STATE OF LOUISIANA
LEGISLATIVE AUDITOR

Department of Health and Hospitals
State of Louisiana
Baton Rouge, Louisiana

Louisiana Health Care Authority
State of Louisiana
Baton Rouge, Louisiana

Specified Procedures Examination
February 8, 1995

Financial and Compliance Audit Division

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA
Baton Rouge, Louisiana

LOUISIANA HEALTH CARE AUTHORITY
STATE OF LOUISIANA
Baton Rouge, Louisiana

Specified Procedures Examination
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Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

February 8, 1995

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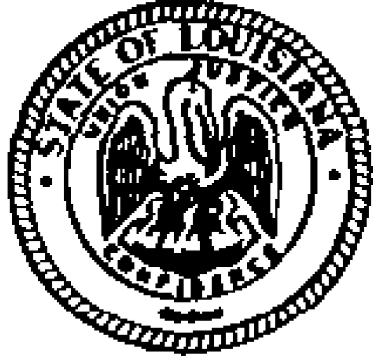
Managements' Responses .... **Attachment I**



OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

DANIEL G. KYLE, PH.D., CPA, CFE,
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
P.O. BOX 94397
TEL (504) 339-3800
FAX (504) 339-3870

February 8, 1995

Independent Auditor's Report

DEPARTMENT OF HEALTH AND HOSPITALS
STATE OF LOUISIANA
Baton Rouge, Louisiana

LOUISIANA HEALTH CARE AUTHORITY
STATE OF LOUISIANA
Baton Rouge, Louisiana

We performed a specified procedures examination of the Department of Health and Hospitals (the department) and the Louisiana Health Care Authority (the authority). The purposes of our specified procedures examination were to review the professional service contracts between the department and Deloitte and Touche and the authority and Deloitte and Touche to determine (1) compliance with applicable laws and regulations; (2) the nature of the work performed and the method(s) of payment; and (3) the adequacy of the internal controls affecting the contracts.

Our examination was performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, applicable to a specified procedures examination. Our limited procedures consisted of (1) examining selected department and authority records; (2) interviewing certain department and authority personnel and certain Deloitte and Touche personnel; (3) reviewing applicable Louisiana law and regulations; (4) reviewing pertinent department and authority policies, procedures, rules, and regulations; and (5) making inquiries to the extent we considered necessary to achieve our purposes. Our procedures also included an assessment of the likelihood of irregularities and illegal acts, and any such matters that came to our attention are presented in our findings and recommendations.

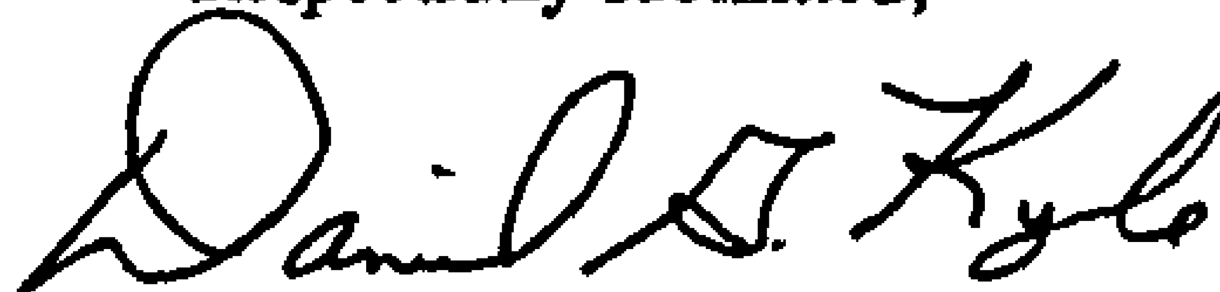
Based on the application of the procedures referred to previously, the accompanying findings and recommendations represent those conditions that we feel warrant attention by the appropriate parties. Managements' responses to the findings and recommendations presented in this report are included in Attachment I. In addition, management submitted numerous exhibits that are not included in Attachment I. These exhibits are available for inspection at the Baton Rouge office of the Legislative Auditor. After consideration of the original responses, we modified our findings and/or recommendations where applicable; however, revised responses have not been requested.

DEPARTMENT OF HEALTH AND HOSPITALS
LOUISIANA HEALTH CARE AUTHORITY
STATE OF LOUISIANA
February 8, 1995

These limited procedures are substantially less in scope than an audit of financial statements in accordance with government auditing standards, the purposes of which are to provide assurances on the entity's presented financial statements, assess the entity's internal control structure, and assess the entity's compliance with laws and regulations that could materially impact its financial statements. Had we performed such an audit, or had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended for the use of management of the Department of Health and Hospitals and the Louisiana Health Care Authority and should only be used by those who fully understand the limited purposes of the procedures performed. By state law, this report is a public document and has been distributed to appropriate public officials as required by Louisiana Revised Statute 24:516.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

CGEW:BJJ:mf

(DHH-LHCA)

Office of Legislative Auditor

Executive Summary

Financial and Compliance Audit Division
Specified Procedures Examination

Department of Health and Hospitals
Louisiana Health Care Authority
Contracts with Deloitte and Touche

The Department of Health and Hospitals (DHH) and the Louisiana Health Care Authority (LHCA) paid Deloitte and Touche $48,912,759 from September 1989 through June 1993. Our specified procedures examination of the DHH and LHCA contracts with Deloitte and Touche found that:

- Both DHH and LHCA do not appear to have complied with Louisiana laws and contract provisions relating to contract approvals, contract modifications, retention of records, and contract monitoring.
- DHH and LHCA have not ensured that the method of payment to Deloitte and Touche is directly related to the types of services performed.
- Deloitte and Touche appears to have benefitted from the revenues generated by another contractor, resulting in additional costs to the department and the authority.
- The base period revenues, established as the basis for contract payments, were not adjusted over the three year lives of the DHH contracts for any revenues that were not the result of Deloitte and Touche activities.
- The $70,000,000 base period revenues for LHCA's contract with Deloitte and Touche is inordinately low when compared to the DHH contracts for the same facilities. We estimated the base period revenues should have been between $98,307,599 and $180,466,990.

Daniel G. Kyle, Ph.D., CPA, CFE, Legislative Auditor
Phone No. (504) 339-3800

EXAMINATION OBJECTIVES

The objectives of our specified procedures examination were to review the professional service contracts between the Department of Health and Hospitals and the Louisiana Health Care Authority and a contractor, Deloitte and Touche, to determine:

- Compliance with applicable laws and regulations;
- The nature of the work performed and the method(s) of payment; and
- The adequacy of the internal controls affecting the contracts.

FINDINGS AND RECOMMENDATIONS

The following summarizes the findings and recommendations that resulted from our specified procedures examination of the Department of Health and Hospitals and the Louisiana Health Care Authority contracts with Deloitte and Touche. Detailed information relating to the findings and recommendations may be found on the page number referenced.

Contract Modifications (Page 13)

Finding: The Department of Health and Hospitals (DHH) did not submit the base period revenue agreements, which appear to be modifications to the original contracts, for Charity Hospital at New Orleans, Office of Mental Health, and Office of Hospitals to the Office of Contractual Review and the Department of Civil Service for review and approval as required by Louisiana law. In addition, DHH did not make any written contract modifications to support apparent changes in the scope of these contracts that would also require the approval of the Office of Contractual Review and the Department of Civil Service.

Recommendation: DHH should ensure that any modifications to future contracts are submitted to the Office of Contractual Review and the Department of Civil Service for review and approval as required by Louisiana law.

Retention of Records

(Page 15)

Finding: The Department of Health and Hospitals (DHH) did not retain certain documentation needed to support calculations of the base period revenues as required by Louisiana law.

Recommendation: DHH should take the necessary steps to ensure that all public records are retained in accordance with the time periods established by Louisiana law.

Contract Monitoring

(Page 16)

Finding: The Department of Health and Hospitals (DHH) has not established adequate controls to ensure compliance with its written contract monitoring plan.

Recommendation: DHH should take the necessary steps to ensure that all contracts are adequately monitored.

Method of Payment for Services

(Page 17)

Finding: The Department of Health and Hospitals (DHH) did not ensure that the method of payment for the services performed under the contracts accurately reflects the nature of those services.

Recommendation: DHH should ensure that the method of payment is directly related to the types of services performed.

Eligibility Services, Incorporated, Billings

(Page 18)

Finding: The Department of Health and Hospitals (DHH) and the Louisiana Health Care Authority (LHCA) appear to have allowed the inclusion of $44,558,435 in revenues generated by the activities of a separate contractor in the revenues claimed and billed by Deloitte and Touche.

Recommendation: DHH and LHCA should not allow two contractors to be paid based on the same revenues in the future.

Adjustments to Base Period Revenues

(Page 20)

Finding: The Department of Health and Hospitals (DHH) did not adjust the base period revenues for the contracts with Charity Hospital at New Orleans, the Office of Mental Health, and the Office of Hospitals for any revenues that were not the result of Deloitte and Touche activities.

Recommendation: DHH should ensure that future Requests for Proposals and contracts of this nature provide for adjustments so that the contractor will be compensated only for those revenues directly attributable to its work.

Contract and Base Period Agreement Approvals

(Page 29)

Finding: The Louisiana Health Care Authority (LHCA) did not submit timely the contract and the base period agreement, which establishes the basis for contract payments and appears to be a contract modification, to the Office of Contractual Review for review and approval as required by Louisiana law. In addition, LHCA did not receive approval from the Office of Contractual Review and the Department of Civil Service for the base period agreement as required by Louisiana law.

Recommendation: LHCA should ensure that any future contracts and modifications are submitted timely to the Office of Contractual Review for review and approval as required by Louisiana law or should provide written justification for late submissions. In addition, LHCA should have the base period agreement approved by the Office of Contractual Review and the Department of Civil Service before making any further payments under the contract.

Contract Monitoring

(Page 31)

Finding: The Louisiana Health Care Authority (LHCA) has not established adequate controls to ensure compliance with a written contract monitoring plan.

Recommendation: LHCA should immediately take the necessary steps to develop and implement a written plan for contract monitoring.

Base Period Revenues

(Page 32)

Finding: The base period revenues established for the Louisiana Health Care Authority's (LHCA) contract with Deloitte and Touche are inordinately low.

Recommendation: LHCA should consider adjusting the base period revenue figure for the current contract for any extensions of the contract term to an amount that reflects more accurately the ability of the facilities to generate revenues independent of a third party contractor.

Method of Payment for Services

(Page 34)

Finding: The Louisiana Health Care Authority (LHCA) did not ensure that the method of payment for the services performed under the contract accurately reflects the nature of those services.

Recommendation: LHCA should ensure that the method of payment is directly related to the types of services performed.

Contract Modifications

(Page 35)

Finding: The Louisiana Health Care Authority (LHCA) negotiated a base period agreement, which appears to be a contract modification, that is inconsistent with the terms and conditions of the Request for Proposal (RFP) and the contract.

Recommendation: LHCA should ensure that any modifications to future contracts are consistent with the terms and conditions in the original RFP and contract. In addition, LHCA should consider the appropriateness of issuing another RFP and soliciting new proposals to continue the revenue enhancement and operations improvement activities for the third contract year.

Chapter One: Introduction

CREATION AND DUTIES

The Department of Health and Hospitals (DHH or the department) was created in accordance with Title 36, Chapter 6 of the Louisiana Revised Statutes, as a part of the executive branch of government. DHH is charged with providing health and medical services for the uninsured and medically indigent citizens of Louisiana either directly, through the operation of health care facilities, or indirectly, by agreement with the Louisiana Health Care Authority (LHCA). Services provided by DHH include but are not limited to services for the mentally ill, for persons with mental retardation and developmental disabilities, for alcohol and drug abusers, public health services, and services provided under the Medicaid program. DHH oversees the operations of seven developmental centers, six mental hospitals, two long-term care hospitals, the state health department, various regulatory and licensing boards, mental health and substance abuse clinics, and other health related facilities located throughout Louisiana. The state's acute care hospitals were the responsibility of DHH until January 1, 1992, when they were transferred to the LHCA in accordance with Act 390 of the 1991 Regular Session of the Louisiana Legislature.

The Louisiana Health Care Authority (LHCA or the authority) was created in accordance with Title 46, Chapter 6 of the Louisiana Revised Statutes of 1950, as a political subdivision of the state. LHCA is governed by a 12-member board, consisting of 2 ex-officio members (the Secretary of the Department of Health and Hospitals and the Commissioner of Administration), 9 at-large members (appointed by the governor), and the chief executive officer of the authority. LHCA is charged with the operation of the state's 9 acute care hospitals that provide health and medical services for the uninsured and medically indigent citizens of Louisiana and opportunities for clinical education for the state's students of medicine, nursing, and allied health fields.

BACKGROUND

During our audit of DHH for the fiscal years ended June 30, 1991, and 1992, we became aware of several professional service contracts between DHH and Deloitte and Touche, an international accounting and auditing firm providing management advisory services to DHH. These contracts were described as revenue enhancement contracts, and payments to Deloitte and Touche were contingent upon its ability to generate revenues for DHH above an established base period revenue figure. This benchmark revenue figure was set using a base

period of revenues for the fiscal year ended June 30, 1989. The original contracts were initiated in September of 1989 and provided for an original maximum payment of $4,472,500 for one year. Subsequent amendments increased the contracts to $33,047,500 over a three-year period.

Effective October 1, 1992, DHH negotiated a new contract with Deloitte and Touche on behalf of LHCA, using the same basic structure for payments to Deloitte and Touche. The maximum payable for this contract is $55,050,000 over three years.

Our examination of the contracts covered fiscal years 1990 through 1993. During this time period, the department and the authority paid Deloitte and Touche a total of $48,912,759. Deloitte and Touche may earn an additional $39,184,741 if the LHCA contract renewal option that extends the contract for two additional one-year periods is exercised. Table 1 provides a breakdown of payments made by DHH and by LHCA over the lives of the contracts through June 30, 1993.

Table 1
Schedule of Total Contract Payments
Through June 30, 1993

Fiscal Year	DHH Payments	LHCA	Total
1990	$5,226,840		$5,226,840
1991	10,733,672		10,733,672
1992	13,219,729		13,219,729
1993	3,867,259	$15,865,259	19,732,518
Total	$33,047,500	$15,865,259	$48,912,759

Source: Prepared by Legislative Auditor's staff from various departmental contract payment information sources.

The DHH payment total of $33,047,500 represents an increase of $28,575,000 over the original contract maximums of $4,472,500, an overall 638.9 per cent increase as shown in Table 2. The DHH contracts are more fully discussed in Chapter Two, and the LHCA contract is discussed in Chapter Three.

OBJECTIVES

The objectives of this examination were to review the professional service contracts between the department and Deloitte and Touche and the authority and Deloitte and Touche to determine (1) compliance with applicable laws and regulations; (2) the nature of the work performed and the method(s) of payment; and (3) the adequacy of the internal controls affecting the contracts.

REPORT ORGANIZATION

The remainder of this report is organized into two additional chapters plus an attachment as follows:

- **Chapter Two** addresses the Deloitte and Touche contracts with DHH.
- **Chapter Three** addresses the Deloitte and Touche contract with LHCA.
- **Attachment I** is DHH and LHCA managements' responses to findings and recommendations.

