Special Report

Office of the State Auditor

The Price of Premiums

Phase One: Risk Analysis & Assessment of the Prospective Premium System Implemented by the Department of Prevention, Assistance, Transition and Health Access

Elizabeth M. Ready
Vermont State Auditor

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Mission Statement

The mission of the State Auditor's Office is to be a catalyst for good government by promoting reliable and accurate financial reporting as well as promoting economy, efficiency and effectiveness in State government.

Office of the State Auditor

Phase One: Risk Analysis & Assessment of the Prospective Premium System Implemented by the Department of Prevention, Assistance, Transition and Health Access

Table of Contents

Message from the Auditor

In the 1990s, the General Assembly and the Dean Administration worked to extend key public health benefits to some of the most vulnerable citizens in Vermont: the working poor, children and the elderly.

In 2003, the General Assembly changed the system of health care benefits that serves more than 40,000 beneficiaries from one of co-payments at the time health care services are provided, to one of prospective monthly premiums. Failure to pay premiums will, as of September 2004, result in the termination of health care benefits.

The Department of Prevention, Assistance, Transition and Health Access (PATH) has worked hard to make the required changes and, so far, has done a good job. The cautious leadership of PATH Commissioner J. Michael Hall combined with the diligent efforts of PATH staff have brought the first phase of the new Medicaid premium system to fruition without big problems.

But major challenges still lie ahead. Much of the software development, testing, and implementation associated with the new premium system will not be completed until July 2004. These software changes come to an already outdated system known as ACCESS, PATH's computerized eligibility system. And, the full costs of implementing the premium system are not yet known.

Beneficiary enrollment has declined since January 2004 even before sanctions are in place. The number of Vermonters who will lose access to health care benefits for failure to pay is not yet known.

In addition, beneficiary enrollment has declined since January 2004, even before sanctions are in place. The number of Vermonters who will lose access to health care benefits for failure to pay is not yet known.

Risks to Implementation

In February 2004 the Department entered into a $520,569 sole source contract that was not competitively bid. The contract with Policy Studies, Inc. (PSI), of Denver Colorado, is designed to provide automated support for processing premium collections. According to the contract, PSI is to develop automated processes in multiple phases, including: tracking collections; automatic withdrawal of premiums; premium account management support; transferring closure information to the Medicaid

Management Information System; monitoring system processing; supporting credit card payment from PATH's web page; and providing premium account management reporting.

The legislation requiring the new premium payment system permitted PATH to negotiate a sole source contract in order to speed implementation, thus waiving the benefits of competitive bidding specified under Agency of Administration Bulletin No. 3.5 Contracting Procedures. The legislation also exempted the project from the benefits of 3 V.S.A.§ 2222(g) which requires an independent review of information technology (I.T.) projects costing more than $500,000, including a cost-benefit analysis.

Past reports from this Office have focused on various components of the State's I.T. systems and associated expenditures, which now exceed $50 million per year. We found that State government would greatly benefit from improvements in the oversight and management of I.T. systems that support fundamental and essential operations of State government.

For example, the I.T. systems supporting Medicaid programs are of vital importance as they are responsible for tracking approximately 144,000 beneficiaries, or 74,000 families, and an annual budget of state and federal funds that is estimated to reach $763 million in FY 2004, according to PATH data. The current work to be performed by PSI for the premium payment system will directly impact the services provided to more than 40,000 beneficiaries. And, there is no written, strategic plan for the ACCESS system.

In past audits, a number of reportable conditions were associated with inadequate planning, testing, security and training in the area of I.T. implementation, including:

1. Problems experienced by the Tax Department in processing tax receipts;

2. Lack of timely reconciliations in the Treasurer's Office; and,

3. Ongoing challenges with the VISION system in producing accurate and timely financial information.

These weaknesses relate to overall problems with the design and implementation of I.T. systems and the internal controls and procedures surrounding these systems. We found that adequate testing and training associated with I.T. investments are critical to the success of the projects.

Given these recent trends, and the lack of a strategic plan for ACCESS, the exemption of the modifications from independent review and bidding procedures is reason for concern. Additionally, in our report entitled, *Wiring Vermont's Future, Stronger Oversight & Project Management Needed to Develop and Protect Vermont's Information Technology Investments*, we noted that PATH "spent three years, hundreds of employee hours, and in excess of $350,000 for consultants to look at

enhancements for the existing ACCESS system, only to have an independent review reach the conclusion that a total system redesign made more sense. The upgrade was cancelled."

PATH's contract with PSI calls for cobbling additional software changes to the same outdated system. This project may have benefited from both the competitive bidding process and from the independent review and cost benefit analysis called for in 3 V.S.A. § 2222(g).

In *Wiring Vermont's Future*, we recommended an independent I.T. investment board made up of private and public experts to assist in designing, prioritizing, and approving I.T. investments; an I.T. strategic plan; and project management policies developed and overseen by the Chief Information Officer. Neither the ACCESS system in general, nor the premium software changes in particular, have benefitted from these strategies.

Phase Two of this review will focus separately on PATH's $520,569 contract with PSI to develop software that enrolls beneficiaries and reconciles information in ACCESS to other State systems, including VISION. The greatest risk to the new system will come in these areas. In fact, we have learned that the failure to properly design, test and train staff on new software systems can offer very serious challenges to new system implementation. It can also result in serious functionality problems, inferior service to customers, and higher than expected costs to taxpayers.

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Findings and Recommendations

The scope of this report is to provide Phase One risk analysis, discussion and recommendations focusing on three primary areas of the implementation of the premium system: business practices; data integrity; and security. KPMG's Risk and Advisory Services, under the guidance of Senior Partner Shawn Warren, CPA, provided advice and counsel throughout the review.

