CONSIDERATION OF BAYOU HEALTH SAVINGS

DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA

INFORMATIONAL REPORT
ISSUED JULY 1, 2015

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July 1, 2015

The Honorable John A. Alario, Jr.,
President of the Senate
The Honorable Charles E. "Chuck" Kleckley
Speaker of the House of Representatives

Dear Senator Alario and Representative Kleckley:

This report provides information on our consideration of Bayou Health savings. The purpose of our work was to provide a six-year trend analysis of total Medicaid expenditures and evaluate the Bayou Health cost savings reported by the Department of Health and Hospitals. I hope this report will assist you in your legislative decision-making process.

We would like to express our appreciation to the management and staff of DHH for their assistance.

Sincerely,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

AC:WDG:EFS:aa

DHH-BH SAVINGS 2015

Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Consideration of Bayou Health Savings

July 2015

Audit Control # 80150099

Introduction

In February 2012, the Department of Health and Hospitals (DHH) launched a reconstruction of its legacy Medicaid system for the delivery of acute care services. This reconstruction resulted in the state's first managed care system for residents enrolled in Medicaid known as Bayou Health. On four occasions, DHH presented Bayou Health cost savings information.

In response to legislative inquiry, DHH first presented information related to savings achieved during a Joint Legislative Committee on the Budget (JLCB) meeting on July 18, 2014. At this meeting, DHH reported an **overall savings of $135.9 million** during fiscal year 2013, the first full year of Bayou Health. DHH also reported average cost per member comparisons for the Prepaid model, the Shared Saving model, and legacy Medicaid, noting that Bayou Health is **saving $29.55 per member per month (PMPM)** over legacy Medicaid:

Average Cost Per Member Per Month	
Prepaid model	$232.80
Shared Savings model	$245.60
Legacy Medicaid	$262.34

On September 17, 2014, during a Legislative Audit Advisory Council meeting, the Legislative Auditor presented the DHH Informational Audit *Consideration of the Bayou Health Transparency Report*. In answer to this audit, DHH reported state **savings of approximately $17 million** in the Shared Savings model.

On March 25, 2015, DHH presented a fourth savings analysis to the House Appropriations Committee, revisiting its previously-reported comparison of average cost PMPM. In this analysis, DHH provided a five-year analysis comparing actual expenditures before and after Bayou Health implementation. The analysis showed an **average $24.97 (9%) reduction in PMPM**.

Average Cost Per Member Per Month	
Bayou Health	$249.78
Legacy Medicaid	$274.75

The purpose of this report is to provide a six-year trend analysis of total Medicaid expenditures and evaluate the Bayou Health cost savings reported by DHH. To evaluate the Bayou Health cost savings reported by DHH, we reviewed the methodologies used to estimate savings and re-performed savings calculations where possible. Overall, we found:

- No cost baselines for legacy (pre-Bayou Health) Medicaid were established prior to the implementation of Bayou Health. As a result, it is difficult to determine the cost savings associated with this program. **We recommend that DHH work with the legislature to determine whether the department should engage an independent actuary to determine if Bayou Health is saving the state money when compared to legacy Medicaid.** The cost of implementing this recommendation should be considered in making the decision.

- Despite the lack of baseline data, we attempted to evaluate the cost savings achieved by Bayou Health and found that total Medicaid expenditures over the six-year period have increased by more than $1.2 billion, or 19%. When comparing this growth to the Bayou Health cost growth of only 13%, **our trend analysis notes that Bayou Health may be saving the state money by curbing cost growth.**

In addition, during our evaluation of the four cost savings reported by DHH, we noted the following issues that could affect the savings indicated:

- **Overall savings of $135.9 million** - While DHH did meet its budget expectation for the Medicaid Buy-In category as a whole, the line item budget for Bayou Health was not achieved, even after a mid-year budget adjustment of more than $118 million. In addition, while Mercer originally set rates that would lead to a 2-3% savings, DHH did not engage Mercer to consider whether subsequent program changes would change Mercer's assumptions and projected savings.

- **Savings of $29.55 PMPM** - The savings stated by DHH only refer to the comparison of legacy Medicaid to the Prepaid Plans, not to Bayou Health as a whole. Our review noted that DHH used inconsistent calculation methodologies, inconsistently included or excluded one category of service, and made an error in the calculation. In addition, actuaries reviewed the methodology for part of the comparison but did not validate the calculations or data used.

- **Savings of $17 million** - We determined that a state savings of $17 million from the Shared Savings model is supported by calculations of the actuary contracted by DHH.

- **Reduction in PMPM of $24.97 (9%)** - Because DHH extracted data using date of service instead of date of payment, data cannot be reconciled to DHH's financial accounting records or the amounts reported by DHH in federal financial reporting. In addition, actuaries were not used to review the methodology, review the calculations, or validate the underlying data.

- While vendor payments are a large percentage of the Medicaid program costs, certain administrative costs that could be significant to savings considerations were not considered. These administrative costs include payments to the fiscal intermediary, consulting contracts, and payroll and related benefits costs.

Appendix A contains DHH's response to this report, Appendix B provides our scope and methodology, and Appendix C provides our six-year trend analysis.

Background

DHH privatized acute care services in Medicaid in February 2012 under the name Bayou Health. Two separate Medicaid managed care models were developed: a "Shared Savings" model and a "Prepaid" model.

Shared Savings Model

The Shared Savings Plan model provides for an enhanced primary care case management organization, which incorporates many of the features historically associated with a managed care organization. A Shared Savings Health Plan's provider network consists of primary care physicians only, and all providers must also be enrolled in Louisiana Medicaid. The Shared Savings Health Plan is expected to coordinate specialty care and hospital care with providers enrolled in the Medicaid provider network. The health plan receives a monthly fee for each enrolled member to provide enhanced management services, with the opportunity to share in any savings to the state that result from the improved coordination of care. From February 2012 through January 2015, Community Health Solutions of Louisiana and UnitedHealthcare Community Plan of Louisiana operated as shared savings health plans in Bayou Health.

Prepaid Model

The Prepaid Health Plan model provides for a traditional, risk-bearing managed care organization. Prepaid health plans must establish networks of providers to cover the full range of Medicaid services, including primary, secondary, and hospital care. Providers are not required to be enrolled Louisiana Medicaid providers to participate. The health plan receives a monthly capitation fee for each member enrolled to provide core benefits and services, with utilization management and claims payment handled directly by the health plan. Amerigroup, AmeriHealth Caritas (formerly known as LaCare), and Louisiana Healthcare Connections operated as prepaid health plans from February 2012 through January 2015.

