MIAMI-DADE COUNTY PUBLIC SCHOOLS

Internal Audit Report

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Fringe Benefits Administration

June 2010

OFFICE OF MANAGEMENT AND COMPLIANCE AUDITS

THE SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA
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Mr. Alberto M. Carvalho
Superintendent of Schools

Mr. Jose F. Montes de Oca, CPA
Chief Auditor
Office of Management and Compliance Audits

Contributors to this Report:

<u>Audit Performed by:</u>
Mr. Michael Hernandez, CPA

<u>Audit Reviewed by:</u>
Mr. Jon Goodman, CPA

<u>Reviewed and Supervised by:</u>
Mr. Trevor L. Williams, CPA

Miami-Dade County Public Schools

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June 22, 2010

Members of The School Board of Miami-Dade County, Florida
Members of the School Board Audit Committee
Mr. Alberto M. Carvalho, Superintendent of Schools

Ladies and Gentlemen:

In accordance with the approved Audit Plan for the 2008-09 Fiscal Year, we have performed an audit of the fringe benefits administration function contracted to Fringe Benefits Management Company (FBMC) for the period January 1, 2007 to December 31, 2009. The contracted services provided during the stated audit period were procured through the issuance of Request for Proposal (RFP) 094-FF10 in June 2006. The objectives of the audit were to:

- Determine the adequacy of the RFP process through which the services were contracted.
- Evaluate the FBMC pricing and billing function.
- Determine whether District is receiving its contracted deliverables from FBMC.

Our audit concluded that while the RFP process in 2006 was generally adequate and compliant with best practices, there was some apparent confusion that may have limited the number of proposals received; only one was received. Commendably, during the course of the contract period audited, the District's Risks and Benefits Office (R&BO) management successfully renegotiated a lower third party administrator (TPA) fee with FBMC, but did not communicate this to the Board. An important cost driver for determining the TPA fees was not clearly stated in the contracting agreement or Board item, and staff did not validate the TPA's commission values used in determining the TPA fees. In addition, we recommend the district explore alternative pricing of TPA fees for employees who declined medical benefits and are not enrolled in other flex benefits. Improved monitoring of TPA contract deliverables and collection of performance standard and guarantee (PS&G) penalty are needed.

We have discussed our findings and recommendations with management and their response and explanation are included herein. We would like to thank management for the cooperation and courtesies extended to our staff during the audit.

Sincerely,

José F. Montes de Oca

José F. Montes de Oca, CPA, Chief Auditor

Office of Management and Compliance Audits • 1450 N.E. 2nd Avenue • Suite 415 • Miami, FL 33132
305-995-1318 • 305-995-1331 (FAX) • www.dadeschools.net

GLOSSARY OF TERMS USED IN THIS REPORT

M-DCPS – The School District of Miami-Dade County Public Schools

FBMC – Fringe Benefits Management Company

TPA – Third Party Administrator

Incumbent TPA – The third party administrator under contract during the audit period to provide this administrative function for M-DCPS. The TPA in this case was FBMC.

Present TPA – The third party administrator under contract during the audit period to provide this administrative function for M-DCPS. The TPA in this case was FBMC.

R&BO – The District's Risks and Benefits Office, which is responsible for managing the District's fringe benefits program.

PS&G – Performance Standards and Guarantees; The contract deliverables that FBMC has agreed to provide and their associated monetary penalties for non-compliance.

RFI – Request for Information; the instrument M-DCPS used to solicit information regarding the interest vendors have in providing the requested TPA services.

RFP – Request for Proposal; the instrument M-DCPS used to solicit proposals or quotations for providing the requested TPA services.

PEPM – Per-Employee-Per-Month; the monthly per capita fees M-DCPS pays FBMC for providing TPA services.

VBP – Voluntary Benefits Providers; other insurance companies through which certain voluntarily selected employee-paid coverage, such as Voluntary Universal Life Insurance, Cancer Care, and Long-Term Care, are underwritten.

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EXECUTIVE SUMMARY

The present third party administrator (TPA) and incumbent TPA at the time of the Request for Proposal (RFP) in 2006 is Fringe Benefits Management Company (FBMC) (also referred to as “present TPA” or “incumbent TPA”). FBMC has provided these administrative services to the District since 1992. Our audit focused on the administration of fringe benefits during the 2007 to 2009 calendar years.

Our audit concludes that with respect to the fringe benefits administration, the District complied with applicable laws, rules, and regulations. Additionally, all monthly TPA invoices sampled were paid in accordance with the per-employee-per-month (PEPM) fee negotiated between the District and the TPA.

Our audit also concludes that inopportune timing and miscommunication regarding voluntary benefit providers occurred during the RFP process in 2006 that may have limited the number of competitive proposals received. Specifically, the incumbent TPA entered into contracts with voluntary benefit providers at the direction of the Board prior to hiring the TPA in 2006. Communication from staff led some interested TPAs to believe that a new TPA, other than FBMC, would have been precluded from receiving Spring Enrollment commissions from the voluntary benefit providers. Secondly, discussion with the District’s Risks and Benefits Office (R&BO) management revealed that negotiations with the FBMC occurred subsequent to the October 11, 2006 award that changed the fee structure. These changes lowered some of the authorized TPA increases, but the changes were not communicated to the School Board.

An important cost driver for determining the TPA fee increase was not clearly stated in the contracting agreement or Board agenda, which authorized the increase. Moreover, staff did not validate the TPA’s commission values used in determining the TPA fee increase. In addition, we believe that additional cost savings should be explored by requesting alternate pricing for employees who voluntarily declined medical benefits and select no other flex benefit, rather than paying the full PEPM fee services to their accounts. Improved monitoring of TPA contract deliverables and collection of performance standard and guarantee (PS&G) penalty are needed.

Based on the audit evidence obtained, we made eight (8) recommendations. We have incorporated Management’s responses and explanations to our findings and recommendations into our report. The detailed findings and recommendations start on page seven (7) of this report and provide additional information that is integral to understanding the substance and context of the conditions noted above.

INTERNAL CONTROLS

Our overall evaluation of internal controls for the fringe benefits administration function provided by Fringe Benefits Management Company (FBMC) is summarized in the table below.

INTERNAL CONTROLS RATING			
CRITERIA	**SATISFACTORY**	**NEEDS IMPROVEMENT**	**INADEQUATE**
Process Controls		**X**	
Policy & Procedures Compliance	**X**		
Effect	**X**		
Information Risk		**X**	
External Risk	**X**		

INTERNAL CONTROLS LEGEND			
CRITERIA	**SATISFACTORY**	**NEEDS IMPROVEMENT**	**INADEQUATE**
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 maintains a comprehensive benefits program for all of its benefit-eligible employees and retirees. The Office of Risk and Benefits Management (ORBM) is responsible for the administration of the District's flexible benefit program. The District's third party administrator (TPA) for its flexible benefits program has been Fringe Benefit Management Company (FBMC) (also referred to as "present TPA" or "incumbent TPA") since 1992. Since then, FBMC has been awarded a series of three-year contracts, the last completed contract ended on December 31, 2006. Through the issuance of RFP 094-FF10 in June 2006, a new three-year contract was subsequently awarded to FBMC, beginning January 1, 2007.

According to RFP 094-FF10, the TPA is required to provide the following services:

- Administer all cafeteria plan benefits including health care plan options and voluntary core benefit choices such as dependent care and medical flexible spending accounts (FSA), dental, vision, etc.

- Administer and conduct all aspects of the enrollment into a Section 125 Cafeteria Plan.

- Assist in the periodic remarketing of voluntary benefit coverages other than the aforementioned voluntary core benefit choices (see Finding 1 on page 8)

- Provide online enrollment services for all benefits included in the District's Cafeteria Plan.

- Transmit and receive all electronic data files among TPA, District, and vendors.

