



Healthcare Costs Review

Governance & Audit Report No. 2024-2

Fieldwork Completed April 4, 2024

Report Issued July 15, 2024

EXECUTIVE SUMMARY

Background

The FY 2024 Internal Audit Work Plan approved by the Governance and Audit Committee included a Healthcare Costs review. This is a follow-up and update of our FY 2021 Health Care Costs review and Report 2021-6.

IndyGo is self-insured for its healthcare costs. Employee healthcare benefits include medical, prescription drug, dental, and vision programs, as well as a free on-site clinic and wellness program. The insurance carrier is Anthem Blue Cross Blue Shield. (We did not assess life insurance, short-or long-term disability, or employee assistance programs).

IndyGo's expenditures for its healthcare plans, including the clinic and wellness program, were \$13.4 million in Fiscal Year 2023, an increase of 8% from FY 2022. Benefits represent almost 10% of IndyGo's approved operating budget (excluding retirement costs).

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

- Update our understanding of IndyGo's processes and controls related to managing healthcare, dental and clinic costs and related contracts.
- 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 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	1	2	0

Overall Summary and Review Highlights

IndyGo's Department of People and Teammate Experience (DPTE) is responsible for managing the healthcare benefits programs and overseeing the providers. DPTE has experienced management turnover, and has 14 total employees as of April 2024. DPTE most recently contracted with a Clinic and Wellness provider in November 2021, and a Benefits Advisor and Insurance Broker in June 2022.

IndyGo had an average monthly headcount of 730 employees in 2023. The health plans had participation by 76% of these employees.

We have rated the overall risk associated with this Healthcare Costs review as "Medium."

Our following report provides three observations that could enhance the management, cost effectiveness and delivery of IndyGo employee benefits:

- Health Clinic Costs, Performance and Utilization
- Health Plan Benefit Levels
- Internal Controls over Health Care Claims

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. Health Clinic Costs, Performance, and Utilization

Observation:

IndyGo members’ usage of the Clinic has been lower than targeted, and costs have been escalating. It is difficult to correlate wellness efforts to ultimate reductions in health care claims costs.

Recommendation:

Drive participation by employees and family members in the clinic. Expand employee education about this benefit. More fully utilize the clinic operator’s expertise.

Observation Rating: Medium

IndyGo offers a unique on-site health care clinic and wellness program to its employees. IndyGo issued a Request for Proposals (RFP) in 2021 to help increase the clinic’s utilization, enhance employee outreach, and demonstrate wellness outcomes which reduced medical claims expense.

Marathon Health, LLC was selected and began providing services on February 1, 2022. Employees may visit a Marathon Health clinic at IndyGo’s west campus (1501 W. Washington Street) or several other local sites. Marathon provides robust reporting, hosts monthly meetings, and provides strategy suggestions to enhance wellness.

A. Clinic and Wellness Program Costs are Escalating

Billed costs include a fixed monthly fee, plus variable monthly costs for lab services and medications.

The total contract cost was \$803,378 for IndyGo’s FY 2023. This represents an increase of 3% over FY 2022.

IndyGo had a monthly average of 553 employees utilize the clinic during FY 2023. Thus, the average cost per employee (including their family members) exceeded \$1,450 for clinic and wellness services.

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:

- Drive participation in the clinic, especially for those with chronic conditions. This should reduce IndyGo employee health issues and related absences or lost time, and reduce the cost per visit.
- Maximize the usage of Marathon Health’s knowledge, expertise and available information.
- Enhance contract monitoring of deadlines, invoice support and performance guarantee calculations. This should increase understanding of the contract, as well as allow for more rapid changes in strategy or programs.

Management’s Action Plan:

We agree.

- **Overall Plan** – We will develop a plan on how to accomplish everything.
- **Increase Usage of the Clinic** - The Department of People has initiated efforts to encourage more employees and their family members to use the clinic through targeted marketing.
- **Measure the Impact of the Wellness Program and Clinic** - We will discuss how to develop and review KPIs with Marathon.
- **Contract Monitoring** – We will involve the Legal Department in the contract monitoring as a responsible party, given the complexity of the terms of the contract(s).



B. Clinic Usage is Lower Than Targeted

Engagement with the Clinic includes in-person or virtual appointments with a provider or health coach. IndyGo employees, spouses and dependents are Plan members.

Engagement was 47% of total eligible Plan members for CY 2023. Engagement declined from 50% for CY 2022.

There were almost 3,500 clinic visits recorded in 2023. However, the clinics have additional capacity, throughout the Marathon network. Encouraging more members to participate should have a positive long-term effect on wellness.