Beginning February 1, 2015, DHH signed five new contracts for Bayou Health for February 2015 through January 2018, with all operating under the prepaid model.

Provider	Maximum Contract Amounts
AmeriGroup	$1,964,731,789
AmeriHealth	1,964,731,789
Louisiana Healthcare Connections	1,964,731,789
UnitedHealthcare	1,964,731,789
Aetna Better Health	1,964,731,789
Total	**$9,823,658,945**

Source: Contract Documents provided by DHH and DHH website http://dhh.louisiana.gov/index.cfm/page/1763

Objective: To provide a six-year trend analysis of overall Medicaid expenditures and evaluate Bayou Health savings reported by DHH

During our evaluation of Medicaid expenditures and Bayou Health savings reported by DHH, we found that no cost baselines for legacy Medicaid were established prior to the implementation of Bayou Health. Using cost data that was available, we determined that Bayou Health appears to be saving the state money by curbing costs. In addition, we identified issues with some of the savings amounts reported by DHH over the past two years. These issues are presented in more detail below.

No cost baselines for legacy (pre-Bayou Health) Medicaid were established prior to the implementation of Bayou Health. As a result, it is difficult to determine cost savings associated with this program.

During the planning and implementation of the Bayou Health program, no one established cost baselines for legacy (pre-Bayou Health) Medicaid to be used in future cost considerations. Without these baselines, quantified cost savings cannot be determined without actuarial assumptions and analysis.

Recommendation: DHH should work with the legislature to determine whether the department should engage an independent actuary to determine if Bayou Health is saving the state money when compared to legacy Medicaid. The cost of implementing this recommendation should be considered in making the decision.

Excerpt from DHH handout to JLCB on July 18, 2014:

"Mercer did not develop baseline estimates of legacy Medicaid that could be comparable to the entire Bayou Health population. Any baselines developed would be estimates relying on a number of assumptions, as actual data from a comparable population is not available."

Summary of Management's Response: DHH management noted the department remains open to the possibly of contracting with a new actuary, but initial investigation has shown that the contract would likely cost half a million dollars in funds that could otherwise be spent on services. See Appendix A for management's full response.

Total Medicaid expenditures over the six-year period have increased by more than $1.2 billion, or 19%. When comparing this growth to the Bayou Health cost growth of only 13%, the analysis notes that Bayou Health may be saving the state money by curbing cost growth.

Despite the lack of baseline cost data, we attempted to evaluate the cost savings achieved by Bayou Health. Using Medicaid cost data that was available, we compiled total Medicaid vendor payments by category, sources of Medicaid funding divided by federal funds and state funds, Medicaid administrative expenditures, and recipients enrolled in Medicaid for fiscal year (FY) 2009 through FY14. We used Medicaid Annual Reports, Medicaid monthly forecasts, and other DHH data and reports to compile and chart these areas of interest (see Appendix C). To draw a conclusion on Bayou Health savings, we calculated growth percentages and compared these in Exhibit 1 below. When comparing this growth to the Bayou Health cost growth of only 13%, it appears as though Bayou Health may be saving the state money by curbing cost growth.

Exhibit 1
Summary of Six-Year Trend Analysis

Medicaid Private Provider Payments (services provided through Bayou Health)	13% increase
Total Medical Vendor Payments	19% increase
State Matching Funds	19% increase
Medicaid Administrative Costs	18% increase
Medicaid Enrollment	14% increase

Source: Compiled from the exhibits in the Six-Year Trend Analysis, Appendix C

While our analysis suggests Bayou Health savings, we did note issues with some of the saving amounts reported by DHH over the past two years. The remainder of the report discusses these issues in detail.

DHH reported a cost saving of $135.9 million for fiscal year 2013. However, Bayou Health's budget included a $118 million mid-year adjustment, and the impact of program changes on actuarial assumptions was not considered.

Per DHH, savings of $135.9 million were built into the FY13 budget by Mercer through rate setting and since DHH did not exceed its budget, the savings were realized. While DHH did meet its budget expectation for the Buy-In category as a whole, the line item budget for Bayou Health was not achieved, even after a mid-year budget adjustment of more than $118 million.

Excerpt from the DHH presentation to JLCB on July 18, 2014

"At its inception, we built in $135.9 million in savings in our budget for the first full year of Bayou Health implementation which was fiscal year 2013. We completed that year on budget for the program."

In addition, while Mercer originally set rates that would lead to a 2-3% savings, DHH did not engage Mercer to consider whether subsequent program changes would change Mercer's assumptions and projected savings. While savings were originally built into the rates, DHH did not engage an actuary to determine whether planned savings were realized through actual results.

Bayou Health's Budget

For FY13, Bayou Health was budgeted in the Medicaid Buy-In program category with a $135.9 million savings built into Bayou Health through rate settings. However, on May 2, 2013, DHH submitted a request for a mid-year budget adjustment, adding $118,616,518 to the Bayou Health portion of the Buy-In program.

Impact of Program Changes Not Considered

At the request of DHH, prior to Bayou Health's implementation in February 2012, Mercer Health Services,[1] a financial services consulting firm, developed a savings estimate for the proposed Prepaid and Shared Savings managed care models. The savings estimates, projected through 2017, were delivered to DHH in January 2011. Mercer presented three enrollment scenarios in the analysis, all of which expected savings varying from 2-3%. These anticipated savings were derived through rate setting.

However, several changes occurred between the time Mercer provided the savings estimates and the full implementation of Bayou Health that may have affected Mercer's assumptions and projected savings:

- After Mercer's original savings estimates, DHH received revised Mercer rate setting letters for the period ending December 31, 2012. These changes of rates could have changed some of the potential savings.
- Mercer's savings estimate assumed a launch of January 1, 2012, with statewide implementation as of May 1, 2012. Bayou Health launched February 1, 2012, with statewide implementation on June 1, 2012.
- During November 2012, pharmacy services were added into Bayou Health in Amendment 5 to the contracts. Mercer's savings estimate did not include pharmacy for the prepaid health plans.
- During January 2013, DHH added a fifth category of assistance, LaChip Affordable Plan. Mercer's saving estimate assumed only four categories.

While these program changes were not consistent with Mercer's original assumptions, DHH did not ask Mercer to revisit its savings estimates. The budgeted savings were planned, but we cannot be assured that savings were realized.

[1] DHH contracts with Mercer for actuarial services to support the development of actuarially-sound rates in accordance with generally accepted actuarial principles and practices, development of risk scores, and the evaluation of encounter data from the health plans.

