

Report  
of the  
Examination of  
Western Wisconsin Cares  
La Crosse, Wisconsin  
As of December 31, 2013

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

*Scott Walker, Governor*  
*Theodore K. Nickel, Commissioner*

*Wisconsin.gov*

December 1, 2014

125 South Webster Street • P.O. Box 7873  
Madison, Wisconsin 53707-7873  
Phone: (608) 266-3585 • Fax: (608) 266-9935  
E-Mail: [ociinformation@wisconsin.gov](mailto:ociinformation@wisconsin.gov)  
Web Address: [oci.wi.gov](http://oci.wi.gov)

Honorable Theodore K. Nickel  
Commissioner of Insurance  
State of Wisconsin  
125 South Webster Street  
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

WESTERN WISCONSIN CARES  
La Crosse, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

This is the second examination of Western Wisconsin Cares (the company, the District, the CMO, the organization, or WWC). The current examination covered the period ending December 31, 2013, and included a review of such 2014 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the CMO's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Territory and Plan of Operations
- Growth of the CMO
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the CMO's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the CMO to satisfy the recommendations and comments made in the previous examination report.

The CMO is annually audited by an independent public accounting firm as prescribed by s. Ins 57.26, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

## II. HISTORY AND PLAN OF OPERATION

Western Wisconsin Cares is described as a care management organization (CMO). A CMO is defined by s. 600.01 (1) (b) 10. a., Wis. Stat., as an organization providing “long-term care services funded by the family care benefit, as defined in s. 46.2805 (4), that are provided by a care management organization that contracts with the department of health services under s. 46.284 and enrolls only individuals who are eligible under s. 46.286.” CMOs are issued permits under s.648.05, Wis. Stat.

WWC was formed as a Long-Term Care District on October 1, 2008, to provide long-term care services to individuals who meet functional and financial requirements under Wisconsin’s Family Care Program. The District was created by resolutions adopted by Buffalo, Clark, Jackson, La Crosse, Monroe, Pepin, Trempealeau, and Vernon counties pursuant to s. 46.2895, Wis. Stat. The District is considered a local unit of government, separate and independent from all counties that acted to create the District. The District was granted powers necessary to carry out the purposes of the District under ss. 46.2805 to 46.2895, Wis. Stat., which do not allow the District to issue bonds or levy a tax or assessment. WWC is legally separate and fiscally independent of the counties, local, and state government. WWC is permitted to operate under ch. 648, Wis. Stat.

On October 1, 2008, La Crosse County transferred its members to WWC.

Subsequently, members were transferred to WWC as follows:

- November 2008: Vernon County
- December 2008: Jackson County
- January 2009: Monroe County
- February 2009: Trempealeau County
- March 2009: Buffalo and Pepin Counties
- April 2009: Clark County

The CMO derives 100% of its revenue from the Wisconsin Family Care Program, with the exception of \$32,900 which was derived from a grant. The Family Care Program helps seniors and adults with disabilities to live as independently as possible in their own homes or other community care settings. Members are classified into one of three target groups: frail

elders<sup>1</sup>, physically disabled<sup>2</sup>, and developmentally disabled<sup>3</sup>. WWC contracts directly with the Wisconsin Department of Health Services (DHS) to provide long-term care benefits to eligible members through its permit.

WWC provides long-term care services to its members through contractual arrangements with its providers. Providers are reimbursed based on mandated Medicaid rates and other agreed upon rates that are not determined by the Medicaid fee schedule.

The contracts include hold-harmless provisions for the protection of members. The contracts have a one-year term and may be terminated with 60 days' prior written notice by either party.

