

South Carolina

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October 11, 2012

Ms. Elizabeth Hutto
Program Director
South Carolina Department of Health & Human Services
P.O. Box 8206
Columbia, SC 29202-8206

Dear Ms. Hutto:

As requested in your letter dated October 5, 2012, we are submitting a corrective action plan for your review and approval. BlueCross BlueShield of South Carolina (BCBS) acknowledges the existence of performance deficiencies in the Benefit Recovery, Cash Receipts and Accounting areas of the Third Party Liability Services Contract. The deficiencies are associated with inaccuracies in the indexing and classification of checks.

There are two systems referenced throughout your letter. The two systems referenced are iFlow and the Benefit Recovery Tool (BRT). Neither one of these systems were designed or intended to be integrated financial systems. The iFlow system is an imaging system that facilitates a "paper free" environment. The purpose of this system is to provide electronic access to all documents received. The BRT is a tool used to facilitate the posting of entries to the MMIS and was not a part of the RFP or our proposal. It was created as an accommodation to the concern that the State had regarding direct entry of transactions into the MMIS. Our accounting activities are limited to the receipt of cash and the indexing and classification of checks.

In August 2012, SCDHHS brought to our attention a concern regarding fluctuations in the amount of checks reported as "other". When SCDHHS presented this issue to BCBS management, it was presented as a performance problem associated with automatically classifying checks as "other" in order to meet the three day timeliness expectation. This was not the case. Upon further review, BCBS management identified and disclosed the source and the extent of the deficiencies which were related to inadequate control mechanisms and immediately took action to resolve the performance issues.

BCBS is committed to continuously improving our processes and controls. We are confident that the plan we have prepared will address all issues identified and will prevent future errors with the indexing and classification of checks.

In most instances, the tasks associated with our action plan have been completed. Almost all of the remaining open items are related to system modifications that are in the process of being completed. The attached action plan details all tasks regardless of status. Completed tasks have been identified in the reporting objective/schedule column of the action plan and the corresponding deliverable to support completion of the task has been included as an attachment. Below, we have summarized actions taken and planned for each issue.

1. Daily balancing of the deposit in iFlow and the Benefit Recovery Tool (BRT).

BCBS agrees that the process for ensuring that TPL deposits are in balance with iFlow and the BRT needs to be expanded. Processes have always existed to ensure the daily deposit balances to iFlow and the BRT when the deposit is made and the initial categorization of the checks are completed within 3 days of the deposit. The problems identified are related to the actions taken during the normal processing of the checks. As the checks are processed, additional research is completed that can change the way they

are classified or sourced in the BRT. Currently, the source of a check cannot be altered in the BRT once the check is saved. In order to update the source of a check, the check must be deleted from the BRT and added back with the correct source. A system enhancement request has been submitted that will allow the source to be changed once a check is saved. Changes made to the classification of a check beyond the initial classification reported are communicated using a manual reclassification report. While we understand the expectation to accurately classify checks within 3 days of receipt, changes to the classification may occur during the 15 days allowed for the check to be processed as additional information is received or identified. These changes and the manual reclassification process used to report them allowed for inaccuracies in the reporting of check classifications.

A complete reconciliation has been performed and all reconciling items have been identified and are in the process of being corrected. The Daily Reconciliation Difference report referenced in your letter was part of the reconciliation we performed. As previously discussed, the Daily Reconciliation Difference report provides detailed explanations regarding all reconciling items identified during our reconciliation of the deposit to the BRT. Some of the reconciling items required correcting entries; however, some of the items will continue to be reconciling items and are not considered balancing errors (for example state deposited checks and checks deposited by the previous Medicaid TPL contractor). BCBS has implemented a new reporting process to ensure the BRT stays in balance with the deposit and all changes in check classification are identified and reported. The new reporting process was described in an email to SCDHHS on September 6, 2012. The new reporting process combines the reclassification report and the monthly report into one file. The new report will be sent twice a month. The first report will be sent on the 6th day after month end and will report classifications as of the 15th of the prior month. The second report will be sent on the 21st of the month and report all checks received from the beginning of the fiscal year (July 1, 2012) to the end of the prior month. If the 6th or 21st of the month falls on a weekend or holiday, the report will be submitted by the next business day following the 6th or 21st.

