TennCare Quarterly Report

Submitted to the TennCare Oversight Committee and the Fiscal Review Committee

July 15, 2003

Status of TennCare Reforms and Improvements

Two MCO contracts were terminated during this quarter. These contracts were Universal and Xantus. The termination date for Universal was June 1, 2003, while the termination date for Xantus will be August 1, 2003. Enrollees from both MCOs are being moved to TennCare Select. The departure of Universal and Xantus leaves the TennCare program with eight MCOs: Better Health Plans, OmniCare, and TLC in the west, Victory Health Plan in Middle Tennessee (Davidson County only), and BlueCare, John Deere, and PHP in the east. TennCare Select, operated by Volunteer State Health Plan, operates in all areas of the state, serving as a back-up where there is inadequate capacity as well as serving as the single MCO for certain identified groups such as children in state custody.

A major focus of activity during the quarter was planning for implementation of a new pharmacy program on July 1, 2003. All pharmacy services were rolled into a single program, with a single Pharmacy Benefits Manager to oversee the program. The coordination of different pharmacy drug lists and different pharmacy policies across MCOs was intended to reduce confusion among providers and enrollees and also to enable the state to take advantage of more advantageous financial arrangements that are possible when the state has the single pharmacy contract.

Work continued on implementation of HIPAA and the new TennCare information system. The computerized telephony system began operating prior to the end of the quarter. The Oracle financial and premium management systems are scheduled to be operational by August 1. Core TCMIS functionality is scheduled for October 1. Output reports such as MARS will be operational by the end of the calendar year.

Reverification Status

As of the end of June, the reverification figures are as follows:

- Individuals approved for Medicaid 91,181
- Individuals approved for Standard 200,428
- Individuals denied for Standard 47,438
- Individual termed for no response 144,179

Status of Filling Top Leadership Positions in the Bureau

Three key appointments were made during this quarter. David O. Hollis, MD, formerly the Vice President and Senior Medical Director for CIGNA HealthCare of Tennessee, began work as the Medical Director for TennCare. Tracy Purcell, former Deputy Commissioner of the Department of Human Services, was named the Interdepartmental Coordinator for TennCare. David Schuster, formerly a consultant and administrator with the Nashville Career Advancement Center, was appointed to coordinate implementation issues with the new TennCare Information System.

Number of Recipients on TennCare and Costs to the State

As of the end of the quarter, there were 1,273,732 enrollees on TennCare: 1,014,192 Medicaid eligibles and 259,540 Uninsureds and Uninsurables. These numbers reflect a decrease of about 65,000 enrollees since April. The proportion of enrollees enrolled in Medicaid and enrolled as Uninsureds or Uninsurables has changed. There are about 40,000 more enrollees on Medicaid now than there were in April. This is most likely due to the reverification process, whereby people who had been enrolled as Uninsureds or Uninsurables were determined to be eligible for Medicaid.

During the second quarter of FY 2003, TennCare spent $ 1,137,930,524 (net projected drug rebates) for managed care services. These expenditures included: payments to the managed care organizations, payments to the behavioral health organizations, payments to the dental benefits manager, and payments for pharmacy services for the dual eligibles and behavioral health pharmacy carve-outs.

Viability of MCOs in the TennCare Program

Claims Payment Analysis for Medical Services

The prompt pay requirements of T.C.A. § 56-32-226(b) mandate that each health maintenance organization and behavioral health organization ensure that 90% of claims for payment for services delivered to a TennCare enrollee are paid within 30 days of the receipt of such claims and 99.5% of all provider claims are processed within 60 days of receipt.

The Tennessee Department of Commerce and Insurance (TDCI) requested data files of all TennCare processed medical claims from TennCare MCOs and BHOs for the month of April 2003. TDCI also requested data files of pended TennCare claims as of April 30, 2003, and a paid claims triangle from April 1, 2002, through April 30, 2003.

TDCI's analyses of these data files indicated that Universal Care of Tennessee was the only TennCare MCO not in compliance with the statute for medical claims payments. Because Universal was not in compliance in April 2003 and because Universal was monitored monthly for compliance under TDCI administrative supervision through May 2003, TDCI requested claims data for May 2003. Universal was not in compliance with the prompt pay statute for May 2003. TDCI suspended claims data analysis for Universal in June 2003 due to the cancellation of Universal's TennCare contract effective June 1, 2003 and TDCI's petition to liquidate Universal.

