Office of Inspector General

Texas Health and Human Services Commission

Stuart W. Bowen, Jr., Inspector General

Performance Audit Report

Community Health Choice, Inc.

December 21, 2015

IG Report No. 14-70-529628005-11-MC-02

CONTENTS

EXECUTIVE SUMMARY

The Health and Human Services Commission (HHSC), Inspector General (IG), Audit Section has completed a performance audit of the Community Health Choice (CHC) Financial Statistical Report (FSR), HHSC Contract number 529-06-0280-00005, for the period beginning March 1, 2012 through August 31, 2013.

Audit Results (Statement of Findings)

The results of our audit indicated that CHC was not in compliance in certain respects with its contract with HHSC during the audit period. The audit identified the following findings:

1. Payment of $10,784 in claims to excluded providers
2. Misclassification of lease expenses of $1,227,148 as depreciation expenses
3. Unallowable expenses of $332,527 for an amendment to administrative services agreement that was not implemented
4. Unexplained variance of $67,982 between Financial Statistical Reports (FSR) and general ledger
5. Costs accrued for $16,501and recorded in the FSR were not incurred

Four of the five findings resulted in a $359,812 increase in net income. The increase in net income does not have a monetary impact because it did not increase the experience rebate to the next tier. One is a misclassification of expenses and does not have a monetary impact.

Detailed findings and recommendations for corrective action are presented under the "Detailed Findings and Recommendations" section of this report.

Objective

The objective of the audit was to determine whether CHC was in compliance with its Uniform Managed Care Contract Terms and Conditions (UMCCTC) with HHSC and all applicable sections of the Code of Federal Regulations (CFR), Federal Acquisition Regulation (FAR), Texas Government Code (TGC), Texas Administrative Code (TAC), and the Uniform Managed Care Manual (UMCM).

Background

CHC agreed to abide by its Uniform Managed Care Contract Terms and Conditions (UMCCTC) agreement with HHSC. Under the terms of this contract, CHC agreed to provide comprehensive health care services to qualified program members through a managed care delivery system, and to ensure that administrative services and deliverables required by the contract are provided and executed. In return, HHSC paid CHC monthly premium (capitation) payments based on the number of eligible and enrolled members covered under the CHC Medicaid insurance health plan [State of Texas Access Reform (STAR) and Children's Health Insurance Program (CHIP)]. Managed Care Organizations (MCO) are contracted with HHSC on a "value-based purchasing"

approach (a risk-based contract). HHSC expects a Managed Care Organization to deliver all necessary services and to meet the performance standards of the contract.

Summary of Scope and Methodology (Summary of Activities Performed)

The audit of CHC covered the period beginning March 1, 2012 through August 31, 2013. The audit included obtaining an understanding of relevant controls, compliance criteria, and processes related to CHC's compliance with its UMCCTC with HHSC. Financial records, claims records, transactions, and supporting documentation were reviewed and analyzed to determine performance and compliance with the contract.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

DETAILED FINDINGS AND RECOMMENDATIONS

Finding 1 - Payment Of Claims To Excluded Providers

IG auditors reviewed 500 claim records. Our review revealed that three providers on the IG exclusion list were paid $10,784 for 195 claims. The IG exclusion list reports providers that are suspended or excluded from participation in the Medicaid program. The claims processing unit of CHC did not verify the status of the providers with the IG exclusion list. As a result, claims expenses were overstated by $10,784 in the Financial Statistical Reports (FSR). The table below shows the excluded providers whose claims resulted in the overstatement of expenses:

Provider Name	Sanction Date	Reason for Sanction	Program & Number of claims	Amount Paid
Caffey, Jennifer	5/10/2011	License or Certification was revoked, suspended, or terminated.	CHIP Harris (13 claims)	$798
Caffey, Jennifer	5/10/2011	License or Certification was revoked, suspended, or terminated.	STAR Jefferson (5 claims)	$208
Hawkins, Kimberly	9/10/2002	License was revoked; Medicare exclusion.	CHIP Harris (166 claims)	8,686
Bransford, Paris	3/28/2003	License was voluntarily and permanently surrendered.	STAR Jefferson (11 claims)	1,092
TOTAL			**195**	**$10,784**

