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Missouri Consolidated Health Care Plan

December 2010

Report No. 2010-166

auditor.mo.gov

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Missouri State Auditor

YELLOW SHEET

Findings in the audit of Missouri Consolidated Health Care Plan

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Services Provided by the Actuarial Consultant

The Missouri Consolidated Health Care Plan (plan) Board of Trustees (Board) contracted with the current actuarial consultant for "non-core" services without soliciting proposals from other potential service providers. During 2008 and 2009, payments to the actuarial consultant totaled approximately $1,200,000, of which approximately $247,000 was for core services, and approximately $919,000 was for non-core services. In addition, the Board's procedures for monitoring payments to the actuarial consultant are not sufficient.

Salary Issues

The Board provided its employees significant pay raises over and above promotion or probationary pay increases. In October 2007, the Board increased salaries for 20 employees through a market-based salary adjustment process. The salary increases, which totaled approximately $96,000, were given to the plan's 9 management staff, excluding the Executive Director, and 11 non-management staff. In July 2008, performance incentive raises totaling almost $60,000 were provided to 58 employees, or approximately 77 percent of plan employees. Plan employees also receive any cost-of-living adjustments provided to state employees. The Board has temporarily suspended the programs for market-based salary adjustments and performance incentives because budget limitations have precluded such salary increases. In addition, plan officials could not provide adequate documentation to support the pay raises given in October 2007.

Travel Expenditures

Although the Board has established a policy for reimbursement of employee travel expenses, the policy is incomplete and outdated and a travel policy applicable to Board members has not been developed. While most meal and lodging expenses reviewed were within meal limits in effect at the time and/or federal employee per diem maximums established by the federal government, some exceptions were noted. We also noted some executive and management staff travel expenses are not properly reviewed and approved. In addition, limits or guidelines for reimbursement of travel expenses incurred by contracted professional service providers have not been developed and we noted instances where reimbursements of the actuarial consultant's travel expenses appeared excessive. Costs associated with a Board retreat appear excessive and lacked sufficient documentation.

Gifts and Travel Expenses from Third Parties

Our review of travel expenses indicated Board members and employees periodically receive paid travel expenses from vendors and other third parties while attending conferences. The Board has not established a policy outlining the types of gifts and paid travel expenses, if any, Board members and employees can or cannot accept from third parties that do business with public health care plans. In addition, the Board has not established a system for reporting and monitoring gifts and paid travel expenses accepted by Board members and employees.

Questionable Expenditures

Some expenditures, totaling at least $32,000 during the 3 years ended June 30, 2009, do not appear to be reasonable or necessary uses of plan funds. Plan funds were spent for various events, gifts, local meals, and other items for employees; and adequate documentation supporting these expenditures was not maintained.

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Missouri State Auditor

Honorable Jeremiah W. (Jay) Nixon, Governor
and
Board of Trustees
and
Richard Bowles, Executive Director
Missouri Consolidated Health Care Plan
Jefferson City, Missouri

The State Auditor is required under Section 103.025, RSMo, to review the audits of the Missouri Consolidated Health Care Plan. The plan engaged Williams Keepers LLC, Certified Public Accountants (CPAs), to audit the plan's financial statements for the years ended June 30, 2009, 2008, and 2007. We reviewed the reports and substantiating working papers of the CPA firm and performed other procedures that we considered necessary in the circumstances. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2009, 2008, and 2007. The objectives of our audit were to:

1. Evaluate the plan's internal controls over significant management and financial functions.

2. Evaluate the plan's compliance with certain legal provisions.

3. Evaluate the economy and efficiency of certain management practices and operations.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the plan; testing selected transactions; and analyzing comparative data obtained from the system.

We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. Abuse, which refers to behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the plan's management and was not subjected to the procedures applied in our audit of the plan.

The accompanying Management Advisory Report presents our findings arising from our audit of the Missouri Consolidated Health Care Plan.

Susan Montee, JD, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	John Luetkemeyer, CPA
Assistant Director:	Douglas Porting, CPA, CFE
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In-Charge Auditor:	John Lieser, CPA
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1. Services Provided by the Actuarial Consultant

The Missouri Consolidated Health Care Plan (plan) Board of Trustees (Board) contracted with the current actuarial consultant for some services without soliciting proposals from other potential service providers. In addition, the Board's procedures for monitoring payments to the actuarial consultant are not sufficient.

