

# Miami-Dade County Public Schools



## *Internal Audit Report*

### *Audit of the District's Self-Insured Healthcare Program*



In general, internal controls and safeguards are in place over most aspects of the Office of Risk and Benefits Management (ORBM) operations related to the Self-Insured Healthcare Program. However, our audit report contains two findings identifying the need for improvement and offers corresponding recommendations.

**FEBRUARY 2019**

**THE SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA**

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Mr. Alberto M. Carvalho

**Office of Management and Compliance Audits**

Ms. Maria T. Gonzalez, CPA

Chief Auditor

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# Miami-Dade County Public Schools

*giving our students the world*

**Superintendent of Schools**

Alberto M. Carvalho

**Chief Auditor**

Maria T. Gonzalez, CPA

**Miami-Dade County School Board**

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January 18, 2019

The Honorable Chair and Members of The School Board of Miami-Dade County, Florida  
Members of The School Board Audit and Budget Advisory Committee  
Mr. Alberto M. Carvalho, Superintendent of Schools

Ladies and Gentlemen:

In accordance with the 2017-2018 Fiscal Year Audit Plan, we have audited the District's Self-Insured Healthcare Program. The audit period was for the two calendar years ending December 31, 2017, and included certain transactions prior and subsequent to this period.

In general, internal controls and safeguards are in place over most aspects of ORBM operations related to the Self-Insured Healthcare Program, including its oversight of the Third-Party Administrator, CIGNA Health and Life Insurance Company (CIGNA). ORBM has implemented various cost-containment strategies in the Plan, and reporting requirements were timely met during the audit period.

Notwithstanding the above, this audit report contains two findings identifying the need for improvement and offers corresponding recommendations.

We would like to thank the Administration for their cooperation and courtesies extended to our staff during this audit.

Sincerely,

Maria T. Gonzalez, CPA

Chief Auditor

Office of Management and Compliance Audits



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## **EXECUTIVE SUMMARY**

The District provides medical and health coverage benefits for its employees and eligible dependents through a Self-Insured Healthcare Benefit Plan (Plan). The Office of Risk and Benefits Management (ORBM) oversees the operations of the Plan. Premium revenues and operating expenses reported in the District's most recent audited financial statements as of June 30, 2018, were \$357 million and \$343 million, respectively.

Pursuant to the Office of Management and Compliance Audits' (OMCA) approved 2017-2018 Fiscal Year Annual Audit Plan, we performed this audit to determine whether:

- Adequate internal controls and safeguards are in place over the Program's operations, including its oversight of the Third-Party Administrator;
- Cost-control strategies are implemented in the management strategies of the Plan; and
- The Plan information reporting requirements are timely met and complied with.

The scope of the audit covered the two calendar years ending December 31, 2017, and certain transactions prior and subsequent to this period.

In general, internal controls and safeguards are in place over most aspects of ORBM operations related to the Self-Insured Healthcare Program, including its oversight of the third-party administrator, CIGNA Health and Life Insurance Company (CIGNA). ORBM has implemented various cost-containment strategies in the Plan, and reporting requirements were timely met during the audit period.

Notwithstanding the above, the audit disclosed two control weaknesses for which correction will strengthen the control structure over management of the self-insurance program, as follows:

- The process of formally and timely executing the contract between the District and the Third-Party Administrator for medical self-insurance needs improvement. The Administrative Services Only (ASO) Agreement between the School Board of Miami-Dade County and CIGNA currently in effect was signed 794 days (approximately two years and two months) after its effective date.
- There is no mechanism in place to monitor the accuracy of receipt of payments pursuant to the Performance Guarantee Agreement (PGA). The PGA is part of the self-insurance contractual arrangement and requires payments to the District for various unmet performance measures.

Management's responses to the findings and recommendations are included on pages 10 and 11, following each individual finding, and in memorandum format as received by our office on page 12.



## **INTERNAL CONTROL ASSESSMENT**

Our overall evaluation of internal controls over the District's Self-Insurance Program is summarized in the table below.

