

Report To The Mississippi Legislature



The Department of Finance and Administration's Use of Contractors during Fiscal Years 1997 and 1998 for the State and Public School Employees' Health Insurance Plans

December 9, 1997

State law requires the PEER Committee to report annually to the Legislature regarding contractors used by the Department of Finance and Administration (DFA) to administer the State and Public School Employees' Health Insurance Plans. In procuring its administrative contracts during FY 1997, DFA adhered to state law and the components of fair and efficient public contracting.

DFA's contractors delivered work products according to financial and other contractual requirements. The department expended \$3,475,150 in FY 1997 and \$827,757 in FY 1998 (to date) for its administrative, utilization review, and database information contracts. In response to a legislative inquiry, PEER determined that DFA analyzes discount pricing arrangements offered by its network providers to ensure that such prices comply with contractual agreements.

The PEER Committee

PEER: The Mississippi Legislature's Oversight Agency

The Mississippi Legislature created the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER Committee) by statute in 1973. A standing joint committee, the PEER Committee is composed of five members of the House of Representatives appointed by the Speaker and five members of the Senate appointed by the Lieutenant Governor. Appointments are made for four-year terms with one Senator and one Representative appointed from each of the U. S. Congressional Districts. Committee officers are elected by the membership with officers alternating annually between the two houses. All Committee actions by statute require a majority vote of three Representatives and three Senators voting in the affirmative.

Mississippi's constitution gives the Legislature broad power to conduct examinations and investigations. PEER is authorized by law to review any public entity, including contractors supported in whole or in part by public funds, and to address any issues which may require legislative action. PEER has statutory access to all state and local records and has subpoena power to compel testimony or the production of documents.

PEER provides a variety of services to the Legislature, including program evaluations, economy and efficiency reviews, financial audits, limited scope evaluations, fiscal notes, special investigations, briefings to individual legislators, testimony, and other governmental research and assistance. The Committee identifies inefficiency or ineffectiveness or a failure to accomplish legislative objectives, and makes recommendations for redefinition, redirection, redistribution and/or restructuring of Mississippi government. As directed by and subject to the prior approval of the PEER Committee, the Committee's professional staff executes audit and evaluation projects obtaining information and developing options for consideration by the Committee. The PEER Committee releases reports to the Legislature, Governor, Lieutenant Governor, and the agency examined.

The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.

**The Department of Finance and Administration's Use of Contractors
During Fiscal Years 1997 and 1998 for the State and Public School
Employees' Health Insurance Plans**

December 9, 1997

**The PEER Committee
Mississippi Legislature**

The Mississippi Legislature

Joint Committee on Performance Evaluation and Expenditure Review

PEER Committee

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December 9, 1997

Honorable Kirk Fordice, Governor
Honorable Ronnie Musgrove, Lieutenant Governor
Honorable Tim Ford, Speaker of the House
Members of the Mississippi State Legislature

At its meeting of December 9, 1997, the PEER Committee authorized release of the report entitled **The Department of Finance and Administration's Use of Contractors during Fiscal Years 1997 and 1998 for the State and Public School Employees' Health Insurance Plans.**

A handwritten signature in cursive script, reading "Billy Bowles", written over a horizontal line.

Representative Billy Bowles, Chairman

**This report does not recommend increased
funding or additional staff.**

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The Department of Finance and Administration's Use of Contractors During Fiscal Years 1997 and 1998 for the State and Public School Employees' Health Insurance Plans

December 9, 1997

Executive Summary

Introduction

MISS. CODE ANN. § 25-15-11 and § 25-15-255 require the PEER Committee to prepare a report to the Legislature by January 1 of each year regarding contractors used by the Department of Finance and Administration (DFA) to administer the State and Public School Employees' Health Insurance Plans (hereinafter referred to as the "plan" or the "plans"). Sections 25-15-11 and 25-15-255 specifically require PEER's report to address:

- the processes by which the department procured its contractors;
- the contractors' work products; and,
- contract expenditures.

State law requires that PEER's annual report include contracts for the most recently completed fiscal year and those for the current fiscal year (i.e., fiscal years 1997 and 1998 for this report). MISS. CODE ANN. § 25-15-11 and § 25-15-255 exclude from PEER's report the third-party administrator contract used by DFA to process health claims. Although PEER excluded from this review DFA's pro-

curement of provider network contracts because they primarily provide financial discounts to the plan rather than specific work products, PEER reviewed DFA's analysis of such contracts to ensure correct application of contractual discounts.