Long-term care services provided through the Family Care Program include:

- Home health or personal care
- Supportive home care
- Nursing home
- Assisted living/residential care services
- Adult day or respite care
- Home delivered meals
- Home modifications
- Transportation
- Physical, speech or occupational therapy
- Wheelchairs and other equipment
- Adult diapers, gloves, and other medical supplies
- Mental health or drug and alcohol treatment
- Daily living skills training
- Communication aids/interpreter
- Employment services

Marketing to individuals is restricted under the Medicaid regulations and operation procedures. Rates are determined by the contract between WWC and DHS for coverage provided under the Wisconsin Medical Assistance Program (Medicaid). Capitation rates are

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<sup>1</sup> Frail elder is defined as an individual 65 and older who has a physical disability, or an irreversible dementia, that restricts the individual's ability to perform normal daily tasks or that threatens the capacity of the individual to live independently. (s. DHS 10.13 (25m), Wis. Adm. Code)

<sup>2</sup> Physically disabled is defined as a physical condition, including an anatomical loss or musculoskeletal, neurological, respiratory or cardiovascular impairment, that results from injury, disease or congenital disorder and that significantly interferes with or significantly limits at least one major life activity of a person. (s. DHS 10.13 (40), Wis. Adm. Code)

<sup>3</sup> Developmentally disabled is defined as a disability attributable to brain injury, cerebral palsy, epilepsy, autism, Prader-Willi syndrome, mental retardation, or another neurological condition closely related to mental retardation, that has continued or can be expected to continue indefinitely and constitutes a substantial handicap to the afflicted individual. (s. DHS 10.13 (16), Wis. Adm. Code)

developed annually by the DHS contracted actuarial firm on a regional basis and are adjusted to reflect the CMO's estimated population by target group. The capitation rate paid by DHS to WWC is actuarially based on the functional level of care a member needs: Nursing Home (NH) or non-Nursing Home (non-NH). The NH level of care rate is initially developed for each target group by region and adjusted for trend and administrative allowances prior to determining a final blended NH level of care rate for the CMO since different groups utilize services at different rates.. The non-NH level of care rate is developed by using a functional status based model that stratifies claims experience based on an individual's level of care. Both the NH and non-NH level of care capitation rates are based on the utilization and expenditures of the original Family Care Program's pilot counties: Fond du Lac, La Crosse, Milwaukee (elderly population), Portage, and Richland; plus Racine, Kenosha, Marathon, and Wood counties. Under the federal regulations governing the federal- and state-funded Medicaid programs, the rates established by DHS must be "actuarially sound" and be certified by an independent actuary. The actuarial certification applies to the program as a whole, not each individual CMO.

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of 14 members (one vacancy existed at the date of the examination) made up of 8 county appointees, 2 at-large appointees appointed by the board (one with medical experience or expertise beneficial to WWC and one with business or financial experience beneficial to WWC), and 4 appointed by the board that are representatives of the members WWC serves. Directors serve a staggered three-year term. Officers are elected by the board of directors at the annual meeting. The board members currently receive no compensation for serving on the board, but may be reimbursed for reasonable business expenses they may incur.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Beth Arimond French Island, WI	Caregiver	May 2016
Dennis Brault Viroqua, WI	Retired	May 2015
Ron Carney Warrens, WI	Retired	May 2015
James Edwards Sparta, WI	Retired	May 2017
Don Ehlers La Crosse, WI	Retired Pastor/Business Owner	May 2017
Janice Herold Galesville, WI	Business Owner	May 2016
Tara Johnson La Crosse, WI	Chair, La Crosse Co. Board	May 2015
John Kriesel Buffalo, WI	Retired	May 2017
Daniel Richardson Arkansaw, WI	Ordained Minister	May 2017
Dr. Silvana Richardson La Crosse, WI	Professor and Dean, Viterbo School of Nursing	May 2016
James Shilling Sparta, WI	Retired	May 2016



<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Larry Tichenor Sparta, WI	Equipment Salesman	May 2016
Carrie Vaughn La Crosse, WI	Part-time Office Support	May 2015

**Officers of the CMO**

The officers are elected at the annual meeting in May by the board of directors and serving at the time of this examination are as follows:

<b>Name</b>	<b>Office</b>	<b>2013 Compensation</b>
Ron Carney	Chair	\$ 0
John Kriesel	Vice Chair	0
James Shilling	Secretary	0
Timothy Garrity	CEO	123,377
Gary Priem	CFO	102,375
Mary Ellen Paudler	COO	96,312

The Chair and Vice Chair of the board also serve as the Chair and Vice Chair of the executive committee.

