**STATE OF COLORADO**

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# MEMORANDUM

Date: December 3, 2008

To: Members of the Legislative Audit Committee

From: Sally Symanski, CPA
State Auditor

Re: 2008 Executive Summary on Performance Audits of Tobacco Settlement Programs

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The purpose of this memo is provide an executive summary of evaluations conducted on tobacco settlement programs as required under Section 2-3-113(5), C.R.S., for evaluations completed in Calendar Year 2008. Section 2-3-113(2), C.R.S., requires the Office of the State Auditor (OSA) to conduct or cause to be conducted program reviews and performance evaluations of state programs receiving funding from the tobacco settlement agreement. The purpose of the reviews is to assess whether the tobacco settlement program meets its stated goals efficiently and effectively. Section 2-3-113(5), C.R.S., requires that the OSA submit the annual executive summary of the program reviews to the House and Senate Health and Human Services Committees and the Department of Public Health and Environment.

During 2008 the OSA completed two performance audits on the Children's Basic Health Plan (CBHP). The first report (*Children's Basic Health Plan Performance Audit, May 2008*) reviewed the Department of Health Care Policy and Financing's (Department) overall administration of CBHP. The second report (*Children's Basic Health Plan, Oversight of the State Managed Care Network Performance Audit, October 2008*) reviewed the Department's oversight of the Managed Care Network for CBHP, which is a fee-for-service provider network that serves 40 percent of the enrollees in CBHP. The other 60 percent of enrollees are served through health maintenance organizations, or HMOs. The report summaries from both reports are attached to this memo.

The list below summarizes the programs and the dates of the most recent performance audits of tobacco settlement programs conducted by the OSA.

- Children's Basic Health Plan (May 2008, October 2008)
- Read to Achieve (July 2006)
- Nurse Home Visitor Program (May 2006)
- Veterans Trust Fund (June 2003)
- Comprehensive Primary and Preventive Care Grant Program (May 2007)
- Dental Loan Repayment Program (April 2004)
- Tobacco Education, Prevention, and Cessation Grant Program (December 2004)[1]

All reports are available on the OSA website at www.state.co.us/auditor. No performance audits of tobacco settlement programs are currently scheduled for 2009.

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[1] Funding for this program with Tobacco Settlement monies was eliminated beginning in Fiscal Year 2006 and replaced with funding from the Tobacco Excise Tax authorized by Amendment 35.

SALLY SYMANSKI, CPA
State Auditor

# Children's Basic Health Plan
# Department of Health Care Policy and Financing
# Performance Audit
# May 2008

## Authority, Purpose, and Scope

This performance audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct performance audits of all departments, institutions, and agencies of state government. The audit work, performed from February 2007 to May 2008, was conducted in accordance with generally accepted government auditing standards. Our audit focused on how the Department of Health Care Policy and Financing (Department) administers the Children's Basic Health Plan (CBHP), which serves low-income children and pregnant women in Colorado. We evaluated the overall structure and operations of the CBHP program, including the effectiveness and efficiency of the program in meeting its stated goals as required by Section 2-3-113(2), C.R.S., compliance with state and federal laws and regulations, and the Department's overall management and oversight of the program. This audit did not include a review of coordination between CBHP and the Colorado Indigent Care Program or of medical services claims or payments made by the Department for the CBHP program. A second audit of CBHP will focus on: (1) claims processing for clients served by the State Managed Care Network (Network), which serves more than 40 percent of CBHP enrollees as discussed below; (2) utilization management; (3) case management; and (4) the Department's oversight of the Network. We acknowledge the assistance and cooperation provided by the Department of Health Care Policy and Financing and the county departments of human/social services.

## Overview

The Children's Basic Health Plan Act (Section 25.5-8-101, C.R.S.) established CBHP as a private-public partnership to provide subsidized health insurance for low-income children and pregnant women. CBHP implements the provisions of federal Title XXI which created the State Children's Health Insurance Program (SCHIP). The Department is designated as the state agency authorized to receive federal SCHIP funds. CBHP is funded by approximately 35 percent state funds (including tobacco settlement, Amendment 35, and general fund monies) and 65 percent federal funds.

