

Memorandum



CITY OF DALLAS
(Report No. A08-001)

Date: October 5, 2007

To: Honorable Mayor and Members of the City Council

Subject: Final Report – 2005 Plan Year Review of Medical Claims Administration for Humana, Inc.

Humana, Inc. (Humana) exceeded the financial and payment accuracy performance standards in the administrative services contract between the City of Dallas (City) and Humana for the 2005 plan year, and exceeded industry standards for procedural accuracy. Humana, however, did not meet the performance standard for claims processing turnaround time which should result in the City receiving liquidated damages of approximately \$26,302. Additionally, limited testing indicates Humana processed 15 claims totaling \$2,611 that were for ineligible plan participants. The City is also owed \$767,178 resulting from overpayments made to 601 providers.

The City, through the Human Resources Department, hired Deloitte Consulting, LLP (Deloitte) to perform a claims review follow-up to the May 5, 2005 review conducted by Deloitte for plan year 2004. The current report, involving an analysis of 203 claims, is included as Attachment I.

The following table shows the improvement between the claims processing for the 2005 plan year and the 2004 plan year:

Performance Measure	2005	2004
Financial Accuracy	99.8%	94.1%
Payment Accuracy	98.0%	90.5%
Procedural Accuracy	99.5%	97.4%
Claims Turnaround	86.9%	80.8%

Source: Deloitte reports dated June 26, 2007 and May 5, 2005 respectively.

Humana resolved or settled 86.9 percent of the clean claims received during the 2005 plan year within ten business days, but this did not meet the 90 percent performance standard in the City's contract. If the performance standard is not met, the contract specifies liquidated damages of 1 percent of the annual fees. Liquidated damages for the calendar year are \$26,302 based on \$2,630,219 annual fees paid for calendar year 2005.

At the request of the Human Resources department, we analyzed the plan year 2005 claims. We determined that 15 claims totaling \$2,611 were filed for eleven individuals who could not be readily identified as eligible plan participants (City of Dallas employees, retirees, spouses, or dependents). We provided this information to Human Resources management for follow-up and resolution.

Furthermore, we analyzed the 2,040 claims for providers who owe the City \$767,178 for overpayments received. More than 1,700 of the 2,040 claims owed were each less than \$500. The following table shows our analysis of the accounts receivable from providers:

Analysis of the Accounts Receivable				
Category	Claims	% of Total	Amount	% of Total
Less than \$100	1,223	59.95%	\$ 44,919	5.86%
Greater than \$100 Less Than \$500	498	24.41%	115,241	15.02%
Greater than \$500 Less Than \$1K	178	8.73%	124,989	16.29%
Greater than \$1K Less Than \$5K	122	5.98%	251,094	32.73%
Greater than \$5K Less Than \$10K	11	0.54%	81,615	10.64%
Greater than \$10K Less Than \$25K	6	0.29%	68,195	8.89%
Greater than \$25K Less Than \$50K	1	0.05%	28,228	3.68%
Greater than \$50K	1	0.05%	52,896	6.89%
Totals	2,040		\$ 767,178	

Source: Humana, Inc. Financial Recovery Inventory

We conducted further analysis of the 319 claims owed that were each greater than \$500. The following table shows length of time these claim accounts have been in collection with Humana:

Age of Accounts Receivable		
Time Period	Claims	Amount
30 to 60 Days	1	\$ 589
61 to 90 Days	5	11,311
91 to 120 Days	1	695
121 days to 1 year	4	32,346
Over 1 year	44	100,176
Over 2 years	102	206,082
Over 3 years	162	255,819
Totals	319	\$ 607,018

Source: Humana, Inc. Financial Recovery Inventory

Humana provided the following information regarding the actions being taken on these 319 claims:

Action Being Taken By Humana	Claims	Amount
• Overpayment letter has been sent to the Provider - being pursued internally	43	\$105,833
• Overpayment has been referred to third-party vendor for collections	204	394,904
• Overpayment is eligible for remit deduct and currently trying to offset future claim payments	72	106,281
Totals	319	\$ 607,018

Source: Humana, Inc. Financial Recovery Inventory

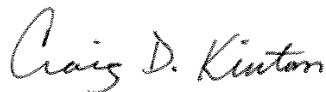
Deloitte recommended the City (1) request that Humana provide an exhaustive list of all outstanding recoveries that have not been collected; and, (2) encourage Humana to aggressively pursue these overpayments to ensure that the City receives the amounts owed.

The objectives of Deloitte's review were to: (1) review a sample of previously adjudicated claims for the purpose of due diligence, prudent fiscal responsibility, and good business practices; and, (2) determine whether Humana's claims processing accuracy results met the performance standards found in the administrative services-only contract between the City and Humana for the 2005 plan year.

We would like to acknowledge Deloitte's and City management's cooperation and timely response in providing information needed to complete this review.

If you have any questions or need additional information, please contact me at 214-670-3222 or Gary Lewis, Audit Manager, at 214-670-5347.

Respectfully,



Craig D. Kinton
City Auditor

Attachment

C: Mary K. Suhm, City Manager
Jill A. Jordan, P.E., Assistant City Manager
David K. Etheridge, Director – Human Resources