**Committees of the Board**

The District's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

**Executive Committee**

Ron Carney, Chair  
John Kriesel  
Silvana Richardson  
James Shilling

**Finance Committee**

John Kriesel, Chair  
Beth Arimond  
Ron Carney  
James Edwards  
Don Ehler  
Janice Herold

**Nominating Committee**

Daniel Richardson, Acting Chair  
Dennis Brault  
Tara Johnson  
Silvana Richardson  
James Shilling  
Larry Tichenor  
Carrie Vaughn

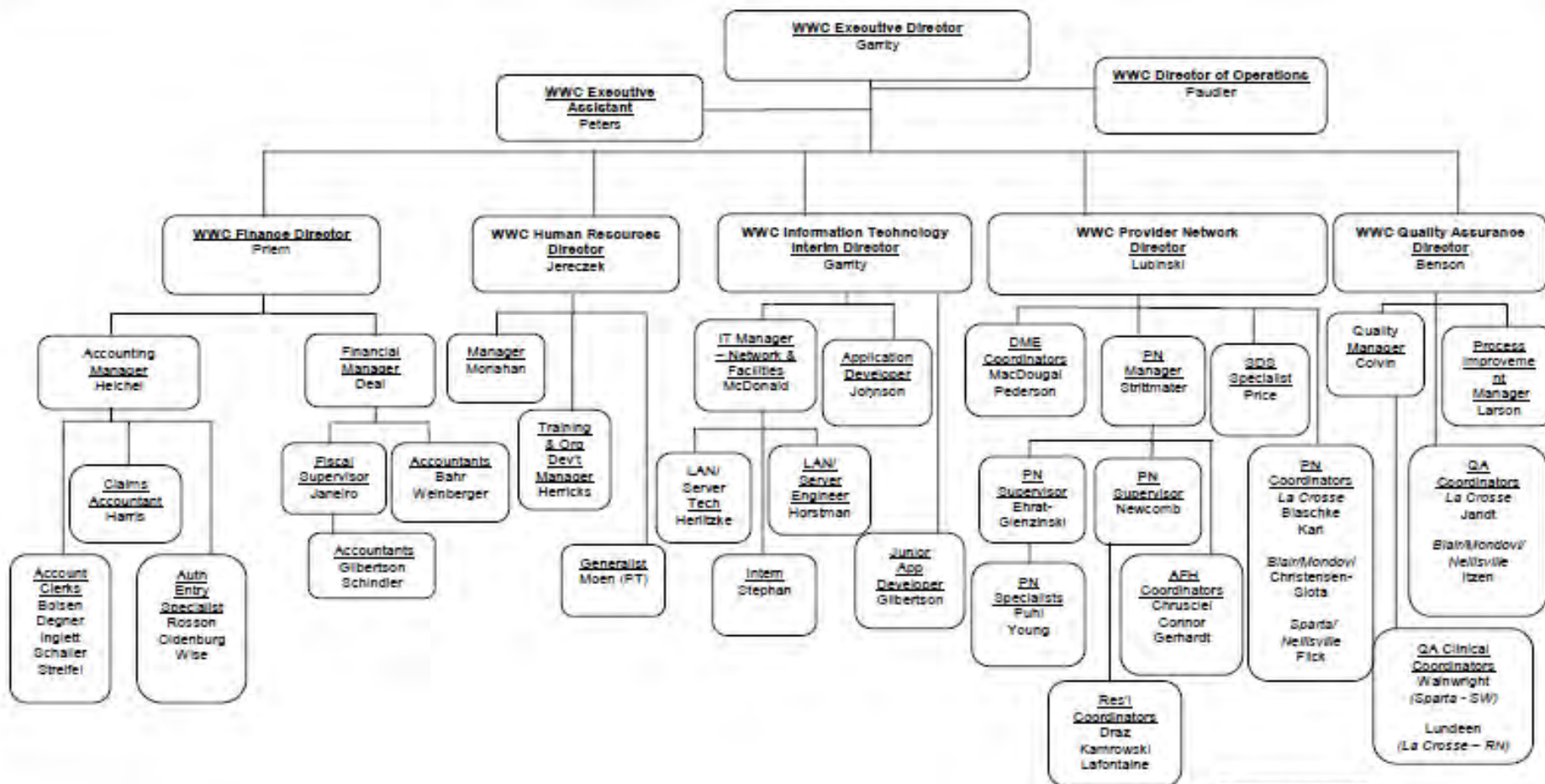
WWC's board of directors follows the policy governance model. Policies created and adopted by the board under this model include: Ends Policies; Board Self-Management Policies; Board and Executive Relationship Policies; and Executive Limitation Policies. The board currently meets on a monthly basis. A review of the board's Ends Policies and of all board