Criteria:

HHSC Uniform Managed Care Terms & Conditions 8.1.18.5, Claims Processing Requirements, and Chapter 2.0 of the Uniform Managed Care Manual, which state in part: "The MCO must withhold all or part of payment for a claim submitted by a provider: (1) excluded or suspended from the Medicare, Medicaid, or CHIP Programs for Fraud, Abuse, or Waste; (2) on full or partial payment hold under the authority of HHSC or its authorized agent(s); (3) with debts, settlements, pending payments, or accounts receivable due to HHSC, or the state or federal government.

Recommendation:

CHC should ensure that the providers are in good standing by checking the IG exclusion list before processing claims for payment.

Management Response: *Disagree*

The Providers to whom Community issued payments are not disbarred on the State Master File. (Please See Exhibit 1 and Community's responses [below].

Jennifer Caffey was the referring provider, Shraddha Mukerji, MD was the provider who rendered the services and the benefits were paid

Jennifer Caffey was the referring provider. Shraddha Mukerji, MD was the provider who rendered the services and the benefits were paid to UTMB.

The license number for the excluded Kimberly Hawkins differs from that of the Kimberly Hawkins on file with Community.

The license number for the excluded Paris Bransford differs from that of the Paris Bransford on file with Community.

Auditor's Follow up Comments:

The IG auditors reviewed new supporting documentation provided with CHC's management response to Finding 1. Jennifer Caffey was a provider whose license was revoked and should not have been able to refer patients to the Medicaid program based on information available during SFY 2013. CHC needs to evaluate its procedures for identifying the license status of referring as well as attending providers to ensure that only authorized providers' claims are accepted for payment. In addition, the IG auditors relied on the information maintained in the IG's Excluded Providers File during SFY 2013 for Kimberly Hawkins and Paris Bransford. CHC needs to ensure that the license status of providers is reviewed so that claims submitted by providers who are excluded from participation in the Medicaid program are not paid in the future.

<u>Finding 2</u> – Misclassification Of Lease Expenses As Depreciation Expenses

IG Auditors reviewed and reconciled administrative expenses reported in the Financial Statistical Report (FSR). Our review revealed that CHC misclassified lease expenses totaling $1,227,148 for assets owned by its affiliate, Harris County Health District (HCHD), as depreciation expenses. The "Third Service Agreement," dated March 23, 2012, indicates that the assets were leased by HCHD to CHC as an operating lease. Therefore, only HCHD, the owner of the assets, can claim depreciation expenses for the assets. CHC does not have written policies and procedures that address the accounting and treatment of operating and capital leases. As a result, lease expenses totaling $1,227,148 were recorded as depreciation expenses. The table below itemizes the misclassified lease expenses:

Journal ID	Date	Journal Line Description	Amount
0000107073	06/30/13	06/2013 Estimated Depreciation	$147,982.67
0000108004	07/31/13	07/2013 Estimated Depreciation	$145,744.93
0000108873	08/31/13	08/2013 Estimated Depreciation	$145,494.99

