

**DPS Controller's Office**  
**Medical Claims Processing Cost Analysis**  
**Internal versus Outsourcing**  
**February 2016 & Updated: November 2017**

**I. Executive Summary**

In accordance with G.S. 143B-707.3.(a) Medical costs for inmates and juvenile offenders, the Department of Public Safety shall reimburse those providers and facilities providing approved medical services to inmates and juvenile offenders outside the correctional or juvenile facility the lesser amount of either a rate of seventy percent (70%) of the provider's then-current prevailing charge or two times the then-current Medicaid rate for any given service.

Currently, medical claims are processed in-house using an internally developed manual system referred to as MOMS – Medical Operations Management System. This system was developed approximately 15 years ago, and has been sustained through a series of updates needed to maintain minimal operational functionality. The principal architect of this system for the last 10 years retired as of December 31, 2015. The current claims processing environment is an extremely labor intensive, inefficient, and antiquated process. Analysis of direct and indirect costs necessary to pay a claim, yield an internal cost of roughly \$15.35 per claim processed. This number does not attempt to quantify incidental costs, the tremendous backlog of claims, the number of provider complaints due to late payment, or the constant threat of providers refusing to no longer treat inmates if efficiencies do not improve substantially.

As of March 2015, a Request for Proposal (RFP) was released to explore the potential of outsourcing our Medical Claims Processing function. Following an intense vetting process, a decision was made to proceed with a vendor identified as PGBA, a wholly owned subsidiary of Blue Cross Blue Shield of South Carolina.

PGBA has a long history of processing medical claims, including inmate claims. PGBA currently processes offender medical claims for the Federal Prison Hospital located in Butner, NC, and is eminently qualified to process DPS inmate medical claims. PGBA has the ability and experience to provide a dynamic and fully automated electronic claims processing solution. The timeframe to process a claim would decrease from a matter of months to a matter of moments. The RFP has also been structured such that PGBA will incur substantial penalties should they fail to meet all regulatory and administrative requirements. Based on a projected volume of 125,000 claims per year, the cost to process each claim through outsourcing is projected at \$11.12. This number is based on the maximum number of claims our staff is currently able to process (approximately 95,000 per year), plus the current backlog of roughly 30,000 claims. This cost does not attempt to quantify the intangible benefits including the elimination of backlog, compliance with G.S. 143B-707.3 and vastly improved customer service and satisfaction.

## **II. Current Manual Claims Processing Environment**

The MOMS system was not designed for and does not have the capability of accepting provider claims electronically. Therefore, all providers must submit claims to the medical claims staff using traditional mail services. This presents the risk of mail being lost, misdirected or misplaced. This also creates delays from the onset and hampers our ability to comply with contractual requirements and payment terms. Providers also submit detailed billing statements to the medical claims staff through a separate mailing. On an average day, approximately 500 pieces of medical claims related mail is received at Yonkers Road. All mail is initially delivered to the Yonkers Road Central Mail Room. Staff from the mailroom must manually sort all mail and identify items relating to medical claims. These items are then delivered to a medical claims temporary employee who is tasked with additional handling responsibilities. The first step in this process is to run all of the items through a letter opening machine that is located in the Controller's Office mailroom. Next, the items are manually date-stamped and filed into daily batches within the medical claims repository.

Claims processors will visit the mailroom and select the oldest batch to begin processing. Presently, the medical claims staff is processing received claims from September 2015, reflecting a four (4) month backlog of claims. The only providers

whose claims are being processed in a 30 day timeframe are UNC and Rex Healthcare. These providers are afforded top priority as a result of a negotiated contractual relationship. Nonetheless, this continues to be a contentious relationship at times. Claims received from UNC and Rex Healthcare demand full time attention from two of our most experienced processors.

Information from the claim form is manually keyed into MOMS creating the opportunity for data entry errors. Once keyed, the authorized payment amount of the claim is calculated in accordance with DPS policy. Additionally, based on the authorizations and coding an explanation of payment (EOP) form is generated.

Once the payment is calculated, the information is then submitted to our cash management department where a check to the provider is generated. The check and the EOP and is forwarded to an Administrative Assistant who folds the documents and places them in an envelope for mailing to the Provider.

When payment is received by the provider's billing department, numerous questions relating to payment amounts, denials, and related concerns often arise. The procedures and steps necessary to resolve disputed claims and charges is far beyond the scope of this communication.

Presently, we have one full time employee who exclusively handles provider inquiries. This position is supplemented by two other employees as needed. Given the volume of inquiries, it is virtually impossible to respond to all inquiries in a timely manner.

With the proposed outsourcing, most of the manual processes and inherent inefficiencies in our current process will be eliminated. Provider claims will be submitted electronically through a secure internet connection. Based on the coding and authorizations, the payment amount and EOP will be automatically generated.

PGBA has demonstrated their system is fully customizable and may be programmed to be as restrictive as DPS deems appropriate. The EOP and payment will be electronically remitted to the provider in a timely manner. PGBA will "front" the payment to the Providers and submit a monthly bill to DPS for reimbursement. In addition, PGBA has staff accessible to handle Provider inquiries through email or telephone.

We anticipate the majority of claims processed by PGBA will be undisputed, or easily resolved, given the provider's ability to see exactly how the payment amount was determined. DPS will maintain a limited number of full time positions to address disputed claims, audit the service provided by PGBA, and analyze material or complex claims.

### III. Breakdown by Cost – Per Claim to Process (Includes Benefits)

Personnel Operating Costs		
Category	FTE	Total Cost
Permanent Employees	7.0	\$423,098
Temporary Employees	6.0	\$198,776
+10% estimated O/T payments		\$19,878
Contract medical position		\$5,000
Administrative/Supervisory Staff	2.9	\$315,559
Mailroom Staff	1.5	\$53,614
<b>Grand Total Personnel</b>	<b>17.4</b>	<b>\$1,015,925</b>

Non-Personnel Operating Costs	
Rent	\$46,592
Supplies	\$4,476
Equipment	\$5,223
Utilities	\$7,623
<b>Total</b>	<b>\$63,914</b>

Number of claims presently outstanding	Roughly 30,000
Number of months in arrears	Approximately 5
Customer Satisfaction	Poor

### **Update (November 2017)**

At the time of the annual PGBA contract renewal, there was a slight increase in the rate from \$3.27 per offender per month to \$3.33 per offender per month. The offender population is defined as the average daily offender population adjusted once a year. The current year's numbers are 36,507 adult offenders and 287 juvenile offenders. The annualized cost is calculated as follows: 36,884 (adult and juvenile offenders) x \$3.33 x 12 = \$1,473,884.64.

Based on the projected volume of 125,000 offender claims per year, the cost per claim to process is \$11.79.

The advantage to this cost structure is that as the number of claims increases, the cost per claim decreases. This is especially important given the aging offender population and increase in chronic health problems as outlined in Mr. Prater's [October 12, 2017 JPS Oversight meeting] presentation.