



Healthcare Costs Review

Governance & Audit Report No. 2021-6

Report Issued January 7, 2022

EXECUTIVE SUMMARY

Background

The FY 2021 Internal Audit Work Plan approved by the Governance and Audit Committee included a Healthcare Costs review.

IndyGo is self-insured for its healthcare costs. Employee healthcare benefits (excluding workers' compensation) include medical, prescription drug, vision and other programs, as well as a free on-site clinic and wellness program. The insurance carrier is currently Anthem Blue Cross Blue Shield.

IndyGo's expenditures for its medical, prescription drug, and vision healthcare plans (excluding the clinic and workers' compensation claims) were \$12.5 million in fiscal year 2020, an increase of 57% vs. FY 2019.

Our assessments are performed in accordance with the professional practice standards of the Institute of Internal Auditors. This report was prepared for use by IndyGo's Board of Directors, Governance and Audit Committee, and management.

Objective and Scope

- Obtain an understanding of IndyGo's processes and controls related to managing healthcare costs and the related agreements.
- Review key processes and test selected transactions, related to:
 - Contract scope, terms and conditions
 - Financial, operational, or reporting requirements
 - IndyGo's monitoring of agreements
 - Expenditure trends and provider payments
- Assess the effectiveness of the design and operation of internal controls.
- Identify potential opportunities for process and control improvements or revenue enhancements.

Overall Report Rating & Observations

(See Appendix A for definitions)

	Report Rating	Number of Observations		
		High	Medium	Low
Healthcare Costs Review	Medium	0	2	2

Overall Summary and Review Highlights

IndyGo's Human Resources Department is responsible for managing the healthcare benefits programs and overseeing the providers and consultants. The HR Department has recently:

- Renegotiated annual agency costs with Anthem Blue Cross Blue Shield
- Bid out the clinic and wellness program contract
- Bid out the third-party healthcare broker and consultant contract
- Negotiated benefits costs and premiums with a primary bargaining unit

The overall benefits program is well-controlled. We have rated the overall risk associated with this Healthcare Costs review as "Medium."

Our following report provides four observations that could enhance the management and delivery of IndyGo employee benefits:

- Enhance the Wellness Program
- Recover Employee Healthcare Costs
- Monitor and Manage Healthcare Costs
- Continue Claims Reviews by Benefits Consultant

We would like to thank IndyGo staff and all those involved in assisting us in connection with the review.

Questions should be addressed to the IndyGo Department of Governance and Audit at batkinson@indygo.net.

1. Enhance the Wellness Program

Observation:

IndyGo offers a unique wellness program, but it has historically been under-utilized. IndyGo has selected a new provider.

Recommendation:

Encourage more active employee participation in the new wellness program. Hold the new provider accountable to the contract’s performance goals.

Observation Rating: Medium

IndyGo has selected a new provider for its on-site health care clinic and wellness program.

The current contract cost exceeded \$625,000 in FY 2021. The current program, in existence since 2010, was:

- Underutilized by employees and their dependents
- Lacking adequate education and outreach
- Wellness program employee benefit payments that could be earned generally through participation, rather than achievement of long-term goals
- Difficult to correlate to IndyGo health care insurance premium reductions.

The new clinic will expand to additional sites, to encourage greater employee access and usage. The new provider’s contract is expected to include performance targets, with specified provider dollars at risk for non-achievement of the goals.

IndyGo’s employees and operators are its greatest assets. The clinic is a unique benefit among transportation providers.

IndyGo should continue to support the well-being of its employees, while seeking a return on its health care investment in this area.

To accomplish these goals, IndyGo could:

- Hold the new provider accountable to its performance targets
- Expand outreach and communication to its employees and their dependents
- Establish and measure a targeted reduction in claims expense per employee
- Establish meaningful self-improvement goals, before paying employee “bonuses”

If the new clinic does not achieve its wellness goals, or if employee usage does not increase after outreach and education, IndyGo should consider whether to reduce or eliminate the wellness program or clinic. The cost savings could then be redeployed to other healthcare areas of need.

