PUBLIC SCHOOL EMPOYEES' RETIREMENT SYSTEM HEALTH OPTIONS PROGRAM

CORESOURCE

ANALYSIS AND EVALUATION OF CLAIMS PROCESSING AND PAYMENT PROCEDURES

FOR THE PERIOD
JANUARY 1
THROUGH
DECEMBER 31, 2007

PRESENTED

MAY 12, 2008

SUBMITTED BY:

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CONFIDENTIALITY STATEMENT

Release of electronic and hardcopy information for this analysis required execution of an agreement signed by The Segal Company and CoreSource.

All audit information and findings prepared and presented in this report are considered confidential and proprietary. Sharing of contents with any other party or the copying of information herein is expressly prohibited without the written consent of the agreeing parties.

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This report analyzes and evaluates claims processing and payment procedures utilized by CoreSource in the administration of Public School Employees' Retirement Health Options Program's (PSERS HOP) group benefits. Ms. Carol Hoel and Ms. Diane Comstock conducted the onsite review at CoreSource's Lancaster, Pennsylvania claims office during the week of March 24, 2008.

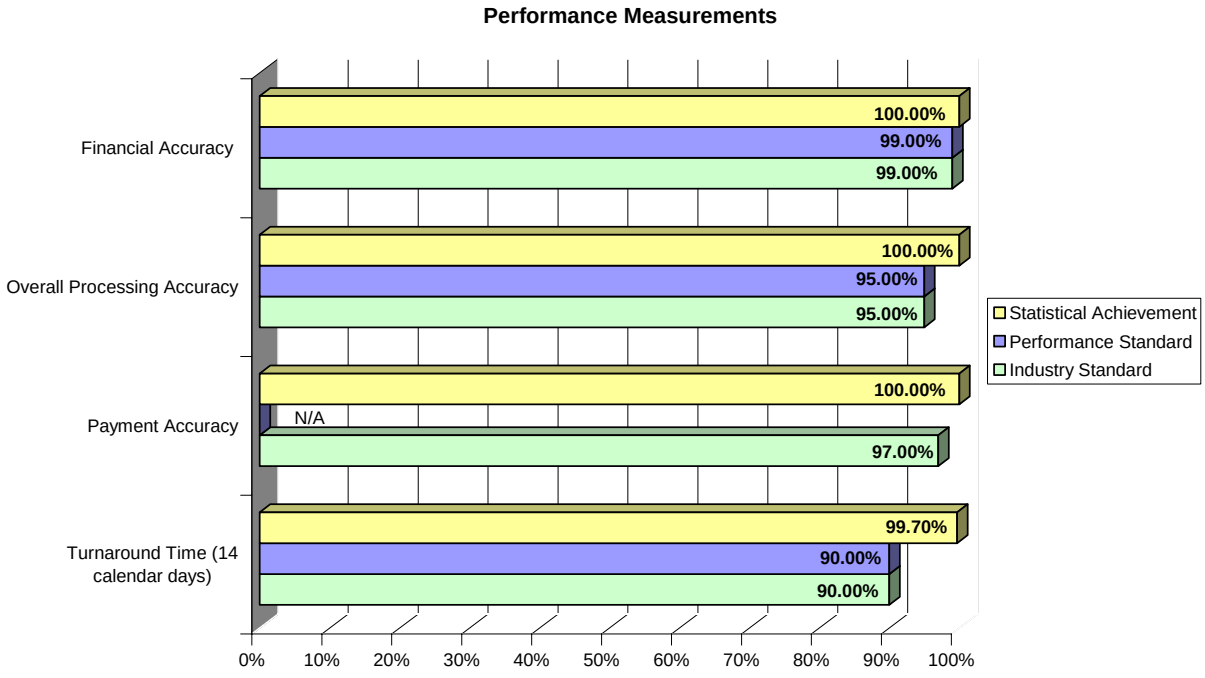
A data file of all claims processed during the period January 1 through December 31, 2007 was provided by CoreSource for our sampling purposes. Benefit payments totaling $67,735,043.10 were paid on behalf of eligible employees and their dependents during the audit period. Our analysis of 210 stratified claims represents benefit payments in the amount of $1,709,133.35.

We also reviewed a 15-claim target sample of zero payments to ensure the accuracy of denials and deductible application; no errors were identified. These claims were not included in out statistical calculations.

