Audit of the QUEST Demonstration Project

A Report to the Governor and the Legislature of the State of Hawaii

Report No. 96-19
December 1996

THE AUDITOR
STATE OF HAWAII

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Audit of the QUEST Demonstration Project

Summary

The Office of the Auditor conducted an audit of the QUEST demonstration project of the Department of Human Services. The project is a five-year federally-approved Medicaid waiver project administered by the department's Med-QUEST Division.

Now in its third year, the QUEST demonstration project faces problems that go beyond a new project's growing pains. The project suffers from planning, financial, and operational deficiencies that need management's immediate attention.

We found that Phase I of the QUEST project was inadequately planned and hastily implemented. The department ignored the problems experienced by other states and dismissed serious legislative concerns. The federal government may require the State to revert to the traditional Medicaid program because the department has yet to prove that it has met its objectives as well as Health Care Financing Administration (HCFA) requirements.

We also found that the QUEST project has yet to demonstrate that it is saving the state money. In fact, costs have increased dramatically, from about $276 million in FY1994-95 to $352 million in FY1995-96. Furthermore, we found that the QUEST project fails to use adequate management controls for eligibility determination and ineligible persons may still be receiving benefits.

We also found that the QUEST project has not developed the required management information system. Without adequate information, the required assessment of QUEST is impossible. Processing and analysis of data and production of needed reports have been hampered without the QUEST Information System. Finally, we found that the QUEST project has not met its staffing needs. Positions crucial to the success of the project have not been filled. Required work remains undone. The QUEST project is not in compliance with waiver requirements because it has not analyzed and reviewed utilization data.

Recommendations and Response

We recommend that the Department of Human Services should not begin Phase II of the QUEST project until it has addressed and resolved all of the problems with Phase I. The department should prepare cost data and submit separate future budget requests for the project and for other Medicaid program costs. The Legislature should require the department to submit QUEST demonstration project costs under a separate program identification.

We also recommend that the Med-QUEST Division ensure that its Eligibility Branch units are following established standardized eligibility procedures and re-verify eligibility annually as required. The division should also consider alternate staffing options to ensure that qualified people are engaged to do the work. Finally, the governor should allocate resources to the Department of Human Services to assist with the implementation of the QUEST Information System.

The department acknowledges most of our findings. It agrees that the project was inadequately planned and hastily implemented. However, the department strongly disagrees with our recommendation to delay implementation of Phase II of the QUEST demonstration project.

The department's response contains much additional explanatory information on the project. The response asserts that costs will be within the federal budget limit at the end of its fifth year. The department points out that current monthly premiums are less than they were earlier, and that it is taking steps to keep monthly premium costs down. The department has begun actions to ensure that standardized procedures be followed when determining eligibility. With respect to the lack of the required management information system, the department concurs with our assessment that additional staff alone will not solve this problem and that it also is working with the contractor to resolve the problems.

Overall, the department's response has not convinced us that it has adequately dealt with the problems encountered in Phase I of the QUEST demonstration project. We still stand by our recommendation for the department to delay the implementation of Phase II until it has satisfactorily resolved the project's existing problems.

Marion M. Higa
State Auditor
State of Hawaii

Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813
(808) 587-0800
FAX (808) 587-0830

Audit of the QUEST Demonstration Project

A Report to the Governor and the Legislature of the State of Hawaii

Submitted by

THE AUDITOR
STATE OF HAWAII

Report No. 96-19
December 1996

Foreword

This is a report of our audit of the QUEST demonstration project of the Department of Human Services. This audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes, which requires the Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions.

We wish to express our appreciation for the cooperation and assistance extended by officials and staff of the Department of Human Services.

Marion M. Higa
State Auditor

Table of Contents

Appendixes

Chapter 1

Introduction

This is a report of our audit of the QUEST demonstration project of the Department of Human Services. The audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes, which requires the Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions.

Background of QUEST Demonstration Project

The Hawaii Health QUEST demonstration project is a five-year federally approved Medicaid waiver project administered by the Department of Human Services' Med-QUEST Division. QUEST is an acronym that represents:

Quality care, ensuring
Universal access, encouraging
Efficient utilization,
Stabilizing costs, and
Transforming the way health care is provided.

States have initiated health care reform due to the absence of federal reform. One of the main areas of state reform is the Medicaid program. Medicaid reform has expanded coverage in two ways: 1) by redefining Medicaid coverage and utilizing managed care; and 2) by utilizing "1115" waivers to include more uninsured persons and test other program changes.[1]

The states are allowed to reform their Medicaid programs by Section 1115 of the Social Security Act, which outlines requirements for experimental, pilot, or demonstration projects by states. It allows the Secretary of Health and Human Services to waive compliance with any requirements of certain sections of statutes, including Medicaid, for any projects that would promote the objectives of the Social Security Act.

Hawaii's Department of Human Services submitted a Section 1115 waiver to conduct a Medicaid demonstration project that expands its enrollment while using a managed care approach. The QUEST demonstration project placed Aid to Families with Dependent Children (AFDC) participants who were enrolled in Medicaid's traditional, fee-for-service system into QUEST's managed care pool. General Assistance (GA) and State Health Insurance Program (SHIP) participants were also placed under QUEST's managed care. The remaining Medicaid

population—the aged, blind, and disabled—are not yet included in the program. See Appendix A for a more detailed description of programs and definition of terms used throughout this report.

QUEST allows participants to select medical and dental plans from participating health care providers. Five medical plans are available: AlohaCare, HMSA, Kaiser, Queen's Health Care, and StraubCare Quantum. All five plans are available on Oahu, and at least two plans are available on each of the neighbor islands. Both dental plans, DentiCare and HMSA Dental, are available statewide. A Behavioral Managed Health Care Plan is provided by Community Care Services which is subcontracted by HMSA.

Medicaid fee-for-service versus QUEST managed care

Medicaid is a fee-for-service health program for the poor that is funded by both the state and federal government. "Fee-for-service" means that it pays physicians and hospitals for each service provided to a Medicaid patient. The traditional fee-for-service arrangement can be more costly than managed care because it exercises less control over patient visits, has greater potential for unnecessary medical procedures or services, and has greater chance of claims fraud.

Managed care has been defined as ". . . a health care delivery system with a single point of entry."[2] Cost savings are supposed to be achieved by the payment of a set monthly fee or payment to a health plan that is responsible for any financial risk.

A primary care physician or a "provider" participating in a managed care health plan serves as a "gatekeeper" by deciding when a patient should be referred to a specialist or admitted to a hospital. The plan must "manage the delivery of patient care" at a cost covered by the plan's monthly fees or payments, or else it loses money. The incentive is to maintain the balance between health care and costs by minimizing extraordinary or unnecessary expenses.

Eligibility for QUEST demonstration project

The QUEST demonstration project expanded eligibility for its participants under a managed care system. In order to be eligible for QUEST, an individual must be a Hawaii resident, a U.S. citizen or permanent legal alien, have a Social Security number, not be certified as blind or disabled, not be age 65 or over, not be living in a public institution, have income not more than 300 percent of the current federal poverty level, and not be eligible for health insurance from his or her employer (except for AFDC and GA recipients). Some individuals pay a share of the monthly premium or make copayments for services. For example, persons whose incomes are above the federal poverty level and/or who are self-employed individuals, are required to pay premiums or pay for services.

In addition to these eligibility requirements, an asset test was added on April 1, 1996 as a result of a legal challenge based on the Americans with Disabilities Act.[3] Now individuals' personal assets and income are considered when determining eligibility. This caused some QUEST participants to become ineligible for the basic QUEST insurance. The department developed a new plan called QUEST-Net to accommodate those who became ineligible because of the new asset test. The department then developed another plan, QUEST-P, for those who were ineligible for QUEST and QUEST-Net.

Proposed populations for QUEST demonstration project

The federal Health Care Financing Administration (HCFA), the agency responsible for Medicaid, approved the "Hawaii Health QUEST Demonstration" project on July 16, 1993. The waiver was approved for five years—April 1, 1994 through March 31, 1999. On August 1, 1994, approximately 105,000 participants of the Aid to Families with Dependent Children and General Assistance programs, and enrollees in the State Health Insurance Program were transferred to QUEST. This pool of participants comprise the "Phase I" population of QUEST.

The department plans to seek approval for amendments to its current waiver. In July 1997, the Department of Human Services plans to implement "Phase II" of QUEST that will include the aged, blind, and disabled population. In future years, QUEST hopes to implement three more phases, described generally as "Phase III," for small business associations; "Phase IV," for state employees; and "Phase V," for workers' compensation. These subsequent phases have yet to be described and finalized. Exhibit 1.1 shows the initiation of Phase I of the QUEST project, subsequent modifications, and future phases.

Funding for QUEST demonstration project

The QUEST project is financed 50 percent by state general funds and 50 percent by federal funds. QUEST was implemented under the department's expectation that it would remain "budget neutral" over the course of five years. In other words, the program would cost the state government no more than what the existing programs would cost.

Organization of Med-QUEST Division

In January 1994, the State's Health Care Administration Division was reorganized as the Med-QUEST Division. The division, as shown in Exhibit 1.2, consists of a Finance Office, Systems Office, Training Office, Policy and Program Development Office, Eligibility Branch, Health Coverage Management Branch, Community Long Term Care Branch, and Medical Standards Branch. The mission of the division is to administer the state's Medicaid and Medicare programs, including the QUEST demonstration project.

Exhibit 1.1
Development of the QUEST Demonstration Project

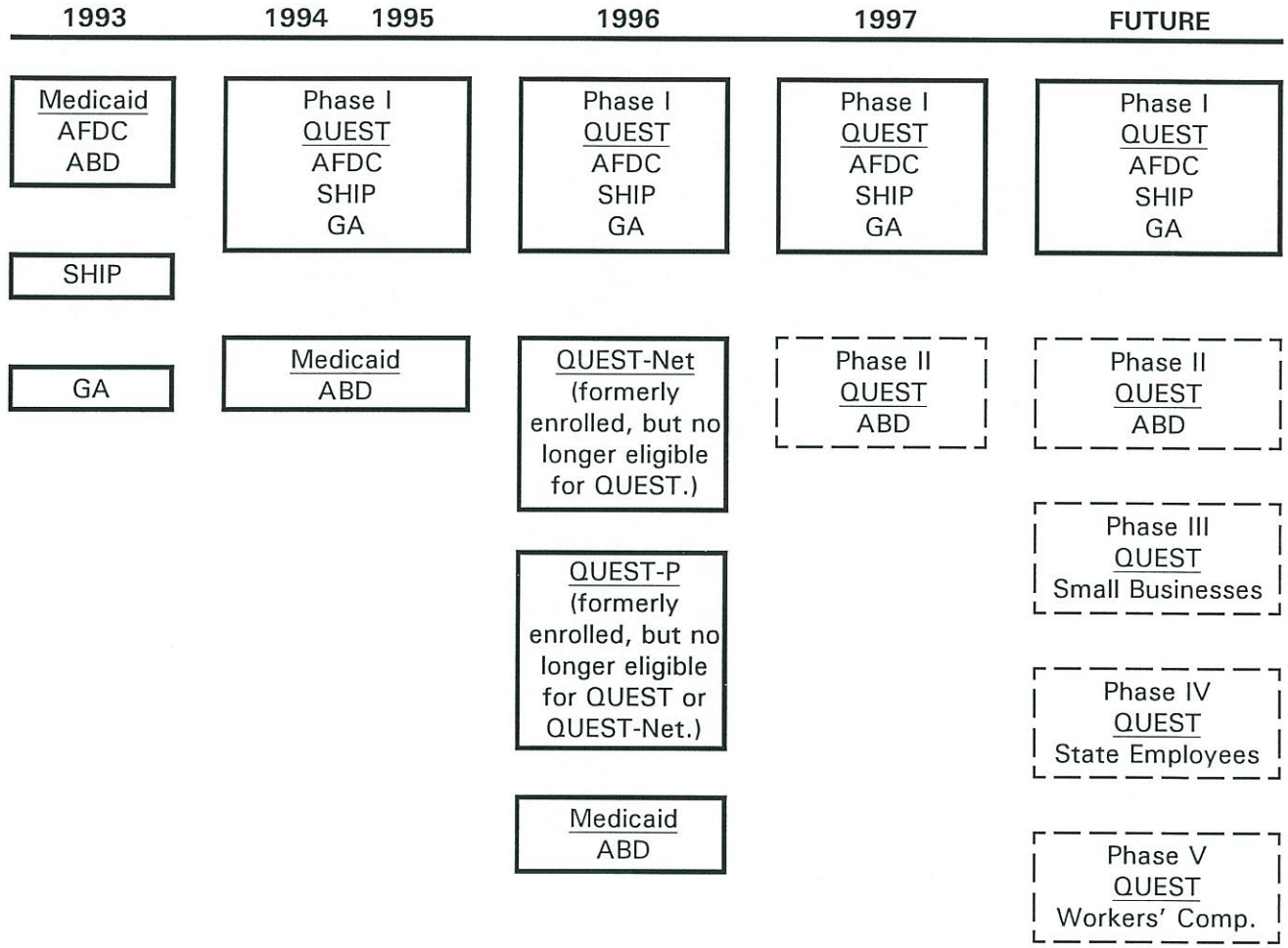
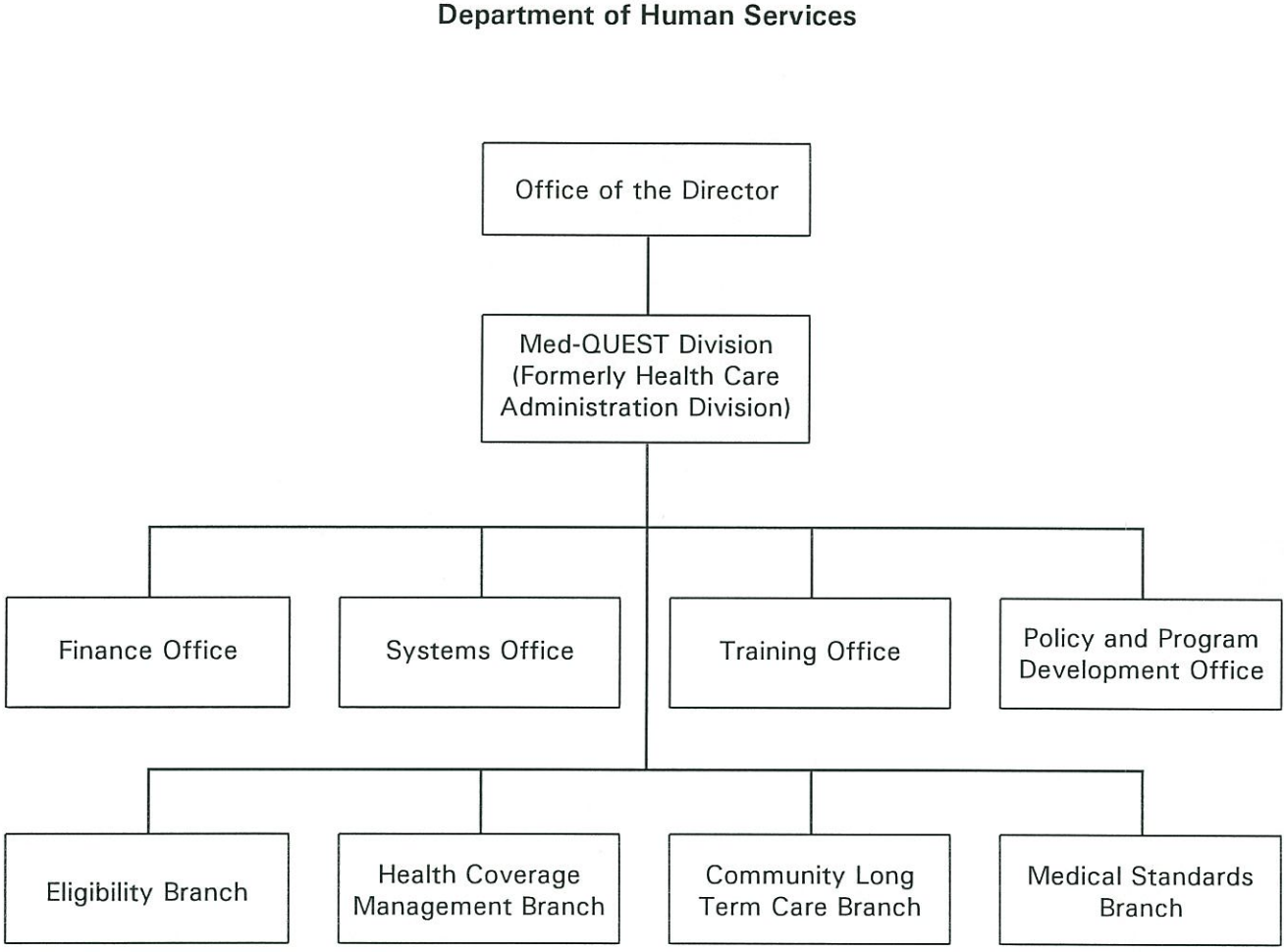