DHH projected that Bayou Health is saving $29.55 PMPM, or a 12% reduction from legacy Medicaid. However, the savings stated only refers to the comparison of legacy Medicaid to the Prepaid Plans, not Bayou Health as a whole. In addition, actuaries did not review calculations or validate underlying data.

DHH developed a methodology to determine a relevant cost comparison of the two Bayou Health plans. DHH provided the methodology used in the comparison of the Prepaid and Shared Savings plan types, noting actuarial adjustments were applied. DHH applied the following adjustments in arriving at its potential cost savings: a mix adjusted methodology by category of assistance (COA) to yield a weighted average PMPM that adjusts for enrollment differences across plan types; adjusted Prepaid PMPM components for each COA to reflect a different mix of enrollees between Prepaid and Shared plans; and further adjusted PMPMs to account for the health risk of the population enrolled in each plan.

Excerpt from DHH's presentation to JLCB on July 18, 2014:

"Overall, DHH projects that Bayou Health is saving $29.55 PMPM over what legacy Medicaid would be expected to cost today, or greater than 12% reduction"

The comparison between the Prepaid and Shared Savings models resulted in the Prepaid model showing an average cost that was $12.80 lower than the Shared Savings. While this shows a potential cost savings for DHH to move from the Shared Savings model to the Prepaid only, this does not show an overall Medicaid savings for FY13.

Inconsistencies in Reviews from Actuaries

DHH, using its methodology, calculated an average PMPM cost for both the Prepaid and Shared Savings models. DHH's contracted actuary and health plan actuaries reviewed the methods used and validated the methodology as reasonable. However, the actuaries did not review the calculations or validate the underlying data. DHH requested that its actuaries review the methods for reasonableness with the understanding that the analysis would be kept in-house.

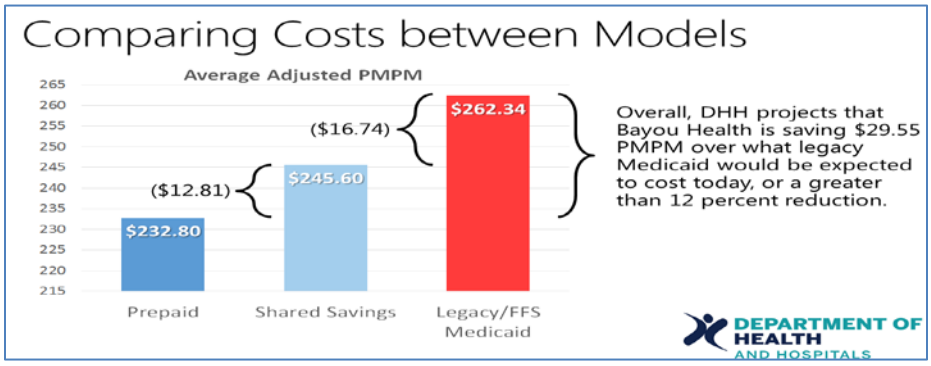
While DHH received reviews on the reasonableness of the method from its actuaries for the comparison of the Shared Savings and Prepaid Plans, DHH did not receive any actuarial review of its analysis comparing the two Bayou Health Plans to legacy Medicaid. DHH presented all three PMPM rates together in various worksheets and presentations, although all three did not receive review by actuaries. DHH did not disclose that actuaries did not review the legacy Medicaid calculation and that the analysis was developed internally by DHH.

Inconsistencies in Methodology and Data Included or Excluded

DHH was not consistent in applying the exclusion of data in its comparison of prepaid and shared savings costs. DHH did not include dental expenditures in the shared savings costs. However, the dental expenditures were included in the prepaid portion of the analysis, resulting in an inflated PMPM cost for the prepaid model.

DHH developed the comparison to legacy Medicaid months after the development of the Prepaid and Shared Savings Plans analysis. As with the Shared Savings, dental expenditures were mistakenly omitted from the calculation of the legacy Medicaid costs. In addition, the Prepaid and Shared Savings calculations were based on actual cost data from the months of January 2013 through October 2013 to determine the PMPM costs, but DHH calculated the legacy Medicaid costs from projected data using historical costs and enrollment and applying growth percentages. Based on the methodology noted above, DHH developed and presented the following comparison to JLCB on July 18, 2014, as shown in Exhibit 2.

Exhibit 2



Note: This chart was prepared by DHH and not by LLA.
Source: DHH "Bayou Health Checkup" presentation to JLCB on July 18, 2014

The text in the chart above states that DHH projects a savings of $29.55 PMPM when comparing Bayou Health and legacy Medicaid. We disagree. The chart and supporting documentation actually show this amount of savings between legacy Medicaid and the Prepaid Plans only, not Bayou Health as a whole. The projected savings between all of Bayou Health (Prepaid and Shared combined) and legacy Medicaid would be less than reported above.

Cost savings of $17 million from the Shared Savings model is supported by calculations of DHH's contracted actuary.

Based on calculations by DHH's actuary, the Shared Savings model saved more than $17 million for the state for the period of February 2012 through January 2014.

DHH contracted with Mercer to perform savings calculations based on performance of the Shared Savings plans during the first contract year (February 2012 through January 2013), with run-out through February 28, 2013. In a report dated March 27, 2014, and posted to the DHH

website,[2] Mercer noted that savings were determined relative to established benchmarks developed. Savings under the Shared Savings health plans were determined by comparing actual expenditures to the actuarially estimated benchmarks of what DHH would have paid for that care, in the absence of managed care.

DHH was also required to report on shared savings payments in its annual Act 212 report to the legislature.[3] DHH noted that if costs exceeded benchmarks, shared savings health plans forfeit up to 50% of the fees collected on the population it manages. If the plans achieved the benchmarks, they may earn up to 60% of the savings generated. Payments were made on an interim basis and finalized at a later date. Based on Mercer's analysis provided by DHH for contract year 2012 and 2013, the Shared Savings model provided savings to the state of $17,015,014.

From Management's Response in our audit report, *Consideration of the Bayou Health Transparency Report*, issued August 13, 2014:

"The other most direct demonstration of cost savings for DHH is found in the actuarial determination of interim savings in the Shared Savings Model."

However, it is important to note that for new contracts effective on February 1, 2015, the Shared Shavings model is no longer used, and all Bayou Health plans are using the Prepaid model exclusively.

DHH projected that Bayou Health is saving $24.97 PMPM, or a 9% reduction, from legacy Medicaid, but the data used cannot be reconciled to accounting records or federal reporting and was not validated by an actuary. In addition, our recalculation identified an error that would lower the reported savings to $23.83 PMPM.