Journal ID	Date	Journal Line Description	Amount
0000093864	03/31/12	3/2012 Estimated Depreciation	$58,246.84
0000102647	01/31/13	01/2013 Estimated Depreciation	$54,886.08
0000103568	02/28/13	02/2013 Estimated Depreciation	$50,028.42
0000104629	03/31/13	03/2013 Estimated Depreciation	$49,491.47
0000105434	04/30/13	04/2013 Estimated Depreciation	$48,161.19
0000096357	06/30/12	06/2012 Estimated Depreciation	$47,541.67
0000094594	04/30/12	04/2012 Estimated Depreciation	$45,933.49
0000095493	05/31/12	04/2012 Estimated Depreciation	$45,904.28
0000097518	07/31/12	07/2012 Estimated Depreciation	$45,722.55
0000106290	05/31/13	05/2013 Estimated Depreciation	$45,513.95
0000098081	08/31/12	08/2012 Estimated Depreciation	$42,072.21
0000100016	10/25/12	09/2012 Estimated Depreciation	$40,135.21
0000101723	12/31/12	12/2012 Estimated Depreciation	$39,647.18
0000100933	11/30/12	11/2012 Estimated Depreciation	$39,012.50
0000099017	09/30/12	09/2012 Estimated Depreciation	$38,576.97
0000094594	04/30/12	3/2012 True Up Depreciation	($12,313.35)
0000105434	04/30/12	3/2013 True Up Depreciation	($1,330.28)
0000095493	05/31/12	4/2012 True Up Depreciation	($29.21)
0000096357	06/30/12	5/2012 True Up Depreciation	$1,637.39
0000097518	07/31/12	6/2012 True Up Depreciation	($1,819.12)
0000098081	08/31/12	7/2012 True Up Depreciation	($3,650.34)
0000099017	09/30/12	8/2012 True Up Depreciation	($3,495.24)
0000100016	10/25/12	9/2012 True Up Depreciation	$1,558.24
0000100933	11/30/12	10/2012 True Up Depreciation	($1,122.71)
0000101723	12/31/12	11/2012 True Up Depreciation	$634.68
0000102647	01/31/13	12/2012 True Up Depreciation	$15,238.90
0000103568	02/28/13	01/2013 True Up Depreciation	($4,857.66)
0000104629	03/31/13	02/2013 True Up Depreciation	($536.95)
0000106290	05/31/13	04/2013 True Up Depreciation	($2,647.24)
0000107073	06/30/13	05/2013 True Up Depreciation	$102,468.72

Journal ID	Date	Journal Line Description	Amount
0000108004	07/31/13	06/2013 True Up Depreciation	($2,237.14)
0000108873	08/31/13	07/2013 True Up Depreciation	($249.94)
0000109706	09/30/13	08/ 2013 True Up Depreciation	$9,802.89
Total			**$1,227,148**

Criteria:

HHSC Uniform Managed Care Manual, Chapter 6.1 "Cost Principles for Expenses", Section VI, Cost Categories, Item 41, and Financial Accounting Standard Number 13, FAS 13 concerning accounting for leases - Criteria for classifying. In addition, the MOC's Third Amended Services Agreement, March 23, 2012 establishes that these should be treated as leased assets.

Recommendation:

CHC should ensure that expenses for leased assets are classified as lease expenses, not depreciation expenses.

Management Response: *Disagree*

Article V (Page 10) of the Third Amended Administrative Services Agreement between Community Health Choice Inc. and the Harris County Hospital District, (dba Harris Health System), clearly defines the types of expenses 'paid or incurred by the District on behalf of the HMO', Which will be reimbursed by Community to Harris Health by direct debit to Community's bank account, as both Direct and 'Indirect' expenses. The specific expenses included or allocated in these categories are further delineated in Exhibit C (Page 18), of the agreement; this includes depreciation of assets as part of the 'Corporate Allocation' charged to Community by Harris Health; this is subsequently reported to HHSC on Line 24 of the SFY2OI 3 334 Day Administrative FSR. We maintain that these are not exceptional to other categories included under 'Direct Expenses' in Exhibit C, such as Equipment & Supplies, Maintenance & Repairs, and Rents & Leases which are all items paid for by the Hospital District but are used exclusively by and for Community Health Choice Inc.

Auditor's Follow up Comments:

The contractual agreement CHC entered with the Harris County Hospital District (HCHD) states that HCHD will provide CHC with furniture, equipment, and office space and that CHC will have the right to use the premises, equipment, furniture, and furnishing only during the term of the agreement. Additionally, the agreement specifies that title to the premises, equipment, furniture and furnishings will remain with HCHD at all times, and that CHC will return and surrender to HCHD the premises, "equipment and furniture and furnishings in as good condition as received, normal wear and tear excepted" at the end of the service agreement.

By its terms, the lease agreement is an operating lease, not a capital lease because ownership of the leased assets belongs to HCHD (the lessee) and not CHC (the lessor). Only the owner of a leased asset can record depreciation expense. Since CHC does not have ownership and will not retain title to the leased assets at the end of the lease agreement, it can record only rental or lease expense. Therefore, expenses related to the leased equipment, furniture, and furnishing should have been recorded in the journal or general ledger as lease or rental expenses, not depreciation.