The request also included data files of all TennCare processed pharmacy benefits claims from TennCare MCOs and/or subcontracted pharmacy benefits managers (PBMs) for the month of April 2003, data files of pended TennCare pharmacy claims at April 30, 2003, and a paid claims triangle from April 1, 2002, through April 30, 2003. The behavioral health organizations, Premier and Tennessee Behavioral Health, were not part of this analysis because TennCare Partners Program pharmacy benefits are delivered by the TennCare Bureau through its contract with Consultec. The BHOs are not required to provide pharmacy benefits since these benefits are provided directly by the state.

Preferred Health Partnership and Victory Health Plan were not in compliance with prompt pay requirements for April pharmacy claims. Preferred Health Partnership did not submit all of the data required to complete the prompt pay analysis. TDCI has requested that PHP resubmit April data files for pharmacy benefits so that the April analysis can be completed. Victory Health Plan's pharmacy benefits manager has refused to provide claims data files for July 2002, October 2002, January 2003 and April 2003. As a result of this refusal, TDCI has taken an administrative action to assess a penalty of $30,000 against Victory Health Plan. A settlement to this action is pending signatures.

As part of TDCI's cycle of analyzing claims data for the first month in each quarter, the division will review claims data for all MCOs and BHOs for July 2003.

Net Worth Requirement

All health maintenance organizations (HMOs) and behavioral health organizations (BHOs) contracted with the State of Tennessee to provide benefits for TennCare and TennCare Partners enrollees were required to file on June 1, 2003, National Association of Insurance Commissioners (NAIC) 2003 first quarter financial statements with the Tennessee Department of Commerce and Insurance, TennCare Division.

Listed below is each MCO's and BHO's net worth requirement compared to net worth reported at March 31, 2003, on the NAIC quarterly financial statement. TDCI has not adjusted the net worth reported on the NAIC quarterly statements. TDCI's calculations for the net worth requirement reflect payments made for the calendar year ending December 31, 2002, including payments made under the "stabilization plan." Universal Care of Tennessee, Xantus, Premier and TBH reported a net worth deficiency.

MCO/BHO	REPORTED NET WORTH	NET WORTH REQUIRE-MENT	Note	EXCESS/ (DEFICIENT) NET WORTH
Better Health Plans	3,602,004	2,956,800	(1)	645,204
John Deere	73,133,737	13,606,149		59,527,588
Memphis Managed Care	9,554,550	8,952,071		602,479
OmniCare	7,061,008	6,527,113		533,895
Preferred Health Partnership	12,763,081	6,883,135		5,879,946
Premier Behavioral Health	1,546,230	7,858,441	(2)	(6,312,211)

TN Behavioral Health	5,316,325	6,107,136	(3)	(790,811)
Universal	6,451,709	7,667,835	(4)	(1,216,126)
Victory Health Plan	5,059,411	2,266,571		2,792,840
Volunteer (BlueCare &	35,395,121	20,347,984		15,047,137
Xantus	(89,378,710)	8,820,978		(98,199,688)

(1)BHP's net worth requirement is the "enhanced" net worth requirement determined during the RFR process. The net worth requirement has been increased above the statutory minimum based on projected premium revenue. BHP's calculated statutory net worth requirement is $2,402,400. Because BHP's statutory net worth requirement is less than the enhanced net worth requirement, TDCI will enforce the requirement at the higher level.

(2)Under the terms of its supervision notice, Premier must maintain a positive net worth until its termination. Premier is also operating on a "no-risk" basis for behavior health expenses with dates of service from January 1, 2003, through December 31, 2003.

(3)Per the First Amended Agreed Notice of Administrative Supervision, TBH is required to maintain an enhanced net worth $2 million in excess of statutory requirements. Based on the April 30, 2003, monthly financials, TBH did not meet the enhanced net worth requirement by $1.1 million. On June 4, 2003, TBH satisfactorily corrected the enhanced net worth deficiency by increasing the capital contribution from Magellan Behavioral Health, Inc., through the forgiveness of $1.5 million receivables due to Magellan from TBH.

