



August 2, 2022

Susan Posada  
Susan Posada Agency  
3575 N 3<sup>rd</sup> St.  
Phoenix, AZ 85012

Dear Ms. Posada:

We are pleased to submit our proposal describing the services that Wolcott & Associates, Inc. will provide regarding a claim audit of the medical plan for your client, the City of San Luis.

### **BACKGROUND INFORMATION**

The City of San Luis sponsors self-insured health care plans (for medical and dental). 90 Degree Benefits provides the claim payment service for these plans and utilizing the Siarmed network. These services includes repricing of the network, claim payment, printing of participant ID cards and the maintenance of enrollment and eligibility records.

The City of San Luis considers a regular audit of its claims to be prudent. Therefore, we have prepared this letter to describe our services.

### **STAFF RESUMÉS**

Resumé information regarding the actuarial and audit staff personnel to be assigned to the audit is presented below.

#### **MARIE K. POLLOCK, HIA**

Ms. Pollock is President of Wolcott & Associates, Inc. She joined Wolcott & Associates, Inc. in June, 1991. She has served as Engagement Director or Senior Auditor on numerous claim audits.

Ms. Pollock has extensive experience in the conduct of operational audits and the performance of internal controls audits, including procedural and computer testing of control effectiveness.

Ms. Pollock currently consults with several TPAs on administrative issues related to operational policies, procedures and internal controls.

Ms. Pollock received her Bachelor's Degree in Accounting from the University of Kansas.

Ms. Pollock will serve as Engagement Director and be responsible for the management and conduct of audit activities.

### **DAVID SIMMONS, CPA, CIA, CISA**

Mr. Simmons has extensive experience conducting financial, operational, internal control, claim and information system audits. He also has served as field claim auditor on large claim audits. He is the Director of DES, LLC. DES, LLC is a CPA firm that specializes in SSAE 18 engagements for healthcare TPAs.

Mr. Simmons received his Bachelor of Science degree in Accounting and Masters of Accountancy degree from Missouri State University. He completed the requirements and was awarded a Certified Internal Auditor designation in 2007, a Certified Public Accountant designation in 2008 and a Certified Information Systems Auditor designation in 2011.

Mr. Simmons will serve as a Senior Auditor.

### **BRIAN K. WYMAN, CISA**

Mr. Wyman is both a claim auditor and a financial auditor. He joined Wolcott & Associates, Inc. in 1998. Prior to that time, he was an audit manager with a regional certified public accounting firm where he performed ERISA audits for sponsors of large benefit plans.

Mr. Wyman is also the Senior Auditor in our SSAE 18 audit practice. He has extensive experience in the conduct of operational audits and the performance of internal controls audits, including procedural and computer testing of control effectiveness.

Mr. Wyman received his Bachelor of Science degree in Accounting from the University of Missouri - Kansas City in 1990. He completed the requirements for and was awarded the designation of Certified Fraud Examiner in 1999 and awarded the designation of Certified Information System Auditor in 2004.

Mr. Wyman will serve as Auditor.

## **REVIEW OF CLAIMS**

We will select a sample of previously processed claims (see below for method and number of claims). A listing of the selected claims will be submitted to 90 Degree Benefits prior to reviewing the claims remotely and/or on-site.

### **Test Work**

We request that original claim documentation (for medical and dental) be provided for each selected claim. Each such claim will be manually recalculated to verify that proper payment has been made based on the plan's provisions. This process will include verification of allowable charges and services against the plan's provisions, verification of deductible and coinsurance satisfaction based on a review of the payment history for the patient, and verification of benefit coordination based on Coordination of Benefit (COB) data provided by employees. Steps in the test work process include:

