February 14, 1996
ILR 96-A

Representative Kevin S. Garn
Representative Byron L. Harward
House of Representatives
318 State Capitol Building
Salt Lake City, Utah 84114

Subject: Utah Transit Authority and the Utah Healthcare Purchasing Alliance

Dear Legislators:

At your request, we have reviewed two issues involving the Utah Transit Authority (UTA) and its affiliation with a private, non-profit organization known as the Utah Healthcare Purchasing Alliance (the alliance). The first concern raised is that UTA, which is a member of the alliance, has been using tax dollars to underwrite the basic start-up and ongoing costs of the alliance, creating an improper use of public funds. Our analysis finds that UTA has provided cash and other assistance with a total value of over $38,000 to the alliance, and is continuing to provide assistance. We feel this is inappropriate, and believe UTA has chosen to subsidize an uneven share of the alliance costs relative to what other alliance members are contributing. No other member of the alliance has provided supplemental support to the same degree that UTA has, which we find very concerning. We appreciate that in joining the alliance UTA is trying to save money in its health care costs, but we feel UTA has assumed an improper role in supporting the alliance to the extent it has.

The second concern raised is that the general manager of UTA has a conflict of interest because he is also a trustee and president of the alliance. We found this issue was addressed by the UTA internal audit staff and UTA board, and the board felt the dual role of the UTA general manager was not a problem because he holds no financial interest in the alliance. We also found no evidence that the UTA general manager has received compensation or any benefit from this position as alliance trustee and president.

The alliance is a non-profit health care purchasing cooperative that was incorporated in May 1994 to negotiate directly with physician groups for cost-effective health care packages on behalf of member employers. This is done by pooling employees from Utah businesses and customizing basic health care packages at reduced rates. The alliance was created specifically to help bring affordable health care to Utah businesses and employees. The idea of an alliance sprang out of a group known as the Utah Health Cost Management Foundation, a non-profit organization dedicated to reducing health care costs in the state. Any organization, public or private, may join the alliance in either the small or large employer program depending on its size. After paying a membership fee, organizations are entitled to use of the health care packages and rates the alliance can negotiate. In addition, the alliance will charge its membership some type of fee or percentage of savings provided to pay for ongoing operations. The alliance reports that they have enrolled about 40 member organizations of various sizes representing over 50,000 employees and dependents.

It should be understood that the alliance is still in the process of negotiating contracts and rates for its members. Except for a single dental package in Utah county that became effective January 1, 1996, none of its contracts are ready for use by its members. Because of this, the actual benefit that will come to UTA and the other alliance members remains to be seen and must be considered somewhat speculative. Further, an official from the Department of Insurance who is quite familiar with the alliance and its competitors told us that although a healthcare purchasing cooperative is a good idea, there is certainly no guarantee the alliance will ultimately be successful. He further cautioned us that reducing employer health costs is only one aspect of measuring the success of the alliance, and that the level of benefits and number of providers offered must also be considered.

UTA Assistance to the Alliance Raises Concern

The amount of supplemental support provided to the alliance by UTA is concerning, and in our opinion, inappropriate. Issues have been raised by other health insurance groups who are concerned that a public corporation like UTA should not be supporting one of their direct competitors with tax dollars. These groups claim they are in direct competition with the alliance to provide multiple-choice health care packages to Utah employers of various sizes. The alliance feels it will provide a unique service to the community because it brings employers together and determines the health needs of their employees. The alliance then negotiates directly with providers to customize health care packages and obtain the best rates possible through the power of a large employee base. The alliance believes their service is a more specialized service than what other insurance groups offer, and is more economical because the savings are returned to the member organizations.

UTA feels strongly about its involvement with the alliance. UTA staff told us that about two years ago the UTA general manager was asked by the Utah Health Cost Management Foundation to take the lead in developing an employer alliance. Evidently, no type of alliance existed at that time in the state, and the foundation hoped it would be a legitimate method of reducing health care costs to private and public employers. UTA maintains that its financial assistance to the alliance is justified because its employee health care costs will decrease as a result. UTA reports its annual health care costs are approximately $4.5 million, and hopes to realize savings of between 10-30% through the alliance which would result in a significant reduction.