Exhibit 1.2
Med-QUEST Division Organizational Chart



The Department of Human Services proposed that the Med-QUEST Division would comprise a total of 311 positions, including 123 new positions and 188 existing positions. The existing positions included 137 positions from the Health Care Administration Division, 29 positions from the Family and Adult Services Division, and 22 positions from the Department of Health's State Health Insurance Program. The 123 new positions included 117 temporary positions to staff the various offices and branches of the Med-QUEST Division and 6 positions for the Provider Tax Program.

Objectives of the Audit

1. Describe the history of the QUEST program;
2. Assess whether the management controls of the QUEST program are adequate; and
3. Make recommendations as appropriate.

Scope and Methodology

We reviewed federal and state statutes and rules and other relevant literature. Additionally, we reviewed legislative testimony, memoranda, status reports, financial reports, documents, and other forms. We also conducted interviews with persons at the Health Care Financing Administration (HCFA), with other states that used Section 1115 demonstration project waivers, and with health plan participants in QUEST.

We reviewed the Med-QUEST Division's operations for the project during the period of August 1, 1994 to the present. We interviewed the health care administrator, assistant health care administrator, public information officer, and administrators of all offices and branches of the Med-QUEST Division. We reviewed QUEST files at eligibility branch offices on Oahu, Kauai, Maui, East Hawaii, and West Hawaii. We reviewed project files, reports, fiscal and other records. We also reviewed State Health Insurance Program files at the State Archives.

Our work was performed from June 1996 to October 1996 in accordance with generally accepted government auditing standards.

Chapter 2

QUEST Faces Major Planning, Financing, and Operational Deficiencies

This chapter presents the findings and recommendations of our audit of QUEST. From the moment the Department of Human Services announced its plan to implement the QUEST demonstration project, it faced great controversy. Legislators, community groups, health care providers, and the federal government expressed concerns with the cost, enrollment, and quality and access to care. Their concerns were warranted given the problems the project currently faces.

Summary of Findings

Now in its third year, the QUEST demonstration project faces problems that go beyond a new project's growing pains. The project suffers from planning, financial, and operational deficiencies that need management's immediate attention. Specifically, we found that:

1. Phase I of the QUEST project was inadequately planned and hastily implemented. The federal government may require the State to revert to the traditional Medicaid program because the Department of Human Services has yet to prove it has met its objectives and Health Care Financing Administration (HCFA) waiver requirements.

2. The QUEST project has yet to demonstrate that it is saving the state money. In fact, costs increased dramatically, from about $276 million in FY1994-95 to $352 million in FY1995-96.

3. The QUEST project does not use adequate management controls for eligibility determination. Ineligible persons may still be receiving benefits.

4. The QUEST project did not develop the required management information system. Without adequate information, the required assessment of QUEST is impossible. Without the QUEST Information System (QIS), processing forms, communicating between the Family and Adult Services Division (FASD) and the Med-QUEST Division, processing and analyzing data, and producing needed reports have been difficult.

5. The QUEST project has not met its staffing needs. Positions crucial to the success of the project have not been filled. Required work

remains undone. The QUEST project is not in compliance with waiver requirements because it has not analyzed and reviewed utilization data.

Phase I of the QUEST Project Was Inadequately Planned and Hastily Implemented

The initial Phase I conceived in Fall 1992 was inadequately planned and hastily implemented. The department prepared and submitted the waiver request to the federal Health Care Financing Administration on April 19, 1993. Three months later the project was approved to be implemented only a year later on July 1, 1994. This did not give the department sufficient time to ensure that it could meet QUEST's ambitious objectives. The numerous subsequent eligibility changes attest to inadequate initial planning.

During its 1994 session, the Legislature expressed deep concerns with the QUEST demonstration project. The concerns included the cost of the project, the State's fiscal liability should the cost of the project exceed budget limits, the quality of care, access to services, and the short planning and implementation period. During the 1994 session, Senate Bill No. 2383, S.D. 2, contained the following statement:

> . . . the Hawaii Health QUEST program development process has thus far been plagued with what can only be labeled as inept and incompetent planning. Lacking a clear understanding of the actual scope of the problem, administrators have thus far been unable to clearly and accurately articulate to the legislature, the actual needs and requirements of the program.[1]

Despite its reservations, the Legislature approved the QUEST demonstration project on May 2, 1994 with the condition that the implementation date be pushed to the latest allowable date under the waiver, which was August 1, 1994. Lawmakers hoped that areas of concern could be resolved.

DHS bypassed its own Planning and Budget Office

In order to implement the QUEST project expeditiously, the department bypassed the scrutiny of its own Planning and Budget Office, which normally reviews proposals for new projects. Nor did the department consult with its Committee on Payment Projections which could have helped with QUEST's budget projections.

The payment projections committee is comprised of staff from the department's planning, budget, research, accounting, and program development offices. It meets monthly to discuss the budgets of the entitlement programs. Budget projections are refined continuously based on changing factors in caseloads, program expenditures, standards of need, rate of federal financial participation, and the state's economic

condition. Had the department used its own committee's resources initially, it might have better estimated QUEST's cost and enrollment.

Warning flags were not heeded

The Department of Human Services ignored both the negative experiences of other states using Section 1115 waivers and the serious concerns of state legislators. Thus, it suffered problems similar to those of other states and was forced to revisit concerns previously thought to be resolved.

Problems experienced by other states ignored

The Department of Human Services disregarded problems experienced by Arizona and Oregon, states that also used Section 1115 Medicaid waivers. These states provided examples of problems resulting from poorly planned demonstration projects. The department knew of both waivers prior to planning its QUEST project, but failed to capitalize on their negative experiences.

Not only was information on the states' experiences available, but the U.S. General Accounting Office (GAO) published a number of reports on factors to consider in managed care programs and Section 1115 waivers in particular.[2] The GAO suggested other states pursuing Medicaid demonstration projects should take into consideration "lessons learned" in Arizona.[3] The Arizona Health Care Cost Containment System, implemented in October 1982, experienced similar financial and management information problems that QUEST currently faces. The GAO report stated the projects should develop program controls before implementing and designing adequate information systems that report utilization data.

The department did not seriously consider Arizona's experiences when developing its program. Arizona had only 10 months of planning before implementing its project and did not develop financial and utilization reporting systems and program controls before implementing its project. Arizona experienced problems with its systems and controls. Hawaii had only 13 months to plan QUEST and did not develop an information system and controls before implementing the project. Now, some 27 months after QUEST began, the department still has not completed its management information system and has yet to fully implement management controls.

Arizona also failed to test the accuracy and completeness of utilization data at the onset of its program. This made it impossible for the Health Care Financing Administration (HCFA) to evaluate the effectiveness of Arizona's cost containment features for its first three years. Hawaii's Med-QUEST Division also has incomplete utilization data and also cannot assess whether the QUEST project's objectives are being met.

The Oregon Health Plan was implemented in February 1994. Like the QUEST project, it had problems with overenrollment because the number of eligible people exceeded its projections. The initial projection was 52,000 and the actual number of enrollees was 88,000. This led to plan modifications similar to the QUEST project changes. Both the Oregon Health Plan and the QUEST project continue to experience budget problems as a result of unanticipated overenrollment.

The Department of Human Services was convinced that it could successfully implement the QUEST demonstration project despite the history of problems experienced by other states.

Serious legislative concerns dismissed

The department dismissed legislative concerns over the seriousness of cost, enrollment, and information system issues. During the 1994 legislative session, legislators provided the department with a list of concerns regarding such issues as quality of care, access to care, the cost of the project, the State's financial liability, and the speed at which the project would be implemented.

The department indicated that the project would cost the State no more than if the participants in QUEST were still enrolled in their original programs. In fact, it expected to "save" the State money. However, cost data for the past two years show the department spending more than it projected.

The Legislature was concerned that opening enrollment to non-Medicaid recipients would increase the number of participants far beyond the department's estimates. The department replied that an increase from the non-Medicaid population should not be significant.[4] This proved to be untrue.

Legislators were also concerned with the short timeframe to implement QUEST and whether the department could meet all federal requirements without impacting on program and health care quality. The department responded that it "has met every timeline thus far and have (sic) complied with all the federal requirements."[5] This was not entirely true because the federally required management information system was not complete and the critical need for the system and project researchers remained unmet.

Rushed start-up forces project modifications

As presented in Exhibits 1.1 and 2.1, Phase I of QUEST has undergone a number of revisions. The Med-QUEST Division spent the first two project years trying to resolve problems caused by inadequate planning. Eligibility, premium payments, and coverage changed often. Despite these changes, serious problems remain and yet the department plans to

proceed with implementing Phase II of QUEST. Given the unresolved, serious problems with Phase I, the department should not proceed with Phase II until Phase I problems are resolved.

Exhibit 2.1
Changes to QUEST

Date	QUEST event or modifications
August 1994	QUEST begins
August 1995	Income limit for premium sharing is lowered
	Employed persons with employer sponsored health benefits become ineligible
	Income of parents considered in determining eligibility for dependents
	Minimum premium sharing of 50 percent for self-employed persons
	Fee-for-service coverage allowed during enrollment eligibility determination period
February 1996	Self-employed with incomes over 100 percent of federal poverty level must pay entire QUEST premium
	Dental coverage for adults limited to emergency services
	Persons terminated for non-payment of premiums must pay past due premiums to become eligible to enroll again
	Enrollment is limited to 125,000 persons at the end of the calendar year
	Persons with income between 100 and 185 percent of federal poverty level pay a portion of QUEST premiums
	Persons with income above 185 percent of federal poverty level pay full QUEST premiums
April 1996	Asset test added to eligibility requirements
	QUEST-Net begins
	QUEST-P begins
	Elimination of coverage for out-of-state emergencies, limitation of eyeglasses, hearing aids, mental health benefits, alcohol and drug dependence benefits, and non-urgent and non-emergent services
May 1996	All persons with incomes over 100 percent of federal poverty level required to pay entire QUEST premium

QUEST Has Yet To Demonstrate Its Saving of State Money

According to the Department of Human Services, QUEST should save the State $400 million over five years. However, after only two years of operation, the project costs have exceeded the department's initial estimates. Furthermore, the State may have to reimburse millions of dollars to the federal government when the project ends in 1999 for costs that exceeded federal limits.

Enrollment was vastly underestimated

The department vastly underestimated enrollment that would result from expanded eligibility. The actual number of persons who enrolled in QUEST is much higher than originally estimated. The department testified that it estimated enrollment at 110,000. The estimate was based on 105,000 persons transferred from existing medical programs plus 5,000 newly eligible persons. Revised departmental estimates were prepared after the program began. Although the department revised its estimates upward to an estimated enrollment of 116,000 for FY1994-95, even these estimates proved to be too low.

From the outset, enrollment soared beyond estimates. The number of persons enrolled has ranged from 123,000 to 158,000 participants. Exhibit 2.2 compares the actual and projected enrollment each month, from the inception of the program to June 1996. Because the number of participants has far surpassed the projected number, the actual costs naturally exceeded projected costs.