The auditors completed a form for each claim selected in the sample; this worksheet was the primary documentation on which our report is based. Due to the confidentiality of names, diagnosis, etc., claims addressed within this report are referred to as "Worksheets."

AUDIT RESULTS

A recap of the accuracy rates achieved by CoreSource during the twelve-month audit period follows. Performance and industry standards are offered for comparison. Based on the statistical analysis, CoreSource exceeded performance and industry standards for all categories of benefit accuracy and processing timeliness.



Industry standards are developed through ongoing review and comparison of measures utilized by major carriers and third party administrators nationwide. Standards include acceptable performance for administration of fully-insured and self-insured corporate, public, and multi-employer plan benefits.

Detailed descriptions of the audit findings are presented in Section II. The dollar amount of one overpayment was $50.00; one procedural error was identified. One "Other Claim Matter" addresses a $101.48 potential overpayment under investigation by CoreSource.

Based on our claims sample, CoreSource exceeded performance standards that stipulate 90% of all claims be processed within 14 calendar days. A detailed analysis of claims processing turnaround time is presented as Exhibit A.

PRIOR AUDIT ACHIEVEMENT

To assist PSERS HOP in comparing CoreSource's ongoing performance, the following table includes stratified achievement for the current and two prior audit periods. Based on our findings, CoreSource has consistently exceeded performance and industry standards in each category measured.

Stratified Performance Comparison			
Category	**Audit Period**		
	1/1 - 12/31/07	**1/1 – 12/31/06**	**1/1 – 12/31/05**
Financial Accuracy (dollar value)	100.00%*	100.00%	99.98%
Overall Processing Accuracy (without payment or procedural error)	100.00%*	100.00%*	99.99%
Payment Accuracy (free from financial error)	100.00%*	100.00%*	99.99%
Turnaround Time (within 14 calendar days)	99.70%	97.55%	96.89%

* Due to rounding at the second decimal point.

RECOMMENDATION AND COMMENT

Details of our audit findings are provided in Section II. CoreSource was presented with a draft report on April 14th for their review and comment; their April 24th response can be found in Section III. The following comments are offered as appropriate.

- CoreSource should initiate recovery of the $50.00 overpayment identified through this audit. (WORKSHEET 204, PAGE 5)

- CoreSource should monitor current claims handling procedures to ensure 100% of all claims are processed within 30 days to maintain compliance with regulatory mandates. (TURNAROUND TIME, PAGE 7)

- Based on the results of our review, we commend CoreSource on their administrative performance and benefit adjudication timeliness.

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This report would be incomplete without recognition of the professionalism and cooperation extended to us by CoreSource personnel during the preparation phase of this project and the onsite portion of our review.

A total of 1,132,185 PSERS HOP claims, representing $67,735,043.10 in benefit payments, were processed and paid during the period January 1 through December 31, 2007. Our statistical audit sample of 210 claims reviewed $1,709,133.35 in benefits paid on behalf of eligible retirees and their dependents.

An integral part of our analysis includes a review of individual claim payments to ensure accuracy in benefit determinations and compliance with established administrative procedures. Our stratified sampling process allows us to project the accuracy of all claims based on the results of our audit selection. A detailed breakdown of the strata used in this analysis can be found in Exhibit B at the end of this section.

For purposes of our audit, a claim is defined as all charges submitted and processed for payment under one claim number, including adjustments to the original transaction. Prior history and accumulators (deductibles, coinsurance, and benefit maximums) were reviewed, as applicable, on each claim. In addition to verifying the amount paid, claims audited were thoroughly reviewed to determine that:

- Claims were paid in strict accordance with Plan provisions.
- Amounts paid were within the designated Network schedules and/or usual, customary, and reasonable (UCR) allowances for the area where treatment was rendered, with due consideration given for the severity of the condition treated. We did not determine medical necessity, but did ascertain CoreSource reviewed or referred claims for such review as appropriate.
- Claims were paid only on behalf of eligible individuals, based on eligibility provided by PSERS HOP.
- Documentation (provider bills, physician statements, surgical reports, etc.) was on file for claims paid and was verified when necessary.
- Benefits were paid under the proper benefit classification, diagnostic, and procedure codes.
- Appropriate benefit limitations, deductibles, coinsurance, and out-of-pocket maximums were applied.
- Arithmetic calculations were correct.
- Coordination of benefits with other coverage and third party liability provisions were enforced, where applicable.
- Duplicate payments were properly denied.