Finding 3 - Unallowable Expenses For An Amendment To Administrative Services Agreement That Was Not Implemented

IG auditors reviewed and reconciled the administrative expenses reported in Part 1 of the Financial Statistical Report (FSR). Our review revealed that $332,527 was reported in line 24, Corporate Allocations, of the FSR. This amount was supposed to be associated with an amendment to the administrative services agreement that was not implemented. Therefore, the costs were not incurred. However, the $332,527 was reported in the FSR. CHC has not established policies and procedures to ensure that only incurred costs are reported in the FSR. As a result, administrative expenses were overstated in the FSR.

Criteria:

HHSC Uniform Managed Care Manual, Cost Principles for Expenses, Chapter 6.1, Part I General, Section D, paragraph (5) Administrative expense assessment "true-up.", states in part, "…The MCO must modify the FSR accordingly to represent only allowable costs actually incurred by the Affiliate. Such a true-up must be done, and its impact included into the FSR, by the 90-day FSR for each SFY. Any exception to this deadline requires written approval from Program Operations Finance."

Recommendation:

CHC should establish policies and procedures to ensure that only costs that are actually incurred are reported in the FSR.

Management Response: *Disagree*

The Agreement that changed the monthly 'Administrative Services' rate to the amount used in the Administrative Expense True-Up was approved by Community's Board of Directors on October 22, 2014 and by the Harris Health's Board of Managers on December 4, 2014, however the execution was delayed until May 2015. The amendment has been implemented and the revised expense has been duly charged to Community by Harris Health consequently the expense included within the SFY2O13 334 Day Administrative FSR was appropriate.

Auditor's Follow up Comments:

The IG auditors reviewed new supporting documentation provided with CHC's management response to Finding 3. The point of the True-Up in the contract is to report costs actually incurred by the MCO in SFY 2013. CHC's Affiliate, Harris County Hospital District, charged

expenses through a formula-based approach. When a formula-based approach is used by an Affiliate, the MCO is required to perform an end-of-year "true-up" of the actual allowable charges incurred by the Affiliate that applies to SFY 2013, and modify the FSR accordingly for SFY 2013. The documentation provided was a formula-based agreement and not actual costs incurred, nor was it applicable to SFY 2013, which is March 1, 2012 through August 31, 2013. In the Sixth Amendment provided by CHC with its management response, under Terms, paragraph II, the effective date is stated as the date of the last signature, and all four signatures were in 2015. Therefore, the IG auditors do not agree that the $332,527 was incurred during SFY 2013."

Finding 4 - Unexplained Variance Between Financial Statistical Report (FSR) And General Ledger

IG auditors reviewed the administrative expenses reported in Part 1 of the FSR. Our review revealed a variance of $67,982 between administrative expenses in the general ledger and administrative expenses reported in the FSR. CHC was unable to provide sufficient documentation to explain the variance. CHC does not have policies and procedures to ensure accurate reconciliation of the general ledger to the FSR. As a result, there is an unexplained variance of $67,982 between the FSR and the General Ledger.

Criteria

Uniform Managed Care Contract Terms & Conditions, Attachment B-1 – HHSC Joint Medicaid/CHIP HMO RFP, Article 8. Operations Phase Requirements, Section 8.1.17 Accounting and Financial Reporting Requirements, states in part, "…The HMO must… Maintain an accounting system that provides an audit trail containing sufficient financial documentation to allow for the reconciliation of billings, reports, and financial statements with all general ledger accounts…"

Recommendation

CHC should establish policies and procedures to ensure accurate reconciliation of the general ledger expenses to the FSR.

Management Response: *Disagree*

Community is unable to establish the methodology used by the HHSC-OlG auditors to arrive at the $67,982 variance shown in the adjusted GL column of the spreadsheet provided during the performance audit review.

