management Letter: Significant Deficiencies found included:

Contributed Capital: The interest accrual provision has not been recorded. Contributed capital amounted to \$198,400 in 2012 from the City of Cortland and Town of Lansing from \$1,223,736 in 2010 for a total of \$1,422,136 at December 31, 2012. The Consortium has reached an understanding with the Department of Financial Services that no repayment distributions will be made without prior communication.

Board Meetings: Many instances where the Joint Committee on Plan Structure and Design did not have a quorum present was noted. The audit includes a recommendation that a policy be implemented to ensure a quorum at each scheduled meeting; however, it was noted quorums were met more regularly during the current year.

Administrative Guidelines: During their review of the Municipal Cooperative Agreement it was noted the establishment of administrative guidelines and financial regulations for entry or new participants has not been completed. Ms. Pottorff will provide Mr. Mickelson with a copy of the process that was adopted by the Board of Directors.

Excellus BlueCross Administrative Services Contract: There is still a reference in the original document of having security of \$2,387,600 for run-out claims; however, no formal evidence of security was noted during the audit. They recommend a review of the Excellus Administrative Contract.

Incurred Claims Liability: They did not see any formal communication from the Department of Financial Services stating this shall be 12% of annual total expenses and it was recommended that formal documentation be obtained. Mr. Barber said there have been efforts to reach out the Department of Financial Services but there is not formal documentation. He noted the State has allowed the Consortium to file a JURAT using 12%. Mr. Mickelson said language will be added that states annual reports were filed for 2011 and 2012 using the 12% rate without any indication of that amount not being appropriate and that the 12% has been confirmed with the actuarial reports.

Audit of Medical Claims: It was recommended that an independent firm be engaged to perform audits of medical claims paid.

Mr. Mickelson briefly reviewed those items that have been resolved. He also reviewed the Consortium's net assets, stating the Consortium's net position went from \$1,249,619 in 2011 to \$4,626,192 in 2012. The Unassigned net position is \$3,197,415.

Mr. Mickelson spoke to the following section:

F. Net Position

Contributed Capital: Initial capitalization of the Plan, expected to be repaid in five years, subject to funds availability and approval by the Department of Financial Services. The initial capitalization by participating municipalities of \$1,422,136 has no been formally restricted as of December 31, 2012. No repayments have been made as of December 31, 2012.

Restricted for Contingency Reserve: A contingency reserve of 5% of current year premiums was established in accordance with New York State Insurance Law, Section 4706 (a)(5).

Unassigned: If a surplus of assessments exists after the close of the Plan year, after provision for payment of all known unsettled claims, and after receipt of an annual independent financial audit, the Board may retain from such surplus an amount sufficient to establish and maintain a claim contingency fund. Surplus funds in excess of the amount transferred to, or included in, such contingency fund shall be applied in reduction of the next annual assessment or to the billing of Plan participants. The net position represent an appropriation of this excess for this purpose. Any deficit net position balance will need to be recovered from future premium adjustments.

He suggested the Consortium first take action to establish the capitalization in its own category which would leave a total of Unassigned assets of approximately \$1.7 million. At this point there can be consideration about establishing a contingency fund at some level. A comment section will be added that the Board should consider allocating funds to the Contributed Capital to fulfill the funding criteria for contributed capital and assess the need for

establishment of a contingency reserve. Mr. Barber said the only reserve the Department of Financial Services is requiring the Consortium to have is the revenue reserve of 5%. Article 47 does include language concerning a contingency reserve but the Consortium was not required to have one. He said one thing the Consortium could be looking at is whether there should be a contingency reserve, what the purpose would be, and how it would be used in accordance with plan provisions. It should also look into the changing the interest rate that was used to calculate the payback of the Capitalization Reserve.

Mr. Mickelson reviewed the Management and Discussion Analysis and asked that the Committee review its contents. In summary, for the year ending December 31, 2012 the Plan's net position increased by \$3,178,173, exclusive of additional capital contributions of \$198,000. The 2012 increase in net position is mainly attributable to an excess of revenues received over claims and administrative expenses. For the year ending December 31, 2011, the Plan's net position decreased by \$192,000. The 2011 decrease in net assets is mainly attributable to claims and administrative expenses in excess of revenues received.

Mr. Mickelson summarized the audit, stating in their opinion the financial statements referred to present fairly, in all material respects, the financial position of the business-type activities of the Greater Tompkins County Municipal Health Insurance Consortium as of December 31, 2012 and 2011 and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United State of America.

Mr. Squires pointed out there was an error in the calculation of revenues in the pie charts in this section. He also suggested amending the first bullet on page 2d to read: "During 2012, several claims exceeded the specific \$275,000 Stop Loss Attachment point. Reimbursement from such claims is likely to trigger substantial future additional premium adjustments as well as raising the coverage attachment point".

Mr. Barber said the providers, including the Hospital, have started a new program called Clinical Integration that requires a capital investment. They originally asked the Consortium to contribute \$300,000; however, they have gone to Excellus and will be going through them to pay for it. He said although he has been told this will be saved through undefined efficiencies it is unclear how this will impact the budget.

Ms. Drake spoke of the additional administrative expenses the Consortium has assumed and questioned if they are aligned with where they should be. Mr. Barber said the Consortium has been lucky up to this point by having a \$30 million company run by individuals who are not professionals in the health insurance field. Most of the additional expenses have been warranted and are based on recommendations of the Department of Financial Services.

Mr. Mickelson asked that members submit comments to him by May 20th in order for them to be revised and submitted to the full Board on May 23rd.

Adjournment

The meeting adjourned at 4:20 p.m.