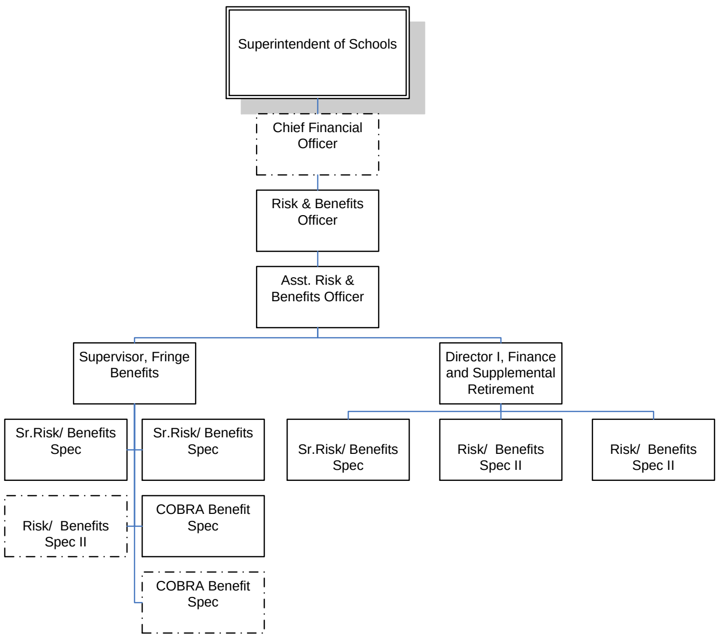
In hiring a TPA to administer its cafeteria plan, the District utilized the services of a consultant to assist with the preparation of a request for information (RFI) and RFP from prospective TPAs, as well as conducting a pre-proposal conference. During May 2006, the consultant sent the RFI to various TPAs around the country in order to gauge their interest in providing the requested TPA services. The list of TPAs receiving this RFI was assembled using various national sources. Eight companies responded to the District's RFI. The District held its pre-proposal conference during June 2006. Five companies, including the incumbent TPA, attended this conference, and were asked to submit proposals.

The opening of proposal occurred in August 2006, and only one proposal, which was from the incumbent TPA – FBMC, was received.

We surveyed the 12 companies that initially demonstrated their interest in RFP 094-FF10 by either responding to the RFI (8) or attending the pre-proposal conference about the RFP process. The six responses we received to this audit survey are presented in Appendix A on pages 19-21.

The Superintendent's Ad-Hoc Insurance Committee, as stipulated in School Board Rule 6Gx13–3F-1.022, consists of several District employees as well as other individuals external to the District. When there is more than one proposal, the Committee is supposed to analyze the merits of all proposals and prepare a written recommendation to the Board. In this instance, the Committee negotiated the three-year fee structure with the incumbent TPA.

PARTIAL ORGANIZATIONAL CHART



OBJECTIVES, SCOPE AND METHODOLOGY

In accordance with the Audit Plan for the 2008-09 fiscal year, we performed an audit of the fringe benefits administration functions performed by Fringe Benefits Management Company (FBMC). The objectives of the audit were to determine adequacy of the Request for Proposal (RFP) process used in hiring its fringe benefits management third party administrator (TPA), presently FBMC; evaluate FBMC's pricing and billing functions as they relate to its TPA contract with M-DCPS; and determine whether the District is receiving the contracted deliverables from FBMC. The scope of our audit included the fringe benefits management TPA contract period beginning January 1, 2007 and ending December 31, 2009, and included an evaluation of RFP 094-FF10.

We performed the following procedures to satisfy the audit objectives:

- Interviewed district staff.
- Reviewed district operating policies and procedures, applicable federal laws and regulations, and applicable Florida Statutes.
- Compared percentage of fee increases granted to FBMC to industry averages.
- Surveyed entities that responded to RFP 094-FF10 but did not submit a proposal.
- Developed an understanding of the RFP process and important RFP and contract provisions.
- Reviewed the FBMC's SAS 70 audit reports and disaster recovery plans.
- Reviewed the Performance Standards and Guarantees reports received from FBMC and verified compliance with the contract deliverables, on a sample basis.
- Recalculated, on a sample basis, monthly FBMC's billings.
- Performed various other audit procedures as deemed necessary.

We conducted this performance audit in accordance with generally accepted *Government Auditing Standards* issued by the Comptroller General of the United States of America. 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. This audit included an assessment of applicable internal controls and compliance with the requirements of policies, procedures, laws, regulations and rules to satisfy our audit objectives.

FINDINGS AND RECOMMENDATIONS

1. THE RFP PROCESS

The District utilized a request for proposal (RFP) to solicit competitive proposals from TPAs for administering its cafeteria plan during 2006. To assess the subject proposal process, we reviewed the most current proposal, RFP 094-FF10[1], the District's Risks and Benefits Office (R&BO) issued (June 2006) for fringe benefits TPA services. We found the process of issuing RFP 094-FF10 was in general adequate and consistent with best business practices. RFP 094-FF10 was properly advertised in various media, including the District's Website and three newspapers – *The Daily Business Review, Diario Las Americas,* and *The Miami Times*. The requirements in the RFP document did not appear to be exclusive or narrowly defined to lend itself to favoritism. The process invited participation and competition, for the most part, except as described below regarding Voluntary Benefit Providers (VBPs).

❖ 1.1 – <u>The Selection of Voluntary Benefit Providers (VBPs) and Its Effect on the RFP Process</u> ❖

At the October 19, 2005 School Board Meeting via Agenda Item E-67, the School Board authorized the Superintendent to have staff work with Fringe Benefits Management Company (FBMC) to offer employees the option to enroll in universal life insurance and long term care coverage, with recommended carriers authorized by FBMC to provide such coverage. Employees could enroll for this benefit in the 2006 calendar year. This Board Item also approved the renewal of the District TPA contract with FBMC for one additional year, effective on January 1, 2006. FBMC consequently contracted with two insurance carriers to be the voluntary benefit providers for the required services for the next Spring Enrollment.

About six months into the FBMC's extended contract year, RFP 094-FF10 was issued. Page 28 of RFP 094-FF10 states that:

> *"The entity awarded the TPA contract would provide Spring education and enrollment program to interested employees for the following employee-paid products, Voluntary Universal Life Insurance and Cancer Care, currently offered by Trustmark Insurance Company and ING, Long-Term Care offered by Aetna. The current administrator for these products receives a commission."*

As part of the RFP process, the District held a pre-proposal conference on June 30, 2006 for interested TPAs. According to R&BO's staff, the sole purpose of this meeting was to ensure prospective proposers understood the complexity of the

[1] RFP 094-FF10 sought a three-year contract from January 1, 2007 to December 31, 2009.

services required and to provide answers to questions about the RFP document. RFP 094-FF10 was subsequently amended via Addendum No.1, which incorporated R&BO staff's responses to certain questions asked at the Pre-Proposal Conference. Specifically, Question 18 asked: *"Would a new administrator be able to offer new insurance providers during Spring Enrollment?"* R&BO Staff's response was: *"As a result of Request for Proposals (RFP), the School Board entered into new insurance contracts for Spring 2006 Enrollment. Therefore, it is not anticipated that RFPs would be generated within the next few years."* Some interested TPAs that attended the Pre-Proposal Conference understood the District staff's answer to Question 18 to mean that a new TPA would be precluded from receiving commissions from then existing VBPs. We further ask R&BO staff: *"In the future, if a new TPA were to be selected by the district, what happens to the voluntary benefits that the employees have? When the new TPA starts,, who receives the commissions on these existing voluntary benefits, the new TPA or the outgoing TPA?"* Their response to our question was: *"FBMC would continue to receive commissions since they are the agent that serviced the policy holder. All policies are independently issued regardless of the TPA. Should a new TPA be contracted by the Board, a determination would be made on this matter."*

Moreover, we surveyed[2] all 12 entities that either attended the referenced Pre-Proposal Conference or responded to the District consultant's request for information (RFI). Five of the six respondents provided the following reasons for not submitting a proposal: One company felt that they could not fulfill the requirement for on-site staff. One company felt that the RFP requirements, plan, and participant count of M-DCPS were not compatible with their delivery model. Another company only provides services for HSAs, FSAs, and RHAs, whereas, M-DCPS was looking for a full-service TPA. Two[3] companies stated, "the bid was not above board…" and disclosed that their being unable to receive commissions on voluntary benefits enrollments precluded them from submitting a proposal to RFP 094-FF10, as they would stand to lose at least $800,000 annually. The RFP 094-FF10 process resulted in only one proposal received from the incumbent TPA for a proposed PEPM fee of $7.03.

