

City Auditor's Office

CareATC Contract Audit

April 2021



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City Auditor's Office

April 1, 2021

Honorable Mayor and Members of the City Council:

The City Auditor's Office has completed the CareATC Contract Audit. The purpose of the audit was to review contract specifications, provide assurance related to compliance, and evaluate effectiveness.

Management's response to our audit findings and recommendations, as well as target implementation dates and responsibility, is included following the report.

We would like to thank staff from the Human Resources Department for their full cooperation and assistance during the audit.

Lori Brooks Jaquess

Lori Brooks Jaquess, CPA, CIA, CGAP, CRMA
City Auditor

Attachment

cc: Trey Yelverton, City Manager
Jim Parajon, Deputy City Manager
Gilbert Perales, Deputy City Manager
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Yoko Matsumoto, Director, Human Resources

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Executive Summary

The City Auditor’s Office has completed the CareATC Contract Audit. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit objective was to review contract specifications, provide assurance related to compliance, and evaluate effectiveness.

The City Auditor’s Office noted strengths in the Human Resources Department related to the following areas:

- Invoice review process
- Communication with CareATC staff
- Communication with City of Arlington employees

We noted potential opportunities for improvement in the following areas:

- Monitoring of insurance requirements
- Performance Guarantee contract clause
- Validation of Return on Investment calculation

Details of audit findings, conclusions, and recommendations are included in the following report.

Audit Scope and Methodology

The objective of the audit was to review contract specifications, provide assurance related to compliance, and evaluate effectiveness. The scope of the audit was the CareATC contract from December 1, 2017 through November 30, 2020.

To adequately address the audit objectives and to describe the scope of work on internal controls, the following methodology was used in completing the audit:

- Interviewed Human Resources staff
- Met with representatives from CareATC
- Reviewed the CareATC contract, invoices, and presentations
- Reviewed evidence to determine compliance with the contract for both CareATC and the City

The audit was conducted in accordance with generally accepted government auditing standards. These standards require that we determine whether internal controls are significant to the audit objective. If internal controls are significant to the audit objective, the standards require that the auditor obtain an understanding of the controls. In understanding and evaluating internal controls, the City Auditor's Office adheres to the Committee of Sponsoring Organizations of the Treadway Commission's Internal Control – Integrated Framework (COSO Framework) as included in Standards for Internal Control in the Federal Government (Green Book).

According to the COSO Framework, internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. These objectives and related risks can be broadly classified into one or more of the following three categories: (1) Operations - effectiveness and efficiency of operations; (2) Reporting - reliability of reporting for internal and external use; and (3) Compliance - compliance with applicable laws and regulations.

In planning and performing the audit, we obtained an understanding of the Human Resources Department's internal controls and assessed the internal control risks significant to our audit objective. We determined the following internal control components were significant to our audit objective:

- Control Environment
- Control Activities
- Monitoring
- Information and Communication

The deficiencies in internal control that are significant within the context of the audit objective and based upon the audit work performed are stated in the Detailed Audit Findings section starting on page seven.

For further information regarding internal control components and the related principles of internal control, please see Appendix A.

Background

In 2017, the City of Arlington entered into a three-year agreement with CareATC to provide an Employee Health and Wellness Clinic that offers reduced or no cost medical services for City of Arlington medical plan members. The objective was to provide an additional employee benefit and to help lower medical costs for the City and improve the overall health of employees. As part of the agreement, CareATC constructed a clinic in Arlington on South Center Street. As required by the contract, the City reimbursed CareATC \$65,000 for one-time start-up costs for the clinic. In addition, City employees also have access to five other CareATC clinics located throughout the metroplex.

CareATC provides personal health assessments (PHAs) and preventive care for employees and their dependents that are enrolled on the City's health plan at no charge to the patient. The clinic also provides other services for which employees on the value plan pay a \$40 co-pay, and employees on the Core Plan have no co-pay. These services include acute care, chronic disease monitoring and care, minor procedures and wound care, and diagnostic testing and screening. Patients are also charged for lab fees and medication administered at the clinic.

Fees Associated with the Contract

The contract is structured such that the City is responsible for paying \$45 for each PHA administered. The City also pays various other fees and costs as follows:

- A provider time clinic fee of \$1,993 per day. This fee is for an 8-hour day of provider clinic time for each day the clinic is open.
- The City reimburses CareATC for the actual costs of laboratory tests, injectable and over the counter medications administered during clinic visits, and medical equipment and supplies utilized while treating clinic patients.
- The City pays Administrative Fees equal to 7.5% of each invoice.
- There is also a fee for point of service collection that is equal to 10% of the fees collected in the clinic from patients and a standard data extract fee of \$750 a month to prepare and submit information to the city's health insurance provider.