Liberal eligibility criteria caused enrollment to balloon

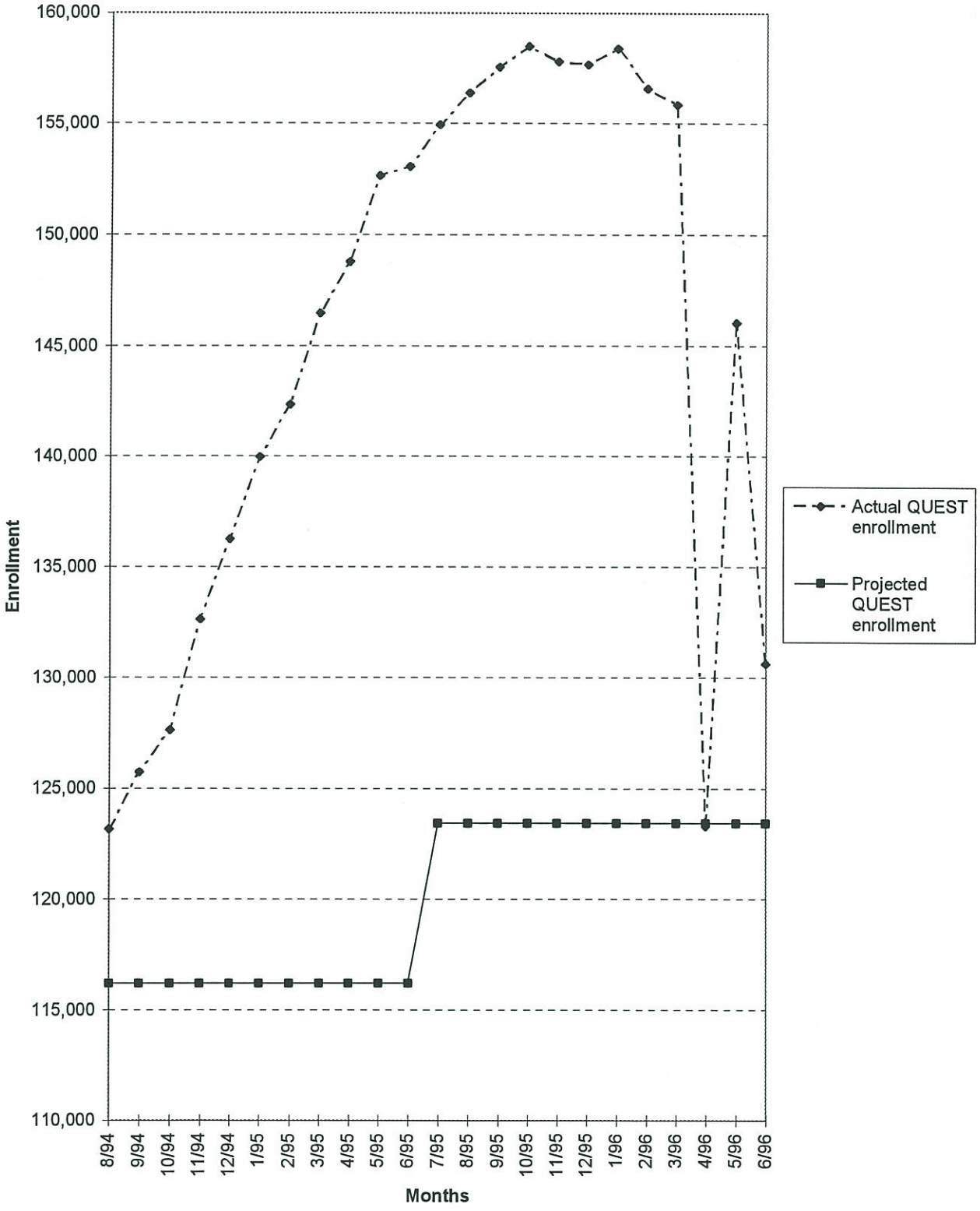
As in Oregon, liberal eligibility criteria promoted the enrollment of persons for whom the project was not intended. The eligibility criteria in 1994 required persons to be:

1. under 65 years of age,
2. a citizen or legal alien not in a public institution,
3. employed without medical insurance provisions, and
4. earning not more than 300 percent of the federal poverty level ($25,410 for a single person, $51,060 for a family of four).

Any person meeting the above criteria was entitled to free or subsidized medical insurance under QUEST. Predictably, many people who had or could afford medical insurance terminated their existing health care coverage and enrolled in the project. These enrollees included:

- College-aged children who were covered previously under their parents' health insurance plan;

Exhibit 2.2
Comparison of Actual QUEST Enrollment and Projected QUEST Enrollment
FY1994-95 and FY1995-96



- Dependents of working adults who dropped their employer-sponsored coverage for their dependents and enrolled them under QUEST;
- Working adults with income levels between 62.5 percent and 133 percent of the federal poverty level who were formerly insured through their employer; and
- Individuals with income levels under 300 percent of the federal poverty level who had additional assets and could afford health insurance.

The department did not anticipate or plan for the additional 13,000 to 48,000 enrollees that resulted from its liberal eligibility criteria.

Program changes failed to rein in costs

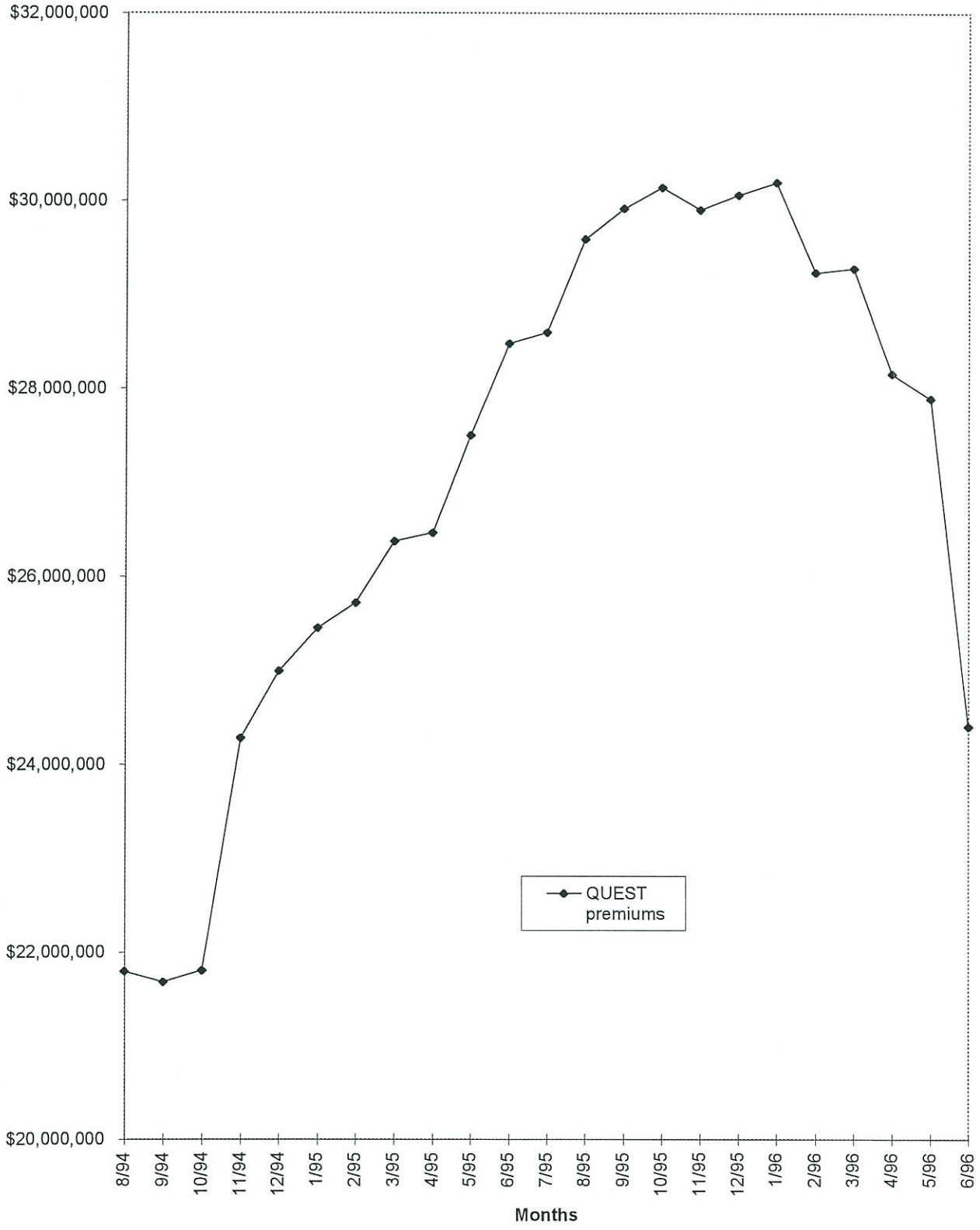
The Med-QUEST Division attempted to control the increased enrollment costs by changing eligibility requirements and increasing cost-sharing for some groups. Initial changes became effective in August 1995, and additional changes became effective in February, April, and May 1996. The changes included the following:

- Copayments increased;
- Capitation on enrollment of 125,000 effective on the last day of the calendar year;
- Parents' income was considered in determining eligibility for applicants between ages 18 to 21;
- Applicants with employer health insurance coverage and not receiving financial assistance became ineligible for QUEST;
- Self-employed participants were charged 50 percent of QUEST premiums regardless of their income level; and
- Applicants with assets over certain levels became ineligible.

These changes did little to bring enrollment and costs in line with the division's projections. As shown in Exhibit 2.2, enrollment has decreased from the highest level in October 1995. However, enrollment in June 1996 was higher than enrollment in August 1994, the first month of the project. Enrollment has exceeded projections in all but one month.

Costs for QUEST medical and dental premiums have followed a similar pattern as shown in Exhibit 2.3. Premium costs have decreased from their highest levels posted in 1995. However, premiums are still significantly higher today than in 1994, at the beginning of the project.

Exhibit 2.3
QUEST Expenditures for Premium Payments
FY1994-95 and FY1995-96



Additional payments to the federal government may be required

One of the federal requirements for QUEST is that the federal share of the program costs cannot exceed a limit. That limit is essentially the medical care cost that the federal government would have incurred for certain groups under the former Medicaid program. This is often referred to as the federal budget limit. See Appendix B for how the federal budget limit will be determined.

The federal government has agreed to pay 50 percent of QUEST health care costs during the life of the project. At the end of the project it will determine whether the amount paid exceeds the federal budget limit. Any amount that exceeds the federal limit will be the State's responsibility.

Excess costs were projected to be offset by subsequent cost savings

The Department of Human Services projected that initial QUEST costs would be more than the federal budget limit for the first two project years. The department estimated that QUEST would cost $40 million more than the limit allowed during the first year and $17 million more during the second year. The department then projected that QUEST would cost less than the limit allowed for the remaining three years. Exhibit 2.4 shows this projection.

The net result was to be projected "savings," meaning no increased costs to the state and federal governments. At a minimum, the five year project was not expected to cost more than if the QUEST participants were still under the Medicaid program.

Costs skyrocketed in the second year

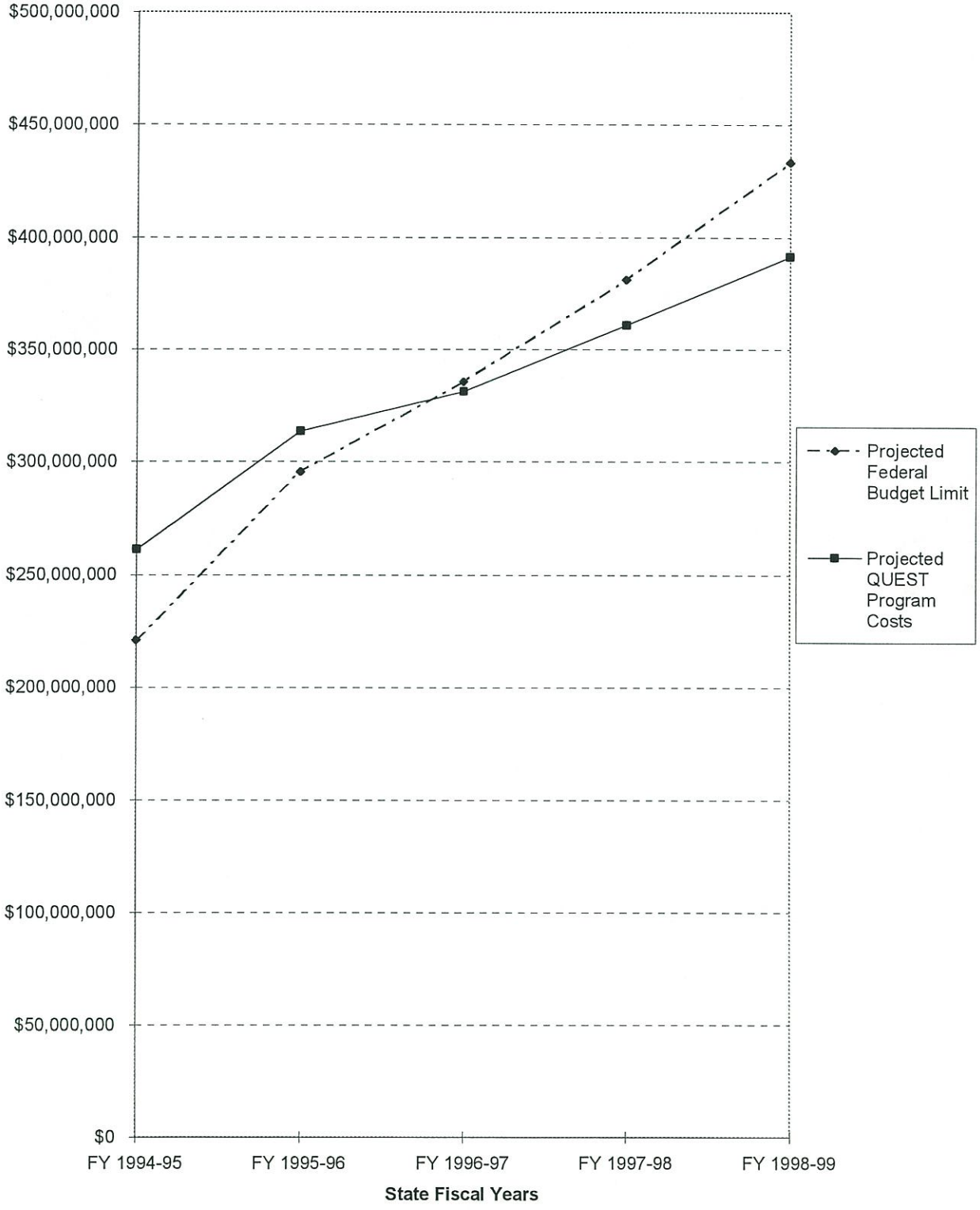
But in fact QUEST project costs skyrocketed beyond the estimated levels. Costs increased from about $276 million in FY1994-95 to $352 million in FY1995-96. Because the Med-QUEST Division has not prepared estimates on the impact of skyrocketing costs against their projected costs, we estimated the impact based on available expenditure data.