Overview

In procuring its administrative contracts during FY 1997 for the State and Public School Employees' Health Plans, DFA adhered to state law and the components of fair and efficient public contracting. The department developed and advertised requests for proposals, rated the proposals based on a formal rating system, and selected contractors which submitted the highest-rated proposals.

DFA's contractors delivered work products according to financial and other contractual requirements. The department expended \$3,475,150 in FY 1997 and \$827,757 in FY 1998 (to date) on these contracts.

DFA, through its health consultant, annually analyzes discount pricing arrangements offered by its network providers to ensure that such prices comply with contractual agreements.

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The Department of Finance and Administration's Use of Contractors During Fiscal Years 1997 and 1998 for the State and Public School Employees' Health Insurance Plans

Introduction

Authority

In accordance with MISS. CODE ANN. § 5-3-57 et seq. (1972), the PEER Committee reviewed the Department of Finance and Administration's use of contractors for the State and Public School Employees' Health Insurance Plans.

Scope and Purpose

MISS. CODE ANN. § 25-15-11 and § 25-15-255 require the PEER Committee to prepare a report to the Legislature by January 1 of each year regarding contractors used by the Department of Finance and Administration (DFA) to administer the State and Public School Employees' Health Insurance Plans (hereinafter referred to as the "plan" or the "plans"). Sections 25-15-11 and 25-15-255 specifically require PEER's report to address:

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Method

In conducting this review, PEER reviewed Mississippi statutes and background information on contracting for personnel services; reviewed DFA Office of Insurance records, including invoices, requests for

proposals, contracts, reports, and other documents; and, interviewed DFA Office of Insurance personnel.

Overview

In procuring its administrative contracts during FY 1997 for the State and Public School Employees' Health Plans, DFA adhered to state law and the components of fair and efficient public contracting. The department developed and advertised requests for proposals, rated the proposals based on a formal rating system, and selected contractors which submitted the highest-rated proposals.

DFA's contractors delivered work products according to financial and other contractual requirements. The department expended \$3,475,150 in FY 1997 and \$827,757 in FY 1998 (to date) on these contracts.

DFA, through its health consultant, annually analyzes discount pricing arrangements offered by its network providers to ensure that such prices comply with contractual agreements.

Background

Administration of the State and Public School Employees' Health Plans

MISS. CODE ANN. § 25-15-5 and § 25-15-253 (1972) authorize the Department of Finance and Administration to administer the State Employees' Health Insurance Plan and the Public School Employees' Health Insurance Plan and to develop rules and regulations for their administration. Currently, DFA, through its Office of Insurance, manages the plans in a similar manner, while technically maintaining each as a separate plan with separate fund reserves.

MISS. CODE ANN. § 25-15-5 (1972) authorizes DFA to enter into contracts with "accountants, actuaries and other persons from the private sector whose skills are necessary" to carry out the provisions of state law relative to the plans. During fiscal years 1997 and 1998 (to date), DFA contracted with the following firms to assist with the design and administration of the plans:

- A. Foster Higgins & Company, Inc. (now known as William M. Mercer, Inc.), claims auditor--audits the third-party administrator's processing of claims and determines whether the third-party administrator complied with performance measures contained in its contract with DFA;
- William Lynn Townsend, F.S.A., actuary--provides reports addressing the plans' current and projected financial status through the use of mathematical techniques;
- Coopers & Lybrand, health consultant--provides assistance in analyzing network provider discounts, researching health care topics and trends, developing and evaluating requests for proposals, and other areas;
- Cost Care, Inc., utilization review contractor--pre-certifies inpatient hospital stays, reviews continued inpatient stays, provides for second surgical opinions, performs large case management, and operates a patient assistance line; and,
- The MEDSTAT Group, computer database management firm--maintains a database of state health claim information from the third-party administrator to allow DFA direct access for analysis, oversight, and reporting purposes.

During fiscal years 1997 and 1998, DFA also contracted with the following firms:

- CENTRA Benefit Services, third-party claims administrator--processes claims for the plan by paying medical providers for services and remitting claims reimbursements to employee members;

- PCS Health Systems, Inc., pharmacy benefit manager--provides a pharmacy network for discount billing purposes, drug claims processing, and utilization review to encourage use of lower-cost drugs; and,
- network providers--groups of health providers that provide discounts on medical bills to the plans and to employee members (e.g., Baptist Health Group Services and Mississippi Health Connection).