On March 25, 2015, DHH presented a fourth savings calculation to the House Appropriations Committee, which showed a $24.97 PMPM, or 9%, reduction from legacy Medicaid in the two-and-a-half years since the implementation of Bayou Health. Per DHH, the savings presented included an examination of actual costs for FY10 through FY14, comparing legacy Medicaid costs for FY10, FY11, and transition year FY12, to Bayou Health costs for transition year FY12, FY13, and FY14. (See Exhibit 3.)

[2] http://new.dhh.louisiana.gov/assets/docs/BayouHealth/2013Act212/AppendixXXVIII-LouisianaSharedSavingsProgramInterimSavings.pdf
[3] http://new.dhh.louisiana.gov/assets/docs/BayouHealth/2013Act212/2013BayouHealthTransparencyReport.pdf

Exhibit 3						
Per Member Per Month (PMPM) Cost	**FY 10**	**FY 11**	**FY 12***	**FY 13**	**FY 14**	**Before and After**
	FFS program prior to Bayou Health					
	$281.12	$265.52	$278.72			$274.75
			Bayou Health			
			$247.88	$245.49	$254.57	$249.78

*Bayou Health was implemented February 2012. FY12 had FFS and Bayou Health expenditures.
Source: DHH

For the years of legacy Medicaid costs, DHH used actual fee for service claims data for covered services and eligible recipients comparable to those later included in Bayou Health. For the years after the Bayou Health implementation, DHH used actual claims data for the Bayou Health enrollees, including PMPM payments, Shared Savings management fees, Shared Savings medical claims payments, and Shared Savings determination payments. In both instances, DHH calculated total payments for each fiscal year and compared it against total member months[4] for the year.

Per DHH, the primary differences between the most current cost per Medicaid recipient (March 25, 2015) analysis and last year's (July 18, 2014) cost comparison included:

- The current analysis combines Shared and Prepaid program costs, eliminating the need for mix adjustment.
- All calculations exclude dental.
- No trend adjustments were applied to the legacy Medicaid costs to bring the cost in line with the Bayou Health period. The current analysis is a nominal value to nominal value comparison.

Excerpt from a DHH email received April 1, 2015:

"This analysis was based on MMIS date of service claims data and was not reconciled back to ISIS. You will not be able to match any previous reports because the data is based on date of service which changes as claims come in and are adjusted."

Data Not Reconciled or Validated

DHH compiled the comparison using claims information from the Medicaid Data Warehouse. Per DHH, it did not reconcile this information to financial accounting or federal reporting to determine if the amounts agreed with reported financial information. In an effort to capture and compare claims before Bayou Health managed care and claims after the implementation of Bayou Health managed care, DHH extracted claims data by the date the Medicaid service occurred. However, financial reporting and federal reporting is based on the date of claims payments, not the date of service. Since the data was extracted by date of service rather than

[4] The total number of recipients linked to Bayou Health for a particular month.

date of payment, we were not able to reconcile the data to financial accounting records. As a result, we cannot be assured that the data used for the cost comparison is accurate and/or complete. In addition, this analysis was prepared internally by DHH and actuaries were not used to review the methodology, review the calculations, or validate the underlying data. Comparing the PMPM cost may be an indicator of savings, but it does not quantify or fully answer the questions regarding Bayou Health savings.

Calculation Error

Because of an incorrect formula in the calculation, DHH overstated enrollees in the Prepaid plan by approximately 108,700, resulting in an understatement of the FY13 average cost per member per month for Bayou Health, reported in Exhibit 3 above, as $245.49. Bayou Health cost for FY13 should be $248.00 PMPM and the resulting reported savings for Bayou Health would be $23.83 PMPM.

Shared Savings Model Represented with a Lower PMPM

During our consideration of this cost analysis presented in March 2015, we noted that DHH was now showing the Shared Savings model with a lower cost of PMPM, as shown in Exhibit 4. In the previous comparison presented in July 2014, DHH showed a lower cost of $12.80 PMPM for the Prepaid model when compared to the Shared Savings model as shown previously in Exhibit 3.

Exhibit 4

	FY 12	FY 13	FY 14
Prepaid	$264.66	$252.42*	$264.43
Shared	$228.75	$238.01	$245.55

*As corrected, $257.44
Source: DHH

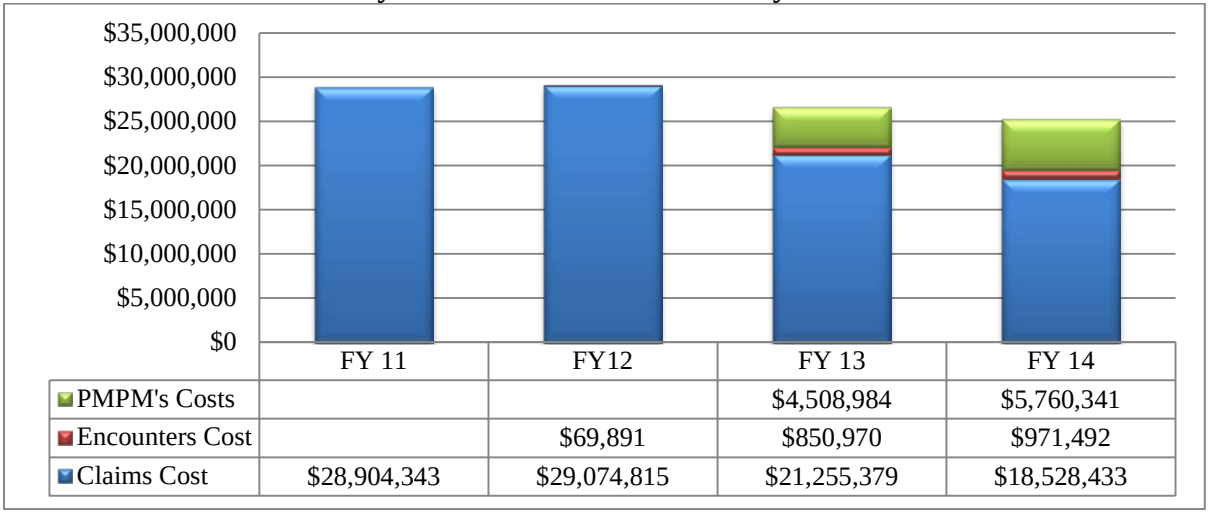
Additional Costs Not Considered in the Four Cost Savings Analyses

In order to determine any global Bayou Health savings, costs in addition to Medicaid vendor payments would also need to be considered. While vendor payments are a large percentage of the Medicaid program costs, certain administrative costs could be significant to savings considerations. These administrative costs include payments to the fiscal intermediary (Exhibit 5), consulting contracts (Exhibit 6), and payroll and related benefits costs (Exhibit 7).

