



WISCONSIN STATE LEGISLATURE

Joint Audit Committee

Committee Co-Chairs:

State Senator Robert Cowles

State Representative Samantha Kerkman

January 19, 2012

Mr. Dennis Smith, Secretary
Department of Health Services
1 West Wilson Street, Room 650
Madison, Wisconsin 53703

Dear Mr. Smith:

Thank you for your testimony at the public hearing held yesterday on the nonpartisan Legislative Audit Bureau's (LAB's) evaluation of Family Care (report 11-5). Your testimony and responses to the questions posed by committee members were helpful in describing the current status of the Family Care program and assessing program improvements made by the Department of Health Services (DHS) to address concerns identified in the audit. However, at least three issues require further communication between DHS and the Committee. Therefore, we ask that you provide additional comments in writing on the following issues.

Growth in Administrative Costs

In Table 13 (page 27) of report 11-5, LAB identified growth in Managed Care Organizations' (MCOs') administrative expenditures, which more than tripled from 2006 through 2010. In your testimony, you stated that much of the increase may be attributable to program expansion but noted that this statistic warranted further consideration. Therefore, we request that you provide the Committee with additional information about DHS' plans to control MCO administrative costs in the future.

Salaries of Executives in Managed Care Organizations

In Table 15 (page 28) of report 11-5, LAB listed the salaries of executives in MCOs in 2010. Because salaries and fringe benefits represented more than 57 percent of MCO administrative expenditures in 2010, we remain concerned that administrative costs may continue to be driven by high salaries for MCO executives. You testified that other relevant market comparisons should be considered when evaluating MCO executive salaries. We believe that the very best comparisons of MCO executive salaries are those of other MCO executives and we are also concerned with the extensive variation in these salaries. Therefore, in addition to the other relevant market comparisons you agreed to provide to the Committee, we also ask that you update the salary information as presented in Table 15 for 2011.

Ensuring Program Integrity

Throughout today's hearing, committee members expressed ongoing concerns about appropriately balancing access to services with a need to ensure program integrity. While creating an Office of Inspector General and establishing a toll-free hotline are two steps taken by DHS, you also testified to the ongoing need to create an infrastructure of accountability in service delivery for Family Care and other long-term care programs. This accountability is particularly important in the creation and expansion of the Include, Respect, I Self-Direct (IRIS) program. Please describe the specific infrastructure components currently in place to ensure program integrity and reduce fraud, waste, and abuse in IRIS. Please also describe specific program integrity efforts you anticipate implementing in IRIS between now and your next follow-up report, which is due to the Committee by August 31, 2012.

Other Reporting Documents

In addition to the three issues listed above, we also anticipate receiving copies of the following documents, which you agreed to provide in your testimony:

- the most recent quarterly report on Family Care that presents additional information on MCO solvency;
- the 2010 Long Term Care in Motion report referenced on page 11 of your September 1, 2011 follow-up report;
- all studies listed on page 23 of your September 1, 2011 follow-up report;
- the work plan created to address gaps between current Program Integrity Plans and the provisions of the Affordable Care Act as discussed on page 31 of your September 1, 2011 follow-up report; and
- the APS Healthcare study referenced on page 36 of report 11-5.

We would appreciate receiving your response to these matters on or before Friday, February 10, 2012. Thank you again for your testimony and for your ongoing cooperation.

Sincerely,



Senator Robert Cowles, Co-chair
Joint Legislative Audit Committee



Representative Samantha Kerkman, Co-chair
Joint Legislative Audit Committee

cc: Members, Joint Legislative Audit Committee

Joe Chrisman
State Auditor