



Richmond Office of the  
**CITY AUDITOR**

**OFFICIAL GOVERNMENT REPORT**



# AUDIT OF: Richmond Public Schools BENEFITS

**Report Issued: November 4, 2013**

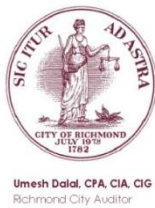
**Report Number: 2014-03**

Richmond City Council Office of the City Auditor | Richmond City Hall | 900 E. Broad Street, Suite 806 | Richmond, Virginia 23219 U.S.A. | 804.646.5616 (tel)

*Committed to increasing government efficiency, effectiveness  
and accountability on behalf of the Citizens of Richmond.*

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# Richmond City Council

The Voice of the People

Richmond, Virginia

## Office of the City Auditor

Umesh Dalal, CPA, CIA, CIG  
Richmond City Auditor

### Executive Summary

November 4, 2013

The Honorable Members of the Richmond Public School Board

#### **Subject: Richmond Public Schools – Benefits Audit**

The City Auditor's Office has completed an audit of the Richmond Public Schools (RPS) Employee Benefits. The objectives of this audit were to:

- Evaluate the efficiency and effectiveness of operations
- Determine the existence and effectiveness of internal controls
- Verify compliance with laws, regulations, and policies

During the audit period, the cost of benefits for full-time contracted employees totaled \$64.9M, as follows:

Benefit	Expenditure	Percentage
Medical Coverage	\$30,550,152	47%
Retirement	\$28,768,982	44%
Life Insurance	\$1,966,532	3%
Other	\$3,622,919	6%

#### ***Salient Findings***

- RPS and the City of Richmond (COR) jointly entered into an Administrative Services Only Agreement (ASO) with CIGNA to provide medical claims administration services. RPS and the COR do not have an executed contractual agreement with CIGNA because agreeable terms and conditions have not been reached. Despite not having a written, approved contract, the COR and RPS have continued to operate in accordance with the terms of a proposed contract, which neither the COR nor RPS has signed.

The City Attorney's Office is of the opinion that a contract exists between CIGNA and the COR and RPS for administration of the health care plan. The City and RPS disagreed with certain terms of the draft ASO on June 29, 2011. The City Attorney's Office is of the opinion that the terms of draft ASO on June 6, 2011 applies, except a provision expressly disclaimed by the City. However, in the June 29, 2011 letter, the City disagreed with several provisions, some of which were specified and some were not. It is not clear which terms are applicable and enforceable. It appears that RPS may need to clarify this issue independently. In accordance with information available to the auditor, efforts to negotiate the terms of the contract have not been successful since that date.

- The proposed contract (ASO) allows CIGNA to charge certain fees to RPS/COR, in addition to the cost of claims. RPS' portion of the total payments to CIGNA exceeded \$30M and included:
  - Paid Claims
  - Stop Loss Premiums
  - Administration/Cost Containment Fees

Excluding claims paid, RPS paid \$5M to CIGNA during the audit period.

The proposed ASO dictates the extent to which RPS/COR can conduct an audit. It should be noted that CIGNA is acting as a third party administrator (TPA) to manage claims. The RPS claims data belongs to RPS; therefore, if RPS wants to access its own data, CIGNA should not be in a position to object and control the audit process. However, CIGNA did not allow the City Auditor to review any claim(s) or provide details/specifics for cost containment charges, because RPS had not signed the "audit clause" of the ASO.

Using paid claims extracted from CIGNA's electronic paid claims file, the auditor found instances of:

- Missing provider discounts
- Questionable out of network providers/hospital based physicians
- Provider coding issues
- Inaccuracy of co-payment applications, etc.

Failure to examine provider health care claims and details to support provider charges can

result in billing, coding, and cost containment charge errors, which go undetected and are paid. There is a potential that RPS could be paying for a substantial amount of overcharges due to errors or misapplication of contractual terms. However, at this time it is not possible to identify them.

- In accordance with the terms of the proposed ASO, CIGNA charged a specific percentage of the savings through negotiations of billed charges under agreements with third parties. During the audit period, RPS paid CIGNA \$1.1M for cost containment and behavioral health services capitation fees. CIGNA withdrew these fees directly from RPS/COR's joint bank account without RPS/COR's review/approval. Under the terms of the proposed ASO, CIGNA is not required to justify these charges or provide documentation to substantiate the charges. Accordingly, information was not available, and the auditor was unable to verify the appropriateness of these charges.
- The proposed ASO provides that CIGNA receive 29% of any savings realized due to cost containment, but does not require CIGNA to choose the most cost beneficial alternatives to RPS. These negotiations are not always beneficial to RPS.
- RPS did not monitor and reconcile claims exceeding the stop loss limits in the aggregate amount of \$931,384. Controls were not present to ensure the accuracy of the stop loss limit and the related cost/benefit.
- RPS does not have the ability to ensure that claims processed and paid by CIGNA are for valid employees, their spouses, and covered dependents. According to the proposed contract, in the event CIGNA overpays a claim or pays benefits to the wrong party, it shall take all reasonable steps to recover the overpayment; however, CIGNA shall not be responsible for the losses if the overpayments cannot be recovered.

### ***Policy Issues***

The auditors found several policies that offer benefits to RPS employees that are not offered by the other school divisions to their employees. The City Auditor's Office was requested to identify opportunities to save resources. Accordingly, although the generous policies generally encourages attracting new talents, they come at a cost to RPS. In the difficult budgetary times

when RPS has lost approximately \$21M funding due to state and City cutbacks, these additional costs must be revisited for affordability. This report recommends that the School Board reconsider offering the following policies:

<b>Recommendation Related to the Policies</b>	<b>Savings if the Policy Changed</b>
Discontinue unused sick leave pay-out	\$300,000 (Estimate)
Provide health insurance subsidies only to those retirees who do not qualify for the VRS health insurance subsidy	\$1,000,000 (Estimate)
Discontinue the practice of retiree re-enrollment in the medical insurance plan	Unknown
Re-examine the policy related to the 403(b) supplemental retirement plan contribution	\$649,000 (Estimate)
Consider premium differentials for employees, spouses, and covered dependents that consume tobacco products or have a history of alcohol/drug abuse	Unknown

***Issue on the Horizon***

***The Patient Protection and Affordable Care Act (PPACA)***

PPACA has and will continue to have profound effects on employers, such as RPS, that will be compelled to provide health care benefits to any employees who work 30 hours or more per week. RPS has 221 non-contract employees who do not get benefits. Some of these employees work identical hours as their counterparts that have contracts. Therefore, this sub-population will be eligible for benefits when the PPACA becomes effective. The auditor estimated that the additional costs to RPS would range from \$1.4M through \$2.9M annually beginning January 2015.

The City Auditor’s Office appreciates the cooperation of the Richmond Public Schools’ staff. Please contact me for questions and comments on this report.

Sincerely,

***Umesh Dalal***

Umesh Dalal, CPA, CIA, CIG  
City Auditor

c: Dr. Jonathan Lewis, Interim Superintendent

## COMPREHENSIVE LIST OF RECOMMENDATIONS

#		PAGE
1	Require RPS management to work with City management and legal assistance, specialized in healthcare, to expedite negotiations and signing of the contract with CIGNA.	8
2	If negotiations are not successful, evaluate alternatives using legal assistance.	8
3	Negotiate contract language that allows RPS or their designee the ability to conduct a full scope claims audit, including CIGNA charges to RPS, through full and unrestricted access to all pertinent records.	11
4	Require the Superintendent to assign the responsibility and verify accountability for monitoring and reconciling claims that exceed the stop loss limits.	15
5	Require CIGNA to directly pay providers for claim amounts that exceed stop loss limits from their own funds without drawing from the joint RPS/COR account.	15
6	Require the Superintendent to negotiate contract language jointly with the City representatives that requires CIGNA to render monthly itemized billing statements for all charges prior to seeking payment for their fees.	15
7	Upon receipt of the monthly itemized billing statements: <ul style="list-style-type: none"><li>a. Verify the appropriateness of the charges prior to authorizing payment to CIGNA.</li><li>b. Prepare and retain monthly reconciliations of administration and stop loss fees.</li><li>c. Identify, investigate, and resolve exceptions.</li></ul>	15
8	Negotiate the ASO with CIGNA to properly define responsibilities for monitoring anomalies, such as eligibility for dependents age 26 and older.	18

## COMPREHENSIVE LIST OF RECOMMENDATIONS

- 9 Require the Risk Management to compile pertinent information and work with CIGNA to address anomalies. 18
- 10 Require CIGNA to furnish the monthly paid claims file to Risk Management. 18
- 11 Require Risk Management to reconcile CIGNA's monthly paid claims file to the RPS payroll records. 18
- 12 The Board may consider discontinuing unused sick leave pay-out in the categories which are inconsistent and not in alignment with other school divisions. 20
- 13 The Board may consider revising its policy to provide health insurance subsidies only to those retirees who do not qualify for the VRS health insurance subsidy. 21
- 14 The Board may consider revisiting the retiree medical subsidy amount and consider changing the existing policy to use age and the number of years of service for determining the rate of medical premium subsidies. 22
- 15 The Board may consider discontinuing their re-enrollment practice. This would eliminate RPS' exposure to any medical costs for those retirees who did not elect continuation of coverage upon their retirement. This would be in conformance with other school districts. 23
- 16 The Board may consider re-examining their Policy related to the contribution to the 403(b) supplemental retirement plans. 24
- 17 The Board may consider requiring participation in case management services. 24
- 18 The Board may consider premium differentials for employees, spouses, and covered dependents that consume tobacco products or have a history of alcohol/drug abuse. 25
- 19 Require the Superintendent to update administrative policies and procedures. 25



## COMPREHENSIVE LIST OF RECOMMENDATIONS

- |    |   |    |
|----|---|----|
| 20 | Require RPS personnel to prepare and retain monthly reconciliations to verify the accuracy of retirees' health care premiums remitted by VRS.   | 26 |
| 21 | Require RPS administration to conduct a study quantifying future health benefits costs for the current non-contract employees, due to the PPACA, and report the results to the Board. | 27 |

## *Overview*

### *Introduction and Scope*

The City Auditor's Office has completed an audit of the Richmond Public Schools (RPS) Employee Benefits. This audit was requested by the Richmond Public School Board (Board) and covers the 18-month period that ended December 31, 2012. The objectives of this audit were to:

- Evaluate the efficiency and effectiveness of operations
- Determine the existence and effectiveness of internal controls
- Verify compliance with laws, regulations, and policies

The auditors conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that the auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions based on the audit objectives. The auditors believe that the evidence obtained provides a reasonable basis for their findings and conclusions based on the audit objectives.