We find that QUEST costs exceeded the estimated federal budget limit as the department projected in the first year. However, the second year's costs exceeded the federal budget limit by about $64 million, or $47 million more than the $17 million that the department originally estimated.

Projected "savings" should be viewed with suspicion

Projected QUEST cost "savings" during the last three years of the project should best be viewed with suspicion. The project was originally supposed to save more than $58 million during the last three project years to stay within the overall federal budget limit. But the project will now have to produce cost savings of about $104 million during the next three years to stay within the federal limit.

Exhibit 2.4
Comparison of Projected QUEST Program Costs and Federal Budget Limit FY1995-1999



Source: Department of Human Services, Submission to Senate Ways and Means Committee, April 1995.

Unmatched premium payments prevent accurate cost data

QUEST project costs may be lower than presented because a large amount of unmatched premium payments have not yet been resolved. The unmatched premiums are a result of poor management and an inadequate information system. Because the QUEST Information System is not complete, the department is using its welfare information system for the QUEST Project. This system is incapable of meeting all of QUEST's information processing needs and cannot adequately match premium payments to eligible QUEST participants. Lacking sufficient eligibility information due to its systems limitations, the department has opted to pay these unmatched premiums until they can be resolved. The payments are included in the cost data.

The amounts of these unmatched premium payments total about $700,000 in FY1994-95 and $24 million in FY1995-96. Eligibility workers must research cases and determine whether payments were legitimate. Until these payments are resolved, accurate cost data is not available and therefore, not known.

Adequate cost information is not provided

The budget for the QUEST project is included in a larger budget program, the department's Health Care Payments Program (program ID HMS230). This budget program combines QUEST with other eligibility payments, primarily for the aged, blind, or disabled. Lacking a separate budget program identification for QUEST, the Legislature must rely on the department to provide actual project costs. The department has not done this.

Potential QUEST shortfalls are not identified

Because QUEST budget information is combined with other Medicaid budget information, the department has not publicly revealed whether budget shortfalls are due to QUEST or to other Medicaid programs. In June 1996, the department reached its general fund appropriations limit and could not make payments to health care providers and managed care plans. The department has provided no further explanation. It is difficult to determine which program is responsible for cost overruns. Our review of expenditure data indicates that cost overruns may be due to the QUEST project.

Estimates of federal share of project costs are not provided

The Med-QUEST Division has not provided us with important information about the project costs and costs allowed by the federal government. We requested this information but the division was unable to provide it. It is essential the Legislature know the total estimated project cost to the State. At some point, it must determine whether to continue the project, or to revert to the existing Medicaid program. Comparative cost information is essential to that decision.

Management Controls for Eligibility Determination Are Not Followed

Management controls must ensure that eligibility determination is consistent so that only eligible people are enrolled in QUEST. During our review of QUEST's eligibility processes, we found glaring inconsistencies in the way that cases are processed. Moreover, the department has not verified eligibility of certain participants, which means that ineligible people may be receiving QUEST benefits.

Standardized procedures for QUEST eligibility determination are outdated and complicated. Some eligibility units in both the Med-QUEST Division and the Family and Adult Services Division do not even follow them. Furthermore, the lack of standardized procedures contributes to coordination and communication problems between the divisions. These problems result in division errors in eligibility processing and delays in serving recipients.

Standardized procedures are disregarded

The Med-QUEST Division does not consistently follow standardized procedures in processing QUEST applications. In reviewing the division's files, we found incomplete information and sometimes could not find information necessary for verifying eligibility. The division workers disregarded standardized procedures in order to process the large backlog of applications expeditiously.

Files are inconsistent and incomplete

We reviewed files on Oahu, Kauai, Maui, and East and West Hawaii to determine if eligibility and enrollment procedures were being followed. We found that file information is often incomplete. Over 15 percent of files that we sampled lacked both application and eligibility determination forms which are standardized procedure requirements.

Files transferred from the State Health Insurance Program (SHIP) contained minimal information and did not satisfy QUEST eligibility requirements. Files transferred from the Family and Adult Services Division lacked QUEST eligibility information because the Med-QUEST Division did not consistently copy Family and Adult Services Division's files for Med-QUEST records.

Ineligible people may be receiving QUEST benefits

The QUEST project cannot ensure that only eligible people are receiving benefits. It has not verified eligibility for former State Health Insurance Program (SHIP) recipients. It also has not annually re-verified eligibility of enrollees as required. We were unable to determine how many persons enrolled in the project are not eligible as SHIP transfers or new enrollees.

When the Med-QUEST Division transferred SHIP recipients from the Department of Health, it did not require QUEST applications to be filled out and did not screen for eligibility. The Department of Health did not re-verify eligibility for all of its SHIP recipients either, before transferring them to QUEST. We reviewed a sample of original SHIP files and found that over 60 percent of files in our sample had not been reviewed before being transferred to QUEST.

The QUEST project's administrative rules require annual re-verification of participant eligibility. However, this has not been done for all cases. The Med-QUEST Division re-verified participants for only the asset requirement. The asset requirement took effect April 1996, but our review in July 1996 indicated that re-verification was not complete. Some units have re-verified files for other requirements, but the Oahu unit, which handles over 70 percent of QUEST participants, has not re-verified other requirements.

Communication problems between divisions cause inconsistencies

The Family and Adult Services Division (FASD) and the Med-QUEST Division share responsibility for QUEST cases and need to coordinate their eligibility determination processes. The Family and Adult Services Division handles cases in which clients are eligible for AFDC, GA, Food Stamps, and QUEST benefits. The Med-QUEST Division handles all cases of persons eligible only for QUEST medical benefits.

During a site visit in June 1994, the federal Health Care Financing Administration said, "the state must ensure that FASD and Med-QUEST work cooperatively to ensure that eligibility is determined...with simplicity of administration and the best interests of the applicant."[6] We found continuing communication problems, eligibility information errors, and service delays. The lack of standard procedures for eligibility determination for both divisions compounds the communication problem. Existing procedures are already complicated and the divisions do not follow them.

Errors in eligibility information

Of the many problems that occur when two divisions share administrative responsibility, one type occurs when files are transferred from one division to another without informing each other of the client's status. FASD clients may become ineligible for financial assistance but may remain eligible for QUEST. This type of change is not always reported to the QUEST staff. Unreported changes result in multiple case records for one client and/or inaccurate client eligibility status. This problem could be avoided if both divisions' staff followed standard procedures to concurrently update information on the client's status.

The divisions also have problems in sharing the same computer system which sometimes results in eligibility errors. The computer system is sensitive to input errors that make them difficult to correct. To compound the problem of a sensitive software program, Med-QUEST staff sometimes change information, causing the need for additional corrections. For instance, Med-QUEST staff may inadvertently cancel a client's eligibility for financial assistance. Once made, errors are difficult and time-consuming to correct. In addition to the difficulty of finding and correcting errors, the resulting delays inconvenience the clients, who may not receive services due to staff errors.

Coordination problems cause delays

Delays caused by coordination problems between the Med-QUEST Division and the Family and Adult Services Division inconvenience clients. The divisions coordinate the processing of cases for which they share administrative responsibility, and the use of the computer system. The Health Care Financing Administration (HCFA) noted that both divisions must work closely with each other. However, both divisions have mentioned processing and computer-related problems in working together.

Med-QUEST often takes longer to process cases than FASD. A client may receive eligibility for QUEST after receiving eligibility for an income assistance program from FASD. However, QUEST must provide retroactive coverage for the client, for the period between FASD's determination of eligibility and Med-QUEST's determination of eligibility.

The divisions also have problems in coordinating use of the computer system for eligibility. The Med-QUEST Division and Family and Adult Services Division share the computer system for eligibility information. However, only one division can access a case file at a time. Med-QUEST staff must request permission from FASD to access the system for certain case files, and FASD staff cannot access those files until Med-QUEST returns the access control of the files. Restricted and limited access causes delays for both divisions. These delays are cumbersome for staff and cause delays in processing applications.

It is management's responsibility to ensure that standardized procedures for both divisions are followed to decrease errors and wasted time.

The QUEST Project Has Failed to Develop the Required Management Information System

The QUEST Information System (QIS) is an essential tool for management to monitor and evaluate QUEST. The new system replaces the current Medicaid Management Information System (MMIS). It should assist eligibility determination and process both fee-for-service and managed care data.

Despite the importance of this system, the department unfortunately is not even close to completing the system. According to division officials, the system will not become operational until March 1998. This is almost 18 months after its projected implementation and only 16 months before the end of the five-year demonstration period for the entire project.

The contract for development of the system was awarded to Unisys in December 1994. By August 1996, the system was still in the design stage (Phase I, Pre-Implementation). The design stage was supposed to be completed in February 1995, two months after the contract was awarded. However, Med-QUEST Division's reluctance to provide adequate staff support and Unisys' inability to meet its deadlines have contributed to the delay.

Inadequate systems staff available

The Med-QUEST Division has not provided adequate systems staff to support the design and development of the QUEST Information System. Contrary to Health Care Financing Administration recommendations, the division continues to rely on staff from the Department of Human Services' Information Systems Office for assistance. As a result, the Information Systems Office's staff has postponed regular duties and responsibilities in order to attend to QUEST system-related requests.

Dependence on DHS' Information Systems Office staff

The QUEST project currently relies on the existing Hawaii Automated Welfare Information (HAWI) system for necessary information. The department's Information Systems Office personnel provides operational support, and HMSA administers the existing Medicaid Management Information System. These sources of support were supposed to be only temporary measures.

The original agreement between the Med-QUEST Division and the department's Information Systems Office was to provide computer programming services for only the first six months of QUEST operations. After six months, QUEST would rely solely on the QUEST Information System that would become operational "real fast." However, the division continues to rely on the Information Systems Office for support and QIS is not near completion.

An administrator in the Information Systems Office commented that the delay in implementing QIS has burdened his staff in terms of computer and staff time. Furthermore, the QUEST project has used so much in resources that it will be necessary to seek increased funding from the 1997 Legislature.

Failure to ensure sufficient systems staff

The Health Care Financing Administration repeatedly stressed the need for the Med-QUEST Division to provide sufficient systems staff to ensure the successful implementation of its system. Letters and status reports underline the continuing concern over this deficiency. Sufficient staff resources were described as "critical to the success of the project."[7]

As early as March 1994, the federal administration stated that it does not normally make recommendations to states on internal staffing, but felt that: "Between now and the start-up of the QUEST Information System (QIS), the information systems foundation will be laid upon which rest not only the State's ability to manage QUEST but our ability to track the financial, medical and operational aspects of the program."[8]

Despite the urgency of the Health Care Financing Administration's recommendation, the division did not provide adequate systems staff for the system's operations. The lack of staff impacted the contractor's ability to complete the design and installation of the system. In a letter to the division administrator, Unisys stated: "We are also concerned about the size of the DHS systems organization available to work on this project. . . With the limited number of state resources available, we are essentially forced to single thread requirements meetings, design sessions, and prototypes and until recently have not had named contacts for our analysts to call when questions arise."[9] "Single thread" means that Unisys can only work on one part of the project at a time. This limitation extends the length of time it takes to complete a project such as this.

In early 1995, the division's justification for lack of staff was the state's fiscal crisis and hiring freezes. Only recently could it consider adding personnel. In mid-1996, the division was finalizing systems positions and expected to begin recruitment soon. However, no additional staff have been placed on the project. Instead, the Med-QUEST division continues to rely on the same two staff persons who were with the QUEST project from the start.

Contractor contributes to delay

Unisys has provided other reasons for delay in implementation. It states that, from a technological standpoint, the QUEST Information System is brand new and is an extremely complex system. In addition to the general complexity of the system, Unisys has admitted that the established timeframe was extremely optimistic and that meeting it is impossible and unrealistic.

Division officials stated that the delay in implementation can also be attributed to management problems experienced by Unisys. The original project team was replaced with personnel completely new to the project.

QUEST management has taken minimal action

Besides writing letters to Unisys, the Med-QUEST Division has not taken any formal action against Unisys for not delivering services. In an August 1995 letter, the QUEST administrator raised concerns about Unisys' initial lack of understanding of Hawaii's Medicaid program and the QUEST Demonstration Project. She also raised concerns about communication problems between Unisys staff located in Hawaii and those in Virginia and a fragmented approach toward the development and implementation of the system. In response, Unisys acknowledged the division's concerns and simply reiterated its commitment to completing the project.

Regarding the delay, another Med-QUEST administrator commented that he did not want to jeopardize the current working relationship with Unisys by taking formal actions. The division's option to rebid the contract was considered but not initiated because of additional time and money required to issue another request for proposal. Also, only three consultants had bid on the original contract and the two unsuccessful bidders were no longer in the Medicaid Management Information System business. Finally, the administrator contended that a new contractor would require a new learning curve.

The request for proposal specifies damages that can be assessed against the contractor for failing to implement the QIS. Specifically, the department can assess damages in the event that the contractor does not begin the QUEST Information System on the date specified.

Current system overburdened

QUEST's use of the department's information system taxes the operation of the system. In addition to processing eligibility determination for QUEST, the Hawaii Automated Welfare Information (HAWI) system serves the financial, food stamp, and medical assistance programs administered by the department. Although use of the HAWI system is temporary, it has required changes to address the needs of QUEST.

In April 1996, additional computer mainframe storage was leased for the HAWI system to accommodate the substantial growth of QUEST. However, these changes have not resolved all of the problems encountered. There are still processing problems such as the denial of payments to eligible recipients and the unmatched premium payments totaling more than $24 million.

Delay is costly

Our early discussions with Med-QUEST administrators indicated that the cost of the delay in implementing QUEST's information system were never seriously assessed. Our estimates put the cost of the delay so far at $4.1 million—$3.3 million in federal funds and $800,000 in general funds. This includes contract costs for Unisys, payments to HMSA as fiscal agent, payment for other consulting services, and the lease of additional storage space for the HAWI system.

Unmatched premium payments highlights the problem

The inability to verify that more than $24 million of premium payments are legitimate payments for eligible participants highlights the problems with the project. It seems the department makes the payments because healthcare plan providers are probably submitting invoices properly.

