

CITY OF NORTH ADAMS, MASSACHUSETTS

**Independent Accountant's Report on Applying
Agreed-Upon Procedures**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

The the Honorable Mayor Alcombright
City of North Adams, Massachusetts

We have performed the procedures detailed in the accompanying Schedule of Procedures and Findings, which were agreed to by the management of the City of North Adams, Massachusetts, solely to assist you with respect to evaluating the employer and employee contributions to the City of North Adams, Massachusetts health insurance trust. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described in the accompanying schedule, either for the purpose for which this report has been requested or for any other purpose.

Our agreed-upon procedures and related findings are presented in the accompanying schedule to this report.

We were not engaged to, and did not conduct an audit, the objective of which would be to express an opinion on the specified elements, accounts or items referred to above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users listed above and is not intended to be, and should not be, used by anyone other than those specified parties.

We are presenting for your consideration our recommendations regarding certain transactions of the City of North Adams, Massachusetts's Health Insurance Trust. The recommendations were developed during the course of our performing agreed-upon procedures.

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March 17, 2010

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City of North Adams, Massachusetts

**Schedule of Agreed-Upon Procedures
And Related Findings**

Our agreed-upon procedures and related findings are as follows:

1. Review Employee and Employer Contributions to the Health Insurance Trust (MGL Chapter 32B, Section 3a) for Fiscal years 2008 and 2009.

Objective:

- To determine compliance with applicable Massachusetts's general laws and guidelines pertaining to contributions to the City's Health Insurance Trust, and to ascertain that employer and employee contributions were in accordance with a previously determined rate.

Procedures:

- We obtained monthly enrollment counts, by individual and family, for the Blue Cross Blue Shield health insurance plans, (Network Blue N.E. - HMO and Blue Choice - POS). This was accomplished by obtaining the monthly invoices from the health care provider (Blue Cross Blue Shield), which included enrollments on which administration charges were based. The City has established a plan category of individual plus 1, which was accounted for on the Blue Cross Blue Shield monthly bill as a family plan. The City internally prepares handwritten head counts of members enrolled in individual, family and individual plus 1 plans. The City-prepared head count sheets were used to determine the enrollment of the individual plus 1 plan. The head count enrollment was then used to establish the family plan enrollment (family enrollment from invoice less enrollment from City head count sheets for individual plus 1 plans).
- We obtained working rate/premiums for the HMO and Blue Choice health insurance plans, segregated by individual, family and individual plus 1 plans, as established by the City and its respective unions. We also obtained the applicable percentage of employer and employee contributions to each plan.
- We obtained the City's general ledger detail for the Health Insurance Trust for fiscal years 2009 and 2008. We traced activity from the general ledger to independent audited financial statements for the respective years.
- We calculated the employer and employee contributions that should have been placed in the Health Insurance Trust based on enrollment from the aforementioned procedures, times the rate/premium of each plan type of the enrolled members and then by the respective percentage share for employer and employee. This calculation was then compared to the actual general ledger activity of employee and employer contributions to

determine if the correct amounts were transferred to the Health Insurance Trust as required. This procedure was performed for both fiscal years 2009 and 2008. (a)

Findings:

We calculated the following with respect to employer and employee contributions:

<i>Fiscal Year 2008:</i>	Employer Contributions	Employee Contributions	Total
Per General Ledger	2,938,424	1,488,966	4,427,390
Per Calculation from procedure noted above (a) (see attached schedule)	3,539,510	1,516,934	5,056,444
Variance	(601,086)	(27,968)	(629,054)
<i>Fiscal Year 2009:</i>	Employer Contributions	Employee Contributions	Total
Per General Ledger	3,000,000	1,446,409	4,446,409
Per Calculation from procedure noted above (a) (see attached schedule)	3,451,747	1,479,320	4,931,067
Variance	(451,747)	(32,911)	(484,658)
Total variance for fiscal years 2008 and 2009	(1,052,833)	(60,879)	(1,113,712)

The above calculations did not take into effect contributions from surviving spouses who contribute 50% and certain cobra participants who contribute 100%. We believe, based on inquiry alone, that the effect of these varied contribution amounts would be minimal due to the limited number of participants in those categories.

Recommendations:

We recommend that City management review MGL chapter 32B, section 3a, (Municipal Group Insurance Trust Fund statute). It is interpreted, under this law, requiring that the City to contribute a specific percentage of a previously determined premium or rate by the end of each fiscal year. As noted above, the City did not contribute its percentage of the working rate/premium based on enrollment for fiscal years 2009 and 2008.

To be in compliance with state statute, we recommend that the City start contributing their applicable share of the established working rate/premium based on enrollment.

We also recommend that the City perform a reconciliation of internally prepared head counts to the head counts noted on Blue Cross Blue Shield invoices.