- Payments were made to the proper party (*i.e.*, the provider of service if benefits were assigned; the employee if benefits were not assigned).

- Turnaround time for processing of claims was within performance standards.

SELECTION OF CLAIMS

The selection of 210 claims was stratified by dollar amount to give large claims more valid representation in the sample. In this selection, the methodology utilized formulae designed to take full advantage of statistical sampling procedures that allow a quantifiable degree of confidence (95%) so the results obtained in the audit sample are a true reflection of the actual way all claims were processed during the audit period. Since the observed accuracy rates are within the 3% expected rate (+/-3%), results produce the desired 95% confidence level.

PROCESSING ACCURACY

For comparison to industry/performance standards, processing errors have been classified as "payment" or "procedural." Procedural errors do not involve a variance in payment. One "Other Claim Matter" has been listed to reflect a potential payment error and explain CoreSource's position. Resolution will be determined through further investigation of other insurance.

Of the 210 stratified claims audited, 208 were processed without error. Our review identified one overpayment of $50.00 and one procedural error. Explanations of these errors and one Other Claim Matter are detailed below.

- **$50.00 Overpayment** (Worksheet 204) – During a manual copayment adjustment to the original claim, an incorrect discount was applied.

- **Procedural Error** (Worksheet 210) – Prior to benefit payment, a retro-certification was not performed for a continued inpatient stay incurred after Medicare lifetime reserve days were exhausted. The stay was subsequently approved as medically necessary.

- **Other Claim Matter** (Worksheet 129) - $101.48 potential overpayment due to lack of coordination of benefits. The dependent spouse has another retiree plan in addition to Medicare.

  CoreSource has requested documentation to determine if the other coverage is a group or individual plan. CoreSource has flagged this file to suspend claims until they determine order of benefit determination. All provider refunds have been forwarded to the retiree.

  CoreSource's investigation reveals the member's other coverage is a private policy; therefore, coordination of benefits does not apply.

  Segal acknowledges that COB does not apply; however, it's advised that this type of information be obtained in advance of any benefit determination to ensure accurate reimbursements are made.

A basic principle of the sampling technique is that the audit findings are representative of all claims; therefore, the respective strata error rate is used to project the total errors for each stratum. The total projected errors were used to calculate the statistical accuracy levels for comparison to industry and performance standards. Based on the statistical findings reflected in the following chart, CoreSource exceeded performance and industry standards in all benefit categories and processing timeliness.

Performance Measurements			
Category	**Sample Results**	**Stratified Achievement**	**Performance Standards**
Financial Accuracy (dollar value)	100.00%*	100.00%*	99%
Overall Processing Accuracy (without payment or procedural error)	99.05%	100.00%*	95%
Payment Accuracy (free from financial error)	99.52%	100.00%*	N/A
Turnaround Time (within 14 calendar days)	92.86%	99.70%	90%

* Due to rounding at the second decimal point.

All questions and comments regarding the statistical and targeted claims samples were reviewed with CoreSource. We recommend a refund request be issued for the overpayment.

TARGET SELECTION

An additional 15 zero payment claims were sampled to ensure accuracy of denials and deductible application. No errors were identified; all samples were appropriately denied as duplicates of previously processed claims.

CLAIM CONTROL MEASURES

Our adjudication review and audit sample revealed CoreSource utilizes the following claim control measures in the processing and payment of claims:

- Receives Medicare claims with payment information electronically from Medicare administrators.
- Capable of receiving all provider claims via electronic submission.
- System edits to detect duplicate claims.
- Automated software for identifying unbundled or incidental procedures.
- Pre-payment request for accident details and post-payment procedures for the investigation of possible third party subrogation.

- Automated calculation of UCR and contractual fee allowances based on the service date.
- Established procedures for the denial and appeals process.
- Internal audits on examiner's production, including electronic and high dollar facility claims.

TURNAROUND TIME

Turnaround time was calculated from the date a claim was received to the date it was processed by payment or denial. This analysis included routine delays due to internal review or provider maintenance; delays realized for draft issuance were excluded from our analysis.