C. Clinic Visits Are Primarily Preventive

IndyGo has a relatively high chronic population with high-cost claims, which drive the majority of health care costs. Only 19% of clinic visits in 2023 were classified as acute care related. 71% were for preventive purposes, such as physicals and health coaching.

An increase in focus and strategies on acute and chronic care cases should yield a proportionally higher reduction in ultimate claims costs.

Also, since over 90% of the Clinic's costs are billed as a fixed monthly fee, the cost per visit will decrease as visits increase.

D. Correlation of Wellness Program to Health Care Cost Reduction is Not Easily Measurable

Wellness programs are recognized as important tools for early disease identification, employee education and improved productivity. Studies by various government and private organizations have estimated a broad range of potential savings from wellness programs and employer Return on Investment (ROI).

- Expand employee communication and outreach efforts about this free benefit.
- Implement an ROI measure to capture overall health care cost savings achieved, as well as productivity increases due to fewer sick days taken by employees. The goal is to assess the value of health care savings for each dollar invested in intervention activities. (I.e., one dollar yields \$3 in claims cost savings and productivity improvement).
- Consider whether to reduce or eliminate the wellness program or clinic, if the clinic does not achieve its wellness goals, or if employee usage does not increase after outreach and education. IndyGo could then redeploy the \$1,450 per employee to other healthcare areas of need.

- **Obtain Credit and Requested Documentation from Marathon** - We will work with the Department of Governance and Audit to obtain the requested credit and information.
- **Evaluate Continuation of Clinic** - We will conduct an evaluation of the clinic in 2025 and make a decision then about whether to continue the clinic.

Responsible Parties:

- Chief Financial Officer
- Deputy Chief Legal Officer

Due Date:

- December 31, 2024 - for a plan on how to accomplish everything
- June 30, 2025 – for the evaluation of the clinic and decision about whether to continue it.



There is a presumed return on addressing the most significant conditions, such as smoking, obesity, back pain, diabetes, and high blood pressure. Employer benefits include anticipated reductions in medical costs, improved absenteeism rates, and enhanced recruiting results.

However, there is no readily available ability to measure or correlate the cost of IndyGo’s wellness program and clinic services to overall health care claims costs.

E. Health Outcome Performance Targets Were Not Met

The contract contains several targets related to Member Engagement, Member Experience, Health Outcomes and IPTC Savings. Each subcategory has definitions and detailed measurement criteria to be assessed once annually. Depending on the results, Marathon’s charges may be reduced up to 10%.

The first Performance Guarantee report was calculated and provided by Marathon for the contract year ended January 2023. It showed that 16 of the 18 Health Outcomes were not met. These included targets for cancer, diabetes, musculoskeletal system, mental health, and tobacco cessation.

As a result, IndyGo is contractually entitled to receive a credit of 100% of its at-risk amount for this category. Marathon initially provided an estimate based on a portion of fees. After our inquiries, Marathon provided an updated estimate, correctly based upon aggregate fees, of \$19,092. IndyGo has not yet received the credit, which is contractually due by July 31, 2024. It appears that IndyGo will also be due a credit for the second contract year ended January 31, 2024.

Marathon has not yet fully responded to our requests to provide the calculations to support their reported metrics. As a result, we have not fully verified the accuracy of the reported results or the

credit due to IndyGo. We will follow up with Marathon account executives.

Marathon calculates the Performance Guarantees monthly. IndyGo has not requested this monthly report, which would help with contract oversight, and developing corrective actions to support employee wellness.

F. Contract Monitoring Can Be Enhanced

Marathon Health provides significant information and analysis in its monthly reports. The contract includes detailed and complex performance guarantees.

IndyGo does not currently have a staff representative assigned to monitor these contract provisions, to ensure accurate reporting, compliance with deadlines, and to support wellness goals.

Also, Marathon’s monthly invoices include lab costs and prescriptions charges, which vary upon usage. These are provided in total, without any breakdown. These are to be billed to IndyGo at Marathon’s cost. IndyGo has not requested the detail supporting the monthly charges, or validated that lab costs and prescription drugs are billed at cost.

We have requested Marathon’s supporting documentation for ten charges to determine whether IndyGo was billed at Marathon’s cost. Marathon has not yet fully responded to our requests. As a result, we have not fully verified the accuracy of the billed charges. We will follow up with Marathon account executives.

Developing a monitoring or compliance role will provide greater insight into the clinic’s operations and billings, as well as complement the existing Wellness Coordinator position.