### *Methodology*

The auditors employed the following procedures to complete this audit:

- Interviewed appropriate RPS management and staff
- Reviewed relevant records, policies, and regulations
- Reviewed electronic paid claims files
- Reviewed contractual agreements
- Reviewed administrative billing statements
- Reviewed documentation to substantiate eligibility
- Performed testing to ensure benefits were not paid for terminated employees, unless COBRA premiums were paid

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- Compared claims paid for terminated/retired individuals to the Human Resources (HR) and enrollment records
- Validated previously identified ineligible spouse/dependent removals from enrollment records
- Reviewed medical claims history for new hires to determine whether claims were paid prior to their effective dates
- Verified the timeliness of claims payments
- Benchmarked against other Virginia school divisions
- Performed other audit procedures, as deemed necessary

#### ***Management Responsibility***

RPS management is responsible for ensuring resources are managed properly and used in compliance with laws and regulations, and services are provided efficiently, economically, and effectively.

The Board sets and approves all employee benefit policies. The Benefits and Risk Management Department (Risk Management) has the responsibility for the oversight and management of the medical plan and insurance coverage. HR oversees and handles vacation, sick leave, life insurance, and retirement benefits.

#### ***Background***

During the audit period, RPS had 3,763 full-time contracted employees. The cost of benefits for those employees totaled \$64.9M, which included:

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#### ***RPS incurs substantial amounts in employees' benefits***

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- Medical Coverage
- Vacation Leave
- Sick Leave
- Life Insurance Coverage
- Retirement Benefits

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The following table depicts the expenditures during the audit period for each type of benefit offered to RPS' employees:

Benefit	Expenditure	Percentage
Medical Coverage	\$30,550,152	47%
Retirement	\$28,768,982	44%
Life Insurance	\$1,966,532	3%
Other	\$3,622,919	6%

*Source: RPS Financial System*

In addition, RPS had 221 temporary non-contracted employees that are not eligible for benefits.

***Medical Coverage***

In order to control medical insurance costs, in July 2011, RPS and the City of Richmond (COR) implemented a combined self insured medical plan. Connecticut General Insurance Company (CIGNA) was selected to administer the self insured medical plan. The following table depicts the cost sharing between RPS and its employees:

***In July 2011, RPS and the City of Richmond (COR) implemented a combined self insured medical plan***

**Medical Plan**

Category	Employee Percentage of Cost	RPS Percentage of Cost
Employee Only	16%	84%
Employee + One	32%	68%
Employee + Family	33%	67%
Retiree Only	65%	35%
Retiree + One	66%	34%
Retiree + Family	62%	38%

*Source: Open Enrollment Memorandum*

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Employees who retire before reaching age 65 may continue their medical coverage until age 65 with RPS' subsidy. RPS provides retirees no medical coverage beyond age 65. During the audit period, RPS had 412 retired individuals who incurred claims that exceeded \$1.4M.

#### ***Retirement***

RPS participates in the Virginia Retirement System (VRS). RPS' contribution totaled \$28.8M. All full-time salaried permanent employees are covered by VRS upon employment. According to RPS' 2012 Comprehensive Annual Financial Report as of June 30, 2012, the actuarial accrued liability for benefits was \$45M with an unfunded actuarial liability of \$8.7M.

Contracted employees can elect to participate in a 403(b) supplemental retirement plan. RPS' matching contributions during the audit period totaled \$659,023.

#### ***Life Insurance***

All full-time employees are also covered by Group Life Insurance in the amount of twice their annual salary for natural death and four times their annual salary for accidental death.

#### ***Sick Leave Pay-out***

RPS spent \$1.3M in pay-outs for unused sick leave. RPS provides compensation for unused sick leave to employees with five or more years of employment and is applicable to resignations, retirement, terminations for cause or death, and active employees who wish to sell their sick leave.

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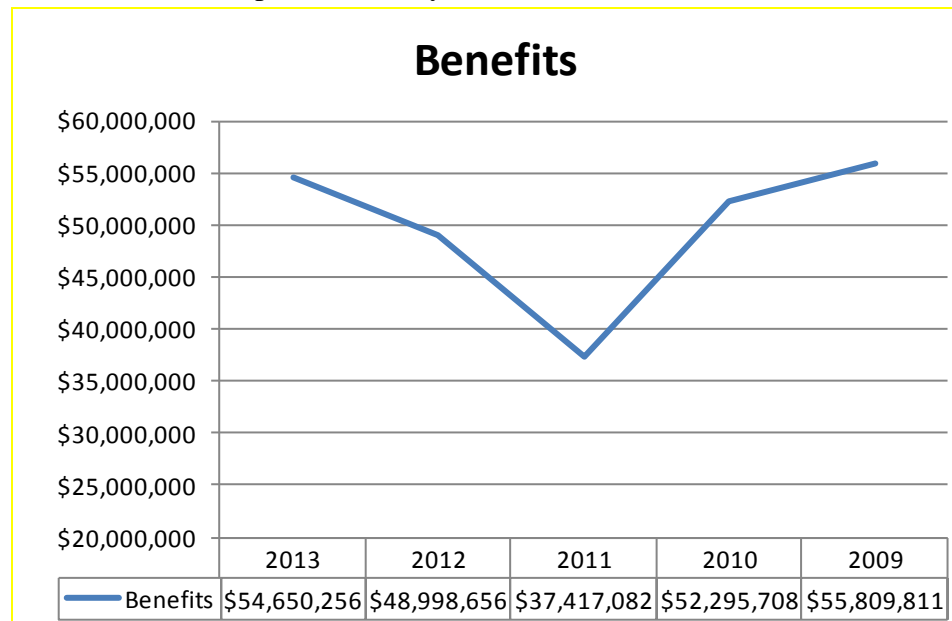
*RPS has recently eliminated some of the benefits*

Description	Other Plans			
	Employee		Retiree	
	Employee Percentage of Cost	RPS Percentage of Cost	Employee Percentage of Cost	RPS Percentage of Cost
Dental	100%*	0%	100%	0%
Short Term Disability	100%*	0%	N/A	N/A
Long Term Disability	100%*	0%	N/A	N/A
Life Insurance	0%	100%	0%	100%
Retirement	3%*	97%	N/A	N/A

Source: Open Enrollment Memorandum

*\*In July 2012 and in July 2013, RPS discontinued funding the dental and the short and long term disability plans, respectively. These plans are now optional and paid solely by the employees. Effective July 2012, RPS employees began to contribute to their Virginia Retirement System (VRS) account.*

The table below depicts the five year trend for benefits:



*Note: In FY11, VRS reduced the retirement premium, which increased again in FY12. In FY12, RPS also increased the medical insurance premiums.*

## **Observations and Recommendations**

### ***What Works Well?***

As a part of the audit conducted, the auditor reviewed many facets of employee benefits. While there are recommendations to improve the oversight and administration of employee benefits, the auditor identified processes that were functioning adequately. Those processes include:

- ***Timely payment of medical claims*** – CIGNA’s payments to health care providers were made timely. Ninety-two percent (92%) of all payments were made within 90 days.
- ***Accuracy of enrollment information*** – Audit tests confirmed enrollment information was accurate.
- ***Timely removal of ineligible participants*** –The audit found that ineligible participants were removed from CIGNA’s enrollment upon receipt of documentation.
- ***Timely and accurate monitoring of eligibility*** – RPS effectively monitored terminations of retirees upon attainment of age 65 and expiring COBRA participants.

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***The auditors found some of the procedures to be effective***

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### ***Internal Controls***

According to Government Auditing Standards, internal control, in the broadest sense, encompasses the agency’s plans, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. Based on the results and findings of the audit methodology employed, the auditors concluded that controls and procedures need to improve to effectively and efficiently manage employee Benefits operations as discussed in the next section.

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***Internal controls in the benefits process need improvement***

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## **What Needs Improvement?**

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*RPS and the City do not have a formal, signed agreement with CIGNA*

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*Considering several million dollars in spending through this arrangement, it is critical to have a written contract*

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### *CIGNA Administrative Services Agreement (ASO)*

As stated on Page 3 of this report, RPS and the COR jointly entered into an Administrative Services Only Agreement (ASO) with CIGNA to provide medical claims administration services. CIGNA's fees (administrative, cost containment, and stop loss premiums) for RPS and COR for the audit period exceeded \$10M (includes \$5M for RPS). Like any other business transaction, it is prudent to have terms and conditions of contractual understandings in writing. This is helpful in cases when there is a dispute between the affected parties. In the given case, considering the amount of money spent through this arrangement, it is critical to have a written contract.

The auditor observed that RPS and the COR do not have an executed contractual agreement with CIGNA because agreeable terms and conditions have not been reached. The following are some of the major disagreements documented in the Procurement Services letter dated June 29, 2011:

- “The City and the Board want to avail themselves of the claims litigation services, but desire to have the contract provide for CIGNA to furnish information about the costs of litigation;
- Subject-to-appropriations language is needed to empower the City to agree to make payments to CIGNA under the contract;
- Circumstances under which CIGNA would be able to unilaterally modify charges under the contract;
- Section 74-195 prohibits the City from agreeing to binding alternative dispute resolution procedures.”



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RPS/COR complied with established procurement policy (purchases exceeding \$50,000) by obtaining requests for proposals, conducting analysis and making recommendations, etc. However, RPS/COR have not completed the procurement process with an executed contractual agreement.

Despite not having a written, approved contract, the COR and RPS have continued to operate in accordance with the terms of a proposed contract, which neither the COR nor RPS has signed. The City Attorney's Office is of the opinion that a contract exists between CIGNA and the COR and RPS for administration of the health care plan. The City and RPS disagreed with certain terms of the draft ASO on June 29, 2011. The City Attorney's Office is of the opinion that the terms of draft ASO on June 6, 2011 applies, except a provision expressly disclaimed by the City. However, in the June 29, 2011 letter, the City disagreed with several provisions, some of which were specified and some were not. It is not clear which terms are applicable and enforceable. It appears that RPS may need to clarify this issue independently. In accordance with information available to the auditor, efforts to negotiate the terms of the contract have not been successful since that date.

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*RPS is forced to adhere to the proposed contract terms to which they did not agree*

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#### **Recommendations:**

1. Require RPS management to work with City management and legal assistance, specialized in healthcare, to expedite negotiations and signing of the contract with CIGNA.
2. If negotiations are not successful, evaluate alternatives using legal assistance.

