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May 22, 2019

Board of Trustees
Industry & Local 388 Welfare Fund

**Re: Associated Administrators
Claims Audit Proposal**

Dear Board of Trustees:

Segal Consulting (“Segal”) is pleased to provide a proposal to the Industry & Local 388 Welfare Fund (“Fund”) for an audit of its’ medical plan administered by Associated Administrators, LLC. Segal’s Benefit Audit Solutions (“BAS”) practice possesses extensive knowledge of administrative responsibilities and industry best practices. Our approach evaluates the day-to-day operational components critical to accurate and timely benefit determinations and the review of claims samples will confirm compliance with established procedures, plan provisions, and appropriate application of limitations.

Segal understands the Fund’s request of this review is due to a spike in claim’s payments. Due to this reasoning, we recommend an audit period from July 1, 2016 through December 31, 2018 to assess current performance levels, future expectations, and identify the underlying causes of the significant increase in claims payments.

Our proposed services offer a thorough analysis to ensure Associated Administrators has proper controls in place for efficient administration of the health plan and accurate benefit payments. With auto-adjudication rates reaching 80%-90% for most plans, Segal believes two sampling review components are required to validate administrative processing performance.

1. **Adjudication Procedures Review** – An advanced questionnaire focuses on procedures used for all claims to ensure proper controls were in place (i.e., eligibility updates, other insurance inquiry, system edits, out-of-network reimbursement policies, coordination with outsourced arrangements, etc.). Segal’s auditor will compare responses to plan provisions and industry best practice; compliance is validated through sampled claim reviews.
2. **Electronic Analysis and Target Sample** – An analysis of all paid claims to review the spike in claims and utilization of benefits. A sample of 100 target claims will explore claim variables throughout the comprehensive data file. Results from our electronic queries are reviewed by

audit staff to identify patterns of potential error and high cost claims that warrant further review.

Audit Process

Segal audit personnel have practical “real world” professional experience and are subject matter experts in their areas of expertise. Prior experience with administrators similar to Associated Administrators further enhance the comprehensive and analytical abilities required for this engagement.

Adjudication Procedures Review

Our claims audit approach begins by gaining an understanding of the foundation utilized to administer your specific plan benefits. Associated Administrators’ responses to the questionnaire are compared to Plan documents and industry practices; our electronic query analysis and onsite review of sampled claims will explore consistency in application. Key topics will include:

- Eligibility timeliness of updates, interface with the claims processing system, and confirmation of retroactive overpayment recovery efforts.
- Detection and investigation procedures for coordination with other coverages (i.e., group coverage, Medicare, third-party liability) and subsequent follow-up procedures in place with any subcontracted vendor.
- Identification of improper billings (i.e., unbundled claims, inflated codes), fraudulent or duplicate submissions, and resulting provider investigation and/or retraining.
- Timeliness of updates to participating provider contracts, use of silent networks, and designated non-contracted allowances.
- Utilization review program and case management interface with the claims processing system.
- Claim control measures in place to monitor hospital billing accuracy and case management determinations.

Electronic Analysis with Target Selection

System programming has developed over the years to where many plans experience auto-adjudication rates exceeding 80% to 90%, leaving a small percentage in the number of claims being manually determined at one or more decision points during the claims process. Assuming the benefit plan has been programmed correctly, a purely random selection process may not capture a variety of plan designs or provide an accurate assessment of examiner compliance with established administrative procedures. Therefore, Segal employs an electronic analysis to provide added value in the audit process while minimizing audit costs.

Associated Administrators will be asked to provide an expanded comprehensive claims data file that supports a number of in-house electronic analyses designed to identify potential deficiencies in the programming of variables between plan options as well as limitations in the plan. Although electronic data analyses provide the capability to review 100% of paid claims, they work under the assumption that all data was properly entered into the claims system and that the examiners followed established administrative procedures.

Some administrators often limit the data fields provided for analysis; however, we anticipate Associated Administrators' comprehensive data layout (if provided) will facilitate the following reviews:

- Duplicate payment analysis to ensure resubmissions have been properly denied;
- Major Plan exclusions and limitations to validate correct system programming;
- Policy limitations analysis (i.e., number of visit limits);
- Patient out-of-pocket applications of copayments, deductibles, and coinsurance levels; and,
- Identification of potential third-party-liability claims to confirm appropriate investigation and recovery efforts have been performed.

Results from our electronic queries are manually reviewed by audit staff to identify patterns of error and high cost claims that warrant further review. Suspect errors require review of hard copy documentation and system notes to validate the accuracy of electronic reports. Any identified error is assessed for cause; financial impact reports are requested where a systemic issue is found.

Onsite Claims Audit

Segal's auditor will reference the respective Plan Document, Summary of Benefits and Coverage (SBC), established administrative procedures, and industry best practice as each claims sample is manually recalculated. The intent of any variance between the Plan Document and system programming will be confirmed with the Fund and outlined in our draft report if an issue has been identified.