The plan solicited proposals and contracted with a new actuarial consultant in January 2008. The contract, which is renewable each calendar year through 2010, provides for eight "core" services and six possible additional "non-core" special projects. Core services, as defined in the contract, include reviewing, estimating, and/or developing self-insured plan reserve levels, premium equivalents for self-insured products, premium rate-tier multipliers, trend assumptions for preparation of budgets and appropriation requests, and proposed changes to plan benefits. Other core services include assisting in provider bid processes, providing attestation regarding Medicare employer credits, and attending plan meetings. Possible non-core special projects identified in the contract to be performed at the request of plan officials include developing actuarial valuations of retiree benefit costs, conducting audits of self-insured contractors, and providing expert testimony for legislative and/or judicial proceedings. Other possible non-core special projects identified include consulting on federal and state legislation, judicial rulings, and other changes in rules or statutes that may affect the plan; consulting on the development of new products and/or programs; and other special projects as required. The contract provides a total fee for core services, and hourly rates for non-core services.

During the first 2 years of the contract (2008 and 2009), payments to the current actuarial consultant totaled approximately $1,200,000, of which approximately $247,000 was for core services, and approximately $919,000 was for non-core services. During this time, the actuarial consultant provided services for seven non-core projects. Our review of plans, budgets, and invoices supporting the payments for these non-core projects noted some concerns.

1.1 Proposals from other consultants

Services for each of these seven non-core projects were procured from the actuarial consultant, through the non-core special project provision of the contract, without soliciting proposals from other service providers.

Although almost 80 percent of total payments to the actuarial consultant were for non-core projects, the proposed fees for non-core projects were not considered in the bid evaluation process when the consultant was hired. When non-core projects were later determined, plan officials indicated proposals were not solicited because a number of the projects were time sensitive. They also indicated because the consultant possessed the knowledge and familiarity with the plan needed for the projects, formal solicitation of proposals from vendors which lacked experience with the plan and the data environment could have potentially resulted in delayed project results and higher costs. However, documentation of consideration of these factors was not maintained. Our review of the nature and timing of these projects noted the need to contract with the actuarial consultant and/or the time sensitivity of some projects was unclear.

While contracting with the actuarial consultant can be beneficial and cost effective due to the consultant's experience with the plan, such experience may not be necessary for all projects. To ensure the Board awards contracts to the lowest and best bidder, proposals should be solicited and evaluated for all projects, either during the initial actuarial consultant bid evaluation process or at the time each project is determined. If the plan determines the services should be provided by the actuarial consultant without soliciting proposals from other consultants, justification for the decision should be documented.

1.2 Monitoring costs

The Board's procedures for monitoring payments to the actuarial consultant are not sufficient.

Plan officials did not require a detailed plan of activities and a budget for three of the non-core projects performed by the actuarial consultant. These projects included analyses of the impact of various budget scenarios requested by the state legislature, development of rates for new self-insured public entity benefit plans, and an analysis for the new high deductible health plan. Payments for these three projects totaled approximately $661,000 through December 2009, excluding travel.

In addition, the budgets included in plans approved for the other four non-core projects were not sufficiently detailed. The budgets, which simply listed two or three fee subtotals by significant procedure or project phase, did not include proposed hours and hourly rates. As a result, the proposed fees could not be reviewed for reasonableness and compliance with the hourly rates per the contract. Additional concerns regarding the plan's monitoring of travel reimbursements to the actuarial consultant were noted (see MAR finding number 3).

The contract with the consultant requires the consultant to develop a detailed plan of activities and budget for each non-core project, and provides that work shall not begin until the plan and budget are completed and approved by the Executive Director. Without a sufficiently detailed work plan and budget, the Board is unable to adequately monitor project costs.

Recommendations

The Board of Trustees:

1.1 Solicit proposals for all professional services. If the Board determines services should be provided under the existing contract with the actuarial consultant, justification for this decision should be clearly documented.

1.2 Ensure a detailed work plan and budget is completed and approved by the Executive Director for each non-core special project and utilize those budgets to monitor project costs.

