

**Examination of Certain Policies, Procedures, Controls, and Financial Activity
of University Health Care, Inc., dba Passport Health Plan, and its
Affiliation with the University of Louisville and the
Cabinet for Health and Family Services**



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List of abbreviations/acronyms used in this report

A&H	Accident and Health
AFDC	Aid to Families with Dependent Children
AICPA	American Institute of Certified Public Accountants
AMHP	Amerihealth Mercy Health Plan
APA	Auditor of Public Accounts
CEO	Chief Executive Officer
CFR	Code of Federal Regulations
CHFS	Cabinet for Health and Family Services
CMS	Centers for Medicare and Medicaid Services
dba	doing business as
DMS	Kentucky Department for Medicaid Services
DOI	Kentucky Department of Insurance
EMS	Emergency Medical Services
FY	Fiscal Year
GME	Graduate Medical Education
HCFA	Health Care Financing Administration
HMO	Health Maintenance Organization
IGT	Image Guided Therapy
iHOP	Improved Health Outcomes Program
Inc	Incorporated
IRS	Internal Revenue Service
KAR	Kentucky Administrative Regulations
KCHIP	Kentucky Children's Health Insurance Program
KenPAC	Kentucky Patient Access and Care
KRS	Kentucky Revised Statutes
LLC	Limited Liability Company
LouHIE	Louisville Health Information
LRC	Legislative Research Commission
MSPA	Medical School Practice Association
OMB	Office of Management and Budget
PHP	Passport Health Plan
PMPM	Per Member Per Month
RBC	Risk Based Capital
SAS	Statement on Auditing Standards
SOBRA	Sixth Omnibus Budget Reconciliation Act
SSA	Social Security Act
SSI	Supplemental Security Insurance
TANF	Temporary Assistance for Needy Families
TPA	Third-Party Administrator
UHC	University Health Care, Inc.
UL	University of Louisville
UMC	University Medical Center, Inc.
UofL	University of Louisville
UPA	University Physicians Associates



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

November 9, 2010

Janie Miller, Secretary
Cabinet for Health and Family Services
275 East Main Street 5WA
Frankfort, Kentucky 40621

Larry N. Cook, M.D., Chairman and CEO
University Health Care, Inc.
552 East Market Street, Suite 202
Louisville, Kentucky 40202

RE: Examination of Certain Policies, Procedures, Controls, and Financial Activity of University Health Care, Inc., dba Passport Health Plan, and its Affiliation with the University of Louisville and the Cabinet for Health and Family Services

Dear Secretary Miller and Dr. Cook:

We have completed our Examination of Certain Policies, Procedures, Controls, and Financial Activity of University Health Care, Inc., dba Passport Health Plan, and its Affiliation with the University of Louisville and the Cabinet for Health and Family Services. The report identifies 20 findings and offers 85 recommendations to strengthen the management, oversight, and the transparency of University Health Care, Inc. (Passport Health Plan).

Examination procedures included the review of thousands of pages of documents and interviews of Passport Health Plan Executive Staff members, the Secretary and certain staff of the Cabinet for Health and Family Services, as well as others. In addition to the report findings and recommendations, Chapter 2 of the report discusses the concept of budget neutrality, including Section 1115 Federal Medicaid Demonstration waiver. The scope of our examination encompasses records and information for the period January 1, 2007 through December 31, 2009, unless otherwise specified. The objectives developed by the APA for this examination include:

- Review controls and organizational oversight;
- Determine appropriateness of capital and other significant distributions made by UHC;
- Determine the comparability of Passport Health Plan costs to other Medicaid fee-for-service costs;

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Secretary Miller and Dr. Cook
November 9, 2010
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- Determine whether actual cost savings can be attributed to UHC;
- Determine whether expenditures support the mission of Passport Health Plan;
- Determine whether conflicts of interest exist; and,
- Report findings and recommendations related to these and other matters identified during the examination.

It is not the intent of this examination to report on the health care service provided by Passport Health Plan or the operations of Passport Advantage, a Medicare Advantage Prescription Drug Special Needs Plan operated by Passport Health Plan.

The Auditor of Public Accounts requests a report from both the Cabinet for Health and Family Services and Passport Health Plan on the implementation of audit recommendations within (60) days of the completion of the final report. If you wish to discuss this report further, please contact Brian Lykins, Executive Director of the Office of Technology and Special Audits, or me.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts



Examination of Certain Policies, Procedures, Controls, and Financial Activity of University Health Care, Inc., dba Passport Health Plan, and its Affiliation with the University of Louisville and the Cabinet for Health and Family Services

Examination Objectives

On March 11, 2010, the Auditor of Public Accounts (APA) informed representatives of University Health Care, Inc., dba Passport Health Plan, the University of Louisville, and the Cabinet for Health and Family Services (CHFS) that an examination would be performed of issues concerning certain financial activity of Passport Health Plan related to its affiliation with the University of Louisville and the Commonwealth of Kentucky. The purpose of this examination was not to provide an opinion on financial statements, but to address specific issues and questions related to University Health Care (UHC). Nor was this examination intended to evaluate the quality of medical benefits or outcomes, which are monitored through other means.

The objectives developed by the APA for this examination included:

- Review controls and organizational oversight;
- Determine appropriateness of capital and other significant distributions made by UHC;
- Determine the comparability of Passport Health Plan costs to other Medicaid fee-for-service costs;
- Determine whether actual cost savings can be attributed to UHC;
- Determine whether expenditures support the mission of Passport Health Plan;
- Determine whether conflicts of interest exist; and,
- Report findings and recommendations related to these and other matters identified during the examination.

The scope of the examination encompasses records and information from calendar years 2007 through 2009, unless otherwise specified. It is not the intent of this examination to report on the operations of Passport Advantage, a Medicare Advantage Prescription Drug Special Needs Plan operated by UHC.

Medicaid Background

The Medicaid Program (Medicaid) was created circa 1965 and operates under Title XIX of the Social Security Act. During the past three fiscal years ending June 30, 2008, June 30, 2009, and June 30, 2010, the Commonwealth expended over \$5 billion each year on Medicaid services. Federal regulations found in 42 Code of Federal Regulations (CFR) chapters provide the details of Medicaid's operation including minimum compliance and range of flexibility. Medicaid managed care regulations are found in 42 CFR Part 438. The federal rules governing Medicaid include some special provisions for certain, limited and specified federal requirements to be waived with the approval of the Centers for Medicare and Medicaid Services (CMS) allowing states the opportunity to introduce a managed care approach to Medicaid covered populations.

The requirements of the Kentucky Medicaid Program are detailed in Kentucky Revised Statutes (KRS) and Kentucky Administrative Regulations.

The majority of funding for Medicaid medical benefits comes from federal matching funds. Federal stimulus funds available to Kentucky from October 2008 until December 2010 raised the effective match rate for Kentucky to almost 80-20 during this period. Medicaid general administration is funded at a 50-50 federal to state match rate. The state is subject to federal recovery of appropriate funding for any identified area of non-compliance with federal rules or regulations.

The Kentucky CHFS, Department for Medicaid Services (DMS) has an agreement with a sister agency, the Department for Community-Based Services, for Medicaid eligibility determination. Eligibility groups include:

- Aid to Families with Dependent Children/Temporary Assistance for Needy Families, Adults, and Children;
- Foster Care;
- Kentucky Children's Health Insurance Program;
- Sixth Omnibus Budget Reconciliation Act for pregnant women and children; and,

- Supplemental Security Insurance with and without Medicare.

Passport Health Plan Background

The Medicaid Demonstration Project amended waiver for Kentucky was granted approval by the Health Care Financing Administration (now known as CMS) in October of 1995. The three objectives outlined in the original amendment to the partnership waiver included:

- 1) To provide health care through managed care systems consisting of local providers in both the public and private sectors;
- 2) To redirect the emphasis of the Kentucky Medicaid Program to primary care and prevention whenever it is medically appropriate; and,
- 3) To implement effective and responsive cost management strategies designed to control growth in Medicaid costs.

The approved amendment to the waiver allowed Kentucky to establish a managed care program with a capitated rate structure for Medicaid recipients throughout the Commonwealth on a comprehensive risk basis and within groupings of Medicaid providers known as Health Care Partnerships. These partnerships were to be coalitions of medical providers who would provide comprehensive medical services as risk-based entities paid an actuarially sound capitation rate per member per month.

The Kentucky Health Care Partnership Demonstration in Region 3 was implemented on November 1, 1997, by UHC, dba Passport Health Plan, a sole-source, non-competitive managed-care provider. Passport Health Plan is the only model of its type without competition that exists in the nation. The initial capitalization for Passport Health Plan was provided by:

- University of Louisville Medical School Practice Association (now known as University Physicians Associates or UPA);
- University Medical Center (dba University of Louisville Hospital);
- Jewish Hospital Healthcare Services (now Jewish Hospital and St. Mary's Healthcare);
- Alliant Health System (now Norton Healthcare); and,
- Louisville/Jefferson County Primary Care Association.

The total capitalization investment in UHC of all contributors was \$10.5 million, which was returned to the original investors in December 2008.

UHC is a nonprofit corporation managed by a Board of Directors which represents the original five investors in

Passport Health Plan. Additionally, a Partnership Council representing both public and private providers has authority for health care oversight and guidance for Passport Health Plan.

The Region 3 Partnership, referred to as Passport Health Plan, provides a comprehensive medical service package of quality health care benefits through an integrated service delivery network to approximately 164,000 Medicaid beneficiaries residing in the following counties:

Breckinridge	Bullitt	Carroll
Grayson	Hardin	Henry
Jefferson	LaRue	Marion
Meade	Nelson	Oldham
Shelby	Spencer	Trimble
Washington		

CHFS pays Passport Health Plan a monthly, per member capitation payment, whether or not a member receives services during the period covered by the payment. Since approximately 86 percent of its funds derived and expended are from the Commonwealth of Kentucky, Passport Health Plan is considered to be a public agency.

UHC contracts with AmeriHealth Mercy Health Plan as its third party administrator to perform the day-to-day functions for the operation of Passport Health Plan. AmeriHealth Mercy earns incentives if it meets, in whole or in part, one or more of the operational goals and meets at least 75 percent of the quality goals set by UHC/Passport Health Plan.

Budget Neutrality

Budget neutrality requires that federal expenditures for Medicaid services allowed under a "waiver" program not be greater than a cost ceiling projected by CMS based on historical trends. For federal budget neutrality purposes, the participants who receive health care services through the Medicaid program are categorized into three "eligibility groups:"

- Eligibility Group 1 – Adults;
- Eligibility Group 2 – Children; and,
- Eligibility Group 3 - Aged, Blind and Disabled.

The lower of either the historical growth rate or the Medicaid growth rate as allowed by the Office of Management and Budget is used to establish the budget-neutral expenditure limit for the waiver. The actual costs of a waiver program, including the cost of any new services or populations, are then compared to the estimate of projected maximum costs, to establish whether the project is budget neutral. The actual cost of the program must be less than the calculated maximum cost, or ceiling, in order to be deemed

“budget neutral.” For a Medicaid waiver program to be considered “budget neutral,” the state must illustrate over the life of the waiver program that the program, Passport Health Plan, will not be expected to cost the Federal government more than the maximum ceiling it projects.

Kentucky is at risk for repayment of federal dollars if the CMS imposed budget neutrality limits are exceeded by Passport Health Plan. Thus, DMS monitors budget neutrality on a regular basis to ascertain that, for the waiver period, Passport Health Plan is budget neutral, according to the definition of budget neutral. If the state exceeds the calculated cumulative budget neutrality expenditure limit by an identified percentage in a given year, the state must submit a corrective action plan to CMS for approval. If, at the end of the waiver period, the budget neutrality limit has been exceeded, the excess Federal funds must be returned to CMS. Consequently, DMS has attempted to have the budget neutrality growth rate set as high as possible during each waiver renewal cycle.

Each year that a waiver program continues to operate it becomes increasingly more difficult to project the historical based fee-for-service data into meaningful budget neutrality calculations. Expenditure levels and growth rates in one area may not equate to growth rates in other areas. Therefore, the budget neutral ceiling should not be used as a determinate of cost savings. To imply that Passport Health Plan has generated savings by operating at a cost level below that of the budget neutrality ceiling indicates that Passport could have had access to the full amount of the budget neutral ceiling or that in the absence of Passport Health Plan, the cost to taxpayers to provide the basic Medicaid services to the Region 3 population would have equated to the amount of the budget neutrality ceiling. Neither of these assumptions is accurate.

As reported by the Commonwealth, Passport Health Plan has been budget neutral in all but two of its previous waiver years. Budget neutral indicates that the cost to operate Passport is within the projected federal expenditure limit which is a projection based on original historical costs with a growth factor applied. It is possible to conclude that the waiver expenditures have been within the budget neutrality limit, and at the same time the Passport Health Plan per member expenditures and annual growth rates exceed that experienced by the fee-for-service program for comparable services statewide.

Findings and Recommendations

Finding 1: The governing authority for University Health Care did not have regional representation in

the conduct of the financial administration of Passport Health Plan.

UHC, through its board, is responsible for all financial decisions of Passport Health Plan, while the Partnership Council’s role is defined as primarily to provide guidance and oversight to the operational aspects of the third party providers. Thus, the Region 3 Partnership is not actually governed by a body that broadly represents the partnership region’s health services providers and consumers as required by Kentucky regulation and the approved amendment to the Section 1115 Waiver Demonstration Project which includes management of both health care needs and costs. Recent distributions made by UHC have identified that financial decisions have provided significant cash benefits to the University of Louisville and many related affiliates, Norton Healthcare, Inc., and Jewish Hospital and St. Mary’s Healthcare, Inc., with the University of Louisville receiving the majority of the discretionary cash disbursements without any oversight or input by the Partnership Council.

Recommendations: We recommend that the governance of Passport Health Plan be reevaluated and possibly restructured with the original intent of the “Partnership” considered. The organization that governs all aspects of Passport Health Plan, including financial decisions, should have equitable regional representation for all providers as well as significant beneficiary representation. The board structure should include broad regional representation, which could be accomplished by combining the UHC Board with the Partnership Council.

Finding 2: A cost analysis has not been performed to determine the cost effectiveness of Passport Health Plan.

A true comparison of Passport Health Plan costs to the costs to provide the same services, in the same region, through a fee-for-service program has not been completed and thus it is impossible to definitively declare any savings by the program. The assertion that the budget neutrality ceiling equates to the actual cost to provide Medicaid services to those in Region 3 misrepresents the purpose of the budget neutral calculation. Determination of the cost to provide Medicaid services to a population requires a much more sophisticated, detailed, and researched analysis and review than just applying an annual growth factor to a baseline cost. When comparing Passport Health Plan operations to the rest of the Commonwealth there are many factors that can affect cost comparisons, such as the diversity, distribution, and demographics of the population served, the diversity of services provided, the diversity of the service providers, and the diversity of the payment structure.

Recommendations: We recommend Kentucky DMS conduct an analysis, or secure a qualified external

source to conduct an analysis, that compares the actual costs of Passport Health Plan to the costs that would have been incurred by the Commonwealth if the same services in the same region had been paid through a fee-for-service program. Such an analysis should provide conclusions as to any actual savings Passport Health Plan provided to the Commonwealth or whether it would be more cost efficient to pay for similar services through DMS's fee-for-service program.

Finding 3: DMS lacked sufficient financial analysis to effectively negotiate with UHC.

Due to various factors, including the lack of both understanding and use of UHC/Passport Health Plan's cost drivers and financial position, the sole source, non-competitive nature of the negotiation process, no cost comparison information available, and external political influences, DMS was at a disadvantage during its negotiations with UHC regarding the annual contract amount to be awarded by the Commonwealth for Passport Health Plan. While DMS had an extensive oversight system for the performance aspects of the contract with UHC for the administration of Passport Health Plan, it did not have a detailed picture of its financial situation. Further, DMS did not document the contract negotiation process or the details of the results of the negotiations and was unable to provide details as to how the contracted amounts were derived.

Recommendations: We recommend DMS establish a procedure for, and documentation of, a review of the UHC/Passport Health Plan Annual Statements with the intent to understand the Passport Health Plan financial condition and operation, including its spending habits, distributions, and its potential impact on the funding required to administer Passport Health Plan. Any applicable information should then be given consideration during the annual contract negotiation process. We further recommend that DMS document the annual contract negotiation process and retain a record of the process and the negotiations that are involved.

Finding 4: DMS documentation of monitoring and oversight of UHC/Passport Health Plan was not adequate.

DMS agency personnel responsible for the oversight of Passport Health Plan and the review of the submitted reports conveyed that DMS had no written policies or procedures documenting ongoing oversight activities for Managed Care, i.e., Passport Health Plan. While the personnel responsible for UHC/Passport Health Plan oversight on a daily basis appear to be knowledgeable and have a good understanding of these oversight responsibilities, without documented policies and procedures, it would be difficult for someone else to perform these duties effectively and efficiently, if circumstances required. Additionally, DMS did not

require Passport Health Plan to submit the Statement on Auditing Standards No.70 (SAS 70) audit of its primary third party administrator, AmeriHealth Mercy, or any other third party administrators used by Passport Health Plan.

Recommendations: We recommend DMS:

- Document managed care oversight policies and procedures to ensure consistency and continuity of ongoing oversight activities;
- Require documentation from UHC that would allow DMS a more informed review of financial activity; and,
- Request and review SAS 70 audits of UHC/Passport Health Plan's third party administrators to ensure that the data received from Passport Health Plan is processed in an environment with good internal controls and appropriate information technology security.

Finding 5: UHC made cash distributions to enhance its negotiating position with DMS.

UHC Board meeting minutes in 2008 and 2009 clearly indicate concern at UHC regarding the impact of the accumulated net worth on contract negotiations with CHFS. Excess cash distributions by UHC allowed UHC to reduce its cash reserves and excess capital and surplus; however, documentation of such distributions did not verify that the funds were set aside specifically for their intended use. Moreover, the distributions were made strictly to UHC's original member/investors and were not distributed to any other regional providers. Grants were distributed to the member organizations based on their original capital contributions with no consideration for the amount of incurred indigent care costs. All of the recipients indicated that the funds were placed in their general funds and used for general operating purposes rather than specifically set aside for uncompensated indigent care. Since the grants funds were ultimately deposited to the recipients' general funds, the recipients' organizations received a benefit from UHC/Passport Health Plan over and above other providers in the region, including other hospitals that had uncompensated indigent care costs.

Recommendations: We recommend that UHC, when negotiating future contracts with CHFS's DMS, consider its excess reserves as funds available for its annual spending plan in order to control the growth of Passport Health Plan expenditures, yet still provide the needed health-care services for the beneficiaries of Region 3. We recommend CHFS's DMS include an analysis and discussion of UHC/Passport's excess reserves, and any future use for those reserves, as part of the annual contract negotiations between UHC and the Commonwealth. If distributions or grants are made, we recommend that UHC solicit more regionally diverse and representative guidance as to the purpose

and distribution of any funds deemed to be excess or surplus in order to insure the optimum health related benefit for the entire Region 3. We further recommend that the Board of UHC develop and adopt a formal grant policy and procedure that includes an application and approval process to document and ensure that grants are consistent with the mission of UHC, equitable in nature, and that grant funds are used for targeted and appropriate purposes.

Finding 6: Compliance with KRS and IRS regulations is questionable regarding UHC distributions.

The distributions UHC made to return capital of approximately \$10.5 million to its original member/investors, as well as to reimburse its original member/investors for \$20 million in uncompensated indigent care costs, are questionable as to whether they were in compliance with KRS 273.237 and the Internal Revenue Service (IRS) tax code. While the statute prohibits distributions to member organizations, nonprofits are allowed to “confer benefits upon its members” that are in conformity with the purposes for which the nonprofit is formed and that are actually used for such purposes. The benefits must be for a specific purpose, “restricted,” and are not allowed to be used for general purposes by the beneficiary. Based on the most recent Articles of Incorporation and Member Agreement that we were provided, it appears that upon dissolution, any excess assets will be distributed to the initial owners based on initial ownership percentage even though the initial investments have been returned. Allowing for a distribution in this manner may be in conflict with KRS 273.237 and IRS tax code also.

Recommendations: We recommend UHC seek an opinion from the Office of the Attorney General and/or an IRS interpretation of these issues.

Finding 7: Passport Health Plan awarded various grants to favor certain organizations.

UHC/Passport Health Plan made payments in the form of grants that primarily favored University of Louisville affiliates, Jefferson County providers, and certain other organizations and charities. These grants also were an attempt by UHC/Passport Health Plan to reduce net worth, thereby improving its negotiating position during the annual contract negotiation with Kentucky’s DMS. Additionally, UHC/Passport Health Plan paid the University of Louisville over \$293,000 from 2007 thru June 2010 to administer the Improved Health Outcomes Program (iHOP) grant program. And further, according to the “School Health Services for Students with Chronic Health Conditions in Kentucky” report adopted by the Legislative Research Commission (LRC) on July 8, 2010, students in the Passport region received far less health services from school nurses than those outside the Passport region. Passport does

not reimburse health departments for care provided to Medicaid recipients in school settings.

Recommendations: We recommend that if grants are awarded that they be equitable and be based on an allocation methodology that considers the Passport Health Plan membership and need of all Region 3 counties. We also recommend that the Executive Committee and the UHC Board ensure that all pertinent and significant facts and circumstances relative to Board and committee approval of grants be made available to, discussed by, and documented by the Board or committee in the meeting minutes. We further recommend the Board review the administrative expenditures associated with awarding iHOP grants that are reimbursed to the University of Louisville to weigh the cost versus benefit, and to determine whether the expenditures are a prudent use of taxpayer funds. In addition, we reiterate the LRC’s recommendation that DMS and UHC find an equitable way to ensure that school health services for Medicaid recipients are covered.

Finding 8: UHC grants, GME, and other distributions were not reported separately in the financial statements.

UHC/Passport Health Plan distributed cash annually in the form of grants, outpatient settlement payments to hospitals, Graduate Medical Education (GME), and sponsorships to various health related, charitable, and civic organizations within the sixteen county region covered by Passport Health Plan. However, these distributions were not transparent in UHC/Passport Health Plan’s annual audited financial statements or in its Annual Statement to the Kentucky Department of Insurance. All of the discretionary distributions noted above, except sponsorships and certain grants, were included in the UHC Passport Health Plan financial statements on the expense line “Hospital/medical benefits.” UHC/Passport recorded the cash contributions for sponsorships as an Administrative – Marketing expense. The grants to Grace House/Volunteers of America and the iHOP grants were recorded in the “Other Expenses” line.

Recommendations: We recommend UHC/Passport Health Plan disclose all discretionary cash distributions including the name of the recipient, the amount of the distribution, and the nature of the contribution and present that information in such a manner as to provide sufficient transparency and accountability to the public and to the state. These disclosures should be recorded in UHC/Passport Health Plan’s financial records and reported separately to reflect the true nature of the expenditure, not as a component of the “Hospital/medical benefits” or “Other expenses.” Further, we recommend UHC cease recording donations/sponsorships as “Marketing and Advertising.”

Finding 9: UHC spent funds on questionable travel, meals, and gifts, with uncertain benefit to Passport Health Plan recipients.

UHC/Passport Health Plan staff traveled frequently, stayed in luxury resorts, used limousine services, had expensive meals, and purchased numerous gifts all with the funding received from Medicaid. The approximate annual UHC/Passport Health Plan “travel expenses,” which included travel, meals, gifts, and other expenses, primarily incurred by two executive staff members, totaled \$229,490, for the three-year calendar period reviewed. Many of the hotels that UHC/Passport Health Plan staff frequented for travel were often luxury or spa/resort accommodations, and the stays did not appear to be in conjunction with a professional conference. Expenses in excess of \$57,000 were incurred for the purchase of local meals for UHC/Passport Health Plan staff and board members, including meals and refreshments for various committee meetings.

Recommendations: We recommend that UHC/Passport Health Plan ensure that all travel expenses relate to its original mission to improve the health and quality of life of its members and that funds spent on travel be spent more prudently and efficiently. We recommend the UHC Board of Directors review and approve all travel expenditures incurred by UHC’s Executive Vice-President, as well as all out-of-state travel expenditures for other staff and board members. Further, the Board should improve its policies governing spending related to travel. The Board of Directors should implement a policy to clearly define when it is appropriate for meals, including local meals, to be purchased on behalf of employees, Board members, vendors, and guests.

Finding 10: UHC spent nearly \$14 million on consulting and outsourced services including \$1 million for lobbying and public relations.

UHC/Passport Health Plan spent nearly \$14 million between January 2007 and May 2010 on consulting and outsourced services. Several of the contracts for consulting services were with companies that specialize in lobbying and activist activities. In addition, payments were made to the University of Louisville for salaries of two individuals documented as “salary and benefits” in the general ledger. Payments to the former UHC Executive Vice-President continued for three years after his employment ended in 2006 at UHC, reportedly as part of a severance agreement.

Recommendations: We recommend that UHC/Passport Health Plan executive staff reevaluate whether the use of such numerous consultants, many of whom are lobbyists, are a necessary expense and a judicious use of taxpayer dollars. We further recommend UHC/Passport Health Plan Board of Directors review and approve consulting and

outsourced service contracts over a specified amount to ensure that funds are spent only on services necessary for the continued operation of Passport Health Plan. To ensure transparency, detailed financial information and contract deliverables regarding such expenditures should be shared with the Board of Directors and the Partnership Council on a regular basis.

Finding 11: UHC contributed over \$423,000 in donations and sponsorships with questionable benefit to Passport recipients.

During our period of review, UHC/Passport Health Plan expended over \$423,000 on donations and sponsorships to various organizations, some of which had no relevance to the Passport Health Plan program. Further, the policies established by the Board of Directors regarding sponsorships and donations did not ensure the appropriateness of the expenditures.

Recommendations: We recommend UHC/Passport Health Plan Board of Directors re-evaluate the donations made to numerous organizations, some of which are not health care related, and determine whether they provide a potential benefit to Passport recipients and are a prudent use of taxpayer dollars. The UHC/Passport Health Plan Board of Directors should establish a policy to determine which sponsorships are appropriate, if any. To ensure transparency, detailed financial information regarding such expenditures should be reviewed by the Board of Directors and the Partnership Council on a regular basis.

Finding 12: UHC spent over \$250,000 on membership fees to various organizations.

UHC/Passport Health Plan spent over \$250,000 for memberships to various organizations and chambers of commerce in the counties of Region 3. Many of the organizations/associations to which UHC belongs are lobbying and activist organizations with their primary focus to influence health care related and other legislation.

Recommendations: We recommend the UHC Board of Directors re-evaluate its memberships in numerous associations and determine which association memberships provide a potential benefit to Passport Health Plan recipients and are a prudent use of taxpayer dollars. To ensure transparency, the Board of Directors and the Partnership Council should review detailed financial information regarding such expenditures on a regular basis.

Finding 13: Two UHC executives received significant annual salaries and bonuses and UHC paid a “10 year anniversary bonus” to AmeriHealth Mercy Kentucky employees.

For calendar years 2008-2010, the Executive Vice-President received compensation, including bonuses,

from University of Louisville sources totaling \$855,700. The Executive Vice-President also received additional compensation from a small consulting firm. The compensation paid to UHC's Associate Vice-President through a lease agreement with UPA included bonuses for the three-year period reviewed totaling \$66,167, in addition to her salary. Although "in substance" the staff of UHC/Passport Health Care were employees of UHC, their salaries and benefits were recorded as consulting expenses rather than reimbursements for such salaries and benefits. Further, an expenditure of \$242,212.50 was recorded in "Outsourced Services" as a reimbursement to AmeriHealth Mercy on December 12, 2007. This expenditure was found to be the cumulative amount of 10-year Anniversary bonuses paid to employees of AmeriHealth Mercy Kentucky operations plus associated payroll taxes. Each of the approximately 250 employees of AmeriHealth Mercy Kentucky operations received a \$1,000 bonus.