The City is invoiced for these fees monthly. The City also receives a credit on each invoice against the charges billed for the co-pays collected by CareATC. Thus, the City pays for the services rendered to employees net of the payments collected for the services. Since 2017, the city has paid CareATC \$1,767,467 for start-up costs and medical care for City employees and dependents.

Performance Guarantees

CareATC also agreed to provide reports and information to demonstrate compliance with the following performance standards.

- Reduction in specialty care costs of 5% or more against the baseline

- Reductions in unnecessary emergency room and urgent care visits of 5% or more against the baseline
- Net Promoter Score of Clinic above 50 (This is basically a measurement of customer satisfaction.)

CareATC agreed to provide performance guarantees for each of the above-mentioned performance standards. These guarantees are equal to 3%, 3%, and 4% of administrative fees, respectively. The City also must meet a number of stipulations in order to be eligible to receive the performance guarantees. Chief among the stipulations is that the “City must commit to annual personal health assessments and achieve 70% participation for eligible participants – employees.”

Audit Results

The City Auditor's Office reviewed four aspects related to the CareATC contract. These included (1) invoicing by CareATC for accuracy; (2) compliance with certain contract terms; (3) compliance with performance guarantee requirements as outlined in the contract; and (4) a review of the 2019 CareATC Annual Review, including the Return on Investment calculation provided by CareATC.

Invoicing by CareATC

The City Auditor's Office reviewed a random sample of the CareATC invoices that were paid by the City of Arlington. The invoices reviewed consisted of startup costs and routine monthly invoices. The amounts billed on the invoices were traced to supporting documentation. No exceptions were noted in the sampled invoices. Based on the results of the sample, it appears that CareATC is billing accurately and in accordance with the contract for the services rendered.

The City Auditor's Office also evaluated the review process used by the Human Resources (HR) Department when invoices are received. The invoices are reviewed by a member of the Human Resources Department upon receipt to assure accuracy. The HR team member recalculates the invoices, verifies that the City has received supporting documentation for the charges, and assures that the charges are in accordance with the contract.

Contract Terms

The contract outlines a number of specific responsibilities for both CareATC and the City. The City Auditor's Office reviewed compliance with several of these contract terms. These included the following CareATC responsibilities:

- Obtaining appropriate insurance coverage as stipulated by the contract
- Arranging for the pick-up and disposal of medical waste
- Providing PHA Reports to each participant that receives a PHA
- Obtaining proper licenses
- Providing marketing materials to the City

The City responsibilities that were reviewed included:

- Providing CareATC a list of eligible clinic participants monthly
- Communicating information about the clinic to employees

Based on the results of the procedures performed, it appears that the City and CareATC are in compliance with the contract terms reviewed. The City Auditor's Office noted one issue related to the City's monitoring of CareATC insurance coverage. This issue is discussed further in the Detailed Audit Findings section of the report.

Performance Guarantees

The City Auditor's Office evaluated the terms for the Performance Guarantees as outlined in the Background section of the report. The City has not been eligible for the Performance Guarantees during the contract period because of limited PHA participation. This issue is discussed further in the Detailed Findings section of the report.

In addition, the performance standards applicable to CareATC were reviewed for 2019. We were unable to confirm that the City and CareATC agreed to the baseline from which the standards related to specialty care costs and unnecessary emergency room visits are to be measured. No documentation was provided by CareATC regarding reductions in specialty care costs. In addition, there is no method to determine whether a visit to an emergency room was necessary or unnecessary. The only measurement that can be obtained is total number of emergency room visits. CareATC did provide documentation to substantiate a Net Promoter Score above 50 in compliance with the performance standard. These issues are discussed further in the Detailed Findings section of the report.

CareATC Annual Review

Annually, CareATC provides a report to the City on clinic usage, employee engagement with the clinic, and the City's return on investment (ROI). In 2019, the report indicated that the City's employee engagement was below that of other clients. This is also indicated by the City's low PHA participation rate. However, the report does show that medical costs for engaged employees is lower than the cost for those that are not engaged.