As part of the reconciliation, we identified changes in check classifications that were not reported for checks received during the previous fiscal year ending June 30, 2012. Our corrective action plan includes updates to iFlow that will annotate classification changes that were not reported. As previously discussed with you we will make the annotation at the deposit level.

Your letter also identifies an issue that was discovered when SCDHHS was balancing the deposit for September 4, 2012. This balancing error was due to a timing issue that occurred during the 15 days allowed to completely process the check. The timing issue was related to applying the check that was originally classified as a billing error at the check level within the BRT. This check was related to 200 claims. Currently, checks are entered into the BRT for the total amount and the total amount is then applied to individual claims as processing is completed. As the amount is applied to individual claims, amounts not yet applied to specific claims would not be captured on a classification report run before the check is completely processed. When SCDHHS ran the daily classification report, we had not finished applying the check to all of the individual claims. A system enhancement has been submitted to retain the historical categorization information. When this change is implemented, this type of out of balance should no longer occur.

In order to resolve concerns regarding the classification of checks, BCBS performed a complete review of all checks classified as "other" and a sample of checks classified as "billing error". The review of checks in the "other" category identified 2 errors. This was out of a complete review of 64 checks. Results of our review were provided to SCDHHS on September 4, 2012. All corrections were completed on September 12, 2012. The sample of checks categorized as "billing error" was based on deposit days with the highest dollar amount of checks categorized as "billing error". This review originally identified 2 of 204 checks that appeared to be inaccurately classified as "billing errors". The results of this review were provided to SCDHHS on September 4, 2012. Upon further review, we have determined that these 2 checks were correctly classified as "billing errors" and no corrections or further review is warranted.

We have submitted a total of eight system changes to improve the controls associated with check processing. All enhancements are currently being developed and will be implemented by December 1,

2012. Although these changes are not currently in place, we are confident our new reporting process which has been approved by SCDHHS and was implemented on September 6, 2012 will ensure controls are in place to identify and prevent any future inaccuracies with classification reporting and balancing.

To summarize this issue, BCBS has implemented additional controls to resolve all performance deficiencies identified related to balancing iFlow and the BRT. SCDHHS has approved the new reporting processes that will be used to balance and report check classifications. The outstanding items related to this deficiency are related to annotating iFlow with classification changes that were not previously reported.

2. RC12 Reporting, some Provider Checks not Classified as Provider Checks.

BCBS recognizes the importance of properly identifying checks received from Providers so that accurate RC12 reporting will occur. With the exception of the estate checks received from a provider for a patient's personal allowance funds, which will be sourced as estate checks; our process is to source all checks deposited by BCBS that are received from a provider in the BRT as provider so that they will be included in the RC12 reporting process. In the past, there have been inconsistencies with provider checks that were classified as other, casualty, and estate.

As previously mentioned in the response to deficiency 1, BCBS completed a review of all checks classified as "other". The review identified 2 errors associated with checks received from a provider that were sourced as "other" and did not receive an RC12. This was out of a complete review of 64 checks. Results of our review were provided to SCDHHS on September 4, 2012 and all corrections were completed on September 12, 2012.

Additionally, we have performed a complete review of all checks classified as casualty or estate to ensure RC12 reporting occurred for all checks received from a provider. Our review identified 35 checks that were not included on an RC12 report. Of these checks, 10 were related to 2011 and 25 were related to 2012. RC12 reporting has been completed for the errors identified related to the 2012 checks. Per SCDHHS instructions, comments were added to iFlow for the errors identified associated with the 2011 checks. These updates were completed on September 26, 2012.

