



To: Ms. Cristina Diaz-Torres, School Board Chair  
Mr. David Priddy, School Board, Co-Chair  
School Board Members  
Dr. Francisco Durán, Superintendent  
Cc: Members of the Cabinet  
From: Ms. Alice Blount-Fenney, Director, Internal Audit  
Re: Final Audit Report Healthcare Review  
Date: May 7, 2024

### ***Background***

During the fall Board Meeting on October 12, 2023, Ms. Mary Kadera, Board Member, presented an amendment to the initial Annual Audit Plan to include an audit of the incidents that lead up to changes in the healthcare providers at APS. This amendment was approved by the full Board and in turn the Annual Plan was modified. This assignment was classified as a high priority and followed the completion of the School Activity Funds Audit.

On September 20, 2023, via the Superintendent's Staff Message, it was announced that that there would be changes with the current healthcare providers for APS employees. (***Exhibit Package L***). This was followed up with a notice on September 21, 2023, via Inside APS from the Superintendent regarding healthcare changes and employee concerns. This was followed up with a memo from Human Resources on September 22, 2023, regarding healthcare changes and open enrollment information.

Many members of the APS community voiced their concerns with the loss of Kaiser, including presentations made during Open Office Hours with Board Members. This correspondence was shared with me and taken into consideration as I began the review of supporting documentation, including primary evidence (examples include email correspondence, various rate sheets and extension terms for services) from and to various APS departments including: Human Resources, the former Executive Director Human Resources, the Benefits Supervisor, and the Procurement Department, including the former Director, a Procurement Consultant, and a Senior Procurement Specialist.

### ***Limitations and Alternative Access to Information***

- Three key individuals involved with the business processes relating to healthcare changes separated from APS. Ms. Brianna Cobbins, former Executive Director of Human Resources, Operations and Ms. Rebecca Hoffman, Procurement Consultant resigned and Mr. David Webb, former Director Procurement, retired. Prior to his departure, Mr. Webb provided some information regarding the healthcare changes and the Request for Proposal (RFP) process.
- Another Procurement Consultant was brought on board in September 2023 to assist operations as the former Procurement Director transitioned into retirement.
- Upon the conclusion of the initial review of the Draft Report by the School Board Chair and the Audit Committee Chair, the email files for a former Human Resources official, Dan Redding, was

also reviewed in March. The review of these files did not contain any supporting documentation for the decisions or discussions related to going out for a healthcare bid or the contract award process.

- As an alternative plan to obtain primary evidence, the Information Systems department was contacted and provided internal audit with access to the email records for both former employees as well as the former Procurement Consultant.
- To gain direct information outside of the APS community, I met with Kaiser officials, Ricardo Orellana, Executive Account Manager and Ms. Gracelyn A. McDermott, Vice President whose duties included servicing APS and requested copies of any of their supporting documentation pertaining to healthcare business processes with APS.
- It has not been a business practice of the Selection Advisory Committee (SAC) to record and maintain meeting minutes. Therefore, there is no audit trail of any discussions between SAC members during meetings. However, there are records of the score sheets in which SAC members rate responses from perspective vendors. **(Exhibit A)**

### ***Internal Audit Scope and Methodology***

The scope of this audit consisted of a review and analysis of the events that contributed to the change in healthcare providers; especially the loss of Kaiser which was identified in multiple letters and email correspondence sent to the School Board by members of the APS community.

The audit methodology included:

- Interviews with the following individuals: the former Procurement Director, the Benefits Supervisor, a Senior Procurement Specialist, the Assistant Superintendent, Human Resources, and a newly appointed Procurement Consultant. On May 7, 2024, an interview was held with the Superintendent to determine when the initial announcement of the healthcare change was announced to the APS community.
- Interviews were also conducted with key employees from Kaiser who offered to provide information pertaining to their history of business processes serving the APS community. This conversation also included a discussion with the Kaiser employees and their coordination of efforts with the former Executive Director, Human Resource Operations, the Benefits Supervisor, and the former Procurement Director in relation to healthcare benefits for active employees and retirees.
- A review of email correspondence and memos between consultants assigned to the Procurement Department, including Korn Ferry (RFP specialist and project management services ***Refer to Exhibit G***), Benefits and Procurement Department personnel, including documents pertaining to Emergency Extensions, Requests for Proposals, scoring respondents to the RFP process, and other procurement related business processes.
- A review of any documented “agreements” including emergency extensions. **(Exhibit H)**
- Interviews were also conducted with members of the Selection Advisory Committee (SAC) whose primary duties include reviewing the documents pertaining to the Request for Proposals process with a focus on reviewing and rating responses from potential providers.
- Discussions and requests for any supporting documentation pertaining to healthcare benefits from former HR employees that were involved in benefits related business processes.