Further, we reviewed various documents pertaining to understanding or agreement between FBMC and contracted VBPs and found no terms binding either FBMC or M-DCPS to the VBPs. In fact, one document indicated that any agreement between FBMC and the VBP may be terminated immediately upon 30 days written notice.[4] The document indicates that FBMC would be entitled to commission for business underwritten by its representatives and, upon

[2] See survey results in Appendix A.
[3] Representatives from these two companies indicated to us that they had given consideration to providing the services requested in the RFP through a joint venture involving both companies.
[4] March 15, 1995 agreement between Trustmark Insurance Company and Fringe Benefits Management Company. This agreement was received from FBMC and appears to be the agreement through which the subject benefits were provided during the audit period.

termination, agrees to refrain from directly or indirectly soliciting or inducing any persons who are insured under a Trustmark policy to terminate or replace such policy.

We obtained records of gross commissions received by FBMC for Spring Enrollments from 1998 to 2008 and noted that total gross commissions were $19.56 million. Annual gross commissions ranged from $1.31 million to $2.16 million, with an annual average of $1.78 million.

In our opinion, authorizing FBMC to enter into contracts with VBPs just six months before issuing RFP 094-FF10 to select a TPA and staff's response to Question 18 and question regarding the rights to commissions may have caused some confusion, which may have limited the number of proposals received for RFP 094-FF10.

Under the existing arrangement, it is somewhat unclear, as to which TPA would be entitled to commissions pertaining to portable voluntary benefits if a new TPA were selected. For example, would the new TPA received commission during the policies' renewal years if the new TPA engages the current VBPs to provide the voluntary benefits, even though it did not underwrite the initial policy? Would the new TPA receive commission during the policies' renewal years if the new TPA engages different VBPs to provide the voluntary benefits, and the employee chooses to continue his/her coverage with the preceding VBP, with whom the new TPA does not have a contract relationship? Clear answers to these questions are unknown and should be firmly determined for inclusion in future RFP.

RECOMMENDATIONS

1.1 Complete a thorough review of future RFP document for TPA services and ensure that all pertinent terms and stipulations, including commissions due to TPA for providing administrative services over voluntary benefits, are clearly delineated in the document prior to its issuance. In addition, in the future, the TPA selected should be allowed to solicit competitive proposals for VBPs only after to the TPA is selected via the RFP process.

Responsible Department: Office of Risk and Benefits Management

Management Response: Prior to the Board's authorization to release RFP 094-FF10 which occurred at the Board meeting of June 14, 2006, staff and the Board's Employee Benefits Consulting Firm, Deloitte Consulting, LLP felt it would be important to obtain advance information as to which companies might be interested in responding to the upcoming RFP. To accomplish this, a Request For Information (RFI) consisting of 9 questions was sent to 20 prospective proposers requesting feedback on these 9 questions.

Of those 20 firms, 8 firms responded to the RFI providing valuable information as to their interest and ability to provide all required and needed services outlined in the upcoming RFP. Staff felt this preliminary step was important to maximize the number of firms responding to the upcoming RFP. Once issued the RFP was advertised in various media including the District's website, and three newspapers including *The Daily Business Review*, *Dario Los Americas*, and *The Miami Times.*

As is outlined in the audit report, an RFP was issued in 2005 to seek proposals for voluntary products including Universal Life Insurance and Long Term Care Coverage. These products were offered to employees on a voluntary basis beginning in calendar year 2006. Also as outlined in RFP 094-FF10, the following section appeared entitled SPRING ENROLLMENT:

"The entity awarded the TPA contract would provide spring education and enrollment program to interested employees for the following employee-paid products. Voluntary universal life insurance and cancer care, currently offered by Trustmark insurance company and ING, long term care coverage offered by Aetna. The current administrator for these products receives a commission"

Further, during the pre-proposal conference held for RFP 094-FF10, staff provided an answer to the question as to whether a new TPA would be able to offer <u>new insurance providers during spring enrollment.</u> Staff correctly answered that as a result of an RFP having recently been issued and the school board having entered into new contracts as a result, there was no anticipation that new RFP's would be issued within the next few years.

In practice, employers enter into insurance contracts for employee-paid (voluntary) benefits routinely as outlined herein. The TPA which administers the benefits has no permanent connection to the contract between the insurer and the insured. Had a different TPA been selected to be under contract to the school board as a result of RFP 094-FF10, an agent of record letter would have been completed resulting in the replacement TPA being able to collect commissions on these products as they would have been responsible for selling and servicing these products.

While risk management staff can agree that there may have been some confusion regarding collection of these commissions for some TPA's, we do not believe that it was the proximate cause of companies not responding to RFP 094-FF10. Moreover, staff firmly believes that the overriding reason this contract has not been actively pursued by TPA's has everything to do with the significant data exchange and sophisticated information technology (IT) responsibilities required in handling the district's account.

As outlined at the beginning of the response, much of the (IT) data exchange responsibilities will be replaced by the introduction of the SAP software in the future. Staff believes that at the time of re-marketing, TPA's looking at this contract were further convinced not to propose due to the fact that the RFP clearly outlined that the IT data exchange was due to be replaced with an ERP initiative by the end of the contract period in 2009. TPA's which may have expressed an interest in providing services were concerned that they could not recoup any significant (IT) investment for a platform which would have only lasted three additional years. Staff has received a letter from the board's employee benefits consulting firm of Deloitte Consulting, LLP outlining their belief as to issues surrounding commissions and lack of response to the issued RFP which supports staff's positions.

While making for interesting reading, staff does not place much credence in the responses from vendors who did not choose to propose on a contract which was issued over 4 years ago. Due to the fact that the major responsibilities in the current TPA contract will change upon full implementation of the SAP benefits module, staff agrees that future TPA RFP's will be issued separately from voluntary benefit RFP's.

Auditor's Comment

We appreciate Management's summary of events surrounding the issuance of RPF 094-FF10. However, we offer a point of clarification in noting that our review of the subject RFP document and its addendum did not disclose any reference to SAP or ERP.

2. NEGOTIATED TPA FEES

M-DCPS pays FBMC a flat fee for providing fringe benefits TPA services for each benefit-eligible active and retired[5] employee enrolled in the District's flexible benefit plan. Using auditor's judgment, we selected 18 payments to FBMC for TPA services. We verified that the flat per-employee-per-month (PEPM) fees paid to the FBMC agreed with those approved by in School Board for the contract period starting January 1, 2007 and ending December 31, 2009 or agreed to subsequently negotiated TPA fees. (Please refer to Table No.1).

Time Period	PEPM Fees Approved via Agenda Item E-67 on October 11, 2006
January 1, 2007 to June 30, 2007	$6.12[6]
July 1, 2007 to June 30, 2008	4.9% to 9.8% increase*
July 1, 2008 to June 30, 2009	5% increase*
July 1, 2009 to December 31, 2009	5% increase*

Table 1
***** The percent increase is applied to the previous time period's PEPM.

❖ 2.1 – Transparency In Renegotiating TPA Fees ❖

Our review also revealed that at three points during the contract period, R&BO's management was able to successfully renegotiate with FBMC to lower the Board-approved TPA fees as follows:

- Management renegotiated the Board-approved TPA PEPM fee for FY 2007-08 from a range of $6.66 - $6.71 to $6.60 (a 7.84% decrease).
- Management renegotiated the Board-authorized TPA PEPM increase for FY 2008-09 from 5% to 2.5%. FBMC offered to discount their Board-authorized fee increase by 50%.

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[5] Retired employees are eligible for benefit through the District's Retiree Incentive Program (RIP).
[6] The fee remained unchanged ($6.12) from that for the last year (2006) of the previous contract. The TPA's PEPM fee for each of the preceding three years (2003-2005) was $6.15 without an annual escalation. In earlier contracts for TPA services with FBMC, beginning with the 1992 contract, FBMC was paid a flat fee, which was adjusted annually in the out years to the Southeastern States Consumer Price Index (CPI), limited to a maximum 6%. In response to the 2006 RPF 094-FF10, FBMC had proposed to guarantee its PEPM fee, subject to an annual adjustment not to exceed the Southeastern States Consumer Price Index (CPI) increase. .