UTA believes its support of the alliance has been critical because the alliance would not have survived without this assistance. It is clear from the amount of financial assistance provided that UTA has played a key role in sustaining the alliance. Our concern is that membership in the alliance includes several large private corporations, yet none has come close to providing the amount of financial assistance that UTA has. We spoke with some of these large organizations early in our survey and they indicated they had not been approached by the alliance about providing additional financial assistance. Others had been approached, but no assistance was given because their boards were not willing to approve a request for more funds. Last November, the alliance sent a letter to its members soliciting an additional "membership assessment" because of its ongoing funding needs, but only one member has contributed additional funds. Consequently, we feel it is inappropriate for UTA to assume the burden of providing so much additional support with tax dollars when all members of the alliance will also benefit.

UTA is Providing Substantial Assistance to the Alliance

The audit request specifically asked that we determine if UTA has been providing financial assistance to the alliance in the form of rent-free office space, use of the UTA postage meter, partial payment of the alliance director's salary, etc. We have had several interviews with UTA and alliance staff, and have also talked with representatives of the organization that raised these concerns. From these discussions and from UTA records we have determined that UTA has provided over $38,000 in support from May 1994 through November 1995 in the following forms:

- **An original membership fee of $1,900.** This is the only expense which is actually required of all members of the alliance, and varies according to the size of the organization. It is essentially the only expense UTA has in common with the other members of the alliance. (Evidently, the $1,900 reflects a $600 deduction because of legal services UTA provided to incorporate the alliance, so it otherwise would have been $2,500.)

- **Legal services totaling $2,468.75.** UTA provided the services of its legal counsel in April-May 1994 to draft up the articles of incorporation for the alliance. $600 of this was used as a credit against the membership fee, but otherwise there is no provision for the alliance to pay for these services.

- **Two $5,000 loans to the alliance for operating capital.** UTA issued two $5,000, no-interest loans to the alliance, the first on August 10, 1994, and the second on May 1, 1995. These actions were disclosed to and supported by the UTA board. The first loan was to be paid back to UTA by December 31, 1994, and the second loan is to be paid in full by May 1,1996. Currently, no payments have been made on either loan, and it is not clear if or when repayment will actually occur because of the very limited resources of the alliance. Further concern about the likelihood of repayment is that the loans were recorded as “expenses” in the UTA ledger rather than as “receivables.”

- **Rent-free use of UTA office space.** Since June 1994, UTA has provided the alliance with free use of two small offices in a building it owns. UTA has said the offices were not being occupied so it does not create an out-of-pocket expense for them. However, the space does have a value, and conservative estimates place it at about $9 per square foot annually. With approximately 325 square feet used by the alliance, the two offices have a minimal annual market value of about $2,900. Consequently, UTA has provided the alliance with about $4,400 in free rent value through November 1995.

- **Use of the UTA postage meter, copy machine, and other supplies.** The alliance uses the UTA postage meter, copy machine, and other office supplies, and has kept record of such use. The alliance is supposed to pay UTA for these services, but has not yet made any payment. According to these records, the alliance has used about $875 worth of postage and copy machine costs through the first part of September. This figure has likely increased since then and does not include the cost of many other items such as reams of paper, envelopes, binders, folders, etc.

- **Contract with alliance director.** UTA also entered into a contract with the director of the alliance in May 1995 to pay for “health care consulting services,” a move which was approved by the UTA Executive Committee. The contract stipulates that UTA will pay the alliance director $25/hour not to exceed 80 hours per month and will not compensate him for any time that has been paid for by the alliance. A review of the billing documents and other material leads us to believe that most of the work done under contract with UTA was for the benefit of the general membership of the alliance and not for the sole benefit of UTA. Although the contract stipulates that the “contractor will be responsible for all the start up and management activities of the Utah Healthcare Purchasing Alliance,” we believe this in not an appropriate use of UTA funds because all alliance members benefit from services supported with tax dollars. We are also concerned because the billing documents and the remittances indicate that UTA disbursed significantly more money than allowed by the contract. According to UTA documents, the contractor was paid $18,600 for 744 hours (at $25 per hour) for a 6-month period

(May 25, 1995-November 28, 1995). However, the contract clearly stipulates that payments shall not be made for work in excess of 80 hours per month. Consequently, the contractor was paid an average of 124 hours a month, which is 44 hours per month over the maximum allowed by the contract. This number of hours represents a total 6-month overpayment of $6,600. It appears the contractor was overpaid a significant amount of money ($4,000) during the first two months of the contract for what we understand was work performed prior to the contract; however, this violates the contract provisions. It appears that UTA management was determined to assist the alliance regardless of the conditions written in their own contract.