As previously stated, state law excludes the third-party administrator (TPA) contract from this review. During FY 1997, DFA contracted with Blue Cross and Blue Shield of Mississippi as the department's TPA effective January 1, 1998.

State and Public School Employees' Health Insurance Management Board

MISS. CODE ANN. § 25-15-303 establishes the State and Public School Employees' Health Insurance Management Board. Effective April 24, 1997, this board assumed responsibility from DFA for management of the insurance plans. The board's membership consists of the chair of the Workers' Compensation Commission, the Commissioner of Insurance, the Commissioner of Higher Education, the State Superintendent of Education, the Executive Director of the Department of Finance and Administration, and two gubernatorial appointees. Non-voting members include the chairs of the House and Senate Appropriations Committees and the chairs of the House and Senate Insurance Committees. DFA provides administrative staffing to the board.

The State and Public School Employees' Health Insurance Management Board is the sole legal authority for promulgating rules and regulations regarding the design and operations of the plans. The board has legal authority to define coverages, seek proposals for services or insurance, and define the strategic plans and budgets for the insurance plans.

DFA Contracting Requirements Contained in State Law

MISS. CODE ANN. § 25-15-5 (7) allows DFA to contract with private sector contractors to assist with the administration of the state and public school employees' health plans. The section states that DFA shall use a competitive process (identical to the one mandated in MISS. CODE ANN. § 25-15-301 relative to the procurement of a third-party administrator) to procure contractors whose services shall be provided for over six months. Section 25-15-301 requires that DFA's contract procurement process contain the following components:

- preparation of an RFP that describes clearly what service is to be contracted and the criteria by which DFA will evaluate proposals received;
- advertisement of the RFP in a newspaper of general circulation at least one time per week for three weeks before the closing period stated in the RFP (DFA may also use other means to publicize the RFP);
- review of all proposals by an internal review committee consisting of at least three DFA staff who must apply the same criteria to all proposals when conducting their evaluations; and,
- presentation of the results and recommendations of the review committee's evaluation to the DFA executive director (now the State and Public School Employees' Health Insurance Management Board) for review and selection of a firm with which to contract.

Components of Fair and Efficient Public Contracting

In FY 1997, personal services contracting by state agencies and institutions in Mississippi was not a highly regulated activity. Unlike position recruitment, selection, classification, and compensation, which must comply with State Personnel Board pre-audit controls to determine whether persons are hired, compensated, and classified in a manner reflective of their job skills and job worth, few pre-audit requirements exist in the area of personal services contracts. For FY 1998, the Legislature created the Personal Service Contract Review Board to establish regulations for personal services contracting by state agencies, primarily for contracts exceeding \$100,000.

MISS. CODE ANN. § 25-9-107 (c) (x) requires that agencies under the purview of the State Personnel Board obtain approval of the State Personnel Director prior to entering into contracts for personal services. The statutory basis for the State Personnel Director's disapproval of such contracts is limited to those cases in which the tasks to be performed by the contractor could be performed by a state service employee in an authorized position.

PEER reviewed other states' laws, federal laws and regulations, and publications of the American Bar Association to determine the procedural steps that should be components of a personal services contracting process. In addition to state law and professional standards, agencies are bound by responsibility to the public to expend resources efficiently, effectively, and fairly.

Generally, an effective contracting process ensures that an agency procures services that it cannot produce for itself with authorized staff, solicits and selects contractors competitively, and monitors the performance of contractors to ensure that contract deliverables are provided on a timely basis and are of sufficient quality to meet the expectations of the contracting agency.

This effective contracting process, or “best practices model,” involves seven steps requiring an entity to (1) conduct a needs assessment; (2) develop a formal request for proposals or qualifications; (3) provide notice to procure services; (4) review proposals systematically; (5) execute a written contract; (6) monitor a contractor’s performance; and, (7) evaluate a contractor’s performance (see Exhibit 1, page 7). An entity should first develop a needs assessment to define the services needed and to determine whether current staff can accomplish the services without the procurement of a contractor. The entity should next develop a formal request for proposals (RFP) that describes and specifies the services required and the contractor qualifications necessary to provide the services to the entity’s satisfaction. Thirdly, the entity should provide written notification to potential contractors of its intentions to procure the services.