Auditee's Response

The Board of Trustees provided the following responses:

1.1 During the bid process, the Missouri Consolidated Health Care Plan (MCHCP) solicited and received competitive bid proposals for core and non-core projects for actuarial services. MCHCP identified the core project/requirements in the request for proposal and requested and received hourly pricing for both core and non-core projects. By definition, non-core projects relate to MCHCP actuarial needs that were not specifically known at the time of the competitive bid in order to provide clarity and identification to request these services as core projects in advance. Due to the nature and time sensitivity of some non-core actuarial requests, formal solicitations to potential vendors outside of the current contract would likely delay project deliverables and result in actuarial costs exceeding the current contract due to unfamiliarity with MCHCP and the data environment. MCHCP has evaluated the existing contract, and in consultation with the actuary, increased the core services section to include all former non-core projects that now meet the definition of core services due to repetition or scope of services. MCHCP appreciates the necessity to document, as noted in our response, when the existing actuarial contract meets the most cost-effective method for service delivery. Should the need for non-core service work exist within the current actuarial contract, the reasons for decisions will be clearly documented.

1.2 The MCHCP appreciates the need to most effectively utilize actuarial services to achieve contractual economies. MCHCP will ensure work plans and budgets are approved by the Executive Director for non-core special projects to manage and project costs.

2. Salary Issues

The Board provided its employees significant pay raises over and above promotion or probationary pay increases. In addition, plan officials could not provide adequate documentation to support the pay raises given in October 2007.

2.1 Salary increases

In October 2007, the Board increased salaries for 20 employees through a market-based salary adjustment process. The salary increases, which totaled approximately $96,000, were given to the plan's 9 management staff, excluding the Executive Director, and 11 non-management staff, in addition to cost-of-living adjustments (COLA). These employees received market-based salary increases ranging from less than 1 percent to 20 percent, and cumulatively averaged 9 percent. According to Board meeting minutes, all plan positions were reviewed and the salary adjustments were necessary to achieve internal and external salary equity.

In July 2008, performance incentive raises totaling almost $60,000 were provided to 58 employees, or approximately 77 percent of plan employees. These incentive raises, which were generally adequately documented, ranged from 0.5 percent to 3.5 percent. In 2007, the Board implemented a performance incentive compensation program which applies to all staff. The incentive program provides employees an annual salary increase of up to a maximum percent of the employee's salary based on accomplishment of individual performance goals, as evaluated by the employee's supervisor during an annual performance review. The maximum percent, which is to be set by the Board each year based on budgetary constraints, was set at 5 percent for the 2008 performance incentive raises. Plan officials indicated the purpose of the incentive compensation program was to encourage employee performance. In addition to the market-based salary adjustments and incentive raises, plan employees are provided any COLA provided to state employees.

The Board personnel policies and procedures manual provides for these compensation programs on an annual basis, subject to budgetary restrictions. However, the Board has temporarily suspended the programs for market-based salary adjustments and performance incentives because budget limitations have precluded such salary increases.

Section 103.019, RSMo, gives the Board exclusive jurisdiction to set employee compensation. Although market-based salary adjustments and performance incentive raises have not been awarded since the dates noted above due to budget constraints, the plan continues to incur these additional costs since salaries were permanently increased. In addition, it is unclear whether the various compensation increases are necessary even during more favorable economic conditions. The Board should re-evaluate these compensation programs and reconsider the need for such programs in the future.

2.2 Documentation

Plan personnel could locate only limited documentation supporting the market-based salary increases and indicated this salary adjustment process was performed by the former Human Resources (HR) Manager and the former Executive Director. Memorandums from the former HR Manager to the former Executive Director indicate she consulted 15 external sources for comparable salaries to develop "a fair and equitable distribution of unused staff dollars." Memorandums included recommended salary increases for 20 employees (including title changes for most of these employees), and included documents listing salary data from 3 of the external sources for the 9 management positions. Plan officials indicated the former Executive Director determined salary increases based on the HR Manager's recommendations and attached salary data. No additional documentation supporting the salary adjustment process was provided. As a result, it is unclear how the salary data from the 15 external sources was utilized, and what additional factors, if any, were considered in the decision-making process. In addition, it is unclear how the 20 employees who received raises were selected; or how salaries for employees, other than the 9 management positions, compared to the market salary data.

For example, the former HR Manager received an $8,100 (12 percent) salary increase from $67,908 to $76,008, as well as a title change to HR Director. Available documentation supporting the salary increase listed actual or average salaries from external sources ranging from $68,244 to $105,004 for HR Manager, HR Director, Assistant HR Director, and Administration Director positions at nine state agencies, the Missouri State Employees' Retirement System, and a salary survey of employees in Kansas City, Missouri, area public and private entities. While the new salary was within the range of listed external salaries, the documentation did not explain how the selected external positions compared to the HR Manager position, and how the new salary was determined.