policies is done in alternating years at the annual meeting in May. The board oversees and is accountable for the Quality Management program. As such, they perform an annual review and approval of WWC's Quality Management Work Plan, which includes the Program Description and Program Integrity Plan. Program updates are reported by the Quality Management Director on a quarterly basis to the Quality Management Committee in addition to the board updates. A board-appointed representative is an active member on the Quality Management Committee.

The District has its own employees. WWC does not contract with external vendors for claims processing, case management, program or quality activities. The IT department uses contractors or consultants for services on a limited project-specific basis. The District contracts with Data Resource, Inc., for software maintenance for its DRI Health and Human Services modules (its claims system), but is considering outsourcing claims processing to a third-party vendor. WWC has an intergovernmental agreement with La Crosse County which hosts the DRI database for WWC on its AS400 server. All ongoing IT maintenance, support and administration of applications are handled internally, with the exception of DRI. WWC expects to replace its claims system with services from a third-party administrator in about a year.

Western Wisconsin Cares' organizational overview chart is reflected by the following diagram:

# WESTERN WISCONSIN CARES ADMINISTRATIVE ORGANIZATION CHART



1/13/14

#### **IV. FINANCIAL DATA**

The following financial statements reflect the financial condition of the CMO as reported in the December 31, 2013, GAAP-basis financial statements. Also included in this section are schedules that reflect the growth of the CMO for the period under examination. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Equity per Examination."

**Western Wisconsin Cares  
Balance Sheet  
As of December 31, 2013**

**Current Assets**

Cash and cash equivalents, operating	\$11,743,586
Capitation receivable net of allowance	186,533
Other DHS receivables net of allowance	28,500
Cost-share receivable net of allowance	44,587
Room and board receivable net of allowance	73,369
Spend down receivable net of allowance	6,608
Other short-term receivables net of allowance	357
Prepaid Insurance	66,703
Prepaid providers (member service expenses)	240,440
Prepaid expenses – other	<u>55,102</u>
<i>Total Current Assets</i>	12,445,784

**Long-Term Assets**

Restricted assets:	
Risk reserve funds – FC Permitted MCO	\$ 2,298,118
Solvency reserve/guaranty funds on deposit permitted MCO	375,000
Furniture, equipment, and software (cost)	1,839,770
Accumulated depreciation – furniture, equipment, and software	(1,294,086)
Other long-term assets	<u>2,000</u>
<i>Total Long-Term Assets</i>	<u>3,220,802</u>

**Total Assets**

\$15,666,586

**Current Liabilities**

Capitation payable	\$ 124,519
Accrued salaries	386,943
Accrued taxes and benefits (current)	712,676
IBNR member services – current year	9,525,808
IBNR member services – prior year	1,131
Accounts payable – general	90,199
Other current liabilities	<u>140,295</u>
<i>Total Current Liabilities</i>	\$10,981,570

**Long-Term Liabilities**

Accrued employee benefits (i.e., vacation, sick leave>1 year)	<u>485,689</u>
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**Total Liabilities**

11,467,259

**Equity**

Beginning equity	2,878,755
Current year net income	<u>1,320,572</u>
<i>Total Equity</i>	<u>4,199,327</u>

