

STATE OF WEST VIRGINIA

SPECIAL REPORT

OF

WEST VIRGINIA PUBLIC EMPLOYEES

INSURANCE AGENCY

CLAIMS

FOR THE PERIOD

JULY 1, 2002 - JUNE 30, 2004



OFFICE OF THE LEGISLATIVE AUDITOR

CAPITOL BUILDING

CHARLESTON, WEST VIRGINIA 25305-0610

SPECIAL REPORT OF
WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY
CLAIMS
FOR THE PERIOD
JULY 1, 2002 - JUNE 30, 2004

WEST VIRGINIA LEGISLATURE
Joint Committee on Government and Finance

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Legislative Post Audit Division
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The Joint Committee on Government and Finance:

In compliance with the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, we have examined the accounts of the West Virginia Public Employees Insurance Agency - Claims relating to the claims paid on behalf of plan members.

Our examination covers the period July 1, 2002 through June 30, 2004. The results of this examination are set forth on the following pages of this report.

Respectfully submitted,

A handwritten signature in black ink that reads "Theford L. Shanklin".

Theford L. Shanklin, CPA, Director
Legislative Post Audit Division

TLS/ela

October 24, 2005

Auditors: Ethelbert Scott, Jr., CPA, Audit Manager
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WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY

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EXIT CONFERENCE

We held an exit conference on December 8, 2005 with the Chief Financial Officer and other representatives of the West Virginia Public Employees Insurance Agency and all findings and recommendations were reviewed and discussed. The agency's responses are included in bold and italics in the Summary of Findings, Recommendations and Responses and after our findings in the General Remarks section of this report.

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY

CLAIMS

ADMINISTRATIVE OFFICERS AND STAFF

JUNE 30, 2004

Finance Board Members

Robert W. Ferguson, Jr. Chairperson
Perry Bryant Representing Education Employees
Michael Garrison Representing Public-at-Large
Elaine Harris Representing Organized Labor
William Ihlenfeld Representing Public-at-Large
John R. Ruddick Representing Public-at-Large
James Schneider Representing Public Employees
Joe Smith Representing Retired Employees
Denise R. White Representing Public-at-Large

Administration

Tom Susman Director
(July 1, 2002 - June 15, 2004)
Jason Haught, CPA Co-Acting Director
(June 16, 2004 - June 30, 2004)
Chief Financial Officer
Bernard Keith Huffman Co-Acting Director
(June 16, 2004 - June 30, 2004)
General Counsel
Gloria Long Co-Acting Director
(June 16, 2004 - June 30, 2004)
Member Services Administrator
Twila Ruggieri Executive Assistant

R. Philip Shimer..... Deputy Director
Larry A. Stover Controller
Chip Myers..... Budget Officer
Jerry Rouche' Executive Assistant to Director
Sandra Joseph, M.D. Medical Director
Felice Joseph, R.Ph. Pharmacy Benefits Administrator

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY

CLAIMS

INTRODUCTION

The Public Employees Insurance Board was created by an Act of the First Extraordinary Session of the 1971 Legislature, by an amendment to Chapter 5 of the West Virginia Code, 1931, as amended, by adding a new article, designated as Article 16, Sections 1 through 16 known as the West Virginia Public Employees Insurance Act.

The Board was established to provide group hospital and surgical insurance, group major medical insurance and group life and accidental death insurance for all public employees. When the insurance program was originally established in 1971, participation was granted by the Legislature only to employees who worked regularly full-time in the service of the State. The 1972 Legislature granted participation privileges in the insurance program to full-time employees of county boards of education and Board of Regents. Again, in 1973, the Legislature granted participation privileges in the insurance program to include the following full-time employees of:

1. A county, city or town;
2. Any separate corporation or instrumentality established by one or more counties, cities or towns, as permitted by law;
3. Any corporation or instrumentality supported in the most part by counties, cities or towns;
4. Any public corporation charged by law with the performance of a governmental function and whose jurisdiction is coextensive with one or more counties, cities or towns;
5. Any agency or organization established by, or approved by, the former Department of Mental Health for the provision of community health or mental retardation services and which is supported in part by State, county or municipal funds; and
6. Any person who works regularly full-time in the service of a combined city-county health department created pursuant to Chapter 16, Article 2 of the West Virginia Code.

An Act of the 1988 Regular Session of the West Virginia Legislature changed the name of the spending unit to the “West Virginia Public Employees Insurance Agency” and made substantive changes to the program. The most dramatic change was one which allowed retiring employees to convert two days of accrued annual and sick leave for one month of paid insurance for single coverage and three days of accrued annual and sick leave for one month of paid insurance for family coverage. In the alternate, the employee may elect to apply the accrued annual and sick leave toward an increase in the employee’s retirement benefits on the basis of two days of retirement service credit for each one day of accrued annual and sick leave.

Through the enactment of Chapter 7, of the 1990 Third Extraordinary Session of the West Virginia Legislature, the Public Employees Insurance Agency Finance Board was created. The Board was created to foster fiscal stability in the public employees’ insurance program through the development of an annual financial plan to meet the Public Employees Insurance Agency’s estimated total financial requirements. The Finance Board is required to submit the annual financial plan each year by January 1, preceding the fiscal year after conducting the required public hearings.

In addition, the 1990 Third Extraordinary Session of the West Virginia Legislature created the Public Employees Insurance Agency Advisory Board consisting of 15 members who were responsible for advising and making recommendations in terms of group hospital and surgical insurance, group major medical insurance and group life and accidental death insurance to the Director of the Public Employees Insurance Agency in reference to the administration and management of the spending unit. However, such recommendations and advice are not binding on the Director. The Public Employees Insurance Agency Advisory

Board was terminated effective July 1, 1997 per Chapter 4, Article 10, Section 5(2) of the West Virginia Code, as amended.

Participants who have not elected participation in one of the Managed Care Plans offered by the Public Employees Insurance Agency are enrolled in one of the Public Employees Insurance Agency Preferred Provider Benefit Programs.

Effective July 1, 2000, the Public Employees Insurance Agency entered into an agreement with Acordia National, Inc. (Acordia) to act as the Third-Party Administrator for the Agency's medical claims processing. Under this contract, Acordia is responsible for the adjudication of all claims submitted for services, products and supplies provided to participants in the Public Employees Insurance Agency Preferred Provider Benefit Plans in accordance with the Public Employees Insurance Agency Plan Document and the Summary Plan Description.

Effective July 1, 2002, the Public Employees Insurance Agency entered in to an agreement with Express Scripts, Inc. (Express Scripts) to act as the Third-Party Administrator of the Agency's prescription drug program. Under this contract, Express Scripts is the exclusive provider of prescription drug benefits to participants in the Public Employees Insurance Agency Preferred Provider Benefit Plans.

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY

CLAIMS

SUMMARY OF FINDINGS, RECOMMENDATIONS AND RESPONSES

Lack of Effective System of Internal Controls

1. During the course of our special report, it became apparent to us, based on the observed noncompliance with the West Virginia Code, and other rules and regulations the West Virginia Public Employees Insurance Agency (PEIA) did not have an effective system of internal controls in place to ensure compliance with applicable State laws, rules and regulations.

Auditor's Recommendation

We recommend the PEIA comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended.

Agency's Response

PEIA assures it will address the findings presented in this report; however, PEIA does believe its system of internal controls, with consideration of resources available and the cost and benefit of said controls, are effective. (See pages 10 and 11.)