(4)Universal's reported net worth includes a $54,436,971 receivable from the TennCare Program which the State of Tennessee disputes. As a result, this receivable is considered non-admitted for the purpose of calculating net worth. Universal's adjusted statutory net worth at March 31,2003, is ($47,985,262). TDCI filed a petition to liquidate Universal Care of Tennessee, Inc., with the Davidson County Chancery Court on June 5, 2003. Chancellor McCoy granted the petition and the order was signed July 2, 2003.

Financial Issues:

Xantus Healthplan of Tennessee, Inc. (Xantus)

Current Regulatory Status

Chris Burton has replaced Paula Flowers as a Special Deputy Receiver overseeing the daily operations of Xantus. David Manning continues to hold his title and responsibilities in a limited role as a Special Deputy Receiver.

Current Financial Status

Xantus continues to be on a "no-risk" reimbursement for reasonable cost in accordance with the contract amendment between Xantus, the state TennCare Program and the Centers for Medicare and Medicaid Services.

Effective July 31, 2003, the TennCare Bureau terminated its contract with Xantus. On June 2, 2003, TDCI filed a petition to liquidate Xantus with the Davidson County Chancery Court. A hearing date has not been set. After July 31, 2003, Amendment 4 to the Contractor Risk Agreement will provide for the TennCare Bureau to fund reasonable and necessary administrative costs for processing claims with dates of service after March 31, 1999, through July 31, 2003 (the "run-out claims").

Access MedPlus (TCCN)

Because Access MedPlus was unable to cure statutory and contractual financial and claims processing deficiencies, the state terminated its contract with Access MedPlus on October 31, 2001.

On October 18, 2001, the Chancery Court of Davidson County issued an Order of Seizure of TCCN by TDCI to take possession and control of all of the property, books, documents, assets and the premises of TCCN. The Order also set a hearing on TDCI's request for liquidation or rehabilitation of TCCN to be held on November 2, 2001. On October 20, 2001, the TennCare Bureau moved all of TCCN's TennCare enrollment to the TennCare Select plan.

On November 2, 2001, a Liquidation Order for TCCN was entered by the Chancery Court of Davidson County. The order established that all claims must be received by March 1, 2002, at 4:30 p.m., CST. Courtney Pearre, Esq., appointed Supervisor since May 10, 2001, was appointed as the Commissioner's Special Deputy for the purposes of liquidation.

All providers were required to file by no later than March 1, 2002, a proof of claim ("POC") for all outstanding debt owed by TCCN to be considered a "Class II Claimant" in the liquidation. As of August 1, 2002, all of the liquidation advices had been mailed to providers as notification of the computed payable amount of their POCs. These providers then had until September 6, 2002, to object in writing to the computed payable amount. The TCCN liquidation staff has worked to resolve appeals by providers who disputed the computed payable amount either through agreement or by independent referee. All appeals are resolved with the exception of one provider who has appealed the referee's decision to Chancery Court.

The TennCare Bureau has transferred funds to TCCN in the amount of $10.5 million for claims covered by the safety net period. On March 4, 2003, approximately 1,900 safety net acceptance forms were sent to providers with computed payable amounts for the safety net period. Providers were given the opportunity to appeal the safety net amount by March 28, 2003. Providers were also given the opportunity to accept the safety net amount by April 7, 2003. As acceptance forms are received, funds are disbursed to providers on the same day.

Before liquidation, the management company transferred approximately $5.7 million from the assets of TCCN to the accounts of the former management company. The Chancery Court issued an order granting injunctive relief restraining the management company from removing any of the $5.7 million. The management company subsequently filed bankruptcy. Recently, the Bankruptcy Court entered an order that allows the Special Deputy Liquidator to proceed to recover the $5.7 million in Chancery Court. Such a petition was filed in Chancery Court. The Creditors Committee for the management company filed a motion to modify the Bankruptcy Court's order. The Special Deputy Liquidator filed papers in opposition to the Creditors Committee's motion. The hearing in Bankruptcy Court was scheduled for February 11, 2003.