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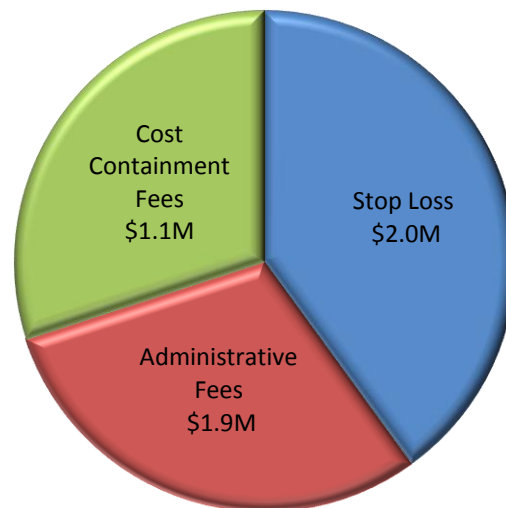
#### *Inability of RPS/COR to Audit CIGNA's Claims Administration*

The proposed contract (ASO) allows CIGNA to charge certain fees to RPS/COR, in addition to the cost of claims. RPS' portion of the total payments to CIGNA exceeded \$30M and included:

- Paid Claims
- Stop Loss Premiums
- Administration/Cost Containment Fees

Excluding claims paid, RPS paid \$5M to CIGNA during the audit period. The composition of these payments is depicted in the following chart:

**CIGNA's Charges During the Audit Period**



Source: CIGNA

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*CIGNA charged RPS approximately \$5M in stop loss premiums and other fees*

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#### *Inability to Audit*

The proposed ASO dictates the extent to which RPS/COR can conduct an audit. It should be noted that CIGNA is acting as a third party administrator (TPA) to manage claims. The RPS claims data belongs to RPS; therefore, if RPS wants to access its own data, CIGNA should

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*Due to the lack of a signed agreement, it was not possible to audit claims processed by CIGNA*

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not be in a position to object and control the audit process. However, CIGNA did not allow the City Auditor to review any claim(s) or provide details/specifics for cost containment charges, because RPS had not signed the “audit clause” of the ASO.

CIGNA did provide the paid claims electronic file to the City Auditor; however, in order to complete a thorough audit, the auditor needed the itemized providers’ billing statements. CIGNA rejected the auditor’s request for this information. Therefore, an audit of claims could not be completed.

Using paid claims extracted from CIGNA’s electronic paid claims file, the auditor found instances of:

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*Using very limited available data, the auditor identified a few discrepancies*

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- Missing provider discounts
- Questionable out of network providers/hospital based physicians
- Provider coding issues
- Inaccuracy of co-payment applications, etc.

Failure to examine provider health care claims and details to support provider charges can result in billing, coding, and cost containment charge errors, which go undetected and are paid. The review and analysis of itemized provider billing statements, which contain both diagnosis and cost procedural terminology codes, are essential to validating the accuracy of these statement(s). It is estimated 80% of all medical bills contain billing errors.

These errors include, but are not limited to:

- Duplicate charges
- Unbundled charges

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- Billing for routine supplies and equipment
- Excessive operating room charges and time
- Duplicate billing by anesthesiologist and certified nurse anesthetist, etc.

#### ***Right to Audit***

The review of the proposed ASO indicated misaligned authority and responsibility over the RPS' right(s) to audit its self funded medical plan. According to this proposed agreement, CIGNA retains substantial control over what and how an audit is conducted. For example, CIGNA proposed to retain the right to determine the frequency, sample size, and approval of objectives, scope, selection criteria, etc. These restrictions do not allow a thorough audit of claims, identification of deficiencies in contract administration, and over-charges, if any.

#### ***Recommendation:***

3. Negotiate contract language that allows RPS or their designee the ability to conduct a full scope claims audit, including CIGNA charges to RPS, through full and unrestricted access to all pertinent records.

#### ***Unsubstantiated Payments to CIGNA for Cost Containment Fees***

Under the terms of the proposed ASO, CIGNA is authorized to charge a specific percentage of the "net and/or gross savings" attributable to specified program savings. CIGNA identifies the savings through negotiations of billed charges and application of discounts available under agreements with third parties. During the audit period, RPS paid CIGNA \$1.1M for cost containment and behavioral health services capitation fees. CIGNA withdrew these fees directly from RPS/COR's joint bank account without RPS/COR's review/approval.

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***It was not possible to verify accuracy of fees charged by CIGNA***

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***CIGNA is not required to justify their charges or provide documentation to substantiate the charges***

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Under the terms of the proposed ASO, CIGNA is not required to justify these charges or provide documentation to substantiate the charges. Accordingly, information was not available, and the auditor was unable to verify the appropriateness of these charges.

The above issue demonstrates a clear lack of accountability as discussed in the following:

Capitation Fees:

Capitation fees are charged per individual on a monthly basis for medical services. Generally, these charges are predefined through negotiation and available to the employer, so they can monitor the appropriateness of the administrator's claims billing. CIGNA has offered to make this information available only upon request. Therefore, their capitation fees were not transparent. Upon inquiry, Risk Management did not have any information about the capitation fees, yet CIGNA withdrew capitation fees from the RPS/COR joint account. Risk Management did not have the ability to verify the appropriateness of these withdrawals. During the audit period, RPS paid \$954,398 in capitation fees.

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***Risk Management did not have any information about the capitation fees, yet CIGNA withdrew capitation fees from the RPS/COR joint account***

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Cost Containment Fees:

Generally, the claims administrator would establish maximum reimbursable charges for each recognized medical service rendered by any non-network providers or facilities. CIGNA charges cost containment fees for generating savings by negotiating the charges of any non-network service providers. CIGNA's contract provides that they receive 29% of any savings realized due to cost containment, but does not require CIGNA to choose the most cost beneficial alternatives to RPS/COR. These negotiations are not always beneficial to RPS.

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According to CIGNA's proposed contract, RPS may pay more than the established maximum reimbursable costs. When this happens, RPS suffers losses. The net costs to RPS, with and without cost containment, are demonstrated in the sample claim below:

**NETWORK CLAIM**

Description	With Cost Containment	Percentage	Without Cost Containment	Percentage
Provider Billed Charges	\$3,902	100%	\$3,902	100%
Amount Saved Due to CIGNA's Negotiations	\$1,171	30%	\$0	0%
Maximum Reimbursable Charge	N/A	70%	\$2,850	73%
Total Employee Payments	\$1,693	62%	\$2,977	76%
Total CIGNA Payments	\$1,038	38%	\$925	24%
CIGNA's Negotiation Fee Amount	\$340	29%	\$0	0%
Total Cost to RPS	\$1,378	50%	\$925	24%
RPS Loss	\$453	N/A	N/A	N/A

CIGNA has disclosed in the proposed contract that RPS/COR may pay more with the cost containment procedure than if the maximum reimbursable charges were applied. CIGNA justifies the above process, as it would reduce the patient's out of pocket costs and it avoids the patient being balance billed. It should be noted the above scenario does not always occur. However, RPS does not have a mechanism in place to determine how often this happens and how much loss RPS may be incurring. If a financial loss occurs due to over-charges, it would not be detected.

*Administrative and Stop Loss Fees*

The proposed ASO authorizes CIGNA to charge a monthly administrative fee per employee. In addition, CIGNA guarantees to limit RPS' claim losses to \$300,000 per calendar year for each participant. If the claims liability exceeds this limit, the stop loss insurance purchased by RPS/COR covers it and, accordingly, CIGNA absorbs the losses. CIGNA charges RPS/COR a per employee premium for this coverage. Collectively, administrative and stop loss fees are costing RPS about \$200,000 per month.

RPS wire transfers the funds for these fees on a monthly basis. The Budget Department approves these payments. However, during an interview with a Budget Department representative, it did not appear that there was a clear understanding of these charges. This is important because enrollment in the health insurance plan varies throughout the year due to staff turnover and changing eligibility. The Budget Department does not have any information about these changes. Therefore, it is critical that these payments be reviewed and approved by Risk Management, where records and proper knowledge resides. Currently, there is a risk that administrative and stop loss billing errors could go unnoticed, resulting in financial losses.

The auditor was informed that Risk Management recently began reconciling administrative and stop loss fees.

*Monitoring Stop Loss*

RPS does not monitor and reconcile claims exceeding the stop loss limits. For the audit period, nine individuals exceeded the stop loss limit in the aggregate amount of \$931,384. RPS chose to delegate this responsibility to CIGNA. Consequently, controls were not present to

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*RPS does not monitor and reconcile claims exceeding the stop loss limits*

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ensure the accuracy of the stop loss limit and the related cost/benefit.

Failure to monitor stop loss limits can result in:

- Untimely processing and reimbursement of claims from CIGNA
- Lack of identification of error
- Incorrect payments
- Untimely and inaccurate run out of paid claims

#### ***Recommendations:***

4. Require the Superintendent to assign the responsibility and verify accountability for monitoring and reconciling claims that exceed the stop loss limits.
5. Require CIGNA to directly pay providers for claim amounts that exceed stop loss limits from their own funds without drawing from the joint RPS/COR account.
6. Require the Superintendent to negotiate contract language jointly with the City representatives that requires CIGNA to render monthly itemized billing statements for all charges prior to seeking payment for their fees.
7. Upon receipt of the monthly itemized billing statements:
  - a. Verify the appropriateness of the charges prior to authorizing payment to CIGNA.
  - b. Prepare and retain monthly reconciliations of administration and stop loss fees.
  - c. Identify, investigate, and resolve exceptions.



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***Accuracy of Paid Claims***

Because CIGNA is not required to furnish a monthly paid claims file, RPS does not have the ability to ensure if claims processed and paid by CIGNA are for valid employees, their spouses, and covered dependents. This can result in undetected claim errors/payments made by CIGNA and charged to RPS.

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***CIGNA is not required to furnish a monthly paid claims file***

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Also, according to the proposed contract, in the event CIGNA overpays a claim for Plan Benefits or pays Plan Benefits to the wrong party, it shall take all reasonable steps to recover the overpayment; however, CIGNA shall not be responsible for the losses if the overpayments cannot be recovered. The following examples demonstrate this issue.

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***CIGNA does not have accountability for errors they made in overpaying claims***

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***Qualified Dependents 26 and Older***

RPS does not provide continuing medical coverage to dependents age 26 or older, unless they are disabled. During the audit period, the auditor learned neither RPS nor CIGNA verified and monitored dependents' eligibility for those individuals age 26 or older. This could result in a loss to RPS for providing coverage to ineligible dependents age 26 and above.

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The auditor queried the claims data and identified 13 enrolled dependents, age 26 or older. During the audit period, CIGNA paid the following claims for these dependents:

<b>Dependent</b>	<b>Total Claims Payments</b>
1	\$232
2	\$168
3	\$1,341
4	\$13,970
5	\$115
6	\$171
7	\$8,259
8	\$38,733
9	\$434
10	\$4,142
11	\$62
12	\$1,246
13	\$359
Total:	\$69,232

Presently, without documentation to substantiate their eligibility, it is not clear if the above claims were legitimate. This means that there is a potential that some or all of the above payments could result in losses for RPS. CIGNA, in their role as claims administrator, is expected to question the above anomalies. The responsibility for monitoring and resolving anomalies needs to be properly delineated in the ASO.

***Unapplied Deductibles and Co-payments***

When querying the claims data, the auditor noted several instances where CIGNA failed to apply co-payments and co-insurance as required by the RPS Open Access Plus Medical Benefits Premier Plan.