Acordia National, Inc. Contract Management

2. During our examination of claims paid by the West Virginia Public Employees Insurance Agency, we noted several conditions that indicate the PEIA does not effectively manage its Claims Management Professional Services Agreement (Contract) with Acordia National, Inc.

Auditor's Recommendation

We recommend the PEIA comply with the PEIA's Contract Management Procedure Manual, the West Virginia Public Employees Insurance Agency Plan Document, and enforce the provisions the Acordia National, Inc. contract.

Agency's Response

PEIA does not refute the findings noted in the report regarding this matter and will address and correct each and every one, but does not concur with the overall conclusion of this finding that the contract is not managed effectively. (See pages 11 - 24.)

Express Scripts Contract Management

3. During our examination of claims paid by the West Virginia Public Employees Insurance Agency, we noted several conditions that indicate the PEIA does not effectively manage its Express Scripts Pharmacy Benefit Management Services Agreement (Contract).

Auditor's Recommendation

We recommend the PEIA comply with the PEIA's Contract Management Procedure Manual; the West Virginia Public Employees Insurance Agency Plan Document; the Public Employees Insurance Agency Accounts Payable procedures; Chapter 5A, Article 3, Section 54 of the West Virginia Code, as amended; and Section IV - Fees; Billing and Payment of the Express Scripts contract.

Agency's Response

Although the contracts of the past pharmacy benefit manager (PBM), Merck Medco, and the current PBM, Express Scripts are very similar, PEIA concurs with the finding and will update the contract manual to reflect the new contract specifics.

(See pages 24 - 32.)

Medical Director Contract Management

4. Of the 12 transactions tested, we noted two instances where the PEIA could not provide supporting documentation for a reimbursement or the documentation provided did not support the reimbursement payment.

Auditor's Recommendation

We recommend the Public Employees Insurance Agency comply with the Employee Agreement between the PEIA and Medicaid for the services of the part-time Medical Director.

Agency's Response

PEIA will improve its document retention process and improve the timesheet review process. (See pages 32 - 34.)

Medical Appeals

5. During our test of Appeals, we noted it is the PEIA's policy to record all mail received by the PEIA on the Central Mail Log. We requested a listing of appeals filed by the PEIA PPB insureds. Upon reviewing documentation relating to the appeals, we noted the listing that they provided included appeals relating to the PEIA PPB, Managed Care, Prescriptions, and Tobacco Affidavits. We also noted the appeals documents are

not pre-numbered; therefore, there is no accountability for the documentation relating to the appeals.

Auditor's Recommendation

We recommend the Public Employees Insurance Agency comply with Chapter 5A, Article 8, Section 9 (b) of the West Virginia Code.

Agency's Response

PEIA concurs and will re-evaluate the appeal process for better identification and tracking of these documents. (See pages 34 and 35.)

Payment of Acordia Invoices

6. We noted two out of 19 instances where the PEIA failed to acquire the two required signatures certifying for payment, two invoices for Acordia's Administrative Fees in the amount of \$661,289.05 and \$174,003.97. In addition, we also noted one out of 50 instances where the PEIA failed to maintain copies of the invoice and supporting documentation in the amount of \$557.07.

Auditor's Recommendation

We recommend the Public Employees Insurance Agency comply with the Public Employees Insurance Agency Accounts Payable procedures.

Agency's Response

PEIA concurs there should be evidence of the signed approvals on all invoices and will work to improve document retention processes. (See pages 35 - 36.)

Subsequent Event

7. We received a memorandum dated December 6, 2005 from Accordia to the PEIA notifying them of an incidence of possible fraud by an Acordia employee. (See pages 36 - 37.)

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY

CLAIMS

GENERAL REMARKS

INTRODUCTION

We have completed an examination of the claims paid by the West Virginia Public Employees Insurance Agency. The examination covers the period July 1, 2002 through June 30, 2004.

COMPLIANCE MATTERS

Chapter 5, Article 16 of the West Virginia Code, as amended, generally governs the West Virginia Public Employees Insurance Agency. We tested applicable sections of the above plus other applicable chapters, articles and sections of the West Virginia Code as they pertain to the findings listed below.

Lack of Effective System of Internal Controls

During the course of our special report, it became apparent to us, based on the observed noncompliance with the West Virginia Code, the Public Employees Insurance Agency did not have an effective system of internal controls in place to ensure compliance with applicable State laws, rules and regulations. Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, states in part:

“The head of each agency shall: . . .(b) Make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency’s activities. . . .”

This law requires the agency head to have in place an effective system of internal controls in the form of policies and procedures set up to ensure the spending unit operates in compliance with the laws, rules and regulations which govern it.

During our review of the Public Employees Insurance Agency we found the following noncompliance with State laws or other rules and regulations: **(1)** The PEIA did not effectively manage the Claims Management Professional Services Agreement (Contract) with Acordia National, Inc. **(2)** The PEIA did not effectively manage the Pharmacy Benefit Management Services Agreement (Contract) with Express Scripts, Inc. **(3)** The PEIA did not effectively manage the contract with Medicaid (Bureau for Medical Services, Department of Health and Human Resources) for the services of the part-time Medical Director. **(4)** The PEIA was unable to provide a separate listing of appeals filed by members of the Preferred Provider Benefit (PPB) Plan. **(5)** We noted two out of 19 instances where the PEIA failed to acquire the two required signatures certifying for payment, two invoices for Acordia's Administrative Fees in the amount of \$661,289.05 and \$174,003.97. In addition, we noted one out of 50 instances where the PEIA failed to maintain copies of the invoice and supporting documentation in the amount of \$557.07.

We believe if the PEIA would have had an effective system of internal controls in place, management would have been aware of the above noncompliance areas of State laws, rules, and regulations at an earlier date and would have been able to take corrective action in a more timely fashion.

We recommend the PEIA comply with Chapter 5A, Article 8, Section 9 of the West Virginia Code, as amended, and establish an effective system of internal control.

Agency's Response

PEIA assures it will address the findings presented in this report; however, PEIA does believe its system of internal controls, with consideration of resources available and the cost and benefit of said controls, are effective.

ACORDIA NATIONAL, INC. CONTRACT MANAGEMENT

During our examination of claims paid by the West Virginia Public Employees Insurance Agency, we noted several conditions that indicate the PEIA does not effectively manage its Claims Management Professional Services Agreement (Contract) with Acordia National, Inc. These conditions are as follows:

Acordia Contract Oversight

We noted the PEIA relies upon the performance standard measurements determined by Acordia National, Inc. for the assessment of any penalties owed to the PEIA. Additionally, we noted the measurements are not recalculated by the PEIA prior to assessing penalties. During the period July 1, 2002 through June 30, 2004, Acordia National paid performance penalties in the amount of \$327,507.00.

According to the contract the PEIA has with its Third Party Administrator for medical benefits, Acordia National, Inc., there are six performance standards that must be reported to the

PEIA by Acordia on a quarterly basis. Those six standards are as follows:

<u>Standard</u>	<u>Description</u>
<u>Q1</u>	Financially Correct Claims Percentage
<u>Q2</u>	Financial Accuracy Percent
<u>T1</u>	Percent of Claims Finalized in 12 Working Days
<u>A1</u>	Telephone Calls Abandonment Percentage
<u>S1</u>	Average Speed of Answer in Seconds
<u>B1</u>	Blockage Percentage

The six standards are provided to the PEIA by Acordia in the form of a summary report (The Quarterly Performance Standard Report) that lists the six standards and Acordia's measurements of the standards. Attached to the report are various reports that are generated by Acordia's claims system and call center software, and the results of the quarterly self-audit that Acordia is required to perform.