The discussions of the contracts will include background information leading up to the issuance of the Requests for Proposals (RFPs), contract awarded, contract terms, payments made, services provided, and findings and recommendations. The findings and recommendations are presented in the executive summary as well as in their respective chapters.

Chapter Two: DHH Contracts

REQUEST FOR PROPOSALS

During the late 1980s, there was a statewide initiative to reduce the costs of state government because of projected budgetary shortfalls in succeeding years. State agencies were restricted in their ability to hire additional staff and were challenged to work within these constraints.

The Department of Health and Hospitals (DHH) determined that the goals of the initiative would best be met through the issuance of a Request for Proposal (RFP) for cost savings programs for the department. The objectives of the RFP were as follows:

1. To obtain reasonable proposals to design, develop, and implement changes to DHH's operations;

2. To produce net savings for DHH from the proposals; and

3. To obtain enhancements to assist DHH in controlling costs and/or significantly improving management practices.

The RFP that was issued in February 1989 sought ideas concerning the management, funding, staffing, and operations of the programs and services provided by the divisions specified in the RFP. Included were analyses of the existing structures, programs, policies, procedures, financing, reimbursement, funding, and other areas as necessary to streamline operations, reduce state expenditures, and enhance federal funding. Separate proposals were required for each area/division that prospective contractors were interested in developing and implementing.

Each proposal was to identify the projected net state savings and the contractor's proposed percentage fee based on these savings. Reimbursement to the contractor would occur only as a result of net savings accrued by the state and would not be paid on estimates or projections. Since the department did not want to inhibit or limit proposals from potential contractors, the RFP was very broad in nature and did not specifically and clearly identify the objectives and deliverables to be attained.

CONTRACTS AWARDED

Deloitte and Touche was among the successful bidders and was awarded five contracts with DHH. The contracts awarded were defined as revenue enhancement contracts, and Deloitte and Touche's earnings were contingent upon its ability to generate revenues above revenues for the base period, which was defined as the fiscal year ended June 30, 1989. Deloitte and Touche was paid for current period revenues (revenues generated during the contract term) in excess of the base period revenues at percentage rates specified in the contracts. The five contracts awarded to Deloitte and Touche were as follows:

1. Mental Retardation Facilities and Programs

2. Charity Hospital at New Orleans (now Medical Center of Louisiana at New Orleans)

3. Mental Health Facilities and Programs

4. Office of Hospitals - included the following facilities:
   Earl K. Long Medical Center
   University Medical Center
   South Louisiana Medical Center (now Leonard J. Chabert Medical Center)
   E. A. Conway Medical Center
   Huey P. Long Medical Center
   Lallie Kemp Medical Center
   Washington-St. Tammany Medical Center
   Villa Feliciana Geriatric Medical Center
   New Orleans Home and Rehabilitation Center

5. State Participants in the Medicaid Program

No payments were made under the Mental Retardation Facilities and Programs or the State Participants in the Medicaid Program contracts through June 30, 1993; accordingly, those contracts will not be discussed further in this report. Total payments under the remaining contracts with Charity Hospital at New Orleans, Office of Mental Health, and Office of Hospitals were $33,047,500 for the period September 1989, through June 30, 1993.

Subsequently, DHH entered into a new contract with Deloitte and Touche for the Office of Mental Health and Office of Alcohol and Drug Abuse, effective for one year beginning December 1, 1993. DHH has the option to renew the contract for two additional one-year periods. The annual maximum is $2,475,000, and the contract maximum is

$7,425,000 over the potential three-year life of the contract. The base period revenue figure of $25,000,000 will not change throughout the life of the contract.

CONTRACT TERMS

Deloitte and Touche's primary responsibility under the contracts was to analyze revenue recovery opportunities. Deloitte and Touche had the option of whether or not to pursue those areas it identified for revenue enhancement.

The contract terms were originally for a period of eighteen months beginning September of 1989. Deloitte and Touche was allowed to identify revenue enhancement opportunities with implementation of the identified revenue enhancement opportunities beginning no later than the seventh month of the contracts. DHH had the option to renew the contracts through August 31, 1992, and subsequently exercised this option.

In addition to the original contracts, there were separate base period revenue agreements that were negotiated between DHH and Deloitte and Touche that established the amount of base period revenues, the manner by which certain administrative charges would be handled, and the manner by which Medicaid cost report settlements would be handled. DHH did not consider the base period agreements as amendments to the original contracts. These base period revenue agreements were executed until June 12, 1991, almost two years after the original contracts were executed. Once established, the base period revenues remained unchanged throughout the lives of the contracts.

Table 2 on the following page provides an analysis of the amount of the original contracts, dollar amount and number of amendments, and the amount of the base period revenues.

Table 2
DHH Contracts - Contract Provisions

Description	Charity Hospital at New Orleans	Office of Hospitals	Office of Mental Health	Totals (Memorandum Only)
Original Contract Maximum Payable	$1,462,500	$975,000	$2,035,000	$4,472,500
Number of Amendments	6	5	3	14
Dollar Total of Amendments to the Maximums Payable	$15,100,000	$11,200,000	$2,275,000	$28,575,000
Percentage Increase	1,032%	1,149%	112%	639%
Amended Contract Maximum Payable	$16,562,500	$12,175,000	$4,310,000	$33,047,500
Base Period Revenue Amount	$51,063,082	$89,535,728	$57,005,269	$197,604,079

Source: Prepared by Legislative Auditor's staff from contracts, contract amendments, and base period revenue agreements. All percentages are rounded to the nearest whole numbers.

CONTRACT PAYMENTS

Deloitte and Touche was paid $33,047,500, the total of the contract maximums payable as shown in Table 2, over the lives of the contracts. These payments were based on percentage rates established in each of the contracts. The base period revenues were converted to a weekly figure and were then summarized on a cumulative basis. On an ongoing basis, this cumulative base period figure was compared to the cumulative current period revenues to determine the excess of current period revenues over the base period revenues. DHH paid Deloitte and Touche a percentage of any excess based on the contract reimbursement rates and maximums established.

As an example, the base period revenue figure established for Charity Hospital at New Orleans was $51,063,082. Of this amount, $38,202,087 related to Medicaid and this figure was divided by 52 to arrive at a weekly figure of $734,656. If during any one week, current period Medicaid revenues exceeded $734,656, then Deloitte and Touche was paid a percentage of that excess. If during any one week current period Medicaid revenues were less than or equal to $734,656, then Deloitte and Touche was not entitled to any payment. If current period Medicaid revenues were less than $734,656, Deloitte and Touche was not required to offset the decreases against future periods.

SERVICES PROVIDED

DHH and Deloitte and Touche have represented that numerous projects were undertaken during the lives of the contracts. In addition, in a letter to our office dated May 7, 1993, Deloitte and Touche stated that it used the services of 132 Deloitte and Touche professional staff and 167 administrative/clerical/billing staff from temporary services (Kelly and Norrell). Since it is not practical to provide a complete description of all Deloitte and Touche projects in this report, the following represents a brief description of several of the projects conducted under the contracts with Charity Hospital at New Orleans, Office of Hospitals, and Mental Health Facilities and Programs.

Patient Accounting

Deloitte and Touche provided assistance in the patient accounting areas, focusing on the elimination of the unpaid claims backlogs, implementation of management reporting and controls, reorganization of patient accounting resources to focus on high value areas, implementation of ongoing staff training, and re-engineering the process of liquidating claims.

Deloitte and Touche identified that there was a significant backlog in processing Medicaid claims as a result of cash flow weaknesses. The Medicaid claims denial rate was approximately 50 per cent; patient accounting did not have the responsibility for unbilled claims; and the hospitals did not have a process for billing certified registered nurse anesthetist (CRNA) services. Deloitte and Touche provided computer software to aid the hospitals in tracking claims, provided training for the collection department, and developed a means to compile the CRNA billings.

Deloitte and Touche staff and management resources were shifted to areas with the greatest revenue enhancement opportunities, freeing up hospital resources to focus on other areas. Deloitte and Touche augmented staff in the facilities to process billings and reprocess denied claims, and this staff support is continuing under the contract with LHCA at various facilities. Deloitte and Touche redefined job descriptions to reflect the current scope of activities and used productivity reports to track the efforts of individual clerks, teams, and overall patient accounting areas.

Eligibility Determination

Deloitte and Touche analyzed the eligibility screening process at various facilities, proposing a number of changes to increase the number of patients with commercial insurance and/or would be candidates for Medicaid eligibility. It should be noted that DHH had entered into a contract with another firm, Eligibility Services, Incorporated, (ESI) to provide Medicaid eligibility determination services for the facilities during the time period that Deloitte and Touche was providing its services.

Deloitte and Touche developed computer software to track Medicaid applications and to produce various management reports in addition to the reports currently being prepared in the Medical Assistance Program (MAP) units. The MAP units function at the facilities to accept applications and determine Medicaid eligibility for patients entering the facilities.

Deloitte and Touche performed a monthly match of state Medicaid eligible records against outstanding billed, uncollected patient records.

Hospital Information System Assessment

DHH had Deloitte and Touche perform reviews of the EDP systems in place at the various facilities. The reviews included an inventory of the hardware and software at each facility as well as specific analyses of the individual system configurations and uses of the system capabilities. Deloitte and Touche conducted interviews with relevant personnel and performed an analysis of the reports produced at each facility.

A report was prepared for each facility reviewed detailing observations and findings relative to the use of the system as well as suggestions for performance optimization. Deloitte and Touche also aided the department in recruiting a Chief Information Officer (CIO) at Charity Hospital at New Orleans.

Operations Improvements

The revenue enhancement activities provided the basis for expanding the work performed under the contracts to the operations areas. Among the areas addressed by Deloitte and Touche under operations improvements was nursing, to include enhanced clinical competency and improved overall quality of care. Specific services and areas reviewed were inpatient nursing services (medicine, surgical, perioperative, and maternal child), nursing education and consultation, the quality improvement program, and functions relating to centralized staffing, scheduling, and recruitment.

Materials management operations were reviewed for organization, procurement policies and practices, purchase order processing, and system automation. Deloitte and Touche

redefined reporting relationships and identified personnel requirements, positions, and job descriptions to maximize the effectiveness of the materials management areas. Deloitte and Touche recruited and filled certain key management positions, initiated inventory reduction activities, and revised and implemented policies and procedures.

Additional work was performed relative to the information systems areas. The facilities used the services of Shared Medical Systems (SMS) for software applications. Deloitte and Touche worked with the facilities for SMS utilization improvement, supervising the resources assigned to Charity Hospital at New Orleans and working with SMS and other Charity Hospital at New Orleans and DHH resources to conduct system performance evaluations.

In a review of the management reporting area, Deloitte and Touche determined that management had no means to measure the performance of hospital departments, and there was no consistent means of defining, measuring, or capturing data across departments. As a result, Deloitte and Touche provided the facilities with report generating software.

Medicaid Disproportionate Share

DHH requested the assistance of Deloitte and Touche in Medicaid disproportionate share rate (DISPRO) modeling. DISPRO is additional reimbursement to states providing a disproportionate amount of free care to medically indigent individuals. The DISPRO payments are meant to help recoup the additional costs incurred by states in providing this free care to medically indigent individuals. Deloitte and Touche assisted DHH with the calculation of the DISPRO rates and the development of models used to determine the DISPRO rates and payment adjustments for the future. In addition, Deloitte and Touche provided the department with the structural capability to calculate the DISPRO rates and reviewed DISPRO methodologies and interpretations and existing DHH calculations to maximize revenues for state-supported hospitals.

Deloitte and Touche provided user manuals, calculated the DISPRO rates, developed and presented DISPRO education programs, developed and presented DISPRO training for Blue Cross auditors who have the responsibility for auditing DISPRO qualification and rate calculations of all providers participating in the Medicaid program, and developed calculations allowing the mental health facilities to increase the amount of DISPRO payments.

DISPRO received for Charity Hospital at New Orleans and the five Office of Hospitals facilities for which Deloitte and Touche billed is shown in Table 3 on the following page. This table depicts that nearly one-half of all revenues received during the lives of the contracts were the result of the increased DISPRO payments. During the lives of the contracts, the department received approval from the Health Care Financing Administration (HCFA) to change a factor it used in determining the DISPRO reimbursement (called the standard

multiplier), resulting in significant increases in facility revenues. DHH applied for the change in this factor before Deloitte and Touche's involvement with the facilities.

Table 3
Schedule of Medicaid DISPRO Payments

Facility	Total DISPRO Received	Total Facility Revenues	DISPRO Percentage of Revenues
Charity Hospital at New Orleans (12/89 - 08/92)	$237,949,729	$463,681,987	51.32%
Office of Hospitals Facilities (02/90 - 08/92):			
Earl K. Long Medical Center	71,895,906	154,782,391	46.45%
University Medical Center	52,860,583	117,111,564	45.14%
Leonard J. Chabert Medical Center	39,059,619	98,737,401	39.56%
E. A. Conway Medical Center	42,122,469	104,626,346	40.26%
Huey P. Long Medical Center	22,617,939	56,909,406	39.74%
Subtotal, Office of Hospitals Facilities	228,556,516	532,167,108	42.95%
Total of All Facilities	$466,506,245	$995,849,095	46.85%

Source: Prepared by Legislative Auditor's staff from information provided by the DHH institutional reimbursement section, the fiscal section, and from Deloitte and Touche billings.

FINDINGS AND RECOMMENDATIONS

Following are the findings and recommendations of our specified procedures examination of the professional services contracts between the Department of Health and Hospitals and Deloitte and Touche.

CONTRACT MODIFICATIONS

The Department of Health and Hospitals (DHH) did not submit the base period revenue agreements, which appear to be modifications to the original contracts, for Charity Hospital at New Orleans, Office of Mental Health, and Office of Hospitals to the Office of Contractual Review and the Department of Civil Service for review and approval as required by Louisiana law. In addition, DHH did not make any written contract modifications to support apparent changes in the scope of these contracts that would also require the approval of the Office of Contractual Review and the Department of Civil Service. Louisiana Revised Statutes (LSA-R.S.) 39:1484(5) and (6) define contracts to include all contract modifications, and LSA-R.S. 39:1502 provides that no contract is valid nor will the state be bound by the contract until it is approved in writing by the director of the Office of Contractual Review. In addition, Louisiana Administrative Code (LAC) 34:V.121(G)(1) requires that certain contracts be approved by the Department of Civil Service. However, our review of the contracts and the base period revenue agreements disclosed the following:

1. The Request for Proposal and the contracts for the agencies mentioned previously were not specific as to the basis upon which payments would be made. As a result, the base period revenue agreements defined and/or refined contractual provisions and appear to have modified the original contracts. The contracts did provide for base period revenue adjustments. However, DHH and Deloitte and Touche relied on the language in the base period revenue agreements to determine the manner in which payments were to be made to Deloitte and Touche. These agreements appeared to modify the original contracts but were not submitted to and/or approved by the Office of Contractual Review and the Department of Civil Service.

2. Each of the above contracts included provisions that any modifications to the contracts be written and signed to be valid. During the lives of the contracts, DHH requested that Deloitte and Touche engage in operations improvement activities (Chapter 2, pages 6-11) in addition to the revenue enhancement activities being performed. As the contracts progressed, Deloitte and Touche's time spent with the operations activities increased. However, no written

contract modifications were made to support apparent changes in the scope of the contracts, which would have given the Office of Contractual Review and the Department of Civil Service an opportunity to review them.