The analysis considers the key risk areas associated with the application and processing of cash payments in the premium system and the reconciliation of payments to the beneficiary accounts. In general, PATH has done a good job with Phase One implementation and the recommendations we offer could be easily adopted. In some cases, PATH is already implementing these recommendations.

Our Office found:

- Premium payments received are not applied to an outstanding accounts receivable module. There is no monthly reconciliation between the subsidiary ledger (ACCESS) and the general ledger (VISION), which is a standard business practice and a strong element of internal controls;

- PATH did not have detailed, written project implementation plans regarding how it was to implement sweeping changes across the system. For example there were no detailed written plans for software changes, participant education and accounting processes;

- There appears to be adequate data integrity in the information sent from the private bank to PATH's central offices on a daily basis;

- The bank's lockbox system is not able to process "exceptions" (due to missing documentation), and these "exceptions" must be entered manually by PATH staff. If these payments are not entered correctly into ACCESS in a timely manner, a beneficiary could lose coverage; and,

- PATH has not compiled and reported all implementation costs associated with the change to a premium-based payment system.

As a result of these findings, our Office recommends that PATH:

- Implement a true cash reconciliation, preferably by developing an accounts receivable function within ACCESS that is integrated into VISION that is reconciled on a monthly basis;

- Create detailed, written project plans that clearly define the deliverables to be supplied by the private contractor, PATH programmers, and other key personnel;

- Augment training and education outreach to ensure that beneficiaries understand the necessity to send back all information with their payment, and implement internal processes that recognize exceptions processing at PATH; and,

- Identify one-time and ongoing costs associated with this system in order to better inform taxpayers, the Administration, and the General Assembly about the impact of implementing the new system.

Policy Questions Yet Unanswered

PATH has had difficulty providing accurate and timely data to this Office and to members of the General Assembly due to computer programming glitches in the ACCESS

system. Therefore it has been difficult to understand the impact of premium changes upon enrollment. This has left a number of unanswered questions associated with the new premium system.

In his memo of March 26, 2004, Steve Kappel of the Joint Fiscal Office wrote to legislators stating:

> *"PATH discovered that the computer file that it was using to report enrollment was incomplete. This led to systematic underreporting of enrollment, beginning in April 2003. There are also some inconsistencies among reports in how numbers of enrollees in individual programs are defined, and in some instances, in how these programs are identified."*

In spite of poor data, PATH staff has been sensitive and responsive to concerns about the loss of coverage to beneficiaries when raised by members of the General Assembly, this Office, and advocates.

For example, according to PATH data, 3,031 individuals in the prospective premium programs lost health care coverage as of February 3, 2004 and the Department decided to offer immediate reinstatement upon request from those individuals. However, as of March 1, 2004 only 112 of these beneficiaries had reenrolled, according to PATH data. Since full sanctions will not be implemented until September 2004, even more beneficiaries could lose coverage unless action is taken. The reality of thousands of working poor, children and seniors losing their health care coverage is a harsh one.

In addition to questions about the impact of the premium system upon beneficiary enrollment, we found that there is no full accounting of the costs and benefits of the new system to the State of Vermont.

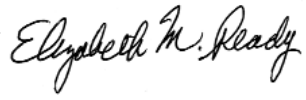
What is the total price tag for the new system? What are the transition costs? What are the on-going costs? Will the costs of uncompensated care rise as more people lose benefits? Will the loss of coverage for children under Dr. Dynasaur result in a decrease in federal Medicaid funds currently flowing to Vermont schools for essential services? How many beneficiaries will leave the system? Will healthy, less expensive to serve beneficiaries leave the program, while sicker, more expensive to serve individuals remain? Will overall health care costs rise when care for the uninsured is deferred until there is an emergency or a worsening condition? Will the loss of health care coverage result in lower State costs? Or, will those costs show up in other ways, further down the road?

It is difficult to answer these questions. Policy makers need good data in order to make decisions about these issues, now and in the future.

The General Assembly could ask the Joint Fiscal Office to track and report key indicators and statistics in order to better understand the full costs and benefits of the premium system, and to better determine the impact of the premium system upon access to health care coverage.

I want to thank Commissioner Hall and PATH staff for their assistance during our Office's review. I am hopeful that the observations and recommendations contained in this report will help the Department with its implementation.

Sincerely,



Elizabeth M. Ready
State Auditor

March 31, 2004

Observations & Recommendations

BUSINESS PROCESSES

Control Area No. 1

Banknorth lockbox processing operation and documentation review.

Finding 1

PATH procedures for processing payments produced at the time of our site visit were not up to date. We found four outdated items, out of twelve, in the documentation produced. Specifically, the procedures describing the deposit procedures for checks without coupon data were outdated. These include:

- Checks with no coupon are being processed;
- Checks that do not equal billed amount are being processed;
- Stale dated checks are being processed; and,
- Checks with no signature are being processed. Banknorth was aware that some procedures from PATH were outdated.

The processing guidelines for PATH programs subsequently produced as of January 29, 2004 addressed the above issues.

Finding 1a

The return coupon or "stub" that beneficiaries must include with their payment contains the essential ORL information (Optical Recognition Line) needed to apply the payments correctly into the ACCESS System at PATH. Any envelope not containing complete processing information is forwarded to PATH's Administrative Services Division for manual reconciliation and processing into ACCESS. This means the information must be entered manually at PATH offices in Waterbury, adding a delay between when a payment is received and when an account is credited. Manual processing offers more risk of error.

Finding 1b

During the first 16 days of processing in January, there were 26,182 payments processed at the lockbox facility. Of these, 716, or 2.7 percent, did not have coupons or could not be processed for some reason, and had to be forwarded to PATH for manual processing, according to Banknorth data.

On Monday, February 2, the first day of processing after the end of the month, we observed that 1,227 payments were received by the lockbox, and that 51 of those, or 4.1 percent, required manual processing at PATH in Waterbury.