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The following table depicts 10 patients who received medical care from 10 different providers. These examples resulted in losses to RPS:

Patient Number	Provider Billed Charges	Provider Contractual Discount	Amount CIGNA Paid Provider	Co Pay Applied by CIGNA	Co Pay Not Applied by CIGNA / Patient's Responsibility (Loss)
1	\$196	\$126	\$70	\$0	\$20
2	\$157	\$74	\$83	\$0	\$40
3	\$175	\$41	\$134	\$0	\$40
4	\$52	\$13	\$39	\$0	\$20
5	\$228	\$68	\$160	\$0	\$20
6	\$294	\$170	\$124	\$0	\$20
7	\$148	\$13	\$135	\$0	\$40
8	\$70	\$33	\$37	\$0	\$40
9	\$90	\$51	\$39	\$0	\$40
10	\$180	\$21	\$143	\$16	\$4

***Recommendations:***

8. Negotiate the ASO with CIGNA to properly define responsibilities for monitoring anomalies, such as eligibility for dependents age 26 and older.
9. Require the Risk Management to compile pertinent information and work with CIGNA to address anomalies.
10. Require CIGNA to furnish the monthly paid claims file to Risk Management.
11. Require Risk Management to reconcile CIGNA's monthly paid claims file to the RPS payroll records.

### *Policy Issues*

It appears that in order to meet the budget challenges, the Board is looking for cost saving opportunities. In the area of benefits management, this audit identified cost saving opportunities that the Board may choose to adopt. The changes suggested in this section, if adopted at the discretion of the Board, may result in cost savings. It should be noted that the opportunities identified represent an attempt to point out more RPS policies more generous than its peers.

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*In order to meet budget challenges, the Board is looking for cost saving opportunities*

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*RPS has more generous benefit policies in certain areas*

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A comparison of benefits offered by RPS with other Virginia schools revealed that RPS had certain benefits, as discussed below, which were not offered by the other schools. For benchmarking purposes, the auditor compared RPS' benefits with the benefits offered by Chesterfield, Henrico, Hanover, Virginia Beach, Norfolk, and Newport News.

#### *Unused Sick Leave Pay Outs*

According to Administrative Procedures, employees are allowed to sell their unused sick leave due to any type of separation, such as resignation, retirement, termination for cause, or death. Additionally, the Policy allows active employees to sell their unused sick leave, when they have more than 100 days accumulated. Employees can sell a maximum of 50 days per year, at a rate of half the substitute teacher hourly wage. During the 18-month audit period, RPS spent \$1.3M reimbursing retirees, terminated, and existing employees for unused sick leave.

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*RPS compensates their employees for unused sick leave*

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*During the 18-month audit period, RPS spent \$1.3M for unused sick leave*

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The benchmarking comparison indicated that Henrico, Chesterfield, Hanover, Newport News, Norfolk, and Virginia Beach school divisions

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compensate their employees for unused sick leave only upon retirement. Other than RPS, Hanover is the only other division that compensates employees for unused sick leave upon termination. These school divisions differ from RPS, in the following areas related to compensation for unused sick leave, as RPS' benefits are more generous:

Description	RPS	Benchmarked Schools
Pay out for unused earned personal leave	Yes	No
Pay out of unused sick leave to beneficiary for deceased employees	Yes	No
Pay out of unused sick leave after resignation	Yes	No*
Pay out of unused sick leave for termination for cause	Yes	No*
Maximum dollar pay-out of unused sick leave	No	Yes**
Pay out of unused sick leave for allowing active employees to sell back sick leave	Yes	No

*\*Hanover County compensates employees who terminate or resign.*

*\*\*Upon retirement.*

Due to the above differences, the cost of unused sick leave pay out for RPS is expected to be higher than the comparable school divisions. The additional cost can be avoided if a policy similar to the other school divisions, as it relates to unused sick leave pay-out, is adopted.

***Recommendation:***

- The Board may consider discontinuing unused sick leave pay-out in the categories which are inconsistent and not in alignment with other school divisions.

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*Substantial savings could be generated if RPS follows practices of other school divisions related to early retiree medical subsidy*

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***Early Retirees Medical Subsidies***

RPS early retirees (age less than 65) with 15 or more credited years of service receive a subsidy from VRS, as a monthly credit from \$60 to \$120, which is added to their monthly retirement benefit to subsidize their medical costs. In addition, RPS provides a 35% subsidy to assist retirees' with their medical premiums, which approximates \$282 per retiree per month, or \$1.4M annually. The subsidy is granted automatically for all qualified retirees. Chesterfield County provides no subsidies, and Henrico County provides no subsidies if the retirees qualify for VRS subsidies. A policy consistent with Henrico County could save RPS about \$1M annually.

***Recommendation:***

13. The Board may consider revising its policy to provide health insurance subsidies only to those retirees who do not qualify for the VRS health insurance subsidy.

***Continuation of Medical Benefits Policy and Retiree Rates***

Some of the benchmarked school divisions offer medical benefits only to certain retirees who have served the respective school divisions for a pre-established minimum numbers of years. In addition, the benchmarked school divisions subsidize at different rates, which is commonly referred to as a sliding scale, depending upon the years of service. For example:

- Hanover requires 10 years of service and subsidizes on a sliding scale capped at \$251 per month
- Henrico requires 5 years of service and subsidizes on a sliding scale capped at \$140 per month
- Norfolk requires 15 years of service and provides a flat subsidy of \$75 per month

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- Virginia Beach requires 5 years of service and provides subsidies that vary for retirees having 25 or more years of services and those retirees having less than 25 years of service
- Chesterfield provides no subsidy and requires a minimum of 15 years of services to be eligible for continuation of medical benefits

Unlike the other school divisions, RPS does not have an established policy that sets medical subsidies to retirees based on years of credited service up to an established maximum. Instead, RPS provides a flat monthly subsidy of \$281 regardless of years of credited service. The table below is an example of the Henrico County School District's retiree's medical subsidies for those employees with 20 years or more of credited service.

<b>Years of Service</b>	<b>Monthly Supplement</b>
20 *	\$60
25	\$75
30	\$90
35	\$105
40	\$120

***Recommendation:***

14. The Board may consider revisiting the retiree medical subsidy amount and consider changing the existing policy to use age and the number of years of service for determining the rate of medical premium subsidies.

***Retiree Medical Plan Options***

Retirees can elect continuation of medical benefits and the choice of medical plans at the date of retirement, upon open enrollment date(s) and are permitted to re-enroll at a later date if the retiree opted out of electing coverage at the date of retirement. None of the benchmarked divisions permit retirees the re-enrollment option. By allowing retirees the continued re-enrollment option, RPS' policy results in increased liability for medical costs due to the increased age of the enrolled population.

***Recommendation:***

15. The Board may consider discontinuing their re-enrollment practice. This would eliminate RPS' exposure to any medical costs for those retirees who did not elect continuation of coverage upon their retirement. This would be in conformance with other school districts.

***403(b) Supplemental Retirement Plan***

In August 2005, the Board approved and implemented a voluntary school division sponsored 403(b) supplemental retirement plan, which allows employees to defer from 1% to 50% of eligible pay (base salary plus contractual supplements). During the audit period, RPS made a matching contribution of \$649,359 to this plan. RPS provided a matching contribution equal to 20% of the employees' salary deferral up to a limit of 3% of the employee's pay. The auditor noted that the benchmarked localities do not provide matching supplemental retirement plans for their employees. This is another generous benefit that the Board may want to revisit if they desire cost reductions.

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***RPS is unique among comparable school divisions for making 403(b) retirement plan matching contributions***

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***Recommendation:***

16. The Board may consider re-examining their policy related to the contribution to the 403(b) supplemental retirement plans.

***Case Management Services***

CIGNA has a program where qualified nursing professionals contact the employees with certain medical conditions to help them manage their condition through proper diet and lifestyle choices. The goal of case management services is to keep costs manageable while ensuring patients receive appropriate care in the most cost effective setting possible. During the audit period patients could elect, and were not required, to use case management services.

Having a non-mandatory case management system could result in patients neglecting needed medical treatment. This could worsen their condition and result in excessive and unnecessary costs. Also, this situation could result in inadequate management of the overall health risk of the employee population.

***Recommendation:***

17. The Board may consider requiring participation in case management services.

***Lifestyle Choices***

Presently, RPS does not charge premium differentials for lifestyle choices that lead to alcohol and drug abuse, or use of tobacco products. These choices could harm the employee's health. Recently, there have been public and private sectors employers choosing either not to hire individuals with these types of lifestyle choices or charging them additional medical insurance premiums. As described in Section 2701

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***Certain lifestyle choices such as alcohol or drug use have a significant impact on medical costs***

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of the Public Health Service Act (PHS Act) insurers in the individual market may implement the tobacco use surcharge without offering wellness programs. According to Section b, which addresses tobacco use, the final rule allows rates to vary by no more than 1.5:1 for tobacco users.

***Recommendation:***

18. The Board may consider premium differentials for employees, spouses, and covered dependents that consume tobacco products or have a history of alcohol/drug abuse.

***Administrative Procedures***

RPS' administrative procedures are out of date and in need of revision. These procedures were last updated in 1997. For example, the following provisions were repealed, but they are still part of the written policies and procedures:

- Early Retirement Incentive Program, which was replaced by the Transition Plan as of June 30, 2005
- Death Benefit of \$2,000 was unanimously repealed by the Board on September 8, 2009

Outdated policies and procedures may result in ineffective communication, unreliable financial information, weak internal controls, and ineffective and inefficient operations. Up-to-date policies are the governing principles that should reflect RPS' mission, philosophy, and goals while RPS' procedures should comprise the measures necessary to implement these policies.

***Recommendation:***

19. Require the Superintendent to update administrative policies and procedures.

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***RPS' administrative procedures are out of date and in need of revision***

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***Monthly Remittances of VRS Health Care Premiums***

Retired RPS employees who qualify for health care benefits pay for their medical insurance premiums as a deduction from their monthly retirement payments administered by VRS. Monthly, VRS remits these premiums to RPS. The monthly amount of these remittances is approximately \$200,000 and covers over 400 retirees. The auditor did not observe any retained reconciliations or formalized procedures at RPS that verifies the accuracy of these payments. Lack of verification of the reimbursement for the cost of retirees' participations in the medical plan could result in undetected errors, omission, and ineligible health care claims.

***Recommendation:***

20. Require RPS personnel to prepare and retain monthly reconciliations to verify the accuracy of retirees' health care premiums remitted by VRS.

### *Issues on the Horizon*

#### *The Patient Protection and Affordable Care Act (PPACA)*

The Patient Protection and Affordable Care Act (PPACA), is a United States federal statute signed into law in March 2010. Together with the Health Care and Education Reconciliation Act, it represents the most significant regulatory overhaul of the country's health care system since the passage of Medicare and Medicaid in 1965. PPACA has and will continue to have, profound effects on employers such as RPS that will be compelled to provide health care benefits to any employee who works 30 hours or more per week. RPS has 221 non-contract employees who do not get benefits. Some of these employees work identical hours as their counterparts that have contracts. Therefore, this sub-population will be eligible for benefits when the PPACA becomes effective. It is not clear how many of these employees will be eligible for PPACA mandated health care benefits. The auditor estimated that the additional costs to RPS would range from \$1.4M through \$2.9M annually beginning January 2015.