<b>INTERNAL CONTROLS RATING</b>			
<b>CRITERIA</b>	<b>SATISFACTORY</b>	<b>NEEDS IMPROVEMENT</b>	<b>INADEQUATE</b>
Process Controls		✓	
Policy & Procedures Compliance	✓		
Effect	✓		
Information Risk	✓		
External Risk	✓		

<b>INTERNAL CONTROLS LEGEND</b>			
<b>CRITERIA</b>	<b>SATISFACTORY</b>	<b>NEEDS IMPROVEMENT</b>	<b>INADEQUATE</b>
Process Controls	Effective	Opportunities exist to improve effectiveness	Do not exist or are not reliable
Policy & Procedures Compliance	In compliance	Non-Compliance Issues exist	Non-compliance issues are pervasive, significant, or have severe consequences
Effect	Not likely to impact operations or program outcomes	Impact on outcomes contained	Negative impact on outcomes
Information Risk	Information systems are reliable	Data systems are mostly accurate but can be improved	Systems produce incomplete or inaccurate data which may cause inappropriate financial and operational decisions
External Risk	None or low	Potential for damage	Severe risk of damage



## **BACKGROUND**

The District provides medical and health coverage benefits for its employees and eligible dependents. Prior to January 1, 2010, the District provided these benefits through a fully-insured plan. Effective January 1, 2010, the District converted to a self-insured healthcare benefit plan as permitted by Florida Statutes 112.08 and the Employee Retirement Insurance Security Act of 1974 (ERISA) and its rules and regulations, as amended. In addition to medical benefits, the Plan provides pharmacy benefits to the Plan participants. The Plan has individual stop loss coverage to protect the District against large and/or catastrophic claims incurred. The following table presents a general profile of the Plan features:

<b>PLAN PROFILE</b>	
Type of plan:	Self-funded
Type of coverage:	Medical, pharmacy, wellness, and managed behavioral health benefits
Eligible participants:	Full and part-time employees, COBRA participants, non-Medicare eligible retirees, and eligible dependents
Covered participants:	50,000 plus
Individual stop loss:	\$1,000,000
Plan year:	January 1 to December 31

At its meeting of September 9, 2009, the School Board approved agenda item E-66, awarding a contract for healthcare Administrative Services Only (ASO), pursuant to RFP No. 071-JJ10, to CIGNA. Pursuant to the current ASO Agreement, dated January 1, 2015, CIGNA is responsible for providing administrative services for the Plan, including claims administration. Such services entail CIGNA: (a) receiving and reviewing claims for the Plan, (b) determining the Plan benefits payable for such claims, (c) disbursing payments for the benefits to the claimant, and (d) timely and appropriately notifying the claimant of the coverage determination or anticipated delay in making the determination.

The ASO fees paid to CIGNA under this agreement were \$22.32 Per Employee Per Month (PEPM) during 2016 and 2017. There is also a Performance Guarantee Agreement (PGA) within the RFP that requires payments to the District for various unmet performance measures<sup>1</sup>.

The District accounts for the Self-Insured Healthcare Program activity in an internal service fund, a proprietary fund established for this purpose. As of June 30, 2018, the

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<sup>1</sup> The Performance Guarantee Agreement details approximately 50 performance measures categorized into six areas: Medical Implementation; Medical Service; Clinical; Your Health First; Pharmacy Implementation; and Pharmacy Service.



fund recorded premium revenues of \$357 million and operating expenses of \$343 million. Premium revenues and operating expenses reported in the District's audited financial statements as of June 30, 2017, were \$383 million and \$319 million, respectively.