Discussion

We conducted a physical tour of the Banknorth lockbox processing center in Williston, on December 16, 2003. We observed the operation and interviewed Banknorth's Payment Services Manager and Vice President of Government Banking. A follow-up visit on February 2, 2004 included discussions with Banknorth's Manager of Check Processing and Lockbox Processing and other staff.

Recommendation 1a

PATH documents for lockbox processing should be reviewed and kept up to date and forwarded to Banknorth on a monthly basis. Particular attention should be paid to new due dates of the premium programs, mandated by legislation.

Recommendation 1b

The outreach and training programs of the Premium Implementation Task Force should focus on educating beneficiaries on the process of completing premium payment forms and of the need to insert coupons and checks in the provided PATH program envelopes. A logistics firm could be consulted for mail design suggestions, such as making the coupon more visible or a using a different color scheme to increase the number of coupons returned. The envelope could provide a visible reminder about the need to insert the coupon in the envelope or risk delayed processing that could lead to the loss of benefits coverage.

Recommendation 1c

The lockbox sorting operation represents the crucial front-end process for the proper application of premium payments. Not receiving coupons prevents automated payment application into ACCESS. Manual processing offers more risk of error. Therefore educational and mailing design efforts to improve the coupon rate of return should continue in order to reduce administrative costs and the risk of errors that might result in the loss of coverage or revenue.

continued, page 12

The Price of Premiums: Case Stories

"[My husband] and I get VHAP because he works for a very small company that does not provide any insurance and I am self-employed and can't afford private. We paid a total of $200 per year, $50 for each of us every six months. Now after January 1 we will be billed monthly $65 for each of us ($130 total) at $1,560 per year. We will have gone from $200 to $1,560 in one year! What is that hike percentage wise? What in the world is happening here! What can be done?

"People are being told only 46 days in advance which is right after everyone is broke from pulling Christmas off. [My husband] and I are able to save all year for Christmas but most everyone else we know puts December bills off to pay for Christmas because they have no other choice."

"My parents who have custody of my niece and nephew are both retired, because of disabilities, and receive Social Security. They receive AFNC for the children for a total income of about $2,000 per month. This is not a large income for home owners with two children at approximately $24,000 per year.

"Both of my parents have medical problems that require them to have frequent medical care, and neither of them are 65 yet, so they do not qualify for Medicare. They pay for their prescriptions even now with the insurance. Under the old guidelines, they were required to pay $70 every six months, and under the new guidelines they are now required to pay this every month.

"This is a total increase of [$700] per year. To some people this is not a lot of money, but for my parents this is just something that they cannot afford.

"My parents do not have that kind of money, and so as it stands today, they will lose the mediocre medical coverage that they already have."

- from Northeast Kingdom residents in correspondence with the State Auditor's Office in November and December 2003.

Control Area No. 2

Banknorth lockbox processing volume.

Finding 2

The Banknorth sorter room and RPS Image server can handle large volumes of payment and stub/coupon information. The process seems to run effectively and data reviewed was processed accurately.

Discussion

We reviewed the premium collection files and spreadsheets used for reconciliations at PATH Administrative Services Division in Waterbury. On February 2, 2004 we observed how the RPS Image server efficiently and accurately processed and recorded payment information from 1,176 items for a total of $38,638.00.

Recommendation 2

None.

Control Area No. 3

Payment processing and cash reconciliation process.

Finding 3

The current reconciliation process is not appropriate. The premium payments received are not applied to an outstanding accounts receivable (A/R) module for premium payments invoiced. Proper tracking of receivables by month is not available. Beneficiaries can underpay their premiums and still retain coverage. The current reconciliation process entails reconciling receipts processed by Banknorth with data transmitted to PATH. In essence the file is being reconciled to ensure that the same data transmitted by Banknorth is the same data received by ACCESS at PATH.

Finding 3a

There is no A/R module in the ACCESS System. No table exists in ACCESS for recording and tracking outstanding premium amounts (Premium Invoiced – Premium Payment Collected = Premium Outstanding). Currently, there is no automated way of tracking delinquent premium amounts for beneficiaries by month due. ACCESS would have to be queried and payment and invoice data would have to be manually matched by Social Security number or on an aggregate basis. PSI is in the process of developing modules to provide collections and receivables management reporting. However, it will still remain a non-integrated function of VISION.

Finding 3b

Currently, if a beneficiary underpays the premiums due in any of the premium programs, he/she will still retain coverage. Beneficiaries are able to remit as low as $1 and maintain coverage. ACCESS will not close the account of the beneficiary. By July 31, 2004 the programming changes in ACCESS will automatically close the accounts of beneficiaries who have not paid their premiums in full. ACCESS will generate 11-day notices before closing accounts and disenrolling a beneficiary.

Finding 3c

The lockbox operation is not able to process “exceptions” due to missing documentation. Exception processing is directly forwarded via daily courier service to PATH’s Administrative Services Division which manually reconciles the premium payments through the use of Excel spreadsheets. The reconciled payments are then manually inputted into the ACCESS database. The increased volume of exceptions due to the new premium programs may directly increase the chance of input errors into the ACCESS manual data update module (CAT). If these payments are not inputted correctly into ACCESS, beneficiaries may lose coverage. There are three people in the Administrative Services Division with the authority to process and update the ACCESS database with these exceptions. Currently, no reporting or formal process of tracking exceptions exists.

According to PATH, as of January 30, all manual payments had been completed. On February 3, 2004 we observed some manual processing of the 51 payment exceptions detected at Banknorth on February 2, 2004 and sent to PATH. Staff must first log in the exceptions, typing the name, address and Social Security numbers of the 51 beneficiaries, which can be time-consuming.