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*The Patient Protection and Affordable Care Act is expected to have a significant impact on RPS' medical costs beginning January 2015*

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#### *Recommendation:*

21. Require RPS administration to conduct a study quantifying future health benefits costs for the current non-contract employees, due to the PPACA, and report the results to the Board.

**MANAGEMENT RESPONSE FORM**  
**RPS Benefits 2014-03**

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
1	Require RPS management to work with City management and legal assistance, specialized in healthcare, to expedite negotiations and signing of the contract with CIGNA.	Yes	<p>The negotiated ASO (Administrative Services Only Agreement) document should be executed by the City of Richmond (COR) and Richmond Public Schools (RPS). The COR and RPS have jointly executed with Cigna a Letter of Agreement (See Exhibit 1) where the parties agreed that all of Cigna's standard terms and conditions of its Administrative Services Agreement (ASO) shall apply, except for specific exceptions noted in a letter from the City dated June 29, 2011. RPS agrees that the final negotiated ASO agreement should be signed and executed by COR and RPS and that the negotiated ASO should replace Cigna's Standard ASO currently in place. The COR and RPS entered into a very comprehensive contract (#10031-1) with Cigna, dated July 1, 2010 that incorporates all of the terms of the Request For Proposal, Contractors Proposal, Statement of Need, etc. The contract was reviewed by the City's attorney, signed by the City Director of Procurement, the City Chief Administrative Officer, the Superintendent for Schools and Cigna. Annual renewal/modifications agreements have been signed by the parties each year. When the RPS School Board agreed to pursue a joint purchase with the COR for health care in 2009, the City of Richmond directed the procurement process, negotiations and funding management of the plan. Wells Fargo, the COR's consultant was also the consultant for the joint purchase. Since the initiation of the joint purchase for health care, the COR has maintained direction over the contract process and funding management.</p> <p><b>Auditor's Comment:</b> The City of Richmond and RPS do not have a formal contract with CIGNA.</p>
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	The Superintendent / City of Richmond		1-Jul-14
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
2	If negotiations are not successful, evaluate alternatives using legal assistance.	Yes	<p>The negotiated ASO document should be executed by COR and RPS. The COR and RPS, advised by City of Richmond's legal counsel, fully negotiated the terms and conditions of their agreement with Cigna. The final negotiation call occurred on December 14, 2011. The final negotiated ASO agreement was emailed to all parties involved in the final negotiations on December 20, 2011. To date, the final negotiated ASO has not been signed. RPS agrees that a final negotiated ASO agreement should be signed and executed by COR and RPS.</p>
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	The Superintendent / City of Richmond		1-Jul-14
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>

**MANAGEMENT RESPONSE FORM**  
**RPS Benefits 2014-03**

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
3	Negotiate contract language that allows RPS or their designee the ability to conduct a full scope claims audit, including CIGNA charges to RPS, through full and unrestricted access to all pertinent records.	NO	<p>It is not standard practice in the industry to provide access to all claims. Please see the statement by Mercer which serves as the current health care consultant for COR and RPS (last paragraph in this section). Pursuant to the procurement rules and as stated in response to recommendation #1, COR and RPS have a legally binding contract with Cigna. The contract incorporates the terms of the Request For Proposal and the Contractor's Proposal. The Contractor's Proposal gives COR and RPS claim audit rights which are consistent with the industry standard. If significant claim errors are found in the claim audit, The COR and RPS have the right to pursue a reasonable resolution for the errors which may include a closer examination of areas of concern. The statement that Cigna did not allow the City Auditor to review claims because RPS had not signed the "audit clause" is inaccurate. COR and RPS have the right to conduct a claim audit and Cigna has never denied that right. Only by looking at the live, electronic claim file, the initial claim, the claim edits made by the claim system, the discount taken, the member liability and how it was calculated and subsequent adjustments to the claim for things such as coordination of benefits can the claim details be determined. To effectively conduct such an audit would require an auditor to visit the Cigna claims office in Scranton, PA and view the full electronic claim file. The City Auditor did <u>not</u> visit the claims office to view the full electronic file, rather requested static claim information. The health care industry has evolved to a level of complexity that a proper claim audit cannot be conducted remotely with isolated information. The statement that the claim information that exists in Cigna's data systems "belongs to RPS" is factually inaccurate. While the information relates to employees of RPS, RPS does not own the information. <b>This is consistent with Cigna's responses in the Request For Proposal. (See Exhibit 2) Mercer Health &amp; Benefits, which serves as the Health Care Consultant COR and RPS, provided the following statement:</b> <i>"It is standard practice for medical claim audit firms to audit a sampling of claims, from 200 -300 claims. Cigna's 225 appears to be on the low side; maximum claims allowed to be audited is up to 400. Mercer typically audits 200 for statistically valid audit. RPS may want to consider a statistical audit of 200 plus a review of exceptions from an electronic review. We suggest electronic reviews of all claims to check for duplicates, non-covered services, etc. It would be cost prohibitive to look at every claim. Mercer has done numerous tests that indicate increasing the sample size does not improve statistical validity. Mercer provided its sampling methodology to support the statistical validity. [This document is proprietary and is available to auditors upon request] Mercer recommends that the COR and RPS hire a firm that specializes in health care claims auditing every two to three years to do a standard audit."</i></p> <p><b>Auditor's Comment:</b> Auditing standard practice using sampling techniques support selecting representative sample from a population, which allows extrapolating results to entire population. This was not acceptable to CIGNA.</p>
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>

MANAGEMENT RESPONSE FORM

RPS Benefits 2014-03

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
4	Require the Superintendent to assign the responsibility and verify accountability for monitoring and reconciling claims that exceed the stop loss limits.	Yes	In addition to the weekly/monthly reports already provided, RPS can require Cigna to provide an additional monthly report on claims that exceed the \$300,000 stop-loss limit in detail. From this report, RPS can audit against the stop-loss reimbursement report to make sure that the credit is deposited back to the health care bank account held by COR. This audit process will be implemented monthly by the RPS Benefits & Risk Management Department and supporting documentation will be kept on file for all audits.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Superintendent, Benefits & Risk Management		On-going
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
5	Require CIGNA to directly pay providers for claim amounts that exceed stop loss limits from their own funds without drawing from the joint RPS/COR account.	No	Based on the information provided by Mercer, which serves as the Health Care Consultant for COR and RPS, this is not industry practice. Cigna is acting consistently with industry standards by not providing immediate stop loss reimbursement, with the exception of single claims over \$250,000. In addition, according to Cigna, 93% of stop loss reimbursements are made within 2 days and 99% within 5 days. <b>Mercer Health &amp; Benefits, which serves as Health Care Consultant for COR and RPS,</b> provided the following statement: "Of the four national claim administrators (Aetna, BC/BS, Cigna, United Healthcare), only one currently has the claim system support to pay claims that are above the stop-loss limit with their own funds. This change would require a major change to their claim system and the other 3 administrators have not shown a willingness to undertake this major change. Once claims have been approved for coverage under the stop-loss and exceed the limit, claim administrators will typically reimburse employers via a credit to the claim wire requests on the next wire request".  <b>Auditor's Comment:</b> Stop loss policy is an insurance policy and, therefore, CIGNA is responsible for paying for risk they assumed. It does not make sense that they pay for the risk they assumed using RPS funds and later reimburse RPS.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>

MANAGEMENT RESPONSE FORM

RPS Benefits 2014-03

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
6	Require the Superintendent to negotiate contract language jointly with the City representatives that requires CIGNA to render monthly itemized billing statements for all charges prior to seeking payment for their fees.	No	Based on the information provided by Mercer, which serves as Health Care Consultant for COR and RPS, this is not industry practice. Please see Mercer's statement (last paragraph in this section). COR and RPS is provided an accounting of all charges. Cigna provides itemized statements for administrative and stop loss fees on a monthly billing statement. Any additional charges, including claims are documented on the posted banking statements held by COR. <b>Mercer Health &amp; Benefits, which serves as the Health Care Consultant for COR and RPS, provided the following statement:</b> "Cigna should provide monthly, quarterly or at least annually an accounting in support of all charges and capitation fees paid by RPS (and COR). It is not standard for large self-funded employers to require substantiation and back-up prior to paying such fees as capitation fees, cost containment, health coaching, etc".  <b>Auditor's Comment:</b> Recommendation is to identify the charges RPS is paying for. In absence of detailed billing statement, it is impossible for RPS to verify appropriateness of CIGNA's charges.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
7	Upon receipt of the monthly itemized billing statements: a. Verify the appropriateness of the charges prior to authorizing payment to CIGNA. b. Prepare and retain monthly reconciliations of administration and stop loss fees. c. Identify, investigate, and resolve exceptions.	Yes	RPS agrees to this recommendation and has implemented an audit process where monthly admin fees, stop loss, aggregate stop loss and vision fees are reviewed and compared with Cigna membership. Invoices are audited by the Benefits Specialist for discrepancies and approved by the Risk Manager once reconciled. Once approved, monthly invoices are forwarded to COR for payment. Copies of monthly invoices are kept on file at Risk Management.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Superintendent, Benefits & Risk Management		On-going
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
8	Negotiate the ASO with CIGNA to properly define responsibilities for monitoring anomalies, such as eligibility for dependents age 26 and older.	Yes	RPS agrees future ASO negotiations should include clearly defined responsibilities for monitoring anomalies such as eligibility for dependents age 26 and older. When the original Cigna plan became effective, RPS provided a list of eligible disabled dependents to Cigna. It was under the assumption that Cigna would be auditing disabled dependents over age 26 on an annual basis to determine eligibility. To address the current shortcoming identified in the audit report where thirteen disabled dependents were on the plan, RPS has taken action. RPS has established a process with Cigna in which letters are sent to parents and physicians of disabled dependents annually requesting recertification of disabled dependent status. Health care professionals at Cigna will determine if a disabled dependent continues to meet the criteria of disabled status. If the re-certification is not received or approved, Cigna will terminate the disabled dependent's coverage and notify RPS. Currently there are six disabled dependents, listed as age 26 and older, on the RPS Health Care plan.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Superintendent/ City of Richmond		1-Jul-14
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>