Management’s Action Plan:

Human Resources agrees. Health and wellness data about the IndyGo workforce coupled with the medical claims shows IndyGo’s workforce must work to improve its health and wellness and develop healthier lifestyles through continued checkups and monitoring, nutrition and exercise. Human Resources is actively working with the new clinic/wellness vendor to develop methods to increase meaningful workforce wellness engagement.

Human Resources and the clinic/wellness vendor are currently working on a communication and marketing campaign to educate the IndyGo workforce about the new clinic’s enhanced services and benefits of improved wellness. Also, Human Resources will drive the vendor to meet the contractual and performance goals outlined in the RFP by dedicating multiple staff to provide oversight and administration.

Responsible Parties:

Jeff Brown, Vice President for Human Resources

Due Date:

March 31, 2022 for new vendor contract.
Ongoing for monitoring of performance.

2. Recover Employee Healthcare Costs

Observation:

A recent employee terminated with their monthly healthcare premium exceeding their monthly compensation by over \$5,000. This amount was not recovered from the employee.

Recommendation:

HR should monitor its new automated termination notification process to minimize unrecovered employee amount due.

Observation Rating: Low

Healthcare costs for IndyGo employees are withheld from payroll checks or automatic deposits.

After one recent employee terminated, their pay period's compensation was less than the current charge for their healthcare coverage.

The employee termination procedures were manual. Also, it appears that there was not timely communication between the HR and Payroll groups.

IndyGo does have a process to send arrears notices to prior employees, to recover outstanding amounts due. In this case, IndyGo chose not to pursue recovery and absorbed approximately \$5,000.

IndyGo has created a new electronic notification process for terminated employees, to mitigate payments that cannot be recovered.

This appears to be an isolated incident and not a systemic control issue. However, IndyGo should monitor the new automated termination notification process to endure that it functions as designed.

IndyGo should also monitor part-time employees and those on leave with medical benefits, to assess whether part-time employee compensation will be adequate to cover the healthcare costs. Healthcare benefits are not prorated based on the employees work schedule.

Management's Action Plan:

Human Resources agrees. HR implemented a new process for terminations whereby it is now fully automated, and as a result, unnecessary costs have been mitigated. Human Resources has added additional staff who monitor the process and assist in completing terminations.

Additionally, Human Resources is monitoring employee leave lists to track who is current on paying employee health insurance contributions and who is in arrears. For those employees in arrears, Human Resources notifies the employee and provides an opportunity for the employee to become current or initiate a payment plan through payroll deductions.

Responsible Parties:

Jeff Brown, Vice President for Human Resources

Due Date:

Implemented.

3. Monitor and Manage Healthcare Costs

Observation:

IndyGo’s healthcare costs for medical, pharmacy and vision increased 57% in FY 2020. Management did enact various plan changes, to help manage costs in FY 2022.

Recommendation:

Consider further initiatives to continue to work toward industry standards in insurance costs, for both the employee and employer.

Observation Rating: Medium

IndyGo’s medical, pharmacy and vision plan costs increased by 57% to \$12.5 million, from FY 2019 to FY 2020. This was driven by multiple factors, including:

- An increase in paid medical claims of 100%, due to significant new cases
- More IndyGo employees in FY 2020
- Employee COVID hospitalizations
- The general nature of self-insured risks, which can rise or fall depending on claim activity
- The “richness” of the healthcare benefits compared to industry averages

IndyGo did enact various plan changes to help manage costs, while providing strong benefits to remain competitive with other employers.

The changes were bargained and approved by IndyGo’s primary union. Changes to the following areas will be effective on January 1, 2022:

- Annual deductibles and out-of-pocket maximums
- Co-pays
- Coinsurance rates
- Emergency care costs

IndyGo should continue to monitor and manage the escalating health care costs, by:

- Continuing to move towards industry averages for key plan components, while remaining competitive with other employers.
- Encourage greater use of the high deductible plan (HDP) by employees. This may include creating greater cost differences between the High Deductible plan and traditional plan.

Management’s Action Plan:

Human Resources agrees. HR continues to work with our benefits consultant to identify how IndyGo can achieve greater cost savings on its health insurance plan and how to move closer towards industry standards. In doing so, Human Resources and our benefits consultant have and will continue to compare and contrast other public sector health insurance plans.