Recommendations: We recommend the UHC/Passport Health Plan Board of Directors consider whether the salary amounts paid to its executive staff are commensurate with their duties, responsibilities, and availability. We recommend they consider whether the awarding of bonuses to executives and AmeriHealth Mercy staff are necessary and an efficient use of taxpayer funds in providing health care for the Passport region. Further, UHC should account for and disclose in the financial statements the executive staff salaries and bonuses as reimbursements for salaries and wages rather than as consulting expense. Bonuses provided to AmeriHealth Mercy staff should be recorded likewise.

Finding 14: UHC's Conflict of Interest Policy and Code of Conduct were weak and it was uncertain to whom the Code of Conduct applied.

UHC's Conflict of Interest Policy and Code of Conduct contained minimal requirements pertaining to ethical responsibilities, compliance with the law, conflicts of interest, gifts, gratuities and kickbacks, and confidentiality of information, but they did not address other areas of conduct such as specific conflicts of interest, outside employment or consulting, use of UHC property/equipment/personnel time, use of official position to obtain a benefit, post-employment, or financial disclosure. Moreover, although staff members stated that the Code of Conduct applies to both employees and Board members, the Code itself does not indicate that it applies to Board members. Further, no evidence was provided that UHC enforced compliance with its minimal Code of Conduct, or that it had a policy or procedures to enforce compliance.

Recommendations: We recommend the UHC Board of Directors strengthen UHC's Code of Conduct by establishing a comprehensive code of ethics, applicable to both Board and staff members, including any

employed by the other entities, but leased to UHC. In order to ensure compliance with a comprehensive code of ethics, UHC also should adopt policies, procedures and responsibilities for reporting potential ethical misconduct, investigating such activity, and criteria for sanctions or disciplinary procedures.

Finding 15: Numerous conflicts of interest existed for UHC and its executive staff members.

Numerous conflicts of interest existed for UHC/Passport Health Plan executive staff members. These conflicts raise questions regarding a lack of independence of the actions of the executive staff and their decision-making on behalf of UHC, particularly regarding the monitoring, oversight, and contract negotiations of AmeriHealth Mercy and its related affiliates. Other organizational conflicts allowed for decisions made to favor the University of Louisville. These conflicts were not disclosed to the UHC Board of Directors as required by internal policies. It was impossible to tell if the vendors selected, grants awarded, rates assigned, and other discretionary decisions were made independently or were based on inherent conflicts or private interests.

Recommendations: We recommend that the UHC Board of Directors follow-up on the actions detailed in the finding and take appropriate action to remove any and all conflicts of interest for UHC, the Board of Directors, and its staff members. We further recommend the UHC Board of Directors ensure that conflict of interest standards within a comprehensive code of ethics prohibit situations that cause a conflict between personal interests and duties for UHC. And finally, in order to ensure compliance with a code of ethics that prohibits conflicts of interest, the UHC Board also should adopt policies, procedures and responsibilities for reporting potential ethical misconduct, investigating such activity, and criteria for sanctions or disciplinary procedures.

Finding 16: UHC's lobbying activities were substantial and may conflict with its Articles of Incorporation and contract language.

Documentation accumulated during the examination indicated a significant expenditure by UHC for lobbying and lobby related activities to outside vendors, as well as UHC having several employees registered with the Commonwealth as lobbyists. It appears based on the number of lobbyists representing UHC, the amount of expenditures for lobbying activities, and the amount of staff time spent on lobbying matters that a substantial part of UHC's activities included attempting to influence legislation, which does not comply with UHC's Article of Incorporation. Further, our review reflects that a substantial amount of UHC's travel was to Washington, DC for lobbying activities, and thus

appears to be an attempt to influence federal decision-making.

Recommendations: We recommend the Board of Directors review the necessity for the high level of lobbying costs expended by UHC and determine whether such expenditures are a proper use of UHC/Passport funds. The Board also should determine the potential benefit of lobbying efforts for Medicaid recipients and appropriateness of the time and expenses allocated by UHC staff on such matters. In order to comply with its Articles of Incorporation, no substantial part of UHC's activities should be engaging in attempts to influence legislation. We recommend UHC comply with its contract terms and immediately terminate any attempts to influence members of Congress regarding any matters in connection with federal contracts, grants, agreements, or loans.

Finding 17: GME funding to and by Passport Health Plan lacked transparency and may be excessive.

Medicaid funding provided to and by Passport Health Plan for GME lacked proper documentation to demonstrate whether the Medicaid funds Passport Health Plan received for GME were actually paid to eligible hospitals for GME, whether they were used for GME purposes, and whether they were excessive. DMS paid approximately \$6.3 million in GME to eligible Kentucky hospitals for GME related to non-Passport Medicaid costs in state fiscal year 2009-1010. Region 3 hospitals received approximately \$36.4 million in Medicaid funds from Passport for GME during the same time period.

Recommendations: We recommend that the federal CMS review the calculations used to determine the amount of funding included in contracted capitated rates attributed to GME for UHC/Passport Health Plan, and any GME payments made by Passport Health Plan to Region 3 hospitals, to ensure that Medicaid funds were used for allowable purposes. We further recommend that DMS include contract language to require UHC to use the GME calculation methodology in the approved state plan consistent with GME payments throughout the Commonwealth. Additionally, DMS should consider whether paying GME directly to Region 3 hospitals using the approved formula it uses to pay GME to all other eligible hospitals would be a more equitable and transparent method and a better use of Medicaid funds than including the amount in the UHC/Passport Health Plan's capitated rate.

Finding 18: Passport Health Plan daily in-patient rates and outpatient settlements paid to original investor hospitals were significantly higher than those paid to rural hospitals.

Since inception, the owner/investor hospitals as a group received larger increases for inpatient rates than most of the rural hospitals. After complaints from rural hospitals, adjustments were made to most of the non-Jefferson County hospital providers to increase their per diem rate to cover 70 percent of their costs. This increase in per diem only addressed costs going forward, but no payment has been made to remedy the past inequity. Outpatient rate protection settlement payments in 2008 and 2009 to the owner/investor hospitals accounted for over 90 percent of the total settlements, leaving less than 10 percent for the remaining hospitals.

Recommendations: UHC/Passport should ensure that all hospital providers, owner and rural, are treated in an equitable manner and that the Board of Directors, the Finance Committee, and the Partnership Council approve all hospital rate increases, discretionary payments and settlements, the details of which should be made available to them.

Finding 19: UHC is not in compliance with several terms of its contract with the Commonwealth.

Several contract violations were found by UHC/Passport Health Plan in its annual contract with the Commonwealth's DMS to provide medical services for Medicaid eligible recipients in Region 3, specifically those sections governing distribution notice, maximum payment amounts, and lobbying activities of the UHC.

Recommendations: We recommend UHC comply with the contract notification requirements. We further recommend DMS require compliance with the contract that it receive notification of any distributions awarded by UHC. We recommend DMS track expenditures made to UHC and amend their annual contract with UHC when the number of eligible members produces circumstances under which the projected costs to be paid indicate that it will exceed the contract amount.

Finding 20: No lease agreements existed for UPA employees providing full-time employee services to UHC.

The services of three "in-substance" employees of UHC/Passport Health Plan were deemed to be "leased" from their employer, UPA, to UHC. However, there was no written lease agreement between UHC and UPA for the services of those employees. A formal employee lease agreement documents the obligations, expectations, and rights of the counterparties as well as those of the individuals involved.

Recommendations: UHC and UPA should formally document in writing the personnel services arrangement whereby the services of the Associate Vice-President, the two administrative assistants, and any other UPA employees, are provided to UHC.

Chapter 1

Introduction and Background

Scope

On March 11, 2010, the Auditor of Public Accounts (APA) informed representatives of University Health Care, Inc., dba Passport Health Plan, the University of Louisville, and the Cabinet for Health and Family Services (CHFS) that an examination would be performed of issues concerning certain financial activity of Passport Health Plan related to its affiliation with the University of Louisville and the Commonwealth of Kentucky. The purpose of this examination was not to provide an opinion on financial statements, but to address specific issues and questions related to University Health Care (UHC). Nor was this examination intended to evaluate the quality of medical benefits or outcomes, which are monitored through other means.

It is the responsibility of the APA to assure taxpayers that public funds received by the Commonwealth to be used for the benefit of the Medicaid program are used in accordance with the purposes of that program and that the use of public funds is transparent to the public. The objectives developed by the APA for this examination included:

- Review controls and organizational oversight;
- Determine appropriateness of capital and other significant distributions made by UHC;
- Determine the comparability of Passport Health Plan costs to other Medicaid fee-for-service costs;
- Determine whether actual cost savings can be attributed to UHC;
- Determine whether expenditures support the mission of Passport Health Plan;
- Determine whether conflicts of interest exist; and,
- Report findings and recommendations related to these and other matters identified during the examination.

The scope of the examination encompasses records and information from calendar years 2007 through 2009, unless otherwise specified. It is not the intent of this examination to report on the operations of Passport Advantage, a Medicare Advantage Prescription Drug Special Needs Plan operated by UHC.

Section 4.29 of CHFS Department for Medicaid Services' (DMS) contract with UHC authorizes the APA to conduct an examination of the UHC Passport Health Plan.

Chapter 1

Introduction and Background

Medicaid Background

Federal Authority

The Medicaid Program (Medicaid) was created circa 1965 and operates under Title XIX of the Social Security Act (SSA). It is often described as a partnership between the federal and state governments. Medicaid has grown by accretion in the intervening years from a relatively small national and state budget item to one of the largest government program expenditures. During the past three fiscal years ending June 30, 2008, June 30, 2009, and June 30, 2010, the Commonwealth expended over \$5 billion each year on Medicaid services.

Expansions or limitations of Medicaid were often included in various Federal Budget Reconciliation Acts. Federal regulations found in 42 Code of Federal Regulations (CFR) chapters provide the details of Medicaid's operation including minimum compliance and range of flexibility. Medicaid managed care regulations are found in 42 CFR Part 438. Federal regulations deal with all aspects of Medicaid including provider reimbursements, scope of coverage and eligibility in extreme detail. The federal rules governing Medicaid include some special provisions for certain, limited and specified federal requirements to be waived with the approval of the Centers for Medicare and Medicaid Services (CMS) allowing states the opportunity to introduce a managed care approach to Medicaid covered populations.

Although federal Medicaid rules permit some state variability, states must obtain approval of their specific operations by submitting State Medicaid Plans to CMS. CMS does not permit funds to be drawn down by a state to implement a proposed plan amendment until that amendment is actually approved.

Commonwealth of Kentucky Medicaid Authority

The requirements of the Kentucky Medicaid Program are detailed in Kentucky Revised Statutes (KRS) and Kentucky Administrative Regulations (KAR). Typically, expansions and limitations of Medicaid are specified in the enacted Biennium Budget. Any state laws and regulations enacted regarding Medicaid must follow the federal requirements with modifications for the options the Commonwealth has selected. Administrative regulations exist for virtually every area of Medicaid's functioning and include regulations governing service program coverage, provider reimbursement and eligibility groupings. The Medicaid Program also must follow all other regulations incumbent upon a state agency. Accordingly, to modify most aspects of Medicaid's operation requires the agency to negotiate through the state's regulatory system. This process often makes changing the program in response to budget pressures difficult and slow. The following committees and sub-committees of the Kentucky legislature oversee the Kentucky Medicaid Program: (i) Health and Welfare, (ii) Contract Review, (iii) Program Review, (iv) Administrative Regulations Review, (v) Budget Review, (vi) Appropriations and Revenue, (vii) Medicaid Oversight and Advisory, and at times, (viii) Insurance.

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Funding

The majority of funding for Medicaid medical benefits comes from federal matching funds. Nationwide, the federal to state matching rates vary from 50-50 federal/state match to approximately 75-25 federal/state match. Matching rates are based upon a federal formula that considers various economic factors including poverty levels. Large population states such as New York and California are typically low-match states. Most of the states in the federal Southeast Region, including Kentucky, are high-match states. Federal stimulus funds available to Kentucky from October 2008 until December 2010 raised the effective match rate for Kentucky to almost 80-20 during this period. Medicaid general administration is funded at a 50-50 federal to state match rate. Some services within the administration budget qualify for the higher rate of federal match. There is no upper limit to the federal portion of the match except that which is determined by available state match. Based on actual expenditures, CMS exercises some control over how much money it releases to the states each federal quarter, and in the unlikely event of an overpayment, CMS would in some manner recoup an appropriate amount. The state is also subject to federal recovery of appropriate funding for any identified area of non-compliance with federal rules or regulations.

Eligibility

The Kentucky CHFS, DMS has an agreement with a sister agency, the Department for Community-Based Services, for Medicaid eligibility determination. The Passport Health Plan is provided eligibility information electronically through this system. Eligibility groups include:

- Aid to Families with Dependent Children (AFDC) / Temporary Assistance for Needy Families (TANF) Adults and Children;
- Foster Care;
- Kentucky Children's Health Insurance Program (KCHIP);
- Sixth Omnibus Budget Reconciliation Act (SOBRA) for pregnant women and children; and,
- Supplemental Security Insurance with and without Medicare (SSI).

DMS also makes small capitation payments in the form of per member per month (PMPM) patient management fees to physicians enrolled in the Section 1915b waiver program, KenPAC. Actual medical services provided by KenPAC physicians are billed through the fee-for-service system.

DMS also has a contract with the Kentucky Transportation Cabinet for that agency to provide non-emergency transportation services for Medicaid recipients using a capitation payment methodology.

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Introduction and Background

Passport Health Plan Background

Waiver History

In December 1993, the Health Care Financing Administration (HCFA now known as the Centers for Medicare and Medicaid Services - CMS) granted approval for a Section 1115 Demonstration Project waiver for the Commonwealth of Kentucky. Before implementation of the waiver, in June of 1995, the Commonwealth of Kentucky submitted an amendment to its Section 1115 Waiver Demonstration Project and was granted approval by HCFA in October of 1995, although HCFA was reluctant to do so because of the non-competitive, sole-source nature of the waiver. HCFA required the program, known as the Kentucky Health Care Partnership, to offer a provider agreement to any provider willing to participate in order for approval to be granted under a “sole-source” managed care contract. Passport Health Plan is the only model of its type without competition that exists in the nation. The three objectives outlined in the original amendment to the waiver included:

- 1) To provide health care through managed care systems consisting of local providers in both the public and private sectors;
- 2) To redirect the emphasis of the Kentucky Medicaid Program to primary care and prevention whenever it is medically appropriate; and,
- 3) To implement effective and responsive cost management strategies designed to control growth in Medicaid costs.

The primary objectives of the most recent Section 1115 Demonstration waiver are:

- 1) To improve access to health care and needed services for beneficiaries;
- 2) To test the feasibility of providing additional services through a single managed care entity; and,
- 3) To reduce costs.

Partnership Concept

The approved amendment to the waiver allowed Kentucky to establish a managed care program with a capitated rate structure for Medicaid recipients throughout the Commonwealth on a comprehensive risk basis and within groupings of Medicaid providers known as Health Care Partnerships. A “capitated rate structure” means that providers are paid a predetermined monthly fee for each covered participant regardless of the amount or frequency of services provided that participant. Capitated rates also are referenced as “per member per month” or PMPM payments. These partnerships were to be coalitions of medical providers who would provide comprehensive medical services as risk-based entities paid an actuarially sound capitation rate per member per month. Each partnership plan would have significant beneficiary representation on its governing board. Under the partnership plan, it was judged that providers themselves would be the best positioned to realize the efficiencies necessary to reconcile program expectations.

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Eight regional partnerships were to be developed within the Commonwealth. See Exhibit 17 for a map of the regions. Virtually all Medicaid members in each region would be assigned to a partnership plan. Each partnership plan was to have significant member representation on its governing board. Providers and members were to decide together how to best manage health care needs and costs. Initially, two partnerships were developed and implemented, in Region 3 (Louisville and 15 surrounding counties) and Region 5 (Lexington and its surrounding counties). However, the Commonwealth was never able to fully implement the demonstration project beyond the Louisville and Lexington regions. On July 1, 2000, Region 5 partnership terminated its contract with the Commonwealth, leaving Region 3 as the only partnership remaining in the Commonwealth.

Initial Capitalization

The Kentucky Health Care Partnership Demonstration in Region 3 was implemented on November 1, 1997, by UHC, dba Passport Health Plan, a sole-source, non-competitive managed-care provider. In developing the partnership for Region 3, officials at the University of Louisville believed it was imperative that the University and its Medical School Practice Association maintain as much control as possible over the Medicaid program of Region 3 in order to ensure an adequate teaching patient population and the revenue to support it, and to maintain the safety net provider structure for uncompensated indigent care. Historically, Medicaid had accounted for over 40 percent of the University of Louisville teaching clinics' patient visits and provided 60 percent of the revenue.

Hence, the initial capitalization in 1996 of \$7.984 million for the start-up costs of UHC included \$3 million provided by the University of Louisville to the Medical School Practice Association (MSPA now known as University Physicians Associates or UPA). MSPA also was credited with a donation of in-kind contribution valued at \$1.1 million. The in-kind contribution was the value of the faculty time and other expense incurred in researching, developing and implementing strategies, systems, and procedures essential to the operation of a managed health care delivery program for the region in which the University of Louisville is located. In 1998, the University of Louisville authorized an additional contribution of \$1,283,750 to MSPA for UHC capital. Thus, UPA, formerly MSPA, contributed a total of \$5.4 million or 51.4 percent of the total capitalization of UHC.

Other initial capital contributors for the implementation of UHC included the University Medical Center (UMC dba University of Louisville Hospital) which contributed \$1,313,250, or 12.5 percent, Jewish Hospital Healthcare Services (now Jewish and St. Mary's Healthcare) and Alliant Health System (now Norton Healthcare), which each contributed \$1,348,581, or 12.9 percent each, and Louisville-Jefferson County Primary Care Association which contributed \$1,090,000, or 10.4 percent, and is comprised of:

- Federally Qualified Family Health Centers, Inc.;

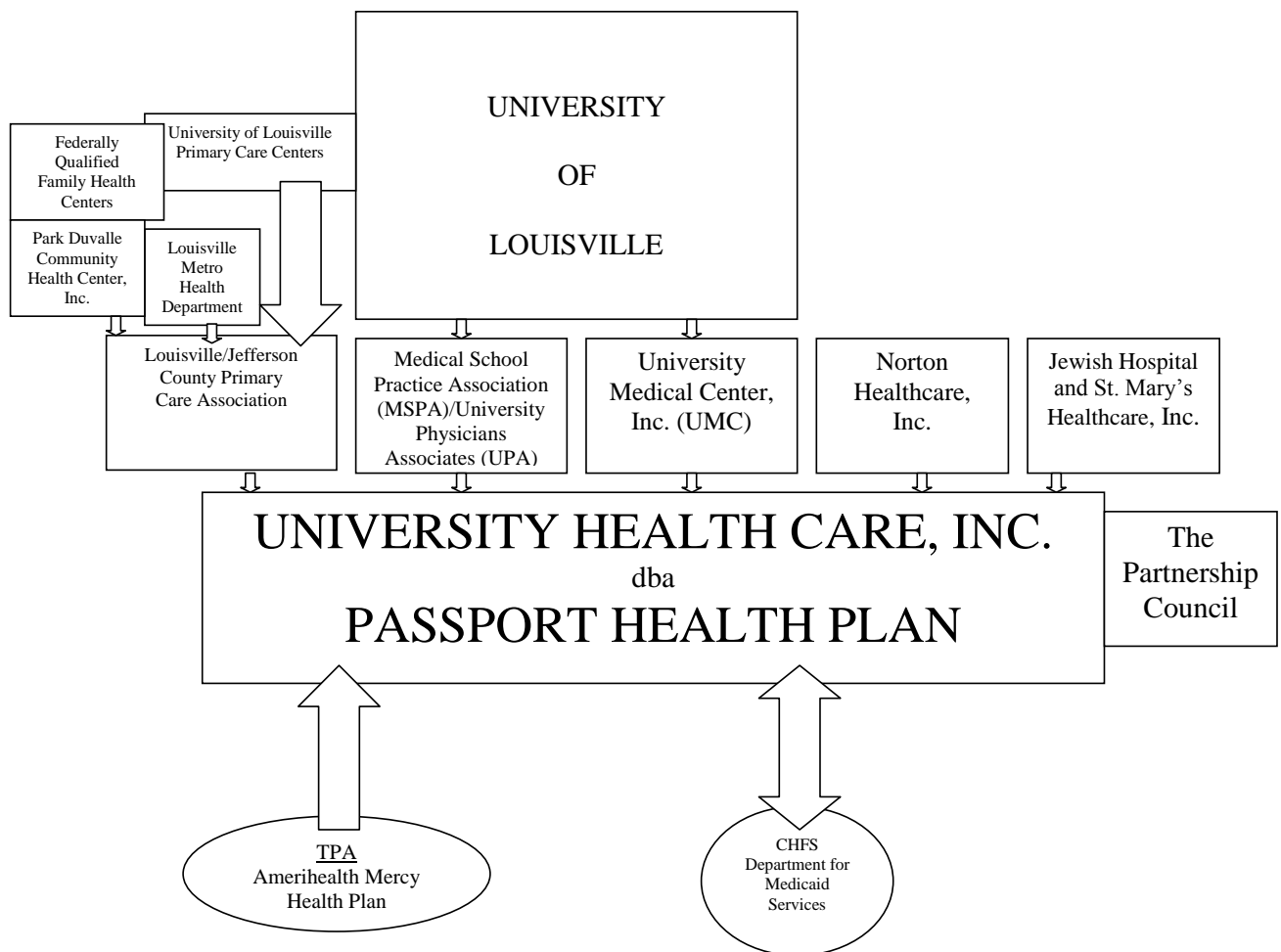
Chapter 1

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- Jefferson County (now Louisville Metro) Health Department;
- Park DuValle Community Health Center, Inc.; and,
- University of Louisville Primary Care Centers.

The total capitalization investment in UHC of all contributors was \$10.5 million, which was returned to the original investors in December 2008.

University Health Care, Inc. dba Passport Health Plan Organizational Chart



Chapter 1

Introduction and Background

UHC Board Administration

UHC was initially organized in 1997 as a for-profit corporation exclusively for charitable and educational purposes. In 1998, UHC amended its by-laws to have no capital shares or shareholders, and provided that its business and affairs would not be conducted for private pecuniary gain or profit, but any gain, profit, net earnings or property would be devoted exclusively to its charitable purpose as a nonprofit corporation.

Initially, UHC had five members as detailed below:

- Alliant Health System, Inc. (now Norton Healthcare);
- Jewish Hospital Healthcare Services (now Jewish Hospital and St. Mary's Healthcare);
- Louisville/Jefferson County Primary Care Association;
- University Medical Center; and,
- University of Louisville Medical School Practice Association (now University Physicians Associates).

On October 1, 2000, Passport Health Plan was licensed by the Kentucky Department of Insurance (DOI) as a nonprofit health maintenance organization (HMO). The October 2000 Amended and Restated Articles of Incorporation of UHC provide that its five initial members shall appoint the directors of UHC as follows:

- University of Louisville Medical School Practice School Association - five directors; and,
- Norton Healthcare, Jewish Hospital Healthcare Services, University Medical Center, and Louisville/Jefferson County Primary Care Association - one director each.

In November 2004, the number of UHC directors was increased to 16 with the initial members entitled to appoint the number of directors as follows:

- University of Louisville Medical School Practice Association - nine directors;
- Norton Healthcare, Jewish Hospital Healthcare Services, University Medical Center – two directors each; and,
- Louisville/Jefferson County Primary Care Association - one director.

The UHC Board of Directors is authorized to exercise corporate powers to manage and conduct all the business affairs of UHC. The bylaws of UHC require the Board of Directors to establish a Finance Committee and other committees it considers necessary for the conduct of business. Other committees that have been established by the Board include an Executive Committee, Audit Committee, and Management Agreement Oversight Committee.

Chapter 1

Introduction and Background

Broad Representation

To achieve the broad provider participation as required by the waiver, in addition to the established UHC board of directors, a Partnership Council was created that was to represent both the public and private sectors of providers, particularly Medicaid providers. A three-party contract was signed in September 1997 between the Commonwealth of Kentucky, the Region 3 Partnership Council, and UHC. Around the same time the contract was negotiated with the Commonwealth, UHC selected AmeriHealth Mercy Health Plan (AmeriHealth Mercy), based in Philadelphia, as the third-party administrator for the program. All the Partnership Council's actions require approval by the UHC board of directors, which has all fiduciary, regulatory and contractual responsibilities for the program. The Partnership Council has the following delegated responsibilities:

- Maintain a board of directors representative of the Partnership's health care providers;
- Jointly evaluate the performance of AmeriHealth Mercy with UHC;
- Establish and maintain the various committees or subcommittees, including:
 - Quality Medical Management Committee;
 - Delegation Oversight Committee;
 - Quality Member Access Committee;
 - Grievance;
 - Provider Advisory;
 - Others, as necessary; and,
- Purchase centralized services on a state-wide basis and select benefit managers for these services.

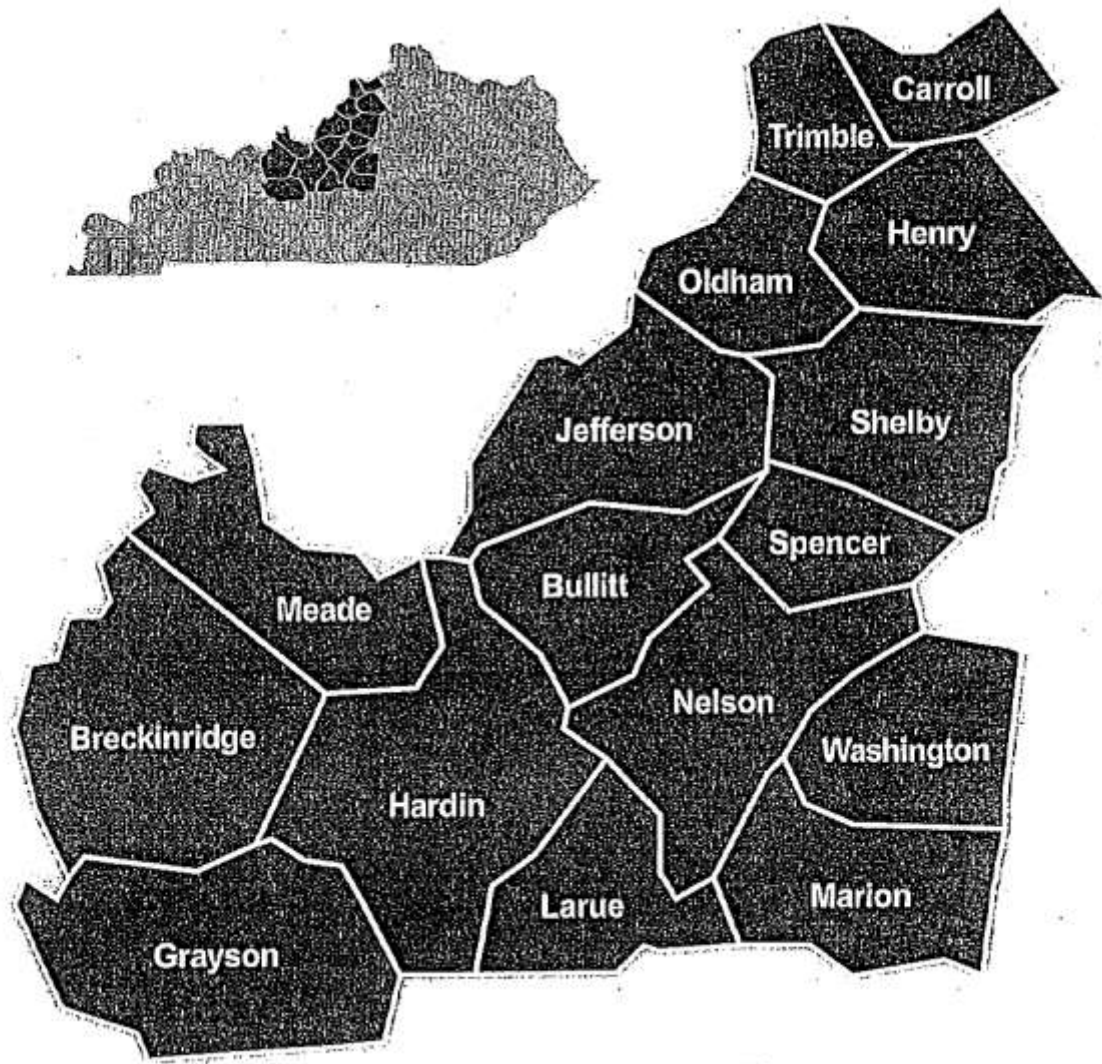
The UHC Board of Directors retained the authority deemed necessary to protect the interests of its capital investors, maintain its license, guarantee performance under the terms of the contract with the Commonwealth, and preserve the financial integrity of the Region 3 Medicaid managed care initiative.

