

**Audit and Finance Committee
Minutes - Approved
April 23, 2019
Old Jail Conference Room**

Present: Mack Cook, Bud Shattuck, Olivia Hersey, Steve Thayer, Chuck Rankin, Laura Shawley, Peter Salton (arrived at 3:32 p.m.)
Excused: Rordan Hart, Ann Rider
Guests: Judy Drake, Board of Directors Chair; Elin Dowd, Executive Director; Don Barber, Consultant; Rick Snyder, Treasurer; Steve Locey, Robert Spenard, Locey and Cahill; Mimi Theusen, Conrad, Whyte, Patrick, Jordan, Insero and Co.; Kat McCarthy, Cortland Common Council

Call to Order

Mr. Cook, Chair, called the meeting to order at 3:30 p.m.

Changes to the Agenda

Mr. Barber added an item to the end of the agenda relating to the underwriting of plans.

Approval of Minutes of March 26, 2019

It was MOVED by Mr. Shattuck, seconded by Mr. Rankin, and unanimously adopted by voice vote by members present, to approve the minutes of March 26, 2019 as corrected. MINUTES APPROVED.

Mr. Salton arrived at this time.

Presentation of 2018 External Audit Report

Ms. Theusen said the Consortium's audit process went well again this year; she introduced her colleagues at Insero & Co. who presented the highlights of the audit report. Mr. Whyte reviewed the contents of the Executive Summary and stated there were no concerns related to compliance or internal controls and no deficiencies or material weaknesses were identified.

Mr. Jordan reviewed financial highlights contained in the report. He stated the Consortium's net position as of December 31, 2018 was \$ 21,643,763; the net position for 2017 was \$ 21,323,957. For the year ending December 31, 2018, the Plan's net position increased by \$319,806. For the year ending December 31, 2017, the Plan's net position increased by \$2,322,672. For the year ending December 31, 2016, the Plan's net position increased by \$1,173,320. Increases in net position are mainly attributable to an excess of revenues received over claims and administrative expenses. The increases in claims expense are primarily a result of increased insurance claims paid for participating municipality employees and the addition of new participating municipalities into the Plan. The increase in administrative and other expenses is primarily due to increased cost associated with adding new municipalities into the Plan. The changes in reinsurance are primarily due to timing of reimbursement payouts and the cost of reinsurance.

Ms. Theusen said a question was raised concerning having a contracted Executive Director versus an employee and said the only impact will be a change in the Consortium having to pay benefit expenses, federal and state states, and the usual employer-related record keeping. Mr. Snyder noted the position will be administered through the Town of Ithaca; Ms. Theusen said what may be audited are the expenses paid to the Town on behalf of the

Consortium. It should not have any other impact on the Consortium. A copy of the full audit is available on the Consortium's website.

Mr. Cook said there is \$26.1 million in the Consortium's Fund Balance and asked if local governments could report their equity position in their financial statements which would increase their fund balance. Mr. Salton said he thinks it might be allowed to be included on a financial statement but including it on a balance sheet could be a conflict with Insurance Law. Mr. Locey said the MCA stipulates that the Consortium owns those funds; however, the one thing that has yet to be defined is what a surplus is. He said if a municipality were to withdraw it would get surplus funds. For this reason he thinks municipalities could include the surplus amount in their financial statements.

Mr. Cook said this could be a benefit to members and asked if others were also of this opinion and if this Committee would be interested in engaging the accountants to look into this. Mr. Salton said this relates to the discussions that have taken place with regard to entry and exit from the Consortium, therefore, he support looking into this further and in tandem with those discussions.

Mr. Cook requested with no objection from the Committee, for Insero & Co. to look into this and present the Executive Director with a quote on what this would cost.

RESOLUTION NO. CA001 - 2019 – ACCEPTANCE OF 2018 EXTERNAL AUDIT REPORT PERFORMED BY INSERO & CO.

It was MOVED by Mr. Thayer, seconded by Mrs. Shawley, and unanimously adopted by voice vote by members present.

WHEREAS, the Board of Directors entered into a contract for auditing services with Insero & Co. (CDLM), for the purpose of conducting an external audit of the Consortium's financial records for fiscal year 2018, now therefore be it

RESOLVED, on recommendation of the Audit and Finance Committee, That the 2018 external audit report prepared and presented to the Audit and Finance Committee by Insero & Co. (CDLM) is hereby accepted.

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Executive Director's Report

Ms. Dowd reported the annual filing is complete and she and Mr. Barber are communicating follow-up questions to the Department of Financial Services (DFS). Specifically, they are looking for direction on the format of the three-year financial proforma that is a requirement of the Aggregate Stop Loss waiver.