Discussion

Banknorth lockbox data is transmitted and reconciled to PATH Administrative Services Division data. Checks and other payments are deposited by Banknorth and data about these payments is sent by Banknorth via electronic file transfer to the ACCESS Mainframe System at PATH.

Recommendation 3

PATH should create a system to perform a true cash reconciliation. ACCESS should have an accounts receivable module, which is integrated with VISION at PATH. As ACCESS generates premium invoices, a record should be generated and recorded into VISION as a "Debit" to a "Premium Accounts Receivable" account and a "Credit" to a "Premium Revenue" account. As cash payments are processed through the lockbox operation and transmitted to ACCESS, a record should be generated and recorded into VISION as a "Debit" to the "Cash" account and a "Credit" to the "Premium Accounts Receivable" account. Management reporting should provide monthly data on aged receivables by health care program and FPL (Federal Poverty Level).

Recommendation 3a

The PSI programming changes will address the issues of: missed collections for the State of Vermont; and, free healthcare benefits to beneficiaries with delinquent accounts. The outreach programs should clearly explain the changes in the collection process of both premiums and how benefits coverage will terminate for accounts with outstanding balances.

Recommendation 3b

PATH should improve exception processing at the front end of the process. Envelopes received at the Banknorth lockbox processing center must have coupon information. The outreach and training programs of the Premium Implementation Task Force should focus on educating beneficiaries on the process of completing premium payment forms and inserting coupons and checks in the provided PATH envelopes. PSI is currently developing modules to allow beneficiaries, who choose to do so, to elect to have funds withdrawn automatically through ACH (Automated Clearing House) transactions. This could reduce the number of exceptions. However, it is unlikely that beneficiaries will adopt this method for payment without an extensive educational outreach program.

Control Area No. 4

Record keeping and accounting for premium payments recorded in VISION at PATH.

Finding 4

No Accounts Receivable balance is generated for the premium healthcare accounts. Revenue is recognized into VISION as receipts are collected. Unbilled revenue is not recorded into VISION. PATH's Administrative Services Division creates a "Commissioner's Lockbox Report" which has data on invoices sent and payments received by health care program and which is being posted on PATH's website. The report is manually created with invoice and payment data from ACCESS.

Finding 4a

The journal entry created is properly documented with supporting documentation from Banknorth.

Finding 4b

The correct Revenue and Cash accounts are used from the Chart of Accounts and properly credited and debited in VISION.

Finding 4c

Segregation of duties is properly exercised. The accountant reconciling the receivables cannot make the entries into VISION. A separate accountant makes the entry in VISION. There are a total of four accountants with access to VISION.

Finding 4d

Journal entries need to be authorized before being entered into VISION. Accountants can make the entries in VISION before the journal entry is authorized.

Discussion

We reviewed the accounting procedures of the premium system to assess the risk of a person's premium payment not being properly recorded, thereby prompting a period of no health or pharmacy coverage.

The "reconciled" payments received from Banknorth are entered into VISION. Two types of journal entries are generally recorded: direct payments received from Banknorth and manually-reconciled exceptions received from Banknorth.

Recommendation 4

There is no history being maintained on past due collectibles. Accounts receivable (A/R) accounts should be created in VISION and receivable data should be transferred from ACCESS to VISION. Accruals for Uncollectible Premiums should be performed on a quarterly basis to an "Allowance for Uncollectible Premiums" account. The balance should be reconciled and written off on a yearly basis. The management reporting being developed by PSI should provide a good starting point for performing this

analysis and in creating a true accounting picture. Management reporting based on true accounting data will provide the legislature with a more comprehensive view of the costs of providing benefits and a better understanding of missed revenue opportunities, policy options, and issues of disenrollment and interrupted coverages.

Recommendation 4a

PATH should begin reconciling and tracking accounts receivable in ACCESS against the revenue recognized in VISION. ACCESS should have an A/R module, which is integrated with VISION at PATH. When premium invoices are generated a record should be created and recorded into VISION as a "Debit" to a "Premium Accounts Receivable" account and a "Credit" to a "Premium Revenue" account. As cash payments are processed through the lockbox operation and transmitted to ACCESS, a record should be generated and recorded in VISION as a "Debit" to the "Cash" account and a "Credit" to the "Premium Accounts Receivable" account.

When asked to name the top two barriers to successful collection of premiums, states reported the following: technical/billing systems/operations (23 programs); client understanding (11 programs); failure to pay (5 programs); and, insufficient staff (3 programs).

- National Academy for State Health Policy Report, May 2003.

Recommendation 4b

PATH should document the journal entry process and review entries posted to VISION on a monthly basis.

continued, page 18

To Buy in or Not to Buy In?

An overview of states' experiences with Medicaid buy-in programs

Participation in Medicaid buy-in programs predictably falls off as premium payments begin to reach four to five percent of a family or individual's income. That was a key finding contained in a survey of state Medicaid programs released in May 2003 by the National Academy for State Health Policy, *Using Medicaid to Cover the Uninsured: Medicaid Participant Buy-in Programs*.

The aim of the report was to identify rules and regulations within the Medicaid program that limited participation, and then to suggest changes. The survey of state Medicaid buy-in programs yielded much useful information about the nature of these programs and what happens when overall program charges increase dramatically.

Most state-run Medicaid buy-in programs, similar to VHAP and Dr. Dynasaur, begin at 150 percent of the federal poverty level, the report found. Participants often go on and off programs due to price increases or high monthly charges.

"When the price of health insurance is one or two percent of income, 50 to 60 percent of families will purchase health insurance. As price increases to five percent of income, many families will drop their coverage and participation in one study fell to around 20 percent," the report's authors wrote.

The 50-state survey also asked a number of general policy questions, including:

1. How much do states charge for participation?
2. What are the barriers to collecting premiums?
3. How do states collect these payments?
4. What happens when someone doesn't pay?