Fiscal Intermediary

Molina Medicaid Solutions serves as the fiscal intermediary for Louisiana Medicaid and processes and pays Medicaid claims. With the transition from legacy Medicaid to Bayou Health, the claims processing cost has decreased, as noted in Exhibit 5.

Exhibit 5
Payments to Fiscal Intermediary - Molina



	FY 11	FY12	FY 13	FY 14
PMPM's Costs			$4,508,984	$5,760,341
Encounters Cost		$69,891	$850,970	$971,492
Claims Cost	$28,904,343	$29,074,815	$21,255,379	$18,528,433

Note: From February - September 2012, PMPM costs were being charged as claims.
Source: Invoices provided by DHH. The noted expenditures do not include various other deliverables that Molina provides, only the administrative fee portion for claims, encounters, and PMPMs.

Consulting Contracts

DHH was asked to report on contracts for support, development, implementation, and monitoring from fiscal years 2011 - 2014 as part of JLCB presentation on July 18, 2014. (See Exhibit 6.)

Exhibit 6
Consulting Contracts

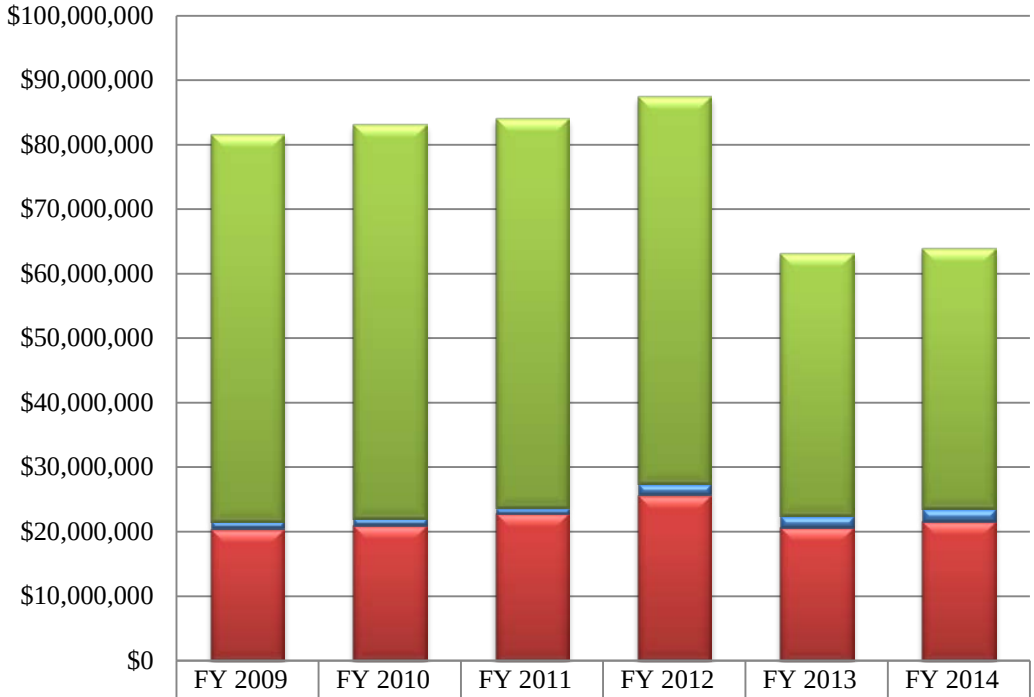
CFMS #	Contractor	Function	Contract Term	Contract Amount	Total SFY11	Total SFY12	Total SFY13	Total SFY14	Total SFY11-14
702598	Mercer Health Benefits	Actuary	5/16/2011 - 5/15/2014	**$7,551,501**	$95,683	$1,334,210	$2,765,281	$3,031,307	**$7,226,481**
706349	Island Peer Review Organization	External quality review organization	8/1/2011 - 7/31/2014	**1,551,866**	0	353,648	546,347	573,004	**1,472,999**
708339	Maximus	Enrollment broker	11/02/201- 10/31/2016	**19,385,285**	0	3,212,345	4,555,013	3,370,968	**11,138,327**
713200	Myers & Stauffer	Accounting and encounter data validation	4/01/2012 - 3/31/2015	**2,162,720**	0	0	482,789	615,526	**1,098,315**
728349	Mercer Health Benefits	Actuary	5/16/2014 - 5/15/2017	**9,849,374**	0	0	0	390,798	**390,798**
732156	Island Peer Review Organization	External quality review organization	9/03/2014 - 8/31/2017	**3,720,024**	0	0	0	0	**0**
			TOTAL	**$44,220,770**	**$95,683**	**$4,900,203**	**$8,349,430**	**$7,981,603**	**$21,326,919**

Source: Contract documents and DHH-provided expenditures, by year

Payroll and Related Benefits Cost

Also at JLCB on July 18, 2014, DHH was asked to report on Payroll and Related Benefits. A review of department-provided personnel costs for FY09 through FY14, as outlined in Exhibit 7, showed a decrease in personnel costs from FY12 to FY13 and FY14. There was an approximate $24 million decrease in personnel and related benefits cost in FY13. In FY13, DHH moved the Health Standards section from Medicaid Administration to the Office of the Secretary, accounting for 70% of the that decrease. A reduction in Eligibility Field Operations accounted for an additional 17%.

Exhibit 7
Personnel and Related Benefits - Medical Vendor Administration
Six-Year Trend



	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Total Salaries	$60,025,726	$61,086,073	$60,383,455	$60,068,592	$40,719,740	$40,410,747
Total Other Compensation	$1,140,624	$1,127,530	$882,121	$1,684,854	$1,737,774	$1,941,836
Total Related Benefits	$20,468,141	$20,969,060	$22,865,060	$25,724,841	$20,721,178	$21,667,313

Source: Medical Vendor Administration expenditures for personnel and related benefits object categories and DHH.

The department also reported Table of Organization (TO) and Non-TO[5] for FY11 and FY14. As shown is Exhibit 8, DHH has experienced a reduction in personnel in the last six years, notably in FY13. While T.O. positions have decreased, non-T.O. positions have more than tripled in the last six years.

Exhibit 8

	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
T.O.	1,249	1,237	1,160	1,137	877	868
Non - T.O.	24	39	39	71	58	98
Source: DHH						

[5] TO positions are authorized positions in the annual budget bill and adjustments. Non-TO positions are not included.