As a result of the conditions mentioned previously, $33,047,500 was paid on the contracts, and based on these base period revenue agreements, without the approvals cited in the statutes mentioned previously.

DHH should ensure that any modifications to future contracts are submitted to the Office of Contractual Review and the Department of Civil Service for review and approval as required by Louisiana law.

Department of Health and Hospitals Response

The Secretary of DHH did not concur with the finding and recommendation and further stated that the contract itself defines, at a significant level of detail, the contractor reimbursement methods and recognizes the mutual agreement to be developed concerning fiscal year 1989 baseline amounts. The cited letter is not a contract amendment, it merely implements that contract provision. Furthermore, DHH was advised by the Division of Administration (DOA) at the time that no amendment was required. All 19 actual contract amendments were reviewed and approved by DOA, as required (Attachment I).

Additional Comments by the Auditor

In a letter dated May 3, 1993, the General Counsel, Office of General Counsel, Division of Administration, stated that "the baseline letters executed between the Department and Deloitte and Touche appear to be the basis for calculating the amount of compensation which Deloitte and Touche was to receive under the terms and conditions of the contract. This being the case these letters seem to modify the contract, and under the provisions of R.S. 39:1484 (5) & (6) and R.S. 39:1502, such modifications to contracts are required to be submitted to the Division of Administration, Office of Contractual Review for approval."

In addition, in a letter dated January 4, 1993, the former secretary of DHH stated that the success of revenue enhancements provided the impetus to expand into operations areas. In our opinion, this indicates management made a conscious decision to expand beyond the original scope of the contracts. Also, operations activities may not be measurable based on revenues generated since they may result in outcomes different from those of revenue generating enhancements. Therefore, these activities may fall outside the scope of the original contracts. As a result, it is our position that the preponderance of evidence suggests that these activities constituted contract modifications.

RETENTION OF RECORDS

The Department of Health and Hospitals (DHH) did not retain certain documentation needed to support calculations of the base period revenues as required by Louisiana law. Louisiana Revised Statute (LSA-R.S.) 24:514(C) provides that no officer will destroy public records belonging to his office prior to examination by the Legislative Auditor. In addition, LSA-R.S. 44:36 requires that records be preserved for the time specified in schedules developed and approved by the state archivist and director of the division of archives. Relating to the contracts and calculations of the base period revenues, this schedule requires DHH to retain these records for a period of six years.

During our examination of DHH's contracts with Deloitte and Touche, we attempted to determine the method by which the base period revenues had been established since they were the basis for subsequent payments. To accomplish this objective, we sought to verify the computation of the base period revenue amounts. However, the department did not maintain documentation sufficient for us to make this determination resulting in noncompliance with Louisiana law.

DHH should take the necessary steps to ensure that all public records are retained in accordance with the time periods established by Louisiana law.

Department of Health and Hospitals Response

The Secretary of DHH did not concur with the finding and recommendation and further stated that this information was not requested by the auditor during the financial audit of the periods in question. The record retention period expired before the auditor provided any written notice of the current review. Furthermore, the amounts cited would have had no impact on the actual contractor reimbursement (Attachment I).

Additional Comments by the Auditor

Our review began during our financial and compliance audit of DHH for fiscal year ended June 30, 1992. Letters from state archives dated July 14 and July 18, 1994, indicate that documentation supporting the underlying information in contracts is to be kept for a period of three years after the termination of the contracts. In addition, we obtained copies of retention schedules from state archives, signed by representatives of both state archives and the department, defining the record retention period to be six years. Therefore, the department should maintain the information through August 31, 1995.

CONTRACT MONITORING

The Department of Health and Hospitals (DHH) has not established adequate controls to ensure compliance with its written contract monitoring plan. Louisiana Revised Statute (LSA-R.S.) 39:1497(4) requires that agencies certify to the Office of Contractual Review that they have developed and intend to implement a written plan for contract monitoring. DHH submitted this certification and developed a written plan that established the individuals functioning as contract monitors and how the contracts were to be monitored. However, the department could supply no evidence that the plan had been applied to the Deloitte and Touche contracts, specifically, the billings and subsequent payments totaling $33,047,500, as disclosed by the following:

1. The contract monitors for the Office of Mental Health and Office of Hospitals contracts both stated they reviewed the billings only for reasonableness to determine if the contract maximums had been reached. Our examination disclosed that payments to Deloitte and Touche on the Mental Health contract exceeded the contract maximum by $25,000. Upon notification of this overpayment, the department immediately requested and received reimbursement from Deloitte and Touche.

2. The contract monitor for the Charity Hospital at New Orleans contract stated that although interim billings were reviewed in this manner, a more complete review of the final billing was conducted. We were provided with no documentation to support this statement.

Failure to establish adequate internal controls relating to contract monitoring diminishes the assurance that the required work was performed in accordance with the terms of the contract and/or that the billings were accurate.

DHH should take the necessary steps to ensure that all contracts are adequately monitored.

Department of Health and Hospitals Response

The Secretary of DHH did not concur with the finding and recommendation and further stated that the contract was monitored at an extensive level of detail, including voluminous reporting from the contractor. As monthly billings were on a cumulative basis for each contract year, had any items been inadvertently overlooked, they would have been caught in subsequent reviews (*Attachment I*).

Additional Comments by the Auditor

The method of billing may not have allowed the discovery of interim inadvertent errors during the final review as evidenced by the $25,000 overpayment. This overpayment was discovered by the auditor during the review of the contracts, 9 1/2 months after the date the contracts expired and six months after the final payment to Deloitte and Touche was made by the department. Because of the significant amounts that were paid to Deloitte and Touche, we believe that the department should have applied a greater level of scrutiny than that applied to other departmental transactions.

METHOD OF PAYMENT FOR SERVICES

The Department of Health and Hospitals (DHH) did not ensure that the method of payment for the services performed under the contracts accurately reflects the nature of those services. Prudent business practices would dictate that services provided that are not measurable in terms of revenues be paid on a basis that more accurately reflects the nature of the work performed.

The contracts awarded to Deloitte and Touche were described as revenue enhancement contracts, and Deloitte and Touche's earnings were contingent upon its ability to generate revenues above an established base period revenue figure. The term "revenue enhancement" was not fully defined in the RFP or the contract. In addition, we noted that as the contracts progressed over their lives, the success of the revenue enhancement activities provided the basis for expanding the work performed under the contracts to areas of operations improvements. However, the department continued to reimburse Deloitte and Touche based on revenues generated above the base period revenue amounts. It is questionable that payment for operations improvements as a percentage of revenue is appropriate.

DHH should ensure that the method of payment is directly related to the types of services performed.

Department of Health and Hospitals Response

The Secretary of DHH did not concur with the finding and recommendation and further stated that the contract is purposely broadly framed. The RFP and detailed contract proposal are fully incorporated into the contract. The realization of significant revenue enhancements required extensive operations improvements be performed by Deloitte & Touche, which was appropriate and covered by the contract. And it worked (Attachment I).

Additional Comments by the Auditor

In a letter dated January 4, 1993, the former secretary of DHH stated that the success of revenue enhancements provided the impetus to expand into operations areas. In our opinion, this indicates management made a conscious decision to expand beyond the original scope. We do not question the work performed by the contractor. However, the operations initiatives that were undertaken expanded the work performed under the contracts. While the results of operations initiatives may have had an impact on the revenue generation process, not all of them may have been related to specific revenues, directly impacting the revenue results, and, therefore, were not quantifiable in terms of revenues generated. We question whether payment for these services based on a percentage of revenues was the most appropriate method.

ELIGIBILITY SERVICES, INCORPORATED, BILLINGS

The Department of Health and Hospitals (DHH) and the Louisiana Health Care Authority (LHCA) appear to have allowed the inclusion of $44,558,435 in revenues generated by the activities of a separate contractor in the revenues claimed and billed by Deloitte and Touche. Prudent business practices would dictate that the department and the authority not allow one contractor to participate in the revenues generated by another contractor in instances where the method of reimbursement for both contracts is essentially the same.

Eligibility Services, Incorporated, (ESI) provided assistance to the medical centers by performing tasks relating to certifying patients as Medicaid eligible. ESI was reimbursed based on a percentage of "eligible receipts" (revenues from patient claims for which the medical facilities were eligible to receive Medicaid reimbursement). ESI's reimbursement rate ranged from 20 to 22 per cent or $13,415,455, based on $44,558,435 in eligible receipts.

A review of the Deloitte and Touche billings indicated that the ESI revenues were not deducted from the revenues that Deloitte and Touche billed for its percentage reimbursement. Management and Deloitte and Touche explained that the work of ESI did not actually generate revenues. Once ESI completed its work, the patient's account still had to be billed, and Deloitte and Touche received credit for these billings. Management stated that claims worked by ESI would not have been paid had Deloitte and Touche not provided revenue enhancement and operations improvement consulting services. The department and the authority made a conscious decision to allow both ESI and Deloitte and Touche to participate in the ESI generated revenues at their respective reimbursement percentages (total rate of 35 per cent).

The department and the authority should not have allowed payment to ESI on a revenue basis if that work did not result in increased revenues. However, certifying a patient as Medicaid

eligible would entitle the facilities to payment for that patient's care. If ESI's work resulted in increased revenue, then Deloitte and Touche should not have been allowed to benefit from that work. By allowing Deloitte and Touche to participate in ESI generated revenues, the department and the authority may have incurred an additional cost of approximately $6,683,765 in contractual payments.

DHH and LHCA should not allow two contractors to be paid based on the same revenues in the future.

Department of Health and Hospitals and Louisiana Health Care Authority's Response

The Secretary of DHH and the Chief Executive Officer of LHCA did not concur with the finding and recommendation and further stated that ESI and Deloitte and Touche are paid for totally different services required by the state to receive payment for Medicaid claims, both sets of service being essential to overall revenue maximization. The firms are not paid for the same services, and the state benefits more than twice over the combined fee paid in those instances where both firms are involved. Finally, the auditor's computations reported in this area are grossly in error (Attachment I).

Additional Comments by the Auditor

While we recognize that the services listed in the DHH and LHCA response required to generate revenues are necessary, we question whether DHH and LHCA should be engaging the services of two contractors for the performance of distinct functions and paying them fees based on the same revenues. Though Deloitte and Touche exceeded the contract maximum, it is our position that DHH and LHCA could not have known the outcome at the time the methods of payment were being negotiated, and adjustments for the revenues billed by the contractors should have been required.

In their response, DHH and LHCA have stated that Medicaid eligibility will not be established for the patients served by ESI without the services of ESI, and Medicaid will not be paid without the assistance of Deloitte and Touche once eligibility has been established for the ESI patients. DHH and LHCA should address these issues to determine whether the continued dependence on two contractors for the performance of these tasks at a combined cost of as much as 35 per cent of revenues is absolutely necessary, or whether these functions could be assumed and maintained by DHH and LHCA staff, specifically since the state operates the Medicaid program and DHH and LHCA facilities.

In determining the amount of revenues billed by ESI, we agree that total revenues should be reduced from $44,558,435 to $25,465,836 before determining the amount earned by Deloitte and Touche. The reimbursement rate we have used for the revenues attributable to the DHH

contracts is 15 per cent. In addition, the reimbursement share of 15 per cent should be used for the LHCA contract since the inclusion of revenues reported by ESI affects the maximum amount of revenues generated by Deloitte and Touche, where Deloitte and Touche is earning 15 per cent on revenues. As a result, DHH and LHCA have incurred an additional potential cost of approximately $3,819,875, instead of $6,683,765 as previously reported in our finding on page 19.

ADJUSTMENTS TO BASE PERIOD REVENUES

The Department of Health and Hospitals (DHH) did not adjust the base period revenues for the contracts with Charity Hospital at New Orleans, the Office of Mental Health, and the Office of Hospitals for any revenues that were not the result of Deloitte and Touche activities. Adequate internal controls would provide for a distinction between increased revenues attributable to the work of a contractor and those increases attributable to the department or other external sources, and good business practices would dictate that management assure this distinction is made when compensating the contractor.

During the lives of the department's contracts with Deloitte and Touche, the base period revenues were based on revenues for the fiscal year ended June 30, 1989, the year immediately preceding the inception of the contracts. They were the basis upon which payments to Deloitte and Touche were to be made. However, no adjustments to these revenues were made for (1) non-Deloitte and Touche generated increases, such as inflation adjustments for hospital Medicaid reimbursement rates; (2) the impact of the department's initial request to increase the standard multiplier from DISPRO 2 to DISPRO 3 (Table 3 depicts that DISPRO revenues accounted for approximately one-half of all revenues at the medical centers during the contract period); or (3) the impact of demographic changes or changes in federal regulations that would result in increased Medicare/Medicaid funds, et cetera. Failure to adjust base period revenues for non-contractor activities could have resulted in excess compensation to the contractor.

DHH should ensure that future Requests for Proposals and contracts of this nature provide for adjustments so that the contractor will be compensated only for those revenues directly attributable to its work.

Department of Health and Hospitals Response

The Secretary of DHH did not concur with the finding and recommendation and further stated that the finding is untrue. Where appropriate and mutually agreed, a number of adjustments to base period revenues were in fact made to appropriately measure the impact of Deloitte & Touche services. Furthermore, the findings have no impact on amounts actually paid to the contractor (Attachment I).

Additional Comments by the Auditor

The adjustments referred to in management's response were made before execution of the final base period agreements. Once the agreements were signed, the base period revenues remained unchanged throughout the lives of the contracts.

In a letter dated March 9, 1994, the Secretary of DHH indicated that the change in the Medicaid disproportionate share multiplier had been proposed by a DHH rule change effective in November 1990, before the time that Deloitte and Touche became involved in the Medicaid program. DHH made no provisions or adjustments for this change in the base period revenues or the revenues for which Deloitte and Touche was paid.

In regard to management's contention that our findings have no impact on amounts actually paid to the contractor, it is our position that DHH could not have known that the contract maximums would have been met with or without DISPRO at the time the contracts, base period agreements, and other amendments were negotiated. Once the base period agreements were negotiated, DHH allowed Deloitte and Touche credit for 100 per cent of the increases in revenues, regardless of their sources.

Chapter Three: LHCA Contract

REQUEST FOR PROPOSALS

In January of 1992, the Louisiana Health Care Authority (LHCA) was created, and the Department of Health and Hospitals (DHH) Office of Hospitals acute care facilities were transferred to the authority. LHCA management decided to continue the revenue enhancement and operations improvement activities originated under DHH, as discussed in Chapter 2. The authority issued a new Request for Proposal (RFP) for these two activities in July of 1992.

The objective of the RFP was to continue current efforts relating to revenue enhancement activities and to provide operations improvement initiatives at the LHCA facilities. LHCA sought the following:

- continue enhancement efforts already in progress at each hospital;
- assure a reasonable basis to plan revenue and costs;
- assure investor confidence in the revenue stream supporting the bonds planned by the authority;
- assure actual revenue targets are met to support operations and/or bond fundings; and
- procure such services at *no additional operating costs* to the authority or any of its facilities.