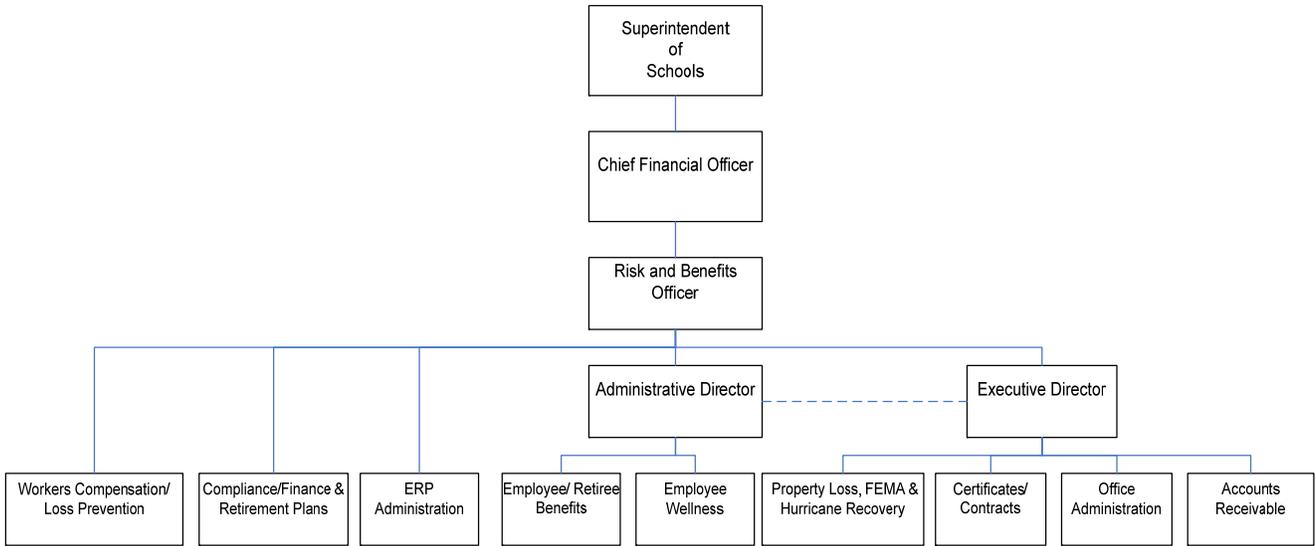
The following table presents a breakdown of the monthly composite rates for the Self-Insured Healthcare Plan for 2016 and 2017:

<b>BREAKDOWN OF THE MONTHLY COMPOSITE RATES</b>		
<b>Description</b>	<b>2016</b>	<b>2017</b>
Administrative Services Only (ASO) Fee	\$22.32	\$22.32
Pharmaceutical Rebate Decrement	(\$7.00)	(\$11.00)
Individual Stop Loss (ISL) Premium	\$7.80	\$8.74
Internal Service Fund Administrative Fee	\$3.08	\$3.08
Healthcare Bluebook Administrative Fee	-	\$1.25
<b>Total Monthly Composite Rate</b>	<b>\$26.20</b>	<b>\$24.39</b>
Source: September 7, 2016, School Board Meeting, Agenda Item E-67		

The Office of Risk and Benefits Management (ORBM) oversees the operations of the Self-Insured Healthcare Plan. Included in its responsibilities is the management of the ASO Agreement with CIGNA. The Risk and Benefits Officer leads the ORBM and reports to the Chief Financial Officer (CFO). On the following page is an organizational chart of ORBM:



**Organizational Chart**  
**Office of Risk & Benefits Management**





## **OBJECTIVES, SCOPE AND METHODOLOGY**

Pursuant to the Office of Management and Compliance Audits (OMCA) approved 2017-2018 Fiscal Year Audit Plan, we performed this audit to determine whether:

- Adequate internal controls and safeguards are in place over the Program's operations, including its oversight of the Third-Party Administrator (TPA);
- Cost-control strategies are implemented in the management strategies of the Self-Insured Healthcare Plan (Plan); and
- The Plan information reporting requirements are timely met and complied with.

Because the Plan's activities, including the management of benefits that are provided and the processing of claims are administered by the TPA, CIGNA, the audit's focus is in relation to the Office of Risk and Benefits Management's (ORBM) efforts of overseeing the activities of CIGNA. Our objectives did not include auditing claims incurred by the Program as this is performed by other Professionals with claims auditing expertise.

The scope of the audit covered the two calendar years ending December 31, 2017. On a limited basis we also reviewed certain transactions prior and subsequent to this period.