The report found that participation fees vary widely. Like Vermont, some states charge a fixed rate based on earned income, while others base fees on a percentage of a person's income, capping the total annual amount at 7.5 percent of income.

The report found that "states typically mail their bills two to four weeks before payment is due; payment is either due a couple of weeks before or after coverage starts; late notices are sent typically two weeks later; some states follow-up with phone calls; and termination can occur anywhere from one week to four months later."

In a number of states with 1115 waivers, including Massachusetts, Hawaii, New Jersey, Rhode Island, and Tennessee, participants do not lose coverage until their premiums are at least 60 days past due. Vermont's plan, when fully implemented, will join the ranks of Wisconsin, Utah and Nebraska states that disenroll immediately upon failure to pay a premium.

The full report is available at www.nashp.org.

Control Area No. 5

Reconciliation process of invoiced premiums from ACCESS at PATH to the rendering center of Banknorth in Lewiston, Maine.

Finding 5

PATH staff verifies that the invoice data transmitted to the Banknorth rendering center from ACCESS is the same data that is received by the rendering center before premium invoices are mailed.

Finding 5a

Billing information in ACCESS is not tracked in VISION. Aged receivables are not currently being tracked. (Please refer to the A/R findings listed in Control Area No. 3).

Finding 5b

The new A/R module being developed by PSI for ACCESS should provide this functionality.

Discussion

A key step in a well-functioning billing system is to provide accurate information from the organization's beneficiary database to the organization that prints and mails the bills. ACCESS transmits the appropriate data regarding beneficiaries, programs and premium amounts to Banknorth in Lewiston, Maine. The bank processes and creates premium invoices, which are then mailed to Vermonters taking part in the premium healthcare programs.

Recommendation 5

PATH should begin reconciling and tracking the Accounts Receivable in ACCESS against the revenue recognized in VISION. (Please refer to A/R recommendations listed in Control Areas Nos. 3 and 4.)

Control Area No. 6

Programming and development efforts of the premium system implementation.

Finding 6

Programming efforts need to be better documented.

Finding 6a

There is only one programmer who is the sole knowledge base owner of the ACCESS programming system.

Discussion

PATH has contracted with PSI at a cost of up to $520,569 to provide programming changes to ACCESS. These changes are aimed at providing a sophisticated accounts receivable function in ACCESS that will help PATH's program managers reduce financial risks, reduce administrative burdens, and more effectively manage the new premium system. Beneficiaries should benefit from more accurate and timely responses to their payment questions. Currently, there are three programmers dedicated to the implementation of the premium system.

Recommendation 6

PATH should create detailed project plans and programming documentation that can be beneficial to other programmers. Additional resources may be needed on a consulting basis.

Recommendation 6a

PATH should cross-train existing programmers on the implementation of the premium system and the programming changes currently being developed.

Recommendation 6b

All program and system changes should be approved in writing. Programmers should not have access to the production library, but only to "test" libraries. All programs that are to be modified should be moved into a test library by someone other than a programmer. All completed program changes should be tested and the results approved by both data center and user personnel before being placed into production. Adequate program documentation should be approved for all program changes. User personnel should be notified when modified programs will be placed into production.

Control Area No. 7

Premium system implementation documentation.

Finding 7

The Premium Implementation Plan provided by PATH staff provides the reader with a general description of the Premium program changes. These include new payment due dates and a process to follow during program conversions. Specific project tasks and milestones are not described in detail.

Finding 7a

The test plan provided to us in late December 2003 is a one-page document listing the major components for testing efforts in the sections of “Eligibility,” “Billing,” “Collections,” “Reporting,” and “Other.” The components for each section are listed progressively but no details such as scripts and dates are provided. According to PATH staff, the drafting of a comprehensive test plan was to begin on January 7, 2004.

Finding 7b

The “Premium Collection Project Deliverables Document” provides sufficient detail and addresses the primary components and steps to be taken in the “design phase” of the implementation of the premium system. This document also provides examples of A/R reports to be developed and was created by PSI.

Finding 7c

The “Premium Collection Scope of Work” provides the goals, and assumptions for the design and development of collection and billing modules. A work plan with dates and costs is provided. This document was created by PSI.

Discussion

A well-planned software development and implementation program will include detailed objectives, tasks and procedures. We reviewed the implementation documentation for the premium system which included the “Premium Implementation Plan,” the “Draft Outline of Testing Plan,” the “Premium Collection Project Deliverables Document,” and the “Premium Collections Scope of Work.”

Recommendation 7

PATH should create a more efficient and coordinated process to produce plans for each component of the project. The bi-weekly meetings currently being held should follow a formal project management methodology. Each component of the project needs to be addressed in a systematic fashion and milestones and activities required to reach each milestone need to be communicated clearly.

Recommendation 7a

PATH should utilize tools such as MS Project throughout the project team to create detailed plans including resources, task, subtasks, milestones and key dates for each main component of the implementation.

DATA INTEGRITY

Control Area No. 8

Premium payments.

Finding 8

We reviewed the data summary report printed at the Banknorth lockbox center at 12:47 p.m. on December 16, 2003, which indicated that the "Host File Batch Summary Report" had data from 1,275 coupons or "stubs," with a total deposit of $46,432.00. The ACCESS data report, confirming the receipt of Banknorth's transmittal, was printed at 8:30 a.m. on December 17, 2003 indicating 1,275 Total Items (coupons) $46,432.00 in Total Cash Processed. This was an exact match of payment data transfer.

Finding 8a

Further observation on February 2-3, 2004, confirmed the accuracy of the Banknorth transmittal. The "Host File Report" for February 2, 2004 included 1,176 coupons, totaling $38,638.00 in deposits, and 51 "could not process" (CNP) checks deposited for $2,012.00. The ACCESS data report received at PATH and printed out on the morning of February 3, 2004 confirmed an exact match of payment data transferred.