**Total Liabilities and Equity**

\$15,666,586

**Western Wisconsin Cares  
Profit and Loss Statement  
For the Period Ending December 31, 2013**

<b>Revenues</b>		
MA capitation (net of cost-share)		\$125,080,813
Cost-share revenue		3,946,128
Room and board revenue		8,754,041
Spend down revenue		371,389
Other third-party payer revenues		15,752
Interest/investment income – operating account		4,392
Other CY Retro Adjustments		(41,914)
Other income/funding		<u>33,753</u>
<b>Total Revenue</b>		<u>138,164,354</u>
<b>Long-Term Care Services (All Programs)</b>		
Adaptive equipment	\$ 3,501,792	
Adult day activities	3,826,464	
Habilitation/health	1,659,558	
Home care	11,065,180	
Home health care	1,797,654	
Institutional (NH/ICF-MR)	19,886,314	
Residential care	54,736,729	
Respite care	404,988	
Transportation	4,180,346	
Vocational	4,043,131	
Room and board – expenses	9,597,062	
Other FC LTC services	<u>115,101</u>	
<i>Total Member Service Expenses</i>		\$114,814,319
<b>Care Management Expenses</b>		
Care management (CMUs/External)	584,077	
Care management (Internal)	16,080,877	
Care management admin – allocated	<u>472,933</u>	
<i>Total Care Management Expenses</i>		17,137,887
<b>Administrative Expenses</b>		
Wages and benefits	5,052,408	
Occupancy	110,806	
Office expenses	23,718	
Legal/accounting/audit	199,743	
Depreciation expense	220,876	
Insurance expense	89,953	
Travel/training/conference expense	64,513	
Other administrative expenses	388,281	
Admin allocation to care management	<u>(472,933)</u>	
<i>Total Administrative Expenses</i>		<u>5,677,365</u>
<b>Total Operating Expenses</b>		<u>137,629,571</u>
<b>Income (Loss) from Operations, Current Year</b>		534,783
<b>Other (Income) Expenses, Ordinary</b>		
Investment income – reserve funds	(3,419)	
Prior year adjustment – IBNR	(57,548)	
Prior year adjustment – other DHS	<u>(724,822)</u>	
<i>Total Other Expenses</i>		<u>(785,789)</u>
<b>Net Income (Loss)</b>		<u>\$ 1,320,572</u>

**Western Wisconsin Cares  
Statement of Cash Flows  
For the Period Ending December 31, 2013**

**Operating Activities**

Net income per GL	\$ 1,320,572
Add: Depreciation	220,876
(Increase) Decrease accounts receivable, capitation and DHS other	62,068
(Increase) Decrease accounts receivable general	10,856
(Increase) Decrease prepaid insurance	67
(Increase) Decrease prepaid other	230,702
Increase (Decrease) IBNR	(998,820)
Increase (Decrease) accounts payable	(26,960)
Increase (Decrease) wages/taxes/ben. payable	127,912
Increase (Decrease) unearned revenues	(10,742)
Increase (Decrease) other current liabilities	<u>3,347</u>
<i>Net Cash Provided by Operating Activities</i>	<u>939,878</u>

**Investing Activities**

Change in property, plant and equipment:	\$(187,637)
Change in long-term investments	(519,135)
Other long-term assets	<u>2,878</u>
<i>Net Cash Used in Investing Activities</i>	<u>(703,894)</u>

Net increase in cash and cash equivalents 235,984

Cash and Cash Equivalents Beg of Period 11,507,602

Cash and Cash Equivalents End of Period \$11,743,586

**Growth of Western Wisconsin Cares**

Year	Assets	Liabilities	Equity	Capitation Revenue	Member Service Expenses	Net Income	Enrollment
2013	\$15,666,586	\$11,467,260	\$4,199,326	\$125,038,899	\$115,340,850	\$ 1,320,572	47,999
2012	15,251,277	12,372,523	2,878,754	121,262,249	113,263,946	(2,529,984)	46,156
2011	17,456,247	12,047,508	5,408,739	105,506,607	99,792,458	(1,039,373)	42,303