Chancellor Lyle found for the liquidation that the $5.7 million had been wrongfully transferred from TCCN accounts and that such action created a constructive trust for the funds while in the hands of Access. Chancellor Lyle ordered the $5.7 million returned to TCCN accounts. Various creditors of Access and the Access bankruptcy estate are seeking an appeal of Chancellor Lyle's ruling in the Tennessee Court of Appeals.

With the resolution of these issues, the Special Deputy Receiver will petition for a distribution of the remaining assets of TCCN.

Universal Care of Tennessee (Universal)

On September 13, 2002, Universal was placed under the Administrative Supervision of the Commissioner of Commerce and Insurance as a result of the company's financial and claims processing operations problems. On December 31, 2002, Universal was again placed under an Agreed Order of Supervision through June 30, 2003. Under the new order, TennCare Examination Manager John Mattingly replaced TennCare Examiner Paul Greene as the Administrative Supervisor.

At March 31, 2003, Universal reported net worth of $6,451,709, a deficiency of $1,216,126 below the statutory net worth requirement. Universal's reported net worth includes a $54,436,971 receivable from the TennCare Program which the state disputes. As a result, this receivable is considered non-admitted for the purpose of calculating net worth. Universal's adjusted statutory net worth at March 31, 2003, is ($47,985,262), a statutory net worth deficiency of $55,653,097 below the net worth requirement.

Under Amendment No. 2 to the Amended and Restated Contractor Risk Agreement, Universal was no longer at risk for medical expenses incurred by its TennCare enrollees effective April 12, 2002.

During the second quarter of 2003, TDCI continued to work closely with Universal to identify and correct claims processing errors. TDCI closely monitored Universal's cash balances, including review and approval of disbursements prior to the release of checks for claims payments. TDCI and Universal developed procedures to facilitate issuing claims payment checks weekly.

TDCI TennCare examiners and contracted consultants were on site during the second quarter to follow up on their previous site visits to assess Universal's claims processing operations.

Pursuant to TDCI's supervision, the division discovered that Universal transferred funds to an affiliate, Universal Care, Inc., of California, without the Administrative Supervisor's approval. Directives issued by the Administrative Supervisor and the Commissioner required that funds held as investments be transferred to a Universal account in a Tennessee bank with the Administrative Supervisor as a cosignatory. Other funds received from the TennCare Program were also transferred to a UCOT bank account in Tennessee with the Administrative Supervisor as a cosignatory. Universal complied with these directives.

On April 2, 2003, the TennCare Bureau notified Universal of its intent to terminate the contractor risk agreement effective June 1, 2003. Universal filed in the United States District Court for Middle Tennessee District an application for a preliminary injunction to stop the cancellation of the contractor risk agreement. On May 30, 2003, Judge Nixon denied Universal's application for a preliminary injunction.

Also on May 30, 2003, Universal filed with the Tennessee Claims Commission a claim of $75,000,000 against M. D. Goetz as Commissioner of the Tennessee Department of Finance and Administration and Manny Martins, Deputy Commissioner of the Tennessee Department of Finance and Administration, Bureau of TennCare.

TDCI filed a petition to liquidate Universal with the Davidson County Chancery Court on June 5, 2003. Judge McCoy granted the petition and the signed order was received July 2, 2003. Between June 1, 2003, and the liquidation order date of July 2, 2003, Universal continued to process and pay claims for dates of services April 12, 2002, through May 31, 2003.

Mr. Paul Eggers was appointed the Special Deputy Liquidator. Mr. Eggers is currently in the process of securing the remaining assets of Universal and developing procedures for the distribution of assets.

Memphis Managed Care (MMCC)

TDCI's review of MMCC's March 2002 Medical Loss Ratio Report projected a possible net worth deficiency of $126,000 at May 31, 2002. On June 12, 2002, TDCI received MMCC's revised plan of corrective action plan, which projected that MMCC would correct its net worth deficiency by December 31, 2003. Because MMCC's underlying assumptions were reasonable, the TennCare Bureau and TDCI approved the plan.

Based upon payments from the TennCare Bureau, MMCC's net worth requirement is $8,952,071. At December 31, 2002, MMCC reported capital and surplus totaling $5,146,476, a deficiency of $3,805,595 below the net worth requirement. At March 31, 2003, however, MMCC reported net worth of $9,554,550, an excess of $602,479 above the net worth requirement.