To be eligible for CBHP, an individual must be either a child under 19 years of age or a pregnant woman, have family income of less than 205 percent of the federal poverty level, and meet residency and citizenship requirements. Individuals are not eligible for CBHP if they are eligible for Medicaid or have other health insurance. CBHP offers a variety of medical services, including inpatient, outpatient, and emergency care; laboratory services; physician services; prescription drugs; and limited vision, hearing, mental health, and dental services. The Department also operates a "CHP+ at Work" program, which subsidizes an employee's portion of employer-provided health insurance. The Department provides medical services to CBHP enrollees through five health plans—four

contracted HMOs and the State Managed Care Network. The Network consists of more than 4,800 individual providers that are managed by Anthem Blue Cross and Blue Shield. In Fiscal Year 2007 about 58 percent of all enrollees were in HMOs while the remaining 42 percent were in the Network.

Between Fiscal Years 2003 and 2007 the average monthly number of children enrolled in CBHP grew 6 percent from about 49,220 to about 52,200 and the average monthly number of pregnant women enrolled grew 235 percent, from about 400 to about 1,340. In Fiscal Year 2007, medical services costs averaged about $121 per month per enrolled child and about $1,046 per month per enrolled pregnant woman.

## Key Findings

### Program Performance

While CBHP was designed as a private-public partnership under state statute, the Department is ultimately accountable for managing CBHP operations and funding, ensuring the program performs effectively, and meeting federal and state requirements. We found the Department does not have an adequate system to evaluate the performance of the CBHP program and cannot ensure that expenditures, which have averaged over $76 million annually for the last five years, are justified, as discussed below:

- **Measuring access to high quality care.** We found that CBHP was performing below the national Medicaid median on 5 health status measures for Calendar Year 2006 (the most recent period for which the measures were available at the time of our audit). This suggests that children under the age of six are not receiving the care they need. The 5 measures are part of a set of 13 measures from the Health Employer Data Information Set (HEDIS), a quality assurance tool recommended by the General Assembly and the federal government and used by the Department to evaluate the delivery of services and health status of CBHP enrollees. Although these results should prompt analysis, the Department has not investigated the HEDIS data to identify needed program improvements.

- **Network Adequacy.** We found the Department does not monitor the adequacy of the CBHP provider networks to ensure enrollees have access to a sufficient number of providers. We conducted a preliminary analysis of Department data and found that the ratio of providers to enrollees and the proportion of CBHP providers that are accepting new patients vary widely among the health plans. The analysis indicates the need for the Department to track and monitor the adequacy of its CBHP provider networks to ensure that current and potential enrollees have access to health care services.

- **Program Penetration.** We evaluated the Department's progress in decreasing the proportion of children in Colorado who are uninsured and in serving the CBHP-eligible population and found that the Department does not use a valid and reliable methodology to estimate the number of children eligible for CBHP. As a result, the Department lacks a

reasonable basis for its reported penetration rate for CBHP, which has decreased from about 58 percent in Fiscal Year 2003 to about 51 percent in Fiscal Year 2007.

- **Marketing and Outreach.** The Department is not ensuring that the investment in marketing and outreach services for CBHP is cost-effective, as required by statute. The Department does not evaluate whether its marketing and outreach contractor is meeting its contractual requirement to increase the number of eligible individuals enrolled in CBHP or provide the contractor with information, such as the number of new enrollees by location, to evaluate and target marketing and outreach.

**Eligibility and Enrollment**

The Department partners with counties and two medical assistance sites to provide eligibility and enrollment services for CBHP. We found the Department lacks a comprehensive monitoring process for these services. As a result, we identified significant problems in these areas, as discussed below:

- **Eligibility Determination and Documentation Errors.** We reviewed applications for 203 applicants who had been enrolled in CBHP at some point between July 1, 2006 and March 31, 2007 and found eligibility determination errors or insufficient documentation to support the eligibility decision for 21 of the applicants (10 percent). Overall, we identified questioned costs of about $48,300 related to eligibility determination errors. The exceptions we identified primarily resulted from staff errors at the eligibility sites and include 16 ineligible applicants who were enrolled in CBHP; 1 applicant who was denied enrollment but was eligible for the CHP+ at Work program; and 4 applicants whose files did not contain documentation to support the eligibility determination.