Year	Profit Margin	Member Service Cost Ratio	Care Management Service Cost Ratio	Combined Member Service Cost Ratio	Administrative Expense Ratio	Change in Enrollment
2013	1.0%	81.33%	13.70%	95.03%	4.54%	4.0%
2012	(2.1)	83.63	13.30	96.93	4.47	9.1
2011	(1.0)	82.37	13.83	96.21	4.79	

**Per Member Per Month Information**

	2013	2012	Percentage Change
<b>Revenues</b>			
Capitation	\$2,605.03	\$2,625.51	(0.8)%
Other revenue	<u>273.45</u>	<u>256.31</u>	6.7
Total revenue	2,878.48	2,881.82	(0.1)
<b>Expenses:</b>			
Member service costs	2,392.01	2,452.09	(2.5)
Care management	357.05	349.15	2.3
Administrative	<u>118.28</u>	<u>117.47</u>	0.7
Total operating expenses	2,867.34	2,918.71	(1.8)
Other non-operating expenses	<u>(16.37)</u>	<u>17.92</u>	191.4
Net Income (Loss)	<u>\$ 27.51</u>	<u>(54.81)</u>	150.2
Member Months	47,999	46,156	4.0



Western Wisconsin Cares has experienced net operating losses in recent years, with the exception of 2013. More than half of the net income in 2013 was due to a \$700 thousand transportation adjustment that was provided by DHS. The enrollment cap that was put in place on Family Care in June 2011 resulted in an upward surge in enrollment as people enrolled to enter the program prior to the imposition of the cap and an upward trend in institutional and residential costs. WWC reported a working capital deficiency of \$964 thousand in 2011. Member service costs were 140.2% over budget during that year, and equity declined by 14.0%. In 2012 results were increasingly negative, and the net loss grew significantly to \$2.5 million. A large factor in the increase in losses was the lifting of the enrollment caps, resulting in a large number of enrollees in a short period of time, and an inability to train care managers to handle the increase. This resulted in inadequate utilization management and increasing losses. WWC identified that part of its higher residential expenses were resulting from more members utilizing higher cost corporate adult family homes, as opposed to smaller non-corporate adult family homes.

In August 2013, OCI began to provide closer monitoring of the CMO's financial results. The CMO began to realize savings from initiatives beginning in late 2012 and early 2013 for home care, daily living skills, adult day activities and transportation. During the final four months of 2013 and into 2014, the CMO has experienced positive monthly net income. Savings have been seen in institutional and residential care, partly offset by several members at a high-cost institution.

### **Subsequent Events**

WWC's operating results in 2014 continued to be favorable, and the CMO was meeting all of its capital requirements, including working capital, by the end of July 2014. Equity increased by 93.9% in the second quarter of 2014 from the prior year-end to \$8.1 million. In the second quarter, year-to-date net income was \$3.9 million compared to budgeted net income of \$1.5 million for the period. The CMO also received an upward policy adjustment of 5% from DHS which has contributed to the improved results in addition to the cost savings initiatives. The CMO's results continue to be impacted by members being served in a high-cost institution.

**Reconciliation of Equity per Examination**

No adjustments were made to equity as a result of the examination. The amount of equity reported by the CMO as of December 31, 2013, is accepted.

## V. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were four specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the CMO are as follows:

1. CPA Engagement Letter—It is recommended that WWC either enter into an agreement with their current independent auditor that does not contain indemnification language or obtain a firm that meets the qualification for an independent certified public accountant as prescribed under s. Ins 57.32 (1) (b), Wis. Adm. Code.

Action—Compliance

2. Internal Controls—It is recommended that WWC review its claim processing function to establish internal controls and segregate duties to mitigate its inherent risk and to prevent/detect fraud from occurring during the claims processing function. It is further recommended that WWC implement those controls that have been identified. Such controls may include, but not be limited to:
  - Limiting claims processing staff access to only processing a claim (i.e., not having the ability to enter a provider, change provider rates, and change authorization units/amounts),
  - Generating and reviewing system reports to determine if any claim processing staff have made changes to rates, authorizations, or entered a provider.