Reports from other Committees

She reported the Governance Structure Committee is looking at changes to the MCA and creating Bylaws to create an 11 to 15-member Executive Committee that would act on behalf of the Board of Directors. The Owing Your Own Health Committee met last week and is continuing to make progress on a branding image for the program. They also heard a report on Seneca County's wellness program and an update that 89 members had enrolled in the Blue4U Program. Currently, 66 members have enrolled in the Telemedicine program and there have been two visits. Ms. Dowd said now that the external audit has been completed she will be working with Mr. Barber on developing the Consortium's annual report. She will also be working with ProAct on initiating the Prescription Drug Audit.

Ms. Drake requested a copy of the information on Seneca County's Wellness Program be circulated to the Board of Directors.

Prescription Drug Claims Audit

Mr. Barber raised the question of whether the Committee wished to proceed with conducting the prescription drug claims audit or if members were interested in issuing a Request for Proposals (RFP) for the service. Following a brief discussion there was consensus to proceed with the audit and to begin a process in the summer or initiating an RFP for the biannual audits of both medical claims and prescription drug claims.

Invoices

The following invoices were presented for information only:

Armory Associates – March, 2019
Wellness Consultant – March, 2019
Hancock Estabrook – April, 2019
Bonadio – March, 2019

It was MOVED by Mr. Cook, seconded by Ms. Hersey, and unanimously adopted by voice vote by members present, to approve a final invoice from BMI dated April 10, 2019 in the amount \$8,500. MOTION CARRIED.

JURAT Filing

Mr. Snyder reviewed pages from the annual financial filing and explained how figures contained in the document relate to the information presented in the audit that was reported on earlier in the meeting.

Financial Update

Mr. Locey reviewed first quarter 2019 budget versus actual results. He commented that premium revenue is slightly below (1.7%) budget. Interest income earned to date in 2019 is \$81,000; this compares to a total of \$22,000 for 2018. Paid claims are well-below budget; however, this was expected for the first quarter due to some claims not yet being mature. Mr. Locey said at this time the Consortium has positive results in net income in the amount of \$1.7 million. The expense distribution chart showed the Consortium being a 93.33% of total expense going towards the payment of claims and 6.7% going to pay for all expenses. These are outstanding results for the first quarter.

Mr. Locey reviewed an accounts receivable report summary with the financial report and noted there are only two entities that are between 31-60 days aging (TC3 Culinary and Farming programs). Mr. Snyder read a communication from his staff in which it was stated they think overall accounts receivable are in good standing and that it is typical that the majority of payments are received from municipalities during the first week of the month which would be technically late; also, some municipalities are mailing their payments by the first of the month. The letter suggested the Committee consider a practice by which a past due list be sent only for those that are late upon the 10th day of the month and to also consider a ten-day grace period.

Mr. Barber thanked Mr. Snyder for bringing this forward and called attention to language contacted in Article L. PREMIUMCALCULATIONS/PAYMENT:

“3. Each Participant's monthly premium equivalent, by enrollee classification, shall be paid by the first day of each calendar month during the Plan Year. A late payment charge of one

percent (1%) of the monthly installment then due will be charged by the Board for any payment not received by the first of each month, or the next business day when the first falls on a Saturday, Sunday, legal holiday or day observed as a legal holiday by the Participants. The Consortium may waive the first penalty once per Plan Year for each Participant, but will strictly enforce the penalty thereafter. A repeated failure to make timely payments, including any applicable penalties, may be used by the Board as an adequate justification for the expulsion of the Participant from the Consortium.”

Mr. Snyder said there is a process in place for imposing a late fee but he and his staff look into each situation and work with municipalities and impose a penalty in cases where it is reasonable to do so. Mr. Barber agreed the MCA is not specific on what the term “paid by” means, noting it could include being placed in the mail by this date. This is something that may need further discussion during review of the MCA; the Committee supported Mr. Snyder’s office continuing to work with municipalities and wished to have reports continue to be provided.

Mr. Locey commented that for 2018 the average covered life under the Consortium for a plan payment was \$7,600 and the average out-of-pocket cost per member was \$333. Covered lives are up by 18% and contracts are up by 17%.

RESOLUTION NO. - 2019 – RECOMMEND ADJUSTMENTS TO THE PREMIUM EQUIVALENT RATES FOR THE CITY OF ITHACA PROFESSIONAL FIRE- FIGHTERS UNIT

MOVED by Mr. Shattuck, seconded by Mr. Rankin.

Ms. Dowd reported the City of Ithaca Firefighters have bargained to change their contract and as a result it will increase their premiums. Mr. Locey said when they originally negotiated to move into the Plan the Arbitrator ruled that it wasn’t clear that they were going to be subject to Step Therapy and Prior Authorization and that this is a right of collective bargaining and as a result they do not have these in place. As a result their claims expense will likely be higher and after consultation with Excellus it was determined what the anticipated impact of this would be on the drug portion of the rate.

Mr. Barber commented that currently only the active firefighters have had this change and are receiving the benefit. They are working with ProAct and Excellus to develop another Rx group for the Chiefs and retirees,

The resolution was unanimously adopted by voice vote by members present.