- **Failure to Process Applications Timely.** We reviewed the applications of 86 individuals enrolled in CBHP between July 1, 2006 and March 31, 2007 and found 8 applications (9 percent) were processed up to 91 days late. We also reviewed 13 weekly reports for July through September 2007 listing every CBHP application that was entered into CBMS but was pending (i.e., eligibility was not determined) for more than 45 days. The average number of pending applications on these reports was about 1,900 or about 2 percent of the approximately 92,200 CBHP applications processed annually. Delays in processing applications could prevent eligible applicants from receiving needed medical services.

- **Problems with Program Retention.** We found that about 16 percent (about 5,300 children) of approximately 32,000 children who were due to reapply for CBHP between April 1, 2006 and March 31, 2007 did not reapply and therefore were not retained in the program. Another 8 percent (about 2,600 children) were reenrolled in CBHP but had a lapse in coverage of up to six months.

- **Inadequate Disenrollment Procedures.** From January 1, 2006 through October 31, 2007, we identified 831 pregnant women who remained enrolled in CBHP past their 60-day post-

partum eligibility period. In addition, from January 1 through July 31, 2007, we identified 54 children who remained enrolled after their eligibility terminated at age 19. We identified questioned costs totaling about $109,400 for these ineligible enrollees.

- **Insufficient Oversight of Enrollment Fees.** The Department does not have adequate controls to ensure that all enrollment fees are collected, deposited into the bank, and properly recorded in CBMS. As a result, the Department cannot ensure fees are assessed in accordance with requirements or that all individuals who have paid the fee are enrolled in CBHP and able to receive program services. Under CBHP rules, families whose incomes exceed 150 percent of the federal poverty level pay annual enrollment fees for their children.

**Program Management and Oversight**

Throughout the audit we found an overall lack of effective management and oversight by the Department of the public and private partners in the CBHP program. In addition to concerns discussed above, we found weaknesses in the Department's management of contracts and its oversight of suspected fraud and abuse and complaints related to CBHP, as follows:

- **Contract management.** We found incomplete provisions and inadequate oversight for several Fiscal Year 2006 and 2007 CBHP contracts. For example, the Department's contract with its eligibility and enrollment vendor, which requires the contractor to process applications, enroll and disenroll clients as appropriate, and manage enrollment fees, lacks requirements and performance measures for timely and accurate disenrollments and proper handling of enrollment fees. The Department's contract monitoring practices do not include thorough reviews of contractor reports, independent verification of contractor performance, or documentation of monitoring activities.

- **Fraud, Abuse, and Complaints.** The Department has not clearly informed its contractors of their duties to conduct activities related to detecting fraud and abuse and does not have procedures to verify that suspected fraud and abuse are properly investigated and referred to law enforcement as needed. In Federal Fiscal Years 2006 and 2007 the Department reported a combined total of 15 cases of suspected fraud or abuse in CBHP to the federal government but had no detailed information about these cases, including how or if they were resolved. The Department also lacks a central tracking and resolution process for CBHP complaints.

Our recommendations and responses from the Department of Health Care Policy and Financing can be found in the Recommendation Locator and in the body of the report.

SALLY SYMANSKI, CPA
State Auditor

# Children's Basic Health Plan
# Department of Health Care Policy and Financing
# Oversight of the State Managed Care Network
# Performance Audit
# October 2008

## Authority, Purpose, and Scope

This performance audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct performance audits of all departments, institutions, and agencies of state government. The audit work, performed from September 2007 to September 2008, was conducted in accordance with generally accepted government auditing standards. This is the second of two reports on the Children's Basic Health Plan (CBHP). The first report, the *Children's Basic Health Plan Performance Audit*, was released in June 2008 and included the results of our audit of the overall structure and operations of the program. This second audit focused on the administration of the CBHP State Managed Care Network (Network), which serves about 40 percent of the low-income children and pregnant women enrolled in CBHP, by the contracted Administrative Services Organization (ASO). At the time of our audit, the Department of Health Care Policy and Financing (Department) contracted with Anthem Blue Cross and Blue Shield (Anthem) as the ASO. Our audit assessed the Department's management of the Network through its oversight of Anthem, including (1) the effectiveness of Anthem's medical management practices for administering the Network for the CBHP program, and (2) the accuracy, allowability, and timeliness of claims processed by Anthem for the Network. The State Auditor contracted with Mercer Health & Benefits, LLC (Mercer) to conduct some of the audit work and provide expertise in the area of health care management. We acknowledge the assistance and cooperation provided by the Department of Health Care Policy and Financing.