MANAGEMENT RESPONSE FORM

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#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
9	Require the Risk Management to compile pertinent information and work with CIGNA to address anomalies.	Yes	<p>When specific anomalies are identified COR and RPS should work with Cigna to address. <b>RPS disagrees with the data used in the examples provided in the audit report and contends that all claims were paid appropriately with one claim unknown. There were no substantiated examples of claims anomalies in the report. Only by looking at the live, electronic claim file, the initial claim, the claim edits made by the claim system, the discount taken, the member liability and how it was calculated and subsequent adjustments to the claim for things such as coordination of benefits can the claim details be determined. To effectively conduct such an audit would require an auditor to visit the Cigna claims office in Scranton, PA and view the full electronic claim file. The City Auditor did <u>not</u> to visit the claims office to view the full electronic file, rather requested static claim information. The health care industry has evolved to a level of complexity that a proper claim audit cannot be conducted remotely with isolated information. RPS requested the specific claim details for the ten patients corresponding to the information summarized in the table on page 17 in the “Unapplied Deductibles and Co-payments” section. This information was provided to Cigna for validation and RPS received Cigna’s response which does not support the auditor’s assertion. Cigna determined the claims referenced actually were identified as having a discount or a co-pay applied appropriately with one classified as unknown. Cigna’s response was as follows: a. The first 3 lines indicating missing discounts were for individuals that have Medicare as the primary carrier. Cigna paid up to the highest allowable amount. The amount shown as not covered is the discount. b. There were six instances shown stating missing copayment or unapplied patient responsibility. i. First patient had 2 charges on the same day, and copayment was correctly applied to one of the charges. ii. Second patient had 3 charges on the same day and copayment was correctly applied to one of the charges. iii. third patient should have had a co-pay applied. iv. Fourth patient had 3 charges on the same day and copayment was correctly applied to one of the charges. v. Fifth patient had preventive care services. Co-pays are waived for preventive care services. vi. Sixth patient had 3 charges on the same day and copayment was correctly applied to one of the charges.</b></p>
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Superintendent		On-going
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>

**MANAGEMENT RESPONSE FORM**  
**RPS Benefits 2014-03**

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
10	Require CIGNA to furnish the monthly paid claims file to Risk Management.	No	<p>RPS is not a claims administrator. RPS would not gain any value in receiving a monthly detailed claims file on its employees because RPS does not have the expertise to interpret health claims information. Claims administration is the job of the health care administrator. If there is any concern about the accuracy of claims administration, periodic audits should be conducted by a professional health care claims auditing firm as recommended by Mercer, Health Care Consultant for COR and RPS. See the Mercer response in recommendation #3.</p> <p><b>Auditor's Comment:</b> Although, RPS staff does not have expertise to evaluate detailed claims, it is possible to acquire such expertise from vendors. With \$30 million incurred by RPS in claims, it is prudent to periodically evaluate the appropriateness of payment of claims.</p>
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
11	Require Risk Management to reconcile CIGNA's monthly paid claims file to the RPS payroll records.	No	<p>RPS currently audits the monthly payroll with the Cigna membership report to determine if any discrepancies exist. If discrepancies exist, adjustments are made and documentation is placed in the employees file. The City Auditor reviewed hundreds of eligibility records and performed an on-site audit of fifty paper files to determine if all supporting documentation regarding eligibility and adjustments were available and accurate. No errors were found and all documentation was available. Monthly paid claims do not correspond to payroll records at the employee level. In response to a request for clarification regarding the recommendation, RPS was informed the actual intent of this recommendation had to do with how RPS knows whether or not other companies claims are included or embedded within the COR and RPS claims. RPS requested a response from Cigna and Cigna provided the document called Cigna SSAE 16 which outlines the security and audit processes in place to monitor eligibility transactions in addition to Cigna's external audit processes. The Cigna SSAE 16 is a proprietary report on Cigna Healthcare's Description of its Administrative Services Only and Minimum Premium Claims Administration System and the Suitability of the Design and Operating Effectiveness of its Controls. This document is available for professional auditor view only if requested. To date, the City auditor has not requested a copy of this annual audit report. Benefits &amp; Risk Management at RPS does not have the manpower or staff with expertise to audit what was actually intended by this recommendation.</p> <p><b>Auditor's Comment:</b> RPS currently monitors enrollment/membership in the plan. The recommendation requires monitoring to determine whether claims paid are for valid employees. The response does not address the recommendation.</p>
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>

**MANAGEMENT RESPONSE FORM**  
**RPS Benefits 2014-03**

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
12	The Board may consider discontinuing unused sick leave pay-out in the categories which are inconsistent and not in alignment with other school divisions.	Yes	The Board may consider changes to the unused sick leave pay-out policy that can include a decision to discontinue this benefit as a possibility. Alignment and consistency with other school divisions is one consideration factor, but not a sole factor that is considered when making benefit and compensation policy changes. Administration will make a recommendation to the Board regarding changes to the current unused sick leave pay-out policy that will complement the district's overall employer benefit program. Changes to the unused sick leave pay-out policy should consider factors such as: cost effectiveness/cost savings for the district, attracting and retention of employees, organizational best practices as well as comparability to other school districts.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	The School Board/ Superintendent		
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
13	The Board may consider revising its policy to provide health insurance subsidies only to those retirees who do not qualify for the VRS health insurance subsidy.	Yes	There is no current Board policy on employer paid retiree health care benefits. The Board may consider revising the health care benefits offered to retirees that can include a decision not to provide a subsidy to retirees that are receiving the VRS health care credit as one possibility. Administration will make a recommendation to the Board regarding the practice of providing employer paid health benefits for retirees who are receiving a VRS health care credit, which considers cost savings to the district, organizational best practices as well as how this benefit integrates into the overall employer paid benefits portfolio.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	The School Board/ Superintendent		1-Jul-14
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
14	The Board may consider revisiting the retiree medical subsidy amount and consider changing the existing policy to use age and the number of years of service for determining the rate of medical premium subsidies.	Yes	There is no current Board policy on employer paid retiree health care benefits. The Board may consider revisiting the retiree medical subsidy amount to consider changing the existing practice to use age and number of year's service for determining premium rates as one possibility. Administration will make a recommendation to the Board on the overall employer paid retiree benefits program. Considerations to a change in this practice will include how this benefit integrates into the overall employer paid benefits portfolio and aligns with other retiree benefits.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	The School Board/ Superintendent		1-Jul-14
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>

**MANAGEMENT RESPONSE FORM**  
**RPS Benefits 2014-03**

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
15	The Board may consider discontinuing their re-enrollment practice. This would eliminate RPS' exposure to any medical costs for those retirees who did not elect continuation of coverage upon their retirement. This would be in conformance with other school districts.	Yes	There is no current Board policy on retirees enrolling in health care upon retirement at a later date. The Board may consider revisiting the existing practice. Administration will make a recommendation to the Board on the overall employer paid retiree benefits program. Considerations to a change in this practice will include how this benefit integrates into the overall employer paid benefits portfolio and aligns with other retiree benefits. Please see additional feedback from Mercer. <b>Mercer Health &amp; Benefits, which serves as the Health Care Consultant for COR and RPS, provided the following statement:</b> <i>“Retirees can now retire as eligible for retiree medical (not yet eligible for Medicare), decline coverage and then come back and re-enroll. While other school systems may not permit this, by permitting re-enrollment, a retiree can go to work at another employer or move to a spouse’s plan, enroll in the new plan and incur medical expenses for several years. RPS would not be responsible for paying these claims. These years are typically 1.3 – 2.0 times more costly than the average active employee. Yes, when a retiree comes back, costs may be high, but RPS has avoided the claims in the years the retiree is covered under another plan. If RPS were to not allow this, retirees may feel compelled to enroll in RPS retiree medical even if they plan to seek full-time employment, for fear they will not have medical coverage after they fully retire”.</i>
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	The School Board/ Superintendent		1-Jul-14
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
16	The Board may consider re-examining their Policy related to the contribution to the 403(b) supplemental retirement plans.	Yes	The Board may consider reexamining this policy. However, RPS should maintain benefits that set it apart from other districts to attract and maintain a highly qualified workforce. RPS made significant changes to the retirement benefits in 2005. A 403(b) Voluntary Supplemental Retirement Plan was introduced that included a minimal employer match to encourage participation. The employer match is on 3% of salary and pays twenty cents on the dollar. Approximately 40% of RPS employees participate in the 403(b) Supplemental Retirement Plan. Given the participation levels, the \$400,000 annual cost of this benefit appears to be sustainable and affordable for the district, and supports RPS employees in saving for retirement. In light of reductions in salary (furloughs, contract length reductions, etc.), no raises for several years, and so on, this has been a benefit that the administration has held harmless in consideration of all other benefit changes relating to employees over the years. In recent years, many actives are finding themselves unprepared for retirement and financially unable to retire. RPS should do what it can to promote the supplemental 403(b) and get the RPS workforce preparing for their future and continue offering the employer match. <b>CapTrust Financial Advisors, which serves as the 403(b) and 457(b) Consultant for RPS, provided the following statement:</b> <i>“The outcomes of removing the match will be as follows: It will decrease participation which will decrease the ability for employees to retire with dignity and make hiring and retaining quality employees more difficult for RPS”.</i>
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	The School Board/ Superintendent		1-Jul-14
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>

MANAGEMENT RESPONSE FORM

RPS Benefits 2014-03

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
17	The Board may consider requiring participation in case management services.	No	Employers can not mandate or require their employees to participate in disease management programs and employers can't terminate coverage for those employees that do not participate in disease management programs. Employers who do not offer full-time employees minimum essential health coverage will be subject to significant penalties in 2015. (Please see the statement from Mercer below) <b>Mercer Health &amp; Benefits, which serves as the</b> Health Care Consultant for COR and RPS, provided the following statement: <i>"Case management services are intended to assist members who are utilizing the health system to receive medically appropriate care and services. Similar to disease or condition management for those who have a chronic condition, case management is voluntary and may be refused. Some employers have offered incentives to encourage members to take advantage of these available services. With the 2014 individual mandate under the Affordable Care Act requiring individuals have health insurance covering essential health benefits, employers are not implementing mandates resulting in loss of coverage for these essential benefits. In 2015, employers who do not offer full-time employees minimum essential health coverage will be subject to significant penalties. RPS could consider rewarding or incenting participation and active engagement in these programs but may not require participation"</i> .
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
18	The Board may consider premium differentials for employees, spouses, and covered dependents that consume tobacco products or have a history of alcohol/drug abuse.	Yes	COR and the Board may consider premium differentials. Health Care Regulations permit premium differentials for members who utilize tobacco products. RPS and COR have considered this as an incentive in the past and will continue to look at this issue. It is difficult to administer and monitor (requires affidavits or medical testing) but many employers are implementing either incentives or penalties related to use of tobacco products. The COR and RPS would have to agree with any provisions related to tobacco products since the COR and RPS are covered under the same health care plan. RPS and COR may want to consider as a precursor creating a smoke-free work environment at City Hall and any other work locations before considering a benefits related initiative on usage of tobacco products. No: Regulations do not permit premium differentials for employees, spouses, and or covered dependents that have a history of alcohol or drug dependency. These conditions are considered behavioral-related diagnoses and are required to be covered as any other illness. HIPPA prohibits charging similarly situated individuals different rates based on health status. Thus, tobacco users and people who may be diagnosed with alcohol or drug addiction cannot be charged a different level of premium. Further, the Federal Mental Health Parity Act provides that coverage levels must be at least the same as the predominant (most common) coverage level applicable to substantially all medical and surgical benefits. And mental health and substance abuse cannot be subject to any separate co-pay, deductible, coinsurance or OOP.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	The School Board and City of Richmond		1-Jul-14
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>

