

OFFICE OF THE CITY AUDITOR

AUDIT OF THE HEALTH CARE CLAIMS PROCESSING FOR CALENDAR YEARS 2002 AND 2003



Paul T. Garner
Assistant City Auditor

Prepared by:

James R. Martin, CPA
Interim Assistant City Auditor

Tony Aguilar, CISA
Auditor

September 23, 2005

Memorandum



CITY OF DALLAS

September 23, 2005

Honorable Mayor and Members of the City Council
City of Dallas

We have conducted an audit of the contract with United Health Care (UHC) for administration of the City of Dallas employee benefits plan through the Department of Human Resources. The objective of our audit was to determine whether medical claims processed by UHC were submitted timely and paid promptly and accurately.

We determined that some claims were not submitted timely and paid promptly and accurately. We calculated the effect of these exceptions based on contract provisions and statistical projections. We shared our calculation results with Human Resources, the City Attorney, and UHC. Through discussions with the City Attorney's Office, UHC has agreed to pay \$372,000 as full and final settlement to the claims processing issues. This issue is addressed in the Opportunity for Improvement section of this report.

We appreciate the cooperation shown by Human Resources, the City Attorney's Office, and UHC staff during our audit.

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c: Mary K. Suhm, City Manager

**AUDIT OF THE HEALTH CARE CLAIMS PROCESSING FOR CALENDAR
YEARS 2002 AND 2003**

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INTRODUCTION

Authorization

We have conducted an audit of the contract with United Health Care (UHC) for administration of the City of Dallas employee benefits plan through the Department of Human Resources (HR). We conducted this audit under the authority of Chapter IX, Section 2 of the Dallas City Charter and in accordance with the Annual Audit Plan approved by the City Council.

Scope and Methodology

We performed our audit in accordance with generally accepted government auditing standards and included tests of the records and other audit procedures that we considered necessary in the circumstances. Our audit covered January 1, 2002 through December 31, 2003, although we examined certain events and transactions occurring before and after that period.

Our objectives were to determine whether medical claims processed by UHC were submitted timely and paid promptly and accurately.

To develop an understanding of relevant control structure policies and procedures, we reviewed:

- UHC information related to claims paid during 2002 and 2003.
- Applicable contracts and agreements.
- The external audit report of UHC.
- Policies and procedures.
- Applicable Laws/Regulations.

Additionally, we:

- Interviewed management and staff concerning relevant internal controls.
- Examined applicable related reports and analyzed historic results.
- Compared data of various reports and observed operating procedures.
- Consulted outside expertise on statistical sampling and projection.
- Audited 364 claims that were statistically selected from the total population of claims processed during the audit period.
- We calculated the effect of claim exceptions using contract provisions and statistical projections.

Overall Conclusion

As a result of our inquiries, examinations, and tests, we conclude that some claims were not submitted timely, paid promptly, or accurately. We shared our calculation results with Human Resources, the City Attorney, and UHC. UHC agreed to pay \$372,000 to resolve the claims processing issues. The Opportunities for Improvement section of this report addresses these areas in more detail.

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Background

HR is the department responsible for health benefits administration and oversight. Prior to 2000 the City self-administered the payment of health claims incurred under the Self-Funded Health Plan, while utilizing a Preferred Provider Organization and procuring medical management services from outside vendors.

In 2000 the City decided to outsource the health benefits claims administration and selected United Health Care of Texas to provide that service.

On June 14, 2000 the City Council reviewed and authorized the City Manager to approve a contract with two twelve-month renewal options with United Healthcare of Texas, Inc. for claims administration of Preferred Provider Organization (PPO) and medical management services. Resolution 001875, noted the contract period from January 1, 2001 through December 31, 2003, at a cost not to exceed \$13,800,000. The programs were made available to active employees and retirees, spouses and dependants.

The contract defines various terms, conditions, and performance standards. The contract requires UHC to maintain all books, documents, papers, accounting records, and other evidence pertaining to the benefits costs incurred. Additionally, UHC must make such materials available at all reasonable times during the term of the contract for inspection and audit by the City. UHC was to prepare and submit monthly reports to the City consisting of such information as may be desired by the City as set forth in other provisions of the contract, the proposal, or the request for proposals.

