COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF PUBLIC WELFARE
BUREAU OF FINANCIAL OPERATIONS
ROOM 525 HEALTH & WELFARE BUILDING
HARRISBURG, PA 17105-2675

MAY 16 2008

KEVIN M. FRIEL
DIRECTOR

TELEPHONE
(717) 772-2231
FAX
(717) 787-3560

Mr. Michael Blackwood, President and CEO
Gateway Health Plan
U.S. Steel Tower, Floor 41
600 Grant Street
Pittsburgh, Pennsylvania 15219

Dear Mr. Blackwood:

Enclosed is the final performance audit report of the High Cost Risk Pool recently completed by this office.

The final report will be forwarded to the Department's Office of Medical Assistance Programs to begin the Department's resolution process concerning the report contents. The staff from the Bureau of Managed Care Operations may be in contact with you to follow up on the report.

I would like to express my appreciation for the courtesy and cooperation extended to the DAR staff during the course of the fieldwork.

If you have any questions concerning this matter, please contact Richard E. Wessel, Audit Manager of the Western Field Office, at (412) 565-2187.

Sincerely,

Kevin M Friel

Kevin M. Friel

Enclosure

cc: Ms. Cathy Ficarri
Ms. Patricia Vereen
Mr. Eric Huss
Mr. Allen Fisher
Ms. Tracee Gotwalt
Mr. Kevin Keffer
Ms. Brenda Tewell
Ms. Jennifer Bertrand

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KEVIN M. FRIEL
DIRECTOR

TELEPHONE
(717) 772-2231
FAX
(717) 787-3560

Ms. Jennifer Kessler, President
Unison Health Plan/MedPLUS
Unison Plaza
1001 Brinton Road
Pittsburgh, Pennsylvania 15221

Dear Ms. Kessler,

Enclosed is the final performance audit report of the High Cost Risk Pool recently completed by this office.

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I would like to express my appreciation for the courtesy and cooperation extended to the DAR staff during the course of the fieldwork.

If you have any questions concerning this matter, please contact Daniel Higgins, Audit Manager of the Southeastern Field Office, at (215) 644-1274.

Sincerely,

Kevin M Friel

Kevin M. Friel

Enclosure

cc: Ms. Anita Ibañez
Ms. Brandy Derry
Mr. Allen Fisher
Ms. Tracee Gotwalt
Mr. Kevin Keffer
Ms. Brenda Tewell
Ms. Jennifer Bertrand

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KEVIN M. FRIEL
DIRECTOR

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(717) 772-2231
FAX
(717) 787-3560

Ms. Cheryl Monkman
Director of Audits
Keystone Mercy Health Plan
200 Stevens Drive
Philadelphia, Pennsylvania 19113-1570

Dear Ms. Monkman:

Enclosed is the final performance audit report of the High Cost Risk Pool recently completed by this office.

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Sincerely,

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Enclosure

cc: Mr. Allen Fisher
Ms. Tracee Gotwalt
Mr. Kevin Keffer
Ms. Brenda Tewell
Ms. Jennifer Bertrand

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KEVIN M. FRIEL
DIRECTOR

TELEPHONE
(717) 772-2231
FAX
(717) 787-3560

Ms. Natasha Bell
Health Partners of Philadelphia, Inc.
901 Market Street, Suite 500
Philadelphia, Pennsylvania 19107

Dear Ms. Bell:

Enclosed is the final performance audit report of the High Cost Risk Pool recently completed by this office.

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Enclosure

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Ms. Tracee Gotwalt
Mr. Kevin Keffer
Ms. Brenda Tewell
Ms. Jennifer Bertrand

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KEVIN M. FRIEL
DIRECTOR

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(717) 772-2231
FAX
(717) 787-3560

Mr. John Lovelace, President
UPMC Health Plan, Inc./UPMC For You
Two Chatham Center
112 Washington Place, Suite 1100
Pittsburgh, Pennsylvania 15219

Dear Mr. Lovelace:

Enclosed is the final performance audit report of the High Cost Risk Pool recently completed by this office.