As reported in the CareATC Annual Review, the City had a return on investment of 1.04 in 2019 for the clinic operations. This calculation is based on comparing the clinic costs to the estimated cost of the services if the patients had utilized another provider. The estimated costs are based on United Healthcare allowable costs for the services rendered. Internal Audit planned to validate components of the calculation. However, this was not feasible because providing the data necessary for Internal Audit to recalculate would require CareATC to engage in an extensive, time-consuming, manual process. As the ROI appears to be reasonable based on clinic usage, Internal Audit chose to forego the validation of the ROI calculation. Further discussion of employee engagement and the ROI calculation are included in the Detailed Findings section of the report.

Although the ROI is lower than CareATC anticipated at this point in the clinic implementation, it should be noted that the City has an additional \$250,000 provided by United Healthcare as a wellness allowance that is used to offset the costs of the clinic. If this is included in the calculation, the ROI increases to 1.72.

Detailed Audit Findings

Process to Assure CareATC Retains Insurance Coverage

The Human Resources Department does not have a process in place to track and monitor insurance certificates and request new certificates upon expiration. As a result, the department did not have current copies of the certificates of insurance on file. The department had not requested new certificates of insurance from CareATC after the previous certificates expired. During the course of the audit, the Human Resources Department obtained current certificates of insurance.

The *Standards for Internal Control in the Federal Government* (The Green Book) establishes a framework for internal control that includes a control activity component. One of the principles of the control activities component is that “Management should design control activities to achieve objectives and respond to risks.” If the City does not monitor to assure that CareATC retains the appropriate insurance coverage, the insurance could lapse and potentially put the City at risk.

Recommendation:

1. The City Auditor's Office recommends the Human Resources Department create processes and procedures to track and monitor the expiration of certificates of insurance; and request new certificates on an annual basis before the current certificates expire.

Employee PHA Participation Rate Requirement

The current contract with CareATC has a provision for performance guarantees. If certain requirements are met, the City is eligible for a performance guarantee of up to ten percent of the administrative fees charged by CareATC. Currently the city is not eligible for the performance guarantee. This is due to a lower than required employee PHA participation rate. In order to be eligible for the guarantee, the PHA participation rate must be 70%. In 2019 the city PHA participation rate was 32% for employees that were covered by city health insurance. Good business practices dictate that contract requirements for performance guarantees be attainable. Without adjustments to the PHA participation rate requirements, the city will not be able to attain the required rate and therefore will not be eligible for the performance guarantees.

Recommendation:

2. The City Auditor's Office recommends the Human Resources Department renegotiate the PHA participation rate in the performance guarantee contract clause to a rate that would be more attainable.

Performance Standards

It appears that the City and CareATC did not agree to a baseline for the performance standards identified by CareATC to be measured against, or how the measurements for the standards are to be calculated. In addition, City employees responsible for administering the contract did not have a clear understanding of the performance standards. This appears to be due to the fact that the contract was

negotiated and administered by a former employee. Current employees did not have documentation relating to any agreement of baseline measurements or information on how to measure the performance standards. Good business practices dictate that contract requirements be clearly understood and that all parties agree upon how performance standards are to be measured.

Recommendations:

3. The City Auditor’s Office recommends the Human Resources Department come to a mutual agreement with CareATC on a documented baseline for the performance standards, as well as how the standards are to be measured.
4. The City Auditor’s Office recommends the Human Resources Department review and validate all information provided by CareATC for the performance standards.

Employee Engagement

According to CareATC records, City of Arlington employee engagement with the clinic is lower than that of their other clients. An example of this is the low employee participation rate in obtaining Personal Health Assessments. The City’s employee participation rate for PHAs is only 32%. Based on the data provided by CareATC, additional employee engagement would reduce overall medical costs and assist in improving the City’s ROI on the clinic.

Recommendation:

5. The City Auditor's Office recommends the Human Resources Department work with CareATC to identify ways to increase employee engagement and PHA participation rates.

Return on Investment Calculations

CareATC provides a report to the City annually that includes a Return on Investment (ROI) calculation. This calculation is based upon the amount of money the City saved because employees used the clinic instead of some other provider. CareATC determines the savings based on the United Healthcare allowable amounts for the same services. Currently, Human Resources does not review supporting documentation for this calculation or perform any type of independent validation of the calculation. The *Standards for Internal Control in the Federal Government* (The Green Book) establishes a framework for internal control that includes a control activity component. One of the principles of the control activities component is that “Management should design control activities to achieve objectives and respond to risks.” If the City does not validate the ROI calculation, at least on a sample basis, there is a risk that the ROI reported to the City could be inaccurate. An inaccurate ROI could lead management to make decisions regarding the future of the clinic that are not in the best interests of the City.