The Med-QUEST Division is simply unable to resolve all the problems caused by the lack of a suitable information system. Some unmatched premium invoices will naturally occur given the numerous changes to eligibility requirements and formulas for premium cost sharing between the project and the clients. It is reasonable to expect that amounts in question are higher because of the system's limitations. However, $24 million is an unacceptable amount to have paid while still unmatched. The department must give immediate attention to information system needs that will improve eligibility processing.

The QUEST Project Has Not Met Its Program Staffing Needs

The use of temporary staff in the Med-QUEST Division's eligibility branch has resulted in high turnover and the division continues to experience processing backlogs. Unfilled critical position vacancies in the division's Systems Office and Health Care Management Branch have negatively impacted the ability to assess the success of the QUEST demonstration project. These vacancies have left the division out of compliance with federal requirements for a management information system and for the analysis of patient utilization data.

Heavy reliance on temporary positions

At the beginning of the QUEST demonstration project, the Legislature established 117 temporary positions to staff the project. Due to hasty implementation, the department did not consider the impact on the project of so many temporary positions and the difficulty in filling highly specialized positions. The division has struggled with high turnover in the temporary positions while attempting to meet the goals and objectives of the project without highly skilled management and systems staff.

High turnover in temporary positions

Of the 117 temporary positions established, 86 positions were for Income Maintenance Worker positions in the division's eligibility branches. These branches have high turnover rates. For the first year of the QUEST project, FY1994-95, the turnover rate for income maintenance workers was 42 percent. In the following year, FY1995-96 the turnover rate was 28 percent. By contrast, the turnover rate for all state employees in the executive branch for calendar year 1995 was only 9.6 percent.

According to an official from the Department of Human Resources Development, the turnover rate among temporary positions is almost always higher than among permanent positions. This is generally accepted as fact. The Med-QUEST Division should have considered this during its planning stage when it realized that the Legislature would authorize only temporary positions.

Permanent positions is not the answer

The Department of Human Services stated that its high turnover rate could be solved by making temporary eligibility worker positions permanent. The pleas for making temporary positions permanent is what the Legislature frequently hears from other state agencies through their requests for additional staff and funds. However, this is not the solution for such a short-lived project as QUEST. Better planning would have prevented many of the problems. Furthermore, other problems need resolution first, before a wholesale staffing change is made.

Current staffing duplicates efforts

Better planning could have identified and eliminated the duplicate processing of cases that both the Med-QUEST Division and the Family and Adult Services Division perform. It is a waste of state resources to have two eligibility workers each handling combination cases.

Furthermore, duplication and wasted effort are compounded when the same cases may have two separate files—one at the Family and Adult Services Division and one at the Med-QUEST Division. For example, this occurs when a person applies for both food stamps and medical coverage. The divisions maintain separate files for their respective programs. QUEST participants may have to fill out separate application forms and produce verification documents for both division offices.

This duplication also affects QUEST enrollees who receive income assistance. Prior to QUEST, enrollees saw only one eligibility worker in the Family and Adult Services Division. Now they must see two—one at FASD, and one at the QUEST office.

Other critical vacancies are not filled

We have already pointed out the immediate need to adequately staff the project's information system. Vacant research positions must also be filled. Because QUEST is a demonstration project, the research component is crucial in determining whether objectives are being met. Despite the importance of the research component, the division has not filled researcher positions in its Health Coverage Management Branch to complete the needed data regarding patient visits. As a result of incomplete data, the division has not comprehensively evaluated the project.

The Health Care Financing Administration has reminded the Med-QUEST Division of the importance of research on more than one occasion. The administration stated in a December 1994 report: "Every effort must be made to assure that the Health Coverage Management Branch is completely and permanently staffed by the implementation date." This concern was reiterated in February 1995.

The branch is fully aware that it needs to conduct research to meet federal requirements, but only recently has initiated the hiring process. The Med-QUEST Division submitted paperwork to fill the vacant positions in July 1996—two years after the start of the project.

Other staffing options not pursued

Rather than focusing solely on filling temporary positions to get the work done, management could have been considering options such as temporary service agencies and outsourcing of certain functions. Management's emphasis should have been on identifying the work needed to be done then analyzing the various ways to do it. Instead management has limited its efforts to filling temporary positions or making positions permanent to reduce turnover.

Conclusion

Inept planning and hasty implementation of the QUEST demonstration project have caused severe problems that must be addressed immediately to make the QUEST project a success and to staunch the flow of red ink. The department must get a handle on how much QUEST is costing the State, set up adequate controls for eligibility determination, complete its management information system, and deal with its staffing needs.

Answers to the problems cannot be found simply with "more money" and "more permanent staff." Management of the department should fill needed vacant research positions, consider alternatives, and look to other agencies for help.

Recommendations

1. The Department of Human Services should not begin Phase II of the QUEST project until it has addressed and resolved all of the problems with Phase I.

2. The governor should allocate resources to the Department of Human Services to assist with the implementation of the QUEST Information System.

3. The Department of Human Services should prepare cost data and submit separate future budget requests for the QUEST demonstration project and for other Medicaid program costs.

4. The Legislature should require the Department of Human Services to submit QUEST demonstration project costs under a separate program identification budget.

5. The Eligibility Branch of the Med-QUEST Division should ensure that its units are following established standardized eligibility procedures and re-verify eligibility annually as required.

6. The Med-QUEST Division should assess the work that needs to be done and consider alternate staffing options to ensure that qualified people are engaged to do the work.

Appendix A

Glossary of Health Terms Used

Aged, Blind, and Disabled (ABD)

Individuals who are 1) over 65 years of age (aged), 2) with central vision acuity of 20/200 or worse in the better eye with correcting lens, or that the widest field of vision subtends an angle no greater than twenty degrees (blind), or 3) unable to engage in substantial gainful activity because of a medically determined physical or mental impairment which may be expected to result in death or which has lasted or may be expected to last for a continuous period of not less than twelve months (disabled).

Aid to Families with Dependent Children (AFDC)

Cash assistance provided to families who lack financial support because of a parent's absence, disability, or death, or the unemployment of the parent/head of household. For families with dependent children or an unemployed parent the child must be: 1) without care and support because the parent is unemployed, ill, absent from home for a long time, or dead, 2) under the age of 18 (if he or she is 18, he or she must attend high school or an equivalent level of a vocational or technical training program and complete the program before reaching age 19, and 3) living with a relative or foster parent. For the parent or relative he or she must 1) give the department any child support money that the household receives, 2) cooperate in locating and obtaining support from the absent parent, 3) register each person in the household for Social Security numbers, and 4) participate in a work program if required.

Americans with Disabilities Act

Federal act signed into law on July 26, 1990, which prohibits discrimination on the basis of disability in employment, programs, and services provided by state and local governments as well as goods and services provided by private companies and commercial facilities. It contains requirements for new construction, for alterations or renovations to buildings and facilities, and for improving access to existing facilities of private companies providing goods or services to the public. The Act also requires that state and local governments provide access to programs offered to the public and covers effective communication with people with disabilities. Also it calls for the elimination of eligibility criteria that may restrict or prevent access and requires reasonable modifications of policies and practices that may be discriminatory.

Capitation payment

Monthly payments to each health plan for each QUEST eligible enrolled in the plan.

Copayment

The amount a person has to pay for services.

Federal Financial Participation (FFP)

A percentage of total expenditures by the state that is funded by the Federal Government for Medicaid and administrative costs.

Fee-for-Service (FFS)

Payments made to registered providers based on the established fee-for-service schedule.

Federal Poverty Level (FPL)

The poverty level as defined by the Bureau of the Census, using the poverty index adopted by a Federal Interagency Committee in 1969, and updated each year to reflect changes in the Consumer Price Index.

Fiscal agent

An agency or organization that processes and audits provider claims for payment and operates the Hawaii MMIS as an agent of the Department of Human Services.

General Assistance (GA)

Financial and medical assistance provided to those individuals who do not met the Medicaid "categorical" criteria (i.e., they are not aged, blind or disabled, and they are not children, pregnant women or families with an absent, disabled or unemployed parent), but meet the financial criteria. The income level must be below 62.5 percent of the federal poverty level, or if in excess of the standard, must be insufficient to meet monthly medical expenses. This population is largely comprised of single adults, childless couples, and adults in two parent families. Individuals between ages 18 to 64 are eligible under the program and must be: 1) temporarily disabled and unable to work at least 30 hours weekly for at least 30 days and 2) be 55 or older and comply with work search requirements or have legally dependent children under 19 years old.

Hawaii Automated Welfare Information system (HAWI)

The State of Hawaii certified Family Assistance Management Information System (FAMIS), which maintains eligibility information for AFDC, Food Stamp, and Medicaid recipients.

Health Care Financing Administration (HCFA)

The organizational unit of the U.S. Department of Health and Human Services responsible for administering Title XIX of the Social Security Act.

Health Maintenance Organization (HMO)

Various forms of health plan organizations, including staff and group models, that meet the HMO licensing requirements of the Federal Government and offer a full array of medical services to members on a capitated basis.

Health plan

Any health care organization, insurance company, or health maintenance organization that provides covered services to enrollees on a risk basis to enrollees in exchange for premium payments. Health plans participating in QUEST include AlohaCare, HMSA, Kaiser Permanente, Queens Hawaii Care, Straub Quantum Care, and Denticare.

Health Plan Employer Data and Information Set (HEDIS)

Health plan performance measures specified by the National Committee for Quality Assurance.

Managed Care

A coordinated health care delivery system made up of the following features: 1) provider networks with specific criteria for selection, 2) alternative payment methods and rates that shift some of the financial risk to the health plans and providers; and 3) controls on the utilization of hospital and specialist physician services.

Medicaid

A federal/state program authorized by Title XIX of the Social Security Act, as amended, which provides federal matching grants for a medical assistance program for recipients of federally aided public assistance and SSI benefits and other specified groups. Certain minimal populations and services must be included to receive FFP; however, states may optionally include certain additional population and services at State expense and also receive FFP.

Medicaid Management Information System (MMIS)

A computer system used by states for processing Medicaid claims and to capture and report the information the Health Care Financing Administration (HCFA) and the states need to administer the program.

Per member per month (PMPM)

The cost of providing health services for individual members during a one-month period. It is used to determine the annual federal budget limit calculation for the assessment of budget neutrality.

Primary Care Provider (PCP)

A health care provider who is licensed in Hawaii and is (1) a physician, either an M.D. (Doctor of Medicine) or a D.O. (Doctor of Osteopathy), and must generally be a family practitioner, general practitioner, general internist, pediatrician, or obstetrician/ gynecologist or (2) a nurse practitioner, and must generally be a family nurse practitioner, pediatric nurse practitioner, or a nurse midwife.

Program costs

Cost for the QUEST project, including premium payments, fee-for-service payments, and other costs, but not including administrative costs.

QUEST (Quality of Care, Universal Access, Efficient Utilization, Stable Cost, and Transformation)

A federally approved, statewide Section 1115 Medicaid waiver demonstration project which seeks to address the State's need to stabilize health care costs, use resources more efficiently, and expand access to health care services, with an emphasis on preventive health care. Health service population includes AFDC coverage groups, GA, and former SHIP clients.

QUEST Information System (QIS)

An automated information system intended to support management, monitoring, and evaluation of the QUEST project and the capitated health plans providing health care services under QUEST.

Section 1115 Waiver

A waiver of Medicaid requirements, under the authority of Section 1115 (a) of the Social Security Act, which allows the Secretary of Health and Human Services to waive compliance with standard Medicaid requirements so that a state Medicaid agency can carry out significant demonstration projects that will further the program's general objectives. Section 1115 waivers are significant in that they allow states greater flexibility to test cost containment strategies and allow states to expand program eligibility beyond traditional Medicaid populations.

Spend-Down

The process by which a Medicaid group incurs allowable medical expenses to be deducted from its excess income and/or spends excess resources on medical and other permitted expenses.

State Health Insurance Program (SHIP)

Fully state-funded, "gap-group" program previously administered by the Department of Health that provided health insurance to people who didn't qualify for employer-based coverage and who earned too much to be on Medicaid but too little to afford private insurance. Gap-group individuals predominantly include unemployed individuals, spouses of low-income workers, elderly who do not qualify for Medicare, Medicaid, or General Assistance, part-time workers employed for less than 20 hours per week, children of low income workers, self-employed individuals, seasonal workers, immigrants, and students. Qualifications for the program include intention to reside in Hawaii, no health care insurance or medical assistance coverage, and a family income not exceeding 300 percent of the federal poverty level.

Social Security Administration (SSA)

The federal organizational unit within the Department of Health and Human Services that determines Medicaid eligibility for various federally administered programs.

Supplemental Security Income (SSI)

A program administered by the Social Security Administration that replaced previously state-administered supplemental payment programs for aged, blind, and disabled recipients. The program is designed to provide additional income to those individuals whose non-SSI income is so low that they meet the program criteria.

Third-party liability (TPL)

Other insurance resources that must be utilized by the recipient before Medicaid benefits are available.

Utilization review (UR)

The processes and procedures by which the quality, quantity, appropriateness, and cost of care and services provided are evaluated against established standards.

Appendix B

Monitoring the Federal Budget Limit for the Hawaii Health QUEST Demonstration

The major components involved in determining the budget limit over the five year period of QUEST are as follows:

Step 1 - Calculation of the federal budget limit

a. Calculate the cost per member per month using fiscal year 1993 costs as the base year.

b. Inflate the 1993 base year per member per month costs.

c. Determine the number of member months for AFDC, GA children and SHIP children for the current fiscal year.

d. Multiply the cost per member month from 1b. to the number of member months from 1c. to determine the federal budget limit.

Step 2 - Calculation of the total recipient cost for the QUEST Program

a. Determine the number of member months for the QUEST recipients.

b. Determine the total cost for the QUEST program including the medical, dental, behavioral health and catastrophic costs.

Step 3 - Determination of budget limit

a. Compare the total cost for the five years under QUEST to the total federal budget limit.

b. If over the five-year period, the cost for QUEST is less than the federal budget limit, HCFA will pay the State 50% of the estimated QUEST recipient costs each year.

c. If over the five-year period, the cost for QUEST is more than the federal budget limit, HCFA will pay QUEST only 50% of the federal budget limit. The State will be responsible for the remainder of the QUEST costs.