Upon receipt of the responses to the RFP, the entity should systematically evaluate each proposal based on objective criteria included within the RFP. The entity may include interviews and site visits to evaluate a proposal, as appropriate. Once the entity has selected a contractor, the entity should obtain a written contract specifying the terms of service, specifications, and compensation.

The entity should also maintain documents noting periodic monitoring of the contractor’s performance and adherence to contract terms. Finally, the entity should complete an evaluation of the contractor’s performance for future reference. This evaluation should include periodic monitoring reports and document a contractor’s overall performance in meeting contract terms and the agency’s expectations.

Exhibit 1

Best Practices Contracting Process Criteria Profile

Criterion	Description
Needs Assessment	A needs assessment provides an overview of what tasks and services are needed and determines whether current staff can perform these tasks and provide these services.
Request for Proposals or Qualifications	A request for proposals describes in sufficient detail the department's service needs, expectations (i.e., performance level), and selection criteria.
Notice of Intent	The notice of intent to secure a service provider is essential to notifying interested parties of the department's request for proposals and opening the process to the marketplace.
Systematic Review of Proposals	The department's selection of a contractor must be made without bias as evidenced by the contractor's willingness to meet the department's expectations, needs, and other criteria specified in the request for proposals.
Written Contract	A written contract specifies the responsibilities of both the department and contractor, including the services contracted, level of performance required, compensation, and the performance period.
Contract Monitoring	Contract monitoring provides opportunity for the department to measure the contractor's performance level and adherence to the contract terms.
Contract Evaluation	A final evaluation of the contractor's performance in meeting the department's expectations and contractual terms. An evaluation is important for both future selection and termination of a contractor.

SOURCE: PEER analysis of MISSISSIPPI CODE ANNOTATED (1972), other states' statutes, and American Bar Association's *Model Procurement Code*.

Compliance Summary

Process Used by DFA to Procure Contractors for the Plans

During FY 1997, DFA adhered to state law and elements of a fair and efficient procurement system in procuring its personal services contracts.

DFA competitively bid two plan administration contracts during FY 1997--utilization management (Cost Care) and data base information (MEDSTAT). In procuring these contracts, DFA adhered to the procurement standards contained in MISS. CODE ANN. § 25-15-301 (see Exhibit 2, page 9) as well as the components of fair and efficient public contracting. Prior to bidding for these services, DFA staff accomplished the needs assessment requirement by concluding that no existing state agency or department was capable of providing such services to the plans. DFA, on its State Personnel Board "Request for Contract Personnel Services Approval" forms, justified these contracts as providing very specialized services to the plans.

Utilization Management Contract

DFA, after formally developing and advertising its request for proposals (RFP) for utilization management services, received proposals from nine contractors. DFA staff determined that five of the proposals did not meet the minimum vendor qualifications required in the RFP and did not merit further consideration. The proposals from Cost Care, Inc.; United HealthCare; Intracorp; and, National Health Services, Inc., proceeded through the review process. (Prior to the conclusion of the evaluation process, DFA eliminated from further consideration United HealthCare's proposal because the contractor was not willing to accept certain contractual conditions.)

In accordance with state law, DFA established a three-member internal review committee to evaluate the four proposals. In evaluating the proposals, the review committee utilized a numerical rating system which addressed the following criteria:

- proposed cost;
- responsiveness during the RFP process;
- experience and qualifications;
- financial proposal;
- contract conditions;

Exhibit 2
State of Mississippi Health Insurance Plans:
Statutory Process Used by DFA to Procure Administrative Contracts
During FY 1997 and FY 1998

	Assessed Need for the Contract?*	Developed Formal Requests for Proposals (RFP)?	Advertised RFP?	Evaluated Responses to RFP?	Based Contractor Selection on Formal Evaluations?
Utilization Management (Cost Care)	✓	✓	✓	✓	✓
Data Base Information (The MEDSTAT Group)	✓	✓	✓	✓	✓

* DFA, on its State Personnel Board "Request for Contract Personnel Services Approval" forms, justified these contracts as providing very specialized services to the plans. Prior to bidding for these services, DFA staff concluded that no existing state agency or department was capable of providing such services to the plans.

NOTE: Company names listed in parenthesis represent contractors selected by DFA.

SOURCE: PEER analysis of DFA records.