On June 5, 2003, this division notified MMCC that its net worth deficiency had been corrected and that MMCC no longer needed to submit monthly financial statements.

This division approved the release of portions of MMCC's subordinated provider payable to the Regional Medical Center and the UT Medical Group, Inc. On May 30, 2003, and June 25, 2003, the TennCare Division approved the release of $764,203 and $1,090,889 respectively.

Tennessee Behavioral Health (TBH)

TBH was placed under an Order of Administrative Supervision on January 9, 2003, because TBH transferred $7 million of capital to its parent, Magellan Health Services, Inc., on October 4, 2002, without notifying TDCI and properly disclosing this transfer on its financial statements filed with the division on December 2, 2002.

During January 2003, TDCI learned that TBH's parent, Magellan Behavioral Health, was entering into a planned Chapter 11 bankruptcy. As a result, TDMHDD and TBH amended the Contractor Risk Agreement to modify the payment process so that beginning February 7, 2003, funds are remitted to TBH as medical reimbursements are determined. On February 11, 2003, the First Amended Agreed Notice of Administrative Supervision was executed. TDCI will continue to approve all disbursements and monitor the progress of the bankruptcy proceedings.

Per the First Amended Agreed Notice of Administrative Supervision, TBH is required to maintain an enhanced net worth $2 million in excess of statutory requirements. Based on the April 30, 2003, monthly financial statements, TBH did not meet the enhanced net worth requirement by $1.1 million. On June 4, 2003, TBH satisfactorily corrected the enhanced net worth deficiency by increasing the capital contribution from Magellan Behavioral Health, Inc., through the forgiveness of $1.5 million receivables due to Magellan from TBH.

Premier Behavioral Systems (Premier)

Premier Behavioral Systems gave notice to the TennCare Bureau that effective June 30, 2002, it would terminate its contract to deliver behavioral health care services to TennCare enrollees. On July 1, 2002, the TennCare Bureau invoked the first three-month exigency clause in the contract with Premier. Under the terms of this clause, Premier remained in the TennCare Program until September 30, 2002.

On August 27, 2002, the state invoked the second three-month exigency period described in the Contractor Risk Agreement. Under the terms of Section 6.18.5, Premier continued to provide services to TennCare enrollees through December 31, 2002. By amendment to the contractor risk agreement, the state assumed 100% of Premier's risk for the cost of delivering behavioral health services effective January 1, 2003 and Premier agreed to remain as a TennCare BHO until June 30, 2003.

At December 31, 2002, Premier reported net worth of $2,311,442, a deficiency of $5,535,299 below the statutory net worth requirement of $7,846,741. Therefore, on December 30, 2002, Premier entered into an Agreed Notice of Administrative Supervision with the Department of Commerce and Insurance.

During January 2003, TDCI learned that one of Premier's parents, Premier Holdings, Inc., (a wholly-owned subsidiary of Magellan Health Services) was entering into a planned Chapter 11 bankruptcy. As a result, TDMHDD and Premier amended the Contractor Risk Agreement to modify the payment process so that beginning February 7, 2003, funds are remitted to Premier as medical reimbursements are determined. On February 11, 2003, the First Amended Agreed Notice of Administrative Supervision was executed. On May 12, 2003, the Second Amended Agreed Notice of Administrative Supervision was executed. This agreement extended the administrative supervision through December 31, 2003. Premier has again agreed to remain as a TennCare BHO until December 31, 2003, with the execution of Amendment 5 to the Contractor Risk Agreement. TDCI will continue to approve all disbursements and monitor the progress of the bankruptcy proceedings.

Success of Fraud Detection and Prevention

1. Program Integrity continues to work cases referred by MCC's, local law enforcement, TBI, FBI, state agencies and the general public via Web site, faxes, letters, and phone calls via the hotline. Results of Case Reviewer/Investigators are listed below:

   A. Summary of Enrollee Cases:

		QUARTER	YTD
a.	Cases Closed	5,507	21,638
	b. Recommended Terminations	1,650	6,485
	c. TPL Added	143	388
	d. Income Adjusted	16	171
B.	Summary Relating to Provider Cases:		
a.	Cases closed	79	184
b.	Cases referred to TBI (1)	4	14
c.	Cases referred to HRB's	2	3

   (1) TBI/MFCU & HRB's takes the lead in cases once they are referred and Program Integrity continues to assist as requested.