Administrative cost for the QUEST program is not subject to the budget limit. HCFA will match 50% of the majority of administrative costs, with additional enhanced matching, up to 90%, for the development of the QUEST information system.

Notes

Chapter 1

1. Trish Riley, "State Health Reform and the Role of 1115 Waivers," *Health Care Financing Review*, vol. 16, no. 3, pp. 139-149.

2. Testimony on "Medicaid: Factors to Consider in Managed Care Programs" submitted by Janet L. Shikles, Director, Health Financing and Policy Issues, U.S. General Accounting Office, to the Subcommittee on Health and the Environment, June 29, 1992.

3. Burns-Vidlak vs. Chandler filed in federal court in October 1995.

Chapter 2

1. Senate Bill No. 2382, S.D.2, 17th Legislature, Regular Session of 1994.

2. Examples of these reports include:

   Testimony on *Managed Care: Oregon Program Appears Successful But Expansion Should Be Implemented Cautiously* submitted by Janet L. Shikles, Director, U.S. General Accounting Office, Health Financing and Policy Issues, Human Resources Division, to the Subcommittee on Health and the Environment Committee on Energy and Commerce, House of Representatives, September 16, 1991.

   U.S., General Accounting Office, *Medicaid: Oregon's Managed Care Program and Implications for Expansions*, GAO/HRD-92-89, June 1992.

   U.S., General Accounting Office, *Medicaid: States Turn to Managed Care to Improve Access and Control Costs*, GAO/HRD-93-46, March 1993.

   U.S., General Accounting Office, *Medicaid: Data Improvements Needed to Help Manage Health Care Programs*, GAO/IMTEC-93-18, May 1993.

3. U.S., General Accounting Office, *Medicaid: Lessons Learned From Arizona's Prepaid Program*, GAO/HRD-87-14, March 1987.

4. Memorandum to Senator Bertrand Kobayashi, Chair, Senate Committee on Health, from Winona E. Rubin, Director, Department of Human Services, Subject: Hawaii Health QUEST, July 6, 1993.

5. Memorandum to Senator Andrew Levin, Chair, Senate Committee on Human Services from Winona E. Rubin, Director, Department of Human Services, Subject: Hawaii Health QUEST Issues, February 10, 1994.

6. U.S. Health Care Financing Administration, Department of Health and Human Services, *Hawaii's Health QUEST Operational Readiness Assessment, Fiscal Year 1994*, December 12, 1994, p. 2.

7. U.S. Health Care Financing Administration, *Hawaii's Health QUEST Operational Readiness Assessment*, p. 9.

8. Letter to Winona E. Rubin, Director, Department of Human Services, from Lawrence L. McDonough, Associate Regional Administrator, Division of Medicaid, March 11, 1994.

9. Letter to Winifred Odo, Administrator, Med-QUEST Division, from Drew Dinsmore, Account Manager, Unisys, September 5, 1995.

Response of the Affected Agency

Comments on Agency Response

We transmitted a draft of this report to the Department of Human Services on November 22, 1996. A copy of the transmittal letter to the department is included as Attachment 1. The department's response is included as Attachment 2.

The department acknowledges most of our findings. It agrees that the project was inadequately planned and hastily implemented. However, the department strongly disagrees with our recommendation to delay implementation of Phase II. The department's response contains much additional explanatory information on the project. The response asserts that the project has saved the State money and that costs will be within the federal budget limit at the end of its fifth year.

The department's response points out that current monthly premiums under the QUEST demonstration project are less than they were earlier, and that the department is taking steps to keep monthly premium costs down. The department has begun actions to ensure that standardized procedures be followed when determining eligibility.

With respect to the lack of the required management information system, the department acknowledges the need for additional information systems staff. It maintains that it is trying to resolve this problem. The response concurs with our assessment that additional staff alone will not solve this problem. The need for an adequate information system is dire, and we encourage the department to continue its efforts to expedite implementation of the federally required information system.

The department's response also included a sample report of a data sheet to be used by its new Committee on Payment Projections for the Health Care Payments. This committee was established to help improve the department's ability to predict the cause and pattern of enrollment and cost increases of QUEST. The utility and reliability of the data sheet have not been evaluated by us.

Overall, the department's response has not convinced us that it has adequately dealt with the problems encountered in Phase I of the QUEST demonstration project. We still stand by our recommendation for the department to delay the implementation of Phase II until it has satisfactorily resolved the project's existing problems.

ATTACHMENT 1

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

November 22, 1996

COPY

The Honorable Susan M. Chandler, Director
Department of Human Services
Queen Liliuokalani Building
1390 Miller Street
Honolulu, Hawaii 96813

Dear Dr. Chandler:

Enclosed for your information are three copies, numbered 6 to 8 of our draft report, *Audit of the QUEST Demonstration Project*. We ask that you telephone us by Tuesday, November 26, 1996, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Tuesday, December 3, 1996.

The Governor and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Marion M. Higa
State Auditor

Enclosures

BENJAMIN J. CAYETANO
GOVERNOR

SUSAN M. CHANDLER, M.S.W., Ph.D.
DIRECTOR

KATHLEEN G. STANLEY
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
P.O. Box 339
Honolulu, Hawaii 96809-0339

December 6, 1996

The Honorable Marion M. Higa, State Auditor
Office Of The Auditor
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

Dear Ms. Higa

RE: Audit of the QUEST Demonstration Project

Attached you will find our Department's response to the audit findings and recommendations for the QUEST program..

Thank you for the opportunity to comment on the on the draft "Audit of the QUEST Demonstration Project".

Sincerely,

Susan M. Chandler

Susan M. Chandler, M.S.W., Ph. D.
Direclor

INTRODUCTION

The Department acknowledges most of the Legislative Auditor's findings but strongly disagrees with its recommendation that Phase II implementation be delayed. The Department agrees that the QUEST program experienced significant start up problems and has continued to experience growing pains. However, while the Department has expended significant effort and resources in planning for a conversion from a traditional fee for service Medicaid program to an expanded, privatized, managed care system, like most new demonstration projects, the Department could not anticipate all of the potential problems that it would ultimately face. The Department certainly did not foresee the significant impact of the State's poor economic condition on the program which was a significant factor contributing to the planning and cost findings cited in the report.

The increase in the QUEST population can be directly attributed to the poor economic condition of the State. Since most residents receive their health coverage through employer-sponsored insurance, employment is a significant factor in ensuring access to health care. From the inception of QUEST, Hawaii saw its economy worsen. Large and small companies closed their businesses and/or reduced their work force. Some reduced work hours to survive economically. As the economic forecast decreased, applications for QUEST increased. Many unemployed declined to pay the cost of extended medical coverage under COBRA; those whose hours were reduced below 20 hours per week lost access to health insurance through their employers. QUEST became the "safety net" to provide coverage for these otherwise, uninsured individuals.

At the time the QUEST waiver application was submitted, Hawaii still had a relatively strong economy and most residents were employed. The unemployment rate was 2.5% and the uninsured rate was estimated at 2-4%. By February 1993, just before the waiver was approved, the State's unemployment rate had increased to 4.8%. By 1994 when QUEST was implemented the unemployment rate had risen to 6.8% Between 1995 and 1996, the unemployment rate was fluctuating from a low of 5.3% to a high of 6.8%. The Department believes that the significant rise and stabilization of unemployment at approximately 6% is the major reason for the increase in the number of QUEST enrollees. For many of the newly unemployed or underemployed, QUEST was the only affordable medical assistance program available. When the QUEST program began its eligibility changes to reduce enrollment, the State began to experience a corresponding increase in the uninsured.

Had QUEST not accepted these individuals into the program, the increase in the uninsured population surely would have negatively affected the State. Although the QUEST costs might have been contained, the cost for treating the uninsured would have appeared in the form of uncompensated care and increasing demands for grants or purchase of service contracts to serve this population. And, all of the additional costs to serve the uninsured

would have been at the State's expense. The QUEST program, in contrast, is able to provide comprehensive health coverage using both State and Federal dollars. In the present situation with the State government's tight fiscal condition, the federal match enables the State to provide more with less.

The Department acknowledges that it underestimated the impact of the program's initial generous eligibility criteria. By April, 1996, necessary changes were implemented to eliminate or reduce the number of enrollees who could have access to and afford private medical insurance. The QUEST enrollment has been reduced by approximately 30,000 recipients or nearly 19% due to these rule changes. Currently (92%) of the QUEST enrollees are eligible because their income is below the 100% federal poverty level. Approximately 40,000 eligibles remain in the "expanded group. " Thus, the QUEST program has been adjusted to serve the very poor.

The program's increase in costs are largely attributed to the growth in enrollment. It is important to stress however, that the QUEST program has been successful in reducing the monthly capitation paid for each QUEST member. Prior to QUEST, the Department operated a fee-for-service program under which providers were paid for units of services. Under the fee-for-service medical and dental programs, the State expended a monthly average cost per recipient of $197.60 for the AFDC and GA recipient. For fiscal year 1995, the average monthly capitated rate under QUEST for AFDC, GA and the expanded eligibles was $190.00. The average capitation rate has been reduced each year of QUEST so that for the current fiscal year the average monthly capitation is $170.00 per member. Approximately $6.70/pmpm of the rate reduction is due to restricting dental coverage for adults to emergency dental services only. Even with the rate reduction, the Department has been able to improve access to care, maintain quality of care with lower out-of-pocket costs on a per unit basis.

With regards to federal budget neutrality, QUEST was implemented under the department's expectation that it would be **budget neutral at the end of five years.** This means that total expenditures may not exceed total projected costs in aggregate for five years and at the end of the five year period the state must demonstrate budget neutrality for federal funding purposes. Last week, the Health Care Financing Administration (HCFA) approved moving the base year for the demonstration project from 1992 to 1993. The Department feels confident that budget neutrality will be achieved at the end of the fifth year.

While it is true that the QUEST Information System (QIS) is not in place (and the Department understands the importance of a good information system), the Department has implemented other monitoring mechanisms to oversee the health plans' performance. The QIS contract is a performance based contract and no payments have been (or will be) made unless products or deliverables are received and approved by the State. The Department conducts on-site visits, requires regular reporting which includes reporting on the plans' complaints and grievances, financial reports and annual HEDIS reports. The Department has a contract with an external quality review organization to review the plans' quality and coordination of care, and to validate encounters and the plans' provider networks. The Department conducts an annual customer

satisfaction survey and reviews reasons for changing plans during the open enrollment period. The program meets regularly with the plan managers and the medical directors to discuss problems or issues related to the program. For the next fiscal year, the program has established goals and objectives which all plans will be working on.

In summary, given the resources available, the Department is doing all it can to ensure cost effective purchasing while maintaining quality of care. The original purpose of the project was to demonstrate that an approach consisting of creation of a significant purchasing pool coupled with a fully capitated benefits package focused on preventive and managed care can result in the provision of quality medical services at an affordable price to all its citizens. The Department firmly believes that this project has demonstrated this. Accelerating costs in our fee for service program will not be stabilized unless we cut services, reduce reimbursements, reduce eligible clients or create another approach to service delivery such as the QUEST program. In July of 1997, we are proposing Phase II of QUEST to fold in a portion of this fee for service population to stabilize a portion of this accelerating cost. Any delays would create adverse budgetary pressures on our programs and force the Department to consider reductions in services, reimbursements and eligible clients for both fee for service and the QUEST programs.

The following section contains the specific detailed responses to the auditor's findings.

RESPONSES TO LEGISLATIVE AUDITOR'S FINDINGS

Finding #1 *Phase I of the QUEST program was inadequately planned and hastily implemented. The federal government may require the State to revert to the traditional Medicaid program because the Department of Human Services has yet to prove it has met its objectives and HCFA waiver requirements.*

Response to Finding #1

A. The key goals that QUEST was designed to address included promoting managed competition, developing a public purchasing pool, developing a standard benefits package, improving access to care, improving health status, encouraging appropriate utilization, providing benefits in a cost-effective manner, mainstreaming the public clients and creating seamless access to health services. It was with these goals in mind that the federal government granted the State the 1115 waiver for QUEST. As stated below, QUEST has either accomplished or has made significant progress towards achieving these objectives.

1. QUEST has promoted managed competition with five medical plans, two dental plans and one behavioral health plan providing services to the recipients. The development of QUEST encouraged health plans to compete to participate in QUEST. Not only did all of the major health plans in Hawaii propose to participate in QUEST, QUEST also promoted the development of a new medical plan in Hawaii, Alohacare and a new dental plan, Denticare. Managed competition has helped Med-QUEST control the cost of care for the QUEST recipients and has provided recipients with more choice and access to providers. All of the health plans have submitted intents to bid to serve QUEST recipients for the next two years.

2. QUEST has developed a public purchasing pool of a significant size based on pooling the AFDC, GA and SHIP recipients. This significant purchasing pool was a factor in encouraging managed competition which allowed Med-QUEST to negotiate favorable capitated rates with the plans. As a result of this purchasing pool, QUEST was able to significantly lower capitated rates in the third year. The QUEST purchasing pool also provides the health plans with access to more members than any one employer in Hawaii.

3. QUEST recipients receive benefits based on a standard benefits package so that each health plan knows what it is responsible for providing to the recipients and each recipient knows what he/she can expect in terms of health services. The standard benefits package encourages cost containment and efficient provision of services. The standard benefits package is richer than the basic benefits package provided by the private health plans. QUEST was able to continue to provide the majority of the optional benefits provided under Medicaid because of the significant purchasing pool and managed competition which allowed Med-QUEST to negotiate favorable capitated rates.

4. QUEST has improved the access to care for its recipients. Prior to QUEST, access to certain services (i.e., dental services) was limited due to the limited number of Medicaid providers. Under QUEST, each health plan is required to have an adequate network and to ensure that the members have access to needed services. For the SHIP recipients, access was greatly improved as the benefits package under the old SHIP program was very limited. QUEST has also encouraged the development of new provider networks which has fostered alliances that improve access for recipients.

5. QUEST is working to improve the health status of its members through managed care and improved access. Each QUEST recipient has a primary care physician to assist in managing the care of the individual and ensuring that needed and appropriate care is received. In addition, the standard benefits package encourages preventive services. Managed care emphasizes preventive care as a means of controlling the need for more acute services. The children in QUEST have always been provided with the full standard benefits package even with the recent changes in the QUEST program. The plans are required to ensure that their children members receive the necessary EPSDT services.