Auditor's Follow up Comments:

The IG auditors reviewed CHC's management response to Finding 4. The IG auditor compared the FSR Part 1: "Administrative Expenses" Lines 1 through 17 to the corresponding totals from the CHC General Ledger. There were ten variances identified. Four of the variances represented the significant differences; all but $2 of the total variance amount. Four variances offset each

other, and two were for $1 each. The total of the ten variances was $67,982. CHC needs to develop a procedure for explaining variances in the future.

Finding 5 – Costs Accrued Were Not Incurred

IG auditors reviewed and reconciled the administrative expenses reported in Part 1 of the Financial Statistical Report (FSR). Our review revealed that $16,501 of expenses that were not incurred were reported in Line 10 – "Supplies, Postage, Freight, and Printing" of the FSR. The recording of the expenses as incurred was due to a purchase order error. CHC has not established policies and procedures to ensure that only incurred costs are reported in the FSR. As a result, administrative expenses were overstated by $16,501 in the FSR. The table below illustrates the overstated expenses:

Sample No.	Journal ID	Date	Journal Line Description	Amount
213	RACC109060	8/31/2013	PO Receipt Accrual	$16,501

Criteria:

Uniform Managed Care Terms & Conditions, Subject: Attachment A – Uniform Managed Care Contract Terms and Conditions Version 2.3 Article 2. Definitions, Allowable Expenses means all expenses related to the Contract between HHSC and the MCO that are incurred during the Contract Period, are not reimbursable or recovered from another source, and that conform with the Uniform Managed Care Manual's "Cost Principles for Expenses."

Recommendation:

CHC should establish policies and procedures to ensure that only the costs incurred are reported in the FSR.

Management Response: *Agree*

Since the identification of the unincurred item, Community has put into place the following internal controls to prevent a reoccurrence of the process failures that led to the misstatement of $16,501 in the FSR.

- *Receipt accrual to be reviewed monthly by the Finance Team.*
- *In addition, stale dated items will be submitted to Harris Health on a monthly basis for reversals and monthly reconciliation will ensure that the eliminated items are not reaccrued on the General Ledger.*

APPENDICES

APPENDIX A

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of the audit was to determine whether Community Health Choice, Inc. (CHC) was in compliance with the terms and conditions of its Uniform Managed Care Contract with HHSC and all applicable sections of the Code of Federal Regulations, Federal Acquisition Regulation, Texas Government Code, Texas Administrative Code, and the Uniform Managed Care Manual.

Scope

The audit covered the 18-month period beginning on March 1, 2012 through August 31, 2013.

Methodology

The IG auditors reviewed and analyzed the following:

- Financial Statistical Reports for programs CHIP, STAR, STAR+PLUS, STAR Medicaid Rural Service Area (MRSA), for all service areas
- Policies and procedures (Accounting, Administrative, and Claims Processing)
- Internal controls
- Information systems (accounting and claims processing)
- Transactions in the general ledger (revenues, medical expenses, administrative expense, other)
- Medical claims records, revenue and expense source documentation
- Claims records and documents
- Cost allocations
- Compliance with the Uniform Managed Care Contract with HHSC, all applicable sections of state and federal laws and regulations, and policies and procedures

The IG auditors collected information for the audit through:

- Discussions and interviews conducted with CHC management and staff personnel
- Documentary evidence such as:
    - Independent and internal audit reports, and federal tax form 990
    - Internal control questionnaires, list of management information systems
    - Organizational chart, list of employees (including Board of Directors)
    - General Ledger (including reconciliations, schedules, auditee worksheets)
    - Policies and procedures (administrative, accounting, and claims.)
    - Minutes of the meetings of the Board of Directors
    - Transaction documentation (revenues, expenses, and refunds)
    - Medical claims records
    - Other subcontractor contracts and agreements
    - Provider Manual and Member Handbooks for each program

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Criteria Used

- Uniform Managed Care Contract
- Uniform Managed Care Manual
- Code of Federal Regulations
- Federal Acquisition Regulation
- Texas Government Code
- Texas Administrative Code
- CHC policies and procedures
- CHC provider manual
- CHC STAR member handbook
- CHC CHIP member handbook

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