To ensure all market-based salary adjustments are reasonable and necessary, if made in the future, the Board should ensure sufficient documentation supporting the process is prepared and maintained. Documentation should include, for each position, external salary data obtained, an explanation of how the related external positions were deemed comparable to the plan position, and sufficient detail supporting the basis for the adjusted salary, if applicable.

Recommendations

The Board of Trustees:

2.1 Re-evaluate compensation programs and reconsider the need for these programs in the future.

2.2 Ensure adequate documentation supporting employee salary adjustments is prepared and maintained.

Auditee's Response

The Board of Trustees provided the following responses:

2.1 The Board of Trustees continues to monitor salaries and necessary expenses of the plan and its employees. Additionally, the MCHCP personnel policy and procedures manual is being updated inclusive of a thorough review of employee compensation. Revisions will include requiring supporting documentation be completed and maintained for any salary adjustments, reclassifications, or repositioning of employees.

2.2 MCHCP provided detailed salary analysis and survey comparisons including national, regional, and statewide external information to support salary repositioning and realignments. Additionally, personnel action forms documenting the changes are maintained in Human Resources. MCHCP will ensure supporting final memorandums drawing salary adjustment conclusions are prepared and maintained.

Auditor's Comment

Although the plan provided some documentation regarding the October 2007 salary adjustment process, this documentation did not show how the salary increases were determined and did not include some of the comparative external salary data obtained. Such documentation should include all external salary data obtained, and should explain how the data was utilized and the new salaries were determined.

3. Travel Expenditures

Improvements to the plan's employee and Board member travel policies and procedures are needed. In addition, limits or guidelines for reimbursement of travel expenses incurred by contracted professional service providers have not been developed. Also, costs associated with a Board retreat appeared excessive and lacked sufficient documentation.

3.1 Employee and Board member travel

Although the Board has established a policy for reimbursement of employee travel expenses, the policy is incomplete and outdated and a travel policy applicable to Board members has not been developed. In addition, some executive and management staff travel expenses are not properly reviewed and approved.

Travel expenses are incurred for various purposes including Board meetings, Board member and employee training, conferences, and open enrollment meetings. Costs associated with travel are most commonly charged to plan purchasing cards (beginning in July 2008); but can also be paid by Board members or employees and reimbursed by the plan, or paid directly to vendors. Travel expenditures totaled approximately $376,000, during the 3 years ended June 30, 2009.

We reviewed purchasing card documentation and employee and Board member expense reimbursements supporting ten trips which collectively totaled $7,180, or approximately 2 percent of Board member and employee travel expenditures during the 3 years ended June 30, 2009. In addition, we scanned travel expenses charged to purchasing cards during the period July 2008 through May 2009 for reasonableness, noting that most meal and lodging expenses were within meal limits in effect at the time and/or Continental United States (CONUS) rates (federal employee per diem maximums, established by the U.S. General Services Administration, frequently used by governmental agencies as travel reimbursement guidelines), with some exceptions noted below.

Policies

Current meal and lodging limits have not been formalized and/or updated in the employee travel regulations included in the Board personnel policies and procedures manual. Although the manual was revised in November 2008 and August 2009, the manual still erroneously includes in-state meal limits in effect prior to rate increases adopted in August 2008. In addition, the out-of-state meal and lodging limits implemented in November 2009, have not been added to the travel regulations. Instead, the employee travel regulations currently provide that "employees are expected to exercise the same care in incurring expenses as a prudent person would exercise if traveling on personal business." Although the new and revised travel limits were communicated to employees prior to implementation, these various communications should be formalized in the employee travel regulations to ensure employees are adequately informed of Board travel policies.

Our review of out-of-state meal and lodging costs incurred by employees and Board members prior to implementation of applicable travel limits in November 2009, noted some instances where these costs exceeded CONUS rates. We noted at least six meal costs which exceeded CONUS rates by $3 to $27 per meal. For each instance noted where lodging costs exceeded CONUS rates, the employee or Board member attended a conference and stayed at the hotel where the conference was held; however, such justification was not documented. Beginning in November 2009, the policy requires any out-of-state meal or lodging costs which exceed applicable limits (new meal and lodging limits were set at CONUS rates) to have documented prior approval by the Executive Director.