6. QUEST is encouraging appropriate utilization of services as care is managed by a primary care physician. The recipients continue to receive the needed health services however, under managed care, they are not encouraged to seek whatever services they want whenever they want and from whomever they want. Encouraging appropriate utilization is a key factor in controlling the increase in health care costs and improving the health status of the recipients.

7. QUEST is providing health care services to the AFDC and GA recipients in a more cost-effective manner than under the prior fee-for-service Medicaid program. Refer to Exhibit A. In 1993, the cost per AFDC and GA recipient was $197.60 per member per month. The average annual increase in costs was averaging 12% per year. Based on the cost per recipient and the annual inflation factor, the cost per member per month in fiscal year 1997 would have been $310.93. The current per member per month cost under QUEST for medical and dental services is approximately $170.00. In addition, the QUEST program was able to negotiate no increase in rates in fiscal year 1996 and a decrease in 1997. Refer to Exhibit B.

8. QUEST has mainstreamed the public clients by enrolling the recipients into a private health plan, allowing the health plans to charge a co-payment and collecting a portion of the premium from the recipients. The recipients are being treated as if they were in a private health plan and are encouraged to take responsibility for their health care needs including financial responsibility. The recipients receive a member card from the plan that does not identify them as a Medicaid recipient.

9. QUEST has provided seamless access for the AFDC, GA and SHIP recipients. The recipient remains in one program and does not need to transfer from Medicaid to SHIP as the individual's status changes. Once a recipient no longer qualifies for QUEST based on the eligibility criteria, the program continues to allow the recipient access to services through the QUEST-Net and QUEST-P programs.

B. Med-QUEST did recognize that Arizona and Oregon had problems in the development of their waiver programs. At the time that QUEST was being developed, the Oregon program was still in its infancy and, therefore, was not used as a basis in developing QUEST. The only other Medicaid Section 1115 waiver program implemented at the time QUEST was being developed was Arizona's program. Although Arizona's program was approximately 10 years old in 1993, it was recognized that the program was still not without its problems. Arizona did, however, develop and implement various components of its program that were of benefit to QUEST. For example, the financial reporting guidelines which allows Med-QUEST to monitor the financial viability of the health plans was patterned after the guide developed by Arizona.

Med-QUEST recognized that any new program would have problems to contend with even if the program was patterned after a well-established and successful program. Med-QUEST has worked with the recipients, health plans and providers to identify the problems and develop solutions.

C. Med-QUEST conducted a customer survey of the recipients. The recipients were asked why they chose their respective health plan. Thirty-two percent indicated that they chose the health plan to remain with a particular physician, 18% chose the health plan because of the convenient location, 15% chose the health plan because of the high quality of care, 15% indicated that they had no other choice, 5% chose the least expensive plan, 10% had other unspecified reasons and 4% provided no response. The recipients were also asked if they were likely to stay with their current medical plan. Sixty-nine percent said they were very likely to remain with the plan, 12% said somewhat likely, 9% were neutral, 3% said unlikely, 4% said very unlikely, 1% have not utilized any services and 3% had no response.

The survey results indicate that from the recipients' perspective, they are satisfied with the care they are receiving from their health plan. QUEST provides recipients with the opportunity to choose a health plan encouraging them to maintain relationships with their existing physicians. Sixty-five percent chose a health plan because of the physicians, location or quality of care and 69% were very likely to stay with the same plan. The standard benefits package allows the recipients to choose from various health plans based on considerations other than which plan will provide better benefits.

D. QUEST is a demonstration program and, therefore, needs to demonstrate that the program is achieving its goals and objectives. In addition, certain evaluation questions and hypotheses need to be addressed as provided in the waiver application. Med-QUEST acknowledges that it has definite problems with the development of the new information system which was to provide utilization, quality and management information. Med-QUEST is addressing the problems with the contractor and is identifying alternative methods for obtaining needed information. Med-QUEST has engaged the services of an external quality review organization as required by HCFA which will assist Med-QUEST in evaluating the quality of the program and the data.

E. In an effort to improve the Department's ability to better predict the cause and pattern of enrollment and cost increases, the Department implemented within the past year a Committee on Payment Projections for the Health Care Payments. This committee includes staff from the Department's Director's Office, Med-QUEST, budget, statistics, Department of Budget and Finance, and a representative from the Governor's Office. Monthly meetings are conducted and budget projections are refined based on the Department's projected caseloads and expenditure monitoring that may affect the QUEST program. (See Exhibit C for the data sheet to review the program changes each month..)

F. While the QUEST program has experienced difficulties, the program has still met its main objective of providing the recipients with needed quality health services through improved access to the services. The customer survey results indicate that the recipients are being provided with the care they need as most will remain with their existing plan. The problems that have occurred have mainly affected Med-QUEST and its administrative functions as opposed to having a direct impact on the recipients. The eligibility problems did impact the recipients, however, Med-QUEST worked diligently to resolve the problems and continued to ensure that the recipients received needed services. As program changes have been made, Med-QUEST has tried to ensure that the recipients have access to at least basic medical services through QUEST-Net and QUEST-P. The federal government has been kept fully informed of the progress and results of the QUEST program to date and have not expressed any significant concerns. It is anticipated, based on the latest projections, that the QUEST program will also meet its budget neutrality requirement. The Department is confident that the QUEST program will meet its waiver requirements.

Finding #2 *The QUEST project has yet to demonstrate that it is saving the state money. In fact, costs increased dramatically, from about $276 million in FY 1994-95 to $352 million in FY 1995-96.*

Response to Finding #2

A. The number of enrollees in QUEST did significantly exceed the anticipated number based on estimates prepared in 1993. In 1993, it was estimated that only 2% of Hawaii's population was uninsured due to our employer based insurance. The unemployment rate was approximately 4.8%. Since QUEST was implemented, the State's economy has slowed significantly resulting in higher unemployment and more uninsured. The current unemployment rate exceeds the national average and the uninsured population was estimated to be approximately 7%. A number of plantations closed resulting in more individuals and families who now qualified for QUEST. The State was also still feeling the impact of the Gulf War and Hurricane Iniki.

B. The more liberal eligibility criteria did allow more individuals to qualify for QUEST. Without the more liberal criteria, the number of uninsured in fiscal years 1995 and 1996 would have been much higher as QUEST provided needed medical coverage to the individuals and families who found themselves without jobs and a means to afford health insurance. While the QUEST program bore the financial responsibility of providing health insurance for an increased number of recipients, it also helped to control the amount of charity care and bad debts that the providers would have incurred from providing care to a larger uninsured population. The cost for the charity care may have resulted in cost shifting to the private sector. During these times of high unemployment, QUEST has served as a safety net to provide needed health care to those individuals affected by the economic downturn.

C. Although the enrollment in QUEST was higher than anticipated, QUEST was able to provide care to a larger population by reducing the cost per recipient. The average cost per month for the AFDC and GA recipients was $197.60 in 1993. At an average annual increase of 12%, the cost per AFDC and GA recipient in 1995 would have been $247.87 compared to $190.00 under QUEST for the capitated rates paid to the medical and dental plans and catastrophic reinsurer. For fiscal year 1997, Med-QUEST was able to reduce the cost per QUEST recipient to approximately $170.00 based on negotiations with the health plans and lower utilization of services.

D. The costs in fiscal years 1995 and 1996 were higher than anticipated not only because of the higher enrollment, but also because of additional expenditures required to ensure that recipients received needed care while the problems with the eligibility process were resolved. The eligibility process was not designed for the significant increase in the number of applications received during the first year of QUEST and consequently experienced problems. Due to the longer processing time, Med-QUEST decided to provide eligible recipients with needed medical services through a voucher system. This is not a recurring cost and with the changes that have been made to the eligibility and enrollment process, the fee-for-service expenditures paid for by Med-QUEST has been minimized.

E. Med-QUEST recognized that some individuals were enrolled in QUEST who should not have been as they had access to private health insurance. The intention of QUEST was to provide health insurance to those who needed it most as they either did not have access to private health insurance and/or could not afford the coverage. Thus, Med-QUEST initiated changes to the eligibility criteria in August 1995 to close the loopholes. It is agreed that these changes did not result in dramatic decreases in enrollment as the changes were meant to close the loopholes. The eligibility changes made in 1996 were designed to decrease and control enrollment and have been successful in decreasing enrollment from approximately 160,000 to 130,000.

F. Based on the limited funds available and the desire to serve those who need the services most, additional changes to eligibility were made in 1996 to further reduce enrollment and promote financial responsibility among the recipients. Recipients that no longer qualified or were required to pay 100% of the premium were those who would not have qualified for Medicaid had it not been for QUEST. To provide recipients that no longer qualify or cannot afford the QUEST premium, QUEST-Net and QUEST-P were developed to provide a minimum set of benefits while the individuals transition to a private health plan and to provide the individuals with a lower cost alternative.

G. The cap on the enrollment at 125,000 will help to control enrollment and costs. Increases in enrollment will be due to increases in the number of AFDC and GA recipients as the cap does not apply to those who would have qualified for the AFDC and GA programs regardless of QUEST. The State would be paying for the health care costs of these recipients with or without QUEST. However, with QUEST, the cost per recipient is significantly lower than it would have been without QUEST.

H. The cost for the first two years did exceed the anticipated costs due to the increased enrollment and the non-recurring costs associated with the eligibility problems. The project, however, is still anticipated to be budget neutral over the five years of the demonstration period. QUEST costs for fiscal years 1997 through 1999 will be significantly lower than the 1995 and 1996 costs due to decreased enrollment, payment of 100% of the premiums for those with incomes above 100%, decreased dental premiums for the adults as a result of decreased benefits, decreased medical capitated rates and catastrophic premiums, and minimization of the non-recurring costs.

I. The budget neutrality formula that was agreed to with HCFA provides for an inflationary increase to the 1993 cost per member per month to determine the federal budget limit. The inflationary increase is equal to Honolulu CPI-medical care increase plus 4%. Med-QUEST does not anticipate providing the health plans with increases equal to or in excess of the amount allowed by HCFA. The health plans did not receive an increase in 1996 and received a decrease in 1997. As the health plans continue to manage utilization of services, they should be able to continue to provide care without significant increases. The private plans have not significantly increased their premiums in the past two years. The difference between the inflation rate applied by HCFA and the increase provided under QUEST is what allows the program to remain budget neutral. The current enrollment cap and requirement that recipients with incomes of more than 100% of the federal poverty limit pay 100% of their premiums also allows QUEST to remain budget neutral.

Finding #3 *The QUEST project does not use adequate management controls for eligibility determination. Ineligible persons may still be receiving benefits.*

Response to Finding #3 Med-QUEST has initiated plans and communications with all the supervisors to establish clear standardized procedures in our branch that will be used statewide. Representatives from our Division have been meeting with a committee from the Family and Adult Services Division to improve the standard operating procedures that are currently in place. Additional quality control staff from the Department's Evaluation Staff Office have been deployed to the Med-QUEST Eligibility Branch to assist in implementing a streamlined system of data entry to improve the eligibility process.

Finding #4 *The QUEST project did not develop the required management information system. Without adequate information, the required assessment of QUEST is impossible. Without the QUEST Information System (QIS), processing forms, communicating between the Family and Adult Services Division (FASD) and the Med-QUEST Division, processing and analyzing data, and producing needed reports have been difficult.*

Response to Finding #4

We acknowledge the auditor's finding of insufficient systems staff and we are currently trying to resolve this staffing problem. Because of the hiring freeze in effect at the time the project was implemented, the Division contracted with a systems consultant who had specialized technical expertise in procurement and management of Medicaid Management Information Systems development and implementation. The consultant has provided assistance with the procurement and management of the QIS implementation.

We see the primary cause of the delay in the implementation of the QIS as the contractor's (Unisys Corporation) underestimation of the scope and technological complexity of the QIS. The Division and its consultant have been working with Unisys to track and address these problems in status meetings and through recommendations and the review of alternatives. MQD has received Unisys' commitment to resolving these problems and work has continued with Unisys scheduled to deliver a piece of the project, a reporting system, to MQD in early December. This reporting system is specifically designed to provide information for the QUEST demonstration project. However, since Unisys has not satisfactorily performed much of the contract to date, payments rendered to Unisys have been withheld.

As a clarification to the project costs, it should be noted that the contract with Unisys is a deliverable based contract, with payments to be made only on state approved deliverables, to date, approved deliverables total less than $150,000. The other costs, especially those to HMSA are on-going operational costs of the Division.

As a response to the Auditor's recommendations, we do not believe additional resources will solve all the problems associated with the implementation of the QIS. As much of the work must be performed by the contractor, it is Unisys who must devote the additional resources to the QIS. We are working with Unisys to assure these resources are deployed.

Finding #5 *The QUEST project has not met its staffing needs. Positions crucial to the success of the project have not been filled. Required work remains undone. The QUEST project is not in compliance with waiver requirements because it has not analyzed and reviewed utilization data.*

Response to Finding #5

The Med-QUEST Division is assessing the work that needs to be done with the technical assistance of the Health Care Financing Administration (HCFA) and will consider other options to in-house staffing. The Division is also making every effort to fill the critical vacant positions for functions that must be performed in-house.

The Department feels that the request to the legislature for temporary positions for a temporary demonstration project was appropriate and justified.

Regular monthly telephone conference calls are conducted between the Division's management staff, the federal project manager from the Office of Research and Demonstration and HCFA's Regional Office staff to address waiver compliance issues. HCFA monitors the progress of the QUEST project and offers suggestions when problems are encountered. The Department is in complete compliance with the HCFA 1115 Demonstration Waiver.