- Management renegotiated the Board-authorized TPA PEPM increase for the six-month period ended December 31, 2009 from 5% to no increase.

We commend R&BO's management for decreasing costs during these financially difficult times and note that the TPA did not have any obligation to lower their Board approved rate increases. However, in order to provide greater transparency to the School Board, these negotiations to lower the TPA fees should be communicated to the School Board as they occur. Informing the Board about the trending of TPA fees provides them the information needed to make informed decisions about TPA services contract options.

❖ 2.2 – <u>Cost Driver For TPA Fee Increases Not Clearly Documented</u> ❖

For the 2007-08 fiscal year, the TPA PEPM increase was based on commissions received by the FBMC for spring 2007 enrollments in the voluntary benefits of universal life and long term care insurance coverage. At its October 11, 2006 meeting, the School Board, via School Board Agenda Item E-67, agreed to a pricing matrix (Table 2), contained in FBMC's Final Pricing Proposal – Exhibit C, whereby the TPA PEPM fee decreased within the approved PEPM range of $6.42 (4.90%) and $6.72 (9.80%) as estimated premiums and net revenue (i.e., gross and net commission) increased.

FBMC's Final Pricing Matrix – Exhibit C			
Estimated Premiums from Spring 2007 Enrollment	**Projected Net Revenue to FBMC ***	**Fee Effective 7/1/2007**	**Percent Increase**
$1,000,000	$ 500,000	$6.72	9.80%
$1,250,000	$ 625,000	$6.71	9.64%
$1,500,000	$ 750,000	$6.66	8.82%
$1,750,000	$ 875,000	$6.60	7.84%
$2,000,000	$1,000,000	$6.54	6.86%
$2,250,000	$1,125,000	$6.48	5.88%
$2,500,000	$1,250,000	$6.42	4.90%

Table 2

***** Projected net revenue includes first year commissions on new policies issued and subsequent year renewal commissions on existing policies in force.

The 2007 Spring Enrollment premiums and net revenues were $2,244,899 and $638,060, respectively. The average annual gross commissions on Spring Enrollments for the 11-year period between 1998 and 2008 was approximately $1.78 million. Using FBMC's Final Pricing Proposal – Exhibit C (Table 2) and the actual 2007 Spring Enrollment premiums, the PEPM fee should have been between $6.48 and $6.54. On the other hand, based on Table 2 and the actual 2007 Spring Enrollment net revenues, the PEPM fee should have been between $6.66 and $6.71. However, the actual rate utilized for the FY 2007/08 was a $6.60 PEPM. In a meeting, the Risk and Benefits Officer disclosed that net commissions were the driver on Exhibit C and should have resulted in a PEPM between 6.66 and $6.71. However, he negotiated with the TPA to decrease the new PEPM fee to $6.60

Neither the above-referenced Board Agenda Item, E-67 nor FBMC's Exhibit C indicates whether the Estimated Premiums from Spring 2007 Enrollment (gross commission) or the Projected Net Revenue to FBMC (net commission or gross commissions less spring enrollment expenditures) should be used to determine the appropriate PEPM fee. The subject board agenda item simply says "commissions" and FBMC's Exhibit C is silent on this matter. Further, there is no guidance to determine the appropriate PEPM fees where actual gross commissions or net commissions falls between a given range in the matrix. Not clearly documenting the specific cost driver for the first-year fee increase in the TPA agreement, pricing matrix, or Board agenda, and not providing written guidance on the methodology to be use to determine that increase, makes third party verification of the fee increase uncertain and could result in the vendor rate of increase being higher than was anticipated.

In addition, further inquiry revealed the District did not validate 2007 Spring Enrollment net commissions reported by FBMC or reviewed the propriety and reasonableness of the related expenditures incurred to arrive at the net commissions reported. Consequently, the District cannot provide assurance that the net commissions reported by FBMC and used in determining the TPA's PEPM fee is appropriate. Sound business practices and internal controls dictate that agreed-upon cost drivers should be carefully examined for accuracy and reasonableness.

❖ 2.3 – <u>Full Fee Billing For Non-participating Employees</u> ❖

The PEPM fees FBMC charges encompass all benefit-eligible active and retired employees, as stipulated in the RFP. Our inquires with R&BO's management disclosed that all benefit-eligible active and retired employees, including employees who declined their medical benefits, are billed at the same monthly PEPM rate. For the 2007, 2008, and 2009 calendar years, the number of full-time employees who declined medical benefits were 1,616, 1,498, and 1,480, respectively. Information provided by FBMC indicated that of these amount, 856, 816, and 812, respectively signed up for some other kind of benefit, excluding 401K and 401P. Because the employees decline their medical benefits and did not sign up for other benefits, they would evidently receive a reduced level of services from the TPA.

FBMC's proposal document to RFP 094-FF10 included details on the composition of their PEPM TPA fee. That document shows that each fee component is assigned a specific cost. (See Appendix B) Both M-DCPS and FBMC, therefore, have the ability to separate various components of service to their attendant cost. RFP 094-FF10 also contained an alternate pricing arrangement to allow for a flat monthly fee, wherein monthly headcount reconciliation of eligible employees is not required. FBMC currently collects and report to M-DCPS a wide range of information on the M-DCPS employees it services, including the actual number of employees sign-up for or covered by each flex benefit the District offers.

The scope document for the Benefits Administration module of the SAP Enterprise Resource Planning (ERP) system indicates that a significant number of the daily benefits administration functions would be performed by in-house staff rather that by the TPA. This change will necessitate a reconfiguration of resources and TPA contracting framework.

In our opinion, although the basis (benefit-eligible employees) upon which FBMC's PEPM fee is determine complies with the RFP, requesting that the TPA provide an additional alternate pricing arrangement for benefit-eligible employees who opt-out of Board-provided healthcare benefits and do not sign up for other flex benefits. Such an arrangement may represent a cost savings opportunity.

Estimated TPA fees for these employees declining medical coverage who do not sign up for other flex benefits are depicted in Table 4 below.

ESTIMATED PEPM FEES RELATED TO EMPLOYEES WHO DECLINED HEALTH CARE BENEFITS WITH NO OTHER FLEX BENEFIT				
Time Period	**Number of Months**	**Employees Declining Coverage**	**Actual PEPM**	**Associated TPA Fees**
01/01/07 – 06/30/07	6	760	$6.12	$ 27,907
07/01/07 – 12/31/07	6	760	$6.60	30,096
01/01/08 – 06/30/08	6	682	$6.60	27,007
07/01/08 – 12/31/08	6	682	$6.76	27,662
01/01/09 – 12/31/09	12	668	$6.76	54,188
Totals				**$166,860**

Table 4

RECOMMENDATIONS

2.1 Communicate results of TPA fee negotiations – initial and subsequent, to the School Board for their consideration and/or information purposes.

Responsible Department: Office of Risk and Benefits Management

Management Response: Staff appreciates the accolades provided in the audit report for negotiating fees over the course of the 3 year contract which saved the district over $500,000 in fees paid for TPA services.

Staff agrees with the recommendation to report all negotiated fees to the school board and under the previous administration attempted to do exactly that. Unfortunately, the previous deputy superintendent for business services was of the opinion that because the TPA fee is a component of the fringe rate which is a component of the district's budget, that in effect the board was approving the fee reduction as part of the budgetary approval process.

2.2 Ensure that TPA's pricing agreements and awards clearly describe all terms and conditions in sufficient details as to eliminate any ambiguity regarding fee calculation. This should include identifying the agreed-upon cost driver and the methodology for arriving at the negotiated fee.

Responsible Department: Office of Risk and Benefits Management

Management Response: As outlined in the audit report, the goal of staff when negotiating the rate structure for the recommended award of TPA services in response to RFP 094-FF10 was to address full TPA compensation. During fee negotiations, the following took place:

- Letter received from FBMC dated September 4, 2006 outlining revised proposal pricing from the $7.03/Per Employee Per Month (PEPM) as proposed to $6.55 PEPM subject to 5% increases for second and third years.

