

THOMAS P. DiNAPOLI
STATE COMPTROLLER



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ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

June 5, 2007

Eric Dinallo
Superintendent
NYS Insurance Department
25 Beaver Street
New York, NY 10004

Re: Administration of Contract C000260
Alicare Incorporated
Report 2006-S-46

Dear Mr. Dinallo:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have audited the State Insurance Department's administration of Contract C000260 with Alicare Incorporated pertaining to the administration of stop-loss funds for the period January 1, 2003 through December 31, 2005. Our audit examined whether the State Insurance Department's (SID) payments from the stop-loss funds were only for eligible recipients, and whether Alicare Incorporated (Alicare) is providing the required contract services, including ensuring that requests for reimbursement of claims from the stop-loss funds were for eligible claims.

A. Background

The Health Care Reform Act of 2000 (HCRA) provides for an Individual Direct Payment program that makes it possible for individual consumers to have access to comprehensive health insurance, as well as a new initiative, the Healthy New York Program (Healthy NY). The Individual Direct Payment program provides health insurance for those who generally cannot access health insurance in the group marketplace, such as those who are unemployed. Healthy NY enables small employers to offer health insurance coverage to their employees, and uninsured employees whose employers do not provide group health insurance and sole proprietors to obtain health insurance coverage. All New York State Health Maintenance Organizations (HMOs) are required to offer standardized individual enrollee contracts to members of the Individual Direct Payment program on an open enrollment basis and offer health insurance coverage under Healthy NY. As of December 31, 2005, enrollment in both programs totaled 189,679.

To fund these programs, HCRA required SID to establish four stop-loss funds; two for the Individual Direct Payment program and two for Healthy NY. Stop-loss coverage enables insurers to be reimbursed for high-cost claims with savings being passed on in the form of reduced premiums. From calendar years 2000 through 2005, \$230 million was paid to reimburse claims against the

Individual Direct Payment stop-loss funds. For calendar years 2001 through 2005, \$110 million was paid for claims against the Healthy NY stop-loss funds, and an additional \$25.3 million was spent for marketing and outreach for the program. After the initial funding for the Individual Direct Payment program was exhausted, an additional \$100 million was appropriated to increase the available funding for the period July 1, 2003 through December 31, 2005, so that reimbursable claims could be paid. The Healthy NY stop-loss funds were increased by an additional \$61 million and have not been exhausted. As of December 2005, the Healthy NY stop-loss funds contained a balance of approximately \$143.8 million. Reimbursements are limited to the extent of available funds.

In February 2001, SID entered into a contract with Alicare to perform several administrative functions related to payments from the four stop-loss funds. SID paid Alicare a total of \$524,500 in administration fees as of December 31, 2005. The contract is currently being rebid.

B. Audit Scope, Objectives and Methodology

We conducted our contract performance audit in accordance with generally accepted government auditing standards. We audited SID's and Alicare's procedures and records pertaining to the administration of the stop-loss funds created under HCRA for the period January 1, 2003 through December 31, 2005. Our audit examined whether SID's payments from the stop-loss funds were only for eligible recipients, and whether Alicare is providing the required contract services including ensuring that requests for reimbursement of claims from the stop-loss funds were for eligible claims. To accomplish our objectives, we reviewed the contract and associated documents, and examined selected records maintained by SID and Alicare. We also interviewed relevant officials and staff at both SID and Alicare.

We examined records maintained by SID and Alicare for its 2003 and 2004 calendar year audits, and a judgmental sample of the records for the 2005 year audit. For both entities, we reviewed the documentation and work papers for each of these years to verify that approved audit plans and programs were followed.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State, several of which are performed by the Division of State Services. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

C. Results of Audit

We found that SID's payments from the stop-loss funds were only for eligible recipients. We also verified that Alicare is performing the required contract services such as ensuring requests for reimbursement of claims from the stop-loss funds were for eligible claims. We found that Alicare submitted all required reports in a timely manner and conducted audits according to procedures.

1. Enrollment Eligibility

Enrollment in the Healthy NY program is limited to (1) working individuals whose employers do not offer group health insurance coverage, (2) employers with 50 or less employees, and (3) sole proprietors of small businesses. Enrollees must also meet specific criteria (e.g., individuals must reside in New York State and not have access to an employer group plan, and small businesses must be located in New York State and not have offered group health insurance for the past 12 months). The Individual Direct Payment program is open to anyone who wants to enroll and is capable of paying the premiums. As previously stated, these individuals typically include those who cannot access health insurance in the group marketplace due to unemployment.

During the first two years of the contract (2001 and 2002), Alicare conducted a review of client eligibility for the Healthy NY program and found all enrollees were eligible. The following year, SID directed Alicare to discontinue this portion of their annual audit of reimbursement claims since SID was already doing it. We found that SID uses a statistical approach in verifying the eligibility of enrollees in the programs.