APPENDIX A: MANAGEMENT'S RESPONSE

Bobby Jindal
GOVERNOR

Kathy H. Kliebert
SECRETARY

State of Louisiana

Department of Health and Hospitals
Office of Management and Finance

June 19, 2015

Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
Post Office Box 94397
P.O. Box 94397
Baton Rouge, LA 70804-9397

Re: Consideration of Bayou Health Savings

Dear Mr. Purpera,

Since the implementation of Bayou Health in 2012, our Department has focused on how to quantify the savings of the program. When we left behind the 50-year-old legacy Medicaid program for most recipients, we anticipated savings associated with improving care coordination and management and built those into the budget for the first full year of Bayou Health implementation. Since then, we've learned more ways to measure savings and understood that learning to be part of an iterative process improving our estimates.

The LLA audit of Bayou Health savings is an important tool for the Department of Health and Hospitals (DHH). Ultimately, we were very pleased that, while the LLA's findings identify additional ways to improve our estimates, the overall findings reinforce our belief that Bayou Health is saving the State money by curbing the growth of the Medicaid program. That outcome also confirms what we've seen in the last three years – the overall Medicaid program is now growing at a rate of 2 to 3 percent annually rather than the traditional 5 to 7 percent growth rate.

The Department must make one critical clarification in response to the audit regards the savings of $135.9 million DHH built into its SFY12/13 budget for Bayou Health. When the savings were estimated, DHH had not yet made the decision to add pharmacy services into the Bayou Health Prepaid model. When that change was made, $295 million in expenditures were shifted from elsewhere in the Medicaid budget into the Bayou Health line item reflected in Exhibit 2. These were *not* new costs, but rather a reallocation of existing costs resulting from the addition of pharmacy services to the Prepaid model after the budget was built. The $118 million mid-year budget adjustment was not designed to fully account for this change at the line item level as DHH had sufficient funding at the program level to accommodate the shift. Had the mid-year adjustment been designed to fully account for the

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change at the line item level, Bayou Health would have ended the year with a $151 million surplus relative to its line item allocation.

While we understand some of the findings in the audit questioned certain means of calculations, none disputed that Bayou Health is saving Louisiana taxpayers money. It is also worth noting that the mechanism for calculating savings evolved over time. As there is no true baseline for identical services in legacy Medicaid that we can use for a comparison to Bayou Health – managed care offers many more services, care coordination and management that were unavailable to Louisiana previously – the Department has worked diligently to develop approximate points of comparison. The audit will help us further strengthen that comparison.

The LLA's audit also focused on several other points, including how data for cost-savings calculations were pulled and the suggestion to contract with a new, independent actuary. Bayou Health claims were pulled by the date of service rather than the date of payment so that we could accurately separate payments for services rendered before and after Bayou Health implementation. Payment can occur up to a year after the date of the service, so pulling claims by the date of payment would have incorrectly calculated program savings. The Department remains open to the possibility of contracting with a new actuary, but initial investigation has shown that the contract would likely cost half a million dollars in funds that could otherwise be spent on services.

We look forward to working with the LLA on future audits and will use the lessons learned during this audit to improve future reports on savings in this program.

Sincerely,

W. Jeff Reynolds
Undersecretary

c: Kathy Kliebert, Secretary

APPENDIX B: SCOPE AND METHODOLOGY

The purpose of this informational report is to provide a six-year trend analysis of overall Medicaid expenditures and evaluate the Bayou Health cost savings reported by DHH. The scope of our engagement was significantly less than an audit conducted in accordance with *Government Auditing Standards*. The following procedures were performed:

- Met with DHH personnel and requested all supporting documentation for each of the four savings analyses previously presented to legislative committees.
- Performed a six-year trend analysis of overall Medicaid expenditures, state matching funds, and administrative expenditures.
- Performed certain procedures to obtain an understanding of each savings scenario and documented any assumptions or adjustments applied to the calculations.
- Re-performed savings calculations where possible.
- Documented other categories of expense that could be included in any savings consideration.
- Considered DHH's answers and additional documentation, if any, as well as other information and understanding we have accumulated through our audits of DHH.

APPENDIX C: SIX-YEAR TREND ANALYSIS OF MEDICAID EXPENDITURES

Total Medicaid expenditures over the last six-year period have increased by more than $1.2 billion, or 19%, while the Bayou Health cost growth was only 13%. The analysis in Exhibit C-1 notes that Bayou Health may be saving the state money by curbing cost growth.

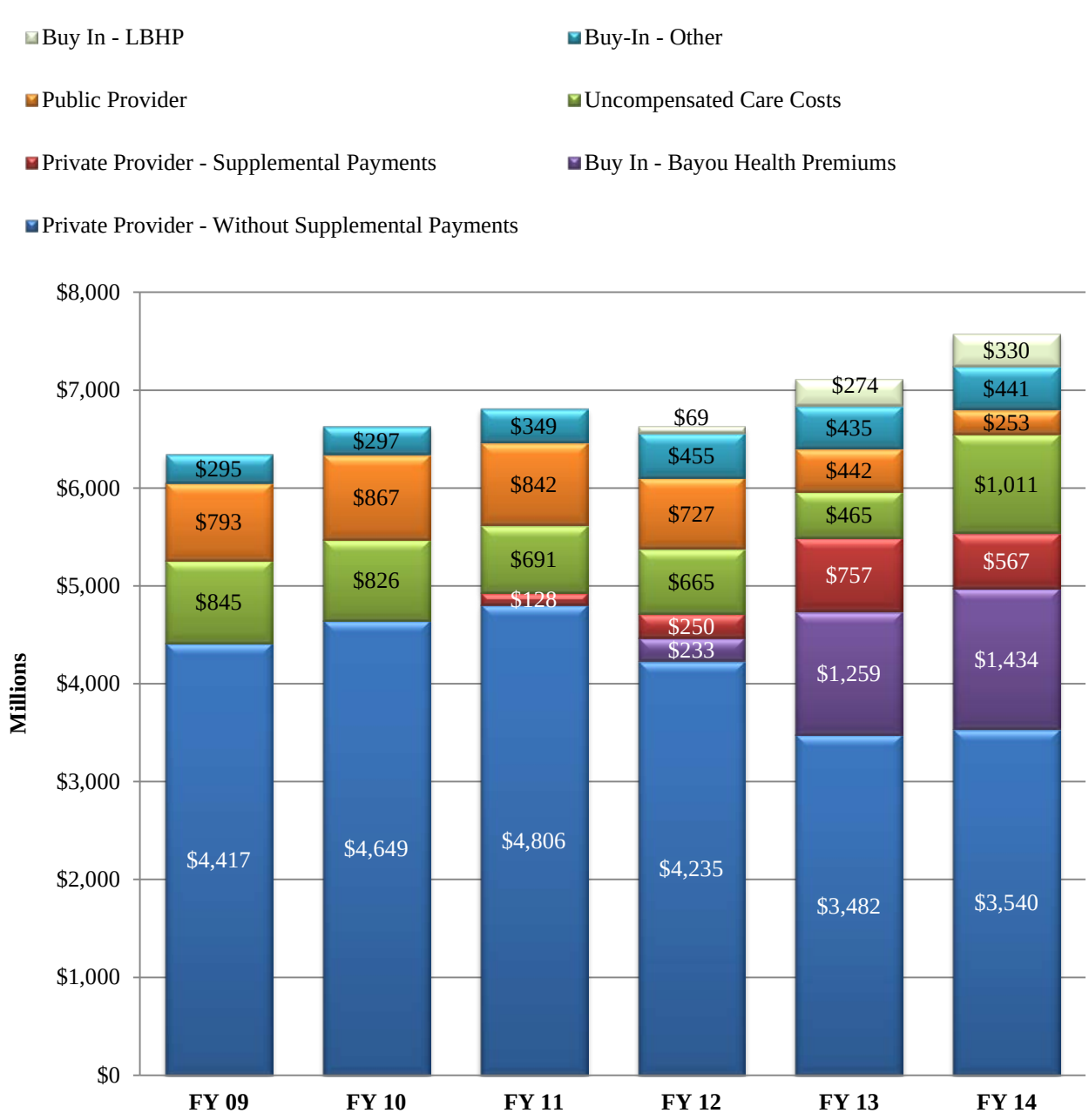
Exhibit C-1 Summary of Six Year Trend Analysis Fiscal Years 2009 through 2014	
Medicaid Private Provider Payments (services provided through Bayou Health)	13% increase
Total Medical Vendor Payments	19% increase
State Matching Funds	19% increase
Medicaid Administrative Costs	18% increase
Medicaid Enrollment	14% increase
Source: Compiled from Exhibits C-2 through C-5 below.	