- . **Nature of Claim** - Claim documents will be reviewed to determine if the claim is subject to pre-existing conditions or other limitations and that it was processed appropriately, based on the nature of the claim (e.g. accident, sickness or dental).
- . **Other Carrier Liability** - Each claim will be reviewed along with other family claim data to determine the existence of other carrier liability (COB, Workers' Compensation, no-fault or subrogation).
- . **Deductibles and Accumulators** - For each sample claim we will verify the satisfaction of the deductible and coinsurance based on a review of the payment history for the patient.
- . **Unbundling of Charges** - Each sample claim will be reviewed for any inappropriate unbundling of charges.
- . **Abusive Treatment Patterns** - Each selected claim will be evaluated to determine that all prolonged treatment is appropriate for the diagnosis and has been prescribed by a physician. We will also evaluate the extent to which 90 Degree Benefits identifies such treatment patterns in their utilization review department and the action taken regarding such treatment.
- . **Payment and Payee Accuracy** - The results of each recalculation will be compared to actual payments and payees will be compared to participant and provider data as well as benefit assignment requests on claim documents.
- . **Duplicate Payments** - Prior payment histories and paid claim listings will be checked for duplicate service dates, patients, diagnosis and procedure codes and providers to determine the extent to which duplicate payments have occurred.

- . **Reasonable and Customary Charges** - Each sample claim involving professional services will be checked against reasonable and customary and contractual fee limits established for the Plan based on the procedure code and postal zip code to determine the extent to which benefit payments have exceeded reasonable and customary limits.
- . **Hospital Charges** - Each hospital bill in our sample will be reviewed to determine the appropriateness of admission and length of stay and if hospital bill audit procedures have been followed. If during our audit we identify claims which in our judgment should have been submitted for medical necessity review or hospital bill audit, we will request a review or audit be performed in compliance with established procedures.
- . **Surgery** - Each selected claim involving a surgical procedure will be reviewed to determine compliance with established procedures regarding second surgical opinion and the use of ambulatory facilities.
- . **Documentation** - Each selected claim will be evaluated to determine that all appropriate material needed to properly adjudicate the claim was available prior to actual payment. Documents are also evaluated to determine if there is any evidence of alteration or other fraudulent activity.
- . **Network** – Each claim processed will be compared to the Siarmed’s network to determine the reprice amount on the claim agrees with the network reprice amount. We will also need Siarmed’s contact person information to obtain related network data.

Following the completion of our test work, results are evaluated. The following analysis will be performed and summarized in the final report:

- . Analysis of payment and denial errors by type to indicate frequency and dollar amounts associated with each type. The analysis will distinguish between over and underpayments and will address our evaluation of the reason for the error.
- . Comparison to available industry norms and the results of similar audits conducted by Wolcott & Associates, Inc. will be presented.

We will extend the results of the sample to the population to estimate the value of benefits that should have been paid during the period. This estimate will then be compared to the actual disbursements to determine if the actual disbursements are within the precision range of the expected results.

Frequency and magnitude of error data will be developed by type of error and by type of service and compared to error rates developed during similar audits and published error rates for claim processors.

In addition to the above claim audit we will perform the following:

- . Review a system generated report on 90 Degree Benefits turnaround time on paid claims for the City of San Luis.
- . Review 90 Degree Benefits and Siarmed open claim inventory report.

### **CLAIM SAMPLE SELECTION METHOD**

The standard industry confidence level is 95% and industry precision range from +/- 5% to +/- 3%.

We have assumed that the error rate does not exceed 5%. Based on this assumption, the minimum sample size for this audit is:

95% Confidence  
+/- 3% Precision

250

This would result in an overall stratified size of a total of 250 claims (including medical and dental).

Claims would be selected using a Monte Carlo (without replacement) method using a proprietary software program from the listing of all previously processed claims during the audit period.

### **TIMING AND FEES**

Our fee, **including out-of-pocket expenses**, for the audit services described in this letter will be \$15,000 for a **stratified** sample size of 250 medical/dental claims.

It is our practice to submit progress billings at the end of each calendar month and a final billing upon completion of our agreed upon services.

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Thank you for the opportunity to present our services to Susan Posada Agency and your client, the City of San Luis. You may indicate your acceptance of this proposal by signing below. Should you require additional information, please let us know.

Yours truly,

**WOLCOTT & ASSOCIATES, INC.**

Brian K. Wyman  
Vice President

BKW:jeh

**ACCEPTED BY:**

**Signature** \_\_\_\_\_

**Title** \_\_\_\_\_

**Date** \_\_\_\_\_