2. Health Plan Benefit Levels

Observation:
IndyGo provides health benefits exceeding various benchmarks. IndyGo’s member population has more chronic and high-cost claims than peers. As a result, IndyGo’s health care costs have continued to exceed budget and increase at a pace greater than inflation.

Recommendation:
IndyGo should implement plan amendments or changes to contain health care costs, while maintaining its recruiting and retention goals. This could avoid significant future reductions in plan benefits.

Observation Rating: High

IndyGo offers medical, pharmacy, and vision plans through Anthem Blue Cross Blue Shield. A dental plan was offered through Delta Dental in FY 2023 (and was transitioned to Anthem in FY 2024). Costs were:

<u>Provider</u>	<u>2023 Billings</u>	<u>Change</u>
Anthem BCBS	\$12,067,874	7.4%
Delta Dental	\$323,714	- 5.3%

A. IndyGo’s Benefit Levels Exceed Benchmarks

IndyGo’s external benefits consultant benchmark the health plan benefits. Milliman data sets used were National (all companies and sizes), comparable employee size, Public Administration industry, and State of Indiana.

The metrics benchmarked were Employee deductibles (single and family), Employee out of pocket maximums (single and family), and Plan coinsurance percentages.

IndyGo’s benefits were richer or more generous (i.e., employee costs were lower) in 18 of the 20 categories surveyed. The benchmarked benefits of the other entities were 51% higher on average. For example, IndyGo’s maximum out-of-pocket cost for a family is \$6,000. The benchmark average is \$10,100.

See Appendix B for benchmark categories.

IndyGo provides health benefits better than industry benchmarks. IndyGo’s member population has more chronic and high-cost claims than peers. As a result, IndyGo’s health care costs have continued to exceed budget and increase at a pace greater than inflation.

IndyGo has made incremental changes to plan components in recent years. However, these have not been sufficient to reduce the total increase in costs, or the per employee increase in costs.

Stronger measures should be implemented. These may include:

- Faster movement towards industry averages for key plan components.
- Termination of the PPO plan, and shift into a high deductible health plan (HDHP). The City of Indianapolis and State of Indiana agencies have implemented HDHP plans.
- Address the chronic population and acute care needs more strongly.

Management’s Action Plan:

Management recognizes that health benefits have been the fastest rising budget cost over the past several years. Every year during the budget process it gets much of our attention on how to contain costs.

While adjusting plan benefits is an apparent way to accomplish this, the Collective Bargaining Agreement (CBA) with Local 1070 requires that we get their concurrence on any significant changes to the plans.

Union leadership has in the past agreed to some minor changes that provide some premium relief. However, we have not been able to agree to meaningful changes.

We will continue to bring proposals to Union leadership as we try to curtail the rising costs to the Corporation.



B. Costs Exceeded Budget for the Past Four Years

The medical and pharmacy plans are budgeted based on “premium equivalents.” IndyGo’s actual self-insured costs have exceeded the plan budgets for each of the plan’s four full operating years. The total plan (PPO and HDHP) loss ratios ranged from 101.1% to 107.9% of budget in 2023.

C. Per Employee Per Year Costs Exceed Benchmarks

PEPY is IndyGo’s total cost of the plans, divided by the number of enrolled employees. This trend analysis reduces fluctuations due to changing numbers of employees.

IndyGo’s total plan cost per employee was \$19,167 in 2023, an increase of 10.4%. This exceeds the national benchmarks in the Willis Towers Watson *Financial Benchmarks Surveys*.

D. IndyGo’s High-Cost Claims Drive Increases

Claims for 8.4% of the Plan participants resulted in 68% of the Plan’s costs in FY 2022. This chronic or high-risk population resides primarily in the PPO plan, which is now closed to new employees.

Nationally, all claims for the top 10% of employees resulted in 67% of Plans’ costs, according to the federal Agency for Healthcare Research and Quality (AHRQ) report in 2021.

E. Plan Updates Could Reduce Costs

IndyGo has enacted certain plan changes in recent years to help manage costs, while providing strong health benefits to remain competitive with other employers.

Changes have included the creation of a High Deductible Health Plan (HDHP) for new employees, along with contributions to employees’ Health Savings Accounts (HSA); and revisions to annual deductibles, out-of-pocket maximums and coinsurance rates.

- Continue the employer contribution to employee Health Savings Accounts (HSA). IndyGo contributed over \$170,000 in 2023.

IndyGo has an external benefits advisory firm and a clinic provider that have deep knowledge of IndyGo’s employee population, as well as valuable comparable industry data. IndyGo should convene these providers together to help address these challenges.