Services

The Region 3 Partnership, referred to as Passport Health Plan, provides a comprehensive medical service package of quality health care benefits through an integrated service delivery network to approximately 164,000 Medicaid beneficiaries residing in the following counties:

- | | |
|----------------|--------------|
| • Breckinridge | • Marion |
| • Bullitt | • Meade |
| • Carroll | • Nelson |
| • Grayson | • Oldham |
| • Hardin | • Shelby |
| • Henry | • Spencer |
| • Jefferson | • Trimble |
| • LaRue | • Washington |

Region 3 Partnership Counties



Source: Passport Health Plan 2009 Annual Report to the community

This service is an essential component to providing services to Medicaid recipients within Region 3 of the Commonwealth. Passport Health Plan is a sole-source managed care provider and virtually all Medicaid beneficiaries are assigned to the plan. Services that are not covered by the Passport Health Plan and are excluded from the partnership benefits package include mental health, long-term care, and school-based services.

Chapter 1

Introduction and Background

Capitation payments

Passport Health Plan is considered a risk-based entity that is paid on an actuarially sound capitated basis. CHFS, DMS pays Passport Health Plan a monthly, per member capitation payment, whether or not a member receives services during the periods covered by the payment. The payment is based on a standard rate-setting methodology that complies with CMS's "upper limit" requirements. The DMS negotiated rates with Passport Health Plan are in accordance with KRS Chapter 45A and are based on computations of a certified actuary. DMS may adjust the payment if the scope of Medicaid services is increased or decreased as mandated by CMS or state legislative action. The cost of all programs and services provided by Passport Health Plan, including any expanded non-Medicaid eligible programs, must be covered by the monthly qualified Medicaid payments received from DMS. Should Passport Health Plan incur costs on all provided programs that exceed the qualified Medicaid funding, Passport Health Plan is liable for covering those costs, unless such overage is due to a federal or legislative mandate or a contract modification. See Exhibit 1 for Passport Health Plan capitation rate history.

Public Agency

KRS 61.870 (1) (h) defines "public agency" to mean "any body which derives at least twenty-five (25%) of its funds expended by it in the Commonwealth of Kentucky from state or local authority funds." Since approximately 86 percent of the funds obtained and expended by Passport Health Plan are derived from the Commonwealth of Kentucky as appropriated by the General Assembly through its federal and agency funds as shown in Tables 1 and 2 below, it appears that Passport Health Plan is a public agency. The other 14 percent of funds expended by Passport Health Plan are derived from federal funding through the Medicare program.

Table 1: Passport Health Plan Revenue

Year	State Medicaid Revenue	State Medicaid Percent	Federal Medicare Revenue	Federal Medicare Percent	Total
2007	\$ 626,769,039	84%	\$118,502,201	16%	\$ 745,271,240
2008	716,374,365	85%	128,355,828	15%	844,730,193
2009	779,415,625	86%	127, 871,683	14%	907,287,308
Total	\$2,122,559,029	85%	\$374,729,712	15%	\$2,497,288,741

Table 2: Passport Health Plan Expense

Year	State Medicaid Expense*	State Medicaid Percent	Federal Medicare Expense*	Federal Medicare Percent	Total
2007	\$ 620,277,610	85%	\$111,555,404	15%	\$ 731,833,014
2008	714,317,516	86%	116,915,832	14%	831,233,348
2009	778,418,409	86%	127,671,206	14%	906,089,615
Total	\$2,113,013,535	86%	\$356,142,442	14%	\$2,469,155,977

* Includes administrative expense, but no investment deductions.

Source: UHC Annual Statements submitted to DOI

Passport Health Plan was established for the purpose of managing a part of the Medicaid services provided to the people of the Commonwealth. Every dollar spent by Passport Health Plan is derived from state or federal monies. Furthermore, Passport is overseen by a variety of government agencies having jurisdiction over Passport's operations, including Kentucky's DMS, DOI, and the CHFS Office of the Inspector General. CHFS has imposed requirements in its contract with UHC that Passport Health Plan make available all books, records and information related to member services and financial transactions of the partnership for review, inspection, auditing and photocopying by authorized federal and state reviewers and auditors. Any of those records provided to state agencies is subject to public disclosure if it would otherwise be subject to public release if a state government agency were providing the service. Accordingly, University Health Care dba Passport Health Plan is a "public agency" under KRS 61.870(1)(h).

*Third Party
Administration*

UHC contracts with AmeriHealth Mercy Health Plan as its third party administrator to perform the day-to-day functions for the operation of Passport Health Plan. AmeriHealth Mercy, based in Philadelphia, Pennsylvania, with a local office in Louisville, provides claims payment services and administrative support to managed care organizations, including managed care programs for Medicaid recipients. The most recent third party administrator services agreement between UHC and AmeriHealth Mercy was signed on October 12, 2009 and became effective on January 1, 2010, with AmeriHealth engaged to provide operational and administrative services. AmeriHealth Mercy is an independent contractor of UHC.

AmeriHealth Mercy is required to maintain those systems and procedures for calculating and collecting capitation payments payable by the applicable governmental authority, for enrollment of Medicaid members, for timely adjudication of claims, and for preparing and filing required reports, as well as other varied duties.

UHC compensates AmeriHealth Mercy through a PMPM rate plus a percentage of the premium revenue for each month received by UHC/Passport from the Commonwealth under the DMS contract, excluding certain pass-through items. AmeriHealth Mercy also earns incentives if it meets, in whole or in part, one or more of the operational goals and meets at least 75 percent of the quality goals set by UHC/Passport Health Plan.

Services that are provided through the Passport Health Plan's Dental, Vision, Pharmacy programs also are subcontracted by UHC.

Chapter 2

Budget Neutrality

Budget Neutrality Requirements

The following explanation of budget neutrality clarifies how it is possible for Passport Health Plan to be within its budget neutrality limit, yet at the same time have higher per member expenditures than and exceed the growth rate of Medicaid expenditures in the remainder of the state.

Medicaid waivers are granted to states pursuant to three different sections of the SSA as listed below. These waivers, granted by CMS, allow states to pursue Medicaid service delivery programs through managed care or community based care that otherwise would not be allowed by the SSA. While all three waivers require a cost effectiveness or cost neutral test, only the Section 1115 waiver requires the more complex “budget neutrality” calculation. Passport Health Plan operates under an approved Section 1115 waiver.

Section 1115 research and demonstration projects

- Usually are approved for three to five years; and,
- “Budget neutrality” calculation is mandated under federal policy.

Section 1915(b) freedom of choice waivers

- Are approved for two years; and,
- Must meet a “cost-effectiveness” test.

Section 1915(c) home and community based services waivers

- Are approved for three years; and,
- Must be “cost neutral.”

When applying for Section 1115 federal Medicaid waivers, state recipients must demonstrate that the cost of programs provided under the waiver will be “budget neutral.” Budget neutrality requires that federal expenditures for Medicaid services allowed under a “waiver” program not be greater than a cost ceiling projected by CMS based on historical trends.

At its inception in 1997, Passport Health Plan was granted authority to operate as a Medicaid funded managed care provider under a federal Section 1115 waiver amendment granted by CMS. The initial waiver amendment granted in 1995 was for a five-year term, which actually began in 1997, with subsequent waiver extensions granted for three years.

Chapter 2

Budget Neutrality

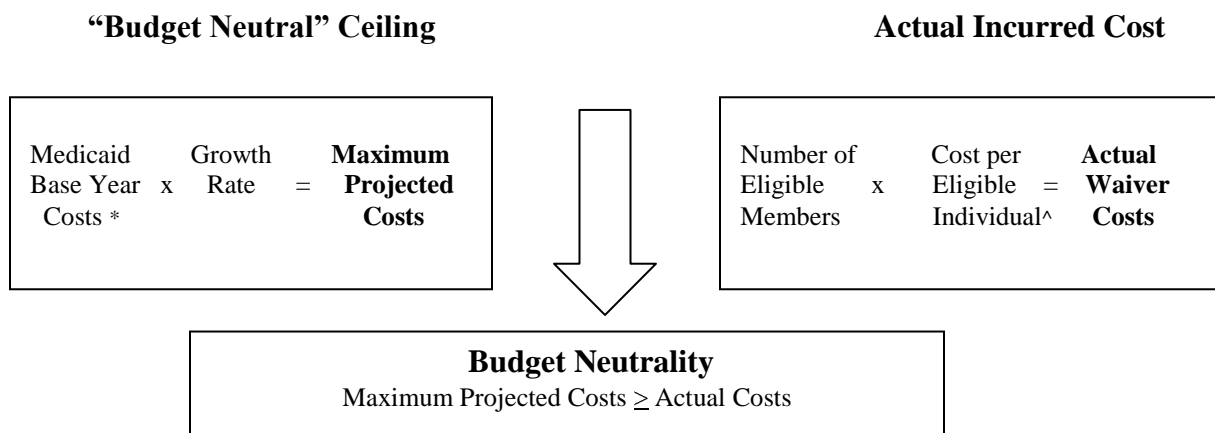
Calculation of Budget Neutrality

For each year of the waiver an annual budget neutrality expenditure limit is calculated for each eligibility group listed below. The budget neutrality expenditure limit is calculated by first determining the state's Medicaid costs by eligible group in a base year, usually a 12-month period for which the most recent, complete fee-for-service cost data are available. For federal budget neutrality purposes, the participants who receive health care services through the Medicaid program are categorized into three "eligibility groups:"

Eligibility Group 1 – Adults;
Eligibility Group 2 – Children; and,
Eligibility Group 3 - Aged, Blind and Disabled.

CMS approved maximum annual growth rates, as explained below, are then applied to the base year cost data for each eligible group over the term of the waiver to project future expenditures and thus create a ceiling for what the estimated maximum allowable costs would be if the service was still provided through a fee-for-service program.

Example of Calculating Budget Neutrality:



* **Medicaid Base Year Costs** include the number of enrollees (in member months) and costs per eligible individual for a given year.

^ **Cost per Eligible Individual** is fixed based on the eligibility group rates that have been negotiated with the state.

Source: National Health Policy Forum article, "The Basics Medicaid Waivers and Budget Neutrality," August 26, 2009

Chapter 2

Budget Neutrality

This ceiling amount is an attempt to represent the maximum cost that should be necessary to provide basic Medicaid services if the waiver program, in this case Passport Health Plan, did not exist. The annual growth rates are determined by using historical caseload and expenditure data from the prior waiver period, but are limited by the Medicaid growth rate used in the President's budget as prepared by the Office of Management and Budget (OMB). The lower of either the historical growth rate or the Medicaid growth rate as allowed by the OMB is used to establish the budget-neutral expenditure limit for the waiver. The actual costs of a waiver program, including the cost of any new services or populations, are then compared to the estimate of projected maximum costs, to establish whether the project is budget neutral. The actual cost of the program must be less than the calculated maximum cost, or ceiling, in order to be deemed "budget neutral."

For a Medicaid waiver program to be considered "budget neutral," the state must illustrate over the life of the waiver program that the program, Passport Health Plan, will not be expected to cost the Federal government more than the maximum ceiling it projects. The waiver program is considered to be "budget neutral" if actual expenditures over the waiver period are less than historical expenditures multiplied by an allowed "growth rate." The current annual growth rate allowed per the President and established by the OMB for fiscal years ending 2009 through 2011 is 6.6 percent. The actual growth rate for the Medicaid population in the balance of the state not covered by Passport Health Plan for the fiscal year ended June 30, 2009 was 4.1 percent.

Table 3: CMS Per Member Per Month Costs (originally based on historical costs) for Calculation of Annual Budget Neutrality Expenditure Limit for Passport Health Plan

Eligibility Group	2009 PMPM	Growth Rate	2010 PMPM	Growth Rate	2011 PMPM	Growth Rate
1-Adults	\$634.08	6.6%	\$675.93	6.6%	\$720.54	6.6%
2-Children	\$295.52	6.6%	\$315.02	6.6%	\$335.82	6.6%
3-Aged, Blind, & Disabled	\$883.76	6.6%	\$942.09	6.6%	\$1,004.27	6.6%

Source: CMS Special Terms and Conditions for Kentucky Health Care Partnership 2008-11 waiver

In the early stages of the waiver program's implementation, the projection of a budget neutral ceiling was an attempt to reflect the future fee-for-service costs and was relatively accurate since current fee-for-service data existed for geographic areas, service providers, and eligibility groups covered by the waiver. However, each year that a waiver program continues to operate it becomes increasingly more difficult to project the historical based fee-for-service data into meaningful budget neutrality calculations. Expenditure levels and growth rates in one area may not equate to growth rates in other areas.

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It is important to note that the budget neutrality ceiling is a method employed by CMS to enable some amount of control over waiver allowed expenditures. The calculated ceiling amount is only a representative guideline and is not intended to be construed as an accurate measure of specific Medicaid costs in the region. The growth rate applied does not necessarily correspond to the current economic environment under which the Kentucky Medicaid Program and Passport Health Plan are operating at any given time. Therefore, the budget neutral ceiling should not be used as a determinate of cost savings.

Monitoring Budget Neutrality

Kentucky is at risk for repayment of federal dollars if the CMS imposed budget neutrality limits are exceeded by Passport Health Plan. Thus, DMS monitors budget neutrality on a regular basis to ascertain that, for the waiver period, Passport Health Plan is budget neutral, according to the definition of budget neutral. Each quarter when the cumulative budget neutrality report is prepared, DMS calculates budget neutrality using data supplied from the Department for Community Based Services and its Medicaid Management Information System. The expenditure total allowed for that current quarter's waiver year minus the total sum of expenditures incurred for that waiver year determines the budget neutrality. Expenditures allowed are derived by multiplying the members within Passport's Federal waiver eligibility groups by the rate allowed to determine the total maximum ceiling that would be paid based on eligibility counts. DMS budget neutrality reports for Passport Health Plan are included in quarterly reports submitted by Kentucky's DMS to CMS. Budget neutrality issues also are discussed with CMS in the status calls that are normally scheduled bi-monthly to review the previous month's reporting and the current status and/or activities of the wavier.

As previously stated, budget neutrality is measured over the life of the waiver. The budget neutrality expenditure limits are set on a yearly basis with a cumulative budget neutrality expenditure limit for the length of the entire waiver period. Since waivers may be renewed for multi-year periods, expenditures under the waiver for a given year may exceed the allowed growth for a particular year as long as the cumulative total expenditure for the life of the waiver does not exceed the cumulative budget neutrality limit. However, if the state exceeds the calculated cumulative budget neutrality expenditure limit by an identified percentage in a given year, which varies from 0-1 percent, the state must submit a corrective action plan to CMS for approval. If, at the end of the waiver period, the budget neutrality limit has been exceeded, the excess Federal funds must be returned to CMS. Consequently, DMS has attempted to have the budget neutrality growth rate set as high as possible during each waiver renewal cycle.

Purported Medicaid Savings

Passport Health Plan's 2009 Annual Report to the Community contains a page titled "Cost Containment and Efficiency by Waiver Years." A table on that page indicates that Passport has "saved" \$202.8 million of taxpayer dollars from inception in 1997 through October 2008. The source of the purported "savings" amounts noted in the Annual Report were gleaned by Passport Health Plan officials

Chapter 2

Budget Neutrality

from information provided to CMS by the Commonwealth's DMS in April 2008 as an exhibit to its application for renewal of the waiver covering the Passport Health Plan operations. As detailed in Table 4, the reported \$200 million is not presented as "savings," but represents the difference between the budget neutrality "ceiling," historical cost increased by annual growth percentages, and actual Passport Health Plan expenditures. This year-by-year comparison of the actual Passport Health Plan expenditures to the budget neutrality ceiling reflects the growth in Passport Health Plan expenditures since its inception.

**Table 4: Federal Budget Neutrality Summary
(Original and President's Trend)
Prepared April 2008**

Year Number	Waiver Year	Budget Neutrality Ceiling	Actual DMS Waiver Expenditures	Variance
1	11/97-10/98	\$ 439,586,584	\$ 404,423,575	\$ 35,163,009
2	11/98-10/99	459,263,415	448,483,071	10,780,344
3	11/99-10/00	442,265,302	429,686,866	12,578,436
4	11/00-10/01	358,747,436	354,887,790	3,859,646
5	11/01-10/02	397,203,347	410,018,880	(12,815,533)
Subtotal:	Original Waiver	\$2,097,066,084	\$2,047,500,182	\$ 49,565,902
6	11/02-10/03	\$ 445,820,185	\$ 406,956,053	\$ 38,864,132
7	11/03-10/04	498,655,986	456,673,549	41,982,437
8	11/04-10/05	548,751,938	508,216,949	40,534,989
Subtotal:	Extension 1	\$1,493,228,109	\$1,371,846,551	\$121,381,558
9	11/05-10/06	\$ 644,515,421	\$ 654,513,539	\$ (9,998,118)
10	11/06-10/07	710,400,730	696,642,137	13,758,593
11	11/07-10/08	777,951,475	749,749,968	28,201,507
Subtotal:	Extension 2	\$2,132,867,626	\$2,100,905,644	\$ 31,961,982
Total	1997-2008	\$5,723,161,819	\$5,520,252,377	\$202,909,442

Source: DMS 2008 Waiver renewal, Table 5.

Also, in its April 2008 application to renew its waiver, DMS noted that actual Passport Health Plan expenditures for ten years of the program were less than the budget neutrality ceiling, but it did not refer to that difference as a “savings.” While DMS was required to monitor and report to CMS the comparison of actual Passport Health Plan costs to the budget neutral ceiling, the budget neutral ceiling was not a critical component of the annual contract negotiations with UHC officials for Passport Health Plan funding.

The contracted amounts for capitated payments negotiated between the Commonwealth and Passport Health Plan were based on historical Passport encounter data and provided service cost that was then projected forward by an independent actuary. The actuary used that forward trended data to produce a range of projected future costs under which Passport Health Plan could reasonably be expected to viably continue to provide services. Those actuarial determined ranges became the primary basis for the annual contract negotiations between Passport Health Plan and Commonwealth officials.

To imply that Passport Health Plan has generated savings by operating at a cost level below that of the budget neutrality ceiling indicates that Passport could have had access to the full amount of the budget neutral ceiling or that in the absence of Passport Health Plan, the cost to taxpayers to provide the basic Medicaid services to the Region 3 population would have equated to the amount of the budget neutrality ceiling. Neither of these assumptions is accurate.

Medicaid Funding

Further, the budget neutral ceiling was not a determinate of the amount of total Medicaid funds that the Commonwealth received statewide. The amount of Federal Medicaid funds allocated to the Commonwealth each year was based on a calculation that considered the number of eligible participants in the Commonwealth and the Commonwealth’s ability to budget the required percentage of matching funds. The total Medicaid funds available, from both Federal and the Commonwealth, then became the source of funding for both Passport Health Plan and the Medicaid programs in the rest of the state. Since the Passport Health Plan pays providers on a per member per month basis and not on a fee-for-service basis, the amount of annual funding to Passport was the result of a calculation of allowable costs per member times the number of members served.

The budget neutrality ceiling is derived by applying some percentage of allowable growth to a cost of services by eligible group in a base year. The determination of the amount of the ceiling for budget neutrality and the determination of the amount of actual Medicaid funds to be received by the state are based in two different methodologies and should not be used for any comparative purpose other than to insure that actual expenditures do not exceed the CMS mandated budget neutral limit.

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Summary

As reported by the Commonwealth, Passport Health Plan has been budget neutral in all but two of its previous waiver years. However, budget neutrality does not necessarily equate to cost savings to taxpayers since budget neutral simply indicates that the cost to operate Passport is within the projected federal expenditure limit which is a projection based on original historical costs with a growth factor applied, and neither is the budget neutrality ceiling a factor of the determination of the annual contract amount. Thus, it is possible for DMS to conclude that the waiver expenditures have been within the budget neutrality limit, and at the same time the Passport Health Plan per member expenditures and annual growth rates exceed that experienced by the fee-for-service program for comparable services statewide. See Exhibit 2.

Chapter 3

Findings and Recommendations

Introduction to Chapter 3 Findings and Recommendations

KRS 205.520 (2) states that it is the responsibility of state government to provide medical care for its indigent citizenry. The Kentucky Medical Assistance Program, through CHFS, DMS provides such medical assistance to improve the health of families with dependent children, and of the aged, blind and other individuals who might otherwise go without medical care for themselves and their families. Passport Health Plan was established for the purpose of managing a part of that medical assistance provided to the people of the Commonwealth. As a measure of the quality of its service delivery, Passport Health Plan was ranked in 2008-2009 the 13th best Medicaid plan in the nation by *U.S. News & World Report/National Committee for Quality Assurance* based on measures that include access to care, overall member satisfaction, prevention services, treatment, and overall quality score.

DMS is responsible for ensuring that the Medicaid program, including Passport Health Plan, is operated in a manner that serves the interests of both the recipients of the program as well as the taxpayers of the Commonwealth. This responsibility includes ensuring that Passport Health Plan operates in a manner that reflects responsible use of state and federal funds. Our examination identified that certain expenditures and practices of Passport Health Plan did not reflect its original objective of implementing “effective and responsive cost management strategies designed to control growth in Medicaid costs.” Although, Passport Health Plan was within the “budget neutral” limits, such a standard did not necessarily reflect cost savings to the Commonwealth or in all instances good stewardship of funds.

The responsibility for consistently demonstrating good stewardship of state and federal funds is shared by both DMS and UHC, dba Passport Health Plan. DMS’s lack of oversight and understanding of UHC’s financial status has allowed UHC to accumulate substantial profits and reserves. If the contract rates negotiated between the Commonwealth and UHC allowed excessive profits, then the Commonwealth was not prudent in the negotiation of its contract with UHC.

Based on information gathered through interviews, the “original vision” for Passport Health Plan anticipated that the state would share in any benefits generated by the program and negotiate lower rates to save the state money. If cost savings were realized, Passport Health Plan would have the flexibility to reinvest in the plan and add optional services for the benefit of the plan. It was clearly envisioned that the partnership would benefit from the program, expand Passport’s services, and conduct patient management better as a result. As seen in this report, Passport Health Plan has become a profit-making entity with direct financial benefits to UHC owner/investors, particularly the University of Louisville. It does not appear that the original objective of Passport Health Plan was for realized cost savings to be used as a moneymaking venture for the original contributors. The Commonwealth should take any excess profits of Passport Health Plan into account during the annual contract negotiations between DMS and UHC in order to reduce and/or control the escalating cost of the Medicaid program.

This report further calls into question the excessive spending by UHC's executive staff. The lack of oversight by the UHC Board and DMS allowed questionable discretionary spending on travel, marketing and advertising, consulting, association fees, and staff compensation. Executive management expenditures should be controlled through clearly stated policies, as well as the monitoring and enforcement of those policies.

UHC's questionable spending, coupled with its profit-making and its lack of transparency in its financial reporting, reflects the need for effective oversight and control by DMS. DMS has the responsibility to ensure that state and federal funds are used in an equitable and transparent manner strictly for the benefit of eligible member beneficiaries, and not for the unnecessary benefit of staff members, private individuals, universities, or private hospitals.

This chapter presents the comments and findings of this examination, including the following issues:

- Governance;
- Lack of Oversight;
- Contract Negotiation Weaknesses;
- Cost Comparison;
- Excess Reserves and Distributions/Grants;
- Questionable Spending;
- Appearance of Favoritism to Certain Providers; and,
- Weak Ethical Standards/Conflicts of Interest.

Finding 1: The governing authority for University Health Care did not have regional representation in the conduct of the financial administration of Passport Health Plan.

UHC, dba Passport Health Plan has two governing bodies, a Board of Directors and a Partnership Council. The creation of the Partnership Council was intended to achieve the significant representation of providers and consumers for Passport Health Plan's governance as required by CMS and the Commonwealth of Kentucky to provide Medicaid services under the Medicaid waiver. An Affiliation Agreement drafted by UHC executives and executed between UHC and the Partnership Council details the duties and responsibilities of the Partnership Council and of the UHC Board of Directors. That agreement notes that the Council will be comprised of members who are representative of the health care providers and consumer representatives. The Partnership Council's role is defined as primarily to provide guidance and oversight to the operational aspects of the third party providers while the agreement allows the UHC Board to retain full responsibility for all financial decisions.

*Original Design
and Structure of
UHC/ Passport*

Per the Affiliation Agreement between the Partnership Council and UHC: “[i]t shall be the responsibility of UHC to...bear all financial risk associated with the Program and retain final authority for all financial decisions related to the Program and the Partnership.” The agreement also states “[i]t shall be the responsibility of the Council to...have no financial responsibility for the Program.”

*Partnership
Council Concerns*

The Partnership Council members have expressed concern about the lack of disclosure of financial related decisions made by the UHC Board. As noted in the Partnership Council meeting minutes of March 16, 2010, Council members “voiced their concerns regarding the lack of earlier disclosure to the Council regarding the return of capital and the indigent care grants, noting it gives the illusion that UHC is “hiding” money and using reserves only in the Jefferson County area....noted that keeping the monies for indigent care in the Louisville area and not offering it to the other counties in the PHP region when they are facing the same issue was inappropriate.” In response, the Council chairman reminded council members of the Partnership Council’s responsibilities, which do not include financial matters, but said that “...now may be the time to re-evaluate the transparency of information that is shared at the Council and UHC Board levels.”