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Sincerely,

Kevin M Friel

Kevin M. Friel

Enclosure

cc: Mr. Nick Watsula
Ms. Adriana Fedunok
Ms. Jennifer Todd
Mr. Allen Fisher
Ms. Tracee Gotwalt
Mr. Kevin Keffer
Ms. Brenda Tewell
Ms. Jennifer Bertrand

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MAY 16 2008

KEVIN M. FRIEL
DIRECTOR

TELEPHONE
(717) 772-2231
FAX
(717) 787-3560

Mr. Daniel O'Brien
Chief Financial Officer
Americhoice
Wanamaker Building
100 Penn Square East, Suite 900
Philadelphia, Pennsylvania 19107

Dear Mr. O'Brien:

Enclosed is the final performance audit report of the High Cost Risk Pool recently completed by this office.

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MAY 16 2008

KEVIN M. FRIEL
DIRECTOR

TELEPHONE NUMBER
(717) 787-9200
FAX NUMBER
(717) 705-6334

Mr. Michael Nardone, Deputy Secretary
for Medical Assistance Programs
Health and Welfare Building, Room 515
Harrisburg, Pennsylvania 17120

Dear Mr. Nardone:

In response to a request from the Bureau of Managed Care Operations (BMCO), the Bureau of Financial Operation (BFO) has completed a performance audit of one High Cost Risk Pool (HCRP) quarterly submission for each of the HealthChoices Physical Health Managed Care Organizations (PH-MCO) in the Southeast and Southwest Zones. This audit addresses the Southeast Zone HCRP submission for the first quarter 2006 and the Southwest Zone HCRP submission for the fourth quarter 2005.

The BFO's mission, accomplished through its audit and review activities, is to assist Department of Public Welfare (DPW) Management to administer human service programs of the highest quality, at the lowest cost, with integrity.

Results In Brief

For the pertinent quarters tested in both the Southeast and Southwest Zones, it was determined that all claims used to allocate the HCRP were eligible and met the contract criteria. As such, no adjustment was recommended to the risk pool payments as presented.

Background

The DPW, BMCO administers a HCRP for each calendar quarter in the Southeast and Southwest HealthChoices Zones. Each zone has its own separate and distinct cost pool. The quarterly HCRP in each zone is funded by High Cost Risk Pool Allocation Amounts (HCRPAA). The HCRPAA portion of the PH-MCO's monthly capitation payments is in accordance with amounts specified in the Appendix 3f, Capitation Rates, of the HealthChoices Agreement.

Background (Continued)

After a quarter has ended, each PH-MCO submits a file to DPW with data on high cost recipient claims during the defined twelve month period; the twelve months preceding the beginning of the quarter. Claims eligible for inclusion in the HCRP are all claims paid by the MCO for a medical product or service received by an enrolled recipient (member) during a defined twelve month period with the exception of the following:

- Products or services for recipients under age 21 that are covered by the Home Nursing Risk Sharing Arrangement.
- Any claims for recipients covered under the Blood Factor Product Risk Sharing Arrangement.
- Products or services that would be noncompensable by the Department's Medical Assistance Fee-For-Service Program (FFS) program because it was provided during an inpatient hospital stay and would have been covered by the inpatient hospital payment.
- Inpatient admission claim that would be noncompensable because it was within a specified period of days after a discharge.

Upon receipt of the PH-MCO file of paid claim data, each inpatient claim is "re-priced" to the amount that DPW FFS would have paid for the same admission. The re-priced inpatient claims are combined with the other (non-inpatient) claims per recipient. The amount of the combined claims for a recipient that exceeds $75,000 for the defined twelve month period is included in the HCRP.

DPW distributes the HCRPAA total funds to each of the PH-MCOs in a zone in proportion to their respective percentage of adjusted HCRP claim expenditures in excess of $75,000 for the defined twelve month period.

Objective, Scope and Methodology

The audit objective, developed in concurrence with OMAP was:

- To determine if all claims used to allocate the HCRP were eligible and meet contract criteria.