### ***Amendment to the Audit Plan***

During the fall 2023 Board meeting, the following requests for information was proposed for inclusion in the Audit Plan:

- The process that led to APS issuing an RFP on December 2, 2022, for a single Contractor to provide all health insurance services including both HMO and PPO, including whether and how APS solicited and considered its employees' needs and priorities in RFP development,
- Factors that led to the issuance of a Revised RFP on January 6, 2023, enabling Contractors to bid on HMO and PPO services separately,
- How APS solicited and considered its employees' needs and priorities in the evaluation of proposals received in Spring of 2023,
- How APS could have more clearly and timely communicated to its current and retired employees about changes to health insurance coverage, and
- Recommendations to improve health insurance procurement and related communication in the future.

***Results are included in Part II of this Report.***

### ***Executive Summary: Audit Observations***

- Supporting documentation and discussions with the Vice President, Kaiser Permanente, Marketing, Sales, and Business Development confirmed that Kaiser did not respond to the initial RFP and "missed" the second RFP.
- For over a decade, APS in arrangements with both Kaiser and Cigna operated on a year-by-year basis in which there was no signed two-party contract, only a rate sheet with an "agreement sheet" provided as a basis for service.
- There are APS business processes for rating responses received for RFP's and related supporting documentation is maintained for future reference.
- Customer service and employee needs were taken into consideration for the change in healthcare providers.

This report includes supporting documentation and statements pertaining to recommendations to improve internal controls over procurement and human resources related business functions relating to vendor solicitation and contract awards and denials. I would like to thank those APS employees and Kaiser officials that participated in this audit for their time and efforts throughout this assignment.

Best regards,

Alice Blount-Fenney  
Director Internal Audit

## ***Part I.***

### ***Detailed Audit Observations***

Supporting documentation and discussions with the Vice President, Kaiser Permanente, Marketing, Sales, and Business Development confirmed that Kaiser did not respond to the initial RFP and “missed” the second RFP.

- A review of an email on September 27, 2023 (***Exhibit B*** at the end of this report) from the Vice President, Kaiser Permanente, for Marketing, Sales, and Business Development to Michael Hodges, Assistant Superintendent, Human Resources supported the fact that Kaiser Permanente officials did not respond to the initial RFP and “dropped the ball” with the second RFP.
- On January 23, 2024, via a “Teams” meeting I met with the Vice President, Kaiser Permanente, for Marketing, Sales, and Business Development, Ms. McDermott and the Executive Account Manager, Mr. Orellana to discuss Kaiser’s knowledge and actions taken in response to the APS RFP for Healthcare.
- The information shared at this meeting confirmed the same as the information shared in the September e-mail to Michael Hodges from Ms. McDermott. Namely, that Kaiser saw the first RFP but chose not to respond to it since they felt “it was not written for us.” Additionally, there was an admission that Kaiser missed the second RFP.

### ***Conclusion***

- Kaiser Permanente officials have taken full responsibility for not being a part of the RFP process for APS healthcare.

### ***Recommendation***

- Not warranted. Vendors assume responsibility for any procurement related requests and responses. It is not ethically appropriate for APS to interfere with these decisions.

For over a decade, APS in arrangements with both Kaiser and Cigna operated on a year-by-year basis in which there was no signed two-party contract, only a rate sheet with an “agreement” sheet provided as a basis for service.