Using the annual Medicaid reports on DHH's website[6] and monthly Medicaid reports provided to the Legislature, we prepared a six-year trend analysis of Medicaid program expenditures. (See Exhibit C-2.)

This analysis shows all Medicaid expenditures, not just Bayou Health or the fee-for-services legacy Medicaid for services comparable to Bayou Health. The analysis shows Medicaid expenditures for the last three full years of legacy Medicaid, FY09, FY10, and FY11. FY12 is the transition year where seven months were legacy Medicaid, and the last five months were the roll-out of Bayou Health. During these last five months, approximately 33% was Bayou Health for February and March, 67% was Bayou Health from April and May, and June was 100% Bayou Health.

[6] Medicaid Annual Reports - http://dhh.louisiana.gov/index.cfm/newsroom/detail/1699

Exhibit C-2
Medical Vendor Payment Program Expenditures
Six-Year Trend Analysis



	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
Total Program Expenditures	$6,350,369,097	$6,638,648,061	$6,815,405,299	$6,633,713,258	$7,113,341,942	$7,577,662,782

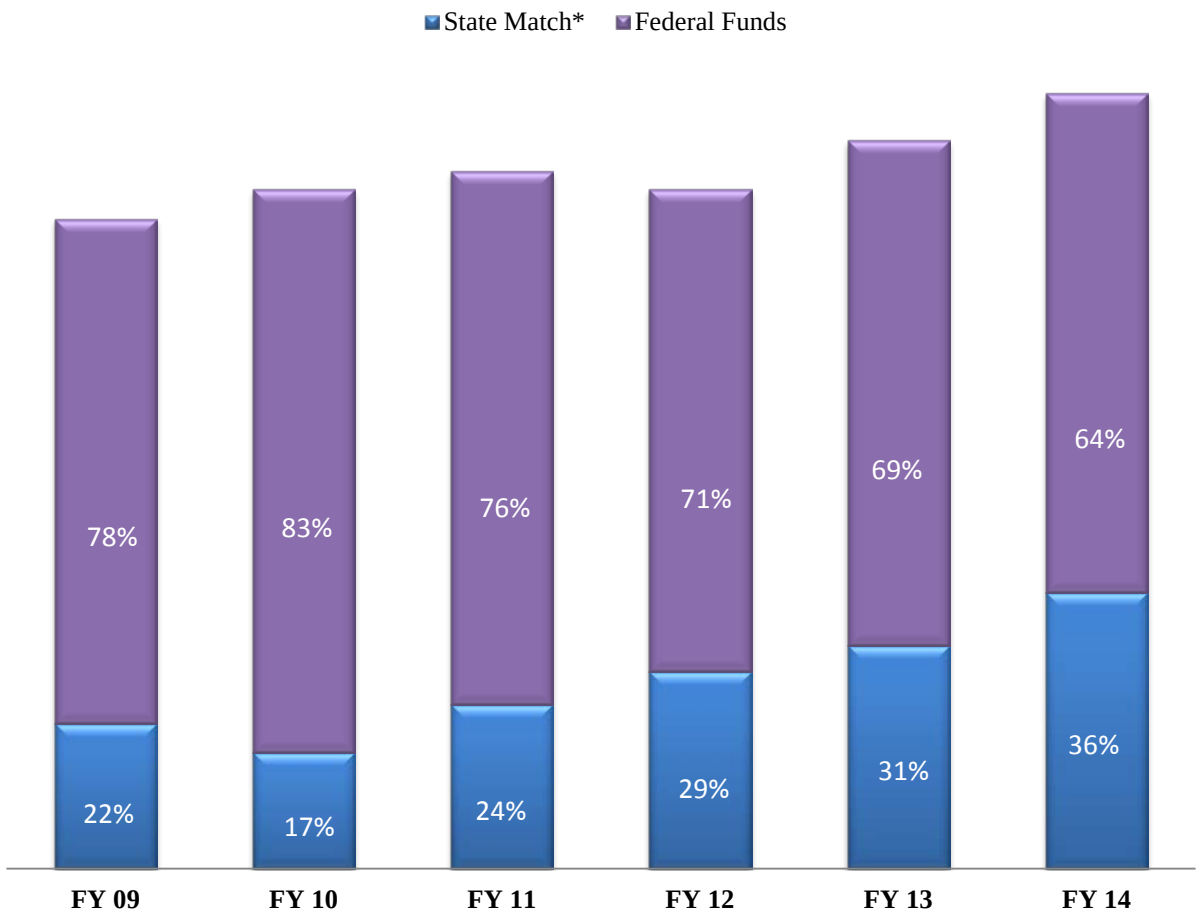
Source: LLA compiled using FY09 through FY13 from Medicaid Annual and FY14 from Monthly Reports

With the exception of a decrease of 7% in the FY12 transition year, Medicaid Private Provider payments (denoted in blue and purple in the preceding chart) have consistently increased by 3% to 6% per year. For this category that represents services provided now through Bayou Health, Medicaid expenditures have increased by 13% over the past six years.