In addition, the Board has not established limits for in-state lodging costs or travel policies for Board members. We noted some instances where employee in-state lodging costs and Board member travel costs appeared excessive. We noted one in-state lodging cost which exceeded the CONUS rate. The employee was reimbursed $124 for lodging costs in Kansas City, Missouri, on the night before his flight to San Diego, California, to attend a conference, while the CONUS rate was $103. Our review of hotel charges associated with four trips made by two Board members to Board meetings in Jefferson City, Missouri, noted that lodging costs and hotel restaurant charges frequently exceeded CONUS rates. Lodging costs exceeded

CONUS rates by $9 or $19 for most nights and $69 for one night; and two of four restaurant charges exceeded CONUS rates by $23 and $8 for dinner. Plan officials indicated Board members are expected to ensure expenses are "reasonable and necessary." Limits for all lodging expenses, such as federal per diem maximums, as well as travel policies for Board members, could help ensure such costs are reasonable.

The Board should review and update employee travel regulations, establish limits for in-state lodging, and establish a travel policy for Board members. Travel policies should be periodically reviewed and policy manuals updated to ensure employees and Board members are adequately informed of Board travel policies.

Purchasing card approvals

Some executive and management staff travel expenses are paid without supervisory review and approval.

Current procedures allow the executive and management staff to approve their own travel expenses charged to their staff's purchasing cards. The plan purchasing card policy requires department directors review and approve their staff’s monthly purchasing card transactions. Although not addressed in the policy, Fiscal Affairs personnel stated the Executive Director's purchasing card transactions are to be reviewed by a Board member. However, executive and management staff travel expenses charged to their staff's purchasing cards are approved by the executive/management staff member without further supervisory review. For example, the Senior Administrative Specialist purchased airline tickets totaling approximately $300 on her purchasing card for the former Executive Director and his wife (the plan was reimbursed for his wife's ticket) to attend a conference in Chicago, Illinois, in November 2008. The former Executive Director approved the purchase on the Senior Administrative Specialist's purchasing card log, without further approval by a Board member. In another example, the Associate Executive Director approved his $850 conference registration fee charged on an administrative secretary's purchasing card in January 2009. In addition, instances were noted where Executive Director and Interim Executive Director purchasing card transactions were not reviewed by a Board member.

To ensure travel expenses are reasonable and necessary, procedures should be established for adequate supervisory approval of all travel expenses.

3.2 Contractor travel

Our review noted instances where reimbursements of the actuarial consultant's travel expenses appeared excessive. The plan's contract with the current actuarial consultant provides for reimbursement of "reasonable costs for travel and incidentals" associated with services provided; however, limits or guidelines for these expenses have not been developed.

Our review of reimbursements to the plan's current actuarial consultant for six trips totaling $5,963 noted instances where meal and lodging costs paid by the plan exceeded CONUS rates. Lodging costs exceeded CONUS rates for each trip reviewed. Five of the trips were 1-night trips to meetings at the plan office in Jefferson City. For these trips, the consultant was reimbursed $169 or $179 for lodging costs in St. Louis, Missouri, while the CONUS rate was $106 or $111, respectively; and $134 for lodging costs in Jefferson City, while the CONUS rate was $70. For a 5-night trip to Springfield, Missouri, to audit a plan medical claims vendor, the consultant was reimbursed $91 per night for lodging costs for each of two audit team members, while the CONUS rate was $76. In addition, some meal reimbursements associated with these trips exceeded CONUS rates including $35 and $38 reimbursements for dinners, while the CONUS rate was $29; and a $42 reimbursement for lunch, while the CONUS rate was $18. None of these costs were questioned by plan employees prior to payment. Travel and incidental expense reimbursements totaled approximately $20,300 during the period March 2008 to June 2009, and approximately $12,400 during the period July 2006 to March 2008, to the current and former actuarial consultants, respectively.

Although the Board has implemented limits for certain employee travel expenses including meals and out-of-state lodging, similar limits have not been established for travel expenses of professional service providers. Limits or guidelines for professional service provider travel expenses, such as federal per diem maximums, could help ensure such costs are reasonable.