- Through discussions with the former Director of Procurement and the Benefits Supervisor it was confirmed that for over a decade, APS operated without a signed two-party contract for both Kaiser and Cigna. (***Exhibit J***)
- It was a common Human Resources and Procurement practice to refer to the “agreement” as a contract and a “contract number was assigned accordingly.
- The informal process followed consisted of both Providers preparing rate sheets for the upcoming year and having Human Resources officials sign-off on these documents as evidence of approval.
- Based upon the email referenced via Exhibit K, it also appears that Human Resources and Procurement lacked procedures to notify vendors when their contract/agreements would no longer be continued. (***Exhibit K***)

- During COVID in 2020, the process of issuing an emergency extension was implemented to ensure uninterrupted coverage for APS employees. There were additional one-year extensions after 2020. More specifically on January 18, 2023, a letter was sent to Kaiser (**Exhibit C**) informing them that on December 31, 2022, the “contract” (term used to identify the agreement) with APS for Healthcare expired December 31, 2022. This document further stated that the renewal would be effective from January 1, 2023, through December 31, 2023.
- On September 12, 2023, a Notice of Non-Renewal of Contract was sent to Kaiser from APS (**Exhibit D**) This document clearly spelled out that the agreement would remain in effect through December 31, 2023.
- On September 21, 2023, there was a letter from APS, by the former Procurement Director to Kaiser (**Exhibit E**) informing Kaiser of the RFP process. It also stated that an RFP for healthcare was issued on December 2, 2022. The letter also stated that “APS was not able to show a two-party agreement executed between APS and Kaiser for Services. It further stated that in an attempt to introduce a more formal structure to the renewal process, a two-party amendment was introduced in 2023.

### **Conclusion**

- Internal Controls over the practice of having business” arrangements” versus standard two-party contracts needs to be improved and were unsatisfactory. In 2023 a standard was implemented for two-party contracts.

### **Recommendations**

- Going forward, I am recommending that an APS policy should be developed and mandated for a traditional two-party documented signed contract for business entities that provide goods or services on behalf of APS. Failure to do so may result in both parties being unprotected and not having legal rights to dispute any failures to deliver expected goods or services.
- Human Resources and Procurement management teams should work together to begin the process of developing business processes to include the notification to vendors that were not selected for the contract award.

There are business processes for rating responses received from perspective vendors for RFP’s and related supporting documentation is maintained for future reference.

- During the audit, it was confirmed that the Human Resources and Procurement departments maintain business practices for rating respondents for RFP’s. Supporting documentation was provided for the audit including the requirement for confidentiality agreements for all Selection Advisory Committee members.
- The Selection Advisory Committee was comprised of six employees, of which four were from Human Resources. For a solicitation impacting not only active employees but the entire APS community it may have been beneficial if a retiree or other APS departments were included in the rating and selection process.

## **Conclusion**

- Overall controls are adequate since there are documented records of the ratings/evaluation of perspective vendors.

## **Recommendations**

- However, going forward there would be more “balance of different views” if employees from other departments that may be impacted from the decision of selecting a vendor are considered for inclusion in the Selection Advisory Committee.
- With current business processes, the Selection Advisory Committee members are allegedly selected at random by the Committee Chair. Going forward, I am recommending that a member of the Cabinet or a designed employee also be assigned to assist the Chair with the selection of such Committee members.

## **Customer service and employee needs were taken into consideration for the change in healthcare providers.**

- During my review of email documentation from the former Procurement Consultant to members of the Selection Advisory Committee, Human Resources and Procurement, the emails dated March 20, 2023, and March 28, 2023, included an attachment “Draft Questions for the Shortlist Interview” (**Exhibit A**) included questions pertaining to customer services, what resources are available to support employees during this transition? Questions pertaining to the impact on prescription drugs, preventive care, and other health related support questions.
- According to the Chief Operating Officer, the following answer was provided to the School Board in October 2023 regarding staff voice: *“APS has traditionally used a benefits consultant to assist with healthcare plan administration. Previously, APS had a contract with Aon Consulting until recently awarding the new consulting contract to Korn Ferry (KF). KF assisted APS in formulating the criteria and requirements of the RFP based on the current performance of our healthcare plans, data utilization, services, and account management. While staff can provide their preferences, desires, and issues of importance as it relates to their benefits, as an organization it is the data utilization and performance of the healthcare plans to include cost that determine how benefits are awarded to ensure they are in the best interest of the employee and organization.”*

## **Conclusion**

- It appears that although controls are appropriate for these business functions, they could have been enhanced if additional representation from employees were included in some of the discussions and feedback to the Selection Advisory Committee.