- responses to the RFP questionnaire; and,
- references.

DFA's rating system included prescribed standards for each of the criteria to be applied by internal review committee members when evaluating responses to the department's RFPs. PEER analyzed the interrater reliability of the ratings assigned by DFA staff to each criterion and found interrater reliability to be high, meaning that individual rating committee members tended to reach similar conclusions when rating proposals--i.e., the members used the same criteria and measured the proposals against the criteria consistently. The review committee recommended to the DFA Executive Director the proposal submitted by Cost Care, which received the highest rating by the proposal review committee. DFA entered into a three and one-half year written contract with Cost Care on June 24, 1997.

Data Base Information Contract

MISS. CODE ANN. § 25-53-5 authorizes the Department of Information Technology Services (DITS) to provide for the efficient acquisition and utilization of computer equipment and services by all state government agencies. MISS. CODE ANN. § 25-53-5 (n) specifically requires that all acquisitions of computer equipment and services involving expenditure of funds in excess of \$5,000 be based on competitive and open specifications and that contracts be entered into only after advertisements for bids are published in one or more newspapers having a general circulation in the state not less than fourteen days prior to receiving sealed bids.

Because DFA's data base information needs fall within the scope of computer services addressed in Section 25-53-5, DFA, on September 9, 1996, requested DITS to competitively bid for data base information services for the plans. DITS, with input from DFA staff, developed a formal request for proposals for the services and advertised the RFP twice. DITS received and evaluated proposals from three contractors: Corporate Health Strategies, HCIA, and The MEDSTAT Group, based on the following criteria:

- background and experience;
- technical specifications;
- support and training requirements;
- references;
- environmental requirements; and,
- proposed cost.

The evaluation process consisted of a technical evaluation and a cost evaluation, with each proposal being required to receive at least 75% of the total technical points before being further considered relative to cost. DITS eliminated from further consideration HCIA's proposal after the technical evaluation. After conclusion of the evaluation process, DITS and DFA staff recommended to the DITS Executive Director the proposal submitted by The MEDSTAT Group, which received the highest ratings. DITS entered into a three-year written contract with The MEDSTAT Group on February 7, 1997.

In summary, DFA complied with state law and the "best practices" components of needs assessment, request for proposals, notice of intent, review of proposals, and written contract with regard to the procurement of its utilization management and data base information contracts. The following section addresses DFA's compliance with the "best practices" components of contract monitoring and evaluation.

Contractor Work Products

DFA has formal contracts with its administrative, utilization review, and database information contractors that detail the contractors' responsibilities and services to be provided to the department. Exhibit 3, page 12, lists contractual responsibilities of DFA's contractors and types of work products for each contractor. DFA monitors the contractors' performance of required services by reviewing contractor deliverables and evaluating response time and accessibility of the contractors.

PEER reviewed a sample of work products produced by DFA's contractors during fiscal years 1997 and 1998 and concluded that each contractor's products complied with pertinent contractual requirements.

DFA evaluates the performance of its contractors primarily through actuarial reviews or audits. For example, the department's actuary reviews the performance of DFA's utilization review contractor to determine the contractor's effectiveness in reducing/controlling costs of the plans. In addition, DFA plans to have its consulting auditor perform a claims audit on the plans' third-party administrator (TPA) during FY 1998 to determine the TPA's adherence to contractual performance standards. In the past, DFA has terminated a contract with a chiropractic pre-certification contractor as a result of an evaluation of the contractor's performance. While not formally evaluated, the health care consultant, actuary, and auditor are selected by DFA on the basis of need consistent with the department's mission. As a by-product of performing their contractual duties, these contractors utilize and review each other's work throughout a given year. This provides the department with a counter-balance and evaluation of each contractor's performance.