In order to measure two of the six performance standards, Acordia is required to perform a quarterly audit of claims. One of the two standards that are determined by the quarterly audit is the Financial Accuracy Percent (Q2). The Q2 is calculated by dividing the sum of financial accuracy amounts by the sum of the audited claim settlement amounts. This number is subtracted from one and multiplied by one hundred in order to determine the percentage of audited claims paid, in dollars, that did not contain a claim error (payment of wrong amount, payment to incorrect payee). The formula is as follows: $Q2 - \text{Financial Accuracy Amount Percent} = 100 \times (1 - (\text{Sum of Financial Accuracy Amounts} / \text{Sum of Audit Claim Settlement Amounts}))$.

The contract states that the Q2 must be at least 99.5%. If Q2 is from 96% to 98%, the penalty that is to be assessed is \$.35 times the average number of members during the quarter. If Q2 is less than 96%, the penalty that is to be assessed is \$.50 times the average number of members during the quarter.

During our review of the Quarterly Performance Standard Report for the third quarter of fiscal year 2004, we noted the report listed Q2 at a rate of 99.57% (rate of error of 0.43% according to the quarterly audit results) which met the performance standard for Q2. Based upon the report provided, we recalculated the Q2 as follows: $100 \times (1 -$

$(\$11,184.77/\$261,381.17) = 4.28\%$ error rate or 95.72%. According to our recalculation, Acordia owed a penalty for Q2 for the third quarter of fiscal year 2004 in the amount of \$45,991.00 ($\$.50 \times 91,981$ average members for quarter); however, because the PEIA relies on the figures reported by Acordia for the standards, the penalty was not assessed.

We spoke with the PEIA's Chief Financial Officer regarding the improper calculation of the Q2. He stated that he believed that the calculation was not improper; rather, there was a typographical error on the report listing the results of Acordia's quarterly audit which resulted in the difference between the amount reported on the Quarterly Performance Standard Report and our recalculated amount. He contacted Acordia regarding this Quarterly Performance Standard Report and was provided with a corrected version. Upon reviewing the report he believed the corrected report was incorrect and contacted Acordia. He was again provided with a corrected version of the Quarterly Performance Standard Report for that quarter which he believes to be correct. Based upon the corrected report, Acordia met the Q2 performance standard at 99.57% and did not owe a penalty relating to the Q2 performance standard for the quarter. Had the PEIA recalculated the performance standard amounts reported by Acordia as required by their Contract Management Procedure Manual, the error would have been brought to their attention at an earlier date.

We also noted the Telephone Calls Abandonment Percentage (A1) listed on the Quarterly Performance Standard Report for the third quarter of fiscal year 2003 was incorrectly calculated by Acordia. The incorrect calculation related to a standard that is determined by monthly reports from Acordia's call center software. The A1 was listed on the report in the amount of 0.98%. We recalculated the A1 by dividing the number of abandoned calls for the

quarter by the number of calls attempted for the quarter $((277 + 265 + 629)/(31,465 + 28,078 + 34,180))$ and determined that this standard should have been reported at a rate of 1.25%.

The Average Speed of Answer in Seconds (S1) is calculated by Acordia using monthly reports from their call center software. The monthly reports list an average speed of answer, in whole seconds, for that month. To determine the quarterly S1 measurement, Acordia calculates an average of the three monthly averages for that quarter. We recalculated the S1 by determining an average speed of answer for each quarter and found that in one instance Acordia had reported S1 at an average of 19; however, the recalculated quarterly average was 19.51.

We noted two instances where the Quarterly Performance Standards Reports were not submitted on a quarterly basis as required by the contract. Attachment C to the Acordia National contract specifies that Acordia is required to submit quarterly, to the PEIA, a report of the Performance Standards described in the contract. Although the contract does not define “quarterly” for the purpose of reporting performance standards, Acordia’s reports are prepared on a true quarterly basis (Quarters ended March 31, June 30, September 30, and December 31). The Quarterly Performance Standards Report for the first quarter of fiscal year 2003 (July 1, 2002 - September 30, 2002) was submitted along with the Report for the second quarter (October 1, 2002 - December 31, 2002) on April 15, 2003. The Report for the fourth quarter of fiscal year 2004 (April 1, 2003 - June 30, 2004) was submitted along with the Report for the first and second quarters of fiscal year 2005 (July 1, 2004 - September 30, 2004 and October 1, 2004 - December 31, 2004) on January 20, 2005.

We also noted that in each of the eight quarters during our review period, one or more performance standard measurements was not rounded to two decimal places as required by

the contract. The contract states that each of the six standards must be rounded to two decimal places in order to determine the performance standard and penalties; however, some of the standards were rounded to one decimal place or to a whole number in the report.

We further noted that for seven of the eight quarters we were unable to recalculate the Blockage Percentage (B1) due to the lack of one or more monthly reports from Acordia's call center software. Performance Standard B1 is calculated by dividing the number of calls to Acordia that were blocked according to Acordia's call center software by the total number of calls that were attempted; however, we could not recalculate seven of the eight quarters due to the lack of one or more of these monthly reports.

Attachment C to the Acordia National Claims Management Professional Services Agreement states in part:

“ . . .Quality performance measurements with respect to financial error claims and related financial accuracy amounts shall be based on TPA's quarterly internal audit and shall be reported quarterly to PEIA. TPA will audit a statistically valid random sample of all settled claims for each quarterly audit period. Performance measurements reported to the PEIA shall be based on the entirety of that sample. Sample size and performance measurements shall be reported to the PEIA quarterly.

Two quarterly performance measurements shall be calculated each quarter as follows (N denotes the audit sample size):

Q1 - Financially Correct Claim Percent =
 $100 * (1 - (\text{Number of Financial Error Claims}/N))$

Financially Correct Claim Percent (Q1) is rounded to two decimals in order to determine the performance standard and penalty amount, if applicable.

Q2 - Financial Accuracy Amount Percent =

$100 * (1 - (\text{Sum of Financial Accuracy Amounts} / \text{Sum of Audit Claim Settlement Amounts}))$

Financial Accuracy Amount (Q2) is rounded to two decimals in order to determine the performance standard and penalty amount, if applicable.

Timeliness

. . . Claim turnaround time should be calculated by reference to the “Turnaround Days” and “Number of Claims - Cumulative %” columns in a report which will be produced each quarter. . . .

The following timeliness performance measurement shall be calculated each quarter:

Percent of Claims Finalized in Twelve (12) Working Days (T1) =
Turnaround time (T1) will be rounded to two decimals in order to determine performance standard and penalty amount, if applicable.

Telephone Responsiveness

Telephone responsiveness shall be calculated each quarter under the following three (3) performance measurements:

Abandonment Percentage

Telephone responsiveness for both provider and member customer service inquiries shall be measured by the Summary Abandonment Rate Percentage Report, which will be produced each quarter. The abandonment rate percentage is denoted as A1. The abandonment rate percentage (A1) is rounded to two decimals in order to determine the performance standard and penalty amount, if applicable.

Average Speed of Answer

Telephone responsiveness for both provider and member customer service inquiries shall also be measured by a report using the TPA’s call center software. S1 will denote the average speed of answer and will be rounded to two decimals in order to determine the performance standard and penalty amount, if applicable.

Blockage Percentage

Telephone responsiveness for the entire 800 line shall also be measured by a report using the TPA’s call center software, which will be produced each quarter. The blockage percentage is denoted

as B1. The blockage percentage will be rounded to two decimals in order to determine the performance standard and penalty amount, if applicable.

