November 30, 2004

Members of the Legislative Audit Committee:

We verified that the National Heritage Insurance Company (NHIC) has refunded to the State $8.96 million, all of the funds that remained in NHIC’s Medicaid Claims Risk Stabilization Reserve Fund (Reserve Fund). This includes $7,690,851.08 in the Reserve Fund bank statement balance as of January 31, 2004, as well as an additional $26,780.23 for interest earned and $1,243,052.80 for voided checks.

NHIC had established the Reserve Fund pursuant to its contract with the Health and Human Services Commission (Commission), through which it served at the State’s Medicaid claims administrator. NHIC ceased serving as the State’s Medicaid claims administrator effective January 1, 2004; however, until June 30, 2004, it was still responsible for paying outstanding claims for calendar year 2003 from the balance that remained in the Reserve Fund.

NHIC’s Medicaid accounts included (1) an estimated amount held for services provided that were not yet billed to the State and (2) an additional unobligated amount that NHIC kept to ensure that it had sufficient funds to cover all outstanding claims. The unobligated amount represented the Reserve Fund. NHIC paid providers’ outstanding claims and refunded the balance of the Reserve Fund to the State. NHIC also refunded to the State interest accrued on state funds held in NHIC accounts and funds from voided checks. It is important to note that we verified only that NHIC refunded the outstanding Reserve Fund balance to the State; our review did not consider the validity of NHIC’s use of the Reserve Funds.

The Commission entered into a fiscal agent arrangement with Affiliated Computer Services State Healthcare LLC (ACS), the State’s present Medicaid administrator, which began processing Medicaid claims on January 1, 2004. Unlike the insured arrangement the Commission formerly had with NHIC, the fiscal agent arrangement the Commission has with ACS does not require the Commission to put funds into a reserve fund in advance to enable ACS to pay Medicaid claims.

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Under the fiscal agent arrangement, the Commission receives weekly information regarding approved claims from ACS and then sends ACS the funds necessary to pay those claims.

The Commission agrees with our conclusion, and we appreciate its cooperation during this review. If you have any questions, please contact Nicole Guerrero, Audit Manager, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

cc: Mr. Albert Hawkins, Executive Commissioner, Health and Human Services Commission