Recommendation:

6. The City Auditor’s Office recommends the Human Resources Department review and validate, at least on a sample basis, the ROI calculation provided by CareATC.

AUDIT RECOMMENDATIONS AND MANAGEMENT RESPONSE

RECOMMENDATION	CONCUR/ DO NOT CONCUR	MANAGEMENT RESPONSE	RESPONSIBLE PARTY	DUE DATE
1. <i>The City Auditor's Office recommends the Human Resources Department create processes and procedures to track and monitor the expiration of certificates of insurance; and request new certificates on an annual basis before the current certificates expire.</i>	Concur	<i>Workday</i> , the new ERP system for the City, will provide structure to manage the certificate of insurance process more effectively. Full implementation of <i>Workday</i> will not be within FY21. Until the point of full implementation, HR will confirm the expiration dates of the current certificates and manage it manually.	HR – Jerry Pea	Confirmation of current expiration date: 5/1/2021 <i>Workday</i> implementation will align with implementation process.
2. <i>The City Auditor's Office recommends the Human Resources Department renegotiate the PHA participation rate in the performance guarantee contract clause to a rate that would be more attainable.</i>	Concur	The current CareATC contract renewed for one year beginning December 1, 2020 ending November 20, 2021. During this contract year, HR will use the most recent EE usage data and business standards to begin conversations to explore the possibility of renegotiating the PHA participation rate specified in the performance guarantee contract clause.	HR – Jerry Pea	FY21 Q4
3. <i>The City Auditor's Office recommends the Human Resources Department come to a mutual agreement with CareATC on a documented baseline for the performance standards as well as how the standards are to be measured.</i>	Concur	HR will work with CareATC and/or UHC to determine the baseline numbers for the performance standards, as well as, ensure a process of measuring the performance standards is established and agreed upon between all parties.	HR – Jerry Pea	FY21 Q3

AUDIT RECOMMENDATIONS AND MANAGEMENT RESPONSE

RECOMMENDATION	CONCUR/ DO NOT CONCUR	MANAGEMENT RESPONSE	RESPONSIBLE PARTY	DUE DATE
4. <i>The City Auditor's Office recommends the Human Resources Department review and validate all information provided by CareATC for the performance standards.</i>	Concur	Once the baseline for performance measurements are established and agreed upon with CareATC, HR will establish an internal process to review and validate the information that is provided by the vendor.	HR – Jerry Pea	FY21 Q3
5. <i>The City Auditor's Office recommends the Human Resources Department work with CareATC to identify ways to increase employee engagement and PHA participation rates.</i>	Concur	<p>There are multiple avenues HR will address the recommendation of increasing employee engagement and PHA participation rates.</p> <p>First, HR will work with CareATC to identify best practices that they have used with other clients that may be implemented by the City.</p> <p>Also, HR will work on a communication plan to highlight CareATC services.</p> <p>Lastly, if needed, HR plans on reenacting the City's Benefits Committee and will bring this item to the team for the committee to develop options that would meet the recommendation.</p>	HR – Jerry Pea	<p>CareATC & Communication Plan: FY21 Q3</p> <p>Benefits Committee Plan: FY22 Q2</p>
6. <i>The City Auditor's Office recommends the Human Resources Department review and validate, at least on a sample basis, the ROI calculation provided by CareATC.</i>	Concur	HR will work with CareATC to review the ROI and the supporting data to validate the calculation.	HR – Jerry Pea	FY22 Q2

Appendix A

The Five Components and 17 Principles of Internal Control

Control Environment

1. The oversight body and management should demonstrate a commitment to integrity and ethical values.
2. The oversight body should oversee the entity's internal control system.
3. Management should establish an organizational structure, assign responsibility and delegate authority to achieve the entity's objectives.
4. Management should demonstrate a commitment to recruit, develop and retain competent individuals.
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

Risk Assessment

6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.
8. Management should consider the potential for fraud when identifying, analyzing and responding to risks.
9. Management should identify, analyze and respond to significant changes that could impact the internal control system.

Control Activities

10. Management should design control activities to achieve objectives and respond to risks.
11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
12. Management should implement control activities through policies.

Information & Communication

13. Management should use quality information to achieve the entity's objectives.
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.

Monitoring

16. Management should establish and operate a monitoring mechanism that monitors both internal and external activities that impact the control system and evaluate the results.
17. Management should remediate identified internal control deficiencies on a timely basis.