- E-mail received from FBMC dated September 18, 2006 outlining revised proposal pricing to $6.48/PEPM, subject to 5% increases for second and third years.

- E-mail received from FBMC dated October 2, 2006 outlining revised proposal pricing consisting of maintaining the existing calendar year 2006 fee of $6.12/PEPM for an additional six months of 1-1-07 to 6-30-07, with fees effective 7-1-07 to be based on voluntary product production, with fees for 7-1-08 and 7-1-09 to be subject to 5% increases.

As outlined in the Audit Report, Agenda item E-67, Board meeting of October 11, 2006 reflected the pricing recommendations negotiated as of October 2, 2006. The actual wording in the agenda item is as follows:

"The first goal was to delay any pricing increase until fiscal year 2007-2008 so that the increase could be budgeted and not negatively impact the 2006-2007 fiscal year. The second was to have any future increases be a range dependent upon the commissions received by FBMC through the sale of Board authorized universal life and long term care coverages during spring enrollments".

While staff is aware that the wording did not differentiate the difference between gross commissions and net commissions, the word commissions was very clearly referenced. Therefore, the chart referenced in the Audit Report clearly was structured to use Commissions as a point of reference and not any other platform such as enrollment premiums.

As outlined previously the goal was to use this platform to gauge all compensation going to the TPA. As such, gross commissions would never have been used, first because it is a much higher number, and secondly because the compensation going to the TPA would be based on commissions after expenses, thus reflecting actual compensation going to the TPA. Staff will make sure that future fee negotiations will reference specific platforms.

2.3 On a sample basis, review and validate Spring Enrollment net commissions whenever they are the basis for a TPA PEPM fee increase.

Responsible Department: Office of Risk and Benefits Management

Management Response: Staff is in full support of this recommendation.

2.4 Consider including an alternate pricing arrangement in future RFP that will allow for a discounted PEPM TPA fee to administer the accounts of employees who declined medical benefits and participate in no other flex benefit.

Responsible Department: Office of Risk and Benefits Management

Management Response: Request For Proposal (RFP) # 094-FF10, sought proposals from companies to provide Third Party Administration (TPA) services for Miami-Dade County Public Schools. The language in the RFP regarding fees is as follows:

All costs for the administration of this contract are to be based upon School Board employees eligible for Board-paid coverage on a per-employee, per-month (PEPM) basis.

Staff is not opposed to considering alternate pricing arrangements in future RFP's; however, staff does not agree with the assertion in the Audit Report that employees who decline medical benefits, and thus receive $100/month, receive a reduced level of service from the TPA. As referenced earlier this response, the Information Technology data exchange component of the TPA contract represents a significant portion of services provided under the current contract. The purpose of using employees who are eligible for Board-paid coverage as the basis of fees for the TPA contract is to not differentiate employees who enroll for health benefits from those who opt out.

Specifically, employees who opt out of healthcare must have the same programming performed to keep records of the required $100/month, as well as keeping track of the District's Short Term Disability (STD) benefits which comprise part of the District's core benefits which include life, health and STD benefits. Additionally, employees who opt out of healthcare are still required to go through open enrollment, receive all benefit educational services, and avail themselves of customer service. Staff also believes that a bifurcated fee basis which uses healthcare enrollment with no flex benefits as the metric becomes problematic in negotiating multi-year flat pricing contracts. While total benefit eligible populations are somewhat predictable and therefore can be used as a basis to secure multi-year flat pricing contract, there is no ability to predict the number of employees who will choose to opt out of healthcare from year to year. As a result, staff is concerned that this pricing strategy may increase fees as opposed to reducing them.

As referenced earlier, the next generation of TPA contract will be significantly different from the present structure of the contract. As such, the basis for the fee for future contracts will change as well. Staff will consider the inclusion of varying fee structures to gain the lowest possible cost structure.

3. TPA DELIVERABLES AND PERFORMANCE STANDARDS AND GUARANTEES (PS&G)

RFP 094-FF10 required the TPA with the winning proposal to comply "with the minimum performance objectives outlined in the Performance Guarantees Section of this proposal." These performance standards and guarantees (PS&G) are written deliverables delineating the expectation and responsibility of the TPA to the District in this agreement, thereby reducing or eliminating conflicts and misunderstandings. Our review of the receipt of deliverables was inconclusive since we could not independently ascertain whether the District received all required deliverables.

To determine whether the contract deliverables outlined in the PS&G document were being received, we reviewed seven of the 55 total PS&G deliverables with R&BO staff and found that evidence to substantiate the District monitoring the TPA compliance with each deliverable was not available. Moreover, three of the seven deliverables sampled either had been completely or partially waived during the current contractual period. Discussion with R&BO staff revealed that incidences of non-compliance are usually only found on an exception basis. In other words, incidences of non-compliance are uncovered when, for example, Information Technology Services (ITS) has not received a data file several days after it was promised; an employee registers a complaint about not receiving a quarterly statement or a response to an inquiry; or the incumbent TPA informs M-DCPS of the incident. It was also apparent that the monitoring of contract compliance and exception reporting were primarily placed with the TPA – FBMC. We question this process of the District allowing, if not ceding, its contract compliance monitoring responsibility to the TPA. The TPA should not be the driver for determining compliance with its deliverables. District staff should monitor the timely receipt of deliverables, independent of the TPA.

Independent monitoring of the timely receipt of deliverables is important given that there is a monetary penalty associated with each contract deliverable and collectively those penalties could be substantial. For instance, the minimum cumulative monetary penalty linked to the contract's PS&G is approximately $67,000[7]. The penalty associated with a single PS&G is as little as $10 per infraction and as much as $10,000 per infraction.

The TPA's self-monitoring for the PS&Gs, without independent verification, increases the risk to the District of not receiving all penalties for non-compliance with the contract terms.

One contract deliverable states that the TPA, "…will provide a written report for the Client, within 30 days following the close of each Plan Quarter, outlining Administrator compliance with the PS&G described in this document and any penalty which were incurred during the quarter." Management does not accrue for the quarterly penalty

[7] This assumes at least one instance of non-compliance with each of the 55 contract deliverables. Obviously, any penalty amounts incurred would depend upon the number of instances of non-compliance and the duration of the infraction, as some penalty values gradually increase over time.

receivable identified at the end of each calendar quarter. Our review of the 11 quarterly PS&G reports and penalty checks received from January 1, 2007 to September 30, 2009 disclosed:

- Six of the 11 reports were submitted past the 30-day deadline. In four of these instances, the $400 penalty for submitting the report late was not paid by the TPA – FBMC.

- R&BO management discovered that two checks for penalties reported in two PS&G reports[8] were not received by M-DCPS. This became known after we requested copies of the PS&G reports for our review. FBMC, soon thereafter being notified of the non-payment, remitted a check for $2,710 to M-DCPS near the end of June 2009. These checks were dated 547 and 302 days past their respectively due dates.

RECOMMENDATIONS

3.1 Develop procedures to strengthen the monitoring of the TPA's compliance with each deliverable. Also, periodically test the information on the TPA-generated reports and databases for accuracy.

Responsible Department: Office of Risk and Benefits Management

Management Response: The 55 Performance Standards and Guarantees (PS&G) represent a formidable challenge for staff to properly monitor. Many of these PS&G's represent required services which occur in the Tallahassee, Florida office of the current TPA.

As such, monitoring of the PS&G's rely heavily on the TPA self-reporting their compliance. While this is not optimal, standard industry practice for most benefit administration companies, TPA's and large insurance carriers all involve self-reporting using the methodologies currently in place with the District's contract.

Research on this issue has found that some employers engage outside auditing firms to audit the performance results reported by TPA's. Staff believes that this solution may be in the best interest of the District moving forward.

3.2 Document Management's monitoring of each deliverable.

Responsible Department: Office of Risk and Benefits Management

[8] PS&G reports for the 3rd Quarter 2007 and the 2nd Quarter 2008.

Management Response: Staff acknowledges that timely monitoring of the PS&G's was not occurring, due partly to the reduction of two administrative staff members in the Employee Benefits Section of the Office of Risk and Benefits Management. Appropriate monitoring is now occurring based upon a written Performance Standards and Guarantees Validation and Control Process which has been developed, with specific timelines and responsibilities on the part of District staff and the TPA.