WHEREAS, by Arbitration Ruling the City of Ithaca Professional Fire Fighters unit were able to remove the step-therapy, prior authorization, and quantity limit edits from their prescription drug plans resulting in a 12.5% increase on the pharmacy portions of the premium equivalent rates, and

WHEREAS, changes to the pharmacy rates result in an overall premium rate increase of 3.4%, now therefore be it

RESOLVED, That the Audit and Finance Committee recommends that the Board of Directors approves an adjustment to the City of Ithaca Professional Fire Fighters Unit to increase individual monthly premium equivalent rates by 3.4% to \$1058.15 for individual coverage and \$2292.59 for family coverage effective January 1, 2019.

Compliance with Section A.3 of MCA

Mr. Barber said this item relates to adverse risk selection and making sure all employers in the Consortium have all of their potential participants in the Plan. Mr. Salton said the annual cost for the Village of Cayuga Heights to comply with Section A.3 is \$60,000 and he doesn't believe the Village will support that expense. He said there are 8 impacted employees that are on the Teamsters' family plan. Mr. Barber noted there has been no direct comparison of the plans, therefore, a determination cannot be made as to whether the plans are identical. Mr. Locey agreed that a comparison needs to be done; he will develop a full analysis for both the Village of Cayuga Heights and the Teamsters and will present it to the Committee.

Ms. Hersey spoke of when the Consortium was created and said it was a very long and involved process that resulted in every plan that was created being equal or better to what everyone had. Mr. Locey spoke to the plan costs for the Teamsters and said because they don't include retirees their cost structure is significantly less. Mr. Cook said when the City of Cortland joined the Consortium it brought all of its groups in and there was a cost to the City to do so but in the long-term the City experienced a cost reduction. Mr. Thayer commented that a valued benefit the City of Ithaca has experienced by being a member of the Consortium is rate stabilization.

Ms. Drake commented that this is what was presented to municipalities that came into the Consortium this year and said the question before the Committee is whether this should be the policy going forward. She suggested the Committee could take action on the policy and then make a decision on the Village of Cayuga Heights when information is presented. Mr. Cook said he would like the Village of Cayuga Heights to get the information before this Committee takes action. He will support this being deferred to the next meeting but no later.

There was consensus to include this on the May agenda of the Committee.

Discussion of New Member Application Process

Mr. Barber explained the work involved in collecting information from municipalities applying for membership into the Consortium and spoke of the Excellus and ProAct timelines that are also an important part of the process. He spoke of the issues that occurred last year and explained how the proposed application process and timeline should prevent the same issues going forward. He highlighted one substantive change in the process and said instead of applying for a waiver, municipalities applying for membership will submit payment of the surplus reserve fee as required by Article 47 by November 1st. If all steps in the application process are completed on time that payment would be credited towards the municipality's first month of premium.

Mr. Locey said the Chemung County Soil and Water Conservation District has made an inquiry into joining the Consortium. The Consortium's legal counsel has confirmed they are eligible to join as a result in the change to General Municipal Law allowing districts to be considered a Municipal Corporation. The complication is that they are not a taxing authority; he asked if there should be discussion of requiring an additional security up-front in case they couldn't pay their premium at some point. He said in other Consortia they work with they have groups that are required to put up some security to cover their Incurred But Not Reported liability. They are allowed to put up their share of the IBNR in a secure bank account that Excellus could have access to in the event of payment default or issue a surety bond or line of credit in the amount of the liability. He suggested that language be added to this policy to let entities know they would be responsible for any liability. Mr. Barber will add language to the proposed new member resolution outlining the requirements for districts.

Ms. Drake suggested and the Committee agreed to change the reference in the draft resolution relating to the Chemung County Soil and Water Conservation District for the “number of covered employees” be changed to “the number of eligible employees”.

Summary of BMI Medical Claims Audit

Mr. Locey said BMI identified a total of 66 claims with issues of which Excellus agreed to nine. They are working through the remaining claims and will alert Excellus on items where further discussion is needed.

Mr. Barber said there have been several discussions over recent months about retiree rates. He requested approval from the Committee to request Locey and Cahill to perform an underwriting of the Consortium’s plans to make sure they are where they should be in advance of discussions on 2020 premium rates. The Committee supported this suggestion and authorized Locey and Cahill to proceed with this work.

Next Agenda Items

The following items will be included on the next agenda:

- Resolution - New Member Process
- Resolution - Chemung County Soil and Water Conservation District
- Resolution Approving Compliance with Section A.3 of MCA
 - Comparison of Village of Cayuga Heights and Teamsters
- Resolution – Policy to Determine Departing Municipality’s Pro Rata Share of Assets
- Medicare Advantage RFP
- Consortium Staffing Costs
- BMI Medical Claims Audit

Adjournment

The meeting adjourned at 5:12 p.m.