Penalty Calculations

The TPA shall be subject to penalties for the following performance measurements:

- Financially Correct Claims Percentage (Q1)
- Financial Accuracy Percent (Q2)
- Percent of Claims Finalized in 12 Working Days (T1)
- Telephone Calls Abandonment Percentage (A1)
- Average Speed of Answer in Seconds (S1)
- Blockage Percentage (B1)

The penalty amount is determined by multiplying the average number of members during the quarter by the respective rates described below. Said performance penalties apply only for claims received during the contract. Required performance standard and penalties applied when performance standards are not met are:

	<u>Performance Standard</u>	<u>Rating</u>	<u>Penalty</u>	<u>Rating</u>	<u>Penalty</u>
<u>Q1</u>	<u>98%</u>	<u>96 - 98%</u>	<u>\$0.35</u>	<u>Less than 96%</u>	<u>\$0.50</u>
<u>Q2</u>	<u>At least 99.5%</u>	<u>96 - 98%</u>	<u>\$0.35</u>	<u>Less than 96%</u>	<u>\$0.50</u>
<u>T1</u>	<u>At least 92%</u>				<u>\$0.50</u>
<u>A1</u>	<u>2% or less</u>				<u>\$0.25</u>
<u>S1</u>	<u>30 seconds or less</u>				<u>\$0.25</u>
<u>B1</u>	<u>1% or less</u>				<u>\$0.25 ...”</u>

And, the PEIA Contract Management Procedure Manual states in part:

“ . . . This manual is designed to give the user methods that can be applied to all varieties of contracts. It also entails specific procedures for the more important and financially material health, utilization management and pharmaceutical third party administrators (TPA)....

... Quality Review Objectives:

Confirm TPA is adhering to quality service parameters disclosed in Attachment C of the contract and review and ascertain the reasonableness of Acordia's methodology in arriving at these amounts. Additionally, confirm that any non-compliance penalties are enforced and documented.

Quality Review Procedures:

1. Obtain quarterly performance reports, supporting documentation provided by Acordia, Attachment C of the contract and Acordia performance spreadsheet.
2. Internal audit to verify reasonableness of amount reported by taking a random sample of claims audited by Acordia:
 - a.. Pick random sample of claims within Acordia's Q1 and Q2 test sample, and document sample parameters.

Determine the appropriate sample size of claims to review from the population by inputting the following information in a statistical program:

- a. Population:
 - b. Maximum Acceptable Error:
 - c. Estimated Percentage Level:
 - d. Desired Confidence Level:
 - e. The program will produce the recommended sample size.
- b. Using the recommended sample size produced above, produce a set of random numbers using the same statistical software program.
 - c. After designating claims to review, go to actual claim document on the Acordia system to get payment data and enter into Claim payment review ss.
 - d. On same system, verify amount paid is accurate based on applicable payment system and compliant with plan document. Enter information in Acordia ss.
 - e. Calculate results and compare to amount reported by Acordia, report results in ss.
3. If there is a discrepancy greater than .025% and doesn't favor the PEIA, go to procedure number 5.
 4. If the discrepancy is more than .025%, advise management of the difference.
 5. Once/If reported information is confirmed to be reasonable, enter the reported quarterly information for each standard (Q1

and Q2) in the Acordia SS which will determine if any penalty should be applied.

6. If there is a penalty, advise the CFO and director to have this amount deducted from next ASO payment or Acordia billed for this amount.
7. Retain all work papers from Acordia regarding calculation of penalty and supporting documentation.
8. If there was a penalty for non-compliance, follow up to assure these penalties were enforced and document the penalty enforcement.

Acordia Timeliness

Timeliness Review Objectives:

Confirm that Acordia is processing our claims within the specified time period, 12 days, as disclosed in Attachment C of the contract, verify method of determining this amount by reviewing/recalculating submitted reports and that any noncompliance penalty for this standard is enforced and documented. These should be cross-referenced with reported performance.

Timeliness Review Procedures:

1. Obtain the quarterly performance reports and the monthly Acordia/PEIA reports that entail "Turnaround Days" and "Number of Claims - Cumulative %".
2. Trace turnaround time provided by Acordia on performance report to amount disclosed in regular monthly reporting and note any discrepancies.
3. Verify amount reported by taking a random sample of claims that were audited by Acordia.
4. Determine the appropriate sample size of claims to review from the population by inputting the following information in a statistical program:
 - e. Population:
 - f. Maximum Acceptable Error:
 - g. Estimated Percentage Level:
 - h. Desired Confidence Level:
- e. The program will produce the recommended sample size.
5. Using the recommended sample size produced by step 4, produce a set of random numbers using the same statistical software program.
6. Perform the following procedures:

- a. Go to actual claim document on the Acordia system to get date received
 - b. On same system verify date paid to calculate turnaround time.
 - c. Extrapolate results and compare extrapolation result to reported amount.
 - d. Note and document results, report any major discrepancies to management.
7. If amount calculated is reasonable based on calculations, enter this amount in Acordia SS for penalty determination and calculation.
 8. If found to be unreasonable, document sample findings and communicate to management that the in house sample results do not coincide with TPA results.

Acordia Telephone Responsiveness

Acordia Telephone Responsiveness Review Objectives:

Confirm Acordia is in compliance with contract parameters regarding telephone responsiveness. This is the front line of the TPA's customer service and must be monitored closely to assure if performance is not in compliance with contract stipulations a monetary penalty is enforced.

Acordia Telephone Responsiveness Review Procedures:

1. Abandonment Percentage (A1 - 2%), Average Speed of Answer (S1 - 30 seconds or less) and Blockage Percentage (B1 - 1% or less):
 - a. Per Attachment C, the above standards must be met per quarter or a \$.25 penalty must be enforced.
 - b. Obtain the quarterly performance report to determine the abandonment percentage as reported by Acordia.
 - c. Confirm this amount by reviewing the phone statistics provided each quarter and at the combined meetings,
 - d. If the amount reported by Acordia is determined to be reasonable; input the number reported by Acordia in the Acordia compliance spreadsheet to determine whether there is a penalty to enforce.
 - e. If a penalty is necessary, follow up to obtain penalty enforcement documentation. . . ."

As a result of the PEIA's reliance on the performance standards reported by Acordia, the PEIA may be unaware of situations where Acordia has failed to adequately perform in accordance with their contract and; therefore, may not take action regarding the lack of performance. The improper calculation of performance standards could result in the failure of the PEIA to assess penalties that are due. This may result in the lack of performance by Acordia thereby creating higher claims costs for the PEIA. Higher claims costs result in higher premiums for participating agencies and members.

The failure of Acordia to submit the Performance Standard Reports quarterly as required by the contract may result in the PEIA's loss of the use of any funds generated by penalties assessed. Additionally, the PEIA may not be aware of any lack of performance that the reports may indicate and may be delayed in taking action.

The failure of Acordia to report the Performance Standards rounded to two decimal places as required by the contract may result in the failure to assess or the improper assessment of performance penalties. The lack of reports from Acordia's call center software results in the inability to recalculate the B1 (Blockage Percentage) performance standard and; therefore, the inability to verify the amounts reported by Acordia on the Quarterly Performance Standard Reports are correct.