In total, UTA has provided more than $38,000 worth of services and assistance to the alliance through November 1995. Excluding the $1,900 membership fee and the $600 deduction from that fee for the legal services provided—again, a membership fee is the only fee actually required by all members—UTA has provided more than $35,000 worth of supplemental support to the alliance and its staff.

The appropriateness of UTA's involvement with the alliance was also reviewed by the UTA audit staff as we discuss next.

UTA Audit Report Identifies Similar Concerns

In June, the UTA internal auditor released a report of his investigation of the relationship between UTA and the alliance. The report stated that: 1) the UTA general manager has a conflict of interest, at least according to the UTA procurement manual, because he is a trustee of the alliance which technically means he has a financial interest; 2) the two $5,000 loans should be reclassified from "expenses" to "receivables" if indeed they are loans; and 3) the UTA board should determine the appropriateness of UTA using public funds to provide rent-free space, legal services, etc. to the alliance. These concerns were presented before the Audit Committee of the UTA board, and the committee concluded that a conflict of interest does not exist because the general manager works voluntarily as trustee and holds no actual financial interest in the alliance. The committee also feels these payments should remain characterized as loans, but with the understanding "that the prospect of repayment is questionable" due to the limited resources of the alliance. The issues of rent-free space and free legal services do not appear to have been discussed in either the Audit Committee meeting or the UTA board meeting in July.

Assistance not Provided by Other Members

We contacted several of the largest member organizations of the alliance to see what kind of financial support they have provided. We found that most of the members have only paid the required membership fee. One of the members did contribute an additional $1,000 shortly after joining because of the alliance's very limited cash situation, and has since provided an additional

$4,000 "membership assessment." Another member also provided a $2,500 loan to the alliance in late 1994. To this point, these are the only members other than UTA to have provided direct financial assistance to the alliance beyond the original membership fee.

In addition, the State of Utah (Department of Health) provided $20,000 to the alliance in November 1994 under a contract for services arrangement. The release of funds came through a sole source request from the department because the alliance was the only organization of its type known to exist at the time. This money was to be used by the alliance to commence negotiations with potential members and providers in exchange for a research report on the potential benefits of a health care alliance.

UTA's Financial Support has Been Excessive

We believe the alliance is pursuing a very worthwhile objective in trying to reduce health care costs for Utah businesses. We also recognize that UTA is trying to effect a dollar savings in its health care costs which could be significant, and we regard its decision to pay membership dues and join the alliance as completely reasonable and appropriate. However, we feel UTA has assumed an inappropriate role in supporting the alliance to the extent it has, and is voluntarily carrying a disproportionate share of the financial burden with tax dollars. The issue of supporting the alliance while in its early stages would seem more reasonable if the costs were being shared by all member groups. Even if there is not a conflict of interest for the UTA general manager, the concern remains about the appropriateness of a public corporation using tax dollars far beyond the amounts other private groups are providing to support a private organization. We believe UTA should not by itself be providing this degree of financial assistance to the alliance when all other members will also benefit to the extent the alliance can reduce health care costs.

Recommendations:

1. We recommend that UTA stop providing excessive financial support to the Utah Healthcare Purchasing Alliance and instead contribute an amount which is consistent with what other members of the alliance are contributing.

2. We recommend that UTA, in keeping with its agreement with the alliance, recover the two $5,000 loans and the cost of copying, postage, and all office supplies, to the extent the alliance has assets available for such repayment.

3. We recommend that a follow-up review be conducted on these issues in 6-12 months to determine whether UTA has been able to reduce its health care costs through membership in the alliance.

We hope this letter provides you with the information you need on this issue. A letter of response from the Utah Transit Authority is attached. If you have any further questions, please feel free to contact me.

Sincerely,

Wayne L. Welsh
Legislative Auditor General

WLW:MDE/lm