Since UHC, through its board, is responsible for all financial decisions, the Region 3 Partnership is not actually governed by a body that broadly represents the partnership region’s health services providers and consumers as required by Kentucky regulation and the approved amendment to the Section 1115 Waiver Demonstration Project which includes management of both health care needs and costs. Recent distributions made by UHC have identified that financial decisions have provided significant cash benefits to the University of Louisville and many related affiliates, Norton Healthcare, Inc., and Jewish Hospital and St. Mary’s Healthcare, Inc., with the University of Louisville receiving the majority of the discretionary cash disbursements without any oversight or input by the Partnership Council.

*University of
Louisville
Control of
UHC/ Passport*

The UHC Board, whose composition is determined by the UHC bylaws, is comprised of 16 members as detailed below:

- Nine represent University (of Louisville) Physicians Associates (formerly Medical School Practice Association), including the Chairman of the Board/Chief Executive Officer of UHC.
- Two represent University Medical Center, Inc. (dba University Hospital).
- Two represent Norton Healthcare, Inc.
- Two represent Jewish Hospital and St. Mary’s Healthcare, Inc.
- One represents the Louisville Primary Care Association.

The services of the following four executive and staff positions at UHC are leased from the University of Louisville or University Physician Associates, a University of Louisville affiliated association, as follows:

- Executive Vice-President – leased from University of Louisville;
- Associate Vice-President – leased from University Physician Associates;
- Administrative Assistant – leased from University Physician Associates; and,
- Administrative Assistant – leased from University Physician Associates.

The president of University (of Louisville) Hospital and chief executive officer (CEO) of its parent organization, University Medical Center, Inc., asserts in an article in the U of L Magazine Summer 2006 issue called “Passport to Good Health” that “U of L is the majority owner of Passport/UHC and, as such, has had a unique ability to shape the direction of the organization.”

While the University of Louisville claims no direct responsibilities or oversight of Passport Health Plan by deferring to the existence of and responsibilities of the UHC Board of Directors, there is clearly a majority of University of Louisville affiliated staff on the UHC Board and serving as staff for UHC. The University of Louisville Executive Vice-President for Health Affairs has served as the UHC Chairman of the Board and CEO of Passport Health Plan since its inception in 1997. As evidenced by UHC’s discretionary cash distributions detailed in Tables 7 and 8 of Findings 5 and 6, respectively, the University of Louisville and its affiliated entities have received significant monetary benefit as a result of decisions made by the UHC executive staff and Board of Directors. While the University of Louisville played a critical role in the formation of Passport Health Plan, and such profits were not originally envisioned, it may be a good opportunity at this time to revisit the structure of the governance of Passport Health Plan.

*Financial
Decisions*

Financial decisions made by the UHC Board have benefited primarily the facilities/organizations that are represented by the members of the Board of Directors, those facilities/organizations that contributed initial investments for the formation of UHC, rather than benefiting facilities and providers in the entire region. See Findings 5 and 7. UHC’s arbitrary distribution of excess funds does not appear to comply with its original objectives to emphasize primary care and prevention and to control growth in Medicaid costs, but simply appears to have been a means to provide excess cash to its original member investors.

*Federal and
State Partnership
Requirements*

While technically meeting the requirements of the regulation below, by having governing bodies in place to effect both financial and medical related decisions, UHC does not appear to have complied with the description of this Partnership as delineated in the Kentucky Health Care Partnership Section 1115 Demonstration Fact Sheet dated April 8, 2009, as it relates to who has governing control. That description states: “[t]he Partnership functions as a **provider-controlled** managed care network and contracts with a private health maintenance organization (HMO)

to provide the necessary administrative structure (i.e. enrollment, beneficiary education, claims processing, etc).” (Emphasis added.) Nor does it appear that UHC has met the original intent of the Section 1115 Waiver as noted in the Evaluation Design component of the Special Terms and Conditions for the Kentucky Partnership Plan section 1115(a) Medicaid Demonstration which states: “[e]ach partnership plan would have **significant beneficiary representation on its governing board and providers and beneficiaries would decide together how best to manage both health care needs and costs.**” (Emphasis added.)

As outlined in Kentucky Administrative Regulations, the requirements for the Partnerships are as follows:

From 907 KAR 1:705

Section 5. Partnership Requirements. Each partnership shall:

- (1) Be a coalition of consumers and health care providers in both the public and private sectors....
- (6) Establish a governance body, or board of directors, that shall:
 - (a) Assume responsibility for establishing and implementing policies and procedures regarding health services delivery to members of the partnership;
 - (b) Broadly represent the partnership region's health services providers, including currently enrolled Medicaid providers and other providers, including hospitals, primary care providers, specialty providers, nonphysician health professionals, dentists, primary care centers, public health departments, and the University of Louisville and University of Kentucky medical centers for regions in which they are located...

Provider-Controlled “Provider-controlled” implies influence and “control” over all aspects of the organization by not just the original member/investor providers but by regional representation of all participating providers. In addition, limiting financial decisions to the UHC Board, to the exclusion of the Partnership Council, relegates the other providers represented on the Partnership Council to less than a full participation in all of the aspects of the organization. The significant representation of the University of Louisville affiliated staff on the UHC Board and on the Partnership Council demonstrates the opportunity for a significant influence on the actions of those governing bodies. The documented discretionary distributions of excess cash to the benefit of the original member/investor organizations and the resultant inquiry raised by the Partnership Council exemplifies the reality of that influence. While the participation of the other founding member/investors on the UHC Board may have been, or is deemed to be, sufficient to satisfy the “provider-controlled” provision, recent actions by the Board demonstrate the need for a more representative influence and participation. Broader sharing of financial oversight would improve transparency and accountability.

Recommendations We recommend that the governance of Passport Health Plan be reevaluated and possibly restructured with the original intent of the “Partnership” considered. The organization that governs all aspects of Passport Health Plan, including financial decisions, should have equitable regional representation for all providers as well as significant beneficiary representation. The board structure should include broad regional representation, which could be accomplished by combining the UHC Board with the Partnership Council.

In order to ensure compliance with this aspect of the Partnership intent, and limit Board influence in favor of the University of Louisville over other providers, the Kentucky DMS may want to consider including a requirement in its annual contract with UHC that would meet the terms of the waiver condition calling for governance by considerable health care provider and beneficiary representation.

The UHC Board of Directors should adopt a policy that requires the rotation of the Chairman of the Board to ensure that the governance of Passport Health Plan is fair and equitable.

Region 3 Partnership should operate as a “provider-controlled” managed care organization as was the original intention of the demonstration, with “significant beneficiary representation on its governing board and providers and beneficiaries would decide together how best to manage both health care needs and costs.”

Finding 2: A cost analysis has not been performed to determine the cost effectiveness of Passport Health Plan.

A true comparison of Passport Health Plan costs to the costs to provide the same services, in the same region, through a fee-for-service program has not been completed and thus it is impossible to definitively declare any savings by the program. Passport Health Plan’s assertion in its 2009 Annual Report to the Community that it has saved the taxpayers over \$200 million misrepresents the true description of this number. The \$200 million is simply the difference between Passport’s actual expenditures and a federally mandated ceiling for Medicaid costs. That federally mandated ceiling is commonly referred to as the “budget neutrality” limit. To refer to the difference between Passport Health Plan’s actual expenditures and the federal budget neutrality ceiling as “savings,” or even as “cost containment or avoidance,” is an incorrect interpretation of those numbers.

The assertion that the budget neutrality ceiling, as explained in Chapter 2, equates to the actual cost to provide Medicaid services to those in Region 3 misrepresents the purpose of the budget neutral calculation. Determination of the cost to provide Medicaid services to a population requires a much more sophisticated, detailed, and researched analysis and review than just applying an annual growth factor to a baseline cost. No such detailed analysis has reportedly been completed by the Commonwealth. Without such an analysis, it is difficult for DMS to appropriately determine whether Passport Health Plan has met its objective of “implementing effective and responsive cost management strategies designed to control growth in Medicaid costs.” Although we believe data is available for such an analysis, given our limited time and resources, we were unable to undertake the analysis.

The meeting of budget neutrality does not in any way imply efficiency or cost effectiveness, except as compared to pre-waiver trends. Passport Health Plan can have costs that are within budget neutrality limits, while at the same time have costs greater than the traditional Medicaid fee-for-service costs.

Exhibit 2 provides a comparison of total Medicaid costs per region. When comparing Passport Health Plan operations to the rest of the Commonwealth there are many factors that can affect cost comparisons, such as the diversity, distribution, and demographics of the population served, the diversity of services provided, the diversity of the service providers, and the diversity of the payment structure. For example, Region 3 serves a demographic with historically higher costs, but the services Passport Health Plan provides does not cover certain Medicaid services, such as mental health and long-term care, that are provided to other areas of the Commonwealth. However, without a more sophisticated analysis to compare Passport Health Plan costs to what it truly would have cost under a fee-for-service program, there is really no way to tell whether the waiver program has saved the state any money over its existence. Just because the plan has been certified as budget neutral by no way means that it has saved the state monies over the same period.

Recommendations

We recommend Kentucky DMS conduct an analysis, or secure a qualified external source to conduct an analysis, that compares the actual costs of Passport Health Plan to the costs that would have been incurred by the Commonwealth if the same services in the same region had been paid through a fee-for-service program. Such an analysis should provide conclusions as to any actual savings Passport Health Plan provided to the Commonwealth or whether it would be more cost efficient to pay for similar services through DMS's fee-for-service program.

DMS should use the results of this analysis in its contract negotiations with UHC to limit its growth to what is actually necessary to provide adequate care for Passport Health Plan members. See Finding 3 regarding contract negotiations.

Finding 3: DMS lacked sufficient financial analysis to effectively negotiate with UHC.

Due to various factors, including the lack of both understanding and use of UHC/Passport Health Plan's cost drivers and financial position, the sole source, non-competitive nature of the negotiation process, no cost comparison information available, and external political influences, DMS was at a disadvantage during its negotiations with UHC regarding the annual contract amount to be awarded by the Commonwealth for Passport Health Plan.

While DMS had an extensive oversight system for the performance aspects of the contract with UHC for the administration of Passport Health Plan, it did not have a detailed picture of its financial situation. Although DMS received UHC/Passport Health Plan annual financial statements that were submitted to Kentucky's DOI, DMS did not analyze the statements and other financial information in order to gain a sufficient understanding of the overall UHC/Passport Health Plan financial condition and operations, and its excessive spending habits, prior to annual contract

negotiations. Further, DMS did not document the contract negotiation process or the details of the results of the negotiations and was unable to provide details as to how the contracted amounts were derived.

Annual Statement

UHC/Passport Health Plan is required to submit to DOI an Annual Statement that contains significant details on the financial operations and condition of UHC/Passport Health Plan and includes footnotes to the financial statements as well as specific and detailed reserve calculations. The required reserve calculations include a risk based capital reserve, and also an Accident & Health statutory policy and contract reserve. The results of those reserve calculations disclose the amount of excess reserves UHC/Passport Health Plan has accumulated through Passport. See “introduction to findings related to distribution of excess reserves” for detail on the growth of UHC/Passport Health Plan’s cash and investments, and capital surplus as well as the significant cash distributions to the original owners.

DMS staff did not sufficiently analyze the UHC/Passport Health Plan Annual Statement, including any analysis of excess reserves or excessive spending, with the intent of using that analysis in the annual contract negotiation process with Passport Health Plan. Instead DMS staff primarily relied on the actuarial analysis completed as a basis for projecting Passport Health Plan capitation rates and expenditures. The actuarial projections were based on specific Region 3 expenditure data as opposed to considering what the Commonwealth would have spent had it operated the program in that region.

In the process of compiling the actuarial databook that provided the basis for annual contract negotiations between CHFS and Passport Health Plan, the actuary attempted to adjust Passport Health Plan provided data by removing those expenditure items that the actuary believed should not be considered part of the capitated rate. Discretionary cash distributions, grants, settlement payments to hospitals, and other expenditures were among those items that were scrutinized and excluded from the databook results. While such cash distributions and other excluded amounts were not readily determinable from the UHC/Passport Health Plan financial statements, the actuary requested the information from UHC/Passport Health Plan in order to compile the databook. Any knowledge that DMS had of discretionary cash distributions appears not to have been considered during contract negotiations.

Chapter 3

Findings and Recommendations

Sole-source Provider

Cabinet officials informed auditors that DMS was in a difficult position during the contract negotiation process. The UHC/Passport Health Plan operation is well established in the sixteen county region it serves and has significant and influential local, state, and federal political relationships. See Finding 16 regarding lobbying influences. As a sole-source, non-competitive managed care partnership, UHC/Passport Health Plan is unique nationally in that no other such Medicaid model exists. The use of a sole-source provider has raised concerns over the impact that such an arrangement has on the Commonwealth's desire to maximize cost containment. In a sole-source, non-competitive environment or in the absence of a true option for the same, cost containment is more difficult to realize. Certainly DMS had to consider and attempt to balance all of these internal and external influences during the course of its contract negotiations.

No Cost Comparison

Further, although DMS has an actuarial analysis which projects costs, such projections show no historical comparisons of Passport Health Plan's costs to what those costs would have been through a fee-for-service program. No analysis comparing Passport Health Plan costs to the costs of providing the same services, in the same region, through a fee-for-service program has been completed. See Finding 2. Without such a documented comparison, DMS is unable to know whether the requests brought to the process by UHC are fair for the continued operation of the program.

Historically, DMS and UHC have negotiated a contract that has resulted in UHC/Passport receiving near the maximum actuarial per member amount allowed for eligible recipients. The impact of UHC/Passport receiving such a high per member reimbursement from the Commonwealth is evidenced by the accumulated excess reserves at UHC/Passport Health Plan as well as the amount of the discretionary cash distributions in 2008 and 2009. See Findings 5 and 7 for more detail on excess reserves.

In its most recent contract negotiation for the 2010-11 annual contract, DMS made a greater attempt to use some UHC/Passport Health Plan financial information and also to convey state budget constraints to UHC/Passport Health Plan during the negotiation process. Though various rates may have increased or decreased the average of the rates as a whole resulted in no additional percentage of rate increase. However, the total contract amount increased due to the increase in the number of Passport Health Plan recipients. While there appears to be a more cost conscious effort by both UHC and CHFS to deal with the budgetary constraints imposed by the current economic difficulties, much further financial analysis and use by DMS of UHC/Passport Health Plan's financial condition is warranted prior to and during the negotiation process in order to ensure proper benefits for Passport Health Plan beneficiaries while also minimizing the growth of UHC/Passport. See Exhibit 3 for actuarial ranges and actual contract per member per month amounts negotiated for fiscal years ending 2008-2011.

In order to facilitate a contract negotiation that yields the best results for Passport Health Plan beneficiaries as well as the taxpayers of the Commonwealth, DMS must endeavor to ensure that they are well informed and knowledgeable regarding all aspects of UHC/Passport operations and spending. The contract with Passport should ensure that Medicaid recipients will be provided reasonable access to the required medical care while simultaneously ensuring good stewardship of the federal and state funds.

Recommendations

We recommend DMS establish a procedure for, and documentation of, a review of the UHC/Passport Health Plan Annual Statements with the intent to understand the Passport Health Plan financial condition and operation, including its spending habits, distributions, and its potential impact on the funding required to administer Passport Health Plan. Any applicable information should then be given consideration during the annual contract negotiation process. DMS also should consider the results of a cost comparison study as recommended in Finding 2.

We recommend CHFS's DMS include an analysis and discussion of UHC/Passport's excess reserves, and any future use for those reserves, as part of the annual contract negotiations between UHC and the Commonwealth. The analysis and discussion should be documented. See Finding 5.

We further recommend that DMS document the annual contract negotiation process and retain a record of the process and the negotiations that are involved. Such documentation should include the time, place, attendees, topics, and results of all contract negotiations, as well as the detail to support the calculation of the rates and final contract amount. That level of detail should prove useful for future negotiations as well as providing ready answers to any inquiries regarding the UHC/Passport Health Plan contract and the negotiation process.

Finding 4: DMS documentation of monitoring and oversight of UHC/Passport Health Plan was not adequate.

Written Policies and Procedures

DMS agency personnel responsible for the oversight of Passport Health Plan and the review of the submitted reports conveyed that DMS had no written policies or procedures documenting ongoing oversight activities for Managed Care, i.e., Passport Health Plan. Passport Health Plan submitted numerous monthly, quarterly, and annual encounter reports to DMS, from which DMS, in turn, compiled data to submit to the federal CMS. DMS personnel asserted that they review the submitted reports for timeliness, completeness, accuracy, and unusual trends or data. While the personnel responsible for UHC/Passport Health Plan oversight on a daily basis appear to be knowledgeable and have a good understanding of these oversight responsibilities, without documented policies and procedures, it would be difficult for someone else to perform these duties effectively and efficiently, if circumstances required.

Good internal controls dictate that policies and procedures be documented to ensure that they are followed consistently and correctly. They also provide assurance that monitoring and oversight will continue with a degree of confidence, in the event that personnel responsible for the control are no longer available to perform it.

Chapter 3

Findings and Recommendations

The Section 1115 Waiver Demonstration Project states that “Health care partnerships will be required to provide certain information that will allow the Commonwealth to manage and oversee the program, measure utilization, track results, assess quality, and ensure health care partnership compliance with the program.”

Disclosure of Financial Activity

Although DMS received sufficient reports and information from Passport Health Plan regarding health care data, it did not receive enough information from UHC/Passport Health Plan regarding financial activity to allow personnel to make informed decisions relative to per member rate setting, graduate medical education (GME) payments, and to address specific issues during contract negotiations with UHC. Passport Health Plan’s annual financial statements reported total medical costs in the following categories: Hospital/medical benefits, other professional services, emergency room and out-of-area, prescription drugs, and durable medical equipment. Included in these totals, but not detailed individually were discretionary payments for grants, settlements and supplemental payments to providers, and GME. Knowledge of such detailed financial information would allow DMS to make more informed decisions during rate setting contract negotiations.

See Finding 8 for more discussion of financial information not reported separately.

Review SAS 70 Audits

Additionally, DMS did not require Passport Health Plan to submit the Statement on Auditing Standards No.70 (SAS 70) audit of its primary third party administrator, AmeriHealth Mercy, or any other third party administrators used by Passport Health Plan. SAS 70 is an internationally recognized auditing standard developed by the American Institute of Certified Public Accountants (AICPA). It is used to report on the processing of transactions by service organizations. A SAS 70 Type II audit is an audit that reports on controls placed in operation and the results of tests of operating effectiveness. SAS 70 audits were available for AmeriHealth Mercy, and other third party administrators used by UHC/ Passport Health Plan.

Recommendations

We recommend DMS:

- Document managed care oversight policies and procedures to ensure consistency and continuity of ongoing oversight activities. DMS has documented policies and procedures and a monitoring tool that it uses to monitor annual contract compliance. DMS should create and document similar policies and procedures or adapt these to fit ongoing monitoring and oversight for the rest of the year as well.
- Require documentation from UHC that would allow DMS a more informed review of financial activity, including detailed information regarding discretionary payments included in the “hospital/medical benefits” categories that are direct payments to hospitals and others, such as grants, settlements, and GME payments.

Findings and Recommendations

- Request and review SAS 70 audits of UHC/Passport Health Plan's third party administrators to ensure that the data received from Passport Health Plan is processed in an environment with good internal controls and appropriate information technology security.

Introduction to findings related to the distribution of excess reserves

Since inception in 1997, UHC has experienced significant growth in cash and investments as well as in capital surplus. The capital surplus account balance reflects the accumulated earnings of UHC/Passport Health Plan. Table 5 below shows the growth of cash and investments and the capital surplus account of UHC/Passport Health Plan from its inception in 1997 to 2007, 2008 and 2009. For a year-by-year table showing the growth in the account balances see Exhibit 4.

Table 5: Growth in UHC/Passport Cash and Capital

	1997	2007	2008 *	2009 *	Percent Increase Since 1997
Cash and Investments	\$12,492,058	\$184,909,601	\$156,114,607	\$164,837,138	1,220%
Capital and Surplus	\$1,529,058	\$88,341,004	\$77,182,624	\$91,162,268	5,862%

* 2008 & 2009 balances reduced by discretionary distributions and investment losses (see detailed explanation further in finding)

Source: UHC Annual Statements submitted to DOI and Audited Financial Statements

UHC/Passport Health Plan is required by the Commonwealth's DOI to maintain "risk based capital" (RBC) reserves and "statutory accident & health (A&H) policy and contract" reserves. The RBC reserve requirement is a complex calculation, the result of which is primarily dependent on the excess of Medicare and Medicaid premium over the cost of claims. For 2007, 2008, and 2009, the amounts of capital reserves required by DOI for UHC/Passport were \$46.5, \$51.7, and \$57.4 million, respectively.

The RBC reserve calculations provided in the UHC/Passport annual statements submitted to DOI indicate that at calendar years end 2007, 2008 and 2009, Passport Health Plan had RBC reserves of \$88.3, \$77.2 and \$91.2 million, respectively. Those capital reserves exceed the 2007, 2008 and 2009 DOI required reserves, or "company action" levels, by \$41.9 million, \$25.5 million, and \$33.8 million, respectively.

The statutory A&H policy and contract reserve, an amount based on a summary of certain selected cash and investment accounts, must at least equal the amount of unpaid claims on the balance sheet at calendar year-end. Specifically, the amount of contract reserve required is equal to the balance of the “Unpaid Claims” account as stated on the UHC/Passport Health Plan Annual Statement to DOI. At year-end 2009, UHC/Passport Health Plan had a balance of unpaid claims, or contract reserve “requirement,” of \$87.1 million, and a balance of cash and investment qualifying as contract reserves totaling \$163.8 million. Thus, at year-end 2009, Passport Health Plan had \$76.7 million of excess A&H policy and contract reserves.

Table 6 details the reserve requirements, actual reserves, and excess reserves as of year-end 2007, 2008, and 2009.

Table 6: UHC/Passport RBC and A&H Reserves

	2007	2008	2009
Risk Based Capital			
Actual reserve	\$88,341,003	\$77,182,624	\$91,162,268
Reserve required	46,486,060	51,654,025	57,373,951
Excess reserve	\$41,854,943	\$25,528,599	\$33,788,317
A&H Reserve			
Actual reserve	\$183,488,096	\$156,419,000	\$163,836,000
Reserve required	86,577,653	84,840,000	87,113,000
Excess reserve	\$ 96,910,443	\$ 71,579,260	\$ 76,723,000

The 2008 and 2009 UHC Executive Committee meeting minutes included several references to the need to reduce the excess “statutory net worth” situation for UHC/Passport Health Plan. In addition, the minutes noted that the current CHFS Secretary had expressed concern to UHC executives regarding the amount of statutory net worth. In 2008, the minutes indicate that the excess net worth could impact UHC/Passport during the next contract negotiation with CHFS, and that options for distribution of the excess should be investigated. The minutes indicate that directions were given for legal counsel to explore a methodology such as grants, which would allow the distribution of excess capital. Although grants would be taking somewhat of a risk, counsel stated he had been “reviewing the purpose for grants to determine if certain circumstances would be more favorable than others such as grants for uncompensated indigent care.”

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Findings and Recommendations

In December 2008, per Board approval, UHC/Passport Health Plan distributed \$10,484,162 to the original capital contributors as a return of invested capital. Also in December 2008, and again in December 2009, per Board approval, UHC/Passport Health Plan distributed, for the purpose of indigent care, grants of \$10,000,000 each year to the original capital contributors.

The \$10,484,162 return of capital was recorded in the UHC/Passport Health Plan financial records as a reduction of capital and surplus. The \$20,000,000 indigent care grants were recorded in the UHC/Passport Health Plan Statements of Revenues and Expenses, both in the audited statements and those submitted to DOI, as part of the “hospital and medical benefits” expense. Also in 2008, and due primarily to the decline in the stock market, UHC incurred a realized net investment loss on the sale of securities of \$16,431,898. Despite the negative impact of the \$30.5 million in distributions and the \$16.4 million of investment losses on the cash and capital surplus balances in 2008 and 2009, UHC maintained excess RBC reserves of \$25.5 million and \$33.8 million respectively. Excess Statutory A&H Policy and Contract Reserves for 2008 and 2009 were \$ 71.6 million and \$76.7 million.

Finding 5: UHC made cash distributions to enhance its negotiating position with DMS.

The original investors in UHC/Passport Health Plan significantly benefited due to excess capital and surplus accumulated by UHC and the need by UHC to reduce such excess capital and surplus in order to secure maximum funding during its negotiation process with the Commonwealth.

Excess cash distributions by UHC allowed UHC to reduce its cash reserves and excess capital and surplus; however, documentation of such distributions did not verify that the funds were set aside specifically for their intended use. Moreover, the distributions were made strictly to UHC’s original member/investors and were not distributed to any other regional providers. The original member/investors benefited financially from such distributions.

Return of Capital and Extraordinary Distributions

In November 2008 and November 2009, UHC requested approval from DOI to return initial capital contributions and make extraordinary distributions in the form of restricted grants to its member/investor organizations and affiliates for the support of indigent care. DOI notified UHC in December of 2008 and December of 2009, respectively, that it did not disapprove of the return of capital and the distributions of \$10,000,000 in each of the years. The recipients of the grant distributions in 2008 and 2009, as noted in Table 7, were the University of Louisville Medical School Practice Association (“MSPA” now University Physicians Associates), Norton Healthcare, Inc., Jewish Hospital & St. Mary’s Healthcare, Inc., University Medical Center, Inc., and Louisville/Jefferson County Primary Care Association. In 2009, the University of Louisville Office of Executive Vice-President for Health Affairs received the distribution, rather than MSPA, which it forwarded to University Physicians Associates, while the other recipients remained the same.

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UHC Board meeting minutes indicate there was general discussion of the amount and distribution of the excess funds. However, there was no discussion noted nor documentation referenced as to how the amount of the grants for each recipient was determined and or as to the amount of indigent care costs incurred by the intended grant recipients. UHC executives stated to auditors that the allocation of indigent care grants was not based on the ownership percentage or liquidation rights of the original investors, and asserted that the Board of Directors of UHC determined the amount and basis for the distribution. A UHC executive staff member further noted that the allocation of grant monies was discussed by the member/investor organizations and the decision was made that a fair distribution for the member/investor organization hospitals would be based on their original capital contribution percentage.

The November 24, 2008 Executive Committee Meeting Minutes document: “After lengthy discussion, it was decided that the money would be pooled and divided into three equal parts for each of the owner hospitals. Each hospital will receive \$1.33 million.” The Committee Minutes do not address the rationale for the allocation of the other \$6 million of the \$10 million distribution.

Table 7 lists the original investors of UHC, the amount and percentage of original investment, the amount and percentage of indigent care grants, and the amount and percentage of certified uncompensated health services provided by each grant recipient.

Table 7: UHC Indigent Care Grants vs. Capital Contribution and Unreimbursed Indigent Care Cost

Recipient	Original Capital Contribution Returned	Percent	2008 Grants	Percent	2009 Grants	Percent	2008 and 2009 Certified Unreimbursed Indigent Care Cost	Percent
UofL – MSPA (UPA)	\$5,383,750	51%	\$5,250,000	53%	\$5,250,000	53%	\$27,542,334	16%
Norton Hosp.	1,348,581	13%	1,330,000	13%	1,330,000	13%	26,653,591	15%
UMC	1,313,250	13%	1,330,000	13%	1,330,000	13%	39,000,000	22%
Jewish	1,348,581	13%	1,330,000	13%	1,330,000	13%	54,454,000	31%
Louisville/ Jefferson Co. Primary Care Association	1,090,000	10%	760,000	8%	760,000	8%	27,777,020	16%
Total	\$10,484,162	100%	\$10,000,000	100%	\$10,000,000	100%	\$175,426,945	100%

Table 7 clearly demonstrates that the grants were distributed to the member organizations based on their original capital contributions with no consideration for the amount of incurred indigent care costs.