BCBS understands the concern expressed by SCDHHS regarding the reliability of previous cleanup efforts. Upon comparison of the results from the May 2012 cleanup efforts to our most recent review, we have identified RC12 exceptions that were not corrected once identified in May 2012.

Unfortunately, our management staff failed to ensure all corrections identified were processed to completion. To ensure that all identified corrections needed are addressed, management will certify that corrections identified to be made have been executed once completed. These corrections and management certification will be completed by October 31, 2012.

3. State Deposited Checks

BCBS's involvement with processing SCDHHS deposited checks is limited. Our involvement is restricted to ensuring a copy of the check is available in iFlow for SCDHHS processing unless it is a state deposited "other" category check that requires an update to the potential action file. BCBS receives copies of any state deposited checks via a facsimile. All documents received via this dedicated fax number are directly input into iFlow. Initially, these documents were not being worked pending a system enhancement that would generate an automatic alert to the SCDHHS Estate Recovery and Casualty areas. In the meantime, we were sending a weekly report of receipts to the SCDHHS Estate Recovery and Casualty units. Alerts are now being sent to SCDHHS upon receipt; however, the checks are being held for archive for 30 days to allow SCDHHS sufficient time to provide any feedback regarding these DCNs. These DCNs are automatically archived after the requisite thirty days have passed.

In order to ensure all state deposited checks are properly identified and processed timely, system changes have been made to utilize an External System Identifier (ESI) of "SCDHHS". This process is in place for all state deposited checks received on or after August 30, 2012.

4. Indexing in iFlow

BCBS agrees there was previously some inconsistency with indexing both the legacy provider number and the NPI in iFlow. Missing NPI and/or Legacy provider numbers were added to the comments in iFlow, if available, during the cleanup effort in June 2012. BCBS reviewed all checks that have been archived in iFlow to ensure the previous issue has been resolved. Based on our review, a total of 7,340 checks have been archived in iFlow since the beginning of the contract. Of the 7,340 checks archived, we identified 65 with missing NPI and/or Legacy provider number(s). Of these 65, 56 had a valid reason (i.e. specialty provider, non-Medicaid provider) for not having both the NPI and Legacy numbers and 6 were added as comments as part of our previous cleanup effort in June 2012. As a result, only 3 checks were identified that have been archived without ensuring both the NPI and Legacy provider number was included. These checks were archived prior to August 13, 2012 when BCBS agreed to index both the legacy and NPI number in iFlow. Comments were added to iFlow for these three checks on October 4, 2012.

Additionally, your letter indicates that SCDHHS continues to see provider checks that have Casualty, Estate Recovery, or other provider check involvement that are not indexed correctly. Specifically, these should be indexed with the document type of "Provider Checks." This indexing issue is a duplication of the RC12 deficiency associated with "some provider checks not classified as provider checks" and not an independent deficiency. As a result, actions associated with ensuring provider checks are properly indexed were addressed in section 2 of this letter and action plan.

Based on the results of our analysis and the previous actions implemented, we do not believe a current deficiency exists. If there are still concerns that this is occurring after August 13th, 2012, please provide examples so that we can conduct further research.

5. Creation of Multiple ESIs

BCBS disagrees that the creation of multiple ESIs in iFlow caused out of balance issues and the appearance that SCDHHS received more money than it actually deposited. As money is received and deposited, the daily deposit has consistently been reported to SCDHHS Fiscal Affairs via the TPL Recovery System Classification Report. This report is used by SCDHHS to allocate revenue to the appropriate G/L accounts. Although the creation of multiple ESIs may have caused confusion when retrieving check documents within iFlow, no examples have been provided that supports the creation of multiple ESIs negatively impacting the ability to balance the BRT to the deposit. However, in response to this concern, on September 26th, 2012, we implemented a system change to prevent a second ESI from being assigned to a check DCN.

In the past, multiple ESIs were created when checks were classified to the incorrect document type within iFlow. In order to change the classification to the appropriate document type, the check would get routed through the prescreening step to change the document type and this resulted in the check obtaining an additional ESI. A system enhancement was implemented on February 6, 2012, to allow the processor to transfer a check without going back through prescreen and obtaining another ESI.