MANAGEMENT RESPONSE FORM

RPS Benefits 2014-03

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
19	Require the Superintendent to update administrative policies and procedures.	Yes	Administration will update the administrative policies and procedures to reflect current policies and procedures and will update on an ongoing basis.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	The Superintendent		On-going
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
20	Require RPS personnel to prepare and retain monthly reconciliations to verify the accuracy of retirees' health care premiums remitted by VRS.	Yes	The preparation of monthly reconciliations are in place and are being completed by the Benefits & Risk Management. The retention proposed in this recommendation adds to the monthly process. The City Auditor was provided copies of the monthly Virginia Retirement System (VRS) statements and record of the retiree Cigna membership for auditing purposes. The City Auditor has not provided any feedback to RPS on the information provided for the accuracy of the retiree health care premiums. Benefits & Risk Management completes a monthly reconciliation for all retirees being deducted for health care through the VRS. Monthly VRS statements are used to compare with the Cigna retiree health care membership report for auditing purposes. VRS statements provide the name of the retiree, the retiree health care payment amount and the total monthly contributions collected for all retirees. RPS sends all health care changes to VRS and adjustments are made when needed. Copies of all changes and adjustments are placed in the retiree's file. Benefits & Risk Management then monitors and ensures that payment is received from VRS each month for retiree contributions. In the current process, RPS keeps copies of all VRS statements and VRS sends a monthly wire to RPS Finance for all retiree health care contributions. The Cigna membership listing contains PHI (Protected health information) and is destroyed after each audit. RPS agrees to add an additional step to our existing audit process. Benefits & Risk Management agrees to print a monthly record of when payment is received by RPS from VRS and to include this record with our monthly VRS statement after each audit.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Superintendent, Benefits & Risk Management		On-going
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
21	Require RPS administration to conduct a study quantifying future health benefits costs for the current non-contract employees, due to the PPACA, and report the results to the Board.	Yes	Completed: Mercer, which serves as the Health Care Consultant for COR and RPS, completed a health care study for RPS to quantify potential future health benefit costs if health care were offered to current part-time/non-contract employees, due to the Patient Protection and Affordable Care Act (PPACA). Mercer provided the report to administration in January of 2013 and that report was also presented to the School Board at the 4/8/2013 Board Meeting. The School Board later passed a resolution effective 8/1/2013 limiting the number of hours for all part-time or non-contracted employees. The resolution states that as of 8/1/2013, part-time or non-contracted employees are limited to no more than twenty-eight hours per week.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	The School Board		Completed
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>

**CITY OF RICHMOND / SCHOOL BOARD OF THE CITY OF RICHMOND  
JOINT HEALTH CARE PURCHASE CONTRACT**

This Joint Health Care Purchase Contract (the "Contract"), dated this 1<sup>st</sup> day of July, 2010 (the "Commencement Date") between the City of Richmond, Virginia (the "City"), the School Board of the City of Richmond ("Schools") and Connecticut General Life Insurance Company (the "Contractor"), is binding among these parties as of the date the last party hereto has signed this Contract.

WHEREAS, the City and Schools has awarded the Contractor this Contract pursuant to Request for Proposals No. W10037-1 dated November 13, 2009 (the "Request for Proposals") for Joint Health Care Purchase.

THEREFORE, in consideration of the Recital set forth above and good and valuable consideration as set forth below, the parties agree as follows:

1. **Scope of Contract.** The Contractor shall provide the policies and services to the City and Schools as set forth in the Contract Documents enumerated in Section 3 below. The initial effective date for policies and services provided to the City shall be July 1, 2010. The initial effective date for policies and services provided to Schools shall be August 1, 2010.
2. **Contract Amount.** The City and Schools shall each pay the Contractor premiums as provided in the Contract Documents for City and Schools employees who authorize premium deductions to pay for policies provided pursuant to this Contract. However, under no circumstances shall any provision of this Contract, including but not limited to any provision purporting to obligate the City or Schools or both to indemnify the Contractor, be interpreted or construed to obligate the City or Schools to pay any amount beyond the amount of those funds appropriated on an annual basis by the City Council for the City's obligations or approved by the School Board of the City of Richmond for the Schools' obligations. All payments shall be as provided in the Contract Documents.
3. **Contract Documents.** This Contract shall consist of the following Contract Documents, listed in order of precedence from first to last:
  - A. This Contract between the City, Schools and the Contractor.
  - B. The insurance policy for account numbers 3333351 and 3333350 with the effective date of July 1, 2010.
  - C. The supplemental premium agreement for account numbers 3333351 and 3333350 dated May 25, 2010, applicable to Texas and the supplemental premium agreement for account numbers 3333351 and 3333350 dated May 25, 2010, applicable to all other states.
  - D. The Rider for account numbers 3333351 and 3333350 applicable to "employees excluding California residents" with the effective date of July 1, 2010, the Rider for account numbers 3333351 and 3333350 applicable to "each employee residing in Texas" with the effective date of July 1, 2010, and the Rider for account numbers 3333351 and 3333350 applicable to "California residents" with the effective date of July 1, 2010.
  - E. The document entitled "CIGNA Healthcare Financial Exhibit for: City of Richmond and Richmond Public Schools" dated July 1, 2010.
  - F. The document entitled "Negotiated Modifications to Contract Documents for Contract No. 10037-1" dated April 18, 2010.
  - G. The Terms and Conditions attached to the Request for Proposals (as modified by any addenda).
  - H. The Contractor's Proposals dated December 18, 2009, February 8, 2010 and February 17, 2010.
  - I. The Statement of Needs attached to the Request for Proposals (as modified by any addenda).
  - J. The Instructions to Offerors attached to the Request for Proposals (as modified by any addenda).

All of these documents are incorporated herein by reference.

IN WITNESS WHEREOF, the parties hereto on the latest day and year written below have executed this Contract in three counterparts, each of which shall, without proof or accountancy for the other counterparts, be deemed an original thereof.

For the CONTRACTOR:

By: H. LaMonte Thomas 6/1/2010  
(signature in ink) Date  
H. LaMonte Thomas  
(typed name)  
VP Sales & Customer Relations  
(typed title)

For the CITY:

By: Cheryl P. Wright 6/23/10  
(signature in ink) Date  
Cheryl P. Wright  
Director of Procurement Services

Byron C. Marshall 6/24/10  
(signature in ink) Date  
Byron C. Marshall  
Chief Administrative Officer

ATTEST: \_\_\_\_\_

For SCHOOLS:

Yvonne H. Brandon 6/23/10  
(signature in ink) Date  
Dr. Yvonne Brandon  
Superintendent

IF A CORPORATION, AFFIX CORPORATE SEAL



**NEGOTIATED MODIFICATIONS TO CONTRACT DOCUMENTS  
FOR CONTRACT NO. 10037-1**

**Dated April 18, 2010**

These Negotiated Modifications are hereby incorporated into Contract No. 10037-1 (the "Contract") for Joint Health Care Purchase as of the date of the final signature of the City and Schools.

**WHEREAS**, the City, Schools and the Contractor have agreed as of April 18, 2010 to certain modifications to Part III ("Terms and Conditions") of Request for Proposals No. 10037-1.

**THEREFORE**, in consideration of the Recital set forth above and good and valuable consideration as set forth in the Contract, the parties agree that the Contract Documents are modified as follows as of the Commencement Date of the Contract:

1. All references in Request for Proposals No. 10037-1 to the term "City" include the term "Schools" unless the context clearly indicates that another meaning is intended.
2. Part III ("Terms and Conditions"), Section 3.4 ("Subject-to-Appropriations") of Request for Proposals No. 10037-1 is hereby modified to read as follows:

3.4 **Subject-to-Appropriations.** All payments and other performance by the City under this Contract are subject to annual appropriations by the City Council; consequently, this Contract shall bind the City only to the extent that the City Council appropriates sufficient funds for the City to perform its obligations hereunder. All payments and other performance by Schools under this Contract are subject to the approval of funds for such payments or other performance by the School Board of the City of Richmond; consequently, this Contract shall bind Schools only to the extent that the School Board of the City of Richmond approves sufficient funds for Schools to perform its obligations hereunder.

3. Part III ("Terms and Conditions"), Section 8.7.2 ("Address") of Request for Proposals No. 10037-1 is hereby modified to read as follows:

8.7.2 **Address.** All notices to the City shall clearly indicate the Contract Number of this Contract and shall be directed to:

Director of Procurement Services  
Department of Procurement Services  
City of Richmond  
900 East Broad Street, Room 1104  
Richmond, Virginia 23219

All notices to Schools shall clearly indicate the Contract Number of this Contract and shall be directed to:

Manager of Purchasing  
Richmond Public Schools  
2907 North Boulevard  
Richmond, Virginia 23230-4391

**CONTRACT NO. 10037-1**

**All notices to the Contractor shall be directed to the contact person stated at the address given in the Contractor's proposal.**

**By signing the Contract, the parties thereto have approved these Negotiated Modifications.**



CITY OF RICHMOND

DEPARTMENT OF  
PROCUREMENT SERVICES

**LETTER OF INTENT TO OPERATE UNDER  
THE STANDARD CIGNA ASO UNTIL  
NEGOTIATED ASO IS EXECUTED**

June 29, 2011

Re: Connecticut General letter dated June 6, 2011, concerning Administrative Services Only Agreement by and between Connecticut General Life Insurance Company, the City of Richmond and the School Board of the City of Richmond

Contract No. 10037-1 ~ Joint Health Care Purchase for City of Richmond and Richmond Public Schools

Ms. Sheriff:

Enclosed please find your letter to me dated June 6, 2011 concerning an Administrative Services Only Agreement between the City of Richmond, the School Board of the City of Richmond and Connecticut General Life Insurance Company. The letter has been signed by authorized representatives of the City and the School Board.

The purpose of this correspondence is to notify Connecticut General that the City and the School Board do not accept all of the terms of the Agreement as enclosed with your June 6 letter. Some examples (although not an exhaustive list) of issues that remain include the following:

- Page 16, Section 7(c) – The City and the School Board will want to avail themselves of the claims litigation services but desire to have the contract provide for Connecticut General to furnish information about the costs of claims litigation.
- Page 16, Section 7 flush – Subject-to-appropriations language is needed to empower the City to agree to make payments to Connecticut General under the contract.
- Page 16, Section 8(a) – The City and the School Board desire to further discuss the circumstances under which Connecticut General would be able to unilaterally modify charges under the contract.
- Page 18, Section 12(c) – Section 74-195 prohibits the City from agreeing to binding alternative dispute resolution procedures.

To the extent that either the June 6, 2011 letter or the Agreement enclosed with that letter (or any unilateral amendment to that Agreement that Connecticut General purports to

make) contains terms to which the City or the School Board is not authorized to agree, it is the City's and the School Board's intent that the Agreement be construed to not contain such terms.

The City and the School Board recognize that Connecticut General has been cooperative in negotiating the terms of the Agreement to date, and we have been and will continue to negotiate mutually agreeable terms with Connecticut General. We look forward to resolving all outstanding issues concerning the terms and conditions of our relationship with Connecticut General in the near future.

Please feel free to contact me if you have any questions.