The scope of our audit was limited to those procedures necessary to accomplish this objective. In pursuing this objective, we verified the universe of claims submitted to OMAP and included in the HCRP, verified recipient eligibility per PROMISE and interviewed PH-MCO management and staff. For a sample of HCRP claims we also verified recipient enrollment per PH-MCO records and reviewed provider invoices, remittance advices, cancelled checks, bank statements, and other pertinent data necessary to complete our objective.

Objective, Scope and Methodology (Continued)

The BFO conducted fieldwork at each of the PH-MCOs in the Southeast Zone; Keystone Mercy Health Plan (KMHP), Americhoice of PA (ACPA), and Health Partners (HP), and the Southwest Zone; Unison Health Plan (UHP), Gateway Health Plan (GHP) and UPMC for You (UPMC). Our fieldwork for this audit took place intermittently between November 28, 2007 and March 14, 2008, and was preformed in accordance with generally accepted government auditing standards. The report, when presented in its final form, is available for public inspection.

Government auditing standards require that we obtain an understanding of management controls that are relevant to the audit objective described above. The applicable controls were examined to the extent necessary to provide reasonable assurance of the effectiveness of these controls. Based on our understanding of the controls, no material deficiencies came to our attention. Areas where we noted an opportunity for improvement in management controls are addressed in the results section of this report.

Results of Fieldwork:

Southeast Zone:

The total costs of the PH-MCO's in the Southeast Zone included in the HCRP for the first quarter of 2006 was $100,977,260.98. This represented a total of 1,165,903 claims. We tested a sample of both Inpatient (after re-pricing) and Other claims at each PH-MCO. Our sample was selected using a statistical sampling methodology, with a 95% confidence level and random selection, to include a representative number of both categories of claims at each of the PH-MCO's. Based on the results of our fieldwork, we determined that all claims used to allocate the Southeast Zone HCRP for first quarter of 2006 were eligible and met the contract criteria. However, during fieldwork at two PH-MCO's, it was observed that retroactive adjustments occurred, which in one case resulted in specific claims being rendered ineligible, and in another a member was retroactively determined ineligible.

Each quarterly pool takes into account paid claims for the preceding 12 month period; by process, a claim will remain active in the pool for six months. Any adjustments to claims in that six month period will be included in the pool, however, after that period, no adjustments are made to the pool. We observed a situation where a claim was reversed and payment was revoked, but because it was after the six month period, no adjustment to the pool could be made. Additionally, there was a case where a member was determined to be ineligible for Medical Assistance (MA) subsequent to the HCRP distribution and no adjustment could be made.

Results of Fieldwork (Continued)

While in both of these instances, the dollar amount would not have had a material effect on the cost pool distribution, there is a potential that additional adjustments may have occurred, which when considered together, may effect the distribution of the cost pool. It may be prudent for OMAP, BMCO to consider these situations which occur subsequent to the six month period where adjustments can occur and develop some reporting procedure which would account for such retroactive adjustments.

Southwest Zone:

The total costs of the PH-MCO's in the Southwest Zone included in the HCRP for the fourth quarter of 2005 were $33,951,039.71. This represented a total of 387,233 claims. We tested a sample of both Inpatient (after re-pricing) and Other claims at each PH-MCO. Our sample was selected using a statistical sampling methodology, with a 90% confidence level and random selection, to include a representative number of both categories of claims at each of the PH-MCO's. Based on the results of our fieldwork, we determined that all claims used to allocate the Southwest Zone HCRP for the fourth quarter of 2005 are eligible and meet the contract criteria.

The Physical Health Managed Care Organizations participating in the pool were provided with a copy of the draft report for review and comment. Prior to releasing the final, we contacted each entity and confirmed that none of the organizations wished to have an exit conference or have their comments addressed as an Appendix to the report.

Please contact Alexander Matolyak, Audit Resolution Section, at (717) 783-7786 if you have any questions concerning this audit or if we can be of any further assistance in this matter.

Sincerely,

Kevin M Friel

Kevin M. Friel