The contractor was to provide revenue enhancement and operations improvement initiatives to include maintenance of effort and development and implementation of new initiatives. Maintenance of effort required that the successful proposer maintain the level of effort/work being performed at the facilities under the DHH contracts. The successful proposer was required to provide staff to train and/or augment authority staff in revenue enhancement and operations improvement activities on an interim basis (defined as a six-month period) until LHCA had sufficient staff available to assume the responsibilities.

The RFP required numerous operations improvements activities. These activities included, but were not limited to, the following:

- conduct operations review/improvement projects at the LHCA facilities;

- consult in the development and implementation of automated systems enhancements on behalf of the authority and each of its facilities;
- transfer successfully implemented operations improvements to additional authority facilities;
- provide other additional support as can be supported by additional cost reduction and/or revenue enhancement.

CONTRACT AWARDED

Deloitte and Touche was the successful proposer of three vendors who responded to the RFP and was awarded a single contract for all the LHCA facilities. As with the DHH contracts, Deloitte and Touche was to be paid for current period revenues in excess of the base period revenues at percentage rates specified in the contract. The base period revenues were established at $70,000,000, which represents the amount the authority estimated they would collect, exclusive of DISPRO, without the assistance of a contractor. Total payments through June 30, 1993, under the LHCA contract were $15,865,259.

CONTRACT TERMS

Deloitte and Touche's responsibilities under the contract are consistent with the requirements of the RFP. Deloitte and Touche is required to analyze collection opportunities for each hospital and to provide operations improvement assistance to each hospital pursuant with the proposal. In addition, the contract states that Deloitte and Touche *may* provide revenue enhancement assistance for each hospital for areas determined by Deloitte and Touche to have significant collection potential for both Deloitte and Touche and LHCA.

The contract term was originally for a period of one year beginning October 1, 1992. LHCA had the option to renew the contract for two additional one-year periods and has exercised the option through the third year. The annual maximum is $18,350,000, and the contract maximum is $55,050,000 over the potential three-year life of the contract.

The base period revenue agreement, which was negotiated separately from the contract, establishes the basis for payments to Deloitte and Touche and describes the method by which revenues will be calculated before payment. The agreement for the first contract year was dated July 28, 1993, almost ten months after the effective date of the contract and after

$15,865,259 in payments were made. The base period revenue amount of $70,000,000 will not change throughout the life of the contract.

Table 4 provides an analysis of contractor reimbursement rates and the dollar amounts based upon certain levels of revenues. The revenue figures shown in Table 4 are exclusive of DISPRO since the authority has removed DISPRO from the revenues that Deloitte and Touche is eligible to receive.

Table 4
LHCA Contract - Contract Provisions
Reimbursement Per Contract Year

Minimum Revenues Generated		Maximum Revenues Generated	Rate of Reimbursement	Maximum Dollar Reimbursement
$0	-	$70,000,000	0	$0
70,000,001	-	102,500,000	0.150	4,875,000
102,500,001	-	135,000,000	0.125	4,062,500
135,000,001	-	167,500,000	0.075	2,437,500
167,500,001	-	200,000,000	0.030	975,000
200,000,001	-	240,000,000	0.150	6,000,000
Total			0.095	$18,350,000

Source: Prepared by Legislative Auditor's staff from the original LHCA contract with Deloitte and Touche.

CONTRACT PAYMENTS

Through June 30, 1993, Deloitte and Touche was paid $15,865,259, and was potentially eligible for an additional $2,484,741 to reach the contract maximum of $18,350,000 per contract year.

As shown in Table 4, the basic method of payment to Deloitte and Touche under the LHCA contract remains unchanged from the DHH contracts. A base period revenue figure of $70,000,000 was established for fiscal 1992. Deloitte and Touche is paid for revenues in excess of that base amount up to $240,000,000. If revenues exceed $240,000,000, Deloitte

and Touche will receive no additional reimbursement. DISPRO funds are removed from the revenues for which Deloitte and Touche may be paid.

LHCA pays no money to Deloitte and Touche until cumulative revenues for a contract year (October 1 through September 30) exceed $70,000,000. In addition, 25 per cent of payments to Deloitte and Touche are withheld until cumulative revenues for a contract year equal or exceed $200,000,000. At that time, the amount retained is due to Deloitte and Touche.

SERVICES PROVIDED

Numerous services, both revenue enhancement and operations activities, have been provided by Deloitte and Touche since the inception of the contract with LHCA. In a draft plan to the authority, Deloitte and Touche indicated that from October 1, 1992, through September 30, 1993, the first contract period, 125,161 hours were spent performing all tasks. Of these hours, 61,547, or 49 per cent, were spent on operations improvements. Since it is not practical to provide a complete description of all Deloitte and Touche projects in this report, the following represents a brief description of several of the revenue enhancement and operations activities. This information was based on Deloitte and Touche status reports submitted to LHCA management.

ESI Invoice Reconciliation

Eligibility Services, Incorporated, (ESI) is a contractor providing services to the authority by assisting facilities in certifying patients as Medicaid eligible. Deloitte and Touche has provided assistance to the authority by reconciling the ESI billings. These services have been described as revenue enhancement activities.

Deloitte and Touche worked with the Medical Center of Louisiana at New Orleans (Charity Hospital at New Orleans) and Leonard J. Chabert Medical Center to verify the ESI billings, reviewing the invoices and correcting inaccurate billings. The ESI invoices were reviewed to assure that names, dates of service, patient account numbers, dates of eligibility, and Medicaid numbers were accurate. The invoices were then adjusted for any discrepancies between hospital information and the ESI invoices.

The claims for which ESI was paid were then updated into a database that tracks claims until final payment is received by the hospital. Deloitte and Touche then identified paid and uncollectible claims.

At Charity Hospital at New Orleans, Deloitte and Touche worked with the Medical Assistance Program (MAP) unit and billing office to review ESI invoices and conducted research on a sample of outstanding ESI claims.

Medicaid Inpatient Billing

Services in Medicaid inpatient billing have been provided both under the DHH and LHCA contracts. These services are described as revenue enhancement activities.

Deloitte and Touche has provided assistance with the implementation of a database that tracks denied claims and has assisted with the resolution of issues required for payment of all inpatient Medicaid claims. Some of these issues relate to claims requiring medical records, eligibility, consent forms, and other documentation. Consent forms are documents signed by patients required for certain procedures before Medicaid will pay the claims. For example, if a tubal ligation is to be covered, the facility must submit a signed consent for sterilization to be paid for the procedure.

Deloitte and Touche has assisted the facilities in submitting all corrected Medicaid claims for payment to UNISYS, the "fiscal intermediary" through which all claims are processed and paid to the facilities. Assistance in refining the quality control process to eliminate multiple submissions of the same claim has also been provided. Deloitte and Touche has worked with UNISYS and the DHH Bureau of Health Services Financing to resolve issues in the submission process.

Other Medicaid billing activities included (1) worked with Shared Medical System (SMS) and the Hospital Information System (HIS) to optimize the use of the SMS; (2) worked with hospital departments to ensure receipt of information and documentation in a timely manner; (3) involved other hospital departments or state agencies in claims resolution; (4) analyzed and implemented ways to reduce paper flows and information requirements; and (5) analyzed procedures to maximize the billing of claims electronically and increase the use of automation in the billing process.

Certified Registered Nurse Anesthetist (CRNA) Services Billing

Deloitte and Touche has provided revenue enhancement assistance for CRNA billings services at Charity Hospital at New Orleans by implementing a revised process to improve CRNA billing, resolving submission issues with the fiscal intermediary, working to ensure timely claims submission, and resolving claims involving external departments and/or agencies. The issues in the submission process with the fiscal intermediary included items such as those claims that are incorrectly denied or claims that are pending beyond normal time frames.

Medicaid Match

Medicaid match involves comparison of outstanding patient claims not identified as Medicaid eligible to database files containing Medicaid eligible information in the hopes of identifying these claims as Medicaid eligible. Deloitte and Touche has provided this assistance with the use of a computer program to identify claims not billed and to recover claims classified as bad debts. These matches include submission of first time claims and tracking claims until they are either paid or determined to be uncollectible. The activities include the utilization of an enhanced match process to capture patients being certified as Medicaid eligible substantially later than patient stays, allowing the facilities to retroactively bill for services provided before eligibility certification. This work has continued from the DHH contracts.

Nursing Improvements

Among the operations improvement activities performed by Deloitte and Touche is nursing improvement assistance at Charity Hospital at New Orleans. These improvements have included restructuring the centralized staffing process by (1) implementing standardized four-week schedule forms for manual and automated staff scheduling; (2) identifying pertinent management reporting data elements and methods for collecting, compiling, developing trends, and reporting the data; (3) convening a task force to identify opportunities to enhance unit and staffing office operations; and (4) continuing to refine work steps and work assignments for professional and non-professional staff responsible for staffing decision-making.

A marketing plan was designed for recruiting additional in-house pool nurses. Deloitte and Touche developed and assigned recruitment budgets for each nursing unit, developed four separate marketing strategies for both the short and long term, and reviewed the draft of the marketing strategies with the nursing leadership group.

Deloitte and Touche has provided efforts in nursing organization by redesigning the organizational structure and staff roles to facilitate appropriate and adequate support, through continuing to recruit for a newly created management analyst position in the nursing business office, re-engineering the role of nursing office staffing clerks, and reviewing and restructuring of nurse educators' roles and responsibilities.

Miscellaneous Operations Improvements

Deloitte and Touche has been providing the authority with operations improvement initiatives relating to the automated systems employed at the various LHCA facilities. At Charity Hospital at New Orleans, this includes evaluation of the patient accounting system, selection of a system for the radiology department, selection of a system for outpatient scheduling, and continued SMS system support. At the authority level, Deloitte and Touche has participated in strategic planning and technical assistance committees.

Deloitte and Touche is currently providing extensive assistance to LHCA relating to the general ledger system. The authority is seeking to develop a system whereby all facilities financial statements will "roll up" into one set of financial statements for the authority as a whole. Deloitte and Touche is providing assistance with extensive analysis and recommendations for the general ledger application included in the SMS.

Deloitte and Touche also (1) performed diagnostic assessments of the ambulatory care operations at each LHCA facility, (2) facilitated the hiring of a Deloitte and Touche staff person at Charity Hospital at New Orleans as manager of plant operations, (3) reviewed medical records operations at LHCA facilities, (4) analyzed the impact of the potential acquisition of the Catahoula Hospital at Jonesville, (5) analyzed the impact of re-establishing full services at W. O. Moss Medical Center in Lake Charles, (6) reviewed planned bed acquisitions at Lallie Kemp Medical Center in Independence, and (7) prepared analyses relating to development of managed care systems.

Other activities are performed by Deloitte and Touche as requested by LHCA management.

FINDINGS AND RECOMMENDATIONS

Following are the findings and recommendations of our specified procedures examination of the professional service contract between the Louisiana Health Care Authority and Deloitte and Touche.

CONTRACT AND BASE PERIOD AGREEMENT APPROVALS

The Louisiana Health Care Authority (LHCA) did not submit timely the contract and the base period agreement, which establishes the basis for contract payments and appears to be a contract modification, to the Office of Contractual Review for review and approval as required by Louisiana law. In addition, LHCA did not receive approval from the Office of Contractual Review and the Department of Civil Service for the base period agreement as required by Louisiana law. Louisiana Revised Statutes (LSA-R.S.) 39:1484(5) and (6) define contracts to include all contract modifications, such as the base period agreement, and LSA-R.S. 39:1502 provides that no contract is valid nor will the state be bound by the contract until it is approved in writing by the director of the Office of Contractual Review. In addition, Louisiana Administrative Code (LAC) 34:V.121 (A) requires that contracts are to be submitted before their effective dates to the Office of Contractual Review, and no contract will be approved which has been submitted 60 days after

their effective dates unless written justification is submitted with the contract. Finally, LAC 34:V.121(G)(1) requires that all contracts be approved by the Department of Civil Service. Our review of the contract and the base period agreement disclosed the following:

1. The LHCA contract with Deloitte and Touche became effective October 1, 1992, and was signed by the department and Deloitte and Touche on January 15, 1993, 106 days after its effective date. Records on file with the Office of Contractual Review show that the contract was received on February 10, 1993, 132 days after the contract's effective date. However, no written justification for the late submission was submitted and included in the Office of Contractual Review's files.

2. The base period agreement, which establishes the basis for contract payments between LHCA and Deloitte and Touche and appears to be a modification, was submitted to the Office of Contractual Review on July 29, 1993, 301 days after the contract's effective date. The authority had already paid Deloitte and Touche $15,865,259 through June 30, 1993. No written justification for the late submission was submitted and included in the Office of Contractual Review's files. Subsequently, the Office of Contractual Review returned the agreement to the authority on August 11, 1993, without approval, due to the complex nature of the agreement, and recommended that the authority consult with the Attorney General and the Legislative Auditor to determine if the baseline was consistent with the Request for Proposal and the contract. The authority did not disclose this fact to us during our examination, and as of June 3, 1994, the authority still has not received approval from the Office of Contractual Review for the base period agreement. In addition, the base period agreement was never submitted to the Department of Civil Service for review and approval.

As a result of the conditions mentioned previously, $15,865,259 was paid on the contracts, and based on the base period agreement, without the approvals and justifications cited in the statutes previously mentioned.

LHCA should ensure that any future contracts and modifications are submitted timely to the Office of Contractual Review for review and approval as required by Louisiana law or should provide written justification for late submissions. In addition, LHCA should have the base period agreement approved by the Office of Contractual Review and the Department of Civil Service before making any further payments under the contract.

Louisiana Health Care Authority's Response

The Chief Executive Officer of LHCA did not concur with the finding and recommendation and further stated that written justification was in fact provided. As the Division of Administration (DOA) approved the contract without further justification, none was provided. On the baseline issue, contractor reimbursement methods are defined at a detailed level in the contract. The letter is not a contract amendment, as concurred with by DOA at the time (Attachment I).

Additional Comments by the Auditor

The written justification referred to in management's response has not been provided to the Office of Contractual Review as required by LAC 34:V.121(A) for the original contract that was submitted for approval.

We were first made aware of the base period agreement for the LHCA contract on May 4, 1993, and met with LHCA management to discuss the agreement on May 7, 1993. We received a copy of the executed base period agreement August 25, 1993, but we were not made aware that the Office of Contractual Review suggested that LHCA seek advice from the Attorney General's Office and the Office of Legislative Auditor in determining if the baseline agreed to was consistent with the RFP and whether payments to be received by the contractor were reasonable in light of the work to be performed under the contract.

The base period agreement specifically states that if the formula applied to fiscal 1992 revenues does not result in $200,000,000 in revenues, then the fees bid by Deloitte and Touche will be renegotiated. This formula is then applied to revenues in subsequent years to determine the reimbursement to Deloitte and Touche. As such, it is our position that the base period agreement appears to be a modification of the original contract that should have been submitted to the Office of Contractual Review and the Department of Civil Service.

CONTRACT MONITORING

The Louisiana Health Care Authority (LHCA) has not established adequate controls to ensure compliance with a written contract monitoring plan. Louisiana Revised Statute (LSA-R.S.) 39:1497(4) requires that contracting agencies certify to the Office of Contractual Review that they intend to develop and implement a written plan for contract monitoring. Prudent business practices would dictate that contracting agencies develop and implement a written monitoring plan to include a billing approval process.