3.3 Strengthen monitoring of the receipt of the quarterly PS&G reports and associated penalty checks. This may include stipulating to the TPA to remit any penalty due along with the quarterly PS&G report. In addition, an amount should be accrued for penalties owed but not received at the end of each quarter.

Responsible Department: Office of Risk and Benefits Management

Management Response: Specific requirements for monitoring the receipt of quarterly PS&G payments are included in the Performance Standards and Guarantees Validation and Control Process. Included in the process is the recommended process in which the TPA will send staff the quarterly PS&G report electronically by the designated deadline, as well as send via postal mail hardcopies of the document, CD's containing all supporting documentation, and the check for any associated penalties.

Staff was anxious to include the PS&G payments in the recently installed SAP Account Receivable (AR) program which was recently put in place in the Office of Risk and Benefits Management for healthcare billing of retirees and leave employees. Unfortunately, the AR system can only accrue payments of specific amounts such as monthly premiums where the amounts do not vary. Obviously the amounts of PS&G penalties will fluctuate on a month-to-month basis which will not work in the AR system. Staff believes that the current monitoring system will suffice to assure prompt payment of any penalties due under the contract term.

Appendix A – Responses to TPA Survey

The Six Responses to TPA Survey of 12 Entities	
Questions	Responses
1 Did you or someone from your company either respond to our consultant's request for information (RFI) during 2006 or attended M-DCPS' pre-proposal conference on June 30, 2006?	• 67% (4) responded "yes" • 33% (2) responded "no"
2. Were you aware of Miami-Dade County Public Schools Request For Proposal (RFP) 094-FF10, seeking competitive proposals to provide administrative services for its comprehensive employee benefits program, with a deadline of August 8, 2006?	• 83% (5)responded "yes" • 17% (1) responded "no"
3. If you responded "YES" to Question No.2, please explain why a bid was not submitted?	• 36% (2) responded "bid was not above board…new benefit package was already set prior to bid…no way to conduct business within the specifications" • 16% (1) responded "M-DCPS was looking for an administrator to provide all services…we only provide HSAs, FSAs, and HRAs" • 16% (1) responded "…that M-DCPS requirements…were not compatible with our delivery model." • 16% (1) responded "could not fulfill requirement for on-site staff" • 16% (1) responded "N/A"
4. In 2006, was your company certified by the State of Florida to be an insurance carrier?	• 50% (3) responded "no" • 33% (2) responded "yes" • 17% (1) did not respond to this question
5. In the TPA industry, would you say that average monthly costs per employee have increased, decreased, or have relatively stayed the same over the last 5 years?	• 50% (3) responded "costs remained relatively the same" • 33% (2) responded "increased" • 17% (1) did not respond to this question
6. In your opinion, what factors have contributed to the answer you provided in	• 50% (3) responded "costs remained relatively the same" or "…competitive nature of the marketplace"

The Six Responses to TPA Survey of 12 Entities	
Questions	Responses
Question No. 5? What is the percentage increase or decrease during the last 5 years?	• 33% (2)responded "…increase due to increasing cost of doing business and shrinking TPA market…" or "costs have increased due to inflation but overall remain flat since technology has enabled efficiencies" • 17% (1) did not respond to this question
7. Does your company presently have clients in Florida with over 10,000 employees / retirees?	• 83% (5)responded "yes" • 17% (1) did not respond to this question
8. What are the advantages and/or disadvantages of a company utilizing the services of the same TPA for 5 years or longer?	• 34% (2) responded " there is no advantage of keeping a TPA for more than 5 years…When the bid went out, the resources required to replace the incumbent TPA were stripped when the new TPA could not receive any commissions. We estimated it would cost the new TPA a minimum of $5,000,000 in first year costs to complete all of the mandatory services. It is common knowledge that the bid in 2006 was not legitimate and the incumbent TPA was irreplaceable because they had essentially created the system to make it impossible for the School Board to look for another TPA. • 16% (1) responded "stability and continuity of process are major advantages resulting from TPA relationships lasting 5 or more years…However, prices associated with such TPA relationships tend to be less competitive and the quality of service tends to lag in comparison to that provided to clients with shorter engagement periods" • 16% (1) responded "cost and time to implement a health and welfare technology solution and customer service center can be lengthy and relatively expensive. A longer term contract enables provider and client to amortize implementation costs over a longer period and realize efficiencies." • 16% (1) responded 'building a strategic relationship with a vendor partner"

The Six Responses to TPA Survey of 12 Entities	
Questions	Responses
	• 16% (1) did not respond to this question.

Appendix B – Composition of FBMC's PERM TPA Fee – Proposed

FBMC
proven benefit solutions

Miami-Dade County Public Schools
giving our students the world

	3-Year Contract	Projected Annual Cost	Describe the assumptions used in calculating the projected annual cost
Ongoing Support	**PEPM**	**Annual $**	
a. Health and Welfare administration	.28	144,480	Annualized projections based upon 43,000 eligibles
b. Banking and Reconciliation	.04	20,640	
c. Annual system updates	.14	72,240	
d. Annual & on-going enrollment	1.13	583,080	
e. Customer service call center for all levels of employees and retirees	.98	505,680	
f. Interfaces – electronic	.00	0	
g. Interfaces – paper	.00	0	
h. Retiree administration	.59	304,440	Assumes elimination of current retiree per-benefit billing fee
i. Leave of Absence Administration	.07	36,120	
j. HIPAA administration	.03	15,480	
k. FSA administration	.32	165,120	
l. Premium Reconciliation	.55	283,800	
m. Online access	.96	495,360	
n. Enrollment package mailing	.10	51,600	
o. Communication materials incl. typesetting, printing, collation, assembly and distribution	.52	268,320	
p. Reporting	.04	20,640	
q. Voluntary Benefits Consultation	.00	0	
r. Other M-DCPS sponsored benefits	.00	0	
s. On-site liaisons	1.12	577,920	
t. Travel, expense, phone, fax, copying, etc.	.16	82,560	
u. All Other	.00	0	
Total Annual Fee Estimate	**7.03**	**3,627,520**	

All costs for the administration of this contract are to be based upon School Board employees eligible for Board-paid coverage on a Per Employee Per Month (PEPM) basis. No additional fees may be charged to any other employees, retirees, part-time employees, employees on leave of absences, etc.

FBMC Proposal for Miami-Dade County Public Schools' RFP #094-FF10 for Administrative Services *Page 162 of 181*

REVISED

Appendix C – Management's Response

MEMORANDUM June 14, 2010

TO: Mr. Jose F. Montes de Oca, Chief Auditor
Office of Management and Compliance Audits

Mr. Trevor L. Williams, Assistant Chief Auditor
Operations and Performance Audits

FROM: Richard H. Hinds, Chief Financial Officer
Financial Services

BY: Scott B. Clark, Risk and Benefits Officer
Office of Risk and Benefits Management

SUBJECT: RESPONSE TO AUDIT OF FRINGE BENEFITS ADMINISTRATION

We are in receipt of the draft audit of the District's contract with Fringe Benefits Management Company (FBMC). This contract was last re-marketed in 2006 for a three-year period effective January 1, 2007. Prior to that, the contract had been re-marketed with an effective date of January 1, 2003.

This contract incorporates the functions of a Third Party Administration (TPA) agreement for employee benefits provided to District employees, retirees, and their eligible dependents as part of an authorized IRS Section 125 pre-tax benefit program.

As a result of long standing Information Technology (IT) shortcomings in the legacy computer system, the District has had to outsource a large portion of the IT interchange necessary to provide vital information such as coverage inforce, payroll deductions, and benefit taxation. Additional responsibilities provided through contract include all new hire and annual benefit enrollment services, flexible spending account (FSA) administration, account reconciliation, retiree and leave employee billing and customer service.