Discussion

With premium payments being received and deposited at a lockbox facility, and with data on those payments being transferred electronically to the PATH ACCESS database in Montpelier, data integrity is the foundation of a successful system.

We reviewed the data contained in the payment file transmitted from the Banknorth lockbox processing center in Williston to ACCESS at PATH in Waterbury.

Premium payments are received at the Banknorth lockbox center, processed through the sorting and imaging operations and transmitted via electronic file transfer to the ACCESS Mainframe System. The information processed at Banknorth is received at PATH by approximately 8:30 a.m. on the following day.

Recommendation 8

The integrity and accuracy of the Banknorth remittance file from ACCESS to the Banknorth rendering center in Lewiston, Maine should be tested periodically.

SECURITY

Control Area No. 9

Review transmission security of data; password security process; ACCESS and rights granting procedures.

Finding 9

Data is transmitted from ACCESS to Banknorth via a Connect Direct communication protocol using 128-bit encryption. This transmission has been modified from the previously used FTP secure transfer process.

Finding 9a

Passwords into ACCESS and VISION are granted by operators at the level one help desk (COPS) at PATH. ACCESS requires two passwords to allow the user to manipulate data.

Discussion

To reduce the level of risk in a complex data processing premium system, appropriate computer security protocols are imperative. We observed ACCESS password procedures and interviewed the information technology manager at PATH in Waterbury.

Recommendation 9

The security administration function should be properly documented and reviewed on a quarterly basis. Particular focus should be on the CAT module, which allows the user to manipulate beneficiary payment data and history in ACCESS.

Recommendation 9a

PATH should review ACCESS password granting procedures and password termination procedures.

Recommendation 9b

PATH should review/create a security breaches log.

OTHER

General Observation

For each of the premium-based health care programs, PATH should review the plan and procedures for addressing the technical and administrative requirements pertaining to the process of beneficiary disenrollment and beneficiary re-enrollment into the various premium programs.

Background

Vermont's Department of Prevention, Assistance, Transition and Health Access (PATH) is developing a Prospective Premium System for Vermonters who receive health care through a variety of State-funded programs such as Dr. Dynasaur, Working People with Disabilities (WPWD)[1], the Vermont Health Access Plan (VHAP), and VSCRIPT. The new premium payment system was adopted by the Vermont General Assembly in 2003 in Act 66, Sec. 147.

The Premium System will bill approximately 37,000 Vermont households for monthly premiums for state-funded health care. These premiums are expected to generate $15 million annually; this is nearly the same amount the participants in the plans previously paid in the form of co-payments, which are no longer required.

The primary program changes are as follows:

- Approximately 14,000 more bills will be sent out due to the Pharmacy programs switching from co-pay to premium billing.

- The Dr. Dynasaur and Working People with Disabilities (WPWD) programs will change from quarterly and retrospective billing to monthly and prospective billing.

- VHAP programs will change from billing prospectively every six months to billing monthly and prospectively.

- As of September 1, 2004, each month's bills for the next month's coverage will be sent by the 1st, due the 15th, with closure the last day of the month (with 11-day advance notice of closure). For example, a bill for October coverage will be sent September 1, 2004 and is due September 15, 2004 with closure (if applicable) effective September 30, 2004. Note: Two bills will be due September 15, 2004: the one sent at the beginning of August for September's coverage and the one sent September 1, 2004 for October's coverage.

The primary stakeholders affected by the new legislation and premium system implementation are: Vermonters, children, elderly, working disabled, the General Assembly, the Department of PATH, doctors and healthcare providers.

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[1] PATH Commissioner John Michael Hall announced to the Senate Committee on Appropriations on February 3, 2004 that premiums for beneficiaries in the Working People with Disabilities Program would be discontinued because it would not be cost effective to collect and process monthly premiums from the small number of people enrolled in this program.

Premium System

The premium system represents programming changes made in “Natural code” to the ACCESS Mainframe System located in Montpelier. These changes are expected to be implemented and tested by July 31, 2004. The system is being developed concurrently by two separate entities:

1. PATH, which has three programmers dedicated to the implementation changes, has divided the effort into the following sections:

- Eligibility (programming changes for beneficiary eligibility);
- Billing (programming changes to allocate billing to correct beneficiaries, this also includes the automatic issuing of “Notices” to beneficiaries); and
- Reporting (programming changes in order to report beneficiary-specific information to the Federal Government)

2. Policy Studies Inc., (PSI) of Denver, Colorado has been contracted by PATH to develop billing and collection modules to be integrated within ACCESS. The modules should be able to provide additional reporting functionality, including Accounts Receivable (A/R) analysis. The estimated maximum cost to PATH for the PSI services is $520,569.

Purpose, Authority, Scope & Methodology

PURPOSE

The Office of the State Auditor has produced a special report on how the State is implementing changes to a benefit system affecting nearly 40,000 Vermonters. This report was prepared with a goal of providing compliance and performance information to help meet the demand for a more responsive and cost-effective government.

AUTHORITY

This review was conducted pursuant to the State Auditor's authority outlined in 32 V.S.A. §§163 and 167.

SCOPE & METHODOLOGY

The scope of this report is to provide risk analysis, discussion and recommendations focusing on three primary areas of the Premium System Implementation:

1. Business Processes

2. Data Integrity

3. Security

The analysis considered the key risk areas associated with:

- The application and processing of cash payments in the Premium System

- The reconciliation of payments to the beneficiary accounts

The analysis addressed areas of risk, which could cause the Premium System not to recognize a beneficiary payment and consequently drop that person's program coverage. This report is not an audit conducted in accordance with applicable professional standards. The purpose of an audit is to express an opinion. The purpose of a special report is to identify observations related to a particular issue or program, and to make recommendations so that the relevant agencies or departments can better accomplish their mission and more fully comply with laws, regulations, or grant requirements. This special report relied upon representations of, and information provided by a variety of State employees and Banknorth representatives.