At the time the LHCA contract with Deloitte and Touche was submitted to the Office of Contractual Review, the authority certified that it had developed and intended to implement a

written plan for contract monitoring. However, in a letter dated February 25, 1994, the LHCA Chief Financial Officer/Undersecretary stated that there are no specific written procedures at the present time which document what has been done to verify that the required work has been performed or which document that the billings submitted by the contractor were accurate. As a result, the authority has paid Deloitte and Touche $15,865,259 without a written contract monitoring plan.

Failure to establish adequate internal controls relating to contract monitoring diminishes the assurance that the required work was performed in accordance with the terms of the contract and/or that the billings were accurate.

LHCA should immediately take the necessary steps to develop and implement a written plan for contract monitoring.

Louisiana Health Care Authority's Response

The Chief Executive Officer of LHCA did not concur with the finding and recommendation and further stated that the contract itself defines extensive monitoring requirements. The contract was monitored at an extensive level of detail, supported by voluminous regular reporting from the contractor, both monthly and quarterly (Attachment I).

Additional Comments by the Auditor

Written procedures for a formal invoice audit and review methodology were not developed and implemented until March 1994, at least 8 months beyond the period under review and 1 1/2 years after the inception of the contract. For the fiscal year ended June 30, 1993, LHCA paid Deloitte and Touche $15,865,259 without establishing a written monitoring plan and with no formal audit and review methodology in place.

BASE PERIOD REVENUES

The base period revenues established for the Louisiana Health Care Authority's (LHCA) contract with Deloitte and Touche are inordinately low. Prudent business practices would dictate that the base period revenues be set at a comparable figure such as the previous year's revenue while considering previous efforts of the contractor. The base period revenues for the contract between Deloitte and Touche and the authority were established at $70,000,000. LHCA management stated that $70,000,000 represents the amount the authority estimates the nine facilities covered by the contract would be able to generate exclusive of disproportionate share (DISPRO) and without the assistance of an outside contractor. LHCA was not able to provide us with documentation of how the $70,000,000 was calculated.

To determine if the $70,000,000 was reasonable, we performed two analyses. First, we removed the effects of DISPRO from the baseline figure for fiscal year 1989, the base period year for the original DHH contracts. The result was a base period revenue figure, exclusive of DISPRO, of $98,307,599. The $70,000,000 selected for the LHCA contract baseline is $28,307,599 below the amount the facilities were able to earn three years previously with no contractor assistance. This analysis would indicate that the $70,000,000 selected as the baseline revenue figure was inordinately low.

Our second analysis estimated the amount of revenue, exclusive of DISPRO, that was actually earned in fiscal year 1992, the most recently completed fiscal year at the time the contract was let. The result was a base period revenue figure, exclusive of DISPRO, of $180,466,990. Although this amount was realized with the assistance of the contractor, to set the baseline at less than this figure suggests that the enhancements implemented by the contractor were not permanent; the authority is unable or unwilling to assume and/or implement the enhancements with its own personnel, thereby creating the necessity for a continuing relationship with a contractor to continue earning revenue at the 1992 level; or the baseline was set at an inordinately low figure.

We estimate that a reasonable baseline would fall between $98,307,599 and $180,466,990. By selecting $70,000,000, we estimate that Deloitte and Touche earns between $4,246,140 and $10,095,874 annually (based on Deloitte and Touche's current rate of reimbursement) from revenue that would have been generated by the authority even without the assistance of a contractor. Over the three-year life of the contract, these earnings could be as much as $12,738,420 to $30,287,622.

LHCA should consider adjusting the base period revenue figure for the current contract for any extensions of the contract term to an amount that reflects more accurately the ability of the facilities to generate revenues independent of a third party contractor.

Louisiana Health Care Authority's Response

The Chief Executive Officer of LHCA did not concur with the finding and recommendation and further stated that the auditor's computations are incorrect. Furthermore, using a different baseline figure would not have affected contractor reimbursements (Attachment I).

Additional Comments by the Auditor

In its response, LHCA management stated that the $70,000,000 baseline was an approximation of the level of fiscal 1989 net collections to determine the collections before the Deloitte and Touche contracts with DHH and was determined in a one hour work session. Management also stated that the use of the $70,000,000 base period revenue figure had no impact on the procurement or the amount of compensation paid to the contractor, and furthermore, that no

workpapers were developed nor retained. It is our position that the lack of documentation supporting the base period revenues is a critical issue, especially since the base period revenues were established at $70,000,000 and were less than the 1989 base period revenues established for the original DHH/Deloitte and Touche contracts.

It is also our position that the use of a baseline for fiscal 1989 revenues, four years before the LHCA contract with Deloitte and Touche, is inordinately low, as evidenced by our computation. Setting the baseline at the 1989 level would suggest that LHCA did not consider the impact of the revenue enhancements that Deloitte and Touche initiated before the LHCA contract. If the established baseline of $70,000,000 has no impact on procurement or contractor reimbursement, then the contract is not a true revenue enhancement contract contingent upon the contractor's performance, but it is a fixed price contract in which LHCA has guaranteed a specific level of earnings to the contractor. Since the baseline was set at $70,000,000, it appears this amount was certain to be achieved and exceeded, essentially guaranteeing that the contractor would receive some payment. In addition, if an established baseline has no impact on procurement or contractor reimbursement, then the effective rate of reimbursement may be significantly higher than the average 9.5 per cent established in the contract. Therefore, we question why a baseline was established and used.

METHOD OF PAYMENT FOR SERVICES

The Louisiana Health Care Authority (LHCA) did not ensure that the method of payment for the services performed under the contract accurately reflects the nature of those services. Prudent business practices would dictate that services provided that are not measurable in terms of revenues be paid on a basis that accurately reflects the nature of the work performed.

The contract awarded to Deloitte and Touche was described as "revenue enhancement and operations improvement," and Deloitte and Touche's earnings were contingent upon its ability to generate revenues above an established base period revenue figure of $70,000,000. The terms "revenue enhancement" or "operations improvement" were not fully defined in the RFP or the contract. In addition, our review of the draft work plan submitted by Deloitte and Touche to LHCA summarizing the work performed during the first contract period indicated that 61,547 hours or 49 per cent were spent on operations improvements. Finally, a review of some of the tasks characterized as revenue enhancement may actually be operations improvement activities (Chapter 3, pages 26-29). ESI invoice reconciliation, for example, is classified in Deloitte and Touche status reports as revenue enhancement, but it appears to be more of an operations improvement activity. It is questionable that payment for operations improvements as a percentage of revenue is appropriate.

LHCA should ensure that the method of payment is directly related to the types of services performed.

Louisiana Health Care Authority's Response

The Chief Executive Officer of LHCA did not concur with the finding and recommendation and further stated that the contract is purposely broadly framed. Specific tasks and activities were identified in great detail in the RFP and contractor proposal which are fully incorporated into the contract by reference (Attachment I).

Additional Comments by the Auditor

We do not question the work performed by the contractor. While the results of operations initiatives may have had an impact on the revenue generation process, not all of them may have been related to specific revenues, directly impacting the revenue results, and, therefore, were not quantifiable in terms of revenues generated. We question whether payment for these services based on a percentage of revenues was the most appropriate method.

CONTRACT MODIFICATIONS

The Louisiana Health Care Authority (LHCA) negotiated a base period agreement, which appears to be a contract modification, that is inconsistent with the terms and conditions of the Request for Proposal (RFP) and the contract. Prudent business practices would dictate that any modifications to a contract be consistent with the RFP and the contract or alternatively, issue another RFP. The RFP specified that contractor proposals were not to result in additional cost to the authority (i.e., contractor earnings based on enhanced revenues, not current level of revenues), and the contract specified that reimbursement to Deloitte and Touche was contingent upon its ability to generate revenues above the established baseline of $70,000,000.

The based period agreement, which appears to be a modification to the contract and approved by the authority, stated that if $200,000,000 in revenues were not reached for fiscal year 1992 based on a series of calculations employed, then the percentage reimbursement rate would be renegotiated. We believe this implies that Deloitte and Touche, based on its proposal, will earn at least $12,350,000 as shown in Table 4, regardless of the level of revenues, and is inconsistent with the (1) RFP and the contract, (2) specifications in the RFP requiring that the services be provided at no additional cost to the authority, and (3) contract which specifies that earnings are contingent upon the contractor's ability to generate additional revenues. In addition, allowing what appears to be modifications to contracts that are not consistent with the

terms and conditions of the original RFP and contract could result in excess compensation to the contractor.

LHCA should ensure that any modifications to future contracts are consistent with the terms and conditions in the original RFP and contract. In addition, LHCA should consider the appropriateness of issuing another RFP and soliciting new proposals to continue the revenue enhancement and operations improvement activities for the third contract year.

Louisiana Health Care Authority's Response

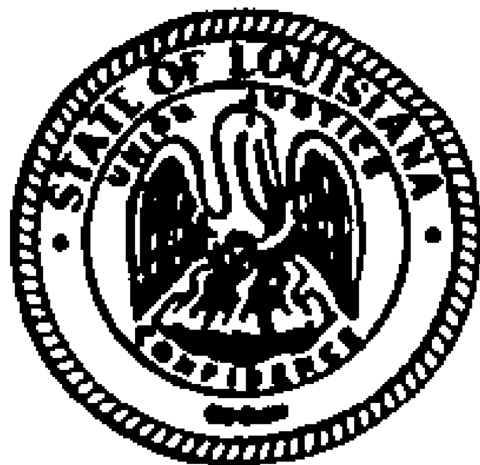
The Chief Executive Officer of LHCA did not concur with the finding and recommendation and further stated that the contract itself defines at great detail the contractor reimbursement methods and recognizes the required mutual agreement concerning base period revenues. The baseline letter is not a contract amendment, but merely implements contract provisions. The Division of Administration concurred with this at the time (Attachment I).

Additional Comments by the Auditor

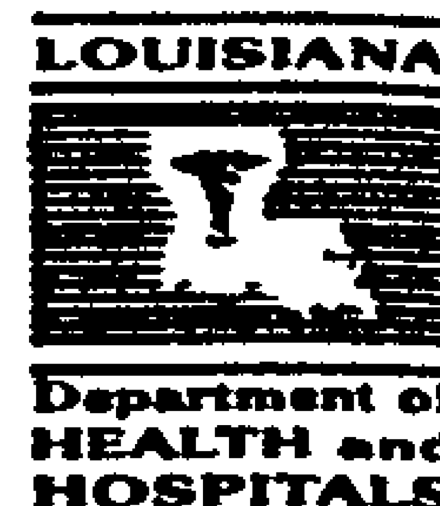
The base period agreement establishes a formula used to derive fiscal 1992 revenues and applies this formula to revenues in subsequent years, years for which Deloitte and Touche is reimbursed. The base period agreement states that if the formula does not result in at least $200,000,000 in revenues, then additional negotiations of the fee structure would be warranted. It is our position that this constitutes a guarantee of a specific level of revenues and appears to modify the contract. The RFP and the contract include no guarantee of the level of earnings in 1992 nor provisions for renegotiation of the contractor reimbursement.

Attachment I

Managements' Responses



STATE OF LOUISIANA
DEPARTMENT OF HEALTH AND HOSPITALS



Edwin W. Edwards
GOVERNOR

Rose V. Forrest
SECRETARY

September 20, 1994

Dr. Daniel G. Kyle
Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804

Dear Dr. Kyle:

It is with regret that we write you to inform you of the Department of Health & Hospitals and the Louisiana Health Care Authority's disagreement with the draft findings resulting from your special procedures review of our Revenue Enhancement and Operations Improvement Contracts with the firm of Deloitte & Touche. Both of our organizations are fully committed to the functions of an independent auditor, and are continually striving to improve the management, operations, performance and controls of our agencies. However, we regrettably find the report to provide no meaningful guidance in these areas.

After a two year review by your office, which consumed literally thousands of hours from both our Agencies' staff and the contractor, the draft report which was provided was found to be replete with factual errors, computational mistakes and incorrect conclusions. The draft report focuses on a few technical compliance issues which are highly judgmental, while overlooking the overall significant benefits derived by the DHH, LHCA, and the State. This is grossly unfair to agency management and staff and our contractor, who have worked so diligently as a team to meet the State's revenue objectives during these difficult times.

More specifically, we believe it is important to recognize that all subject contracts were competitively procured, negotiated in good faith on an arms length basis, leading to highly competitive contract performance rates. Although the contracts, in fact, cost $48 million over this period, the contractor made a huge commitment of resources including people, systems and subcontractors, which led to cumulative collections to our facilities over this period of approximately $1.3 billion over FY 89 levels.

Considering that the responsibility of these contracts has been shared over time by our organizations, the generally common findings addressed to both our agencies in your draft, and the strength of conviction which we share concerning these findings, the DHH and LHCA are

responding jointly to your draft report. We also respectively request that our response and the related supporting attachments be included in their totality in the published audit report.

Before summarizing our specific objections, we believe it is important to put these contracts in their proper context, which your staff have not done. At the time of the 1989 competitive procurement, the State and DHH were faced with huge budget shortfalls, internal staff cutbacks and no capacity to invest capital to find necessary management improvements. With the knowledge and concurrence of the Division of Administration and Civil Service, we went to the marketplace to seek creative solutions through a Request for Proposal. Deloitte & Touche was selected over a number of proposers.

Over the ensuing three years, Deloitte & Touche committed significant capital, at risk, to improve our health care revenue operations and performance, under an arrangement in which they would only be paid if successful. Over this period, several hundred people were deployed by the contractor, automated systems were developed, policies and procedures put in place, and our staff trained. Deloitte & Touche carried these huge investments for as long as a year at a time, with the risk that such investments would not succeed. Even at that, the fees paid to Deloitte & Touche are generally in line with what would have been paid to a contractor under a more traditional fees and expenses arrangement.

Fortunately for the State, the arrangement worked beyond our wildest expectations. Over the four years ending June 30, 1993, cumulative facility revenue collections exceeded FY 89 levels by approximately $1.3 billion. Also, whereas FY 89 collections for the LHCA hospitals were approximately 44% of expenditures requiring state general fund to support hospital expenditures, FY 93 collections exceeded expenditures by approximately 57% which resulted in the LHCA *generating approximately $300 million extra dollars for the State.*

Relative to the specific findings, we have summarized our response as follows:

Draft Auditor Finding	Summary of DHH/LHCA Response	Summary of Rationale
DHH-Contract Modifications	Disagree	The contract itself defines, at a significant level of detail, the contractor reimbursement methods and recognizes the mutual agreement to be developed concerning FY 89 baseline amounts. The cited letter is not a contract amendment, it merely implements that contract provision. Furthermore, the DHH was advised by the DOA at the time that no amendment was required. All nineteen actual contract amendments were reviewed and approved by DOA, as required.