In UHC's request to DOI for approval of the restricted grant distributions to its member/investors, it states "[e]ach organization provides indigent care in the UHC region and these monies are to help with this important work in these difficult economic times. **Each entity will be required to report back to UHC regarding the use of the funds.**" (Emphasis added.)

*Certification of
Grant Use*

As documentation to satisfy the above statement, each recipient of grant funds submitted a "Certificate Regarding Use of Grant" to UHC. While the grant funds were distributed to the participants in December 2008 and December 2009, the individual grant recipients did not submit those certificates, based on signature dates, until dates ranging from March 25, 2010 through May 14, 2010, all during our period of audit. The certificates included acknowledgments of the amount of indigent care grant funds received from UHC for both years and also indicated the amount of uncompensated health care services provided by that participant during 2008 and 2009. All respondents indicated that they had incurred indigent care costs significantly higher than the amount of the grants. See Exhibit 5 regarding indigent care costs.

However, even with high indigent care costs, all of the recipients indicated that the funds were placed in their general funds and used for general operating purposes rather than specifically set aside for uncompensated indigent care. While some of those general funds could be deemed to ultimately benefit and offset current indigent care costs, there was obviously no specific plan or targeted use for the grant funds. Given the significant dollar value of the grant requests, the wording in the UHC requests sent to DOI is noticeably non-specific in stating that the nature of the transaction is that "these monies are to help with this important work in these difficult economic times." In the same paragraph, UHC notes that the funds will be in the form of a "restricted grant for indigent care." The use of the term "restricted grant" seems to imply a higher degree of specificity of utilization than actually occurred.

Where UHC stated in its requests to DOI that each grant recipient would be required to report back to UHC regarding the use of the funds, it would seem to imply that the intent was for the funds to have a specific and targeted use by the recipients. The only reporting to UHC that was evidenced was the certifications of historically incurred indigent care costs that were not submitted by the recipients until as late as sixteen months after the 2008 grant distribution. Those certifications represented only that the recipients used the funds to offset historically incurred indigent care costs. Since the grants funds were ultimately deposited to the recipients' general funds, the recipients' organizations received a benefit from UHC/Passport Health Plan over and above other providers in the region, including other hospitals that had uncompensated indigent care costs.

UHC Board meeting minutes in 2008 and 2009 clearly indicate concern at UHC regarding the impact of the accumulated net worth on contract negotiations with CHFS. The minutes note discussion as to methods that might be employed to reduce that net worth such as return of investment and grants. Specifically, in UHC's October 14, 2009 Board of Directors meeting minutes under the section titled "Consideration for One-Time 2009 Payments," it states, "[t]his section is designed to be dealt with between now and December 31, 2009 as one-time expenditures as we do in most years in order to reduce our statutory net worth and keep us in a better negotiating position for next year's contract." There was no discussion noted in the minutes of extending the grants to participating hospitals/providers that were not original member/investors, although other Passport Health Plan hospitals/providers also had uncompensated indigent care costs.

Despite excess capital and surplus also in prior years, UHC made no indigent care distributions in those years. UHC/Passport Health Plan's 2008 and 2009 distributions of excess cash appear to be the result of wanting to be in a good "position" to negotiate future contracts with the CHFS's DMS and to maximize funding for the future. Such an attempt conflicts with the objectives of the original Kentucky Health Care Partnership waiver amendment, which was: "[t]o implement effective and responsive cost management strategies to control growth in Medicaid costs." By negotiating for additional funding from the Commonwealth, when such extra funding seems unnecessary for optimum health care coverage in Region 3, Passport Health Plan strategies to control the growth of Medicaid costs and its stewardship of taxpayer monies are questionable.

Recommendations

We recommend that UHC, when negotiating future contracts with CHFS's DMS, consider its excess reserves as funds available for its annual spending plan in order to control the growth of Passport Health Plan expenditures, yet still provide the needed health-care services for the beneficiaries of Region 3. We recommend UHC develop procedures to ensure transparency and judicious spending.

We recommend CHFS's DMS include an analysis and discussion of UHC/Passport's excess reserves, and any future use for those reserves, as part of the annual contract negotiations between UHC and the Commonwealth. The analysis and discussion should be documented.

If distributions or grants are made, we recommend that UHC solicit more regionally diverse and representative guidance as to the purpose and distribution of any funds deemed to be excess or surplus in order to insure the optimum health related benefit for the entire Region 3. We recommend if grants for indigent care are awarded that they be equitable and based on an allocation methodology that considers uncompensated indigent care costs among all of the providers in the Passport region that incur such costs.

Findings and Recommendations

We further recommend that the Board of UHC develop and adopt a formal grant policy and procedure that includes an application and approval process to document and ensure that grants are consistent with the mission of UHC, equitable in nature, and that grant funds are used for targeted and appropriate purposes. We also recommend the Executive Committee and the UHC Board ensure that all pertinent and significant facts and circumstances relative to a Board and committee approval are made available to, discussed by, and documented by the Board or committee in the meeting minutes.

**Finding 6:
Compliance with
KRS and IRS
regulations is
questionable
regarding UHC
distributions.**

The distributions UHC made to return capital of approximately \$10.5 million to its original member/investors, as well as to reimburse its original member/investors for \$20 million in uncompensated indigent care costs, are questionable as to whether they were in compliance with KRS 273.237 and the IRS tax code.

In 2008 and 2009, the Kentucky DOI did not disapprove UHC's request to return the members/investors original capital contribution as well as for UHC to make two extraordinary distributions in the form of "restricted grants" to partially reimburse the original investors for historically incurred indigent care costs. The return of capital and the 2008 grants were distributed to the investors in December 2008. The 2009 grants were distributed to the investors in December 2009.

Table 8 lists the amount of UHC's initial capitalization provided by each original investor, as well as the amount of "restricted grants" UHC awarded each investor.

Table 8: UHC Capital Distributions and Grants

Investor	Original Capital Contribution Returned	2008 Restricted Grants	2009 Restricted Grants
University (of Louisville) Physicians Associates (formerly MSPA)	\$ 5,383,750	\$ 5,250,000	\$ 5,250,000
Norton Healthcare	1,348,581	1,330,000	1,330,000
University Medical Center	1,313,250	1,330,000	1,330,000
Jewish Hospital & St. Mary's Healthcare	1,348,581	1,330,000	1,330,000
Louisville/Jefferson County Primary Care Association	1,090,000	760,000	760,000
Total	\$10,484,162	\$ 10,000,000	\$ 10,000,000

Kentucky Revised Statutes governing nonprofit corporations, KRS 273.237, “[s]hares of stock and dividends prohibited,” states “[n]o dividend shall be paid and no part of the income or profit of a corporation shall be distributed to its members...” The statute also states that a “corporation...may confer benefits upon its members in conformity with its purposes, and upon dissolution...may make distributions to its members as permitted by KRS 273.161 to 273.390, and no such payment...shall be deemed to be a dividend or a distribution of income or profit.”

Restricted Grants

While the above referenced statute prohibits distributions to member organizations, nonprofits are allowed to “confer benefits upon its members” that are in conformity with the purposes for which the nonprofit is formed and that are actually used for such purposes. The benefits must be for a specific purpose, “restricted,” and are not allowed to be used for general purposes by the beneficiary.

There appear to be several definitional questions where a strict interpretation could have an impact on the use of “restricted grants” as a means of funds distribution. The term “restrictive grant” appears to intend a more definitive and targeted use than that stated by the UHC grantees, i.e., “to cover a portion of the costs expended by the Company for the provision of indigent health care services in 2008 and 2009.” The acceptance and use of funds by all the beneficiaries into general fund accounts, with no specific segregation or targeted usage for current indigent care programs, could be deemed to be a “general use” distribution to the grantees, and is in substance a dividend, which is prohibited by KRS 273.237. Awarding grants to only those members who were the original investors in UHC raises concern as to the equitability of the allocation.

UHC received a reporting from the beneficiaries as to their use of the distributed funds, and, therefore, deemed the grants were for charitable purposes related to UHC’s charitable mission as well as appropriate and compliant with both UHC’s nonprofit status and with KRS 273.237.

Although UHC reviewed applicable statutes and IRS regulations as they applied to the distributions and concluded there was a strong basis that they were permissible, no evidence was provided that the IRS or the Office of the Attorney General was contacted or reviewed the issue of the distributions.

Return of Capital

KRS 273.237 addresses the ability of a nonprofit corporation to return capital investments of members back to those same members wherein the statute states that “upon final dissolution or final liquidation (it) may make such payment, benefit or distribution to its members as permitted by KRS 273.161 to 273.390, and no such payment, benefit or distribution shall be deemed to be a dividend or a distribution of income or profit.”

The 1997 Member Agreement entered into by Alliant Health System (now Norton Healthcare), Jewish Hospital (now Jewish Hospital & St. Mary's Healthcare), Louisville/ Jefferson County Primary Care Association, University of Louisville Medical School Practice Association (now University Physicians Associates), and University (of Louisville) Medical Center sets forth in Section 12 that "in the event of dissolution and liquidation, after the payment of UHC's liabilities, the remaining assets, if any, shall be distributed to the Parties in accordance with their percentage ownership of capital stock." This appears to be drafted directly from the language of KRS 273.237 and indicates the parties' intent to return their initial capital investments in UHC only upon dissolution. There are no other provisions made by the incorporators for any other time for return of capital.

While there is little case law on the subject, some early cases from other jurisdictions note that such capital invested by members is a trust fund for the security of creditors of the corporation and should be withdrawn last from a corporation after earnings and surplus. Although those cases deal with for profit corporations, the same analogy should stand for nonprofits as well.

In a 2008 correspondence with DOI addressing the question of a return of capital, UHC noted that KRS Chapter 273 does not directly address the ability of a nonprofit to return capital to its members. UHC also notes the absence of a clear interpretation on this issue both in the Commonwealth and nationwide. UHC's Board of Director's September 12, 2008 meeting minutes state:

The third item to consider with respect to state contract is the statutory net worth. Secretary (of CHFS) is concerned about the amount of our statutory net worth. (Legal counsel) has said that a return of our original investment is permissible. (Legal Counsel) is also looking at whether grants could be made from UHC to owners. He has reviewed this concept and there isn't very much law on the subject. He is finalizing a memo but the initial impression is that grants could be a possibility but the organizations would have to recognize that they would be taking **somewhat of a risk**. (Emphasis added.)

However, as noted above, KRS 273.237 does prohibit distributions of income or profits except upon "dissolution or final liquidation."

Dissolution

The UHC Articles of Incorporation, Article IX, "Distribution of Assets upon Dissolution" states that assets "that are not held upon a condition requiring return, transfer, or conveyance by reason of dissolution, shall be transferred or conveyed to each Member pursuant to the provisions of Section 5 of that certain Member Agreement, effective as of the date hereof, by and among the Corporation and its Members (the "Member Agreement"), which Members are and shall be corporations, societies or organizations, organized under the laws of any State and exempt from income tax under section 501(c)(3) of the Code or described in section 170(c)(1) of the Code, pursuant to a plan of distribution adopted as provided law."

In a “Member Agreement” entered into by the five original “parties” or “shareholders” of UHC and effective May 15, 1997, the members/investors indicated their desire to sponsor and supervise the participation of UHC in the Kentucky Medicaid Healthcare Partnership Demonstration Project. As mentioned previously, Section 12 of the Agreement states, “In the event of dissolution and liquidation, after the payment of UHC’s liabilities, the remaining assets, if any, shall be distributed to the Parties in accordance with their percentage ownership of capital stock.”

Based on the most recent Articles of Incorporation and Member Agreement that we were provided, it appears that upon dissolution, any excess assets will be distributed to the initial owners based on initial ownership percentage even though the initial investments have been returned. Allowing for a distribution in this manner may be in conflict with KRS 273.237 and IRS tax code.

Recommendations

While the restricted grants were represented by UHC as conforming to its nonprofit purpose in that they were purportedly for indigent care, the funds were not used for specific and targeted indigent care programs. In addition, the grant proceeds were deposited by all grant participants into “general fund” bank accounts. Those actions raise questions as to whether the distributions were properly classified as grants and were, therefore, permissible distributions. We recommend UHC seek an opinion from the Office of the Attorney General and/or an IRS interpretation of this issue.

Regarding the return of capital, the issue could be subject to question and review by a taxing authority and could ultimately require judicial interpretation. An opinion adverse to UHC’s position could impact UHC’s nonprofit status. We recommend UHC seek an opinion from the Office of the Attorney General and/or an IRS interpretation of this issue.

Regarding the distribution of excess assets upon dissolution of UHC, such a distribution also may be in conflict with KRS 273.237 and IRS tax code. We recommend UHC seek an opinion from the Office of the Attorney General and/or an IRS interpretation of this issue.

Findings and Recommendations

**Finding 7:
Passport Health
Plan awarded
various grants to
favor certain
organizations.**

UHC/Passport Health Plan made payments in the form of grants that primarily favored University of Louisville affiliates, Jefferson County providers, and certain other organizations and charities. These grants also were an attempt by UHC/Passport Health Plan to reduce net worth, thereby improving its negotiating position during the annual contract negotiation with Kentucky's DMS. See Finding 5 for other documentation related to Passport Health Plan's efforts to reduce overall net worth.

The awarding of grants was discussed and approvals were granted during UHC Board meetings, Executive Committee meetings and/or Finance Committee meetings; however, there was no evidence that grants were discussed with the Partnership Council. Expenditure reports for 2007, 2008 and 2009 also noted entries for sponsorships and donations to various organizations. See Finding 11 for discussion of Passport executives' excessive spending on sponsorships and donations.

*Improved Health
Outcomes
Program Grants*

According to the UHC website, Improved Health Outcomes Program (iHOP) grants are the result of UHC setting aside funds for "research and development of programs that would improve the quality, access, efficiency, and cost of health care delivered to their constituents." UHC/Passport decided to award five \$50,000 grants annually.

At its July 17, 2007 Partnership Council meeting, the Council members discussed the fact that four of the five 2007 iHOP grants were awarded to University of Louisville (UofL) departments and they further expressed displeasure that they had learned about the awards from the media instead of UHC. Council members requested a broader representation on the selection committee for the next year and additional outreach to potential applicants through the Rural Health Advisory Council. See Table 9 below for the 2007, 2008, 2009 grant recipients and their locations.

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Table 9: iHOP Grants

2007 Recipients	Amount	Location
Family Health Centers and the Center for Health Equity	\$ 50,000	Louisville/Jefferson County
UofL School of Nursing	50,000	Louisville/Jefferson County
UofL Children and Youth Project	50,000	Louisville/Jefferson County
UofL Dept of Family and Geriatric Medicine	50,000	Louisville/Jefferson County
UofL Hospital Newborn Nursery	50,000	Louisville/Jefferson County
Total 2007	\$250,000	
2008 Recipients		
Physicians to Children and Adolescents/Bardstown Primary Care	\$ 40,000	Outside Jefferson County
UofL Research Foundation ¹	50,000	Louisville/Jefferson County
UofL Research Foundation ¹	50,000	Louisville/Jefferson County
EMS/Louisville/Jefferson County Metro Government	50,000	Louisville/Jefferson County
UofL Research Foundation ¹	50,000	Louisville/Jefferson County
Total 2008	\$240,000	
2009 Recipients		
UofL Research Foundation	\$ 49,344	Louisville/Jefferson County
Bellarmino University	32,000	Louisville/Jefferson County
Health Kentucky, Inc. ²	50,000	Outside Jefferson County
University Medical Center ³	50,000	Louisville/Jefferson County
Louisville Metro Public Health and Wellness	50,000	Louisville/Jefferson County
Total 2009	\$231,344	

¹ In the October 2, 2007 UHC Board of Directors Meeting Minutes, there was a suggestion made to “hold the additional 2007 iHOP payment of \$250,000 for next year (2008). The money would be held in Research Administration for facilitation of UL grant writing which is a format and standard the UL community is familiar with.” The Board approved a motion to “Review the idea of placing an additional \$250,000 for 2007 iHOP payments in an UL research administration account to be used in 2008.” This discussion by the Board clearly indicates that UofL researchers were targeted for receiving these grants.

² The Health Kentucky, Inc. Board Vice Chairman is also Senior Pharmacy Director of Passport Health Plan.

³ The recipient listed for University Medical Center is the spouse of the Senior Vice-President/Chief Financial Officer of University Medical Center dba University Hospital.

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In 2007, all recipients were within Jefferson County, with four from University of Louisville. In 2008, four recipients were from University of Louisville, all from the Research Foundation.

UHC/Passport Health Plan paid the University of Louisville over \$293,000 from 2007 thru June 2010 to administer the iHOP grant program. These payments were for the salary and fringe benefits of a University hospital administrator to oversee and administer the iHOP program, as well as certain operating expenses. The grant award cycle for this program took place over approximately four months each year and included a review of grant applications/proposals during two to three committee meetings. Payments to University of Louisville for administration of the program occurred throughout the year. It is unclear why UHC/Passport Health Plan would pay such a significant amount to administer the process of awarding five \$50,000 grants annually. See Exhibit 6 for detail on payments made to the University of Louisville for iHOP administration.

Additional Payments/ Grants

Some examples of other grants and contributions awarded by UHC include:

- In the December 2, 2009, UHC Finance Committee meeting minutes, UHC's Executive Vice-President stated that the grant to the Child Forensic Program (at University of Louisville Pediatrics) would be increasing by \$50,000 to \$250,000.
- In the January 27, 2010 UHC Finance Committee meeting minutes, a Finance Committee member who is also Chair of the University of Louisville Emergency Department made a six-month funding request for University Hospital's Adult Forensic Program in the amount of \$52,000 stating that the program had lost some funding sources and was having difficulty providing needed services without additional funds. The Committee recommended the request for approval.
- Grants were awarded in both 2008 and 2009 to Grace House/Volunteers of America, totaling \$250,000 each year. The Executive Vice-President of UHC/Passport Health Plan is listed by name as an "individual trustee or director" on the 2009 IRS Form 990 for Volunteers of America of Kentucky. See Conflict of Interest Finding 15.
- In 2007 UHC/Passport Health Plan contributed \$10,000 to LouHIE Business, a Louisville health information company. The Executive Vice-President for UHC was a director and chair of the Medicaid and Safety Net Committee of LouHie Business.
- Several other "donations" and "sponsorships" were made to charities and organizations where Passport Health Plan executives served as board members and where member/investor hospitals had an interest. See Finding 11.

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Medicaid Related Care in Schools

According to the “School Health Services for Students with Chronic Health Conditions in Kentucky” report adopted by the Legislative Research Commission (LRC) on July 8, 2010, students in the Passport region received far less health services from school nurses than those outside the Passport region. Passport does not reimburse health departments for care provided to Medicaid recipients in school settings. As discussed in the March 17, 2009 Partnership Council meeting minutes, school based health services in Jefferson County are solely at the expense of the Jefferson County Public Schools and thus the Louisville Metro Department of Health and Wellness does not offer school health services. Throughout the rest of the Commonwealth (and in the Passport region before Passport’s inception), however, health departments were able to receive reimbursement from Medicaid for services provided to Medicaid students during the school day, including services for chronic illnesses, such as asthma, diabetes and epilepsy. Since Passport declined to reimburse health departments for these services, the schools in the Passport region have had a much higher student to nurse ratio, because the school district and health department must pay for the total cost of the services. As a result, because health departments in the Passport region have been unable to bill Medicaid for school health services, there has been a reduction of in-school services in that region.

According to the LRC report, “Medicaid reimbursed school health services in the region before Passport was created, so the cost of these services should be included in the budget calculation.” And, although the rate paid by Medicaid for such services elsewhere in the state increased after Passport was created, Passport’s capitated rate has also increased.

In the LRC report, Passport Health Plan stated that it gave health departments in the region grants totaling \$1 million in each calendar year 2008 and 2009. Each year, \$250,000 of the grants was set aside for school health and home health services combined. These grants were shared by five health departments. Passport did not indicate how much was spent on school health services alone. For comparison, the amount Medicaid reimbursed health departments for school health outside the Passport region was approximately \$29 million in FY 2009. If Passport had reimbursed health departments for school health during that same time period, a conservative estimate of the comparable amount in the Passport region would be \$10.8 million per year.¹

¹ Dividing the \$28.896 million non-Passport reimbursement by the total enrollment in schools outside the region (488,678), gives a per-pupil reimbursement of \$59.13. This underestimates the per-pupil Medicaid reimbursement because health departments do not serve all schools outside Passport and some Medicaid funds were not included. Applied to the 182,498 enrollment in the region, the comparable figure is \$10.791 million. Any possible health department surpluses in school health programs would have been due to school district payments and so would not be relevant here.

A recommendation in this report states, “The Department for Medicaid Services, Department for Public Health, local health departments, and University Health Care, Inc., should continue to seek an equitable method to cover school health services for students enrolled in Medicaid in the Passport region. If they are unable to reach an agreement, the General Assembly may wish to consider whether it can establish a solution within or outside the Medicaid managed care waiver.”

Grant Awards

UHC/Passport Health Plan’s award of various grants seem to favor persons and organizations in the Louisville/Jefferson County area, particularly those with ties to UHC/Passport Health Plan, at the expense of other counties within the 16 county region that Passport Health Plan serves. A more equitable approach is needed to ensure that the Medicaid population in counties outside of the Louisville/Jefferson county area receive proportionate grant benefits that are fair to the membership.

Recommendations

We recommend that if grants are awarded that they be equitable and be based on an allocation methodology that considers the Passport Health Plan membership and need of all Region 3 counties. We recommend that the Board of UHC develop and adopt a formal grant policy and procedure that includes an application and approval process to document and ensure that grants are consistent with the mission of UHC, equitable in nature, and that grant funds are used for targeted and appropriate purposes.

We also recommend that the Executive Committee and the UHC Board ensure that all pertinent and significant facts and circumstances relative to Board and committee approval of grants be made available to, discussed by, and documented by the Board or committee in the meeting minutes. To increase transparency, the Partnership Council should be included in the process of making decisions about the use of grants to support health care in order to better represent providers throughout Region 3.

We further recommend the Board review the administrative expenditures associated with awarding iHOP grants that are reimbursed to the University of Louisville to weigh the cost versus benefit, and to determine whether the expenditures are a prudent use of taxpayer funds.

In addition, we reiterate the Legislative Research Commission’s recommendation that DMS and UHC find an equitable way to ensure that school health services for Medicaid recipients are covered.

Finding 8: UHC grants, GME, and other distributions were not reported separately in the financial statements.

UHC/Passport Health Plan distributed cash annually in the form of grants, outpatient settlement payments to hospitals, Graduate Medical Education (GME), and sponsorships to various health related, charitable, and civic organizations within the sixteen county region covered by Passport Health Plan. However, these distributions were not transparent in UHC/Passport Health Plan’s annual audited financial statements or in its Annual Statement to the Kentucky DOI.

All of the discretionary distributions noted above, except sponsorships and certain grants, were included in the UHC Passport Health Plan financial statements on the expense line “Hospital/medical benefits.” That line also included the cost of all other hospital and medical services provided by UHC/Passport Health Plan. The footnotes to the financial statements did not include any details as to the amount or allocation of any discretionary funds.

In both 2008 and 2009, UHC/Passport Health Plan awarded indigent care grants of \$10 million dollars to hospitals and health care facilities in Louisville that provided the original capital investment for the formation of UHC. In 2008 and 2009, UHC/Passport Health Plan awarded health department grants, totaling \$1 million each year and Improved Health Outcomes Program (iHOP) grants totaling \$240,000 and \$231,344, respectively. Additionally, UHC awarded grants each year to Grace House/Volunteers of America in the amount of \$250,000. These were recorded in the financial statements as “Hospital/medical benefits” or as “other expenses.”

In 2008 and 2009, UHC/Passport Health Plan paid \$1,914,382 and \$275,548, respectively, in outpatient hospital rate protection settlement payments. Of the \$2.2 million settlement payments made in the two-year period, 96 percent, or \$2.1 million was paid to Jewish Hospital and St. Mary’s Healthcare, Norton Healthcare, and University (of Louisville) Hospital, all of which were original member/investors of UHC. Annual outpatient settlement payments were made by UHC to hospitals to offset a portion of the difference between UHC allowable outpatient reimbursement rate and the hospital’s higher rates. Payments depended upon UHC having sufficient excess cash available for such payments. These were recorded in the financial statements as “Hospital/medical benefits.”

In 2008 and 2009, UHC/Passport Health Plan paid \$29,238,794 and \$32,629,627, respectively for GME costs, those costs associated with having a medical education program at a hospital. GME payments were made only to Jewish Hospital and St. Mary’s Healthcare, Norton Healthcare, and University (of Louisville) Hospital, all of which were original member/investors of UHC. These were recorded in the financial statements as “hospital/medical benefits.”

UHC/Passport Health Plan also sponsored various health related, charitable and civic organizations and events via cash contributions. In 2008 and 2009, UHC/Passport Health Plan contributed a total of \$258,783 toward such sponsorships. In the audited financial statements, UHC/Passport recorded the cash contributions for sponsorships as an Administrative – Marketing expense. The grants to Grace House/Volunteers of America and the iHOP grants were recorded in the “Other Expenses” line. As stated earlier, the remaining grant expense, settlement payments, and GME were recorded as part of the total expense line item “Hospital/medical benefits,” which also included the cost of all other hospital and medical benefits incurred by UHC during the year. Table 10 illustrates how these expenses were recorded in the financial statements.

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Table 10: Grants, GME, and Other Distributions Not Reported Separately

Included in “Hospital/medical benefits” line:	2008	2009
Health Department Grants	\$ 1,000,000	\$ 1,000,000
Outpatient Hospital Rate Protection Settlement Payments	1,914,382	275,548
GME	29,238,794	32,629,627
Indigent Care Grants	10,000,000	10,000,000
Total	\$42,153,176	\$43,905,175
Included in “Other Expenses” line:		
iHOP Grants	\$240,000	\$231,344
Grant to Grace House/Volunteers of America	250,000	250,000
Total	\$490,000	\$481,344
Included in “Marketing and Advertising” line:		
Various Sponsorships (see Exhibit 12 for complete list)	\$117,339	\$157,300

Source: APA from data provided by UHC

While the footnotes to the 2008 and 2009 audited financial statements disclose the December 2008 payment of \$10,484,162 to member/investor entities as a return of their initial capital contribution, the 2008 and 2009 \$10,000,000 indigent care grants are not separately disclosed in the financial statements. There is no separate disclosure in the audited financial statements or the footnotes of the amount, or nature, of any grants, settlements, sponsorships or other discretionary cash distributions made by UHC/Passport Health Plan during the year. Such lack of disclosure does not allow for financial transparency of actions taken by UHC/Passport Health Plan.

Although discretionary cash distributions by UHC/Passport Health Plan are considered by the actuary during the compilation of the data book that it used as the basis for contract negotiation between it and Kentucky DMS, the lack of disclosure in UHC/Passport Health Plan’s financial records of these distributions makes the process complicated and unclear.