To satisfy our audit objectives, we performed the following auditing procedures:

- Reviewed the various plan documents and School Board meeting agendas to obtain an understanding of the development and characteristics of the Plan;
- Reviewed the Request for Proposal (RFP) and Agreement for procuring Administrative Services Only (ASO Agreement or TPA Agreement) to gain an understanding of the services to be provided by the TPA, CIGNA and the expected deliverables;
- Interviewed the appropriate ORBM staff members to obtain an understanding of the department's oversight and monitoring role and responsibilities, including internal and management controls in place, pertaining to the District's Self-Insured Healthcare Plan;
- Obtained and reviewed CIGNA's Service and Organization Controls report to identify control deficiencies reported by the independent preparer of the report;
- Reviewed the documentation pertaining to the TPA selection process to determine whether it complied with the requirements of applicable School Board policies and Florida Statutes;
- Obtained and reviewed various reports and filings prepared by the Plan's Employee Benefit Consultant and Actuary;



- Analyzed, on a sample basis, the cost-containment strategies implemented into the Plan design and management;
- Reviewed ORBM's process for monitoring the TPA's activities of verifying Plan participants' eligibility;
- Tested, on a sample basis, transactions pertaining to participants' premium payments for propriety, including the accuracy of the amount charged, received, and whether it was deposited by the District in a timely manner;
- Ascertained whether the District complied with Federal and State reporting requirements and deadlines;
- Reviewed the Comprehensive Annual Financial Reports (CAFR) prepared during the audit period; and
- Performed other auditing procedures, as we considered necessary under the circumstances.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States of America Government Accountability Office (GAO). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



## **OVERALL CONCLUSIONS**

In general, internal controls and safeguards are in place over most aspects of ORBM operations related to the Self-Insured Healthcare Program, including its oversight of the Third-Party Administrator (TPA), CIGNA Health and Life Insurance Company (CIGNA).

ORBM has implemented various cost-containment strategies in the Plan. Some strategies, such as wellness initiatives and claims audits are negotiated directly into the ASO Agreement. Other cost-containment strategies including Individual Stop Loss (ISL) limits and the *Healthcare Blue Book*<sup>2</sup> are obtained through other agreements. ORBM also demonstrated cost containment activities in plan design changes, direct contract negotiations and benchmarking of pharmacy costs.

We confirmed that regulatory reporting with the Florida Office of Insurance Regulations was performed including annual filing of information about the Plan.

However, in conducting the audit, we found control weaknesses as detailed in the following two findings, which provide opportunities for improvement in the control structure.

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<sup>2</sup> The *Healthcare Blue Book* is a database that tracks the cost efficiency and effectiveness of healthcare providers.



## **FINDINGS AND RECOMMENDATIONS**

### **1. THE ADMINISTRATIVE SERVICES ONLY (ASO) AGREEMENT NOT EXECUTED TIMELY**

The ASO Agreement between the School Board of Miami-Dade County and CIGNA currently in effect was signed 794 days (approximately two years and two months) after its effective date. The Agreement has a term of three years from its effective date of January 1, 2015, with two one-year extensions. The Agreement is signed by six individuals, including five representatives from the District and one from CIGNA. The earliest signature on the Agreement is that of the CIGNA's representative dated February 17, 2017. The last signature on the Agreement was dated March 6, 2017.

Under the ASO Agreement, CIGNA is responsible for providing administrative services for the District's Self-Insured Healthcare Benefits Plan, including claims administration. Such services entail CIGNA:

- a) receiving and reviewing claims for the Plan,
- b) determining the Plan benefits payable for such claims,
- c) disbursing payments for the benefits to the claimant, and
- d) timely and appropriately notifying the claimant of the coverage determination or anticipated delay in making the determination.

Pursuant to the terms of the Agreement, CIGNA also provides plan participants access to its directory of providers, including physicians and hospitals from which healthcare services are obtained.