2. Overpayments recovered for Nursing Home Recipients - called PA68's. These overpayments are directly related to under reporting of recipient income and/or assets.

   Collections - Quarter Ending 3/31/03 $251,541
   Collections - Year to Date $965,830

   Note: These collections resulted from joint efforts of Program Integrity, TennCare Fiscal Service and DHS.

3. Program Integrity is continuing to reach out to the District Attorneys and local law enforcement agencies across the state to solicit their help and support in prosecuting recipients who commit fraud against the TennCare Program. This outreach has been effective, as evidenced by an increase in referrals to PIU by various Drug Task Forces.
   - Forty-six cases have been referred this quarter
   - Year to date
     - There have been 4 prosecutions for drug diversion, and currently there are 4 additional recipients who have been indicted by the grand jury for drug diversion
     - Also have 4 recipients that have been indicted on fraud charges, living out of state and obtaining TennCare fraudulently.
     - 45 cases currently under investigation by Drug Task Force Units for drug diversion.

5. This unit provided training/networking with the following organizations during this quarter:
   a. Vanderbilt Cancer Center
   b. Medicare Senior Patrol – Knoxville Unit
   c. MCC's Annual Seminar relating to fraud and abuse
   d. Kiwanis Club- Nashville South

e. TBI- Drug Enforcement Unit - Cookeville
f. Long Term Care Advisory Council
e. Nashville Bar-Probate Attorneys
g. TBI- Drug Enforcement Unit- Knoxville

6. Estate Recovery Legislation was passed and went into effect on 8-29-02 relating to Medicaid recipients who are 55 years of age or older and the program has paid for long term care. This program has been moved from the Long Term Care Unit to Program Integrity. Attorneys, executors, and/or responsible parties must now obtain a release from the state prior to the estate being probated. Program Integrity Unit is receiving between 40 and 50 release requests per work day.

   a. Cases open - Claims filed/pending
      - FQE 6/30/03 317
      - FYE 6/30/03 688
   b. Collections for the Quarter Ending 6/30/03 $1,480,941
   c. Collections fiscal year ending 6/30/03 3,077,516

7. Collections of premiums due to recipient's failure to report accurate income to the TennCare Program.
   a. Collections year to date $ 30,301

8. Staff continue to work with the contractor, EDS, to develop the best fraud and abuse software system in the nation. This new TennCare Management Information System (TCMIS) will allow Program Integrity to initiate proactive measures for identifying fraud and abuse within the TennCare system. Program Integrity will be able to identify outliers for both providers and recipients. The ability to create ad hoc reports will greatly improve the speed and efficiencies of the investigations. Targeted queries will be generated on a routine basis; these queries have been developed to identify potential fraudulent claims submission. The goal behind these reports and queries is to promote improved work efficiencies, terminate individuals who are no longer eligible for TennCare benefits and prosecute individuals who have violated the federal and/or state laws.

9. Plans for next quarter:
   a. Continue to improve working relations, networking and exchange of information with other state, federal and local government agencies.
   b. Continue to provide training and assistance to the MCC staff who have the responsibility to focus on fraud and abuse violations.
   c. Continue to improve and expand our collaboration efforts with federal agencies, in particular Medicare Public Safeguard Contractors, TRICARE, and DHHS-OIG.
   d. Implement a match between TennCare and Department of Health, Vital Statistics to help identify TennCare recipients who, on date of death, were 55 years of age or older, and who had received nursing home benefits. This process will be utilized by our Estate

Recovery Team to open cases and file claims with the appropriate parties and recover dollars based on state and federal law.

e. Complete a match with Labor and Work Force Development to help identify TennCare recipients who are receiving, or are eligible to receive, insurance benefits through Workers Comp Program.

f. Continue working with District Attorney's Office to develop recommended language to revise TCA 71-5-118 relating to recipients who falsify their income on the TennCare application. This comes as a result of having a recipient whose income was approximately $250,000 annually, however, only reported $48,000. Current legislation addresses eligibility issues, however does not address income for the waiver population.