## **Recommendations**

Refer to report section II *Internal Audit Recommendations\** for additional information.

### **Part II**

#### **Information and Results in Response to School Board Approved Audit Plan Amendments**

The process that led to APS issuing an RFP on December 2, 2022, for a single Contractor to provide all health insurance services including both HMO and PPO, including whether and how APS solicited and considered its employees' needs and priorities in RFP development.

Factors that led to the issuance of a Revised RFP on January 6, 2023, enabling Contractors to bid on HMO and PPO services separately.

#### **Summary**

- During 2020, due to the COVID-19 Pandemic, APS operated under multiple emergency extensions, the last one issued for healthcare services covered the period of 2022-December 2023 with no options for an extension.
- In 2022 as the pandemic challenges were under more control, APS began to reassess the way APS conducts business and began an assessment of operations. Leadership realized that APS did not have an existing two-party contract with any of our healthcare providers. In addition, there were increasing conversations at the national and state level about the timing for ending federal pandemic flexibilities. It was decided at the Cabinet level that APS did not want to continue the process of operating under emergency extensions. This led to the request for a proposal.
- On March 25, 2022, Korn Ferry entered into a professional letter of engagement with APS for the purpose of securing a healthcare provider. The professional fees for this engagement were \$120,000. Other key services covered in this agreement included project management services, review, and oversight for the Request for Proposal (RFP) services, review of the vendor responses, assist APS with evaluation of response results, and negotiations assistance.
- In addition to the initial letter of engagement with Korn Ferry on November 22, 2022, an amendment was issued for additional services. The scope included project management services covering the transition from Cigna and Kaiser to CareFirst. An additional fee of \$130,000 was charged for these professional services. APS relied on Korn Ferry as subject matter experts.
- Refer to **Exhibit package G** for additional information.

***Request for Proposal History for Healthcare Providers from fiscal years 2022 through 2023. Confirmed with Procurement (Exhibit M)***

***Summary***

- Request for Proposal RFP 41-FY 22 was issued in 2022 and covered healthcare coverages as a Preferred Physician (PPO) and Health Maintenance Organization (HMO) for retirees only.
- During fiscal year 2022, an emergency extension provision was in effect and covered Kaisers Health Maintenance Organization (HMO) coverage for employees and retirees, as well as Cigna's Preferred Physician plans.
- During fiscal year 2023, RFP 56-FY23 was issued covering PPO's, HMOs, and Exclusive Provider Organization (EPO) for active employees. There were no provisions stated for retirees.
- It was confirmed with Procurement and the healthcare Intent to Award only included the PPO retirees. This mishap appeared to have contributed to the need for amendments to include retirees with healthcare coverage.

*How APS solicited and considered its employees' needs and priorities in the evaluation of proposals received in Spring of 2023.*

***Recommendations and Existing Documentation from the Chief Operations Officer***

The following email was received from Dr. John Mayo in response to the question regarding employee needs and consideration:

**From:** Mayo, John <[john.mayo@apsva.us](mailto:john.mayo@apsva.us)>

**Sent:** Monday, February 5, 2024 12:28 PM

**To:** Blount Fenney, Alice <[alice.blountfenney@apsva.us](mailto:alice.blountfenney@apsva.us)>; Hodge, Michael <[michael.hodge@apsva.us](mailto:michael.hodge@apsva.us)>

**Cc:** Stockton, Brian <[brian.stockton@apsva.us](mailto:brian.stockton@apsva.us)>

**Subject:** Re: Healthcare change question

Good afternoon,

The following answer was provided to the school board in October 2023 regarding staff voice:

APS has traditionally used a benefits consultant to assist with healthcare plan administration. Previously, APS had a contract with Aon Consulting until recently awarding the new consulting contract to Korn Ferry (KF). KF assisted APS in formulating the criteria and requirements of the RFP based on the current performance of our healthcare plans, data utilization, services, and account management. While staff can provide their preferences, desires, and issues of importance as it relates to their benefits, as an organization it is the data utilization and performance of the healthcare plans to include cost that determine how benefits are awarded to ensure they are in the best interest of the employee and organization.