It should be pointed out that when Request for Proposal (RFP)# 094-FF10 was issued in June, 2006, the RFP referenced the District's Enterprise Resource Planning (ERP) initiative which at that time was scheduled to be in place by the end of the contract in 2009. Under the current administration and revised ERP/SAP implementation schedule, the Employee Benefits Module of SAP is scheduled to become live early in 2011 in conjunction with the Payroll conversion. Upon implementation of the SAP Benefits module, a significant portion of existing services which have historically been outsourced will be provided internally. These currently outsourced services include most IT data exchanges between Miami-Dade County Public Schools and all health and flexible benefit insurance carriers/administrators, annual and new hire online open enrollment services, employee payroll deductions, and premium reconciliation.

Services which will continue to require a third party administrator include all retiree/leave/COBRA billing, flexible spending account administration, customer service both with local staffing requirements and telephonic customer service. A portion of the services outlined in the audit will be converted to SAP administration in 2011, requiring a change to the existing contract and eventual re-marketing of a new contract.

Staff appreciates the input from the staff at the Office of Management and Compliance Audits and has already taken steps to remedy those areas requiring more efficient administration.

FINDINGS AND RECOMMENDATIONS

1. THE RFP PROCESS

RECOMMENDATIONS

1.1 Complete a thorough review of future RFP documents for TPA services and ensure that all pertinent terms and stipulations including commissions due to TPA for providing administrative services over voluntary benefits, are clearly delineated in the document prior to its issuance. In addition, in the future, the TPA selected should be allowed to solicit competitive proposals for VBP's only after the TPA is selected via the RFP process.

MANAGEMENT RESPONSE:

Prior to the Board's authorization to release RFP 094-FF10 which occurred at the Board meeting of June 14, 2006, staff and the Board's Employee Benefits Consulting Firm, Deloitte Consulting, LLP felt it would be important to obtain advance information as to which companies might be interested in responding to the upcoming RFP. To accomplish this, a Request For Information (RFI) consisting of 9 questions was sent to 20 prospective proposers requesting feedback on these 9 questions.

Of those 20 firms, 8 firms responded to the RFI providing valuable information as to their interest and ability to provide all required and needed services outlined in the upcoming RFP. Staff felt this preliminary step was important to maximize the number of firms responding to the upcoming RFP. Once issued the RFP was advertised in various media including the District's website, and three newspapers including *The Daily Business Review*, *Dario Los Americas*, and *The Miami Times.*

As is outlined in the audit report, an RFP was issued in 2005 to seek proposals for voluntary products including Universal Life Insurance and Long Term Care Coverage. These products were offered to

employees on a voluntary basis beginning in calendar year 2006. Also as outlined in RFP 094-FF10, the following section appeared entitled SPRING ENROLLMENT:

"THE ENTITY AWARDED THE TPA CONTRACT WOULD PROVIDE SPRING EDUCATION AND ENROLLMENT PROGRAM TO INTERESTED EMPLOYEES FOR THE FOLLOWING EMPLOYEE-PAID PRODUCTS. VOLUNTARY UNIVERSAL LIFE INSURANCE AND CANCER CARE, CURRENTLY OFFERED BY TRUSTMARK INSURANCE COMPANY AND ING, LONG TERM CARE COVERAGE OFFERED BY AETNA. THE CURRENT ADMINISTRATOR FOR THESE PRODUCTS RECEIVES A COMMISSION"

FURTHER, DURING THE PRE-PROPOSAL CONFERENCE HELD FOR RFP 094-FF10, STAFF PROVIDED AN ANSWER TO THE QUESTION AS TO WHETHER A NEW TPA WOULD BE ABLE TO OFFER <u>NEW INSURANCE PROVIDERS DURING SPRING ENROLLMENT.</u> STAFF CORRECTLY ANSWERED THAT AS A RESULT OF AN RFP HAVING RECENTLY BEEN ISSUED AND THE SCHOOL BOARD HAVING ENTERED INTO NEW CONTRACTS AS A RESULT, THERE WAS NO ANTICIPATION THAT NEW RFP'S WOULD BE ISSUED WITHIN THE NEXT FEW YEARS.

IN PRACTICE, EMPLOYERS ENTER INTO INSURANCE CONTRACTS FOR EMPLOYEE-PAID (VOLUNTARY) BENEFITS ROUTINELY AS OUTLINED HEREIN. THE TPA WHICH ADMINISTERS THE BENEFITS HAS NO PERMANENT CONNECTION TO THE CONTRACT BETWEEN THE INSURER AND THE INSURED. HAD A DIFFERENT TPA BEEN SELECTED TO BE UNDER CONTRACT TO THE SCHOOL BOARD AS A RESULT OF RFP 094-FF10, AN AGENT OF RECORD LETTER WOULD HAVE BEEN COMPLETED RESULTING IN THE REPLACEMENT TPA BEING ABLE TO COLLECT COMMISSIONS ON THESE PRODUCTS AS THEY WOULD HAVE BEEN RESPONSIBLE FOR SELLING AND SERVICING THESE PRODUCTS.

WHILE RISK MANAGEMENT STAFF CAN AGREE THAT THERE MAY HAVE BEEN SOME CONFUSION REGARDING COLLECTION OF THESE COMMISSIONS FOR SOME TPA'S, WE DO NOT BELIEVE THAT IT WAS THE PROXIMATE CAUSE OF COMPANIES NOT RESPONDING TO RFP 094-FF10. MOREOVER, STAFF FIRMLY BELIEVES THAT THE OVERRIDING REASON THIS CONTRACT HAS NOT BEEN ACTIVELY PURSUED BY TPA'S HAS EVERTHING TO DO WITH THE SIGNIFICANT DATA EXCHANGE AND SOPHISTICATED INFORMATION TECHNOLOGY (IT) RESPONSIBILITIES REQUIRED IN HANDLING THE DISTRICT'S ACCOUNT.

AS OUTLINED AT THE BEGINNING OF THE RESPONSE, MUCH OF THE (IT) DATA EXCHANGE RESPONSIBILITIES WILL BE REPLACED BY THE INTRODUCTION OF THE SAP SOFTWARE IN THE FUTURE. STAFF BELIEVES THAT AT THE TIME OF RE-MARKETING, TPA'S LOOKING AT THIS CONTRACT WERE FURTHER CONVINCED NOT TO PROPOSE DUE TO THE FACT THAT THE RFP CLEARLY OUTLINED THAT THE IT DATA EXCHANGE WAS DUE TO BE REPLACED WITH AN ERP INITIATIVE BY THE END OF THE CONTRACT PERIOD IN 2009. TPA'S WHICH MAY HAVE EXPRESSED AN INTEREST IN PROVIDING SERVICES WERE CONCERNED THAT THEY COULD NOT RECOUP ANY SIGNIFICANT (IT) INVESTMENT FOR A PLATFORM WHICH WOULD HAVE ONLY LASTED THREE ADDITIONAL YEARS. STAFF HAS RECEIVED A LETTER FROM THE BOARD'S EMPLOYEE BENEFITS CONSULTING FIRM OF DELOITTE CONSULTING, LLP OUTLINING THEIR BELIEF AS TO ISSUES SURROUNDING COMMISSIONS AND LACK OF RESPONSE TO THE ISSUED RFP WHICH SUPPORTS STAFF'S POSITIONS.

WHILE MAKING FOR INTERESTING READING, STAFF DOES NOT PLACE MUCH CREDENCE IN THE RESPONSES FROM VENDORS WHO DID NOT CHOOSE TO PROPOSE ON A CONTRACT WHICH WAS ISSUED OVER 4 YEARS AGO. DUE TO THE FACT THAT THE MAJOR RESPONSIBILITIES IN THE CURRENT TPA CONTRACT WILL CHANGE UPON FULL IMPLEMENTATION OF THE SAP BENEFITS MODULE, STAFF AGREES THAT FUTURE TPA RFP'S WILL BE ISSUED SEPARATELY FROM VOLUNTARY BENEFIT RFP'S.

2. NEGOTIATED TPA FEES

RECOMMENDATIONS:

2.1 Communicate results of TPA fee negotiations – initial and subsequent, to the School Board for their consideration and/or information purposes.

STAFF APPRECIATES THE ACCOLADES PROVIDED IN THE AUDIT REPORT FOR NEGOTIATING FEES OVER THE COURSE OF THE 3 YEAR CONTRACT WHICH SAVED THE DISTRICT OVER $500,000 IN FEES PAID FOR TPA SERVICES.