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Recommendations We recommend UHC/Passport Health Plan disclose all discretionary cash distributions including the name of the recipient, the amount of the distribution, and the nature of the contribution and present that information in such a manner as to provide sufficient transparency and accountability to the public and to the state. These disclosures should be recorded in UHC/Passport Health Plan's financial records and reported separately to reflect the true nature of the expenditure, not as a component of the "Hospital/medical benefits" or "Other expenses." UHC/Passport Health Plan should disclose such details in all monthly and annual financial statements submitted to the Board of Directors, the Finance Committee, and its annual financial statement submitted to DMS. Such disclosure should be in a timely manner with sufficient lead-time prior to the compilation of DMS's actuarial rate setting databook. Further, we recommend UHC cease recording donations/sponsorships as "Marketing and Advertising."

Introduction to findings related to excessive spending

Certain discretionary spending by UHC/Passport Health Plan executives was questionable and did not support Passport Health Plan's mission or the purpose of the Medicaid partnership. One of Passport Health Plan's organizational values listed on its website is "stewardship" which is the "wise and responsible use of all resources, human, financial, and material, for the greater good." The degree of UHC staff spending on frequent travel, numerous expensive meals, numerous gifts, consultant and lobbyist fees, association memberships, sponsorships and donations, employee bonuses, and advertising was found to be questionable. UHC/Passport Health Plan executives traveled extensively, stayed in luxury resorts, used limousine services, gave sizeable donations and sponsorships to favored organizations, resulting in questionable use of funding provided to UHC/Passport Health Plan ultimately through taxpayer dollars.

During our period of examination, UHC/Passport Health Plan had three executives: the CEO, the Executive Vice-President and the Associate Vice-President. Two administrative assistants served as support staff for these executives. In addition, UHC/Passport Health Plan contracted with and paid AmeriHealth Mercy an annual administrative fee of \$54,963,062 for calendar year 2008, and \$58,461,806 for calendar year 2009, to administer the medical benefits paid on behalf of Passport member recipients. AmeriHealth Mercy, which employs approximately 250 employees in Louisville to administer the contract, was responsible for all the expenses of its employees and the administration of the Passport Health Plan program. This examination did not review the expenditures of AmeriHealth Mercy to administer the Passport Health Plan, but only reviewed the expenditures of UHC made by its executives. Many of these UHC expenditures summarized in Table 11 appear to be unnecessary for the effective operation of Passport Health Plan, since the operation is administered by AmeriHealth Mercy.

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Table 11: UHC/Passport Health Plan General Administrative Expenses

Expense Category	2007	2008	2009	Partial 2010
Legal fees and expenses	\$ 120,258	\$ 208,483	\$ 314,111	\$ 108,978
Auditing, actuarial, and other consulting	3,314,030	3,110,030	4,593,922	1,325,296
Travel expenses	66,659	78,063	84,768	Not included in review
Marketing/Advertising	75,215	122,480	486,736	160,139
Outsourced services	483,762	95,837	542,501	230,566
Boards, bureaus and association fees	54,843	69,643	78,407	57,368
Collection and bank service fees	328,311	415,042	419,556	220,126
Other expenses	292,531	508,553	599,357	Not included in review
Other administrative expenses not reviewed in detail*	498,500	325,888	406,774	Not included in review
AmeriHealth Mercy Management Fees & Incentives**	51,267,872	54,963,062	58,461,806	Not included in review
Managed Care Tax**	35,033,304	38,718,323	31,851,138	Not included in review
Total	\$91,535,285	\$98,615,404	\$97,839,076	\$2,102,473

Auditor's Note: This table does not include medical benefit payments.

*includes rent, salaries, postage, express, telephone, printing and office supplies, equipment, insurance except real estate, and regulatory licenses and fees

**not reviewed in this section

According to UHC/Passport Health Plan, neither its Board of Directors nor the Finance Committee reviewed UHC executive staff discretionary expenditures to determine if spending was appropriate. The CEO/Chairman of the Board reviewed and approved credit card expenditures made to staff personal credit cards that were subsequently reimbursed by UHC; however, he did not review or approve any other UHC expenditures. The Executive Vice-President was responsible for approving all expenditures, including her own.

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From the UHC articles of incorporation, the purpose of UHC:

Article II (1)(a): As general and controlling purposes, to conduct and carry on its work, not for profit, but exclusively for charitable, scientific, literary, religious or educational purposes within the meaning of section 501(c)(3) of the Internal Revenue Code of 1986, as amended...in such manner (i) that no part of its income or property shall inure to the private benefit of any donor, director or individual having a personal or private interest in the activities of the Corporation, except as reasonable compensation for services actually rendered, (ii) that it shall not directly or indirectly participate in or intervene in any political campaign on behalf of any candidate for public office, and (iii) that no substantial part of its activity shall be carrying on propaganda or otherwise attempting to influence legislation.

As a nonprofit organization, UHC/Passport Health Plan's mission to improve the health and quality of life of its members should be the primary focus of its activity. UHC's assertion during contract negotiations with DMS that it must receive a capitation rate at the high end of the actuarial range or it will have to cut services to members or payments to providers does not seem to be consistent with its level of discretionary spending.

In the five findings to follow, we document many areas where UHC executives spent funds that do not appear to further the health plan's mission. Within each finding, we offer a recommendation specific to that area. At the end of this section, we offer overall recommendations that should help UHC/Passport Health Plan curb questionable and unnecessary spending.

Finding 9: UHC spent funds on questionable travel, meals, and gifts, with uncertain benefit to Passport Health Plan recipients.

In response to allegations received during the examination, auditors found that UHC/Passport Health Plan staff traveled frequently, stayed in luxury resorts, used limousine services, had expensive meals, and purchased numerous gifts all with the funding received from Medicaid. The benefit of certain seemingly unnecessary expenditures to the Passport Health Plan program is questionable. Further, the amount reported in UHC/Passport's financial statements for "travel expenses" actually included travel, meals, gifts, limousine services, and retreats. This finding discusses each category separately.

Our review of UHC/Passport Health Plan travel expenses for 2007, 2008, and 2009 was not an all-inclusive list of the travel activity by UHC/Passport Health Plan. Since this examination was not intended to be a detailed review of travel expenses, we did not request all of the supporting details and documentation of individual travel expense charges and reimbursements. As such, some specific details of travel expenditures were not reviewed.

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Travel Expenses

The travel account within the general ledger and related credit card information included dates and descriptions such as names of airlines used, but did not always detail the travel destination, name of hotel and location, online travel websites used, and the travel agents used.

Travel expenses were categorized into three categories:

- Airfare costs and the fees charged by the airlines;
- Hotel costs and fees; and,
- Miscellaneous travel expenses and fees.

Expenses for airfare and fees for executives were approximately \$40,583 for the three-year limited expenditure review. Since the detail concerning the airlines did not provide the destination of the flight, it was sometimes difficult to specify the airfare expenses in order to determine locations of the travel.

Expenses for lodging and their fees for executives were approximately \$35,557 for the three-year limited expenditure review. Most of the lodging expense detail did include the names of the hotels and their location. Auditors cross-referenced these to a list of conferences in order to determine if a conference was the purpose of the trip.

Miscellaneous travel expenses and their fees for executives were approximately \$7,025 for the three-year limited expenditure review. Miscellaneous expenses included travel agent and online travel website fees.

Expenses for transportation and parking for executives were approximately \$23,557 and include parking fees during out of town travel, airport parking charges, cab fare, other transportation fees, and monthly parking charges for UHC/Passport Health Plan staff and the Partnership Council.

The approximate annual travel expenses of UHC/Passport Health Plan, primarily incurred by two executive staff, are presented in Table 12.

Table 12: UHC Travel Expense Summary

Calendar Year	Airfare & Fees	Lodging & Fees	Misc Travel Expenses & Fees	Transportation and Parking	Total per Year
2007	\$9,158	\$12,955	\$1,223	\$7,196	\$30,532
2008	13,124	9,739	274	8,004	31,141
2009	18,301	12,863	5,528	8,357	45,049
Total	\$40,583	\$35,557	\$7,025	\$23,557	\$106,722

Source: Auditor of Public Accounts based on information provided by UHC.

Note: As this was a limited review, additional expenditures for travel could have been posted in other expenditure account detail.

UHC/Passport Health Plan's overall travel expenses increased 48 percent from 2007 to 2009.

Multiple hotel stays between 2007 and 2009 included luxury hotels, which in some cases could be cross-referenced to a conference attended by UHC staff. The limited review prevented auditors from having complete documentation and it was not always clear specifically who was traveling and the business purpose. A listing of monthly travel expenditures is presented in Table 13.

Table 13: UHC Monthly Travel Expenses 2007

Month	Amount	Location/Purpose (if known)	Conference Attended
2007			
January 2007	\$4,510	Four separate hotel stays were documented. 1. Marriott Waterfront, Seattle, Washington; 2. The Fairmont in Washington DC; 3. Unknown; 4. Unknown; also includes airfare, transportation, parking, and other expenses	None listed during this month
February 2007	\$1,424	Includes airfare, other travel expenses and transportation/parking	None listed during this month
March 2007	\$1,443	Three separate hotel stays were documented. 1. Indianapolis, IN; 2. Louisville, KY; 3. Unknown; also includes transportation/parking	None listed during this month
April 2007	\$1,006	Three separate airline expenses; also includes transportation/parking	None listed during this month
May 2007	\$2,015	Lodging expense at Caesars Hotel in Las Vegas, NV; also includes airfare and transportation/parking	None listed for these locations. One conference listed in Louisville, KY
June 2007	\$4,516	Marriott in Baltimore, MD.; Caesars Hotel in Las Vegas, NV; also includes airfare, other travel expenses and transportation/parking	Medicaid Managed Care Congress Conference, Baltimore, MD, June 13-15 America's Health Insurance Plans Annual Conference, Las Vegas, NV, July 19-22

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Month	Amount	Location/Purpose (if known)	Conference Attended
July 2007	\$2,375	Lodging, airfare and transportation/parking	American Legislative Exchange Council Conference, Philadelphia, PA, July 25-29
August 2007	\$1,433	Transportation/parking including \$616 for 2 Magenta Passes at UofL	None listed during this month
September 2007	\$1,319	Hilton Hotel, Portland, OR; also includes airfare and transportation/parking	None listed during this month
October 2007	\$1,329	Airfare	Medicaid Health Plans of America, October 31-November 3
November 2007	\$6,458	Hyatt Hotel in Washington DC; Renaissance Hotel in Philadelphia PA; also includes airfare and transportation/parking	National Association of State Medicaid Directors Conference, Washington, DC, November 12-14
December 2007	\$2,704	Renaissance Hotel in Washington DC; Also includes airfare and transportation/parking	None listed at these locations. One conference listed in Lexington, KY
2008			
January 2008	\$2,987	Airfare, lodging, other travel expenses and transportation/parking	None listed during this month
February 2008	\$4,876	In Washington DC, Hotel George; airfare and parking/transportation	None listed during this month
March 2008	\$2,899	Airfare, lodging, other travel expense and transportation/parking	None listed during this month
April 2008	\$1,056	Three stays in Washington DC and Philadelphia, PA; also includes airfare and transportation/parking	None listed during this month
May 2008	\$859	Hyatt and Marriott in Louisville; also includes other travel expenses and transportation/parking	None listed during this month

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Month	Amount	Location/Purpose (if known)	Conference Attended
June 2008	\$1,166	Includes \$318 for a “NO-SHOW” at Hilton Hotel in San Francisco, CA; also airfare and transportation/parking	None listed during this month
July 2008	\$5,188	Marriott in Kansas City, MO; Renaissance Hotel in Philadelphia, PA; the W hotel in New Orleans, LA; Marriott in Baton Rouge, LA; also includes airfare, other travel expense, and transportation/parking	National Conference of State Legislators Annual Meeting in New Orleans, LA, July 22-26
August 2008	\$3,284	Four stays – Kansas City, MO; Philadelphia, PA; Louisville, KY; San Francisco, CA; also includes airfare and transportation/parking	None listed during this month
September 2008	\$2,160	Three airline expenses, other travel expenses and transportation/parking	None listed during this month
October 2008	\$3,463	Marriott in Baton Rouge, LA; also includes airfare and other travel expenses	None listed during this month
November 2008	\$2,251	Three stays – Marriott in Louisville; two at Hawks Cay Resort in Key West, FL; also includes airfare, other travel expenses and transportation/parking	National Conference of Insurance Legislators in Duck Key, FL, November 19-23
December 2008	\$952	Two charges for lodging in Louisville; also includes transportation/parking	None listed during this month
2009			
January 2009	\$4,367	Six lodging expenses – Two at Marriott in Louisville; one at Hyatt at an unknown location; two in Washington DC; one in Charlotte NC; also includes airfare, other travel expenses and transportation/parking	None listed during this month
February 2009	\$4,086	Two lodging expenses in Livonia, MI; eight airline expenses, other travel expenses, transportation/parking	None listed during this month

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Month	Amount	Location/Purpose (if known)	Conference Attended
March 2009	\$4,836	Six airline expenses, other travel expenses and transportation/parking	Association of Community Affiliated Plans Meeting, March 31-April 3
April 2009	\$5,700	Westin La Paloma Resort in Tucson, AZ; Coeur d'Alene Resort in Coeur d'Alene, ID; also includes airfare, other travel expenses and transportation/parking	None listed during this month
May 2009	\$2,909	Marriott in Washington DC; also includes airfare, other travel expenses and transportation/parking	Council on State Government Spring Conference, Coeur d'Alene, ID, May 16-18
June 2009	\$697	Marriott in Louisville; also includes other travel expenses and transportation/parking	None listed during this month
July 2009	\$3,575	Hyatt in Atlanta, GA; Loews hotel in Philadelphia, PA; also includes airfare, other travel expenses and transportation/parking	American Legislative Exchange Council, Atlanta, GA, July 15-18 National Conference of State Legislators Annual Meeting, Philadelphia, PA, July 20-24
August 2009	\$434	Marriott in Louisville and transportation/parking	None listed during this month
September 2009	\$4,315	L'Enfant Plaza Hotel in Washington DC; also includes airfare, other travel expenses and transportation/parking	National Association of Public Hospitals, Washington, DC, September 22-24
October 2009	\$7,302	Marriott in Philadelphia, PA and Marriott Harbor Beach hotel in Ft. Lauderdale, FL; also includes airfare, other travel expenses and transportation/parking	None listed during this month

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Month	Amount	Location/Purpose (if known)	Conference Attended
November 2009	\$3,894	Royal Sonesta Hotel in New Orleans, LA; Sandpearl Resort in Clearwater, FL; Brown Hotel in Louisville; also includes airfare, other travel expenses and transportation/parking	National Conference of Insurance Legislators, New Orleans, LA, November 18-22
December 2009	\$2,934	Four Seasons Hotel in Philadelphia, PA; also includes airfare, other travel expenses and transportation/parking	None listed during this month

Note: A list of conferences was provided by UHC/Passport Health Plan.

Hotel/ Lodging Information

Many of the hotels that UHC/Passport Health Plan staff frequented for travel were often luxury or spa/resort accommodations. As noted in the preceding chart, based on available documentation many of these hotel stays do not appear to be in conjunction with a professional conference. While some stays at luxury resorts were during conferences, these conferences were often held by those associations listed in Finding 12. As noted in that finding, many of those organizations' primary activity was lobbying health care related federal legislation. See Exhibit 7 for a website description of many of the hotels frequented by UHC's executive staff.

Meals

Meal expense information provided by UHC/Passport Health Plan for 2007 through 2009 was reviewed with the following observations:

- In 2007, \$19,866 was spent on 242 meals. Of the \$19,866, \$7,913 was spent on meals \$200 or more, which accounts for 40 percent of the meal expenses in 2007.
- In 2008, \$21,812 was spent on 254 meals. Of the \$21,812, \$6,632 was spent on meals \$200 or more, which accounts for 30 percent of the meal expenses in 2008.
- In 2009, \$31,316 was spent on 257 meals. Of the \$31,316, \$17,368 was spent on meals \$200 or more, which accounts for 55 percent of the meal expenses in 2009.

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Table 14 illustrates annual meal expenses paid by UHC:

Table 14: UHC Meal Expense

Calendar Year	Meals Purchased	Total Spent on Meals per Year	Total Spent on Meals \$200 or More	Percent of Meal Expenses for Meals \$200 or more
2007	242	\$19,866	\$7,913	40%
2008	254	21,812	6,632	30%
2009	257	31,316	17,368	55%
Total	753	\$72,994	\$31,913	44%

Source: Auditor of Public Accounts based on information provided by UHC.

Note: As this was a limited review, additional meal expenditures could have been posted in other expenditure account detail.

Total spent on meals per year increased 58 percent from 2007 to 2009, and a 119 percent increase in meals costing \$200 or more.

The following are examples of meal expenses from 2007:

- Starbuck's, \$2.28;
- Wick's Pizza, \$28.87;
- Ruth's Chris Steakhouse, \$220;
- Oceanaire Seafood, \$1,428; and,
- Juleps Catering, \$2,300.

The following are examples of meal expenses from 2008:

- Grab-N-Go, \$3.32;
- Wick's Pizza, \$89.83;
- Striped Bass, \$324.35;
- Commander's Palace, \$546; and,
- Mastersons Catering, \$734.23.

The following are examples of meal expenses from 2009:

- Cibo Market, \$2.73;
- Saffron's Persian Cuisine, \$57.68;
- Commander's Palace, \$466.40;
- Unknown vendor "meals" expense, \$708.06; and,
- University Club, \$3,137.17.

An examination of the general ledger detail and credit card statements documented expenses in excess of \$57,000 incurred for the purchase of local meals for UHC/Passport Health Plan staff and board members, including meals and refreshments for various committee meetings. Many of the local meals were documented as “staff lunch,” “business lunch” and “business dinner.” It is not clear whether or not these were actually working lunches or dinners. For example, there were numerous purchases at fast food restaurants, such as McDonalds for \$4-\$7 identified as “staff lunch” and several at Starbucks for \$2-\$4. This charging of routine purchases on a regular basis indicates that it is likely many of these meals were not business related.

It should be a reasonable responsibility of an employee, except under clearly defined circumstances, to pay for his or her meal during a “working lunch or dinner.” For each meal that UHC/Passport Health Plan either paid or reimbursed to an employee without overnight lodging there must be an adequately documented business purpose to be excluded from income as a non-taxable fringe benefit.

Table 15 below shows the approximate amount spent by UHC at local vendors during the period reviewed. The amount is approximated due to not enough information being available in the general ledger and credit card statements to determine where every purchase was made. See Exhibits 8 and 9.

Table 15: Spending on Local Meals

Year	Amount
2007	\$14,746
2008	18,290
2009	24,729
Total	\$57,765

Source: APA from data provided by UHC.

Gifts

During 2007 through 2009, UHC/Passport Health Plan purchased numerous gifts as evidenced by expenditure detail and credit card statements. Gifts included, but were not limited to, floral arrangements, food and fruit baskets, gift cards and gift certificates. Table 16 summarizes a limited review of three years of gift purchases by UHC/Passport. Total spent on gifts increased 83 percent from 2007 to 2009. See Exhibit 10 for a detailed listing of gifts purchased.

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Table 16: UHC Gift Expense

Calendar Year	Number of Gifts Purchased per Year	Cost of Gifts Purchased per Year	Percent Increase in Costs of Gift Purchases Each Year
2007	24	\$2,315	-
2008	33	2,770	20%
2009	38	4,226	53%
Total	95	\$9,311	

Source: Auditor of Public Accounts based on information provided by UHC.

Note: As this was a limited review, additional gift expenditures could have been posted in other expenditure account detail.

Limousine Services The following were UHC expenditures related to limousine/luxury vehicle services:

Table 17: Limousine Services Expenditures

Date	Vendor	Amount
2/2/08	Amazon Limousine – Fairfax, VA	\$1,200
2/29/08	Amazon Limousine – Fairfax, VA	390
2/5/09	Luxury Sedan Limo Services – VA	754
5/8/09	Luxury Sedan Limo Services – VA	758
9/23/09	Luxury Sedan Limo Services – VA	894
Total		\$3,996

Source: APA from data provided by UHC.

Board Retreats Documented below are also two 2010 expenditures relevant to this finding:

- On 4/1/2010 - \$1,400 at Marriott Louisville Downtown for “UHC Board retreat;” and,
- On 5/20/2010 - \$2,891.98 at Marriott Louisville Downtown for “Board Retreat.”

While we do not have enough information to determine exactly what the expenditures were for, the necessity of such expenditures related to a “board retreat” in Louisville when the board members routinely meet in Louisville is unclear.

2010 Expenditures We reviewed the expenditure detail for travel for the first few months of 2010, but did not include those expenses in the detail already provided herein. We did note the pattern of spending documented during 2007 thru 2009 continued in 2010.

A summary of all expenses included in the financial statement account “travel expenses,” which includes travel, meals, gifts, and other expenses, is presented below:

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Table 18: Financial Statement “Travel Expenses”

Calendar Year	Airfare & Fees	Lodging & Fees	Misc Travel Expenses & Fees	Transportation And Parking	Meals	Gifts	Other	Total
2007	\$ 9,158	\$12,955	\$1,223	\$ 7,196	\$19,866	\$2,315	\$13,946	\$66,659
2008	13,124	9,739	274	8,004	21,812	2,770	22,340	78,063
2009	18,301	12,863	5,528	8,357	31,316	4,226	4,177	84,768
Total	\$40,583	\$35,557	\$7,025	\$23,557	\$72,994	\$9,311	\$40,463	\$229,490

10-year Anniversary Celebration

During the review of expenditure detail and board meeting minutes, we noted several references to “Passport’s 10 year anniversary celebration.” The celebration appears to have been held on January 16, 2008 at the Seelbach Hotel and included cocktails, dinner, and gifts. We noted the following expenditures related to the anniversary recorded in various financial accounts:

- \$10,000 for a 6-8 minute 10th anniversary video recorded in “Outsourced Services;”
- \$2,500 for dining decorations recorded in “Outsourced Services;”
- \$1,011.50 for “10th Anniversary Items” recorded in “Miscellaneous Expenses;” and,
- \$242,212.50 for 10th anniversary bonuses for employees recorded in “Outsourced Services” (further detailed in Finding 13).

Because our review was limited to general ledger detail of specific accounts, there may have been additional expenses related to the anniversary party that were posted in other accounts, notably the expenses related to the hotel, cocktails and dinner. Also, other expenses related to the celebration were paid by AmeriHealth Mercy but not reflected in the amounts identified above.

The details of expenditures outlined in this finding support allegations auditors received that primarily two UHC executives traveled extensively, with travel expenditures noted in almost every month of the three-year period reviewed. Lodgings were often luxury spas and resorts. The executives used limousine services and dined at expensive restaurants. While these types of expenditures may be routine for many private, for-profit companies, they should not be typical in nonprofit, health care organizations. As a nonprofit, the focus of the activity of UHC/Passport Health Plan should have been on furthering the mission, which is to improve the health and quality of life of its members while controlling costs.

Recommendations

We recommend that UHC/Passport Health Plan ensure that all travel expenses relate to its original mission to improve the health and quality of life of its members and that funds spent on travel be spent more prudently and efficiently. UHC/Passport Health Plan executive staff should consider whether such frequent travel is a necessary expense and a judicious use of taxpayer dollars.

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We recommend the UHC Board of Directors, including the Partnership Council as recommended in Finding 1, review and approve all travel expenditures incurred by UHC's Executive Vice-President, as well as all out-of-state travel expenditures for other staff and board members. Further, the Board should improve its policies governing spending related to travel. These policies should include consideration of the relevance of conferences, necessity of travel, amount of resources UHC should allocate to out-of-state activities, and expected benefit to Passport Health Plan beneficiaries. To ensure transparency, the Board and Partnership Council should receive more detailed financial information regarding travel expenditures of its executives on a regular basis in order to determine whether such spending is appropriate.

The Board of Directors should implement a policy to clearly define when it is appropriate for meals, including local meals, to be purchased on behalf of employees, Board members, vendors, and guests. The policy should also identify the specific documentation that must be provided to ensure the business purpose and necessity of the meal is fully documented.

Finding 10: UHC spent nearly \$14 million on consulting and outsourced services including \$1 million for lobbying and public relations.

UHC/Passport Health Plan spent nearly \$14 million between January 2007 and May 2010 on consulting and outsourced services. While some of these services for auditing, actuarial and consulting were clearly necessary business expenses related to UHC/Passport Health Plan's mission to improve the health and quality of life of its members, other expenditures did not appear to serve that purpose. Several of the contracts for consulting services were with companies that specialize in lobbying and activist activities. Further, the expenditures for necessary services increased significantly in recent years.

Several examples of consulting service contracts with contract amount and purpose listed in Table 19 illustrate the use of consultants for lobbying and public relations activities.

Table 19: Consulting and Outsourced Services

Contract with:	Amount	Purpose (according to the contracts)
Commonwealth Centre, LLC	Payment of \$5,000 per month for six months between 1/1/2010 and 6/15/2010. Total payment of \$20,000 recorded thru June 2010.	Research and write a series of articles about Passport Health Plan in academic journals and assist with placement of the articles. Note: Only one article was due to be provided through June of 2010.

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Contract with:	Amount	Purpose (according to the contracts)
A.J. Sells & Associates	\$4,000 per month, plus expenses for the term of the contract. Contract began in January 2010. Total payment of \$16,113 recorded thru June 2010.	Advice, counsel and access to and when necessary on issues with the Governor; General advice on relationship building with and contact with CHFS and Finance and Administration Cabinet; Develop and maintain relationships with Kentucky's Congressional Delegation, members of the Kentucky General Assembly, and Louisville Metro Council.
New South Strategies	Total payment of \$14,000 from 2007 thru 2008.	Assist UHC in expanding its Passport Health Plan service area to a new geographic region...by conducting community outreach to targeted constituencies in the region. Targeted constituencies are state legislators, county officials, local government officials, and community advocates. Provide UHC with political insight/information for the remainder of KY gubernatorial campaign and if new administration is elected, provide insight/information on transition and facilitate meetings for UHC...; Research local political environment and develop a contact list of influential individuals with whom to meet in each of the targeted counties.
Roll Call Strategies/ McCarthy & Speaks	\$5,000 per month. Total payment of \$208,500 from 2007 thru June 2010.	Advice, counsel and access to when necessary on issues with the Governor...; General advice on relationship building and contact with CHFS and Finance and Administration Cabinet; To develop and maintain relationships with Kentucky's Congressional Delegation, members of the Kentucky General Assembly and Louisville Metro Council.
Southern Strategy Group	\$12,000 per month for months that the General Assembly is in session; \$6,000 per month for months that the General Assembly is not in session. Total payment of \$337,900 from 2007 thru June 2010.	Provide information concerning legislative and administrative events, actions or trends that may impact the local, state or nation interest of UHC/Passport Health Plan; provide assistance in gaining access to key decision makers at the state or local level and in gathering information on key individuals' views concerning UHC/Passport Health Plan business and interests; organize support for key public policy actions sought by UHC/Passport Health Plan; coordinate lobbying efforts as appropriate with UHC/Passport Health Plan business partners with the state; monitor all waiver initiatives undertaken by CHFS; advise UHC/Passport Health Plan on upcoming election information.

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Contract with:	Amount	Purpose (according to the contracts)
Healthcare Options, Inc.	\$7,500 per month. Total payment for 2007 thru June 2010 of \$182,301.	Consulting services on all aspects of the plan as needed including GME analysis, perform market comparisons, attend committee meetings, assist with contract negotiations, perform contractual pricing analysis, evaluation and provide recommendations.
Vimarc Group, Inc.	\$3,000 per month retainer. Total payment for 2007 thru May 2010 of \$127,193.	Flat retainer fee of \$3,000 per month for 40 hours of agency services...strategy, creative development, and general consultation.
Peritus Public Relations	Total payment for 2007 thru June 2010 of \$92,764.	Contract not provided.