In addition, SID's Field Examination Unit conducts both financial and market conduct examinations/audits at the various insurance carriers at least once every three to five years. These audits include verifications of policy holder eligibility for various programs, including both the Individual Direct Payment and Healthy NY programs. As a result, the eligibility of enrollees in these two programs is verified through a statistical sampling process and the probability of a material number of ineligible enrollees being included in the programs is minimized.

2. Contract Services

Under the terms of the contract, Alicare is required to (1) prepare and draft forms that HMOs and insurers use to request reimbursement from the stop-loss funds, (2) issue reports on enrollment, and quarterly and final stop-loss claims, and (3) prepare an annual report of the affairs and operations of each stop-loss fund. It is also required to audit the plans (i.e., Healthy NY and Individual Direct Payment) on an annual basis.

We reviewed the reporting and audit functions of the contract, which are the key tasks performed by Alicare. We found that Alicare submitted all required reports in a timely manner. For each of the Stop-Loss Claim Reports that Alicare collected from insurance carriers participating in the Individual Direct Payment and the Healthy NY programs, their Pool Accounting Unit verified that the dates of payment were within the current period; verified the total paid to date amount and the total number of qualifying claimants; estimated the annual requested stop-loss payment; and prorated the available reimbursement amount provided by SID to each.

The audits are performed after claims have been paid by the insurance carrier and include a determination of employee, subscriber, and dependent eligibility (i.e., whether the subscriber was enrolled in an eligible program at the time of the service); a determination of claims eligibility (i.e., whether the claimed service took place during the period of eligibility); and whether the claims were paid during the calendar year. The audits also include a review of the coordination of benefits to confirm that the carrier has primary financial liability for the subscriber. After the audits are complete, Alicare is required to determine the amount of payments to be made from the stop-loss funds for eligible claims, and to calculate the payments to be made on a pro-rated basis if eligible claims exceed the available funds.

We reviewed the procedures used by Alicare for its audits for each of the last three calendar years. However, according to Alicare officials, to remain compliant with HIPAA (Health Insurance Portability and Accountability Act) regulations, Alicare only retains supporting documentation from their audit tests that related to audit disallowances. All other supporting documentation is destroyed after the audit has been finalized. Therefore, our review of the audits performed for calendar years 2003 and 2004 was limited to verifying that adequate audit procedures were used with regard to claims where there were audit disallowances. For calendar year 2005, the audit had not been finalized so we were able to review all of their work and determine if the procedures were applied for sampled items even when there were no disallowances.

For calendar years 2003 and 2004, we reviewed all of the documentation available for 19 audits of both the Individual Direct Payment and Healthy NY programs. For 2005, we selected a judgmental sample of 5 out of 14 insurers from those reviewed by Alicare for the Healthy NY program. In each of the three years reviewed, we found that appropriate plans and audit procedures were documented and approved by SID prior to the conduct of the audit. The procedures were then followed in each instance.

A draft of this report was provided to SID officials for their review and comment. Their comments were considered in preparing this report, and are included as Appendix A. SID officials were pleased with the results of the audit.

Major contributors to this report included Frank Patone, Brian Lotz, Peter Schmidt, Legendre Ambrose, Katrina Lau, Santo Rendon, and Sue Gold.

We wish to express our appreciation to the management and staff of the State Insurance Department and Alicare Inc. for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

William P. Challice
Audit Director

cc: Lisa Ng, Division of the Budget



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INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NY 10004-2319

PHYLLIS ANN LINKER, CIA, CGFM
DIRECTOR, INTERNAL AUDIT

March 9, 2007

Mr. William P. Challice, Director
Office of the State Comptroller
Division of State Services
State Audit Bureau
123 William Street, 21st Floor
New York, NY 10038

RE: Administration of Contract C000260, Alicare Incorporated; Report 2006-S-46

Dear Mr. Challice:

On behalf of the New York State Insurance Department (the "Department"), I am happy to take this opportunity to respond to your draft audit report. The Department staff and those at Alicare with whom we interact have worked hard to maintain an adequate control environment in the administration of the contract noted and are pleased this has been validated by your audit findings.

The Health Bureau actuarial staff shall continue with their thorough approach to maintain a positive ongoing working relationship with the outside vendors engaged by the Department. The Health Bureau examination staff shall continue their risk-based examination approach to ensure that consumers participating in the Individual Direct Payment and Healthy New York programs continue to receive the benefits intended.

The Department anticipates continued successful interaction with outside vendors and the insurers providing services for these important health programs.

Very truly yours,

A handwritten signature in cursive script, appearing to read 'Phyllis A. Linker'.

C: Acting Superintendent Dinallo
First Deputy Superintendent Brooks
Deputy Superintendent Donnellan

<http://www.ins.state.ny.us>