Human Resources and our benefits consultant also analyze medical claim data to identify trends. Human Resources has utilized staff from Finance and Budget to assist with analyzing claims data and will continue to seek their assistance moving forward.

Responsible Parties:

Jeff Brown, Vice President for Human Resources

Due Date:

Ongoing.

4. Continue Claims Reviews by Benefits Consultant

<p><u>Observation:</u> IndyGo is currently seeking third-party consultant services for several benefits-related tasks, including claims reviews and follow-up with the insurance carriers.</p>	<p><u>Recommendation:</u> A robust claims review process is an important internal control. IndyGo should continue its claim review process with the selected vendor.</p>	
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Observation Rating: Low

<p>IndyGo is re-bidding its current expiring contract with its insurance broker. This third-party firm also provides general benefits advisory services, including:</p> <ul style="list-style-type: none"> • Plan design and rate negotiation • Employee communication • Plan management – including claims data analysis, utilization, and summaries of claims • Management Support – including responses to insurance claims <p>Given the size of IndyGo’s HR staff and the fact that IndyGo is self-insured, the third-party provides important management and cost controls.</p> <p>The scope of the current services includes review of 100% of incurred claims. The current consultant also reviews applicable coding, insurance carrier handling and participates in annual negotiations.</p> <p>The current RFQ for third-party healthcare consultant services does not expressly state the scope of the desired claims review.</p>	<p>A robust claims review process is an important internal control, to help manage costs and ensure quality. IndyGo should continue its current practice of having the insurance consultant review a high percentage of its incurred claims.</p> <p>IndyGo should explicitly include the scope of the desired claims review within the services in its negotiations with the qualified consultant(s) and include the agreed-upon scope in the final contract with the selected consultant.</p>	<p><u>Management’s Action Plan:</u> Human Resources agrees. HR intends to conduct monthly medical claims reviews of not just the highest claims but overall claims so that trends can be identified.</p> <p>In doing so, Human Resources will utilize members of the Finance and Budget team to assist in the review, as their expertise and prior assistance with review of cost controls has been invaluable.</p> <p><u>Responsible Parties:</u> Jeff Brown, Vice President for Human Resources</p> <p><u>Due Date:</u> New contract executed by March 31, 2022. Ongoing for claims reviews.</p>
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APPENDIX A – RATING DEFINITIONS

Observation Rating Definitions		Report Rating Definitions	
Rating	Definition	Rating	Explanation
Low	Process improvements exist but are not an immediate priority for IndyGo. Taking advantage of these opportunities would be considered best practice for IndyGo.	Low	Adequate internal controls are in place and operating effectively. Few, if any, improvements in the internal control structure are required. Observation should be limited to only low risk observations identified or moderate observations which are not pervasive in nature.
Medium	Process improvement opportunities exist to help IndyGo meet or improve its goals, meet or improve its internal control structure, and further protect its brand or public perception. This opportunity should be considered in the near term.	Medium	Certain internal controls are either: <ul style="list-style-type: none"> • Not in place or are not operating effectively, which in the aggregate, represent a significant lack of control in one or more of the areas within the scope of the review. • Several moderate control weaknesses in one process, or a combination of high and moderate weaknesses which collectively are not pervasive.
High	Significant process improvement opportunities exist to help IndyGo meet or improve its goals, meet or improve its internal control structure, and further protect its brand or public perception presents. This opportunity should be addressed immediately.	High	Fundamental internal controls are not in place or operating effectively for substantial areas within the scope of the review. Systemic business risks exist which have the potential to create situations that could significantly impact the control environment. <ul style="list-style-type: none"> • Significant/several control weaknesses (breakdown) in the overall control environment in part of the business or the process being reviewed. • Significant non-compliance with laws and regulations. • Observations which are pervasive in nature.
Not Rated	Observation identified is not considered a control or process improvement opportunity but should be considered by management or the board, as appropriate.	Not Rated	Adequate internal controls are in place and operating effectively. No reportable observations were identified during the review.