Exhibit 3

Analysis of Work Products and Deliverables Specified in FY 1997 and FY 1998 Health Plan Contracts

<i>Summary Description of Work Products and Service Deliverables</i>		<i>Required Reports</i>
Coopers & Lybrand <i>(health consultant)</i>	<ul style="list-style-type: none"> Preparing and evaluating requests for proposals from prospective claims administrators and other contractors Establishing physician, hospital and pharmacy networks Consulting on cost containment programs, such as alternative delivery systems and prevention and utilization review programs 	(None specified. Typical deliverables include letters and reports.)
W. Lynn Townsend <i>(actuary)</i>	<ul style="list-style-type: none"> Providing actuarial reports for fiscal and calendar year end Consulting on areas such as cost containment programs and requests for proposals and evaluating performance of plan consultants 	<ul style="list-style-type: none"> Actuarial reports
William M. Mercer, Inc. <i>(claims auditor)</i>	<ul style="list-style-type: none"> Performing claims audits of the third-party administrator Related projects as requested 	<ul style="list-style-type: none"> Audit reports
Cost Care <i>(utilization review services)</i>	<ul style="list-style-type: none"> Services to reduce unnecessary or excessive use of the health plan (e.g., number of days in the hospital), including pre-hospital review, continued hospital stay review and large case management Employee hotline providing information on medical conditions, treatment alternatives, medications and potential side effects Performance guarantees of specified savings from reduced use of health services 	<ul style="list-style-type: none"> Hospital stay, second surgical opinion, case management and other reports
MEDSTAT <i>(database management)</i>	<ul style="list-style-type: none"> Daily access to a computer database of state health plan data (arranged by types of claims, plan participants and services) for reporting and analytical purposes Quarterly quality assurance reporting to identify and correct claims data problems of the third-party administrator 	<ul style="list-style-type: none"> Quarterly Key Indicators Annual Health Care Overview

SOURCE: DFA contracts.

Contractor Expenditures

As shown in Exhibit 4, page 14, DFA expended \$3,475,150 in FY 1997 and \$827,757 in FY 1998 (to date) for its administrative, utilization review, and database information contractors. DFA monitors contractors' expenditures by reconciling invoices submitted by contractors to financial terms of the contracts.

Because DFA's contracts with its administrative, utilization review, and data base information services vendors contain hourly rates or dollar ranges of charges for services provided, the primary limit is the availability of funds appropriated by the Legislature from the insurance premium account for the administration of the state and public school employees' health insurance plans. Another limit is the maximum expenditure anticipated amount reported to the State Personnel Board on the "Request for Contract Personnel Services Approval." DFA will not process payment vouchers exceeding the total contract amount approved by the State Personnel Board.

MISS. CODE ANN. § 25-15-11 and 25-15-255 require DFA to provide the Joint Legislative Budget Committee with budgetary information regarding the state and public school health plans. DFA is required to submit information which includes a detailed breakdown of all expenditures of the plans, administrative and otherwise, for the most recently completed fiscal year and projected expenditures for the current fiscal year. This information provides the Joint Legislative Budget Committee and the Legislature with information with which to make policy decisions regarding DFA's expenditure of funds on contractors.

Exhibit 4
Administrative Contract Expenditures for the State of Mississippi Health Plans
for Fiscal Year 1997 and Fiscal Year 1998 (To Date)

	State Employee Plan	Public School Employee Plan	TOTAL
<i>FY 1997</i>			
A. Foster Higgins (Claims Auditor)	\$48,264	\$48,324	\$96,588
Coopers & Lybrand (Health Consultant)	194,980	194,980	389,960
William Lynn Townsend (Actuary)	61,013	54,319	115,332
MEDSTAT (Database information)	154,382	172,240	326,622
Cost Care (Utilization review)	1,138,454	1,408,194	2,546,648
Total	<u>\$1,597,093</u>	<u>\$1,878,057</u>	<u>\$3,475,150</u>
<i>FY 1998 (To Date*)</i>			
William M. Mercer, Inc. (Claims Auditor)	\$100	\$100	\$200
Coopers & Lybrand (Health Consultant)	16,245	16,245	32,490
William Lynn Townsend (Actuary)	12,546	11,766	24,312
MEDSTAT (Database information)	35,603	40,148	75,751
Cost Care (Utilization review)	306,538	388,466	695,004
Total	<u>\$371,032</u>	<u>\$456,725</u>	<u>\$827,757</u>

NOTE: *Represents disbursements through October 1997 for July, August and September invoices of the database information and utilization review contractors. Represents disbursements through October 1997 for July and August invoices of the claims auditor (formerly known as A. Foster Higgins), health consultant, and actuary.

SOURCE: Department of Finance and Administration cash receipts and disbursements reports.

Related Area: Network Provider Contracts

While planning this review, PEER received a legislative inquiry as to whether DFA analyzes the application of pricing discounts offered by its health provider networks. Since January 1, 1995, DFA has offered participants two options--a base plan with a \$500 annual deductible and unlimited choices of health providers or a network plan with a \$250 annual deductible and limited choices of network health providers. During FY 1997, Mississippi Physician Care Network served as the provider for the department's base plan option. In FY 1997, DFA had contracts with the following networks.