According to ORBM management, the signing of the Agreement was delayed due to the prolonged negotiations with CIGNA. Also, Management disclosed that prior leadership believed that the RFP (along with vendors responses and the Board-approved item) was the controlling document, not the contract, and that they have identified all current contracts to ensure they are properly executed. The condition described deviates from established internal and management controls and best practices for procurement and contracting functions. The absence of an executed contract could potentially increase the District's risk exposure should there be a contract dispute.

## **RECOMMENDATION**

- 1.1 Contracts should be executed prior to the start of the contract term.



**Responsible Department:**

**Financial Services**

**Management's Response:**

Management agrees with this recommendation. Negotiating a Healthcare ASO contract can be time consuming and requires multiple reviews by staff, attorneys for both parties, and the Board's benefits consultant. Management plans to bring a recommendation of award several months prior to the expiration of the existing contract. This will allow for enough time to negotiate the terms and conditions of the contract and have an executed contract in place by the effective date of the contract period.



## **2. NO MECHANISM IN PLACE TO MONITOR THE ACCURACY OF RECEIPT OF PAYMENTS PURSUANT TO THE PERFORMANCE GUARANTEE AGREEMENT**

The healthcare RFP's questionnaire required that "Proposers must comply with the minimum performance objectives outlined in the Performance Guarantees Section of this proposal." CIGNA's Performance Guarantee Agreement (PGA) with the District details all the performance standards and their associated guarantees (penalties).

During the period audited, the District received five payments with a total dollar value of approximately \$1,223,000. Per discussions with management, CIGNA "self-reports" these Performance Standards and Guarantees (PS&G). We requested staff provide us with supporting documentation from the vendor for these five payments as well as staff's independent verification and recalculation of these amounts. The documentation that we received did not agree with any of the five payments. Also, discussions with management revealed that staff does not compare actual performance results to performance standards. Consequently, ORBM cannot determine the accuracy of the vendor payments.

Without a process for ORBM to reconcile or verify the accuracy of the PGA payments, there is an increased risk that the District is not receiving all receipts for which it is entitled.

Additionally, our review noted the PGA was not signed by ORBM. Section 3.1 and 3.1.1 of this agreement state the PGA is "null and void" when said agreement is not signed within four months of the effective date (January 1, 2015).

### **RECOMMENDATIONS**

2.1 We recommend staff independently calculate the monies expected from the non-compliance of each unmet performance measure. Staff's calculation should be reconciled with the vendor's analysis.

2.2 Ensure that the PGA is signed in a timely manner.

**Responsible Department:**

**Financial Services**

**Management's Response:**

Management agrees with the recommendation. Some of the current PS&G's are based on the ASO provider's national book of business which makes some of the unmet PS&G's difficult to verify, therefore management is going to include language in the new ASO contract which will allow a third party such as the Board's benefit consultant to audit the PS&Gs to reconcile the calculations provided by the ASO Provider. The PGA agreement will be simultaneously executed with the master contract.



## **APPENDIX**

### **MANAGEMENT'S RESPONSE MEMORANDUM**



MEMORANDUM

January 8, 2019

TO: Ms. Maria T. Gonzalez, Chief Auditor  
Management and Compliance Audits

FROM: Ron Y. Steiger, Chief Financial Officer  
Financial Services



SUBJECT: **RECOMMENDATIONS AUDIT OF SELF-INSURED HEALTHCARE PROGRAM RESPONSE**

Below are the Office of Risk and Benefits Management's responses regarding the recommendations contained in the Audit of the District's Self-Insured Healthcare Program.

1.1 Contracts should be executed prior to the start of the contract term.

**Management Response:** Management agrees with this recommendation. Negotiating a Healthcare ASO contract can be time consuming and requires multiple reviews by staff, attorneys for both parties, and the Board's benefits consultant. Management plans to bring a recommendation of award several months prior to the expiration of the existing contract. This will allow for enough time to negotiate the terms and conditions of the contract and have an executed contract in place by the effective date of the contract period.

**RECOMMENDATION**

2.1 We recommend staff independently calculate the monies expected from the non-compliance of each unmet performance standard. Staff's calculation should be reconciled with the vendor's analysis.