According to the PEIA's Chief Financial Officer, it would not be cost effective for the PEIA to verify the amounts reported for the six performance standards by Acordia. He stated that they do not rely entirely on the performance standard measurements reported by Acordia; rather, they monitor performance of Acordia through the Statement on Auditing Standards Number 70 Audits for Service Organizations (these are required by Acordia's

contract) and the PEIA's internal weekly medical claims audits. Additionally, he stated the PEIA monitors Acordia's performance via an independent audit of Acordia's compliance with the PEIA's Plan Document. The most recent Special Report on Applying Agreed Upon Procedures Pertaining to Plan Document Compliance covered the period August 1, 2001 to October 31, 2001; however, the PEIA's Chief Financial Officer stated that they are currently planning another audit. The Chief Financial Officer also provided us with his Acordia Contract Compliance Review Spreadsheets; however, in the columns titled "Confirmed by PEIA" no entries have been made.

Additionally, he stated that the improper calculation of A1 for the third quarter of fiscal year 2003 must have been an error on Acordia's part. Regarding Acordia's method of calculation of S1, that is how Acordia has chosen to calculate and report the measurement.

When we spoke with the PEIA's Chief Financial Officer regarding Acordia's failure to submit the Performance Standard Reports quarterly, he stated that they had gotten behind due to the changes that were put into place by the State Auditor's Office regarding the payment of claims. He also stated he doesn't know why Acordia did not round to two decimal places; however, he doesn't believe that rounding the performance standard measurements to one decimal place rather than two would have any impact on the report. Further, he stated that they couldn't round seconds to two decimal places. Regarding the lack of documentation for the recalculation of the B1 (Blockage Percentage), he stated that he didn't know why the documentation was not attached to the report.

Agency's Response

PEIA does not refute the findings noted in the report regarding this matter and will address and correct each and every one, but does not concur with the overall conclusion of this finding that the contract is not managed effectively. The performance penalty reports are purely for the enforcement of penalties and this is an important aspect of contract management. However, the complete management of the contract is performed in a multitude of ways.

PEIA requires the third party administrator, Acordia National, Inc., (TPA) representatives consisting of two vice presidents, the claims department manager, a senior account manager, the utilization management department manager and the renal disease nurse to be present weekly at a meeting with PEIA to discuss the operations of our plan. The meeting covers many different aspects of the many responsibilities of the third party administrator. The reports and meeting are just two one of the facets of how PEIA is able to timely assess the performance of the TPA. By tracking claims inventory weekly, PEIA can react quicker to any increase in claims inventory which is known as the T1, claim turn around time. Additionally, using weekly phone statistics allows PEIA to assess the performance of the TPA in its call volume, overall percent of calls answered, average hold times, average abandonment rates, and thus allows the management of the TPA on a more timely basis than quarterly reporting. Whenever the average hold time is high, PEIA knows there may be issues with the TPA and can react accordingly.

Therefore, all of the performance measures for services through the phone system A1, S1 and B1 required for penalty assessment are actually managed weekly at these

meetings. Although there was not proper reporting of the blockage standard, this is an issue that would be very apparent since, based on PEIA's knowledge of this standard, this would occur only if Acordia's 1-800 number was inaccessible. Further, the blockage is difficult to document. Based on PEIA's understanding, it may require that the TPA's 1-800 vendor participate in reporting this standard. PEIA will re-evaluate the reporting of this standard for better evaluation.

Additionally, PEIA uses both internal claim testing and third party auditing of the TPA to further assess the TPA regarding its claim adjudication. For instance, any time PEIA notes a particular issue with a particular claim type; this is addressed in the weekly meeting and then requires the TPA to provide explanation as to how it will be addressed. PEIA's last plan compliance audit of the TPA resulted in them addressing 19 difference issues resulting in process improvements. These are two more management tools PEIA utilizes to manage standards Q1 and Q2.

As the report mentions, an independent review of the TPA's system of controls is provided annually through a Statements on Auditing Standards Number 70 Type 2 report (SAS 70). The recommendations for PEIA to assure effectiveness of the TPA's controls in the report are complied with by PEIA. PEIA is also underway with a vendor to perform a plan compliance audit on the TPA. This vendor will be charged with reviewing many functions of the TPA for PEIA.

Regarding PEIA not assessing penalties that are due, PEIA does not believe any actual penalties due were not assessed. PEIA will however, strive to assure all standards are recalculated.

Acordia Errors Resulting in Payment for Non-covered Services

Of the 21 Medical Appeals selected for testing, we noted one instance where the PEIA approved a medical appeal for the payment for items or services that would not be covered in The Plan Document as a result of an error made by Acordia.

Acordia incorrectly told an insured's treating facility that a medical claim for a Gastric Banding would be covered when, in fact, the treatment was not included in "The Plan". The insured's provider spoke with employees of Acordia twice to preauthorize the procedure. In both instances, the provider was told that the insured's Gastric Banding surgery was preauthorized. The insured had the procedure and the claim was denied by Acordia. The documentation from Acordia's phone log indicates that Acordia did tell the provider that the procedure would be covered. As a result of this error, the PEIA approved the appeal and paid the claim in the amount of \$16,835.35. We also noted the PEIA did not request reimbursement for the amount that was paid as the result of the error made by Acordia.

The West Virginia Public Employees Insurance Agency Plan Document (Plan Document) states in part:

“. . . Surgery. To assure an insured has the right type of care and full benefits under the Medical Benefits Plan, all inpatient surgeries must be reviewed in advance by the TPA-UM. Covered expenses generally include:

. . . Medically necessary gastric stapling or bypass. . .”

Additionally, the Plan Document states in part:

“Recovery of Overpayment, Incorrect Payments, or Payments Made for Which a Third-Party is Responsible. The PEIA has the right of recovery from any insured, provider or any other person or entity for benefits paid which are subsequently determined to be excessive, for non-covered services, are paid by

PEIA when another party is responsible for the claim, or are otherwise improperly or incorrectly made. . . .”

And, the Acordia National Contract states in part:

“ . . . 2.1.7 Recovery of Overpayments. In the event that TPA is responsible for the decision to make and makes a payment of benefits under the Plan in excess of the amount properly payable, or a payment to or for an ineligible person (including “late terminations”) or the wrong person, or a payment to the wrong Provider in the absence of primary fault on the part of PEIA, then TPA shall be responsible to PEIA for the amount of such improper payment....TPA shall be responsible for reimbursing the PEIA or the Plan even in the event that TPA is unsuccessful in its efforts to recover an overpayment or improper payment. . . .”

As a result of this claim, the PEIA paid for services that were not covered by The Plan or were in addition to amounts covered by The Plan in the amount of \$16,835.35.

According to documentation present in the appeals file, the PEIA approved this appeal as the result of the error made by Acordia. Documentation present in the file indicated the PEIA staff had discussed requesting reimbursement for the claim from Acordia; however, according to the Deputy Director for Insurance Programs and Services/Acting Co-Director reimbursement was not requested. The Registered Nurse responsible for the PEIA’s Health Benefits and Clinical Administration stated that this claim encouraged the development of a policy relating to weight loss surgeries that will be covered by The Plan. She believes that the payment of this claim resulted from confusion among Acordia’s staff regarding what types of weight loss surgeries were covered.

Agency’s Response

PEIA concurs with this finding and has since confirmed Acordia enforces this benefit properly.

EXPRESS SCRIPTS CONTRACT MANAGEMENT

During our examination of claims paid by the West Virginia Public Employees Insurance Agency, we noted several conditions that indicate the PEIA does not effectively manage its Express Scripts Pharmacy Benefit Management Services Agreement (Contract). These conditions are as follows:

Performance Standards and Pharmacy Benefit Audits

The contract with the PEIA's Third Party Administrator for pharmacy benefits, Express Scripts, requires that Express Scripts report the results of 11 performance standards to the PEIA on a quarterly basis. The 11 standards are summarized in a four-page report to the PEIA which lists the results of each performance standard for the quarter and the amount of penalty owed. According to the PEIA's Chief Financial Officer, any penalties owed by Express Scripts are submitted along with the quarterly report. During the period July 1, 2002 through June 30, 2004, Express Scripts paid penalties totaling \$11,848.00.