## Overview

The Children's Basic Health Plan Act [Section 25.5-8-101, et seq., C.R.S.] established CBHP as a private-public partnership to provide subsidized health insurance for low-income children and pregnant women. CBHP implements the provisions of federal Title XXI which created the State Children's Health Insurance Program (SCHIP). The Department is designated as the state agency authorized to receive federal SCHIP funds. CBHP is funded by approximately 35 percent state funds (including tobacco settlement, Amendment 35, and general fund monies) and 65 percent federal funds.

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limited vision, hearing, mental health, and dental services. The Department provides medical services to CBHP enrollees through five health plans—four contracted HMOs and the Network. At the time of our audit, the Network consisted of more than 4,800 individual providers managed by Anthem. In Fiscal Year 2008 the average monthly number of children enrolled in CBHP was about 57,700, with about 21,720 of them enrolled in the Network. In addition, the average monthly number of pregnant women enrolled in CBHP was about 1,570, all of whom were enrolled in the Network. Finally, for Fiscal Year 2008, total medical services costs were about $113 million, of which about $53 million was paid to Anthem for enrollees in the Network.

## Key Findings

### Management of Network Medical Care

Under its contract with the Department, Anthem was required to establish a medical case management program for CBHP enrollees in the Network to provide individualized services to patients with chronic, long-term, and high-risk medical conditions. Active and effective case management is critical to promoting patient health, ensuring the provision of high quality health care services, and controlling health care costs. Overall, we found the Department provided minimal oversight of Anthem's case management program for CBHP. During the audit, we reviewed a sample of 19 CBHP enrollees identified by Anthem as being in the case management program during Calendar Year 2006. We identified exceptions with all of the 19 files we reviewed and provided the exceptions to Anthem and the Department on July 16, 2008. Anthem responded in writing on July 29, 2008 that it agreed with our exceptions and provided no additional information related to the exceptions. Three months later, in October 2008, as the audit report was being finalized, Anthem notified us that it disagreed with the case management exceptions and offered additional documents related to the sample of CBHP enrollees we had reviewed. Anthem's disagreements focused on: (1) the number of CBHP members in the case management program, (2) the number of case management participants successfully contacted by Anthem, and (3) the thoroughness of case management assessments and care plans.

Because Anthem provided the additional data after the conclusion of our audit, we were unable to verify the accuracy or reliability of the supplemental data. Regardless of the additional information Anthem provided after our audit was completed, our concerns, as discussed in the following section, make it clear that a comprehensive case management program was not in place for the Network at the time of our audit. In particular, we are concerned that in Calendar Years 2006 and 2007, Anthem reported that it had only 54 and 24 CBHP enrollees, respectively, in its case management program. These figures represent less than one-half of 1 percent of the children and pregnant women in the Network in each of the two years.

- **Case Management Identification.** The Department's contract with Anthem did not require Anthem to implement specific methods for early identification of CBHP enrollees who could benefit from case management. Early identification of case management candidates is important to maximize the value of the services and minimize the need for recurrent hospital admissions and other costly health care services. Anthem identified 14 of the 19 CBHP

enrollees with chronic or high-risk medical conditions in our sample for case management only after a hospitalization had occurred. Anthem identified another 2 CBHP enrollees for case management when requests for services were made that indicated the enrollees had been receiving care for chronic conditions for some time.