The duplicate ESI examples provided by SCDHHS in July were related to split checks. Split checks are checks that include funds for more than one category. When a split check is received that includes funds for either estate or casualty, a copy of the check is routed electronically through iFlow to SCDHHS Estate Recovery and Casualty units indicating that there has been the receipt of an estate or casualty check. The process of routing the electronic copy of the check created a new ESI for the casualty and estate portion of the check. A system enhancement was submitted to allow these documents to bypass the hold for ESI step in iFlow. This enhancement was put into production on August 2, 2012.

In order to confirm the new process to prevent the creation of multiple ESIs was working properly, we performed a review of all checks completed from August 2, 2012 through October 2, 2012 and identified 8 checks with multiple ESIs. Seven of the eight checks were processed prior to communicating the procedure change to the staff. The eighth check was processed on August 28, 2012 and is related to two casualty recipients. The enhancement installed on September 26, 2012 will prevent this type of error in the future. As a result, we believe we have taken action to resolve all issues cited related to the creation of multiple ESIs.

6. Staffing Concerns

Throughout the entire TPL contract BCBS has consistently demonstrated a willing and pro active stance to add and deploy resources in order to get our performance where it needs to be. It is an incorrect assessment that there has been less than proposed staffing provided for the Benefit Recovery portion of the contract. The following chart maps existing staff to the proposed staffing level:

Manager	Stephanie Ferrall
Business Analyst	Daniel Jacobs
Accountant	Lisa Patton
Accounting Clerk 1	Edwenona Thomas
Accounting Clerk 2	Gretchen Davis
Accounting Clerk 3	Jennifer Temple
Accounting Clerk 4	Stacy Taylor
Accounting Clerk 5	Janice Jackson
Accounting Clerk 6	Monica Portee
Accounting Clerk 7	Sonja Green
Accounting Clerk 8	William Miller
Accounting Clerk 9	Clifford Wilson (recently promoted to Accountant – replacement clerk Kin Hair will start by end of month)
Accounting Clerk 10	Vicki Kelting (this clerk is located at the Palmetto GBA office and is devoted to the process associated with disbursing HIPP Premium Payments.

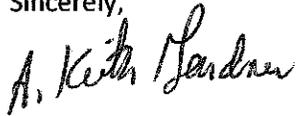
I can only assume that the fact that one of the ten Accounting Clerk positions performs their work at a different location was the source of this perception. Not only has BCBS staffed the Benefit Recovery unit as proposed, up until very recently, we over-staffed the management team and have done so since the beginning of the contract. In addition, we have supplemented the existing staff with seasoned specialists to assist in analyzing our processes and work product and in getting the proper controls in place (Stacy Cunningham, Deborah Carn, and Julie Canipe). Additionally we have had and will continue to have dedicated involvement from senior accounting leadership from Palmetto GBA (Debbie Dickson). I strongly disagree that the number of staff members we placed in the contract had anything to do with the issues we are experiencing. The issues revolve around the lack of creation of proper controls as

opposed to the number of people on the job. We have those controls in place now and have seen dramatic improvements in our work product and will continue to see these improvements in the future.

In closing, BCBS has implemented multiple controls to resolve all future performance deficiencies associated with the classification and indexing of checks. SCDHHS has approved the new reporting process that is in place related to balancing and classification reporting. All of the outstanding items on our action plan are related to system enhancements that will further strengthen our processes or activities associated with annotating iFlow. Please let us know if additional information is needed to approve the attached action plan.

We are committed to quickly addressing our performance issues and delivering the service as stipulated in our contract. We appreciate and share your interest in maintaining a positive working relationship and are dedicated to being a good business partner for SCDHHS now and in the future.

Sincerely,

A handwritten signature in black ink that reads "A. Keith Gardner". The signature is written in a cursive style with a large initial "A" and "G".

A. Keith Gardner
VP Medicaid Operations

Attachments