Using Associated Administrators' claims processing system and documentation (e.g., claim form, provider bill, case management documentation, etc.), Segal's auditor will complete a worksheet for each sampled claim sample as if it was the initial benefit determination, tracking the workflow of each claim from the time it is received in the office through each step of processing to verify:

- Claims were paid only on behalf of eligible individuals based on records contained in the claims system;
- Documentation (e.g., provider bills, physician statements, utilization review decisions or penalty findings, surgical reports, etc.) was on file for claims paid and verified when necessary;

- Coordination of benefits and subrogation provisions were enforced, where applicable;
- Amounts paid were within the network discount fees or designated non-contracted allowances.
- Proper medical necessity was investigated as defined by the Plan and ASO requirements.
- Proper application of age, gender, and disease specific edits;
- Benefits were paid under the proper classification, diagnostic, and procedure codes, as an incorrect entry may affect payment accuracy or future benefit determinations;
- Appropriate benefit limitations, deductibles, copayments, coinsurance, and out-of-pocket maximums were applied;
- As appropriate, high dollar claims were considered for care management and applicable stop-loss notifications were timely filed;
- Claims system logic for examiner edits and auto-adjudication capabilities;
- Arithmetic calculations were correct;
- Duplicate submissions have been properly denied;
- Payment was made to the proper party (i.e., the provider of service if benefits were assigned, claimant if benefits were not assigned);
- Adjustments (under or over payment) were handled in a timely manner; and,
- Turnaround time for processing of claims was within industry standards.

Worksheets with discrepancies, comments, or questions of clarification will be provided to the designated Associated Administrators' claims representatives on a daily basis for review and comment. Segal's auditor will provide copies of each worksheet with an error or comment to the administrative representatives on the last day of our visit. This process will assist Associated Administrators' in their review of our draft memo report.

Report of Findings

Our qualitative analysis is based on conclusions drawn from information gathered throughout the audit, relying on contract requirements, the auditor's experience and judgment, and acceptable industry practices. The memorandum summarizes areas we believe may be of interest to the Fund. As appropriate, we discuss errors and areas requiring improvement with the onsite claims representatives. Our final report will include at a minimum:

- Summary listing the identified findings;

- Description of the audit process;
- Procedural and payment errors displayed in table format;
- Recommendations for corrective action to ensure optimal claims handling; and,
- Associated Administrators' action plan and response to the Segal's recommendations.

We will submit our draft report to Associated Administrators for review and comment prior to providing a copy of our final report (including a copy of their response) to the Trustees and Associated. We believe this practice promotes a constructive process by all parties, allowing Associated Administrators an opportunity to explain their position and identify corrective action that has or will be taken.

Project Timeline

Following confirmation of the desired scope of services and approval to proceed, Segal's auditor will contact Associated Administrators to discuss our process and obtain any date or time restrictions that may impact the proposed timeline. Specific dates will be reflected within this table and provided to the Fund / Associated in the form of monthly status reports.

Tasks Following Notice of Award	Business Days	Weeks
Fund alerts Associated Administrators of the audit	1	< 1 week
Segal mails data request to Associated Administrators	1-2	< 1 week
Execute Audit Confidentiality Agreement	10	2 weeks
Associated Administrators send claims data to Segal	5-10	1 – 2 weeks
Segal mails claims selections to Associated Administrators	5-10	1 – 2 weeks
Associated Administrators retrieve claims documentation ¹	15-20	3 – 4 weeks
Onsite audit is performed ²	4-5	1 week
Associated Administrators provides responses to onsite questions	5-10	1 – 2 weeks
Segal mails draft memo report to Associated Administrators for review	10-15	2 – 3 weeks
Segal receives Associated Administrators' response ³	10	2 weeks
Segal delivers final memo report to the Fund / Associated Administrators		

Fees

Our **\$30,000** all-inclusive fee is based on the hourly time charge rates and number of hours worked by each professional involved in the claims audit as well as travel costs.

Billings will be issued in 50% increments at the beginning of the project and at presentation of the final memo report to the Fund.

Segal is prepared and equipped to conduct a comprehensive claims audit for Industry & Local 338 Welfare Fund and welcomes the opportunity to discuss this very important project with you to ensure your objectives are met in our proposed claims audit approach.

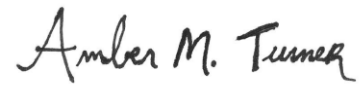
If the services and fee outlined above meet the Fund's requirements, please confirm the audit period you are requesting and sign the next page.

Sincerely,

¹ Associated Administrators may require up to 6 weeks to produce out-of-state documents for onsite review.

² Errors are discussed with Associated Administrators personnel daily.

³ Associated Administrators may require 2 weeks for response to onsite questions and 3-4 weeks for the draft response.

A handwritten signature in black ink that reads "Amber M. Turner". The script is cursive and fluid, with the first letters of each word being capitalized and prominent.

Amber M. Turner, MBA
Claims Auditor
Benefit Auditor Solutions

cc: John Urbank, Segal – New York
Russel Bley, Segal – New York
MaryAnne Watson, Segal – Phoenix
Cristina De Leon, Segal – Chicago

Associated Administrators, LLC. Claims Audit – Confirmation of Engagement
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All-Inclusive Fee of \$30,000 for a total sample of 100 targeted claims.

Audit Period:

- ☐ July 1, 2016 through December 31, 2018
- ☐ Other (please specify) _____

On behalf of the Industry & Local 338 Welfare Fund

Date_____

Date_____