However, overall Medicaid expenditures over the same six-year period have increased by more than $1.2 billion, or 19%. This increase is primarily because of rising supplemental payments and uncompensated care (UCC) payments. As shown above, UCC payments for FY14 totaled more than $1 billion, with approximately $682 million going to the private LSU partner hospitals.

As noted in Exhibit C-3, because of decreases in the federal match rate for the last several years, the state match percentage for program expenditures has consistently increased.

Exhibit C-3
Source of Funding for Medicaid Program Expenditures



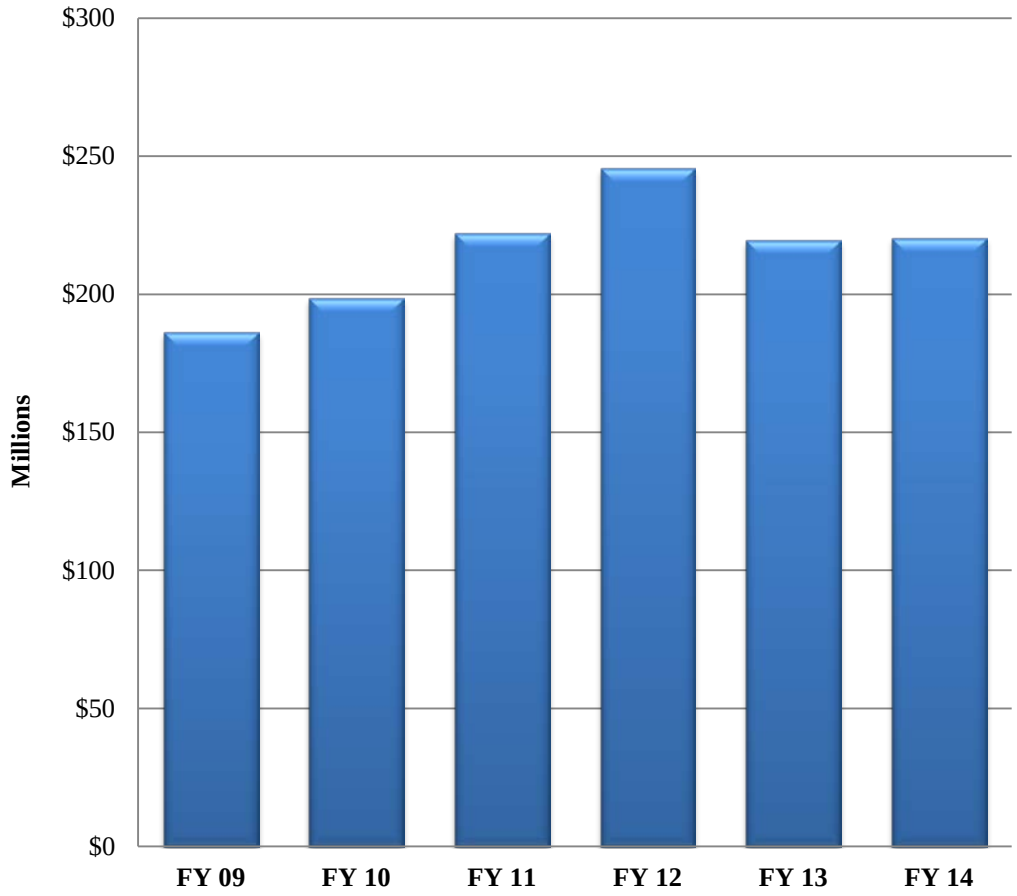
	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
State Match	$1,420,634,357	$1,140,407,794	$1,606,809,777	$1,930,682,729	$2,184,420,498	$2,704,056,998
Federal Funds	4,929,734,740	5,498,240,267	5,208,595,522	4,703,030,529	4,928,921,444	4,873,605,784
Total Program Expenditures	**$6,350,369,097**	**$6,638,648,061**	**$6,815,405,299**	**$6,633,713,258**	**$7,113,341,942**	**$7,577,662,782**

*State match includes General Fund, Interagency Transfers, Self-generated Revenues, and Statutory Dedications
Source: LLA compiled using FY09 through FY13 from Medicaid Annual and FY14 from Monthly Report

Because of the overall 19% increase in Medicaid expenditures previously noted and the increases in the state matching percentage noted here, the state portion of Medicaid costs have increased by almost $1.3 billion, or 19%, over the past six years.

As shown in Exhibit C-4, administrative expenditures have increased by approximately $34 million, or 18%, over the past six years. Fiscal year 2012, the roll-out year for Bayou Health, showed the largest increase in administrative expenditures.

Exhibit C-4
Medicaid Administrative Expenditures
Six-Year Trend Analysis



	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
State Match	$75,924,849	$81,334,514	$81,020,498	$88,086,633	$87,057,619	$86,897,039
Federal Funds	110,350,974	117,233,799	141,034,250	157,660,521	132,576,469	133,623,254
Total Administrative Expenditures	**$186,275,823**	**$198,568,313**	**$222,054,748**	**$245,747,154**	**$219,634,088**	**$220,520,293**

Source: LLA compiled using FY09 through FY13 from Medicaid Annual and FY14 provided by DHH

While FY13 and FY14 showed decreased administrative costs, an organizational change accounted for a significant portion of these decreases. As we noted previously regarding personnel expense, approximately $17 million of the decrease shown from FY12 to FY13 and

FY14 was due to moving the Health Standards section from Medicaid Vendor Administration to the Office of the Secretary. If the Health Standards personnel costs are considered, both FY13 and FY14 would show greater administrative costs.

While program and administrative expenditures have been increasing, Medicaid enrollment has increased as well. For the six years we considered, Medicaid enrollment increased by more than 14% as shown in Exhibit C-5.

Exhibit C-5

Medicaid Enrollment Trends						
	FY 09	**FY 10**	**FY 11**	**FY 12**	**FY 13**	**FY 14**
Enrollees	1,238,470	1,307,952	1,346,504	1,362,410	1,414,370	1,417,304
Percent Increase		6%	3%	1%	4%	<1%
Source: FY 13 Annual Medicaid Report and FY 14 enrollment provided by DHH						