We further recommend that the City review the year-end cutoff procedures to insure that health insurance withholdings for the subsequent fiscal year claims are accounted for in a liability account rather than in the year-end fund balance.

Overview for Accounting for a Health Insurance Trust

In this section, we have listed several points designed to provide the reader with insight into the proper accounting of the Trust.

- Chapter 32B requires that contributions to the Trust from employers, employees, retirees and other participants to be in accordance with the agreed-upon percentages.
- A surplus or (deficit) in the fund, either in total or by percentage contribution, is adjusted by changing future contribution rates.
- All expenses incurred related to providing health insurance can be charged to the Trust.
- The City must annually estimate and record a Trust fund liability for incurred but not reported (IBNR) health claims.
- Participants of the Trust contribute different percentages and include the following:
 - Current Employees – 30%
 - Retired Employees – 30%
 - Surviving Spouse – 50%
 - Cobra Participants – 100%
- Payments from participants usually come from the following sources:
 - Payroll withholdings from current employees.
 - Monthly turnover of retiree withholdings from the retirement system.
 - Direct payments received from participants that cannot contribute their share through the withholding process.
- The City collects and withholds participant contributions in the month prior to the providing of the benefits.
 - For example, June withholdings are for July health benefits.
- The City does not process claims directly, but instead third party administrators and providers process the claims.
- The City contributes a level monthly premium to Blue Cross.
 - The level monthly premium is used to even out the cash-flow for the City.
 - At the end of each quarter, Blue Cross completes a reconciliation between the level contributions paid to actual claims paid and administration charges. The difference is either paid by or refunded to the City.
 - For example, if the City made \$360,200 payments for July, August and September, then Blue Cross would have on hand \$1,080,600 of City funds to pay claims to doctors, hospitals, etc. and administration charges.

If \$1,020,000 in actual claims and administration charges were paid, then Blue Cross would return to the Trust \$60,600 in October.

- The City also purchases stop loss insurance on a premium basis.
 - Therefore, the City is only self-insured up to a certain level for each participant. Once claim payments reach the deductible level in a policy year, the losses incurred by the City are stopped and the third party insurance company reimburses the City for all claims paid over that level. These payments are received by Blue Cross Blue Shield and are factored in the quarterly reconciliation of the level monthly premiums

City of North Adams, Massachusetts
Schedule of Calculation of Contributions based on Enrollment
Fiscal Year 2009 - July 1, 2008 to June 30, 2009

	July-08	August-08	September-08	October-08	November-08	December-08	January-09	February-09	March-09	April-09	May-09	June-09	Total
BCBS - Network Blue NE (HMO)													
Monthly Rates													
Individual	629.16	629.16	629.16	629.16	629.16	629.16	635.45	635.45	635.45	635.45	635.45	635.45	635.45
Individual plus 1	1,634.78	1,634.78	1,634.78	1,634.78	1,634.78	1,634.78	1,651.13	1,651.13	1,651.13	1,651.13	1,651.13	1,651.13	1,651.13
Family	1,709.07	1,709.07	1,709.07	1,709.07	1,709.07	1,709.07	1,726.16	1,726.16	1,726.16	1,726.16	1,726.16	1,726.16	1,726.16
Enrollment													
Individual	201	200	203	204	202	206	206	204	201	197	198	196	196
Individual plus 1	81	77	78	78	78	73	72	74	74	84	84	84	84
Family	91	95	84	85	83	84	86	86	87	78	78	78	78
Total Contribution - HMO	414,404	414,072	398,784	401,132	366,456	392,505	398,234	400,265	400,085	398,519	387,884	397,884	4,810,236
BCBS - Blue Choice (POS)													
Monthly Rates													
Individual	1,321.17	1,321.17	1,321.17	1,321.17	1,321.17	1,321.17	1,334.38	1,334.38	1,334.38	1,334.38	1,334.38	1,334.38	1,334.38
Individual plus 1	2,367.25	2,367.25	2,367.25	2,367.25	2,367.25	2,367.25	2,390.92	2,390.92	2,390.92	2,390.92	2,390.92	2,390.92	2,390.92
Family	2,802.15	2,802.15	2,802.15	2,802.15	2,802.15	2,802.15	2,830.17	2,830.17	2,830.17	2,830.17	2,830.17	2,830.17	2,830.17
Enrollment													
Individual	4	4	4	4	4	4	4	4	4	4	4	4	4
Individual plus 1	2	2	2	2	2	2	2	2	2	2	2	2	2
Family	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Contribution - POS	10,019	10,019	10,019	10,019	10,019	10,019	10,119	10,119	10,119	10,119	10,119	10,119	120,831
Grand Total Contribution	424,423	424,091	408,803	411,152	406,475	402,527	408,353	410,385	410,204	408,638	408,003	408,003	4,931,067
Breakdown by Employer and Employee													
Employer (70%)	297,096	296,864	286,169	287,806	284,533	281,769	285,847	287,269	287,143	286,047	285,602	285,602	3,451,747
Employee (30%)	127,327	127,227	122,634	123,345	121,943	120,758	122,506	123,116	123,061	122,592	122,401	122,401	1,479,320
	424,423	424,091	408,803	411,152	406,475	402,527	408,353	410,385	410,204	408,638	408,003	408,003	4,931,067