STAFF AGREES WITH THE RECOMMENDATION TO REPORT ALL NEGOTIATED FEES TO THE SCHOOL BOARD AND UNDER THE PREVIOUS ADMINISTRATION ATTEMPTED TO DO EXACTLY THAT. UNFORTUNATELY, THE PREVIOUS DEPUTY SUPERINTENDENT FOR BUSINESS SERVICES WAS OF THE OPINION THAT BECAUSE THE TPA FEE IS A COMPONENT OF THE FRINGE RATE WHICH IS A COMPONENT OF THE DISTRICT'S BUDGET, THAT IN EFFECT THE

BOARD WAS APPROVING THE FEE REDUCTION AS PART OF THE BUDGETARY APPROVAL PROCESS.

2.2 Ensure that TPA's pricing arrangements and awards clearly describe all terms and conditions in sufficient details as to eliminate any ambiguity regarding fee calculation. This should include identifying the agreed-upon cost driver and the methodology for arriving at the negotiated fee.

AS OUTLINED IN THE AUDIT REPORT, THE GOAL OF STAFF WHEN NEGOTIATING THE RATE STRUCTURE FOR THE RECOMMENDED AWARD OF TPA SERVICES IN RESPONSE TO RFP 094-FF10 WAS TO ADDRESS FULL TPA COMPENSATION. DURING FEE NEGOTIATIONS, THE FOLLOWING TOOK PLACE:

- **Letter received from FBMC dated September 4, 2006 outlining revised proposal pricing from the $7.03/Per Employee Per Month (PEPM) as proposed to $6.55 PEPM subject to 5% increases for second and third years.**

- **E-mail received from FBMC dated September 18, 2006 outlining revised proposal pricing to $6.48/PEPM, subject to 5% increases for second and third years.**

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As outlined in the Audit Report, Agenda item E-67, Board meeting of October 11, 2006 reflected the pricing recommendations negotiated as of October 2, 2006. The actual wording in the agenda item is as follows:

"The first goal was to delay any pricing increase until fiscal year 2007-2008 so that the increase could be budgeted and not negatively impact the 2006-2007 fiscal year. The second was to have any future increases be a range dependent upon the commissions received by FBMC through the sale of Board authorized universal life and long term care coverages during spring enrollments".

While staff is aware that the wording did not differentiate the difference between gross commissions and net commissions, the word commissions was very clearly referenced. Therefore, the chart referenced in the Audit

Report clearly was structured to use Commissions as a point of reference and not any other platform such as enrollment premiums.

As outlined previously the goal was to use this platform to gauge all compensation going to the TPA. As such, gross commissions would never have been used, first because it is a much higher number, and secondly because the compensation going to the TPA would be based on commissions after expenses, thus reflecting actual compensation going to the TPA. Staff will make sure that future fee negotiations will reference specific platforms.

2.3 On a sample basis, review and validate the Spring Enrollment net commissions whenever they are the basis for the TPA PEPM fee increase.

Staff is in full support of this recommendation.

2.4 Consider including an alternate pricing arrangement in future RFP that will allow for a discounted PEPM TPA fee to administer the accounts of employees who declined medical benefits and participate in no other “flex benefit”.

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Staff is not opposed to considering alternate pricing arrangements in future RFP’s; however, staff does not agree with the assertion in the Audit Report that employees who decline medical benefits, and thus receive $100/month, receive a reduced level of service from the TPA. As referenced earlier this response, the Information Technology data exchange component of the TPA contract represents a significant portion of services provided under the current contract. The purpose of using employees who are <u>eligible</u> for Board-paid coverage as the basis of fees for the TPA contract is to not differentiate employees who enroll for health benefits from those who opt out.

Specifically, employees who opt out of healthcare must have the same programming performed to keep records of the required $100/month, as well as keeping track of the District’s Short Term Disability (STD) benefits which comprise part of the District’s core benefits which include life, health and STD benefits. Additionally, employees who opt out of healthcare are still required to go through open enrollment, receive all benefit educational

services, and avail themselves of customer service. Staff also believes that a bifurcated fee basis which uses healthcare enrollment with no flex benefits as the metric becomes problematic in negotiating multi-year flat pricing contracts. While total benefit eligible populations are somewhat predictable and therefore can be used as a basis to secure multi-year flat pricing contract, there is no ability to predict the number of employees who will choose to opt out of healthcare from year to year. As a result, staff is concerned that this pricing strategy may increase fees as opposed to reducing them.

As referenced earlier, the next generation of TPA contract will be significantly different from the present structure of the contract. As such, the basis for the fee for future contracts will change as well. Staff will consider the inclusion of varying fee structures to gain the lowest possible cost structure.

3. TPA DELIVERABLES AND PERFORMANCE STANDARDS AND GUARANTEES

RECOMMENDATIONS:

3.1 Develop procedures to strengthen the monitoring of TPA's compliance with each deliverable. Also, periodically test the information on the TPA-generated reports and databases for accuracy.

The 55 Performance Standards and Guarantees (PS&G) represent a formidable challenge for staff to properly monitor. Many of these PS&G's represent required services which occur in the Tallahassee, Florida office of the current TPA.

As such, monitoring of the PS&G's rely heavily on the TPA self-reporting their compliance. While this is not optimal, standard industry practice for most benefit administration companies, TPA's and large insurance carriers all involve self-reporting using the methodologies currently in place with the District's contract.

Research on this issue has found that some employers engage outside auditing firms to audit the performance results reported by TPA's. Staff believes that this solution may be in the best interest of the District moving forward.

3.2 Document Management's monitoring of each deliverable.

Staff acknowledges that timely monitoring of the PS&G's was not occurring, due partly to the reduction of two administrative staff members in the Employee Benefits Section of the Office of Risk and Benefits

Management. Appropriate monitoring is now occurring based upon a written Performance Standards and Guarantees Validation and Control Process which has been developed, with specific timelines and responsibilities on the part of District staff and the TPA.

3.3 Strengthen monitoring of the receipt of the quarterly PS&G reports and associated penalty checks. This may include stipulating to the TPA to remit any penalty due along with the quarterly PS&G report. In addition, an amount should be accrued for penalties owed but not received at the end of each quarter.

Specific requirements for monitoring the receipt of quarterly PS&G payments are included in the Performance Standards and Guarantees Validation and Control Process. Included in the process is the recommended process in which the TPA will send staff the quarterly PS&G report electronically by the designated deadline, as well as send via postal mail hardcopies of the document, CD's containing all supporting documentation, and the check for any associated penalties.

Staff was anxious to include the PS&G payments in the recently installed SAP Account Receivable (AR) program which was recently put in place in the Office of Risk and Benefits Management for healthcare billing of retirees and leave employees. Unfortunately, the AR system can only accrue payments of specific amounts such as monthly premiums where the amounts do not vary. Obviously the amounts of PS&G penalties will fluctuate on a month-to-month basis which will not work in the AR system. Staff believes that the current monitoring system will suffice to assure prompt payment of any penalties due under the contract term.

Should you have any questions regarding this response, please feel free to contact Mr. Scott B. Clark, Risk and Benefits Officer, at (305) 995-7155

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The School Board of Miami-Dade County, Florida, adheres to a policy of nondiscrimination in employment and educational programs/activities and programs/activities receiving Federal financial assistance from the Department of Education, 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 sex 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.

School Board Rules 6Gx13- 4A-1.01, 6Gx13- 4A-1.32, and 6Gx13- 5D-1.10 - prohibit harassment and/or discrimination against a student or employee on the basis of gender, race, color, religion, ethnic or national origin, political beliefs, marital status, age, sexual orientation, social and family background, linguistic preference, pregnancy, or disability.

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.

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INTERNAL AUDIT REPORT

Fringe Benefits Administration

MIAMI-DADE COUNTY PUBLIC SCHOOLS

Office of Management and Compliance Audits

1450 N. E. 2nd Avenue, Room 415

Miami, Florida 33132

Tel: (305) 995-1318♦Fax: (305) 995-1331

http://mca.dadeschools.net