As noted in our analysis of accuracy levels, the process of stratification requires an adjustment in our audit observations. This is also true for the analysis of turnaround time. Accordingly, our analysis weights claims by strata, giving due consideration to the processing complexity for claims that are similarly grouped (*e.g.*, small dollar claims require less time to process than large dollar claims subject to internal reviews).

Based on the extrapolated analysis for 210 sampled claims, 99.70% of all claims were processed within 14 calendar days. This exceeded performance standards that stipulate 90% of all claims should be processed within 14 calendar days. Processing time ranging from 32 to 44 days was evidenced on three sampled claims. A detailed analysis of the turnaround time observed on the claims audited is included as Exhibit A at the end of this section. We recommend CoreSource review claims handling procedures to ensure 100% of claims are processed within 30 days to maintain compliance with regulatory mandates.

EXHIBIT A – TURNAROUND TIME ANALYSIS

Calendar Days	Number of Claims	Individual Percent	Cumulative Percent*
0	1	0.00%	0.00%
1	1	0.02%	0.02%
2	3	1.90%	1.93%
3	2	0.12%	2.05%
4	6	3.88%	5.93%
5	13	7.57%	13.50%
6	29	16.76%	30.26%
7	50	27.39%	57.65%
8	33	16.97%	74.61%
9	18	7.41%	82.02%
10	17	8.44%	90.46%
11	8	4.55%	95.01%
12	6	2.34%	97.35%
13	6	2.34%	99.69%
14	**2**	**0.01%**	**99.70%**
15	4	0.12%	99.82%
16	2	0.03%	99.86%
19	1	0.00%	99.86%
20	2	0.01%	99.87%
21	2	0.00%	99.87%
22	1	0.00%	99.88%
32	1	0.00%	99.88%
39	1	0.12%	100.00%
44	1	0.00%	100.00%
Total	210	100.00%	*may not add due to rounding

EXHIBIT B – STRATIFICATION TABLE

Strata	Dollar Range of Strata	Number in Audit Selection	Number of Claims in Range	Dollar Amount in Audit Selection	Total Dollar Amount in Strata
A	$0.01 - $9.99	40	309,446	$242.97	$1,690,333.35
B	$10.00 - $19.99	46	392,816	$650.16	$5,597,411.73
C	$20.00 - $39.99	30	207,823	$819.64	$5,860,788.12
D	$40.00 - $139.99	25	151,390	$1,941.54	$10,851,958.11
E	$140.00 - $399.99	10	42,152	$1,906.16	$9,232,373.00
F	$400.00 - $974.99	10	13,997	$7,236.58	$8,809,227.60
G	$975.00 - $1,349.99	10	10,811	$10,216.80	$10,962,056.35
H	$1,350.00 - $3,599.99	10	2,810	$22,374.20	$6,133,309.45
I	$3,600.00 - $11,499.99	10	791	$46,138.31	$3,871,030.68
J	$11,500.00 - $67,499.99	10	140	$218,714.26	$3,327,661.98
K	$67,500.00 - $388,858.82	9	9	$1,398,892.73	$1,398,892.73
Totals		210	1,132,185	$1,709,133.35	$67,735,043.10

The data file revealed 267,167 zero payments representing 19.10% of the total claim population, which is slightly higher than we typically observe with similar audits. A major cause may be attributed to the duplicate claim denials for double submissions (electronic and paper) consistently received from many in-state facilities.

The following electronic response was received on April 24, 2008.

CoreSource Response to the 2008 PSERS HOP Claims Audit by The Segal Company

CoreSource agrees with the findings of the Segal claims auditors. CoreSource acknowledges and appreciates the comparisons to Industry Standards that highlight CoreSource's statistical achievement as exceeding both Industry Standards and our Performance Guarantees.

Regarding the $50.00 Overpayment on Worksheet 204, as acknowledged with the auditor, a manual error was made by a CoreSource claims re-processor after the original processing of the claim had been completed. A refund has been requested from the provider.

Regarding the procedural error identified on Worksheet 210, as acknowledged with the auditor, this was a manual error that had no financial impact.

Regarding the Other Claim Matter, there was no overpayment, nor was coordination of benefits possible because the member's other coverage is a private policy that provides the member alternate coverage and pays separately.

We appreciate the opportunity to review these findings and add our comments, and we thank Segal for their professionalism during the audit process.

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