Exhibit A

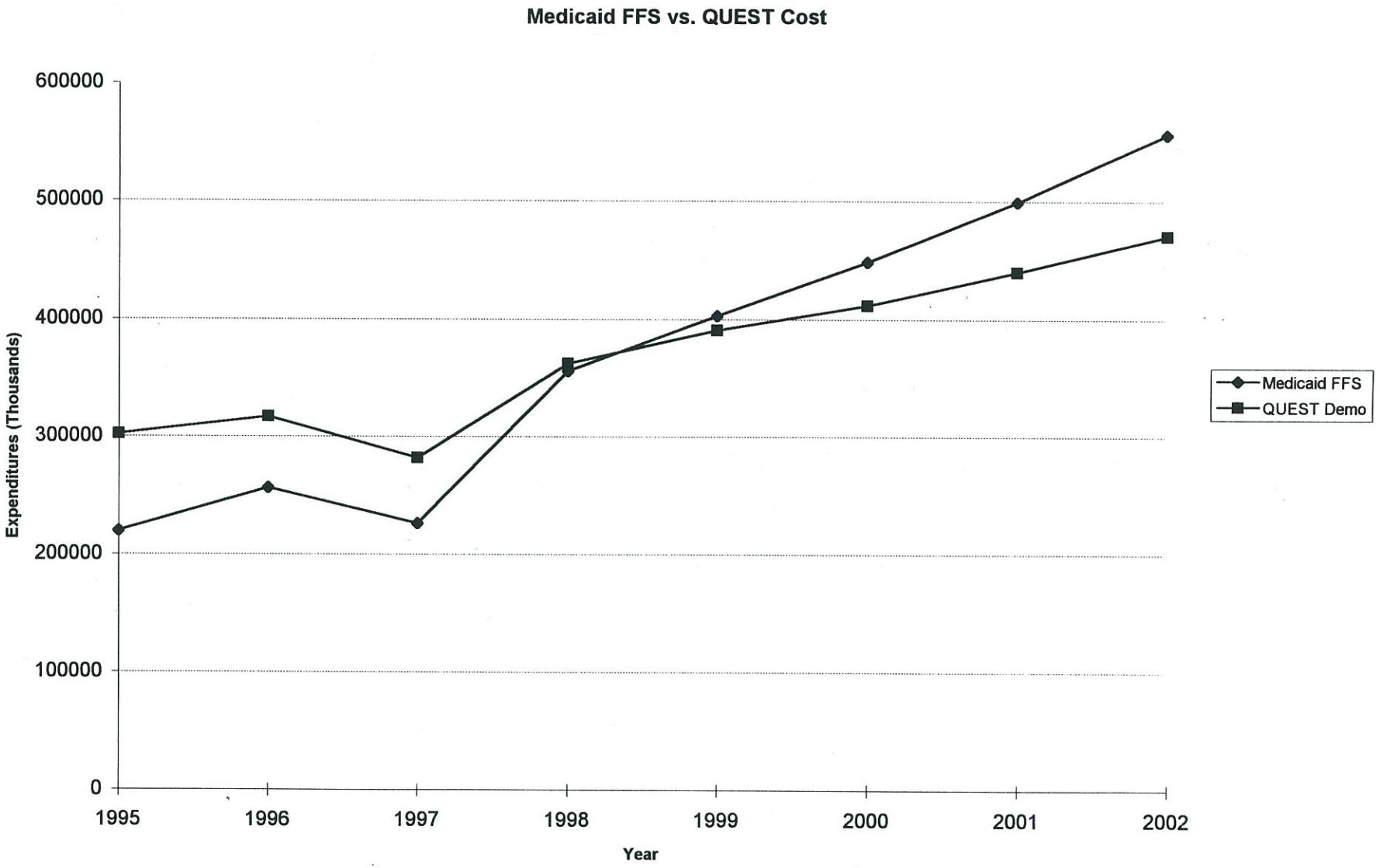
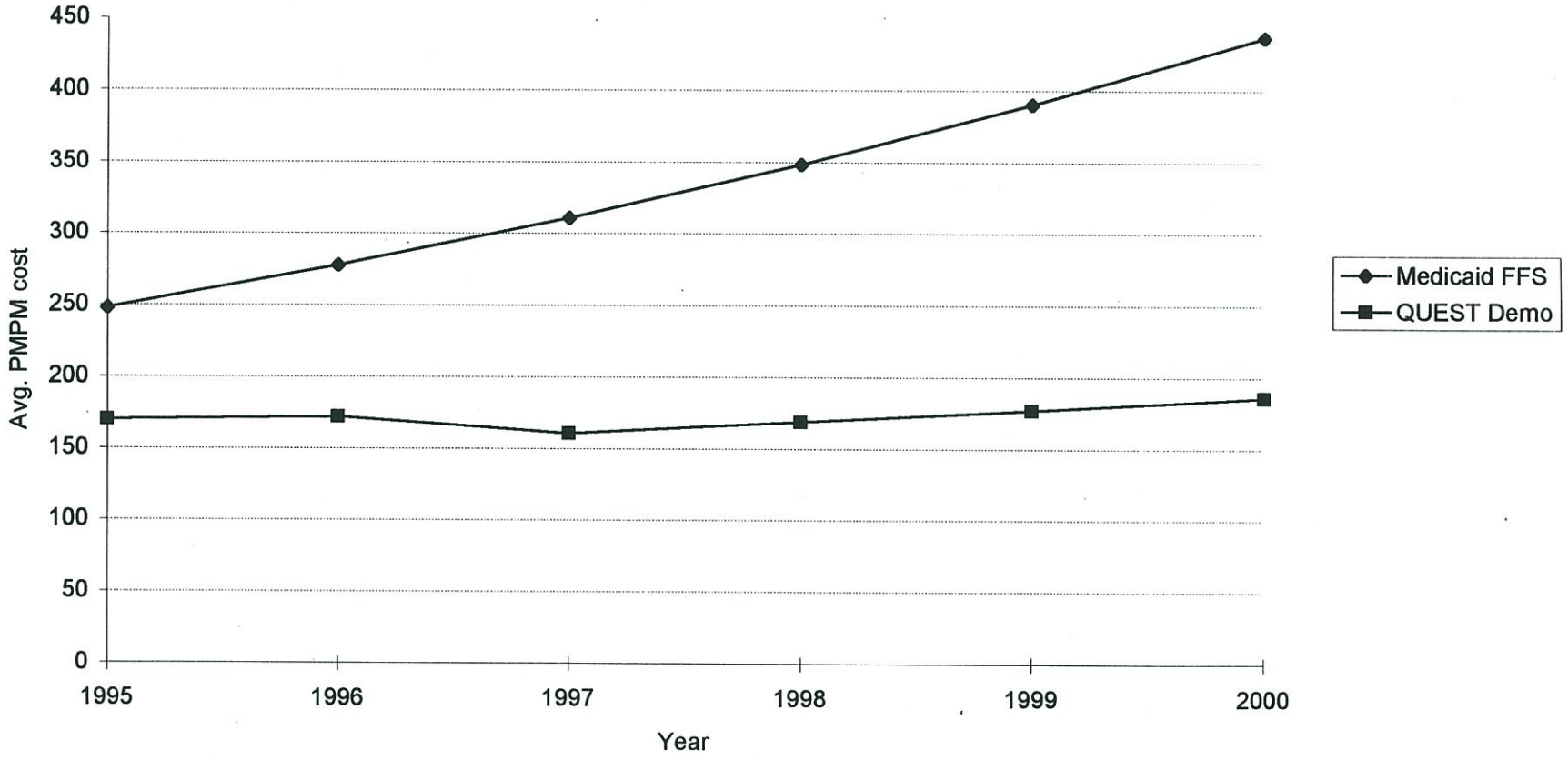

Medicaid FFS vs. QUEST Cost
600000
500000
400000
300000
200000
100000
0
Expenditures (Thousands)
1995
1996
1997
1998
1999
2000
2001
2002
Year
Medicaid FFS
QUEST Demo

Exhibit B

Per Member per month cost
Existing FFS vs. QUEST Demo



Sample Report

Exhibit C

Department of Human Services													
Med-QUEST COPPS-FY 96													
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	SFY Total
Expenditures													
QUEST (GF)	$21,778,845	$14,762,270	$13,577,485	$13,955,613	$14,039,858	$14,261,159	$14,141,298	$13,674,870	$11,550,428	$13,188,178	$544,506	$0	$145,474,507
(FF)	$21,778,845	$14,762,270	$13,577,485	$13,955,613	$14,039,858	$14,261,159	$14,141,298	$13,674,870	$11,550,428	$13,188,178	$544,506	$0	$145,474,507
Total	$43,557,690	$29,524,539	$27,154,970	$27,911,225	$28,079,715	$28,522,317	$28,282,596	$27,349,739	$23,100,856	$26,376,355	$1,089,011	$0	$290,949,013
Catastrophic (GF)	$4,636,754	$1,089,354	$1,009,552	$1,022,601	$992,212	$1,249,563	$0	$0	$0	$0	$0	$2,318,067	$12,318,101
(FF)	$4,636,754	$1,089,354	$1,009,552	$1,022,601	$992,212	$1,249,563	$0	$0	$0	$0	$0	$2,318,067	$12,318,101
Total	$9,273,508	$2,178,707	$2,019,103	$2,045,202	$1,984,423	$2,499,125	$0	$0	$0	$0	$0	$4,636,133	$24,636,201
Quest Behavorial (GF)	$258,264	$253,422	$288,664	$272,523	$255,036	$249,386	$239,971	$229,748	$217,103	$209,571	$0	$0	$2,473,685
(FF)	$258,264	$253,422	$288,664	$272,523	$255,036	$249,386	$239,971	$229,748	$217,103	$209,571	$0	$0	$2,473,685
Total	$516,528	$506,843	$577,328	$545,045	$510,071	$498,772	$479,941	$459,495	$434,206	$419,141	$0	$0	$4,947,370
Fee for Service (GF)	$26,300,833	$14,134,945	$8,214,762	$9,753,642	$9,151,301	$6,797,166	$7,406,081	$11,020,501	$5,995,936	$9,384,719	$14,475,059	$0	$122,634,943
(FF)	$26,300,833	$14,134,945	$8,214,762	$9,753,642	$9,151,301	$6,797,166	$7,406,081	$11,020,501	$5,995,936	$9,384,719	$14,475,059	$0	$122,634,943
Total	$52,601,665	$28,269,890	$16,429,523	$19,507,284	$18,302,601	$13,594,331	$14,812,162	$22,041,002	$11,991,871	$18,769,438	$28,950,118	$0	$245,269,885
CLTCB Waivers (GF)	$0	$0	$2,187,122	$0	$0	$2,665,614	$0	$0	$2,433,326	$0	$0	$0	$7,286,062
(FF)	$0	$0	$2,187,122	$0	$0	$2,665,614	$0	$0	$2,433,326	$0	$0	$0	$7,286,062
Total	$0	$0	$4,374,243	$0	$0	$5,331,228	$0	$0	$4,866,652	$0	$0	$0	$14,572,123
SMI Part A (GF)	$1,144,692	$569,711	$570,049	$556,193	$583,577	$558,087	$703,320	$657,454	$697,207	$647,243	$683,446	$0	$7,370,977
(FF)	$1,144,692	$569,711	$570,049	$556,193	$583,577	$558,087	$703,320	$657,454	$697,207	$647,243	$683,446	$0	$7,370,977
Total	$2,289,384	$1,139,421	$1,140,098	$1,112,385	$1,167,154	$1,116,174	$1,406,639	$1,314,908	$1,394,414	$1,294,485	$1,366,891	$0	$14,741,953
SMI Part B (GF)	$812,822	$418,310	$413,685	$413,670	$419,201	$422,570	$382,821	$395,857	$382,821	$392,197	$403,551	$0	$4,857,501
(FF)	$812,822	$418,310	$413,685	$413,670	$419,201	$422,570	$382,821	$395,857	$382,821	$392,197	$403,551	$0	$4,857,501
Total	$1,625,643	$836,620	$827,369	$827,339	$838,401	$845,139	$765,641	$791,713	$765,641	$784,394	$807,101	$0	$9,715,001
DOH/Pace (GF)	$63,679	$21,728	$21,990	$22,702	$23,204	$23,220	$22,949	$0	$0	$0	$0	$0	$199,470
(FF)	$63,679	$21,728	$21,990	$22,702	$23,204	$23,220	$22,949	$0	$0	$0	$0	$0	$199,470
Total	$127,357	$43,455	$43,980	$45,403	$46,407	$46,440	$45,897	$0	$0	$0	$0	$0	$398,939
DOH/CAMHD	$391,433	$119,004	$110,152	$128,839	$98,350	$103,268	$110,152	$115,070	$119,004	$129,822	$0	$0	$1,425,094
Funeral Payments (GF)	$62,840	$84,181	$213,738	$49,306	$76,375	$236,040	$50,264	$95,731	$187,323	$60,083			$1,115,881
Medical Transporation (GF)	$26,107	$27,743	$63,771	$22,962	$17,476	$68,950	$16,347	$28,452	$60,873	$19,390	$0	$0	$352,070
(FF)	$26,107	$27,743	$63,771	$22,962	$17,476	$68,950	$16,347	$28,452	$60,873	$19,390	$0	$0	$352,070
Total	$52,213	$55,486	$127,541	$45,924	$34,952	$137,899	$32,694	$56,904	$121,746	$38,780	$0	$0	$704,139
Total (GF)	$55,084,834	$31,361,662	$26,560,816	$26,069,210	$25,558,237	$26,531,753	$22,963,049	$26,102,612	$21,525,016	$23,901,380	$16,106,561	$2,318,067	$304,083,193
Total (FF)	$55,413,427	$31,396,485	$26,457,230	$26,148,743	$25,580,212	$26,398,981	$23,022,937	$26,121,951	$21,456,697	$23,971,119	$16,106,561	$2,318,067	$304,392,406
Grand Total	$110,498,261	$62,758,146	$53,018,045	$52,217,952	$51,138,449	$52,930,733	$45,985,986	$52,224,562	$42,981,713	$47,872,498	$32,213,121	$4,636,133	$608,475,599

Sample Report

Exhibit C

Department of Human Services													
Med-QUEST COPPS-FY 96													
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	SFY Total
Monthly Caseload Data													
QUEST	157,030	157,417	158,634	160,890	158,195	158,934	163,345	152,247	151,758				1,418,450
ABD	28,123	28,400	28,489	28,708	31,642	32,062	33,157	33,076	33,170	32,721	32,819		342,367
Changes from Prior Month													
QUEST	5,860	1,217	2,256	(2,695)	739	4,411	(11,098)	(489)					
ABD	211	89	219	2,934	420	1,095	(81)	94	(449)	98			4,630
													0
Changes from Prior Month %													
QUEST	3.88%	0.78%	1.43%	-1.70%	0.46%	2.79%	-6.98%	-0.30%					
ABD	0.76%	0.32%	0.77%	10.30%	1.46%	3.46%	-0.25%	0.28%	-1.36%	0.30%			