DHH-Retention of Records	Disagree	This information was not requested by the Auditor during their financial audit of the periods in question. The record retention period expired before the Auditor provided any written notice of the current review. Furthermore, the amounts cited would have had <u>no</u> impact on the actual contractor reimbursement.
DHH-Contract Monitoring	Disagree	The contract was monitored at an extensive level of detail, including voluminous reporting from the contractor. As monthly billings were on a cumulative basis for each contract year, had any items been inadvertently overlooked, they would have been caught in subsequent reviews.
DHH-Nature of Work Performed	Disagree	The contract is purposely broadly framed. The RFP and detailed contract proposal are fully incorporated into the contract. The realization of significant revenue enhancements required extensive operations improvements be performed by Deloitte & Touche, which was appropriate and covered by the contract. And it worked.
DHH & LHCA-Eligibility Services, Inc. Billings	Disagree	ESI and Deloitte & Touche are paid for totally different services both required by the State to receive payment for Medicaid claims, both sets of service being essential to overall revenue maximization. The firms are <u>not</u> paid for the same services, and the State benefits more than twice over the combined fee paid in those instances where both firms are involved. Finally, the Auditor's computations reported in this area are grossly in error.
DHH-Adjustments to Base Period Revenues	Disagree	The finding is untrue. Where appropriate and mutually agreed, a number of adjustments to base period revenues were in fact made to appropriately measure the impact of Deloitte & Touche services. Furthermore, the findings have <u>no</u> impact on amounts actually paid to the contractor.

LHCA-Contract and Base Period Agreement Approvals	Disagree	Written justification was in fact provided. As DOA approved the contract without further justification, none was provided. On the baseline issue, contractor reimbursement methods are defined at a detailed level in the contract. The letter is not a contract amendment, as concurred with by DOA at the time.
LHCA-Contract Monitoring	Disagree	The contract itself defines extensive monitoring requirements. The contract was monitored at an extensive level of detail, supported by voluminous regular reporting from the contractor, both monthly and quarterly.
LHCA-Retention of Records	Disagree	The "workpapers" referred to by the Auditor never existed, nor were they necessary to derive the amounts included in the RFP. Furthermore, the amounts in question would have had no impact on actual contractor reimbursement paid.
LHCA-Base Period Revenues	Disagree	The Auditors computations are incorrect. Furthermore, using a different baseline figure would not have affected contractor reimbursement.
LHCA-Nature of Work Performed	Disagree	The contract is purposely framed broadly. Specific tasks and activities were identified in great detail in the RFP and contractor proposal which are fully incorporated into the contract by reference.
LHCA-Contract Modifications	Disagree	The contract itself defines at great detail the contractor reimbursement methods and recognizes the required mutual agreement concerning base period revenues. The baseline letter is not a contract amendment, but merely implements contract provisions. DOA concurred with this at the time.

More detailed support for our response concerning each of the findings is provided in the following sections.

We are also particularly concerned over the harsh tone of the points as presented in the Executive Summary. They are presented in a considerably stronger manner than would be supported by the detailed findings, and in a manner that could only serve to be inflammatory in the public arena.

Finally, we would like to reiterate that DHH, LHCA and Deloitte & Touche were extremely successful in fulfilling the objective of the RFPs to identify and implement revenue enhancement activities. That success allowed not only DHH and LHCA but all of state government to address significant budget shortfalls over the last several years.

* * * * *

We would be pleased to discuss our responses and the supporting rationale with you and your staff at your convenience.

Very truly yours,

Rose Forrest
Secretary-DHH

Dr. William Cherry
Chief Executive Officer-LHCA

CONTRACT MODIFICATIONS (page 12)

Finding:

The Department of Health and Hospitals (DHH) did not submit the base period revenue agreements, which are modifications to the original contracts, for Charity Hospital of New Orleans, Office of Mental Health, and Office of Hospitals, to the Office of Contractual Review and the Department of Civil Service, for review and approval as required by Louisiana law. Additionally, DHH did not make any written contract modifications to support the change in the scope of these contracts, which would also require the approval of the Office of Contractual Review and the Department of Civil Service.

Recommendation:

DHH should ensure that any modifications to future contracts are submitted to the Office of Contractual Review and the Department of Civil Service for review and approval as required by Louisiana law.

DHH Response:

The DHH does not concur with the finding nor therefore, with the recommendation. Accordingly, no plan for corrective action is submitted nor required.

DHH Rationale and Support:

The Legislative Auditor is correct that Louisiana Revised Statute (LSA-R.S.) 39:1484(5) and (6) define contracts to include all contract modifications.

However, the Auditor is <u>incorrect</u> that the base period revenue agreements are contract modifications.

The contracts clearly define the methods under which the contractor performance would be measured and reimbursed. For example, the Charity Hospital of Louisiana Contract has a considerable level of specificity concerning these matters as defined in Exhibit 1.

The contracts containing such specific terms were each subject to prior review and approval by the DOA Office of Contractual Review and the Department of Civil Service including these terms.

The baseline agreements do not modify any contract term concerning contractor performance or reimbursement. The baseline agreements merely document at a detailed level the base period revenue performance levels against which actual contract period collections would be measured, under the methods established in the contracts.

It is also important to note that this letter of agreement process is recognized explicitly in each contract. For example, the Charity Hospital of New Orleans contract reference is provided at Exhibit 2.

Given the time required for year end FY 89 data to be compiled for baseline purposes and the review activities required by both parties before such a mutual agreement could be reached, it was simply not possible for such a mutual agreement to be finalized before the contract was executed, particularly considering the need to contract in a timely manner given the State's acute financial difficulties faced during that period. Furthermore, the baseline agreement could not be finalized until the terms governing its preparation were finalized in the contract.

Furthermore, DHH did discuss with the director of the Office of Contractual Review whether or not it would be necessary to submit a contract amendment to reflect the base period revenue agreement. DHH was advised that since the original contract required the parties to the contract to develop a base period revenue agreement, there was no need to amend the contract to reflect the agreement. DHH agreed with this recommendation since such an agreement was a contract management requirement, as opposed to an amendment. The apparent reliance by the auditor on State law requiring that modifications to a contract are not valid unless approved in writing by the director of the Office of Contractual Review is therefore clearly misplaced, since this agreement was not a modification of the contract.

In support of our position, it is also important to recognize that in each and every instance when a change to a Deloitte & Touche contract term was necessary, DHH did prepare formal contract modifications which were reviewed and approved in advance by both the DOA Office of Contractual Review and Civil Service, as required.

Specifically, all of the following number of actual contract modifications fully adhered to this required process:

Contract	# of Complying Contract Modifications
Charity Hospital of New Orleans	6
Office of Hospitals	5
Office of Mental Health	3
Medicaid State Plan	3
Office of Mental Retardation	2

The only reason that the original baseline agreements were not submitted to this same review and approval process was that they were not contract modifications, but only documentation in support of a mutual agreement defined explicitly in the contract.

Relative to the Auditor's additional representation that Deloitte & Touche engaged in "operations improvement activities in addition to revenue enhancement activities", the Auditor seems to totally fail to recognize the role that hospital operations play in hospital revenue production. By far the preponderance of the operations improvement activities cited by the Auditor (pages 8-9) are integral to making long range improvements to revenue performance. Improvements noted by the Auditor in areas such as eligibility determination, tracking hospital information systems supporting revenue performance, management reporting on revenue performance, and Medicaid eligibility file matches all directly support long term revenue performance improvements. In other areas, operations improvements addressed other cost savings opportunities, which were also clearly an overall objective of the RFP.

In conclusion, DHH holds that the Auditor's finding is erroneous and that the assertion that payments were made to the contractor on contracts without proper approvals is totally without merit.

RETENTION OF RECORDS (page 13)

Finding:

The Department of Health and Hospitals (DHH) did not retain certain documentation needed to support calculations of the base period revenues as required by Louisiana law.

Recommendation:

DHH should take the necessary steps to ensure that all public records are retained in accordance with the time periods established by Louisiana law.

DHH Response:

The Department of Health and Hospitals does not concur with the Legislative Auditor's finding that it did not retain certain documentation needed to support the numbers utilized in the calculations of the base period revenue. This appears to be a subjective assessment not supported by the facts. Furthermore, the findings would not be an issue had the Auditor reviewed and reported on this contract in a timely manner as opposed to this current report which is approximately 5 years after the negotiation of the contract and determination of the base period revenues. Accordingly, no plan for corrective action is submitted.

DHH Rationale and Support:

The Auditor cites two statutes, (LSA-R.S. 44:36 and LSA-R.S. 24:514(C). DHH has not violated either provision cited.

LSA - R.S 44:36 requires that records be preserved for the time specified in schedules developed and approved by the State archivist and director of the division of archives. This schedule requires that public documents be kept for three years.

As conceded in earlier correspondence from the Auditor, the Auditor was provided during their review and reviewed the calculations of the base period revenue, but complains that the Department of Health and Hospitals staff could provide no supporting workpapers which served the basis for certain numbers used in the calculations. These workpapers were for fiscal year 1988-1989. According to LSA - R.S. 44:36, the Department was under no legal obligation to maintain these workpapers after 1992, even if such work papers were determined to be public documents and no written notice of this subject review was provided prior to the end of FY 92.

LSA - R.S. 24:514(C) provides that no officer can destroy public records belonging to his office prior to examination by the Legislative Auditor. The Auditor performs a review of the Department of Health and Hospitals annually. Any information not required by the Auditor during this review is not required to be retained provided statutes related to

document retention time (LSA - R.S. 44:36) have been complied with. The Auditor's review of fiscal year 1989 which compared the baseline, and fiscal year 1990, the first year to which the baseline applied, has been retained. It is ludicrous for the Auditor to suggest that every piece of paper not specifically reviewed by the Auditor for a year by an agency must be retained, unless subject to LSA-RS 44:36.

The fact that the workpapers are unavailable now does not in anyway imply that the detailed backup data contained on the workpapers was not available, reviewed and supported at the time that the baseline agreements were negotiated. If the workpapers are now unavailable, it would appear to be more a function of the Auditor's untimely review, rather than the Department of Health and Hospital's lack of documentation. In addition, the information which has been provided to the Auditor is more than sufficient to document and support the base period revenue amounts.

CONTRACT MONITORING (page 13)

Finding:

The Department of Health and Hospitals (DHH) has not established adequate controls to ensure compliance with its' written contract monitoring plan as required by Louisiana law.

Recommendation:

DHH should take the necessary steps to ensure that all contracts are adequately monitored in accordance with the plan submitted to the Office of Contractual Review.

DHH Response:

The Department of Health and Hospitals does not agree with the Legislative Auditor's finding that it did not establish adequate controls to ensure compliance with its written contract monitoring plan as required by Louisiana law.

DHH Rationale and Support:

The Auditor states that, as required by Louisiana law, DHH did develop a contract *monitoring plan and certify to the Office of Contractual Review that the plan would be* implemented. The Auditor further states however, that the Department provided no evidence that the plan had been applied to the Deloitte & Touche contracts. The Auditor states that the lack of contract monitoring is evidenced by (1) statements from the Office of Mental Health and Office of Hospitals contract monitors that they reviewed billings only for reasonableness, (2) the identification of a $25,000 overpayment to Deloitte & Touche under the Mental Health Contract and (3) statements from the contract monitor for the Charity Hospital at New Orleans that while a more complete review was performed of the final bill for the contract, interim billings were reviewed only for reasonableness.

The Auditor does not contend that the Department did not review the invoices, nor that information available to DHH was inadequate for monitoring. The Auditor's only contention is that the Department applied a "reasonableness" test to the interim monthly invoices which the Auditor believes may not have been sufficient. The Auditor also concedes that the final billing at Charity Hospital in New Orleans was reported to be "reviewed in detail", which provides the State with the appropriate monitoring and control required, considering the rolling, cumulative contractual basis of contract billings (See Exhibit 3).

The Deloitte & Touche invoices were subjected to the same level of scrutiny as invoices under every other Department contract. The Department believes the contract review was appropriate and conformed to the prepared contract monitoring plan. The Department simply does not have the manpower to review every invoice to the extent the Auditor

contends is necessary. Furthermore, considering the cumulative nature of contractor billings, any interim inadvertent errors would have been caught in the final annual review.

The $25,000 error cited by the Auditor as being due to inadequate contract monitoring activities, was, in fact, due to an inadvertent data input error on the maximum contract amount which we believe would have been ultimately identified and resolved. This was not a contract monitoring error, and the error was immaterial, representing less that 1/10 of 1% of the total contract payments. When Deloitte & Touche was notified of this error, repayment was immediately made to the Department.

NATURE OF THE WORK PERFORMED (page 14)

Finding:

The Department of Health and Hospitals (DHH) did not clearly define the tasks to be performed under the contracts for Charity Hospital at New Orleans, the Office of Mental Health, and the Office of Hospitals as required by Louisiana law. Additionally, DHH did not ensure that the method of payment for the services under the contracts accurately reflects the nature of those services performed.

Recommendation:

DHH should ensure that future Requests for Proposals (RFPs) clearly identify the objectives and deliverables to be attained, and that the contracts adequately describe or define the terms and the nature of the work to be performed, in accordance with Louisiana law. Additionally, DHH should ensure that the method of payment is directly related to the types of services performed.

Response:

The DHH does not concur with the finding, nor therefore, with the recommendation. Accordingly, no plan for corrective action is submitted nor required.

DHH Rationale and Support:

The Auditor has made two assertions with which DHH does not agree. The Auditor's assertions and the related DHH positions are summarized below:

1. DHH did not clearly define the tasks to be performed.

   The Request for Proposal (Exhibit 4) defined the revenue enhancement and cost savings objectives of the State. The DOA reviewed and approved the Request for Proposal. The Deloitte & Touche proposal (excerpts at Exhibit 5) defines the planned services at a considerably greater level of detail, including tasks and timeframes. The complete Request for Proposal and the complete Deloitte & Touche proposal are fully incorporated directly by reference into the DHH contracts themselves (Exhibit 6). This contract, with the referenced documents, were reviewed and approved by the DOA Office of Contractual Review and by Civil Service.

   As documented in numerous prior submissions to the Auditor, Deloitte & Touche provided extensive and regular documentation to the Department concerning project activities and deliverables. All new related initiatives were reviewed in advance and approved in advance by DHH. Furthermore, all contract modifications, of which there were 19 across all of the DHH contracts, were reviewed and approved in writing by

DOA. The contract also prescribes reporting and monitoring requirements for the engagement (Exhibit 7).

2. The method of payment is not related to services performed

By far the preponderance of the project tasks and hours expended are directly related to revenue generation, both short-term and longer term. Accordingly, the reimbursement of a contractor based on the results achieved is the most directly related method of payment possible.

In the case of the operations improvement services, a significant portion of these services are also directly related to revenue generation. Work related to admissions, eligibility determination, charge capture, information systems, and file matching, as examples, all directly affect a hospital's longer term revenue generation abilities.

ELIGIBILITY SERVICES INC. BILLINGS (page 15)

Finding:

The Department of Health and Hospitals (DHH) and the Louisiana Health Care Authority (LHCA) allowed the inclusion of $44,558,435 in revenues generated by the activities of a separate contractor in the revenues claimed and billed by Deloitte & Touche.

Recommendation:

DHH and LHCA should not allow two contractors to be paid on the same basis for the same revenues in the future.

DHH and LHCA Response:

The Louisiana Health Care Authority and the Department of Health and Hospitals do not concur with the finding and recommendations regarding the payment of ESI and Deloitte and Touche. ESI and Deloitte & Touche are paid for different services required to receive payment for Medicaid claims, both sets of services being essential to overall revenue maximization. Payments to ESI and Deloitte & Touche are based on overall revenues achieved as this is the most appropriate reimbursement methodology and performance measure for the services rendered by each. Furthermore, the Auditor makes a number of factual and computational errors in their assertions.