Numerous other consultants were listed in the expenditure detail, but we were unable to obtain documentation of them from UHC/Passport Health Plan. Those contracts were identified by UHC/Passport Health Plan as being related to the “Passport Advantage line of business only.” Without those contracts, we were unable to confirm the purpose of the other contracts. The total expenditures from 2007 through May 2010 for the consultant contracts requested but not provided was \$1,439,233. See Exhibit 11 for a full list of consultant and outsourced services expenditures.

In addition, we noted payments to the University of Louisville for salaries of two individuals documented as “salary and benefits” in the general ledger. Those individuals were the former Executive Vice-President of UHC and the current University of Louisville Executive Vice-President of Health Affairs’ Legislative Liaison. Payments to the former Executive Vice-President continued for three years after his employment ended in 2006 at UHC, reportedly as part of a severance agreement. Payments for the University of Louisville Legislative Liaison were for consulting services, according to UHC/Passport Health Plan. Payments to University of Louisville for “salaries and benefits” for these two individuals are documented in Table 20.

Table 20: Payments to University of Louisville

	2007*	2008	2009	2010	Total
Former EVP	\$35,883	\$141,827	\$141,772	\$34,238	\$353,720
Consultant	\$14,392	\$29,596	\$30,043	\$22,774	\$96,805

*Because the accounting records for 2007 do not clearly document the payments, we only listed the amount that could be directly attributed to these individuals. Therefore, there could be additional amounts paid that are not included herein.

We also noted that the Legislative Liaison was listed as having use of a UHC/Passport Health Plan credit card in 2007.

Many of the consulting and lobbying activities for which UHC/Passport Health Plan had contracts are services that could have been provided by UHC executive staff as part of their duties for UHC. See Finding 15. Contract expenditures for lobbying, consulting, and other outsourced services appear to be excessive.

Recommendations

We recommend that UHC/Passport Health Plan executive staff reevaluate whether the use of such numerous consultants, many of whom are lobbyists, are a necessary expense and a judicious use of taxpayer dollars.

We further recommend UHC/Passport Health Plan Board of Directors, including the Partnership Council as recommended in Finding 1, review and approve consulting and outsourced service contracts over a specified amount to ensure that funds are spent only on services necessary for the continued operation of Passport Health Plan.

To ensure transparency, detailed financial information and contract deliverables regarding such expenditures should be shared with the Board of Directors and the Partnership Council on a regular basis. This transparency and disclosure will allow the board members an understanding of the types of expenditures being made and whether such expenditures are appropriate.

Finding 11: UHC contributed over \$423,000 in donations and sponsorships with questionable benefit to Passport recipients.

During our period of review, UHC/Passport Health Plan expended over \$423,000 on donations and sponsorships to various organizations, some of which had no relevance to the Passport Health Plan program. UHC/Passport Health Plan classified these expenses as “Marketing & Advertising” expenses on its annual financial statements. Further, the policies established by the Board of Directors regarding sponsorships and donations did not ensure the appropriateness of the expenditures.

As illustrated in Table 21, spending for sponsorships and donations escalated each year with a total increase in expenditures of 161 percent from 2007 to 2009.

**Table 21: UHC/Passport Expenditures
For Sponsorships and Donations**

Year	Amount
2007	\$ 60,550
2008	117,339
2009	157,900
Thru May 2010	87,300
Total	\$423,089

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Exhibit 12 lists all sponsorships and donations made by UHC/Passport Health Plan during the time period reviewed that were posted as marketing and advertising. Additional sponsorships and donations also may have been posted in accounts that auditors did not review.

Table 22 is a listing of the sponsorships and donations that were \$10,000 or greater:

Table 22: Sponsorships and Donations \$10,000 or Greater

Year	Vendor Name	Description	Amount
2007	Jewish Hospital Foundation	Gold Sponsorship – The Doctor’s Ball	\$10,000
2008	Bridgehaven, Inc.	Sponsorship	\$10,000
2008	Jewish Hospital Foundation	Circle of Care – Dr’s Ball Donation	\$10,000
2008	Volunteers of America of Ky, Inc.	Sponsorship – Grace House	\$10,000
2009	Bridgehaven, Inc.	Sponsorship	\$10,000
2009	Champions 4 Her Walk, Run	Sponsorship Fee	\$15,000
2009	Home of the Innocents	Partner Sponsor	\$10,000
2009	Jewish Hospital Foundation	Sponsorship	\$10,000
2009	Kentucky Derby Festival, Inc.	2009 Inflatable Character Sponsor	\$10,000
2009	Medical News	Sponsorship – Governor’s Dignity	\$10,000
2010	Champions 4 Her Walk, Run	Sponsor	\$15,000
2010	Home of the Innocents	Sponsorship – Oaks Branch	\$10,000
2010	Kentucky Host Committee	Sponsor	\$10,000

Additionally, we noted many donations and sponsorships that were not related to health care. It is unclear why Passport Health Plan would expend funds on unrelated organizations and charities. Some examples of those are listed below:

In 2007

- \$2,000 to Kentucky Opera for “Carnevale 2008 Table Sponsor;”
- \$3,000 to Louisville Metro for “World Fest Sponsorship;” and,
- \$175 to Southern Legislative Conference for “Sponsorship.”

In 2008

- \$2,000 to Boy Scouts of America for “Sponsorship – Luncheon;”
- \$1,000 to Convention Connection for “Thunder Over Louisville Sponsor;”
- \$1,500 to Greater Louisville, Inc. for “Sponsorship – 2008 Holiday Party;”
- \$1,000 to Louisville Metro for “JHSMH Portion for Luncheon;”
- \$250 to South Lexington Babe Ruth for “Full Page Ad Sponsorship;” and,
- \$5,000 to Volunteers of America of Ky., Inc. for Sponsorship – University of Louisville President.

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In 2009

- \$3,000 to Boy Scouts of America for “Award Dinner;”
- \$1,000 to Boy Scouts of America for “Dodgeball Tournament;”
- \$600 to Government Strategies for “Co-Sponsorship – Senate Majority;”
- \$600 to Government Strategies for “Sponsorship;”
- \$3,000 to Greater Louisville, Inc. for “Holiday Party Sponsorship;”
- \$5,000 to Kentucky Chamber of Commerce for “Sponsor – KY Chamber Annual Mtg;”
- \$10,000 to Kentucky Derby Festival, Inc. for “2009 Inflatable Character Sponsor;”
- \$3,000 to Kentucky Opera for “2010 Carnevale Sponsorship;
- \$125 to South Lexington Babe Ruth for “Full Page Ad Sponsorship;” and,
- \$5,000 to Volunteers of America of Ky., Inc. for “Sponsorship.”

Thru May 2010

- \$3,000 to Boy Scouts of America for “Sponsorship – Luncheon;”
- \$3,000 to Greater Louisville, Inc. for “Sponsorship – Driving Innovation;”
- \$1,000 to Kentucky Chamber of Commerce for “Sponsorship – Chamber Day;”
- \$5,000 to Kentucky Chamber of Commerce for “Sponsorship Kty Chamber 7/13;” and,
- \$10,000 to Kentucky Host Committee for “Sponsor.”

UHC’s process for approving sponsorships and donations begins with the Finance Committee annually drafting a budget that includes appropriation for sponsorships/donations. The recommended budget is sent to the UHC Board of Directors for review and approval. The Finance Committee meets monthly and reviews UHC’s financial performance in comparison to budget. UHC’s Sponsorship Request Guidelines require that all sponsorship/donations that exceed budget and/or are over \$25,000 be reviewed and approved by the Finance Committee. The policy for sponsorships and donations was approved at the August 26, 2009, Finance Committee meeting. Sponsorships and donations less than \$25,000 are determined by UHC executive staff.

UHC’s Sponsorship Guidelines allow UHC to support financial requests, but they also state that the following must be taken into consideration when determining which to support:

- Impact to membership, such as services that improve health care and/or outcomes;
- Public relations considerations; and/or,
- Board member involvement.

Findings and Recommendations

Because of the apparent arbitrary nature of this type of spending, the authority for determining the propriety of any donations or sponsorships should include the Board of Directors and involve more than just the UHC executive staff.

Recommendations We recommend UHC/Passport Health Plan Board of Directors re-evaluate the donations made to numerous organizations, some of which are not health care related, and determine whether they provide a potential benefit to Passport recipients and are a prudent use of taxpayer dollars.

The UHC/Passport Health Plan Board of Directors should establish a policy to determine which sponsorships are appropriate, if any. To ensure transparency, detailed financial information regarding such expenditures should be reviewed by the Board of Directors and the Partnership Council on a regular basis. The budget and financial statements should include a separate account/line item for donations and sponsorships. This transparency and disclosure will allow the board members an understanding of the types of expenditures being made, whether such expenditures are appropriate, and whether they are related to the purposes of Passport Health Plan.

**Finding 12: UHC
spent over
\$250,000 on
membership fees to
various
organizations.**

UHC/Passport Health Plan spent over \$250,000 for memberships to various organizations and chambers of commerce in the counties of Region 3. Table 23 documents the total amount noted for each year reviewed. Spending in this area grew 37 percent from 2007 to 2009. In 2010, with less than half of the year accounted for, spending has already surpassed the total spent in 2007.

Table 23: Membership Fees

Year	Total for Association Memberships
2007	\$52,714
2008	\$68,674
2009	\$72,215
2010	\$56,573
Total	\$250,176

Many of the organizations/associations to which UHC belongs are lobbying and activist organizations with their primary focus to influence health care related and other legislation. Listed below are some of the lobbying/activist organizations, annual amount paid, and their stated purpose.

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Table 24: Examples of UHC's Association Memberships

Association	Amount Paid	Description of Purpose/Mission/Activities from the organization's website
America's Health Insurance Plans	2007 - \$16,800 2008 - \$16,800 2009 - \$17,640 2010 - \$18,169	"What happens in Washington, DC and in state capitols around the country directly affects your health and your pocketbook. America's Health Insurance Plans presents a strong advocacy voice for our members with government officials and the public. Our goal is to advance a vibrant, private-public health care system, one characterized by consumer choice, product flexibility and innovation."
Medicaid Health Plans of America	2007 - \$17,500 2008 - \$17,500 2009 - \$17,500 2010 - \$17,500	"The mission of MHPA is to develop and advance public policy that controls costs and improves access and delivery of quality health care to Medicaid members."
Kentucky Association of Health Plans	2008 - \$10,000 2009 - \$7,500 2010 - \$7,500	"The Association engages in advocacy programs at the state level concerning issues affecting health plans."
National Health Policy Group	2008 - \$11,903 2009 - \$11,906	"Services include: Strategic visioning and planning; Change-based leadership; Coalition development and management; Legislative and regulatory analysis; Public policy development and advocacy"

A full listing of association memberships is located at Exhibit 13.

Recommendations We recommend the UHC Board of Directors re-evaluate its memberships in numerous associations and determine which association memberships provide a potential benefit to Passport Health Plan recipients and are a prudent use of taxpayer dollars.

To ensure transparency, the Board of Directors and the Partnership Council should review detailed financial information regarding such expenditures on a regular basis. This transparency and disclosure will allow the board members an understanding of the types of expenditures being made, whether such expenditures are appropriate, and whether they are related to the purposes of Passport Health Plan.

Findings and Recommendations

Finding 13: Two UHC executives received significant annual salaries and bonuses and UHC paid a “10 year anniversary bonus” to AmeriHealth Mercy Kentucky employees.

UHC’s paid staff was comprised of an Executive Vice-President, an Associate Vice-President, and two administrative support staff. While deemed to be full-time staff of UHC/Passport Health Plan, the two UHC executive positions were leased. The Executive Vice-President was employed by the University of Louisville and reported to the University’s Executive Vice-President for Health Affairs, who also served as an unpaid CEO for UHC. UHC leased the services of UHC’s Executive Vice-President from the University of Louisville per a Personal Services Agreement. That agreement detailed the obligations of both the University of Louisville and UHC regarding the compensation of the UHC Executive Vice-President. The employee lease agreement between UHC and the University of Louisville stipulated that the University would be reimbursed by UHC for all salary and fringe benefits of the leased employee and that UHC also could recommend bonuses for the leased employee. The Associate Vice-President and the two administrative assistants were employed by UPA, but their services also were “leased” to UHC.

Bonuses for UHC Executives

The salary and bonus paid to UHC’s Executive Vice-President and through the lease agreement with the University of Louisville is noted in Table 25:

Table 25: Executive Vice-President’s Total Income from University of Louisville Sources

Fiscal Year	Base Salary from UofL Reimbursed by UHC	Bonus Amount from UofL Reimbursed by UHC	Bonus Percent of Base Salary	Non-UHC Salary from University of Louisville	Consulting Income from University Medical Center*	Total Income from UHC and University of Louisville Sources
2008	\$152,083	\$37,500	24.7%	\$35,000	\$22,917	\$247,500
2009	175,700	43,750	24.9%	\$35,000	50,000	304,450
2010	175,000	43,750	24.9%	\$35,000	50,000	303,750
Total	\$502,783	\$125,000		\$105,000	\$122,917	\$855,700

Source: August 20, 2010 e-mail from the University of Louisville and information provided by University Medical Center.

* Does not reflect the total consulting income of the Executive Vice-President, part of which is from AmeriHealth Mercy.

Bonuses for the Executive Vice-President were equal to 25 percent of her base salary for all three years shown. Her base salary increased by 15.5 percent from 2008 to 2009.

The salary and bonuses paid to UHC’s Associate Vice-President through the lease agreement with UPA is presented below.

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Table 26: Associate Vice-President's Salary/Bonus History

As of Date	Salary Amount from UPA Reimbursed by UHC	Bonus Amount Reimbursed by UHC	Bonus Percent of Base Salary
August 6, 2007	\$ 95,000		
December 4, 2007		\$ 1,000	1.1%
January 9, 2008		7,917	8.3%
July 17, 2008	Increase to \$105,000		
December 16, 2008		1,000	1.0%
February 20, 2009	Increase to \$120,000	26,250	25.0%
December 14, 2009	Increase to \$126,000	30,000	25.0%
Total		\$66,167	

Source: Information provided by UPA

The Associate Vice-President's initial base salary increased by 32.6 percent from August 2007 to December 2009.

*Salaries and
Fringe Recorded
as Consulting
Expense*

Although "in substance" the staff of UHC/Passport Health Care were employees of UHC, their salaries and benefits were recorded as consulting expenses rather than reimbursements for such salaries and benefits. See Exhibit 14 for the detail of salaries recorded as "consultant" expense.

There are several criteria that would reasonably deem UHC's staff in substance to be UHC employees and require the salaries and fringe benefits of the executive staff be disclosed as a reimbursement for "salaries and wages" for financial statement presentation purposes, rather than included in with consulting fees. Those criteria are:

- The existence of and the wording of the Personal Services Agreement for UHC's Executive Vice-President which states UHC "shall have the right and authority to direct and supervise" the Executive Vice-President;
- The acknowledgement by UHC that the Associate Vice-President and the two administrative support staff were "leased" from University Physicians Associates;
- UHC's Executive Vice-President and Associate Vice-President had the authority and responsibility to act on behalf of UHC; and,
- UHC's Executive Vice-President and Associate Vice-President were presented as executives of UHC on both their business cards and in all UHC related financial matters.

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As such, UHC's staff members are not "consultants" and their salaries and benefits should not be included with the expense of other consultants who are paid by UHC for limited services. In the interest of full disclosure, accounting for the salaries and fringe benefits of the executive staff as Consulting Expense is an inaccurate classification and does not clearly represent the true nature of UHC administrative expenses. Including salaries and fringe benefits as consulting expense distorts such expenses.

Available Time of UHC Executive Staff

The Executive Vice-President of UHC performed additional work for the University of Louisville as was needed and received additional compensation from the University for such duties as detailed in Table 26. The Executive Vice-President also received \$50,000 annually from the University (of Louisville) Hospital for providing consultative services to the hospital. Further, the Executive Vice-President was a principal member of a small consulting firm that has generated significant revenues over the past few years. From our review of travel expense that was conducted, the Executive Vice-President appeared to have incurred considerable travel outside the state during the period covered by our examination. See Finding 9 related to travel expenses. All of the observations noted above, when combined, would seem to cumulatively consume a significant amount of the Executive Vice-President's available time and call into question the amount of time that the Executive Vice-President may have had to devote to the oversight and control of the UHC/AmeriHealth relationship and operations.

The Associate Vice-President of UHC also was associated with the same small consulting firm referenced above that has generated revenues over the period covered by the examination. As with the Executive Vice-President, a review of travel expense also indicated that the Associate Vice-President accumulated significant out of state travel that might constrain availability for day-to-day oversight.

Employee Bonuses for Passport's 10- Year Anniversary

During the review, we noted an expenditure of \$242,212.50 recorded in "Outsourced Services" as a reimbursement to AmeriHealth Mercy on December 12, 2007. This expenditure was found to be the cumulative amount of 10-year Anniversary bonuses paid to employees of AmeriHealth Mercy Kentucky operations plus associated payroll taxes. Each of the approximately 250 employees of AmeriHealth Mercy Kentucky operations received a \$1,000 bonus. According to UHC executive staff, the UHC Board of Directors approved this bonus.

We reviewed Board minutes, Finance Committee minutes and Executive Committee minutes from 2007 and found no discussion or approval of employee bonuses. The December 2007 Board meeting minutes did document discussion of the 10th anniversary celebration party, but there was no mention of employee bonuses at that time either.

Additional bonuses were paid to AmeriHealth Mercy Kentucky employees by AmeriHealth Mercy based on performance. Those bonuses are not discussed here, as they are expenditures of AmeriHealth Mercy, not UHC/Passport Health Plan.

Recommendations We recommend the UHC/Passport Health Plan Board of Directors, including the Partnership Council as recommended in Finding 1, consider whether the salary amounts paid to its executive staff are commensurate with their duties, responsibilities, and availability. We recommend they consider whether the awarding of bonuses to executives and AmeriHealth Mercy staff are necessary and an efficient use of taxpayer funds in providing health care for the Passport region. Additionally, the UHC/Passport Board of Directors should document in its meeting minutes all salary adjustments and bonuses approved for its staff members. Further, UHC should account for and disclose in the financial statements the executive staff salaries and bonuses as reimbursements for salaries and wages rather than as consulting expense. Bonuses provided to AmeriHealth Mercy staff should be recorded likewise.

To ensure transparency, detailed financial information regarding such salary expenditures should be shared with the Board of Directors and the Partnership Council on a regular basis.

Recommendations related to excessive spending: The UHC Board of Directors and the Partnership Council should establish and improve policies governing spending by its staff and require certain types of staff expenditures to be pre-approved, such as out-of-state travel. The Board and Partnership Council should receive and review detailed financial reports regarding staff expenditures on a regular basis. Such information provided should be transparent enough for the Board and Council members to gain an understanding of the types of expenditures being made and whether they are appropriate.

UHC staff members should evaluate every proposed expenditure and ascertain that the expenditure is necessary for the program. If it is not necessary for the program, they should then determine if it will provide any added benefit to the program, and if so, determine if the benefits outweigh the costs that will be expended.

The goal of these changes should be for UHC/Passport Health Plan to ensure its spending is in line with its original mission to improve the health and quality of life of its members while controlling the growth of Medicaid costs.

During contract negotiations with UHC, DMS should take the nature and amount of questionable spending on activities not related to providing medical care for Medicaid recipients into consideration when determining capitated rates.

Findings and Recommendations

Finding 14:
UHC's Conflict of Interest Policy and Code of Conduct were weak and it was uncertain to whom the Code of Conduct applied.

UHC's Conflict of Interest Policy and Code of Conduct contained minimal requirements pertaining to ethical responsibilities, compliance with the law, conflicts of interest, gifts, gratuities and kickbacks, and confidentiality of information, but they did not address other areas of conduct such as specific conflicts of interest, outside employment or consulting, use of UHC property/equipment/personnel time, use of official position to obtain a benefit, post-employment, or financial disclosure. These UHC policies were not dated, but staff indicated adoption was March 11, 2008 and March 30, 2005, respectively. Moreover, although staff members stated that the Code of Conduct applies to both employees and Board members, the Code itself does not indicate that it applies to Board members.

The Code of Conduct states that it applies to all UHC employees, and compliance with the Code is a condition of employment (See Exhibit 15), but the Code does not mention the applicability of Board members. That issue is further complicated by the fact that in "form" none of the staff members who provide services for UHC are actually "employees" of UHC, but rather are employed by either the University of Louisville or University Physicians Associates in order to obtain group benefits. However, in "substance" both the Executive Vice-President and the Associate Vice-President, as well as the administrative staff, act as employees for UHC.

The Chief Executive Officer/Chairman of the Board, however, is an employee of the University of Louisville in both form and substance. The University of Louisville also has a Code of Conduct that would apply to the Executive Vice-President, the Associate Vice-President, and the CEO/Chairman of the Board. It states: "Community members have an obligation to be objective and impartial in making decisions on behalf of the University. To ensure this objectivity, community members are expected to:

- Avoid actual individual or institutional conflicts of interest;
- Disclose potential conflicts of interest and adhere to any management plans created to eliminate any conflicts of interest; and,
- Ensure personal relationships do not interfere with objective judgment in decisions affecting University employment or the academic progress of a community member.

The UHC Conflict of Interest Policy requires that each director, executive officer and member of a Corporation committee with governing delegated powers annually sign a statement affirming he or she:

- Received a copy of the conflict of interest policy;
- Read and understood the policy;
- Agreed to comply with the policy; and,
- Understood the Corporation was a non-profit, tax-exempt organization.

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From our review, we have determined that such statements were not always completed on an annual basis.

Further, no evidence was provided that UHC enforced compliance with its minimal Code of Conduct, or that it had a policy or procedures to enforce compliance.

The citizens of the Commonwealth have a right to expect board and staff members of a public, nonprofit corporation that provides health care benefits on behalf of the Medicaid program, and which is primarily funded by state Medicaid dollars, to comply with high ethical standards of conduct in their administration of the program. Without a strong, detailed code of ethics that is enforced, accountability that is necessary for the citizens of the Commonwealth to have confidence in the operation of UHC/Passport Health Plan is weakened.

Recommendations We recommend the UHC Board of Directors, as reorganized according to Finding 1, strengthen UHC's Code of Conduct by establishing a comprehensive code of ethics, applicable to both Board and staff members, including any employed by the other entities, but leased to UHC. In general, a comprehensive code of ethics should address the following:

- General Standards of Conduct;
- Conflicts of Interest (See Finding 15);
- Acceptance of Gifts and Gratuities;
- Solicitation;
- Employment of Relatives;
- Use of UHC Property/Equipment;
- Use of Official Position to Obtain a Financial Gain or Private Benefit;
- Representation;
- Misuse of Confidential Information;
- Outside Employment/Consultant Work;
- Honoraria;
- Investment/Stock Ownership;
- Post-Employment;
- Political Activity; and,
- Financial Disclosure.

In order to ensure compliance with a code of ethics that addresses those areas listed above, UHC also should adopt policies, procedures and responsibilities for reporting potential ethical misconduct, investigating such activity, and criteria for sanctions or disciplinary procedures.

Findings and Recommendations

**Finding 15:
Numerous
conflicts of interest
existed for UHC
and its executive
staff members.**

Numerous conflicts of interest existed for UHC/Passport Health Plan executive staff members. These conflicts raise questions regarding a lack of independence of the actions of the executive staff and their decision-making on behalf of UHC, particularly regarding the monitoring, oversight, and contract negotiations of AmeriHealth Mercy and its related affiliates. Other organizational conflicts allowed for decisions made to favor the University of Louisville. These conflicts were not disclosed to the UHC Board of Directors as required by internal policies.

UHC's Conflict of Interest Policy (See Exhibit 16) requires each director, executive officer, and member of a Corporation committee with governing board delegated powers to annually sign a statement which affirms such person:

- A. Has received a copy of the conflict of interest policy;
- B. Has read and understands the policy;
- C. Has agreed to comply with the policy; and,
- D. Understands the Corporation is a non-profit, tax-exempt organization and in order to maintain its federal tax exemption it must engage primarily in activities that accomplish one or more of its tax-exempt purposes.

The Conflict of Interest Policy requires any director, executive officer, or committee member to disclose to the directors and committee the existence of a financial interest in connection with any actual or possible conflict of interest.

Further, UHC's Code of Conduct states, "[w]e must avoid situations where our personal interests could conflict, or reasonably appear to conflict, with the interests of UHC. We must be free of actual, apparent or potential conflicts of interest when dealing with persons or business entities on behalf of UHC. We must award business solely on merit, getting the best value for UHC, or wherever practical on a competitive basis. A conflict of interest occurs whenever an employee permits the prospect of direct or indirect personal gain to influence his or her judgment or actions in making decisions regarding UHC business."

Thus, to comply with the UHC Code of Conduct, executive staff members should be independent and impartial in the actions they take and decisions they are called upon to render on behalf of UHC. Staff should make such decisions in the best interests of the medical clients they serve, while also being judicious with the resources provided by the taxpayers of the Commonwealth. The selection of vendors, negotiations of contracts, and monitoring and oversight of such contracts should be made or conducted without any appearance of bias. It is the responsibility of the UHC Board of Directors and the Partnership Council to ensure that conflicts of interest do not exist.

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Findings and Recommendations

During our period of examination, various conflicts existed that are detailed below:

1) Both the Executive Vice-President and the Associate Vice-President of UHC/Passport Health Plan received financial compensation from a vendor of UHC.

*UHC Executive
Vice-President*

Prior to June 1, 2008, the Executive Vice-President received a base pay of \$150,000 for her services for UHC/Passport Health Plan. Beginning June 1, 2008, The UHC Executive Vice-President's base salary was increased to \$175,000. She also received extra pay of \$35,000 each year for services provided to the University of Louisville. In years 2008, 2009 and 2010, in addition to her salary, she received bonuses of \$37,500, \$43,750 and \$43,750, respectively.

The actual amounts reported in UHC's general ledger as consulting expense paid for the Executive Vice-President's services for calendar years 2008 and 2009 were \$242,752 and \$199,291, respectively. See Exhibit 14.

In addition to her role for the University of Louisville and as the Executive Vice-President of UHC, she was a partner in the consulting firm Consulting Strategies Team, LLC. This firm was created and owned by three individuals with two other associates. Consulting Strategies Team entered into an engagement with AmeriHealth Mercy, the third party administrator for Passport Health Plan, to provide consultative services in other emerging Medicaid managed care markets and to advise as to potential fee-for-service Medicaid opportunities. AmeriHealth Mercy paid Consulting Strategies Team \$56,963.33 in 2007, \$137,865.61 in 2008, \$105,410.60 in 2009, and \$54,115.40 through June 3, 2010, for a total of \$354,354.94.