2.2 Ensure that the PGA is signed in a timely manner.

**Management Response; 2.1 & 2.2:** Management agrees with the recommendation. Some of the current PS&G's are based on the ASO provider's national book of business which makes some of the unmet PS&G's difficult to verify, therefore management is going to include language in the new ASO contract which will allow a third party such as the Board's benefit consultant to audit the PS&Gs to reconcile the calculations provided by the ASO Provider. The PGA agreement will be simultaneously executed with the master contract.

If you have any additional questions or concerns please Contact Mr. Michael G. Fox, Risk and Benefits Officer at 305-995-7155 or myself at 305-995-1958.

RYS:mf  
M045

cc: Mr. Michael G. Fox  
Ms. Rosa Novo  
Mr. John Goodman



## Anti-Discrimination Policy

### Federal and State Laws

The School Board of Miami-Dade County, Florida adheres to a policy of nondiscrimination in employment and educational programs/activities and strives affirmatively to provide equal opportunity for all as required by:

**Title VI of the Civil Rights Act of 1964** - prohibits discrimination on the basis of race, color, religion, or national origin.

**Title VII of the Civil Rights Act of 1964 as amended** - prohibits discrimination in employment on the basis of race, color, religion, gender, or national origin.

**Title IX of the Education Amendments of 1972** - prohibits discrimination on the basis of gender.

**Age Discrimination in Employment Act of 1967 (ADEA) as amended** - prohibits discrimination on the basis of age with respect to individuals who are at least 40.

**The Equal Pay Act of 1963 as amended** - prohibits gender discrimination in payment of wages to women and men performing substantially equal work in the same establishment.

**Section 504 of the Rehabilitation Act of 1973** - prohibits discrimination against the disabled.

**Americans with Disabilities Act of 1990 (ADA)** - prohibits discrimination against individuals with disabilities in employment, public service, public accommodations and telecommunications.

**The Family and Medical Leave Act of 1993 (FMLA)** - requires covered employers to provide up to 12 weeks of unpaid, job-protected leave to "eligible" employees for certain family and medical reasons.

**The Pregnancy Discrimination Act of 1978** - prohibits discrimination in employment on the basis of pregnancy, childbirth, or related medical conditions.

**Florida Educational Equity Act (FEEA)** - prohibits discrimination on the basis of race, gender, national origin, marital status, or handicap against a student or employee.

**Florida Civil Rights Act of 1992** - secures for all individuals within the state freedom from discrimination because of race, color, religion, sex, national origin, age, handicap, or marital status.

**Title II of the Genetic Information Nondiscrimination Act of 2008 (GINA)** - prohibits discrimination against employees or applicants because of genetic information.

**Boy Scouts of America Equal Access Act of 2002** – no public school shall deny equal access to, or a fair opportunity for groups to meet on school premises or in school facilities before or after school hours, or discriminate against any group officially affiliated with Boy Scouts of America or any other youth or community group listed in Title 36 (as a patriotic society).

*Veterans are provided re-employment rights in accordance with P.L. 93-508 (Federal Law) and Section 295.07 (Florida Statutes), which stipulate categorical preferences for employment.*

#### **In Addition:**

**School Board Policies 1362, 3362, 4362, and 5517** - Prohibit harassment and/or discrimination against students, employees, or applicants on the basis of sex, race, color, ethnic or national origin, religion, marital status, disability, genetic information, age, political beliefs, sexual orientation, gender, gender identification, social and family background, linguistic preference, pregnancy, citizenship status, and any other legally prohibited basis. Retaliation for engaging in a protected activity is also prohibited.

For additional information contact:

Office of Civil Rights Compliance (CRC)  
Executive Director/Title IX Coordinator  
155 N.E. 15th Street, Suite P104E  
Miami, Florida 33132  
Phone: (305) 995-1580 TDD: (305) 995-2400  
Email: [crc@dadeschools.net](mailto:crc@dadeschools.net) Website: <http://crc.dadeschools.net>

Rev: 08/2017



**Miami-Dade County Public Schools**

***Internal Audit Report***

***Audit of the District's Self-Insured  
Healthcare Program***

**FEBRUARY 2019**

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