Sincerely,

*Tillie W. Jackson*

Tillie W. Jackson, VCO, PNC  
Contract Specialist

Attachment(s)

twj/

Jessica S. Sheriff  
Contractual Agreement Unit Manager  
CIGNA HealthCare



CIGNA HealthCare

June 6, 2011

Tillie W. Jackson, VCO, PNC  
Senior Contract Specialist  
City of Richmond- Procurement Services  
900 East Broad Street  
Richmond, Virginia 23219

Routing B2CAU  
900 Cottage Grove Road  
Hartford, CT 06152  
Telephone 860.226.9743  
Facsimile 860.730.3944  
jessica.sheriff@cigna.com

Re: Administrative Services Only Agreement by and between Connecticut General Life Insurance Company ("Connecticut General") and The City of Richmond and The School Board or the City of Richmond ("Employer")

Dear Tillie Jackson:

Enclosed is an Administrative Services Only Agreement (the "Agreement") that Connecticut General has prepared to establish the terms under which it will administer a self-funded benefit plan on behalf of Employer beginning July 1, 2011 (the "Effective Date").

Employer may signify its acceptance of the terms of the Agreement by:

- Executing (i) this letter (where indicated below), or (ii) the signature page in the Agreement, and returning the executed page to me at the above address, or
- Taking no action, in which case the Agreement shall become binding upon Employer and Connecticut General sixty (60) days following the date of this letter.

If Employer does not accept all the terms of the enclosed Agreement, it must so notify Connecticut General either electronically or in writing (at the address indicated above) within sixty (60) days of the date of this letter. In that case, Connecticut General shall cooperate to negotiate mutually agreeable terms with Employer. Once a subsequent agreement is finalized, it will apply retroactively to the Effective Date. Until then, however, the enclosed Agreement, which may periodically be amended by Connecticut General, will govern the relationship between Employer and Connecticut General.

The following information is required to implement the New York Public Goods Pool (New York Health Care Reform Act of 1996). Without receipt of this election information by the 15<sup>th</sup> day of the month PRIOR to the effective date claims will be adjudicated as non-elect and will not be re-adjudicated upon the subsequent receipt of the required information.

*Connecticut General Life Insurance Company*

*The City of Richmond and The School Board of  
the City of Richmond*

By: Jessica S. Sheriff

By: Cheryl Sheriff

Authorized Representative: Jessica S. Sheriff

Authorized Representative: CITY OF RICHMOND

Title: Contractual Agreement Unit Manager

Title: DIRECTOR OF PROCUREMENT

Date: June 6, 2011

Date: 6/30/11

JSS/gm

\*CIGNA\* and \*CIGNA HealthCare\* refer to various operating subsidiaries of CIGNA Corporation. Products and services are provided by these operating subsidiaries and not by CIGNA Corporation. These operating subsidiaries include Connecticut General Life Insurance Company, Tel-Drug, Inc. and its affiliates, CIGNA Behavioral Health, Inc., Intracorp, and HMO or service company subsidiaries of CIGNA Health Corporation and CIGNA Dental Health, Inc. In Arizona, HMO plans are offered by CIGNA HealthCare of Arizona, Inc. In California, HMO plans are offered by CIGNA HealthCare of California, Inc. In Connecticut, HMO plans are offered by CIGNA HealthCare of Connecticut, Inc. In Virginia, HMO plans are offered by CIGNA HealthCare Mid-Atlantic, Inc. In North Carolina, HMO plans are offered by CIGNA HealthCare of North Carolina, Inc. All other medical plans in these states are insured or administered by Connecticut General Life Insurance Company.

For SCHOOLS:

*Yvonne W. Brandon*  
\_\_\_\_\_  
Dr. Yvonne Brandon Date  
Superintendent

CHIEF ADMINISTRATIVE OFFICE:

*Byron C. Marshall* 4/30/11  
\_\_\_\_\_  
Byron C. Marshall Date  
Chief Administrative Officer



Contract No. 10037-1

CITY OF RICHMOND

PROCUREMENT SERVICES CONTRACT MODIFICATION  
(CONTRACT RENEWAL)

THIS CONTRACT MODIFICATION entered into this 29th day of June, 2011, by and between the City of Richmond, Virginia (the "City"), the School Board of the City of Richmond ("Schools") and Connecticut General Life Insurance Company (the "Contractor").

WHEREAS, on July 1, 2010 the City, Schools and the Contractor entered into Contract No. 10037-1; and

WHEREAS, the parties deem it to be to their mutual benefits to modify the aforementioned contract;

NOW, THEREFORE,

WITNESSETH:

That for and in consideration of the mutual benefits to be derived by the City, Schools and the Contractor, Contract No. 10037-1, is hereby modified as follows:

1. The contract period shall be renewed for the period of one (1) year beginning July 1, 2011 through June 30, 2012, exercising renewal option number one (1) of the 4 contractually allowable renewal options.
2. The City and Schools have executed a Letter of Intent from the Contractor dated June 6, 2011, a copy of which letter is attached hereto and incorporated herein as Attachment A. This Letter of Intent is intended to provide for the Contractor to administer a self-insured, or Administrative Services Only, health insurance plan on behalf of the City and Schools until negotiation of the final terms and conditions of an Administrative Services Only Agreement between the City, Schools and the Contractor have been completed. Once the City, Schools and the Contractor have completed negotiations of this Administrative Services Only Agreement, the parties will execute a contract modification to incorporate the provisions of such Administrative Services Only Agreement into this Contract. The Contractor shall begin administering the new Administrative Services Only plan effective July 1, 2011.

In further consideration of the premises, the City, Schools and the Contractor covenant and agree each with the other that Contract No. 10037-2, between the parties, except as modified herein, shall be and remain in full force and effect.

APPROVED:

For the City:

For the Contractor:

By:

Cheryl D. Wright  
Director of Procurement Services

By:

Contractor Date

Byron C. Marshall  
Chief Administrative Officer Date 6/30/11

For Schools:

Dr. Yvonne Brandon  
Superintendent Date



CITY OF RICHMOND

PROCUREMENT SERVICES CONTRACT MODIFICATION
(CONTRACT RENEWAL)

THIS CONTRACT MODIFICATION entered into this 13 of June , 2012, by and between the City of Richmond, Virginia (the "City"), the School Board of the City of Richmond ("Schools") and Connecticut General Life Insurance Company (the "Contractor"), hereafter referred to as the Vendor.

WHEREAS, on July 1, 2010 the City and the Vendor entered into Contract No. 10037-1, and

WHEREAS, the parties deem it to be to their mutual benefits to modify the aforementioned contract;

NOW, THEREFORE,

WITNESSETH:

That for and in consideration of the mutual benefits to be derived by the City and the Vendor, Contract No. 10037-1, is hereby modified as follows:

- 1. The contract period shall be renewed for the period of one (1) year beginning July 1, 2012 through June 30, 2013, exercising renewal option number two ( 2) of the four (4) contractually allowable renewal options.
2. The contract number shall be modified to 10037-3 to represent the renewed contract period as stated above.

In further consideration of the premises, the City and the Vendor covenant and agree each with the other that Contract No. 10037-3, between the parties, except as modified herein, shall be and remain in full force and effect.

APPROVED:

For the City:

By: Cheryl D. Wright Date
Director of Procurement Services

By: Byron C. Marshall Date
Chief Administrative Officer

For SCHOOLS:

By: Dr. Yvonne Brandon Date
Superintendent

For the Contractor:

By: [Signature] Date 6/14/2012
Contractor





CITY OF RICHMOND

PROCUREMENT SERVICES CONTRACT MODIFICATION
(CONTRACT RENEWAL)

THIS CONTRACT MODIFICATION entered into this 26 of June, 2013, by and between the City of Richmond, Virginia (the "City"), the School Board of the City of Richmond ("Schools") and Connecticut General Life Insurance Company (the "Contractor"), hereafter referred to as the Vendor.

WHEREAS, on July 1, 2010 the City and the Vendor entered into Contract No. 10037-1, and

WHEREAS, the parties deem it to be to their mutual benefits to modify the aforementioned contract;

NOW, THEREFORE,

WITNESSETH:

That for and in consideration of the mutual benefits to be derived by the City and the Vendor, Contract No. 10037-1, is hereby modified as follows:

- 1. The contract period shall be renewed for the period of one (1) year beginning July 1, 2013 through July 31, 2014, exercising renewal option number three (3) of the four (4) contractually allowable renewal options.
2. The contract number shall be modified to 10037-4 to represent the renewed contract period as stated above.

In further consideration of the premises, the City and the Vendor covenant and agree each with the other that Contract No. 10037-4, between the parties, except as modified herein, shall be and remain in full force and effect.

APPROVED:

For the City:

For the Contractor:

By: Cheryl D. Wright
Director of Procurement Services
Date

By: [Signature]
Contractor
06/28/13
Date

**City and Schools Request for Proposal July 2011**

**Medical Questionnaire**

116	Confirm that you have a system to automatically check paid and incurred amount totals on a month over month basis to identify any variances.	Confirmed. We have processes in place to review paid versus incurred claims monthly to determine variances. However, we do not provide any such variance reporting or tracking back to the client, it is an internal process as part of stop loss administration.
117	Confirm that you perform any general development in a test environment first, and then have a standardized system integration process to roll it out.	Confirmed.
	Reporting and Data Requirements	
118	Confirm that City and Schools is the owner of all claims transaction records and that you agree to feed data to any external supplier of City and Schools' choice.	<p>The employer shall have no interest in, nor shall CGLIC have any obligation to provide to employer, any claim or payment data recorded for or otherwise integrated into CGLIC's data processing systems during the ordinary course of business, any information which CGLIC reasonably deems to be proprietary in nature or any information which CGLIC reasonably believes it cannot divulge due to applicable state and/or federal privacy restrictions.</p> <p>CGLIC will give the employer reasonable access to claim records and data, subject to CGLIC's standard confidentiality procedures and guidelines, and to a claim audit agreement or a confidentiality and indemnification agreement in a form acceptable to CGLIC.</p> <p>Notwithstanding the foregoing, CGLIC may use and disclose claims data to carry out the obligations of supplier set forth in this Agreement, or as allowed by law, subject to the provisions set forth in Claim history extracts can be provided for an additional cost. Through these extracts CIGNA can transfer claim data to outside vendors when the appropriate confidentiality agreements are in place. This request would be handled as an ad hoc request at a cost of \$750 per file.</p>
119	Confirm that your organization has the ability to provide quarterly claim lag reports and utilization reports to identify trends for assistance with future plan design strategy. Provide samples of your quarterly reporting	Confirmed.
120	Confirm that you are able to provide reporting that can be broken into the following sub-groups:	
	City Active	<input checked="" type="checkbox"/>
	City Retired	<input checked="" type="checkbox"/>
	City COBRA	<input checked="" type="checkbox"/>
	Schools Active	<input checked="" type="checkbox"/>
	Schools Retired	<input checked="" type="checkbox"/>
	Schools COBRA	<input checked="" type="checkbox"/>