Action—Partial compliance

3. Internal Controls—It is recommended that the company preform claim audits as indicated in its “Claim Adjudication Policy.” WWC should also define their methodology for performing claim audits in its “Claim Adjudication Policy” and/or create and implement an additional policy to further document the auditing of the claims function. The methodology should include, but not be limited to, the underlying basis of the claim audit (i.e., claim [transaction], member, and/or provider basis) and how sample size is determined.

Action—Compliance

4. Provider Contracts—It is recommended that the company enhance its Adult Family Home and Respite Provider contract by having a detailed rate schedule attached to the contract for each member based on the Adult Family Home Plan of Care once it is determined. In addition, WWC should sign the rate schedule and make an effort to have the provider sign the schedule to further document the agreed upon rate.

Action—Compliance

## **Summary of Current Examination Results**

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the CMO's operations is contained in the examination work papers.

### **Information Technology – Disaster Recovery/Business Continuity**

CMO organizations are expected to perform regular disaster recovery/business continuity (DR/BC) testing for their IT operations. The organization does routine backups to both tape as well as remote disk in the Neillsville office. Although it maintains a DR/BC plan, it does not do regular evaluation of the DR/BC plan to assure that the plan is current and meets the needs of the organization not only for member services but also for IT. The DRI system hosted by La Crosse County is currently being supported under the county's disaster recovery plan which appears reasonable. However, documentation of regular testing is not available for this system.

It is recommended that the organization have a regularly scheduled plan of DR/BC testing for IT. This recommendation does not require a full disaster test, but could be a documented test of the ability to restore data to an unused server, the ability to make a backup location server the primary location, or a walk-through of the DR documentation to verify that it is current and can be understood by the person responsible for recovery if the IT Director is not available for restoration efforts.

### **Conflict of Interest Statements**

The examiner's review of potential conflicts of interest determined that WWC does not have a process in place to identify and monitor conflicts, if any, for District employees outside of the board of directors. Organizations typically require their executive-level management to report potential conflicts to mitigate the risk that another interest may affect management's professional judgment in making a determination on an event or transaction. Standard disclosures generally include, but are not limited to, the individuals or an immediate family member having a membership on a board, financial interest, or other type of involvement with companies under contract with the organization. The policy for disclosing conflicts should include

a listing of conflicts that are required to be disclosed with examples and the required frequency for such disclosure. It is customary for organizations of WWC's size to require such disclosures on an annual basis through a standardized Conflict of Interest Statement form. WWC currently uses such a form for their board members but not for its executive-level management.

It is recommended that WWC develop and implement a policy for identifying potential conflicts of interest with the executive-level staff within the organization.

### **Internal Control**

The examination focused on issues related to WWC claim processing staff and issues that were raised in the previous examination regarding a single individual being able to enter a claim, change provider rates, change a member's authorized service units, and process a claim. In addition, the claims processors enter the same provider's claims month after month.

Changes in the claims processing system instituted on September 1, 2014, mitigate some of the issues that were raised in this examination and the last examination. In addition, WWC plans to engage a third-party administrator in the claims process in 2015. Management stated that this will allow its staff to focus more on its internal audit process, which will increase the ability of the CMO to detect fraud, reduce claims processing errors, and increase accuracy in the claims processing function. Both of these actions will add to the checks and balances that have been implemented since the previous examination.

Management indicated that they have implemented changes in processing of claim checks so that there is a clear separation between entering claims and issuing checks to providers, and that monthly reports are run and reviewed by management to monitor claim activity. They have also instituted an audit trail report that is generated monthly and reviewed by the Financial Manager to determine if authorizations created by the Claims Manager, Claims Accountant, or any finance employee, are reasonable.

It is recommended that the organization again review its claim processing function to enhance internal controls and segregate duties to mitigate its inherent risk and to prevent/detect fraud from occurring during the claims processing function. In anticipation of changes to its claims processing system and transition to a TPA, the CMO should continue to focus on ways to

monitor, and if necessary to audit, the input of claims into its current system and to design the new system to maintain proper segregation of duties related to processing claims.