3.3 Board retreat

The plan held one Board retreat during the 3 years ended June 30, 2009, and the costs associated with the retreat, held in September 2007, appear excessive and lacked sufficient documentation. Our review of the costs for the 3-day, 2-night retreat, which totaled over $11,000, noted the following:

- The retreat was held in Osage Beach, Missouri, which is 51 miles from the plan office in Jefferson City. The plan incurred travel costs for the 15 employees, 7 Board members, and 4 others who attended the retreat. Most of the attendees, including the 15 employees and 2 Board members who live in Jefferson City, stayed 2 nights and participated in the meals provided during the retreat.
- The plan paid the hotel where the retreat was held approximately $8,900. This included $89 per night per person for lodging, $14 per person per breakfast, $22 per person per lunch, and $37 per person for a dinner. Another group dinner at a local restaurant, totaling $940 or about $36 per person, was charged to an employee's purchasing card.
- Eight of the 22 employees and Board members attending the retreat received expense reimbursements totaling approximately $1,200 for

travel costs, including mileage to and from the retreat and additional meals.

- Because the retreat was held over a 3-day period (during the evening of the first day, all day the second day, and until noon the third day), additional lodging and meal costs were incurred. Had the agenda been set for 2 full days, rather than 1 full day and 2 half-days, lodging and some meal costs for attendees within driving distance of the site could have been avoided.
- Although plan employees indicated three other hotels near Osage Beach were contacted and considered for the retreat, documentation of any price quotes received and/or other details regarding the selection process was not maintained.
- The group meal and a lunch totaling $70 charged to an employee's purchasing card during the retreat lacked sufficient documentation. A detailed invoice or receipt slip or sufficient documentation of who attended was not maintained for either meal.

Plan officials indicated a primary purpose of the retreat was to conduct strategic planning and review long-term goals and objectives. Plan officials indicated the retreat was held out of town rather than a more local site because of the benefits of being away from the office. No similar retreats have been held since September 2007.

When planning future retreats, the Board should evaluate the associated costs and consider implementing more cost-effective measures, such as holding the retreat at a more local location and consolidating retreat activities into full days, to reduce travel costs. In addition, to ensure travel expenditures are reasonable and represent valid expenditures, the Board should ensure adequate documentation is maintained supporting any hotel selection process and purchasing card payment documentation is adequately detailed, including the names of individuals for which meals were provided.

Recommendations

The Board of Trustees:

3.1 Review and update the employee travel regulations, establish reasonable maximum rates for all lodging costs, and establish a travel policy for Board members. All current policies should be accurately reflected in policy manuals. In addition, the Board should establish procedures to ensure adequate supervisory review of all travel expenses.

3.2 Establish reasonable maximum rates for all professional service provider travel costs. The reasons necessitating rates exceeding the maximum rates should be documented.

3.3 Consider ways to reduce the costs associated with any future Board retreats. In addition, the Board should ensure documentation of hotel selection processes is maintained and purchasing card expenditures contain adequate supporting documentation.

Auditee's Response

The Board of Trustees provided the following responses:

3.1 MCHCP concurs with the recommendation and in August 2010 instituted updates to the travel policy related to travel expenses. The new policies are substantially similar and modeled after state-wide policies. MCHCP will ensure CONUS rates are adhered to and will document reasons should accommodations differ from CONUS rates due to availability, safety, or accessibility issues. In addition, identical policies and procedures will be shared with the Chair of the Board of Trustees for their consideration in adoption for Trustee travel. MCHCP policies include that the Executive Director's travel expenditures be approved by the Board of Trustees. The instances noted are isolated and not due to exclusion of the Executive Director or Interim Executive Director within the MCHCP policies and procedures.

3.2 MCHCP contracts require vendors to submit actual receipts to support vendor travel in conjunction with official MCHCP business and that those receipts support travel costs that are reasonable in nature. For new contracts or when future contract amendments are proposed, MCHCP will work toward including maximum reimbursement limits that will not exceed CONUS. Situations where travel expenses must exceed maximum limits will be documented for reasons of availability, safety, or accessibility.

3.3 MCHCP does not have any Board of Trustee retreats planned in the foreseeable future, but will consider the recommendation in any decisions regarding future meetings.

4. Gifts and Travel Expenses from Third Parties

Our review of travel expenses indicated Board members and employees periodically receive paid travel expenses (e.g., meals, lodging, and conference fees) from vendors and other third parties while attending conferences. The Board has not established a policy outlining the types of gifts and paid travel expenses, if any, Board members and employees can or cannot accept from third parties that do business with public health care plans. In addition, the Board has not established a system for reporting and monitoring gifts and paid travel expenses accepted by Board members and employees.