The following are excerpts from the contact:

1. Turnaround time for processing claims – 90% of clean claims received in any contract year will be resolved or settled, and appropriate payment made to the provider in question, within 10 business days. (This excludes Saturday and Sunday).
 - Liquid damages for failure to meet this standard – 2% of the total annual fees or \$87,000 whichever is less.
 - Clean claim means a claim that contains all of the correct information needed by contractor to properly commence and conclude processing of the claim.
2. Financial Accuracy – 99% of the claims received in any contract year must be handled accurately from a financial standpoint, that is, the amount of each ultimate claim payment or reimbursement must be correctly calculated and there must not be any overpayment or underpayment.

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- Financial Accuracy is measured by collecting a statistically significant random sample of claims processed. The sample is reviewed to determine the percentage of claim dollars processed correctly out of the total claim dollars submitted for payment. The measurement will be done by contractor's standard internal quality assurance program based upon a periodic audit of all claims processed by contractor's office serving the City's account. The overall performance period result is recalculated using the raw data for the period.
- Damages for failure to meet the financial accuracy provision are limited to 1% of the total annual fees or \$44,000 whichever is less.

UHC provided a detailed information of the City of Dallas health claims data for the audit period. These data contained the following:

Total Amount Billed	Total Amount Allowed	Total Net Paid	Total Number of Records
\$386,430,086.86	\$148,520,343.86	\$95,149,504.39	1,327,405

The City Auditor's Office conducted a performance audit of health benefits administration in 2003. In that audit the Auditor's Office expressed concerns that audits had not been performed to give assurance that claims were paid correctly.

To ensure that claims are processed in accordance with the contract terms and conditions, it is necessary to monitor claims processing continually and audit claims accuracy periodically.

Audit of the Contract for Administration of the Employee Benefits Plan with United Health Care

OPPORTUNITY FOR IMPROVEMENT

We identified certain area that can be improved. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, this opportunity for improvement presented in this report may not be comprehensive of the areas where improvements may be needed.

Some claims were not submitted timely, paid promptly, or accurately

In our performance audit of health benefits administration conducted in 2003, we recommended that Human Resources establish and implement procedures to conduct annual audits of the Third Party Administrator (TPA) and its claims processing. HR set aside funds for an audit of UHC claims. The audit was to be performed by an external source, The Hay Group. It was agreed that the City Auditor's Office would monitor, review, and approve The Hay Group's audit progress. When an audit date was set for January 2005, the Hay Group advised that they had prior commitments and could not meet the date. In conjunction with HR, the City Auditor's Office agreed to conduct the UHC claims audit.

To conduct our audit, we statistically selected claims to serve as a representative sample of the 1,327,405 claims eligible for audit. On March 14, 2005 through March 18, 2005, we audited the claims at the UHC Springfield, Missouri location and noted the following results:

- A. Payments made beyond the claim acceptance period – Out of 83 claims sampled, we found 35 claims that exceeded the claim submission deadlines. After subsequent review of documents submitted by UHC, we have determined that 13 claims remain as exceptions. Five of these 13 claims relate to employees not timely submitting requested information. The statistical projection of these exceptions to the total population approximated \$110,000.

- B. Payment processing time – Out of 84 claims sampled, we found 19 that were not turned around within 10 business days. This equates to a 22.62% exception rate. Liquidating damages as specified in the contract are the lesser amount of 2% or annual fees or \$87,000 (2 years \$174,000).

- C. Payments according to contract rate- Out of 87 claims, we found 7 that were not paid according to the contract rate. This equates to an 8% exception rate. Liquidating damages as specified in the contract are the lesser amount of 1% or annual fees or \$44,000 (2 years \$88,000)

We shared our calculation results with Human Resources, the City Attorney, and UHC. Through discussions with the City Attorney's Office, UHC has agreed to pay \$372,000 to resolve the claims processing issues.

We recommend the City Attorney collect the settlement payment from UHC.