We noted the PEIA's Contract Management Procedure Manual lacks procedures that are to be performed by the PEIA related to the management of the Express Scripts Contract. Relating to the previous Pharmacy Benefits contract, the Manual includes specific procedures that were to be performed by the PEIA staff in order to confirm Merck Medco's compliance with the contract. However, relating to the Express Scripts Contract, the Manual only lists and describes the Performance Standards that are to be met by Express Scripts in order to avoid paying penalties and does not include procedures to be followed by the PEIA Staff in managing the contract.

We further noted the PEIA does not maintain records regarding prescription claim audits performed by the Pharmacy Director. The PEIA was unable to provide a listing of audited prescription claims or documentation regarding the audited claims; however, the PEIA did provide e-mails from the Pharmacy Director to Express Scripts regarding questions about several claims she had reviewed. As a result of the lack of record-keeping, we were unable to verify that the audits were performed and review the results of those audits.

The PEIA Contract Management Procedure Manual states in part:

“ . . . This manual is designed to give the user methods that can be applied to all varieties of contracts. It also entails specific procedures for the more important and financially material health, utilization management and pharmaceutical third party administrators (TPA). . . .”

As a result of the PEIA’s reliance on the performance standards reported by Third Party Administrators, the PEIA could fail to receive penalties that are owed. Additionally, the PEIA may be unaware of situations where the Third Party Administrators have failed to adequately perform in accordance with their contract and; therefore, may not take action regarding the lack of performance.

As a result of the lack of records regarding prescription claims audits performed, the PEIA has no evidence that they are effectively managing the Express Scripts contract. Additionally, the Director and Chief Financial Officer may not be made aware of any lack of performance by Express Scripts.

According to the PEIA’s Chief Financial Officer, it would not be cost effective for the PEIA to verify the amounts reported for the performance standards by the Third Party Administrators. He stated that they do not rely on the performance standard measurements

reported by the TPAs; they monitor performance of the Third Party Administrators through the Statement on Auditing Standards Number 70 Audits of Service Organizations (these are required by the TPA's contract).

According to the Pharmacy Director, she is responsible for performing the audits, resolving any findings with Express Scripts, and approving the Express Scripts claims listings for transfer of funds to the local account. She has never maintained records regarding the audits that she performs.

We recommend the PEIA comply with the PEIA's Contract Management Procedure Manual.

Agency's Response

Although the contracts of the past pharmacy benefit manager (PBM), Merck Medco, and the current PBM, Express Scripts are very similar, PEIA concurs with the finding and will update the contract manual to reflect the new contract specifics. PEIA concurs with the finding of no record of the claim audits performed by PEIA's Pharmacy Director, but PEIA does have record of emails by the Pharmacy Director to the PBM directing them to explain and correct when an issue is discovered. The Pharmacy Director does conduct the audits. Hard records will now be kept. Below is a description of this process:

PEIA receives all pharmacy claims on a CD each week and the corresponding invoice. Upon receipt of the weekly claims file, I load the CD into an Access database. I have access to the PBM's systems, Anchor and Compass. I use Anchor primarily. Anchor allows a review of a members' eligibility, claims, and deductible information, drug pricing information,

pharmacy information, prior authorization information, and Plan benefits. The validity of claims processing and payment is reviewed through this system.

I review a sample of claims for accuracy in payment and benefit design.

Typically, I sort claims to review:

- brand/generic at retail, mail order, and the Retail Maintenance Network*
- usual and customary claims*
- coordination of benefits claims*
- claims greater than \$1000*
- zero dollar copay claims*
- any claims beyond timely filing*
- dates of service prior to 7/1/05 to verify administrative fee*
- post 7/1/05 Curascript claims*
- claims paid with a tax*

In addition to weekly claims, I review the monthly pharmacy audit report. A customer service representative conducts the first review of the monthly prior authorization reports and I perform the second review.

If any questions arise on any of the above audits, I e-mail the Express Scripts Account Director and Manager for clarification. These findings sometimes result in money credited and sometimes result in only clarification of the issue.

Similar to the TPA contract, PEIA does not rely solely on quarterly performance standard reporting to ascertain the performance of the PBM. Through claim audits and eligibility reconciliations and our internal customer service department, PEIA is able to address issues more timely than relying on quarterly reports. The performance reports are purely for the purpose of penalty assessment and not intended to be the main factor in contract management.

PEIA is currently in the end stages of an independent audit of the current PBM by a vendor that specializes in PBM auditing. With this audit, PEIA will obtain an independent third party evaluation of the PBM's claims adjudication accuracy and verification of reported performance standards. Additionally, as with the TPA, PEIA also requires a SAS 70 report that is performed by yet another independent third party to assure an effective system is in place with the PBM. PEIA complies with the recommendations of the report for an effective system of controls.

Lack of Appeal Review by Medical Director

Of the eight Prescription Appeals selected for testing, we noted one appeals file lacked documentation that the Medical Director had reviewed the appeal. The documentation contained in the Medical Appeals file indicates the appeal file had been submitted to the Medical Director for review; however, the review/recommendation memo that is generally prepared by the Medical Director was absent from the file.

The PEIA Contract Management Procedure Manual - Contract Management Procedures - Policyholders/Provider Feedback states in part:

“This section deals with “external” controls where policyholders/providers call or write the PEIA Regarding their service from TPA’s. In any case where there is a complaint of inadequate service received from a vendor, the following procedures should be followed:

1. Note the policyholder or providers name,
2. Social Security number,
3. Date of incident and complaint,
4. And document the concern or problem,
5. Advise responsible personnel within PEIA and the TPA personnel if advised to do so,
6. Complaints or concerns should be filed and recorded so those common incidences will be noted.

It is imperative to document policyholder/provider complaints. In the event the policyholder/provider does not wish to submit written support of their situation, document the above information as well as possible. This documentation should be filed along with all customer correspondence regarding the PEIA TPA's. . . .”

By not maintaining adequate records of appeals documents and documentation, claims could be approved without the proper authority. We were unable to determine why the documentation was not present in the appeals file.

We recommend the Public Employees Insurance Agency comply with the PEIA Contract Management Procedure Manual.

Agency's Response

PEIA concurs that adequate documentation should be retained regarding prescription appeals and will improve the retention process.

Inadequate Supporting Documentation

Of the eight Prescription Appeals selected for testing, we found two instances where the date stamped “Received” was not included on the appeal received by the PEIA. We were unable determine the number of days between the date the PEIA received the appeal and the date the PEIA issued a response to the appeal. In the first instance there is no date listed on the file documentation. In the second instance, the documentation included a faxed document; however, the date was illegible.

The West Virginia Public Employees Insurance Agency Plan Document states in part:

“. . . The second level appeal must be in writing and contain the same information provided to the TPA. The Director will render a written decision within 30 days, unless further information is need in order to render a decision. . . .”

The failure to stamp the date “Received” on all file documentation increases the likelihood that the Spending unit could exceed the 30 days allowed to respond to appeals. Additionally, documents that are not stamped received may also be excluded from the mail log causing the PEIA to have no record of the receipt of the appeal.