Based upon the recommendation made in by the prior examination, WWC instituted a procedure of auditing paid claims to ensure that claims are for authorized services actually received by enrolled WWC members. The audit process consists of the claims manager sampling claims entries and testing 10 to 11 claims each month for internal accuracy and to receive written documentation from providers that services were actually provided to members. While the claims audit process is an improvement in documenting compliance with its procedures in claims processing, the examiners concluded that a more robust claims audit process should be implemented.

It is recommended that the organization increase the level of claims auditing as resources become available as a result of the transition to a third-party administrator. The current level of sampling 10 claims per month should be increased, and a more robust level of claims auditing should be implemented so as to reduce the inherent risks in the CMO's claim processing procedures.

### **Financial Requirements**

The financial requirements for a CMO under s. 648.75, Wis. Stat., and s. Ins 57.04, Wis. Adm. Code, for the period ending December 31, 2013, are as follows:

	<b>Amount Required</b>
1. Working capital	Not less than 3.0% of the budgeted annual capitation payments from DHS
2. Restricted reserves	The required minimum balance is calculated as follows: 8% of the first \$5 million annual budgeted capitation 4% of the next \$5 million annual budgeted capitation 3% of the next \$10 million annual budgeted capitation 2% of the next \$30 million annual budgeted capitation 1% of annual budgeted capitation in excess of \$50 million
3. Solvency fund	\$750,000

WWC's financial requirement calculations as of December 31, 2013, are as follows:

<b>Working Capital</b>	
Current assets	\$12,445,784
Current liabilities	<u>10,981,571</u>
Working capital	1,464,213
Working capital requirement	<u>3,884,096</u>
Excess/(Shortage)	<u>\$ (2,419,883)</u>
<b>Restricted Reserves</b>	
Current restricted reserves	\$ 2,298,118
Restricted reserve requirement	<u>2,294,699</u>
Excess/(shortage)	<u>\$ 3,419</u>
<b>Solvency Fund</b>	
Current solvency fund	\$ 375,000
Solvency fund requirement	<u>750,000</u>
Excess/(Shortage)	<u>\$ (375,000)</u>

WWC did not meet its financial requirements at December 31, 2013. All permitted CMOs did not meet the solvency requirement at the end of 2012, because of the liquidation of all deposits in the Solvency Fund for the insolvency of CHP-LTS, Inc., in December 2012. WWC replenished its deposit in the Solvency Fund in July 2014. It has also reached the required level of working capital to meet the working capital requirement as of August 2014.

## **VI. CONCLUSION**

Western Wisconsin Cares began operations on October 1, 2008, and accepted its first members on that date. WWC provides long-term care services to an eight-county region in western Wisconsin as part of the Wisconsin Family Care Program.

At December 31, 2013, WWC reported assets of \$15.7 million, liabilities of \$11.5 million, and equity of \$4.2 million. WWC reported a \$1.3 million gain in 2013 on total revenues of \$138.9 million. WWC experienced operating losses in the two years prior to 2013, but experienced improved operating performance in the last quarter of 2013 and the first two quarters of 2014. The continuing favorable operating results allowed it to meet all of its financial requirements as outlined in its contract with the Wisconsin Department of Health Services by August 2014.

The examination resulted in four recommendations related to disaster recovery testing, conflict of interest statements, and internal control over claims processing. One recommendation was repeated from the previous examination; however, the examination disclosed that the organization made progress in its evaluation of internal controls.



## VII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 18 - Information Technology – Disaster Recovery/Business Continuity—It is recommended that the organization have a regularly scheduled plan of DR/BC testing for IT.
2. Page 19 - Conflict of Interest Statements—It is recommended that WWC develop and implement a policy for identifying potential conflicts of interest with the executive-level staff within the organization.
3. Page 19 - Internal Control—It is recommended that the organization again review its claim processing function to enhance internal controls and segregate duties to mitigate its inherent risk and to prevent/detect fraud from occurring during the claims processing function.
4. Page 20 - Internal Control—It is recommended that the organization increase the level of claims auditing as resources become available as a result of the transition to a third-party administrator.

### VIII. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
Diana Havitz	Insurance Financial Examiner
David Jensen	Insurance Financial Examiner Advanced

Respectfully submitted,

Richard Janosik  
Examiner-in-Charge