Appendix A

Auditee Response and Comments by the State Auditor

March 26, 2004
Elizabeth M. Ready
Office of the State Auditor
132 State Street
Montpelier, VT 05633

RE: Medicaid Premium Implementation

Dear Auditor Ready:

I write in response to your draft interim report, "Risk Analysis and Assessment of the Prospective Premium System Being Implemented by the Vermont Department of Prevention, Assistance, Transition and Health Access (PATH)".

I tender some preliminary comments relative to your cover letter, prior to responding to your findings and recommendations.

As your letter acknowledges, less than 10% of the beneficiaries closed at the end of January. However, I do not agree that these statistics are "harsh" or as disturbing as you allege. First, over the course of several years, we have documented normal churn in the beneficiary base that has routinely matched or exceeded 10% from premium period to premium period. Comparing deployment of the new premium system with PATH's previous experience with program fees, 10% is well within the norm of historical disenrollment trends. Indeed, when the Department reported to the Legislature in early February that all but 7.5% of our beneficiaries had sent in their January premium payments, lawmakers seemed pleased and relieved that payment rates were actually exceeding previous trends.

Second, in past years, Dr. Dynasaur enrollment has typically experienced a seasonal drop during the holiday period, after which we've seen enrollment trend back up. It appears that this trend is repeating again this year.

Third, in order to mitigate the adverse financial effect on Dr. Dynasaur beneficiaries last autumn, PATH adopted a system for transitioning these families from the quarterly retrospective billing cycle to the statutorily-mandated prospective monthly system. Inevitably, this required that Dr. Dynasaur beneficiaries would experience at least one month when they would receive two $70 bills ~ the last retrospective bill and the first prospective payment. This month was November, purposely selected by PATH so that this double payment obligation would not arise in December at the height of the holiday season.

Nevertheless, we believe that most of the Dr. Dynasaur enrollment loss was attributable to the November double payment obligation, either because beneficiaries erroneously perceived that the new ongoing payment obligation would be $140, despite PATH's informational mailings to the contrary, or because some beneficiaries were unable to afford the cost of two bills in

November. However, we observe that, based on the number of bills generated by the system for the March billing cycle, that Dr. Dynasaur enrollment has nearly recovered to previous levels.

Finally, and perhaps most important, a substantial number of program disenrollments were attributable to beneficiaries in pharmacy programs who already had coverage with some other insurance policy. In the past, where there was no premium, these beneficiaries were covered by VHAP Rx, VScript or VScript Expanded, but never utilized the programs. With the advent of premiums, many opted out of the program because they had other coverage.

Per your request, we are happy to provide your office with ongoing beneficiary enrollment data. Similarly, as survey results and other outreach efforts become available, we can share this information as well.

Control Area #1

Finding 1

We need to correct a misconception relative to Finding 1. The exception procedures (which is an attachment in your analysis) for the Lockbox operation were approved in September 2003 and went into effect on November 1, 2003. The exceptions noted in this finding were already being processed in accordance with our agreement with the bank. In each case, these rules were established after careful consideration of established banking rules and accepted practice. The change that was noted for January 29, 2004 was a change that Banknorth made to correct a grammatical error. This was not, as noted in the analysis, an effort to correct outdated procedures or an effort to correct an issue noted in the risk analysis.

STATE AUDITOR'S COMMENT: *At the time of our December 16 site visit, updated procedures were requested but not produced. Our understanding was that the original procedures were then updated and subsequently produced in January.*

Finding 2

While we agree that manual processing does incur a delay and offers more risk, we should point out that no errors in manual processing were found during the risk analysis. Further, delays in processing could be reduced if the 3-4% of beneficiaries followed the instructions. PATH Administrative Services Division (hereinafter "ASD") team processes exceptions returned from the bank within 72 hours and a special effort is made at the end of the month to ensure that no one is closed due to a failure on the part of the beneficiary to provide the requisite coupon. As you noted, ASD was up-to-date at the end of January and only had to deal with the new exceptions that were coming in on a daily basis.

PATH's Response to Recommendations for Control Area #1

1. We concur with the first recommendation. The new bill will meet many of these requirements. These bills have also been reviewed by advocate groups for their critique and input. Some of their suggestions have been incorporated into the new bill design.

2. The new bill does include color shadings and color printing to highlight significant instruction details. New envelopes are being produced with a reminder to enclose the coupon on the back flap.

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Control Areas #3-5

There are some common threads in these areas specifically relating to the establishment of an accounts receivable module in VISION that is integrated with the ACCESS system. I would like to respond to these findings at the outset. Policy Strategies, Inc., as we noted, is programming a new accounts receivable module within ACCESS. This A/R module will satisfy most of the requirements that you desire without the expensive interface that would be required to have that system replicated in VISION.

The tracking of accounts will be available, but of no significant use in that there is no intent to bill someone for an overdue payment when the beneficiary has closed. Under these circumstances, if the beneficiary is no longer enrolled and received no benefit coverage, there is no A/R in the technical and legal sense. There is no need for aging of accounts. However, there would be the ability to provide management reports with the new system relative to accounts receivable. Further, these same reports could be used to make decisions relative to the premium program and potential affordability issues.

PATH does not concur with your finding that the reconciliation currently performed is inappropriate. As noted in my previous letter, ASD performs daily, as well as monthly, reconciliations of receipts. Reconciling receipts against total bills would be an inappro-

priate accounting procedure, in that not all bills result in coverage being rendered. If there is no benefit accrued, then it is inappropriate to call it a receivable. As we have indicated before, there are many circumstances that may result in Medicaid ineligibility, other than nonpayment. Likewise, there are a variety of reasons why beneficiaries might elect to discontinue coverage or choose not to pay. From a budgetary perspective, we have based future revenues against an expected level of returns that is based upon historical trends. They are not based upon total billed revenue.