According to the Pharmacy Benefits Administrator, the secretaries open and date stamp all incoming appeals. However, if the appeal is received by fax, the date is automatically stamped on the appeals documentation.

We recommend the Public Employees Insurance Agency comply the West Virginia Public Employees Insurance Agency Plan Document.

Agency’s Response

PEIA concurs and will address the lack of receipt date on the appeals by assessing current procedures for improvement.

Payment of Express Scripts Invoices

We noted two instances out of 23 payments tested, where the PEIA failed to acquire the proper signature authority before the payment of Express Scripts invoices in the amount of \$2,340,400.59 and \$2,458,084.53. We also noted two instances out of 37 payments where the PEIA did not pay Express Scripts invoices in the amount of \$41,640.00 and \$40,720.00 in a timely manner. In addition, we noted one instance where the PEIA failed to receive the proper hard copy invoices before the spending unit paid the Billing for Pharmacy Activity memo in the amount of \$2,458,084.53. We further noted six instances where there was no documentation provided supporting payments to Express Scripts totaling \$2,772,649.98; therefore, we were unable to test the six payments.

Public Employees Insurance Agency Accounts Payable procedures states in part:

“The Chief Financial Officer reviews, initials and dates (Invoice Received Date). The Chief Financial Officer gives reviewed invoices to the Administrative Officer. The Administrative Officer checks pricing, agrees to contract and acknowledges receipt. Next, the Administrative Officer imprints the invoice certification stamp then signs and dates as indicated. The Administrative Officer then gives the package to the Executive Director, or his/her designee, for review. The Executive Director, or designee, reviews the WVFIMS coversheet with the invoice and signs, indicating his/her approval and approval date.”

Section IV - Fees; Billing and Payment of the Express Scripts contract states in part:

“ . . . Any Covered Drug Reimbursements and Administrative Fees not paid by the due date thereof shall bear interest as determined by the Prompt Pay Act of 1990 (W.Va. Code § 5A-3-54). If Sponsor disputes any item on the invoice, Sponsor shall state the amount in dispute in writing within thirty (30) days of the date of the invoice....”

And, Chapter 5A, Article 3, Section 54 of the West Virginia Code, as amended, states in part:

“ . . . (2) For purchases of services or commodities made on or after the first day of July, one thousand nine hundred ninety-two, by the division of highways, the public employees insurance agency, and by the department of health and human resources, a state check shall be issued in payment thereof within sixty days after a legitimate uncontested invoice is received by any of such agencies receiving the services or commodities. Any state check issued after sixty days shall include interest at the current rate, determined in the manner provided in subdivision (1) of this subsection, which interest shall be calculated from the sixtieth day after such invoice was received by any of such agencies until the date on which the state check is mailed to the vendor. . . .”

By failing to acquire the proper signature authority before the payment of invoices received by the PEIA, the spending unit may be spending monies without statutory authority and for purposes not intended by State law. By paying a memo rather than the proper invoice, the spending unit may be spending monies without statutory authority and for purposes not intended

by State law. Additionally, the failure to pay invoices timely may result in the PEIA being subject to interest and/or additional penalties. As a result of the PEIA's inability to provide the supporting documentation relating to the six payments, we were unable to test the payments.

The PEIA's Pharmacy Director stated that she does not know why an invoice would be paid without her signature and the signature of another PEIA employee because dual signature authority is required to pay an invoice. According to the PEIA's Budget Officer, the Pharmacy Director is generally one of the signatures authorizing Express Scripts invoices for payment. Other PEIA employees who have the authority to certify Express Scripts invoices for payment are the three Acting Co-Directors, the Controller, and the Director for Shared Operations.

The Pharmacy Director stated that Prior Authorizations are always paid late because of the time it takes the Customer Service Representative responsible for the task to perform her review of the Prior Authorizations. In addition, the Pharmacy Director stated that she receives the Billing for Pharmacy Activity memo weekly, in addition to the hard copy invoices which is received a couple of days later. She is unaware of the reason the Billing for Pharmacy Activity memo was paid prior to the receipt of the invoice.

We also spoke with the PEIA's Budget Officer regarding the invoices that were not provided. He stated that they had requested all of the documentation from storage; however, he believes that the box containing these documents must have been mislabeled or misplaced.

We recommend the Public Employees Insurance Agency comply with the Public Employees Insurance Agency Accounts Payable procedures; Chapter 5A, Article 3, Section 54

of the West Virginia Code, as amended; and Section IV - Fees; Billing and Payment of the Express Scripts contract.

Agency's Response

PEIA concurs there should be evidence of the signed approvals on all invoices and will work to improve document retention processes. PEIA does not concur with the conclusion that there is risk of spending money without statutory authority however, in that the invoices must have been properly approved by PEIA before approval by the State Auditor for the release of funds by the State Treasurer.

PEIA's failure to pay certain invoices in a timely manner is evidence of PEIA managing the PBM contract. The PA process is highly technical and there are many different prescription drugs that require this with the PEIA plan. With the knowledge and acceptance by the PBM, no PA invoices are approved by the agency until a proper review of these invoices is performed. Therefore, PEIA does not concur that there may be risk of penalty or interest.

MEDICAL DIRECTOR CONTRACT MANAGEMENT

We tested 12 reimbursement payments issued to Medicaid (Bureau for Medical Services, Department of Health and Human Resources) for services provided by the Medical Director, totaling \$56,820.76. Each month the Medical Director completes and submits a time sheet to Medicaid listing the total hours worked for both Medicaid and the PEIA. Medicaid then submits to the PEIA, an invoice for reimbursement at a rate of \$75.12 per hour of work performed by the Medical Director on the PEIA's behalf and a copy of the corresponding monthly time sheet(s) supporting the hours worked. Of the 12 transactions tested, we noted two instances where the PEIA could not provide supporting documentation for a reimbursement or

the documentation provided did not support the reimbursement payment. These two instances are as follows:

1. We noted one instance where the number of hours worked according to the invoice was more than hours worked according to the time sheet. The invoice for January 2003 lists 32 hours worked; however, the time sheet shows 28 hours worked for the month. This resulted in an overpayment to Medicaid in the amount of \$300.48.
2. We noted one instance where the number of hours worked according to the invoice was less than hours worked according to the time sheet. The invoice for February and March 2003 lists 58 hours worked; however, the time sheets show 63.50 hours worked for the month. This resulted in an underpayment in the amount of \$262.92.

We also noted that nine of the invoices, totaling \$47,355.64, were submitted to the PEIA, by Medicaid, for reimbursement of more than one month of services provided by the Medical Director. Additionally, we noted the contract lacks a provision allowing the PEIA to verify the number of hours worked by the Medical Director reported on the invoice submitted by Medicaid. We believe that these conditions indicate the PEIA does not effectively manage the contract between the PEIA and Medicaid for the services of the Medical Director.

The Public Employees Insurance Agency's Employee Agreement with Medicaid for the services of a part-time medical director states in part:

“ . . . 6. That Medicaid will provide PEIA with monthly invoices setting out the hours worked by Dr. Joseph on behalf of PEIA, the hourly rate agreed to herein, and the total amount due to Medicaid;...”

The lack of a provision in the contract allowing the PEIA to verify the number of hours worked by the Medical Director on the PEIA's behalf results in the inability of the PEIA to effectively manage the contract. The lack of effective contract management regarding the agreement between the PEIA and Medicaid may result in the PEIA overpaying or underpaying for the services of the Medical Director.