Our review of Board member and employee expense reimbursements and purchasing card documentation supporting ten trips identified a trip where certain travel expenses were not claimed. The plan paid airfare, airport parking, a breakfast, and cab fare associated with the former Executive Director's 2-night trip in November 2008 to Chicago, Illinois, to attend a client conference sponsored by the plan actuarial consultant. Plan officials indicated all remaining costs of the trip, including lodging, meals, and any conference fees, were paid by the actuarial consultant.

The Board personnel policies and procedures manual prohibits employees from "soliciting or accepting money or anything of value to influence decisions or as reward for such decisions." Section 103.067, RSMo, states any Board member or employee accepting any gratuity or compensation for the purpose of influencing his action with respect to the investment of the funds of the plan shall forfeit his office, and be subject to other penalties established by law. Accepting travel expenses or other gifts from entities which the plan contracts with or could potentially contract with, could give the appearance of a conflict of interest. By allowing the acceptance of any items from third parties, it is difficult to determine how plan officials could monitor whether someone's actions had been influenced.

Policies should be established outlining the types and limits of items, if any, that Board members and employees are allowed to accept from third parties. If acceptance of these items is allowed, a system should be established for reporting and monitoring those items received by Board members and employees. Records should document the name of the third party, their relationship to the plan, expenses paid or gifts received, the name of the recipient, the date, and the estimated value of the item received. These records should be periodically reviewed by the Board and staff to ensure such items are reasonable.

Recommendation

The Board of Trustees establish policies outlining the types of gifts or other items of value, if any, which can be accepted from third parties by Board members and employees. If allowed, the Board should establish a system for reporting and monitoring those items which are accepted from third parties by Board members and employees.

Auditee's Response

The Board of Trustees provided the following response:

The paid business-related travel expenses to the conference noted provided to the former Executive Director did not constitute a gift from a third party. These conference expenses were provided to all clients of the vendor and were considered a part of the formalized cost structure incorporated in the actuarial contract. Additionally, the receipt of trade knowledge inherent within the conference further advances the educational opportunities of the MCHCP executive team at no additional cost to the plan. MCHCP gained exposure to global team leaders and best practices of other clients to develop and understand other perspectives and objectives in addressing key regional and national health issues. MCHCP understands the importance of *maintaining objectivity in all vendor relationships and will convey that directive in written guidelines requiring compliance with applicable provisions in Chapters 103 and 105, RSMo, for reporting in the finalized policy addressing gifts and travel expenses from third parties.*

5. Questionable Expenditures

Some expenditures, totaling at least $32,000 during the 3 years ended June 30, 2009, do not appear to be reasonable or necessary uses of plan funds. Plan funds were spent for various events, gifts, local meals, and other items for employees; and adequate documentation supporting these expenditures was not maintained.

Our review of various expenditures during the 3 years ended June 30, 2009, noted the following:

- Throughout each year, incentive gifts were provided to employees. Gifts, which totaled over $12,600, included items such as gift cards, clothing, blankets, coolers, flashlights, pens, duffel bags, and picnic sets.
- The plan held an annual employee appreciation luncheon as well as several luncheons, parties, and other activities for employees during and after open enrollment periods each year. Costs for food, supplies, and gift cards (prizes) associated with the employee appreciation luncheons and open enrollment activities totaled approximately $9,700.
- The plan hosted a reception and a luncheon to recognize the retirement of the former Executive Director. Costs for food, supplies, and gifts for these events totaled approximately $1,200.
- Meals totaling over $5,700 were provided to employees during training sessions, staff meetings, and interviews held at the plan office.

Most of these expenditures do not appear necessary or essential to the operation of the plan. The plan has a fiduciary duty to ensure funds are expended in a manner that provides the greatest benefit to the plan and its members and it is unclear what, if any, benefit these expenditures provided. Most of these expenditures would not be allowed under state regulation, 1 CSR 10-3.010(2). In addition, sufficient documentation was not maintained for these expenditures. The plan maintained no records of gift recipients; recognition event, meeting, and training attendees; or documentation supporting the business purpose of the expenditures. Plan officials indicated all employees were invited to the various employee recognition events, which were provided in addition to the gifts, to reward employee performance and service, improve employee morale, and encourage teamwork. They also indicated the local meals were generally provided to certain employees when necessary to conduct plan business and facilitate the schedules of attendees.