Responsible Parties:

Chief Financial Officer

Due Date:

December 31, 2024



Despite these plan adjustments, IndyGo continues to experience escalating health care costs, unfavorable benchmark comparisons, and a chronic higher risk member population. Additional measures may need to be taken to remedy these challenges, while continuing to provide wellness and health benefits to employees.

IndyGo's external benefits consultant models potential plan updates annually. These are discussed with management and union personnel.

Proposed ideas that have not been adopted include:

- Keep the current plans options but normalize to benchmarks.
- Terminate the PPO option, as it contains an aging and higher cost member base.
- Increase HSA contributions to encourage migration to the High Deductible plan.
- Select a different tiered network.
- Negotiate a separate Pharmacy Benefit Manager (PBM) to help lower drug costs.

3. Internal Controls over Health Care Claims

Observation:

Individual health care claims processed by the Third-Party Administrator (Anthem) are not reviewed by an internal compliance function or by an external claims audit firm.

Recommendation:

Implement a more robust claims review process, to mitigate any potential medical coding, pricing or other errors.

Observation Rating: Medium

A. Review of Health Care Claims Could Be Enhanced

Anthem's weekly invoices include a one-page Summary of Charges, such as medical and pharmacy claims, and retention fees. The invoices do not contain detail of specific claims or prescriptions, primarily due to HIPAA privacy rules. Detailed claims information is available through the Anthem portal.

Our review of internal controls over health care claims disclosed potential opportunities to enhance the review of claims:

- IndyGo does not have a health care compliance function. The internal control for validity of claims resides primarily at Anthem, the Third-Party Administrator and insurance carrier. IndyGo is essentially outsourcing its claims department.
- IndyGo has not conducted an employee census audit of ADP system information. These audits verify health plan data such as waivers of insurance participation, dependent eligibility, member date of birth, and part-time vs. full-time status.
- IndyGo has not conducted a medical claims audit. External firms are typically engaged for self-funded plans to review payments made to providers, and individual medical and pharmacy claims. Tests may assess duplicate payments, incorrect medical coding or pricing errors, payment for services excluded by the plan, or miscalculations of co-pays and deductibles.

A robust claims review process is an important internal control, to help manage costs and ensure quality.

IndyGo does not currently review or audit any individual health care claims processed by the Third-Party Administrator (Anthem).

Any TPA firm should have controls in place. However, a review by an internal health care compliance function or by external health care claims auditors should be undertaken on a periodic basis.

Management's Action Plan:

Claims are reviewed in aggregate by the Department of Finance. Both the CFO and Budget Director review the monthly reports and meet with our external Benefits Advisor / Broker several times during budget season to go over the reports exhaustively.

We are satisfied with the work the TPA is performing for us. We do not believe that the Corporation should have internal controls to review individual claims before being paid.

We agree to conduct an employee census.

The Department of Finance has uncovered late payments and will continue to work with the Department of People to pay on time.

Responsible Parties:

Chief Financial Officer
Deputy Chief Legal Officer



B. Invoices Paid Late

Multiple invoices have been paid late in CY 2022 and 2023. For example, 33% of Delta Dental invoices tested were not paid within 30 days. Anthem invoices, which are due within 5 days of receipt, were paid on time, because there is an automated draw-down process.

C. Invoices Addressed to Prior Management

Invoices from various vendors were addressed to prior HR management.

Also, the related contracts had not been updated to reflect IndyGo's current contact persons.

Due Date:

December 31, 2024

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.

Appendix B, Benefit Plan Benchmark Data for High Deductible Health Plans (HDHP)

	IndyGo	National	Employee Size: 501 to 1,000	Industry: Public Administration	State: Indiana
High Deductible Health Plan		n = 29,727	n = 431	n = 367	n = 764
Deductible: Single	\$2,000	\$3,000	\$3,000	\$3,000	\$3,500
Deductible: Family	\$4,000	\$6,000	\$6,000	\$6,000	\$7,000
Plan Coinsurance	80%	90%	80%	100%	80%
Out of Pocket Maximum: Single	\$3,000	\$5,500	\$5,000	\$4,200	\$5,500
Out of Pocket Maximum: Family	\$6,000	\$11,000	\$10,000	\$8,400	\$11,000
Source: Milliman Survey data as presented in LoCascio Hadden and Dennis, LLC (LHD) Benefits Advisors report.					

Note: IndyGo’s benefits are greater or “richer” than the surveyed average national entity, comparable sized entities, public administration agencies, and State of Indiana entities – for 18 of the 20 categories analyzed by LHD for 2023.