We spoke with the PEIA's Chief Financial Officer about the two instances where the number of hours worked according to the time sheet do not match the number of hours worked according to the invoice. He stated that the January 2003 differences may have been an error that Medicaid attempted to resolve by adjusting the invoice for February and March 2003. Additionally, he stated that they always reimburse Medicaid based upon the invoice that is submitted. They monitor the hours worked by the Medical Director by her presence in the PEIA's offices.

We recommend the Public Employees Insurance Agency comply with the Employee Agreement between the PEIA and Medicaid for the services of the part-time Medical Director.

Agency's Response

PEIA will improve its document retention process and improve the timesheet review process. Further, it appears the February and March invoice is in fact correct in the total hours worked but one day marked on the timesheet for PEIA was in error.

MEDICAL APPEALS

During our test of Appeals, we noted it is the PEIA's policy to record all mail received by the PEIA on the Central Mail Log. We requested a listing of appeals filed by the PEIA PPB insureds. Upon reviewing documentation relating to the appeals, we noted the listing that they provided included appeals relating to the PEIA PPB, Managed Care, Prescriptions, and Tobacco Affidavits. We also noted the appeals documents are not pre-numbered; therefore, there is no accountability for the documentation relating to the appeals.

Chapter 5A, Article 8, Section 9 (b) of the West Virginia Code as amended states:

“The head of each agency shall:

. . . (b) Make and maintain records containing adequate and proper documentation of the organization, functions, policies, decisions, procedures and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency’s activities. . . .”

As a result of the inability of the PEIA to provide a separate listing of the PEIA PPB insured appeals, we were unable to determine a population including only the PEIA PPB medical appeals or prescription appeals. Additionally, we could not verify that the listing we received included all appeals relating to the PEIA PPB insureds.

By not maintaining adequate records of appeals documents and documentation, claims could be approved without the proper authority. Additionally, the lack of pre-numbering of appeals results in the inability to verify that appeals were not omitted from the Appeals Log. Further, documentation relating to an appeal may not be referenced to that particular claim appeal.

According to the PEIA staff, the appeals listing was obtained by performing a search of the mail log for the word “appeal” during the period July 1, 2002 to present. All entries including the word “appeal” were included on the listing that was provided. When we asked if they were certain that appeals had not be omitted from the listing, they stated that two out of three employees asked stated that they always include the word “appeal” in entries that relate to appeals that are received.

We recommend the Public Employees Insurance Agency comply with Chapter 5A, Article 8, Section 9 (b) of the West Virginia Code.

Agency's Response

PEIA concurs and will re-evaluate the appeal process for better identification and tracking of these documents.

PAYMENT OF ACORDIA INVOICES

We noted two out of 19 instances where the PEIA failed to acquire the two required signatures certifying for payment, two invoices for Acordia's Administrative Fees in the amount of \$661,289.05 and \$174,003.97. In addition, we also noted one out of 50 instances where the PEIA failed to maintain copies of the invoice and supporting documentation in the amount of \$557.07.

Public Employees Insurance Agency Accounts Payable procedures states in part.

“ . . .The Chief Financial Officer reviews , initials and dates (Invoice Received Date). The Chief Financial Officer gives reviewed invoices to the Administrative Officer. The Administrative Officer checks pricing, agrees to contract and acknowledges receipt. Next, the Administrative Officer imprints the invoice certification stamp then signs and dates as indicated. The Administrative Officer then gives the package to the Executive Director, or his/her designee, for review. The Executive Director, or designee, reviews the WVFIMS cover sheet with the invoice and signs, indicating his/her approval and approval date. . . .”

By failing to acquire the proper signature authority before the payment of invoices received by the PEIA, the spending unit may be spending monies without statutory authority and for purposes not intended by State law. Because the PEIA failed to maintain adequate documentation, we were unable to verify if the payment to Acordia was in accordance with the contract, properly supported, properly authorized, and paid timely for the invoice amount of \$557.07.

The PEIA's Budget Officer stated that the three Acting Co-Directors, the Controller, and the Director for Shared Operations have signature authority for Acordia invoices. He also stated the State Auditor's Office will reject the payment if the invoice is not certified by the appropriate authority and the PEIA does not always maintain a copy of the invoice with the certification. An Office Assistant stated that the PEIA staff contacted the auditors office and the PEIA warehouse and were unable to locate the missing invoice and supporting documentation.

We recommend the Public Employees Insurance Agency comply with the Public Employees Insurance Agency Accounts Payable procedures.

Agency's Response

PEIA concurs there should be evidence of the signed approvals on all invoices and will work to improve document retention processes. PEIA does not concur with the conclusion that there is risk of spending money without statutory authority however, in that the invoices must have been properly approved by PEIA before approval by the State Auditor for the release of funds by the State Treasurer.

SUBSEQUENT EVENT

The following is an excerpt from a memorandum received by the PEIA from Acordia on December 6, 2005:

“In July 2005, Acordia received a refund check from UVA Health Services Foundation. The check was dated July 11, 2005 and was payable to Acordia National in the amount of \$29,422.51. The check was a refund of a portion of a transplant claim performed on a PEIA insured in November of 2004.

Standard procedures were followed and a credit was posted to the participant's claims history. The Acordia employee responsible for depositing the check held the check in her open items file for approximately 60 days and then deposited the check into her personal checking account. Because the check was payable to

Acordia National but endorsed over to an individual, Acordia was contacted by the individual's bank regarding the deposit. An immediate investigation was begun by Acordia's accounting staff and our corporate attorney. After examining the documentation and interviewing the employee and other staff, the employee was terminated on November 4, 2005. A detailed audit of transactions processed by this individual for the last twelve months is currently in process. Both county and federal prosecutors have been notified of this attempted misappropriation of funds.

A check for the full amount of the refund, plus interest from the date of receipt of the check was delivered to PEIA on November 15, 2005

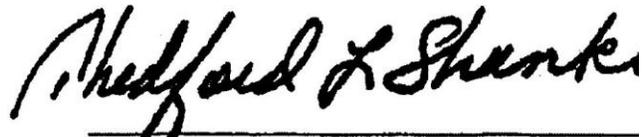
A thorough review of Acordia National's refund processing procedures has been performed by our corporate attorney and Acordia of West Virginia's internal audit staff. Although existing procedures had been determined to be industry standard procedures by both Wells Fargo's corporate audit staff and our external auditors, Ernst & Young, current controls and procedures have been enhanced and additional controls added. These changes mitigate the potential for this type of occurrence in the future...."

STATE OF WEST VIRGINIA

OFFICE OF THE LEGISLATIVE AUDITOR, TO WIT:

I, Thedford L. Shanklin, CPA, Director of the Legislative Post Audit Division, do hereby certify that the special report appended hereto was made under my direction and supervision, under the provisions of the West Virginia Code, Chapter 4, Article 2, as amended, and that the same is a true and correct copy of said report.

Given under my hand this 12TH day of December 2005.



Thedford L. Shanklin, CPA, Director
Legislative Post Audit Division

Copy forwarded to the Secretary of the Department of Administration to be filed as a public record. Copies forwarded to the West Virginia Public Employees Insurance Agency; Governor; Attorney General; State Auditor; and, Director of Finance, Department of Administration.

STATE OF WEST VIRGINIA

SPECIAL REPORT

OF

WEST VIRGINIA PUBLIC EMPLOYEES

INSURANCE AGENCY CLAIMS

FOR THE PERIOD

JULY 1, 2002 - JUNE 30, 2004



OFFICE OF THE LEGISLATIVE AUDITOR

CAPITOL BUILDING

CHARLESTON, WEST VIRGINIA 25305-0610