City of North Adams, Massachusetts
Schedule of Calculation of Contributions based on Enrollment
Fiscal Year 2008 - July 1, 2007 to June 30, 2008

	July-07	August-07	September-07	October-07	November-07	December-07	January-08	February-08	March-08	April-08	May-08	June-08	Total
BCBS - Network Blue NE (HMO)													
Monthly Rates													
Individual	589.58	589.58	589.58	589.58	589.58	589.58	622.93	622.93	622.93	622.93	622.93	622.93	622.93
Individual plus 1	1,531.88	1,531.88	1,531.88	1,531.88	1,531.88	1,531.88	1,618.59	1,618.59	1,618.59	1,618.59	1,618.59	1,618.59	1,618.59
Family	1,601.50	1,601.50	1,601.50	1,601.50	1,601.50	1,601.50	1,692.15	1,692.15	1,692.15	1,692.15	1,692.15	1,692.15	1,692.15
Enrollment													
Individual	190	191	193	184	188	186	190	187	185	187	189	191	191
Individual plus 1	87	86	85	88	86	88	85	85	83	82	82	82	82
Family	104	104	108	100	96	94	97	97	99	97	99	96	96
Total Contribution - HMO	411,846	410,904	418,957	403,434	398,323	395,005	420,075	418,207	417,108	413,351	417,981	414,150	4,835,341
BCBS - Blue Choice (POS)													
Monthly Rates													
Individual	1,238.02	1,238.02	1,238.02	1,238.02	1,238.02	1,238.02	1,308.09	1,308.09	1,308.09	1,308.09	1,308.09	1,308.09	1,308.09
Individual plus 1	2,218.25	2,218.25	2,218.25	2,218.25	2,218.25	2,218.25	2,343.81	2,343.81	2,343.81	2,343.81	2,343.81	2,343.81	2,343.81
Family	2,826.78	2,826.78	2,825.78	2,825.78	2,825.78	2,825.78	2,774.41	2,774.41	2,774.41	2,774.41	2,774.41	2,774.41	2,774.41
Enrollment													
Individual	4	4	4	4	4	4	4	4	4	4	4	4	4
Individual plus 1	2	2	2	2	2	2	2	2	2	2	2	2	2
Family	1	1	-	-	-	-	-	-	-	-	-	-	-
Total Contribution - POS	12,014	12,014	9,389	9,389	9,389	9,389	9,920	9,920	9,920	9,920	9,920	9,920	121,103
Grand Total Contribution	423,860	422,918	428,345	412,823	407,712	404,393	429,995	428,127	427,028	423,271	427,901	424,070	5,056,444
Breakdown by Employer and Employee													
Employer (70%)	296,702	296,043	298,442	288,978	283,968	283,075	300,997	299,689	298,919	296,290	299,531	298,849	3,539,510
Employee (30%)	127,158	126,875	127,904	123,847	121,713	121,318	128,999	128,438	128,108	126,981	128,370	127,221	1,516,934
	423,860	422,918	426,345	412,823	405,712	404,393	429,995	428,127	427,028	423,271	427,901	424,070	5,056,444

**City of North Adams, Massachusetts
 General Activity for Revenue, Expenses and
 Change in Fund Net Assets
 For the Years Ended June 30, 2009 and 2008**

	Health Insurance Trust Fund 2009	Health Insurance Trust Fund 2008
Operating Revenues:		
Employer Contributions	\$ 3,000,000	\$ 2,938,424
Employee Contributions	1,446,409	1,488,966
Total Operating Revenues	4,446,409	4,427,390
Operating Expenses:		
Claims and Administration	4,055,245	3,709,392
Stop Loss Insurance	453,799	480,719
Total Operating Expenses	4,509,044	4,190,111
Operating Income (Loss)	(62,635)	237,279
Non-Operating Revenues (Expenses):		
Interest Income	4,656	6,560
Total Non-Operating Revenues (Expenses)	4,656	6,560
Change in Net Assets	(57,979)	243,839
Net Assets at Beginning of Year	205,415	(38,424)
Net Assets at End of Year	\$ 147,436	\$ 205,415