According to plan officials, the plan discontinued providing most of the various employee recognition and incentive events and gifts and local meals, effective March 2010. To ensure efficient use of state resources, the Board should ensure expenditures are reasonable and necessary for conducting plan business and that adequate documentation, including the business purpose and recipients and/or attendees, is maintained for each meal or event.

Recommendation

The Board of Trustees ensure expenditures are necessary and reasonable uses of plan funds, provide a benefit to the plan, and are supported by adequate documentation.

Auditee's Response

The Board of Trustees provided the following response:

Executive management has reviewed and eliminated many of the former instances noted.

Missouri Consolidated Health Care Plan Organization and Statistical Information

The Missouri Consolidated Health Care Plan (MCHCP), established January 1, 1994, was created under an act of the General Assembly, and is governed by Chapter 103, RSMo. The plan was created to provide health care benefits to state active, retired, terminated-vested, and long-term disability employees, survivors, and their dependents and to eligible Missouri public entity employers. The plan administers medical benefits and an employee assistance program for most eligible members of the Missouri State Employees' Retirement System (except employees of the Department of Conservation), members of the Judicial Plan, legislators, statewide elected officials and certain members of the Public School Retirement System, as well as enrolled Missouri public entities. In addition, dental and vision benefits are available to state employees including employees of the Departments of Conservation and Transportation, and the Missouri State Highway Patrol. As of June 30, 2009, 106,681 active and retired state members and their dependents and 1,613 public entity members and their dependents were enrolled in the plan.

Board of Trustees

The responsibility for the operation and administration of the plan is vested in a 13-member Board of Trustees. The Board consists of the Director of the Department of Health and Senior Services (DHSS); the Director of the Department of Insurance, Financial Institutions and Professional Registration (DIFP); the Commissioner of Administration; two members of the Senate, appointed by the President Pro Tem of the Senate; two members of the House of Representatives, appointed by the Speaker of the House; and six members appointed by the Governor to serve 4-year terms, three who are citizens of the state, not members of the plan, but are familiar with medical issues and three who are members of the plan. The members of the Board of Trustees as of June 30, 2009, were as follows:

Name and Title	Membership	Term Expires
Patrick Naeger, Board Chair (1)	Appointed (non-member)	December 31, 2009
Roslyn Morgan, Vice Chair (1)(2)	Appointed (member)	December 31, 2009
Margaret Donnelly	Director, DHSS	(4)
John Huff (1)	Director, DIFP	(4)
Kelvin Simmons	Commissioner of Administration	(4)
Frank Barnitz	Senator	(4)
Tom Dempsey	Senator	(4)
Robert Schaaf (3)	Representative	(4)
Terry Swinger	Representative	(4)
Kaye Newsome (1)	Appointed (non-member)	December 31, 2009
Carla Owens	Appointed (non-member)	December 31, 2012
Nikki Loethen	Appointed (member)	December 31, 2010
Garry Taylor	Appointed (member)	December 31, 2012

(1) John Huff and Kaye Newsome were elected Board Chair and Vice Chair in January 2010 and March 2010, respectively.
(2) Replaced by Michael Warrick in March 2010.
(3) Replaced by Eric Burlison in February 2010.
(4) Term expires with office held.

Executive Staff

Richard Bowles has served as the Executive Director since October 16, 2009. Ron Meyer served as Executive Director from the creation of the plan until his retirement in February 2009. Jan Jackson and Henry Curran each served as Interim Executive Director during the period February to October 2009. The Executive Director coordinates the daily operation of the plan, contracts for professional services with the approval of the Board, and advises the Board on all matters pertaining to the plan. At June 30, 2009, the plan had 72 employees including the Executive Director. The executive staff and their annual compensation as of December 31, 2009 were as follows:

Name and Title	Annual Compensation
Richard Bowles, Executive Director (1)(2)	$130,000
Henry Curran, Associate Executive Director	95,016

(1) Richard Bowles also received moving expense reimbursements totaling approximately $9,000 when hired.
(2) Former Executive Director, Ron Meyer's annual salary was $114,720 when he retired.

Additional information regarding the plan's provisions and benefits, assets and investments, financial activities, consultants, and actuarial valuations is included in various documents and reports which are available on the plan's website (www.mchcp.org).