- **Case Management Engagement.** The files we reviewed during the audit indicated that Anthem successfully contacted only 7 of the 19 CBHP members in our sample to offer them case management services. We found that Anthem often did not have accurate contact information for CBHP enrollees and did not take advantage of the opportunity to contact CBHP enrollees just before they were discharged from the hospital. Anthem reports that its medical management protocols prevent personal contact with a patient while hospitalized. According to Mercer, it is industry practice for a health plan to make every effort to contact those needing case management before a hospital discharge.

- **Case Management Documentation.** According to documentation provided during our audit, only three of the seven CBHP members Anthem successfully contacted in our sample had case management assessments and care plans. We found that the three assessments that were provided to us were poorly documented and contained inconsistencies and inadequate data. Further, there was no evidence that reassessments were performed. Finally, we found no documentation during the audit that enrollees and providers had provided input into the care planning process or that the case management plans had been shared with the enrollees' primary care physicians.

- **Case Management Outcomes.** We found the Department and Anthem did not evaluate the overall effectiveness of case management services provided to CBHP enrollees. This was due, in part, to the Department's not requiring Anthem to report information that would be useful for this purpose. Additionally, we found that the Department and Anthem did not set any specific goals, outcomes, or performance standards related to case management services provided to CBHP enrollees. As a result, the Department does not have information to determine whether case management services improved health outcomes or provided other benefits to enrollees.

- **Cost and Utilization Data.** We found the Department failed to ensure that Anthem provided all required cost and utilization reports in the contract or that the submitted reports included complete, consistent, and comparable data specific to the CBHP population. As a result, the Department could not ensure that Network services were cost effective, as required by statute. Additionally, the Department could not evaluate or set goals for utilization management activities, network service delivery, or case management processes for CBHP enrollees.

**Management of Network Payments**

Under its contract with the Department, Anthem's responsibilities with respect to the Network included (1) administering all inpatient, outpatient, and pharmaceutical payment activities for

providers, and (2) establishing policies and procedures for all claims determinations, timely filing guidelines, claims reviews, and appeals. We identified deficiencies with Anthem's system for processing CBHP claims and the Department's oversight and enforcement of Anthem's compliance with contract requirements, as described below:

- **Claims Processing Accuracy.** A total of $234,000 in questioned costs was identified as a result of testing claims processing. We reviewed a judgmental sample of 52 CBHP claims representing about $852,400 paid to providers between April 2006 and March 2007 and found errors for 27 claims. Of these, 24 claims contained payment errors resulting in about $54,800 in overpayments and $20 in underpayments. We conducted further testing on a judgmental sample of 10 claims that were submitted late by providers and identified errors in 8 claims, resulting in overpayments of $19,900. Finally, we analyzed data on claims paid to non-participating providers which identified $159,300 in payment errors. The number and proportion of CBHP payment errors in our sample indicates that the Department needs to improve its oversight of the ASO contractor, including expanding efforts to evaluate the adequacy of the ASO's claims processing procedures.

- **Quality Assurance.** We also noted problems with the Department's contract requirements related to ensuring claims accuracy. For example, the contract allowed Anthem to audit less than one-half of 1 percent of the claims it processed, rather than requiring a sample size of 3 to 5 percent, which is consistent with industry standards. In addition, the Department did not have other mechanisms to identify claims processing errors, such as requiring Anthem to generate reports identifying claims anomalies.

- **Timeliness of Claims Payments.** Our testing found problems with timely claims processing. For the sample of 51 clean claims we reviewed, 35 were processed within 30 calendar days of receipt, and 16 were not. Further, 8 of the claims in our sample were processed between 100 and 525 days after receipt. Our findings confirmed information provided to the Department by Anthem, which indicated that Anthem often did not meet its contractual performance standards for timely claims processing.

- **Contract and Risk Management.** We identified significant concerns with the Department's lack of oversight of Anthem's administration of the Network throughout the audit. These concerns indicate that the Department needs to enhance accountability for services delivered to CBHP enrollees in the Network under its new ASO contract by: (1) strengthening contract requirements, (2) independently verifying services delivered by the contractor, (3) applying adequate sanctions for failure to meet contract standards and requirements, and (4) evaluating options for shifting the financial risk for the Network to the contractor.

Our recommendations and responses from the Department of Health Care Policy and Financing can be found in the Recommendation Locator and in the body of the report.

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