- Baptist Health Services Group
- Health Choice
- Key Network (Blue Cross Blue Shield of Mississippi)
- Managed Health Care, Inc.
- Mississippi Health Connection

In entering into contracts with DFA, the five networks agreed to contract with health providers, primarily physicians and hospitals, to provide services to participants of the State and Public School Employees' Health Insurance Plans. DFA considered the University of Mississippi Medical Center to be an "in network" provider for all five networks. DFA, in establishing the network option three years ago, hoped to provide a degree of provider choice to participants while generating sufficient savings to the plans to offset the lower deductible. Network physicians bill participants for their services based on a negotiated fee schedule. Most network hospitals bill for their services based on discounted charges, which vary by hospital by network. (Some hospitals bill participants for their services based on a DRG [diagnostic related grouping] or per diem basis.)

In conducting this review of DFA's use of contractors for the health plans, PEER sought to determine whether DFA analyzes the hospitals' discounted charges to ensure their compliance with those stated in the networks' contracts with DFA. PEER found that DFA annually utilizes Coopers & Lybrand, its health consultant, to evaluate the networks' proposed discounted contract rates for the upcoming calendar year. The principal purpose of the evaluation is to compare each hospital's current contract rates to the proposed rates. DFA's renewal of the network contracts is contingent upon the network pricing remaining equivalent to (or better than) the pricing offered in the bids that DFA accepted.

Coopers & Lybrand calculates an effective discount for each hospital in each network, converting all discount contract rates to discount equivalents, and using actual utilization data from the plans. An effective discount for a network is calculated as the weighted average of the effective

discounts for each hospital in the network. In the 1997 report, the health consultant made two projections--one based on an assumed increase in gross hospital charges of 7% annually, and the other based on a 0% trend rate. Coopers & Lybrand presents exhibits in its report that compare the effective discounts for each network for inpatient and outpatient services.

In summary, the health consultant made the following conclusions in its July 1997 report.

- Overall, the hospital discounts proposed by the provider networks for calendar year 1998 were materially unchanged from 1997.
- The evaluation indicated a “tightening” of the cost difference achieved by the Network Option as compared to the Base Option.
- There was a significant difference in the level of discounts achieved by the various health care networks within the Network Option.

In its strategic plan, dated December 1996, DFA raised concerns relative to discount arrangements used by health providers. The department noted that discount arrangement under contracts with the various provider networks vary in structure. Some of the discount arrangements are more subject to cost shifting than others, particularly discount-off-charges arrangements. In the options section of the strategic plan, DFA recommends that, to minimize the effects of cost shifting on the plans, hospital pricing should be required to be based on DRGs (diagnostic related grouping) or per diems--i.e., no discount-off-charges pricing.

Agency Response



**STATE OF MISSISSIPPI
DEPARTMENT OF FINANCE AND ADMINISTRATION**

EDWARD L. RANCK
EXECUTIVE DIRECTOR

December 8, 1997

James A. Barber
Evaluation Division Manager
Joint Committee on Performance Evaluation and Expenditure Review
222 North President Street
Jackson, MS 39201

Dear Mr. Barber:

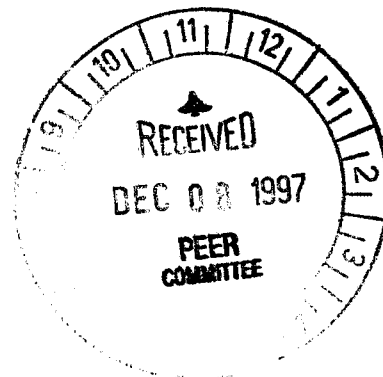
Thank you for the opportunity to respond to the PEER Committee's draft report on the Department of Finance and Administration's use of contractors during Fiscal Years 1997 and 1998 for the State and Public School Employees' Health Insurance Plans.

I am pleased that the PEER Committee's staff determined that the Department adhered to procurement standards required in State law, as well as components of fair and efficient public contracting. I can assure you that the Department intends to continue to comply with these standards in future contract procurements.

Sincerely,

A handwritten signature in dark ink, appearing to read "E. Ranck".

Edward L. Ranck



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