Dr. Mayo has added the following comments: " *The utilization data provides details of specific high claims as well as other medical and prescription information. This information is provided to the appropriate staff to review with our insurance carriers. During the RFP process, utilization data*



*were provided to Korn Ferry since they were working with the various bidders. The various bidders used these data to determine rates for various plans. “*

### ***Internal Audit Recommendations\****

Human Resource officials should solicit a representative from each of the APS organizational divisions to contribute to the development of a wish list for the healthcare needs of employees. The results of this data should be considered in the development of any future requests for proposals.

*How APS could have more clearly and timely communicated to its current and retired employees about changes to health insurance coverage.*

### ***Recommendations***

- Human Resources was charged with the responsibility of communicating healthcare changes including open enrollment events and updates for both current and APS retirees. This department reports Mr. Michael Hodge, Assistant Superintendent. Healthcare updates and open enrollment events were announced to members of the APS community via email correspondence.
- It may have been helpful if there were town hall modeled meetings in which Benefits, and other Human Resource officials met with small groups from various departments and programs to address questions and concerns. Due in part to limited staffing in Benefits, and apparently no backup coverage, there were limited opportunities to speak directly with the APS Benefits representative regarding individual concerns.

*Recommendations to improve health insurance procurement and related communication in the future.*

### ***Recommendations***

#### ***Formal Contracts***

- In my professional opinion and to protect the legal interests of the Arlington School System going forward a formal contract process should be mandatory for all business relationships with vendors.
- To further enhance internal controls, a representative from the APS Legal Department should be consulted as appropriate before a contract is signed.

#### ***Selection Advisory Committee***

##### **Selection of Members**

- There should be documented protocols for the selection of advisory members.
- In the case of healthcare, it may be helpful to have more representation from an employee not affiliated with Human Resources. More specifically, I am recommending a balance of Committee members from various divisions or departments.

### **Procurement Protocols from Requests For Proposals through Contract Awards and Denials**

- It is recommended that clear and transparent internal documented protocols must be followed for all procurement-related functions.
- One option is to include an Authority Matrix\* clearly defining each person's responsibility for the steps in the procurement process. In the healthcare project, there was a breakdown in controls, and it appears that parties from Human Resources and Procurement (**Refer to Exhibit K**) both assumed that the other person notified those vendors whose bid was not accepted.

#### *Authority Matrix for Illustration Purposes Only*

<b>Department or Person Involved</b>	<b>Responsible for:</b>
Procurement	RFP Preparation
Human Resources	Define requirements for RFP
RFP review processes	Selection Advisory Committee
Response Ratings Review	Selection Advisory Committee
Human Resources	Contract Award or Denials

### **Evaluation of Human Resource Support Services**

- It is recommended that a survey should be conducted to assess their overall performance in providing support services for APS employees.
- Survey results should be sent to an independent APS department for interpretation and summarization of results, which in turn should be reported to the Board and members of the APS community.

## ***Part III. Other Audit Inquires and Results***

### ***Background and Audit Actions Taken***

- Shortly after the announcement of the Healthcare Audit, Dr. Pam Ferrell, Supervisor of the Fine Arts provided Internal Audit with a list of names and email addresses or phone numbers of former and current Human Resources employees that played various roles in Human Resources administration and benefits that could possibly be beneficial for the audit. (Exhibit F)
- In an effort to ensure that any relevant information regarding healthcare changes was identified and obtained, the individuals provided by Dr. Ferrell were contacted via email or via telephone.

### ***Results***

- Although the contact information is appreciated, contact with the noted former and current employees did not result in any information or supporting documentation to support additional facts or clarification as to what contributed to healthcare provider changes.

**Table I Employee Data**

**Employee Statistics As of December 31, 2023: Source the Department of Human Resources**

- The number of benefit eligible employees impacted by the changes in healthcare was 3,690.
- The number of retirees under 65 impacted by the healthcare change was 254. Note retirees under 65 follow the same plan as active employees.
- Those retirees 65 and older were able to remain with Kaiser's Medicare plan.