Providing an A/R integrated into VISION does not improve the accounting for receipts and, in fact, would result in a huge programming investment that would have no material gain. We can see no cost/benefit rationale for this recommendation.

PATH's Response to Recommendation for Control Areas #3-5:

PATH does not plan to incorporate reconciliation and tracking of Accounts Receivable in the VISION accounting system. That reconciliation is already being done within the ACCESS system.

STATE AUDITOR'S COMMENT: *Our recommendation to maintain accounts receivable on VISION is standard business practice and a strong element of internal controls. Replicating the ACCESS account receivable module on VISION is not what is being recommended as your response implies. Rather, a general ledger control account should be established in VISION to act as a control over the detail maintained on ACCESS. Detail billing and cash receipt activity would be recorded on the ACCESS system (which acts as the subsidiary accounts receivable listing) while monthly totals would be posted to VISION through journal entries or automatic postings from ACCESS. A reconciliation between the subsidiary ledger (ACCESS) and the general ledger (VISION) would be a standard monthly procedure. This is a standard and strong internal control procedure in any accounts receivable system as it helps ensure that intentional or unintentional entries to the ACCESS system are detected. The ability to fraudulently delete a bill or record a cash receipt will likely be detected through a reconciliation process between the VISION control account and the ACCESS subsidiary ledger. Additionally, since VISION is the official accounting record for the State of Vermont, recording the premium receivable monthly total on the official records is recommended.*

Control Area #6

Finding 1

PATH informed KPMG that a complete and formal technical plan was pending. Although most of the technical requirements had been identified and articulated, the pending issues at that time prevented a full document from being finalized. That voluminous document is currently available for review.

STATE AUDITOR'S COMMENT: *The project plan was not available at the time this review was conducted. We are pleased to learn that written project plans regarding programming changes are now complete.*

Finding 2

PATH's 14 ACCESS system developers are all very competent Information Technology professionals. ACCESS is not a single entity but rather a collection of thousands of interoperating program modules supporting the wealth of social programs available through PATH. The complexity of this environment requires very specialized skills related to finite aspects of the overall system, generically referred to as ACCESS. Three developers are dedicated to this Premium System initiative, each with very different and specific goals.

PATH's Response to Recommendations for Control Area #6:

1. The complete project plan is available (see response to Finding #1 above).

2. Programming documentation continues according to division policy.

3. A very logical statement, but given the current staffing level and technical demands, not something that can be put into practice.

STATE AUDITOR'S COMMENT: *Cross training programmers on the premium system is an important goal. Having programmers share knowledge of their distinct programming areas with one another should help them and the Department deal with future system issues and avoid the expense of contracting with an outside vendor for assistance.*

4. All program/system changes go through extensive testing in at least one of PATH's three testing environments after the system developer completes their own exhaustive testing. Testing progresses from technical staff testing to "user" testing carried out by field office workers. Due to staffing limitations the movement of program modules in and out of production is carried out by the developer responsible for the code, and systemic mechanisms are in place to guarantee that concurrent coding efforts are not in conflict. The design decisions made in committee are published and distributed, as are modifications. System developer design work relies on these documents.

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Control Area #7

PATH's Response to Recommendations for Control Area #7:

As previously indicated, the design phase of this initiative was still evolving when the KPMG interviews took place. PATH's decision to phase-in implementation of premium program, thus preserving existing eligibility systems during the phase-in period, was consciously designed to afford the programming staff adequate time to design the elements of the new eligibility software. The numerous interdependencies between the eligibility, billing, and notice system changes, coupled with the need to interface with work contracted to Policy Studies Inc. (PSI), forced the delay in creating written comprehensive plans.

Contrary to the assertion contained in your report, the technical team has been meeting weekly, in addition to the full committee meetings, the technical discussions of the sub-group meetings, and the often-daily technical discussions with PSI.

The report's repeated recommendations ~ e.g., the use of testing libraries, creating documentation, coordination of testing efforts, and the communication link back to the users ~ are not valid findings or condemnations of PATH's current practice. In fact, these practices are standard operating protocol for our highly-skilled technologists, not to mention routine procedure for all software programmers. We have, from the beginning, observed each of these techniques in designing the new premium software.

STATE AUDITOR'S COMMENT: *In consideration of the delays in creating detailed objectives and work plans, the Department should investigate tools and processes which could bring about a more efficient, better-coordinated process to develop implementation plans. A project management tool such as MS PROJECT should be considered.*

Control Area #8

PATH's Response to Recommendation for Control Area #8:

The Department concurs with this recommendation.

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Control Area #9

Thorough processes and procedures have been in place for years addressing these alleged areas of concern. The current premium system changes do not impact or alter our approach to these issues.

PATH Response to Recommendations for Control Area #9:

1. One of the duties of an Information Technologist II position is the daily assessment and management of the systems' IDs and passwords. Internal change requests, requests from personnel, and issues identified by batch jobs analyzing the security environments are scrutinized and addressed according to proven and approved procedures.

2. This also falls within the responsibility of an IT-II.

3. The Department of Information & Innovation employs a RACF Security Administrator. One of the responsibilities of this position involves analyzing master console logs which track security issues.

I hope you find this responsive information helpful to your inquiry. Please let me know whether you or your staff require any further clarification on these points.

Sincerely,

John Michael Hall
Commissioner

To obtain additional copies of this report contact:

Elizabeth M. Ready
State Auditor

Office of the State Auditor
132 State Street
Montpelier, VT 05633-5101
(802) 828-2281
1-877-290-1400 (toll-free in Vermont)
auditor@sao.state.vt.us

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www.state.vt.us/sao