DHH and LHCA Rationale and Support:

The establishment of a patient's eligibility for Medicaid, as ESI does, is a critical step in the overall revenue generation process. However, services rendered by ESI to certify Medicaid patients will not result in new revenue to the State without also charging, coding, billing and collecting for the services, areas in which Deloitte & Touche provides assistance. Therefore, the combination of services provided by ESI and Deloitte & Touche in the instance of new Medicaid eligibles, are both required to enhance the revenues of the LHCA and DHH. Since revenue impact is the most appropriate measure for the services performed by both ESI and Deloitte & Touche, revenue enhancement is an appropriate basis for their reimbursement. When Deloitte & Touche and ESI jointly affect revenues associated with an individual patient, there is in fact a higher cost to the LHCA or DHH. However, the benefit to the State is still a considerable multiple since without the combined services, such revenue would be lost entirely.

This issue is best understood in the context of the entire revenue cycle, which constitutes a very complicated and interrelated process, of which eligibility determination, ESI's role, is only one step. As documented in numerous Deloitte & Touche presentations and status reports, the revenue cycle includes the following activities:

- Registration

- Admissions
- Eligibility Determination
- Charge Capture
- Medical Records Coding
- Billing
- Collections
- Cost Reporting
- Rate Setting

ESI assists in the eligibility determination activities of the hospitals, which would otherwise be performed internally by the hospitals assuming adequate staffing. ESI's services establish the basis for additional reimbursement, though their activities do not in themselves cause increased collections. Without ESI's services, Medicaid eligibility would not be established for the patients served by ESI and the hospital would be unable to bill Medicaid for the services rendered to those patients.

Though ESI's services are critical to enhance revenues for these patients, they are not sufficient to generate the collections alone. Accordingly, Deloitte & Touche assistance is considerably beyond the scope of ESI's assistance. Deloitte & Touche's scope of services delivered to the LHCA is very broad and includes assistance in all of the areas affecting revenue performance described above. Without Deloitte & Touche's assistance, claims for services provided to patients certified for Medicaid eligibility through ESI's efforts would not be paid.

All of the Deloitte & Touche services described below affect the ability of the hospital to receive reimbursement for patients certified through the efforts of ESI, but none duplicate the services performed by ESI:

- Deloitte & Touche has assisted in improving the data quality of the registration process at CH/MCLNO, a critical initial step in the revenue cycle.

Deloitte & Touche has developed and implemented a PC database product for the MAP Units throughout the Authority, to track and manage eligibility claims, whether referred to ESI or retained in-house. Without this database, the MAP units would be unable to trace eligibility claims and manage compliance with federal and State guidelines for eligibility application processing.

- Deloitte & Touche has provided extensive assistance throughout the Authority to improve charging for services rendered. This assistance supports complete charging for services rendered, at appropriate prices, and proper billing leading to timely collections.

- Deloitte & Touche provides assistance to resolve coding backlogs in medical records departments in the Authority. As a Medicaid claim can not be submitted without

coding, this constitutes another required step in the revenue cycle, and where Deloitte & Touche's services extend beyond ESI's scope.

- Deloitte & Touche provides a broad array of services to assist Authority hospital's in billing and collecting for services rendered. These services range from developing, implementing and maintaining a PC system to automate the process and management of these functions to analytical and management assistance in identifying and resolving claims processing constraints. These activities constitute additional required steps in the claims payment cycle which if not completed would preclude payment for services rendered.

In addition to our belief that the reimbursement methodology employed is appropriate for Deloitte & Touche and ESI, the calculation employed by the Auditor to estimate Deloitte & Touche reimbursements associated with ESI revenues is in error. The Auditor fails to account for the fact that Deloitte & Touche collections far exceeded the contractual fee caps to the extent that there was **no incremental** cost of Deloitte & Touche's assistance in generating the additional revenues resulting from ESI services. In other words, even if the ESI related revenue was excluded, Deloitte & Touche would have earned the full fee paid.

Furthermore, even if the Auditor employs the erroneous logic that there was a duplication of reimbursement and even if the Auditor ignores the fact that collections in excess of the Deloitte & Touche contractual caps far exceeded the revenues associated with ESI services, the calculation of Deloitte & Touche's reimbursements on the $44,558,435 of ESI related revenues is also in error as it is applied inconsistently with the actual contractual reimbursement methodology under which Deloitte & Touche was paid. Specifically, the Auditor erroneously includes Medicaid disproportionate share revenues in calculating Deloitte & Touche potential reimbursements and assumes, in error, that Deloitte & Touche participation rate over the period in question was always 15% of total collections.

In fact, the revenues associated with ESI payments for the period 10/1/92 - 6/30/93 were $26,524,866. For that period, it was contractually required that disproportionate share revenues be excluded from collections to derive net collections for purposes of Deloitte & Touche reimbursement. When the contractually specified disproportionate share adjustment factor applied to these revenues, the resulting net collections equal $7,432,267 for the period 10/1/92 - 6/30/94. Furthermore, when the correct Deloitte & Touche participation rate for this period which averaged 9.5% is applied to net collections, the result would be $706,065 in Deloitte & Touche reimbursements for this period associated with ESI related revenue. Again however, Deloitte & Touche significantly exceeded contractual fee caps to the extent that there was no incremental cost to the Department or the Authority for any ESI related revenues.

DHH ADJUSTMENTS TO BASE PERIOD REVENUES (page 16)

Finding:

The Department of Health and Hospitals (DHH) did not adjust the base period revenues for the contracts with Charity Hospital at New Orleans, the Office of Mental Health, and the Office of Hospitals for any revenues that were not the result of Deloitte & Touche activities.

Recommendation:

DHH should ensure that future RFPs and contracts of this nature provide for adjustments so that the contractor will be compensated only for those revenues directly attributable to their work.

DHH Response:

The Department of Health and Hospitals does not agree with the Legislative Auditor's finding that it did not adjust the base period revenues for the contracts with Charity Hospital at New Orleans, the Office of Mental Health and the Office of Hospitals for any revenues that were not the result of Deloitte & Touche activities

DHH Rationale and Support:

The Auditor properly states that the base period revenues used to calculate Deloitte & Touche reimbursement were based on revenues for the fiscal year ended June 30, 1989, the year immediately preceding the inception of the contracts. The Auditor further states that no adjustments to these revenues were made for (1) non-Deloitte & Touche related increases, such as inflation adjustments for hospital Medicaid reimbursement rates; (2) the impact of the increase of the Medicaid disproportionate share multiplier from DISPRO 2 to DISPRO 3 and (3) the impact of demographic changes or changes in federal regulations that would result in increased Medicaid/Medicare funds.

The Auditor's statement that no adjustments were made to the base period revenues for non-Deloitte & Touche generated increases or the impact of demographic changes or changes in federal regulations is incorrect. Where appropriate and mutually agreed, a number of adjustments to base period revenues were in fact made to appropriately measure the impact of Deloitte & Touche services. A few examples of such adjustments include:

- An $11.9 million adjustment to the Office of Mental Health baseline to reflect the a change in the payment methodology for mental health hospitals from a cost based system to a flat rate system.

Adjustments to increase base DISPRO levels at two hospitals due to State delay in implementation of increased rates.

- No Deloitte & Touche participation in extensive activities to reverse Graduate Medical Education (GME) disallowance's for 1986-1989.
- Limited Deloitte & Touche participation in a portion of the benefits realized through its work to obtain additional reimbursement for leave days at mental health hospitals.

Related to developing an updated baseline each year to incorporate inflation and other external reimbursement factors, it would be unfair to expect a contractor to take the considerable financial risk of investing in longer term revenue enhancements which, if successful, would benefit the State, without the contractor being able to fix the baseline against which performance would be measured. This issue was discussed extensively with the Office of Contractual Review at the time these contracts were being negotiated. The Director of the Office of Contractual Review requested emphatically that a stable baseline be used to remove the administrative nightmare related to determining a new baseline each year with revenue figures which couldn't be finalized for sixty to ninety days after the end of the year and to ensure there would be a contract maximum. A revised baseline under this scenario would be nothing better than a "guesstimate", with dire consequences if the guess proved to be wrong.

Furthermore, a rolling baseline is not practical because the RFP asked contractors to propose a participation rate based on collections above the baseline. If the baseline was movable, the contractors would not have been able to rationally price their services, and also make proposal evaluation very difficult.

With regard to the issue of including Medicaid disproportionate share payments in revenue calculations, it should be noted that disproportionate share reimbursements (DISPRO) are revenue and explicitly recognized as such in contractual agreements. In addition, it should be noted that DHH facilities were receiving some level of DISPRO prior to the Deloitte & Touche contract. Accordingly, any increase in revenues, including DISPRO revenues, should have been legitimately included and were used to determine contractor reimbursement. The suggestion by the Legislative Auditor that Deloitte & Touche should not have been allowed to share in DISPRO revenue enhancements because of the change in the multiplier from 2 to 3 ignores the fact that the approval of that change did not take place until late FY 1992 and that approval was due in large measure to analyses, rate modeling, and data collection performed by Deloitte & Touche in support of the DHH proposed multiplier change. The Auditor's comments also ignore the extensive DHH requested efforts and results of Deloitte & Touche to get claims paid once the rates were finalized. For example, Deloitte & Touche did significant work to increase eligible days which significantly increased base period costs subject to the multiplier. Further, Deloitte & Touche did significant work in the patient accounting area without which DISPRO would not have been paid at all for many patient days. These efforts are documented in considerable detail in prior correspondence provided to your staff.

Finally, it is important to note that the Auditor conceded in earlier discussions that even if the effects of DISPRO were removed from contract payments, Deloitte & Touche would not have received any additional payments since it would have achieved the contract

maximum fees without DISPRO. The letter previously submitted by Secretary Forrest concerning Medicaid disproportionate share is provided as Exhibit 8.

CONTRACT AND BASEPERIOD AGREEMENT APPROVALS (page 23)

Finding:

The Louisiana Health Care Authority (LHCA) did not submit the contract and the base period agreement, which establishes the basis for contract payments, on a timely basis to the Office of Contractual review for approval as required by Louisiana law. Additionally, LHCA did not receive approval from the Office of Contractual Review and the Department of Civil Service for the base period agreement as required by Louisiana law.

Recommendation:

LHCA should ensure that any future contracts and modifications are submitted timely to the Office of Contractual Review for review and approval as required by Louisiana law or should provide written justification for late submissions. Additionally, LHCA should have the base period agreement approved by the Office of Contractual Review and the Department of Civil Service prior to making any further payments under the contract.

LHCA Response:

The LHCA does not concur with the finding, nor therefore, with the recommendation. Accordingly, no plan for corrective action is submitted nor required.

LHCA Rationale and Support:

Two assertions are made by the Auditor with which we do not agree. LHCA's position on each assertion is summarized below:

<u>Contract Timing</u>

As subsequently documented, written communications concerning approved timing did take place. As the DOA and Civil Service approved the contract when ultimately submitted, no subsequent written explanation was submitted by the LHCA, nor was it required.

The Auditor is approaching the end of what has become of a two year long review of the Deloitte & Touche contracts. Not only has this review required a dramatic level of time from the State agencies involved and Deloitte & Touche, it has also resulted in both the DHH and LHCA taking additional precautionary care to assure that an already sound process is without flaw. The Auditor's finding concerning timing is therefore to a large extent a self-fulfilling prophecy - your two year review has in fact slowed down the LHCA contract decision-making and execution processes concerning Deloitte & Touche.

The Auditors' finding is also totally without context concerning the situation facing the Authority during the time period in question. The LHCA Board was not in place due to litigation over the standing of the original Board members. Rather than allowing hospital operations to grind to a halt, the Authority's Acting CEO worked diligently with the Governor's Office and the Secretary of DHH concerning contract approvals.

The subject contract is a very complex contract requiring careful procurement, bid evaluation, and negotiation with the selected contractor. The previous hospital revenue contracts expired August 31, 1992. Given delays in the procurement process, Deloitte & Touche actually was authorized and agreed to work without reimbursement for the month of September 1992. Considering the criticality of revenue performance to the LHCA and the State during this period and the importance of continuing the critical contractor services without a gap, the new contract was awarded effective October 1, 1992, and Deloitte & Touche commenced work on that date. This was done with the full knowledge and concurrence of the Division of Administration, as documented in Exhibit 9. The ensuing contract negotiations involving the DOA, Civil Service, and informally the Auditor, were pursued diligently, but simply required more time due to the complexities involved and other issues facing the Authority at that time.

The Auditor is also incorrect that a rationale was not submitted. It was submitted as is evident in the letter in Exhibit 9.

Finally, the Auditor misquotes the Louisiana Authority Code (LAC) 34121 (A) in stating the code <u>requires</u> contracts be submitted before the effective dates to the Office of Contract Review. The code states "contracts <u>should</u> be submitted before their effective date......."

<u>Base Period Agreement Approval</u>

The Legislative Auditor is correct that Louisiana Revised Statute (LSA-R.S.) 39:1484(5) and (6) define contracts to include all contract modifications.

However, as previously discussed the Auditor is <u>incorrect</u> that the base period revenue agreements are contract modifications.

The contract clearly defines the methods under which the contractor performance would be measured and reimbursed, as identified in Exhibit 10.

The LHCA contract containing these specific terms was subject to prior review and approval by the DOA Office of Contractual Review and the Department of Civil Service, including these terms.

The baseline agreement does <u>not</u> modify in any manner any LHCA contract term concerning contractor performance or reimbursement. The baseline agreement merely documents at a detailed level the base period revenue performance levels against which

contract period collections would be measured under the methods established in the contract.

It is also important to note that this letter of agreement process is recognized explicitly in the LHCA contract, as defined in Exhibit 11. Given the time required for year end FY92 data to be compiled after year end for baseline purposes and the review activities required by both parties before such a mutual agreement could be reached, it was simply not possible for such a mutual agreement to be finalized before the contract was executed, particularly considering the need to contract in a timely manner given the State's acute financial difficulties faced during that period.

Furthermore, DHH did discuss on behalf of LHCA with the Director of the Office of Contractual Review whether or not it would be necessary to submit a contract amendment to reflect the base period revenue agreement. DHH was advised that since the original contract required the parties to the contract to develop a base period revenue agreement, there was no need to amend the contract to reflect the agreement, and that the base period agreement is not a contract amendment. DHH agreed with this recommendation since the baseline agreement was a contract management requirement, as opposed to an amendment.

The reliance by the Auditor on State law requiring that "modifications to a contract are not valid unless approved in writing by the Director of the Office of Contractual Review" is therefore clearly misplaced, since this agreement was not a modification of the contract.

In further support of our position, in the one instance to date when a change to a contract term was necessary to extend the contract for Contract Year 2, LHCA did prepare a formal contract modification which was reviewed and approved by the DOA Office of Contractual Review. This is provided in Exhibit 12.

The only reason that the baseline agreement was not submitted to this same review and approval process was that it was not a contract modification, but only documentation in support of a mutual agreement defined explicitly in the contract. However, the agreement was submitted to DOA for informational purposes as evident in the letter in Exhibit 13. No request for approval was stated or implied. Furthermore, contrary to the Auditors' implications that something was "not disclosed" concerning this matter. A letter from the Office of Contractual Review dated August 11, 1993 was in the LHCA Contract file acknowledging receipt of the Deloitte & Touche/LHCA Baseline letter. The letter only "suggested" the LHCA seek advice from the Attorney General and Legislative Auditor. A hand written note on the letter documents that a copy of the Baseline letter was sent to the Legislative Auditor's office on August 25, 1993 (see Exhibit 14.)