**Employees Impacted by Scale**

Scale	Kaiser	Cigna
A	2,709	155
C	27	6
D	109	38
E	93	100
G	137	63
M	203	65
N	34	11
O	10	5
P	52	124
T	751	1,389
X	36	12

**Table II Selection Advisory Committee Members for Healthcare**

- Brianna Cobbins, former Executive Director, Human Resources Operations, Chair
- Leslie Peterson, former Assistant Superintendent Finance
- Chatia Moore, Benefits Supervisor Human Resources
- Jeannette Allen, Assistant Principal, Arlington Community High School
- Nina Saunders, Employee Assistance, Human Resources
- Dimar Brown, Human Resources, Talent Acquisition Management

**Table III Exhibits**

Exhibit Folder	Description of documents
A	Scoring documents-score sheets, rate sheets proposal evaluation score, and interview sheets
B	Kaiser letter regarding not responding to RFP and admission of "dropping the ball"
C	Offer Letter from APS to Kaiser 1/18/23 notification of one year "renewal" from 1/1/23-12/31/23
D	APS letter dated 9/12/23 to Kaiser of non-renewal and letter, not dated from Kaiser to Dr. Duran regarding the non-renewal letter.

E	APS letter dated 9/21/23 to Kaiser regarding the RFP process and that APS was “not able to show a two-party contract” between Kaiser and APS for services.
F	Dr. Pam Ferrell List of Contacts
G	Korn Ferry Agreement and Addendum
H	Emergency Extensions for healthcare services
I	Documentation regarding rates versus a contract
J	Additional email documentation regarding a “response” to Kaiser regarding the non-renewal and lack of a two-party contract
K	Kaiser rate sheets for 2024 plus email documentation (Benefits to Procurement)- appears to be confusion regarding whose responsibility it was to notify Kaiser. Appears that Kaiser was not aware of non-renewal state of their past arrangement with APS.
L	APS Announcements regarding healthcare changes.
M	Requests for Proposals FY 2022 and 2023

**Table III. Timeline Major Events**

#### **RFP Contract Timeline**

- In 2022 after operating for several years without the benefit of a formal two-party contract for healthcare services, the APS Cabinet made the decision to move forward with the process of soliciting bids from third party vendors for healthcare services. The following timeline provides an illustration of the events for issuing Requests for Proposals, the Notice of Intent to Award and the Contract.

#### **Key Types of Health Plans:**

- HMO=Health Maintenance Organization
- PPO=Participating Physician Option
- EPO=Exclusive Provider Organization

<b>Date(s)</b>	<b>Document/Event</b>	<b>Purpose</b>
6/6/22	RFP 41FY 22 was issued	Medicare Retiree Health Benefits, June 6, 2022
9/23/22	Notice of Intent to Award	Posted and anticipated award date 10/4/22 to United Healthcare
2/27/24	Contract	Contract with United Healthcare, effective 1/1/23 for a 36-month term.

<b>Fiscal Year 2023</b>		
12/2/22	RFP56FY23 was issued	Healthcare coverage for active employees and eligible dependents. More specifically, Self-Insured PPO, Fully Insured HMO, and Self-Insured EPO healthcare options
1/6/23	Addendum 1 RFP56FY23	Modified to enable potential vendors to bid on 1 contract or 2. More specifically a PPO and/or HMO/EPO. Additional information provided pertaining to prescription drug coverage and options.
1/19/23	Addendum 2 RFP56FY23	Change in Pharmacy claims requirements and clarification in response to vendor inquiries.
1/25/23	Addendum 3 RFP56FY23	Responses made regarding changes to due dates and modification in formats for vendor responses. There were also changes in the schedule of events.
6/16/23	Notice of Intent to Award anticipated award date 6/27/23.	To CareFirst for PPO and EPO with Initial anticipated award date
6/23/23	Notice of Intent to Award anticipated award date 7/5/23.	To CareFirst for PPO and EPO-change in anticipated award date
7/17/23	Contract Care First	PPO and EPO specified types of plans
9/20/23	Superintendent's Staff Message	Announcement that there would be changes in healthcare. Follow-up 9/21/23 with memo from Human Resources regarding healthcare changes and employee concerns. September 22, 2023, additional information sent to members of the APS community regarding healthcare changes and open enrollment.
9/28/23	Amendment I Care First Contract	Change name classification EPO to HMO, Changes to Pricing Schedule and Transit and Parking Benefits
12/18/23	Amendment II Care First Contract	Changes in Pricing Schedule, Employee Assistance Program, and Critical Response Incidents