We would also like to point out the considerable effort we took to obtain your staff's review of this agreement up front as evidianced by the fax transmission to the Auditor (Exhibit 15). LHCA Executive Staff also report numerous verbal communications with the Legislative Auditor throughout the process concerning the baseline agreement.

CONTRACT MONITORING (page 24)

Finding:

The Louisiana Health Care Authority (LHCA) has not established adequate controls to ensure compliance with Louisiana law related to developing and implementing a written contract monitoring plan.

Recommendation:

LHCA should immediately take the necessary steps to develop and implement a written plan for contract monitoring as required by Louisiana law.

LHCA Response:

The Louisiana Health Care Authority does not agree with the Legislative Auditor's finding that it did not establish adequate controls to ensure compliance with Louisiana law related to developing and implementing a written contract monitoring plan. Consequently, no corrective action plan has been developed or will be submitted.

LHCA Rationale and Support:

The contract itself defines explicit and detailed contractor reporting and monitoring requirements (Exhibit 16). The contract requires and LHCA receives extensive monthly and quarterly status reports from Deloitte & Touche which are reviewed and approved by each hospital administrator. The status reports detail current activities being performed and provide a continuing formal, written instrument for contract monitoring and review by LHCA executive management. There is actually a considerable amount of monitoring and should be in compliance with contract monitoring as required by Louisiana State law.

As is evident above, in our CFO's haste to respond to the Auditor in the tight timeframe requested, the letter dated February 25, 1994 reported in error that no specific written plan was in place which documented what has been done to verify that the required work has been performed.

<u>Specific Monitoring and Invoice Verification Activities</u>

First, the baseline agreement under which payment to the contractor was to be based was under negotiation at the end of the FY 1993. To verify amounts due to the contractor at fiscal year end, the Chief Financial Officer of the Authority called in one of the financial managers from the facilities that had experience with Deloitte & Touche invoices and billing methodology. Although a full audit program was not developed at that time, the individual did perform analytical procedures and verifications to document that revenues had been collected in excess of the amounts the contractor was to be reimbursed. Since the end of the fiscal year was near, we had the responsibility to properly record these

expenditures in the fiscal year that they were budgeted to be paid. Being aware of the need to fairly present the LHCA's expenditures for fiscal year 1993, and being reassured by the facility financial manager that adequate levels of revenue had been collected to more than safely satisfy the total amount of invoices presented for payment by Deloitte & Touche, the Chief Financial Officer conditionally approved the payment of the invoices as authorized and explained in a letter dated May 28, 1993 from the CEO to Deloitte & Touche. This letter and additional back-up letters are found in Exhibit 17.

Next, in March 1994, a formal invoice audit and review methodology which was developed by a separate LHCA contractor had been implemented. The Authority requested Deloitte & Touche to submit additional information for the invoice for September 1993 and the formal audit methodology was performed on the September invoice which was the final, cumulative year end invoice for Contract Year 1. By reviewing the final cumulative invoice for Contract Year 1 using the formal audit methodology, a comprehensive review was performed and any errors, if they existed, would be identified. Since this methodology was implemented, all invoices from the inception of the contract have been subjected to the detailed audit program review. The year end review provides the full monitoring and control required considering the rolling, cumulative contractual basis of contract billings (Exhibit 18).

Finally, Deloitte & Touche provides extensive monthly and quarterly written reporting on contract activities. These reports are reviewed and monitored at a detailed level by LHCA management.

RETENTION OF RECORDS (page 25)

Finding:

The Louisiana Health Care Authority (LHCA) did not retain certain documentation needed to support calculations of the base period revenue as required by Louisiana law.

Recommendation:

LHCA should take the necessary steps to ensure that all public records are retained in accordance with the time periods established by Louisiana law.

LHCA Response:

The Authority does not concur. Not only were no workpapers developed or required, the use of the $70 million baseline amount had no impact on the procurement or the amount of compensation paid to the contractor. Accordingly, no plan for corrective action is submitted.

LHCA Rationale and Support:

The Louisiana Health Care Authority became effective near the time of the subject procurement. The RFP that the contractor is working under was jointly developed by the Department of Health and Hospitals and the Louisiana Health Care Authority staff in June 1992. At this time, the baseline of $70 million was determined and included in the Request for Proposal. This baseline amount was also acknowledged in the RFP questions and answers, contractor's proposal and subsequently in the contract. The Request for Proposal and the contract were reviewed by the Division of Administration Office of Contractual Review and Civil Service which apparently did not have a problem with this base period amount.

The summer and fall of 1992 were very disruptive times for the Louisiana Health Care Authority for it was at this time that the Authority was being physically separated from DHH. Subsequently, there have been two complete physical moves of the LHCA offices and turnover of all major officers of the Authority. As a result, the current LHCA administration had no part in the development of the base period revenue figure.

According to the DHH representatives who developed the RFP and the $70 million figure, no workpapers were developed nor necessary for the determination. Rather, using existing available information, these individuals sought to identify the appropriate level of FY 89 net collections together in a one hour work session, in order to approximate collections prior to the Deloitte & Touche contract. The results of that work session are the amounts in the RFP, and no workpapers were developed nor retained. Accordingly, *there is no workpaper retention issue.*

It is important to recognize that all bidders were provided the same information, and would have used the same $70 million amount to determine their bid.

It is also important to recognize that even had a different amount been chosen, it is highly unlikely that the total cost to the State would have been affected assuming a comparable level of performance. This is because a change affecting the range of dollars for fee participation would have affected the percent bid by any bidder and not the dollar value of the bid. More specifically any bidder would determine their performance fee considering the mathematical relationship of the budgeted costs for the project and the range of revenue available. Accordingly, had a figure other than $70 million been selected and defined, the performance rate submitted by each bidder would have of necessity been adjusted by said bidders.

And assuming a performance fee reflective of a different baseline, we believe it is highly likely that Deloitte & Touche, or any other qualified contractor, would have earned the maximum contractual performance fee with comparable revenue performance to that produced by Deloitte & Touche.

BASE PERIOD REVENUES (page 26)

Finding

The base period revenues established for the Louisiana Health Care Authority's contract with Deloitte and Touche are inordinately low.

Recommendation

LHCA should not have set the base period revenue figure at an amount less than the figure for the fiscal year ended June 30, 1989, the base period for the original DHH contracts. Furthermore, LHCA should consider adjusting the base period revenue figure for the current contract for any extensions of the contract term to an amount that reflects more accurately the ability of the facilities to generate revenues independent of a third party contractor.

LHCA Response

The LHCA does not concur with this finding, nor therefore, with the recommendation. Accordingly, no plan for corrective action is submitted nor required.

LHCA Rationale and Support

In spite of numerous submissions on our part over the past two years, we believe the Auditor has does not seem to fully comprehend the complexities of this large revenue enhancement contract nor the basic underlying business principles concerning investment, risk and contractor reimbursement. Specifically, the Auditor does not appear to understand the role that the setting of a base period revenue amount plays in the overall contract structure and contractor reimbursement.

When the Request for Proposal was developed in 1992, representatives of DHH and a past LHCA administration determined the work tasks to be completed and the financial structure of the contract. Based on this scope of work, the Request for Proposal included language which provided the basic financial structure of the contract including:

- *The contractor would not be paid any money until a certain level of net collections* were reached which the RFP developers considered to be approximate to FY 1989 hospital collections net of Medicaid disproportionate share and other one-time and unique payments. This provision was developed to avoid paying the contractor for hospital revenue performance achieved prior to the contractor's involvement. The amount, $70 million, was determined to be the amount of net collections which must be received by LHCA prior to the contractor receiving any reimbursement.

- Twenty five percent of contractor reimbursement would be held back until the net collections received by LHCA reached $200 million. This provision provided incentive to the contractor to exceed $200 million in net collections.

In addition, the contract with Deloitte & Touche limited the level of net collections in which Deloitte & Touche could participate to $240 million. This provision had the affect to eliminate a potential windfall to the contractor unrelated to the impact of their activities.

It must be remembered that the RFP called for the contractor to perform numerous projects related to revenue enhancement including short term revenue enhancement initiatives, operations improvement activities which were completed to increase LHCA revenues in the long term, and certain other RFP requested services. As such, the RFP was requesting the contractor to provide the resources and necessary associated capital in an "at risk" situation until certain level of net collections were received by the LHCA. In other words, this is not a typical "collections" contract where the contractor only identifies short term accounts receivable collections problems and devotes all their time to short term revenue generating activities which leave no lasting impact on the hospitals. Rather, the contractor is providing a clearly defined broad scope of services focusing on short-term and long-term improvement, with the contractor's overall revenue participation financing all such services.

The Auditor is incorrect in asserting that the contractor would receive less reimbursement using a base period net collections figure higher than $70 million. If this base period revenue figure would have been higher, each bidder would have bid a high participation rate. The reason for this is two fold. First, the activities required of the bidder and related costs would not change. As there would be less net collections for the contractor to participate in, any bidder would increase their participation rate to cover the budgeted costs and return on investment under the contract. The second reason is that at a high net collections base, a bidder would be required to provide assistance for a longer time without any reimbursement, which, as any financial professional knows, would increase the cost of investment for the contractor which would cause them to require a higher participation rate. We believe that change in the base period revenue figure would not have significantly impacted total reimbursement to a contractor, assuming comparable revenue performance.

Furthermore, contrary to the Auditor's assertions, the contractor is not assured complete payment of their participation rate under the contract structure, because contractor reimbursement is based on actual performance in the contract year. If net collections did not reach $70 million, the contractor would receive no reimbursement. And if net collection did not reach $200 million, 25% of their fees are withheld. It is also important to recognize that approximately 50% of contractor reimbursement is dependent upon the contractor producing net collections of greater than $200 million which is significantly above any baseline which the Auditor is proposing should have been used. In addition, the fact that net collections for the first contract year exceeded $240 million, provides the

reality that no matter the level of base period revenues or the participation rate, Deloitte & Touche would have reached its contract maximum based on superior performance.

NATURE OF THE WORK PERFORMED (page 27)

Finding:

The Louisiana Health Care Authority (LHCA) did not clearly define the tasks to be performed under the contract with Deloitte and Touche as required by Louisiana law. Additionally, LHCA did not ensure that the method of payment for the services under contract accurately reflects the nature of those services.

Recommendation:

LHCA should ensure that future Requests for Proposals (RFPs) clearly identify the objectives and deliverables to be attained, and that the contracts adequately describe or define the terms and nature of work to be performed, in accordance with Louisiana law. Additionally, LHCA should ensure that the method of payment is directly related to the types of services performed.

Response:

The LHCA does not concur with the finding, nor therefore, with the recommendation. Accordingly, no plan for corrective action is submitted, nor required.

LHCA Rationale and Support:

The Request for Proposal (Exhibit 19) defines the detailed services expected of the contractor including revenue enhancement and operations improvement services. The Request for Proposal also clearly establishes that all such services are to be paid from revenue enhancement participation (Exhibit 20). The DOA reviewed and approved the Request for Proposal. The Deloitte & Touche proposal (Exhibit 21) defines the planned services by RFP area at considerably greater level of detail, including tasks, hours, and timeframes. The Deloitte & Touche proposal also establishes a process for reallocation of contract resources if dictated by LHCA needs (Exhibit 22). The complete Request for Proposal cited and the complete Deloitte & Touche proposal are fully incorporated directly by reference into the contract itself (Exhibit 23). This is considerably more detail than most State contracts. This contract, with the referenced documents, was also reviewed and approved by DOA and Civil Service.

As required under the contract (Previous Exhibit 16), Deloitte & Touche provides detailed monthly status letters and detailed quarterly reports to the LHCA Executive Steering Committee. These briefings also address all project tasks at a detailed level.

By far the preponderance of the project tasks and hours expended are directly related to revenue generation, both short-term and longer term. Accordingly, the reimbursement of a contractor based on the results achieved is the most directly related method of payment possible.

In the case of the defined "operations improvement services" under the contract, a significant portion of these services are also directly related to revenue generation. For example, efforts related to admissions, eligibility determination, charge capture, information systems, and file matching, as examples, directly affect longer term hospital revenue generation abilities.

In the RFP task areas not directly related to revenue, it was clear to all bidders that the defined fee participation was the intended means to also finance such services.

CONTRACT MODIFICATIONS (Page 27)

Finding:

The Louisiana Health Care Authority has allowed modifications which are not in accord with the terms and conditions of the Request for Proposal and the Contract.

Recommendation:

LHCA should ensure that any modifications to future contracts are constant with the terms and conditions in the original RFP and contract. Additionally, LHCA should consider the appropriateness of issuing another RFP and soliciting new proposals to continue the revenue enhancement and operations improvement activities for the third contract year.

Response:

The LHCA does not concur with the findings nor therefore, with the recommendation. Accordingly, no plan for corrective action is submitted nor required.

LHCA Rationale and Support

The LHCA has not allowed modifications which are not in accord with the terms and conditions of the RFP or contract, contrary to the representations of the Auditor. This is because the base period agreement is not a contract modification.

The contract measures and defines at a detailed level the terms and conditions under which the contractor performance is being reimbursed (Previous Exhibit 10). The contract containing these specific terms was subject to prior review and approval by the DOA Office of Contractual Review and the Department of Civil Service, including these terms.

The base period agreement does not modify these contract terms in any manner. The base period agreement merely documents at a detailed level the base period revenue performance levels against which contract period collections would be measured under the methods established in the contract. It is also important to note that this baseline agreement process is recognized explicitly in the contract (Previous Exhibit 11).

The Auditor is also incorrect that the establishment of FY 92 net collections at $200 million somehow creates a guarantee for Deloitte & Touche. The RFP and RFP questions and answers clearly established for all bidders that $200 million was the State's belief as to what FY 92 net collections actually were. This is noted in Exhibit 24. Furthermore, the Deloitte & Touche proposal, which was accepted by the State, clearly established the dependency of the Deloitte & Touche bid on the accuracy of the State's representation of FY 92 collections which was being used by all bidders. This is described in Exhibit 25.

Moreover, as is clearly described in the Contract at Exhibit 26, the contractor is paid based on actual net collections performance in the contract year, and not FY 92 net collections. Even if actual FY 92 collections were greater or less than $200 million, there would be no affect on actual contractor reimbursement in the contract performance year. Rather, it is the actual net collections in the contract performance year which govern contractor reimbursement. Accordingly, the Auditor representation that the contractor will earn at least $12.5 million in the contract year is unfounded.

Finally, relative to the recommended rebidding, the Auditor's draft report was received in late August 1994. Even if we believed that rebidding Contract year 3 made sense based on the Auditor's findings, which we do not, the Auditor has an unrealistic understanding of the time required for public procurement in Louisiana. The current contract year expires September 30, 1994, less than six weeks after the Auditor's draft report was delivered. It would be impossible to reprocure such services without incurring at least a several month gap in these essential revenue enhancement services, during a period that maximizing LHCA revenue performance is critical to the State.