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Table 27: AmeriHealth Mercy Payments to Consulting Strategies Team

DATE	Amount	Total
July 26, 2007	\$21,000.00	
August 23, 2007	7,000.00	
September 13, 2007	7,000.00	
October 18, 2007	7,963.33	
November 15, 2007	7,000.00	
December 13, 2007	7,000.00	
2007 Total		\$56,963.33
March 13, 2008	\$21,000.00	
April 24, 2008	7,000.00	
May 22, 2008	7,000.00	
June 19, 2008	7,000.00	
July 17, 2008	7,000.00	
August 28, 2008	7,000.00	
September 25, 2008	7,000.00	
October 23, 2008	7,000.00	
November 20, 2008	7,000.00	
November 26, 2008	60,865.61	
2008 Total		\$137,865.61
January 8, 2009	\$ 7,000.00	
January 22, 2009	7,000.00	
February 4, 2009	21,410.60	
February 19, 2009	7,000.00	
March 19, 2009	7,000.00	
April 23, 2009	7,000.00	
May 21, 2009	7,000.00	
July 30, 2009	14,000.00	
August 20, 2009	7,000.00	
November 12, 2009	7,000.00	
November 19, 2009	7,000.00	
December 22, 2009	7,000.00	
2009 Total		\$105,410.60
January 28, 2010	\$ 7,000.00	
April 15, 2010	21,000.00	
April 22, 2010	7,000.00	
June 3, 2010	19,115.40	
2010 Total		\$54,115.40
Total All Years		\$354,354.94

The fact that the Executive Vice-President received compensation from Passport Health Plan's third party administrator, the primary vendor of UHC, for services that she provided through a consulting firm, creates a conflict of interest between her duties on behalf of UHC and her private interests on behalf of the consulting firm. It is questionable as to whether the Executive Vice-President could be independent in her decision-making on behalf of UHC when transacting business with or monitoring AmeriHealth Mercy if she was compensated such sizable amounts by AmeriHealth Mercy privately. As part of her responsibility for UHC, the Executive Vice-President served on the UHC Management Oversight Committee, which has the direct responsibility for the oversight of AmeriHealth Mercy. The Executive Vice-President also represented UHC in contract negotiations with AmeriHealth Mercy. Even if the consultative services were provided to AmeriHealth Mercy's Philadelphia-based location, the conflict still existed, particularly since contract negotiations included Philadelphia based personnel.

In a written response to auditors, UHC stated that in early 2007 the Executive Vice-President informed the Executive Committee of UHC, and UHC's General Counsel, of AmeriHealth Mercy's desire to engage the consulting firm, and that the Executive Vice-President and the consulting firm were permitted to proceed with the engagement with the consent of the Executive Committee. The auditor's review of the 2007 Executive Committee minutes revealed no discussion or approval of such an engagement or contract by the Executive Committee. No other documentation was provided to demonstrate that the UHC Executive Committee was informed of or approved the consulting engagement. Thus, the lack of supporting documentation indicates that the Executive Vice-President did not comply with UHC's internal policy to disclose an actual or possible conflict of interest to the directors and members of committees. Even if disclosure had been made and approval granted, a conflict of interest still would have existed.

UHC also stated that the Executive Vice-President's employment agreement allows her to provide consultative services outside her employment. The only employment agreement provided to the auditors was the lease agreement between the University of Louisville and UHC, detailing the Executive Vice-President's services for UHC, but which does not address this issue. We acknowledge that providing consultative services, alone, does not create a conflict of interest, but rather for whom the consultative services are provided creates the conflict. The fact that the Executive Vice-President was receiving compensation from a predominant vendor of UHC presents the conflict of interest.

Associate Vice-President

During our period of review, the Associate Vice-President, a full-time UHC staff member, was engaged by Argus Health Systems, Inc., a subcontractor of AmeriHealth Mercy PerformRx, a related AmeriHealth company, which holds a contract directly with UHC. AmeriHealth Mercy reimbursed the Associate Vice-President \$39,250 directly for consulting services she provided for Argus Health Systems during 2008.

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Similar to the fact that the Executive Vice-President was receiving compensation from Passport Health Plan's third party administrator, the primary vendor of UHC, the Associate Vice-President's direct compensation for services that she provided creates a conflict of interest between her duties on behalf of UHC and her private interests. It is questionable as to whether the Associate Vice-President was independent in her decision-making on behalf of UHC when transacting business with AmeriHealth Mercy if she was being compensated directly by AmeriHealth Mercy privately. As part of her responsibility for UHC, the Associate Vice-President represented UHC in contract negotiations with AmeriHealth Mercy.

Beginning in 2007, the Associate Vice-President also was associated with Consulting Strategies Team, the consulting firm with which AmeriHealth Mercy contracted, which presents an additional conflict.

2) Executive Vice-President provided consultative services to the University of Louisville hospital.

Professional Services Agreement

The Executive Vice-President provided consultative services for UMC dba University of Louisville Hospital. These consulting services included government payer topics and related regulation and legislation. UMC is a member organization of UHC and a provider of health care services through Passport Health Plan. The consulting services that were provided through the Professional Services Agreements are for the following periods and rates:

Table 28: UMC Agreement Amounts

07/01/07 – 06/30/08	not to exceed \$25,000 annually
07/01/08 – 06/30/09	not to exceed \$50,000 annually
07/01/09 – 06/30/10	not to exceed \$50,000 annually
07/01/10 – 06/30/11	not to exceed \$50,000 annually

The agreements list responsibilities as being “assist Hospital with hospital and physician IGT (Image Guided Therapy) arrangements, CMS relations, as well as other projects as assigned by Hospital.” In the 2010 Consulting Services Agreement, signed on July 15 and 19, 2010, the Executive Vice-President's responsibilities are detailed as follows:

- Monitor federal regulations and legislation on behalf of Hospital;
- Serve as a general resource on Medicaid issues;
- Review the state budget and analyze opportunities and threats to Hospital;
- Review potential opportunities for increased funding;
- Assist with Medicaid operational issues;

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- Assist Hospital in determining the impact of impending or proposed regulations on legislation;
- Assist with analysis of certificate of need requirements;
- Assist in communications with CHFS; and,
- Other duties as assigned by Hospital.

Payments

Table 29 details the actual payments from UMC to the Executive Vice-President for each contract year.

Table 29: UMC Payments to UHC Executive Vice-President

Date	Period Covered	Amount	Total
March 20, 2008	August 2007-March 2008	\$16,666.67	
June 12, 2008	April 2008-June 2008	6,249.99	
FY 2007-08			\$22,916.66
September 11, 2008	July 2008-September 2008	\$12,500.00	
December 11, 2008	October 2008-December 2008	12,500.00	
March 26, 2009	January 2009-April 2009	16,666.68	
June 11, 2009	May 2009-June 2009	8,333.34	
FY 2008-09			\$50,000.02
August 20, 2009	July 2009-September 2009	\$12,500.00	
December 10, 2009	October 2009-December 2009	12,500.01	
April 8, 2010	January 2010-April 2010	16,666.68	
July 15, 2010	May 2010-June 2010	8,333.34	
FY 2009-10			\$50,000.03
Total			\$122,916.71

From March of 2008 through July of 2010, UMC made payments to the Executive Vice-President totaling \$122,916.71. UMC, a member organization of UHC, also received capitated payments and grants from Passport Health Plan. Such a consulting arrangement calls into question whether the Executive Vice-President could be fair in the management of awarding grants, setting rates, and performing other discretionary decisions and duties for medical facilities within the jurisdiction of Passport Health Plan. The fact that the Executive Vice-President was receiving sizeable compensation from UMC and also was involved in discretionary decisions and recommendations concerning distributions to, and rate changes for, UMC and other facilities that compete with UMC created a conflict in fulfilling the responsibilities of the management position.

3) UHC employment arrangement favored the University of Louisville.

The employment arrangement through which the Executive Vice-President, the Associate Vice-President, and the CEO/Chairman of the Board for UHC were working created a situation where questions were raised as to whether they were able to be fair and impartial in their decision-making regarding the University of Louisville versus non-University of Louisville health-care facilities.

The Executive Vice-President was an employee of the University of Louisville whose services were leased to UHC. The Associate Vice-President was an employee of UPA whose services were leased to UHC. The CEO/Chairman of the Board was an employee of the University of Louisville who performed the leadership duties for UHC, but received no compensation from UHC.

Executive Vice-President

The Executive Vice-President for UHC/Passport Health Plan, was employed and paid by the University of Louisville, with the UHC CEO/Chairman of the Board as her direct supervisor, who also served as the University of Louisville's Executive Vice-President for Health Affairs. The Executive Vice-President was leased to UHC/Passport Health Plan through a lease agreement, with the majority of time to be spent on UHC/Passport Health Plan work.

According to the most recent lease agreement, UHC desired to obtain the services of the University of Louisville employee to work as UHC's Executive Vice-President with the right and authority to direct and supervise the work performed. Effective July 1, 2008, the Executive Vice-President's reimbursable base salary, excluding any bonus, was \$175,700. The Executive Vice-President also received \$35,000 in additional compensation for work performed for the University of Louisville, bonus compensation from UHC of \$37,500 in 2008, and \$43,750 for both 2009 and 2010. The University of Louisville generally provided for annual salary adjustments, and reimbursements were to be adjusted accordingly. For the salary details of the Executive Vice-President, see Finding 13.

In substance then, the Executive Vice-President was employed by UHC, and, accordingly, should have had the interests of UHC as the main priority for such employment. However, the employment arrangement with the University of Louisville certainly calls into question whether the Executive Vice-President was objective in deciding official actions regarding the University of Louisville versus non-university health care facilities. With the Executive Vice-President's direct supervisor being a Vice-President for the University of Louisville, an inherent conflict existed that created the opportunity for and appearance of possible favoritism towards the University of Louisville by the UHC Executive Vice-President. (See Findings 7 and 18 that disclose that Louisville/Jefferson County hospitals, and in particular UMC dba University of Louisville Hospital, were favored financially by Passport Health Plan in the award of grants and distributions, as well as in hospital provider increases.)

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Associate Vice-President

The Associate Vice-President of UHC/Passport Health Plan was employed and paid by UPA, formerly Medical School Practice Association, a University of Louisville related entity. No formal lease agreement existed for such an employment arrangement, but UPA billed UHC for the Executive Vice-President's services. Similarly, this employment arrangement brings into question whether the Associate Vice-President of UHC was fair in any discretionary judgment regarding non-University of Louisville health care facilities and providers, and whether this inherent conflict could have resulted in favoritism towards the University of Louisville. (See Findings 7 and 18 that disclose that Louisville/Jefferson County hospitals, and in particular UMC dba University of Louisville Hospital, were favored financially by UHC/Passport in the award of grants and distributions, as well as in hospital provider increases.)

CEO/ Chairman of the Board

The CEO/Chairman of the UHC Board of Directors held several positions related to this examination, as listed below:

- University of Louisville – Employed as the Executive Vice-President for Health Affairs (part of the principal responsibilities on his position description states “Participate in and facilitate strategic planning forPassport (UHC)”);
- UMC – Served on the Board of Directors for UMC by virtue of his University of Louisville Position;
- UPA – formerly MSPA – former President and Chairman (still on board) – represented UPA on UHC Board of Directors; and,
- UHC/Passport Health Plan) – CEO and Chairman of the Board (received no direct compensation, but did receive travel expenses and reimbursements).

The CEO's employment arrangement with University of Louisville and his association with UPA and UMC presented a conflict with his involvement as CEO for UHC. With his direct supervisor being the President of the University of Louisville, an inherent conflict existed for him to perform duties as the CEO for Passport Health Plan. His first interest naturally would be to his employer, the University of Louisville. His independence was compromised in any decisions, recommendations, or discussions on behalf of UHC that involved the University of Louisville or any health care facilities or providers that competed with the University of Louisville.

UHC Board and Partnership Council members may represent their various facilities and professions as representatives on the respective boards, but no person should serve as the Chief Executive Officer of UHC if that person has other employment to which his allegiance lies and that may affect the independence of his actions on behalf of UHC. (See Findings 7 and 18 that disclose that Louisville/Jefferson County hospitals, and in particular UMC dba University of Louisville Hospital, were favored financially by UHC/Passport Health Plan in the award of grants and distributions, as well as in hospital provider increases.)

4) CEO/Chairman of the UHC Board accepted trip to Ireland to represent a vendor.

The CEO/Chairman of the UHC Board was reimbursed \$1,717 by AmeriHealth Mercy in March of 2007 for lodging, meals, telephone, and other expenses he incurred for four days of travel to Ireland at AmeriHealth Mercy's request. AmeriHealth Mercy requested him to serve as a witness to AmeriHealth Mercy's work in Kentucky as AmeriHealth Mercy pursued a new market opportunity. We do not know whether other payments were made directly by AmeriHealth Mercy for this trip. In effect, he was reimbursed by AmeriHealth for a trip to Ireland to complement AmeriHealth in an effort for AmeriHealth Mercy to obtain new clients. The CEO of UHC/Passport Health Plan oversees the activity of and the annual negotiation with AmeriHealth Mercy, a vendor of UHC. Accepting a trip to Ireland from AmeriHealth Mercy could compromise his independence in decision-making on behalf of UHC when transacting business with or overseeing the work of AmeriHealth Mercy.

5) UHC Board representation favors University of Louisville.

With a majority of the board members of UHC/Passport Health Plan representing the University (of Louisville) Practice Association, with nine members, or the University of Louisville Medical Center, with two members, and the other five members also representing entities within Louisville/Jefferson County, an inherent conflict existed for the board to favor Louisville/ Jefferson county entities, particularly the University of Louisville institutions, in its financial decisions such as the award of grants, distributions of excess reserves, hospital rate increases, etc. The UHC Board of Directors should have representation from the entire 16 county region and it does not. Although the Partnership Council did appear to have regional representation, it had very limited involvement in the financial operation of UHC/Passport Health Plan. Without proper regional representation in the oversight of the financial operations of UHC/Passport Health Plan, favoritism resulted for the facilities and providers within the Louisville/Jefferson County area over the rest of the region. This favoritism is detailed throughout the report.

6) Numerous donations and/or grant awards made by UHC were to organizations with ties to staff and/or board members.

UHC/Passport Health Plan made several donations/grant awards during the examination period that created conflicts, some of which are noted below:

- \$10,000 to Louisville Health Information (“LouHIE”) – UHC’s Executive Vice-President is a Director and Chair of LouHIE’s Medicaid & SafetyNet Committee;
- \$14,500 in sponsorships to Kentucky Chamber of Commerce – UHC’s Executive President is a board member on the Kentucky Chamber of Commerce;
- \$520,000 to Volunteers of America of Kentucky/Grace House – UHC’s Executive Vice-President is an “individual trustee or director” for Volunteers of America in Kentucky;
- \$30,000 to Jewish Hospital Foundation;
- \$1,500 to Jewish Family & Vocational;
- \$20,000 to Norton Healthcare Foundation; and,
- Over \$300,000 to the University of Louisville.

7) The relationships between UHC and Louisville AmeriHealth Mercy did not allow a proper amount of separation needed for oversight.

The relationship between UHC/Passport Health Plan and Louisville-based AmeriHealth Mercy appeared not to have the degree of separation needed in order for UHC officials to have proper oversight, monitoring, and vendor selection of AmeriHealth Mercy.

AmeriHealth Mercy services all of the budgetary, accounting, financial, and operational reporting requirements of UHC. The third party administrator, AmeriHealth employs all of the staff in Louisville who provide the services required to operate UHC. The only employees of UHC are the two executive positions and the two administrative support positions noted above. AmeriHealth Mercy and UHC are two separate entities with separate accounting and reporting requirements; however, they are both administered by AmeriHealth Mercy.

As a result of that close relationship and the limited UHC staff, it appears that significant oversight and control has been relegated or assumed by AmeriHealth Mercy. From our examination, we were informed or noted the following:

- Occasions when the travel budget of AmeriHealth Mercy was low, and consequently UHC paid for AmeriHealth Mercy employees’ travel expenses;
- Instances where AmeriHealth Mercy and UHC paid for expenses of the other entity, such as credit card charges, and then were reimbursed;

- The UHC Board meeting minutes reflect that the UHC financial presentations to the Board detailing financial results to date and any analysis of financial data were made by the Controller/Acting Director of AmeriHealth Mercy;
- Executive staff from UHC and AmeriHealth Mercy frequently traveled and had staff retreats together;
- AmeriHealth Mercy paid certain expenses for Passport Health Plan's 10th anniversary celebration; and,
- AmeriHealth Mercy provided gifts, such as meals, alcohol, gift cards, and leather wine carriers to UHC board and staff members.

Although the staffs of UHC and AmeriHealth must work together for the betterment of the Passport Health Plan recipients, UHC should make a more distinct separation between the two organizations to avoid an appearance of such a “cozy” relationship between the two organizations.

8) UHC executives accepted gifts from Passport Health Plan vendors.

According to information gathered through interviews, one or more UHC executives accepted the following gifts from vendors of UHC/Passport Health Plan:

- \$200 gift card for Christmas 2007 from AmeriHealth Mercy;
- Suite for the 2007 Kentucky Oaks and Kentucky Derby from a vendor seeking to do business with UHC/Passport Health Plan;
- Suite for the 2008 Kentucky Oaks and Kentucky Derby from AmeriHealth Mercy;
- 25th Anniversary Dinner celebration in January 2008 from AmeriHealth Mercy; and,
- Lunches from AmeriHealth Mercy.

*Ineffective
Conflict of
Interest Policies*

Although UHC had a Conflict of Interest Policy as well as a Code of Conduct that provided some limited ethical guidance, they did not provide thorough standards of conduct that were effective in preventing conflicts of interest for staff members. Without a strong, detailed conflict of interest policy that is enforced by a Board of Directors, actions taken and decisions made by staff members may be based on personal interests rather than made impartially. It was impossible to tell if the vendors selected, grants awarded, rates assigned, and other discretionary decisions were made independently or were based on inherent conflicts or private interests. Compliance with a detailed conflict of interest policy will help ensure the Passport Health Plan beneficiaries receive the best services available through prudent use of taxpayer dollars.

Findings and Recommendations

Recommendations We recommend that the UHC Board of Directors follow-up on the actions detailed above and take appropriate action to remove any and all conflicts of interest for UHC, the Board of Directors, and its staff members.

We further recommend the UHC Board of Directors, as reorganized according the Finding 1, ensure that conflict of interest standards within a comprehensive code of ethics:

- 1) Prohibit a UHC board or staff member or a business in which a board or staff member has an ownership interest from having a contract or an agreement with UHC or a vendor of UHC;
- 2) Prohibit a UHC staff member or a business in which a staff member has an ownership interest from having a contract or any agreement with a health care facility that receives payments or grants from Passport Health Plan;
- 3) Prohibit a UHC board or staff member from using his or her official position to obtain a financial gain or a benefit or advantage for him or herself or a family member;
- 4) Prohibit a UHC board or staff member from holding outside employment with, or accepting compensation from, any person or business with which he or she has involvement as part of his or her official position for UHC;
- 5) Prohibit employment arrangements that create inherent conflicts of interest;
- 6) Prohibit inherent conflicts of interest by including proper regional representation on the UHC board of directors;
- 7) Prohibit a UHC board or staff member from soliciting or accepting gifts or gratuities over a nominal value (the monetary value should be established in policy) per year from any person or business which does business with, or is interested in doing business with, or seeks to influence the actions of UHC; and,
- 8) Prohibit a board or staff member from involvement in discussions or decisions pertaining to matters involving persons or businesses from which they have accepted gifts or with which they do business privately, or pertaining to any other matters that present a conflict between the board or staff member's personal interest and his or her duty to Passport Health Plan and the Commonwealth of Kentucky.

We recommend the UHC Board adopt policies to address and enforce the UHC Code of Conduct that states: “[w]e must avoid situations where our personal interests could conflict, or reasonably appears to conflict, with the interests of UHC. We must be free of actual, apparent or potential conflicts of interest when dealing with persons or business entities on behalf of UHC.”

And finally, in order to ensure compliance with a code of ethics that prohibits conflicts of interest, the UHC Board also should adopt policies, procedures and responsibilities for reporting potential ethical misconduct, investigating such activity, and criteria for sanctions or disciplinary procedures.

Findings and Recommendations

**Finding 16:
UHC's lobbying
activities were
substantial and
may conflict with
its Articles of
Incorporation and
contract language.**

UHC's Amended and Restated Articles of Incorporation, approved by Kentucky DOI on October 2, 2000, state "no substantial part of its activities shall be carrying on propaganda or otherwise attempting to influence legislation."

UHC/Passport Health Plan's Executive Vice-President and Associate Vice-President were both registered as legislative agents with Kentucky's Legislative Ethics Commission and as executive agency lobbyists with Kentucky's Executive Branch Ethics Commission during our period of review. During that same period, UHC paid for the services of eleven other individuals who were registered lobbyists with the Commonwealth. Two AmeriHealth Mercy employees also were registered as lobbyists on behalf of UHC. In addition, during our examination period, AmeriHealth Mercy had nine active legislative agents registered with the Kentucky Legislative Ethics Commission on its behalf.

UHC contracted with four lobbying/governmental relations' organizations whose stated purposes were to advise and counsel UHC regarding various local, state and federal health related legislative issues. Those entities also were to provide access to, and to develop and maintain relationships with, various local, state, and federal targeted constituencies, such as the Louisville Metro Council, CHFS, the Finance and Administration Cabinet, the Kentucky General Assembly, Kentucky's Congressional Delegation, and the Governor of the Commonwealth. See Table 19 for specific contract language.

Since 2007, UHC has paid these four firms in excess \$576,000. This amount does not include payments for public relations contracts. UHC was also a dues paying member of several national health related associations whose purposes include lobbying on behalf of the health care industry. A review of UHC Board of Directors meeting minutes document substantial lobbying activity conducted by UHC and AmeriHealth Mercy staff members. See Finding 10 on UHC consulting expenditures. Additionally, AmeriHealth Mercy reported to the Kentucky Legislative Ethics Commission significant lobbying expenditures totaling \$126,118 over the examination period. This does not include expenditures for congressional or other lobbying activity not required to be reported to the Kentucky Legislative Ethics Commission.

*UHC and Louisville
AmeriHealth Mercy
employees and/or
spouses donated
political campaign
contributions to
legislators.*

During our review, we noted political campaign contributions to certain members of the Commonwealth's Medicaid Oversight and Advisory Committee, as well as to the Chair of the House Health and Welfare Committee. UHC and Louisville AmeriHealth Mercy employees and/or spouses made campaign contributions to Kentucky senators and representatives who serve on legislative committees that have oversight of the Medicaid program and Passport Health Plan. The contributions ranged from \$100 to \$1,000 each.

*Solicitation of
Campaign
Contributions*

Further, the administrative staff of UHC was used to send letters to AmeriHealth Mercy employees and the University of Louisville hospital employees requesting campaign contributions. Lists were maintained on office software of those who contributed. The contributions collected were then forwarded to one of UHC's paid lobbyists.

Documentation accumulated during the examination indicated a significant expenditure by UHC for lobbying and lobby related activities to outside vendors, as well as UHC having several employees registered with the Commonwealth as lobbyists. It appears based on the number of lobbyists representing UHC, the amount of expenditures for lobbying activities, and the amount of staff time spent on lobbying matters that a substantial part of UHC's activities included attempting to influence legislation. However, we were unable to determine the necessity for the extensive number of lobbyists and the vast amount of Medicaid funds used on lobbying activity, which does not comply with UHC's Article of Incorporation.

Further, the section, "Certification of Lobbying Activities," of the respective contracts between the Commonwealth and UHC/Passport Health Plan governing lobbying activities, provides in part:

No Federal appropriated funds have been paid or will be paid, by or on behalf of the undersigned, to any person for influencing or attempting to influence an officer or employee of an agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with the awarding of any Federal contract, the making of any Federal grant, the making of any Federal loan, the entering into of any cooperative agreement, and the extension, continuation, renewal, amendment, or modification of any Federal contract, grant, loan, or cooperative agreement.

UHC 2008 and early 2009 Board meeting minutes document that the UHC/Passport Health Plan staff were working with Congressional members and the Governor's office to extend the Managed Care Organization provider tax that was to expire in October 2009. The tax brought in over \$100 million in revenue to the Commonwealth each year. Such efforts appear to be an attempt to influence members of Congress regarding a federal agreement. Further, our review reflects that a substantial amount of UHC's travel was to Washington, DC for lobbying activities, and thus appears to be an attempt to influence federal decision-making.

Recommendations

We recommend the Board of Directors review the necessity for the high level of lobbying costs expended by UHC and determine whether such expenditures are a proper use of UHC/Passport funds. The Board also should determine the potential benefit of lobbying efforts for Medicaid recipients and appropriateness of the time and expenses allocated by UHC staff on such matters. In order to comply with its Articles of Incorporation, no substantial part of UHC's activities should be engaging in attempts to influence legislation.

We recommend UHC comply with its contract terms and immediately terminate any attempts to influence members of Congress regarding any matters in connection with federal contracts, grants, agreements, or loans.

We further recommend CHFS consider including in its contract with UHC language to prohibit state funds from being used for lobbying activities similar to requirements for federal funds specified in the contract between UHC and the Commonwealth.

Finding 17: GME funding to and by Passport Health Plan lacked transparency and may be excessive.

Medicaid funding provided to and by Passport Health Plan for GME lacked proper documentation to demonstrate whether the Medicaid funds Passport Health Plan received for GME were actually paid to eligible hospitals for GME, whether they were used for GME purposes, and whether they were excessive.

Teaching hospitals provide an educational environment for the training of resident physicians (residents). Residents have graduated from medical school and then complete several years of supervised, hands-on training in a particular area of expertise, such as primary care or surgery. This phase of their training is called graduate medical education. Hospitals that train residents incur significant costs beyond those customarily associated with providing patient care.¹ Those hospitals receiving GME payments are referred to as “eligible hospitals.”

GME Payments to Hospitals

While the Medicare program requires payments to eligible hospitals for GME, federal Medicaid regulations do not specifically list GME as a service to be provided through the Medicaid Program. Further, no federal requirements exist that mandate states to provide payments for GME. Although not required by Medicaid, Kentucky, like most other states, provided support for GME through its Medicaid program and based on its State Plan related to the administration of federal funds.

Kentucky DMS paid GME to eligible hospitals based on a formula outlined in Kentucky State Plan under Title XIX of the Social Security Act, Amendment #09-002, for calculating GME for Kentucky hospitals with a graduate medical education program approved by Medicare. This formula took into consideration those other sources of assistance, i.e., Medicare, which also paid for GME to ensure that Medicaid did not cover the cost of GME associated with other programs.

DMS included funding for GME in the per member capitated rate that it paid to UHC/Passport Health Plan for eligible hospitals. UHC/Passport Health Plan, however, determined how much GME funding was paid to the eligible hospitals in Region 3. Table 30 shows the amounts that UHC/Passport Health Plan paid to Region 3 eligible hospitals during the period we examined:

¹ From the American Association of Medical Colleges

**Table 30: Graduate Medical Education Payments by
UHC/Passport to Region 3 Hospitals**

	2007	2008	2009	To date in 2010
Jewish	\$ 2,536,057	\$ 3,065,548	\$ 3,322,068	\$ 1,923,958
Norton	8,049,795	9,041,549	9,999,487	6,230,084
UofL Hospital	15,788,031	17,131,699	19,308,073	11,659,861
Total	\$26,373,883	\$29,238,796	\$32,629,628	\$19,813,903

Source: UHC, dba Passport Health Plan

GME calculations for the three Region 3 hospitals that received GME reportedly were based on cost report data. However, each hospital calculated Medicaid GME costs using a different method based on either the number of inpatient cases, program days, or full-time residents. Because the methods used to calculate GME costs were not consistent and thus the costs attributed to GME varied, it was not clear if UHC's documentation was a true representation of Medicaid GME costs for Region 3.

*GME Payments
to UHC/ Passport
Health Plan*

According to DMS, during previous years' contract negotiations, UHC expected significant funding for GME to be included in the per member capitated rate. During the 2010-2011 negotiation process, UHC officials demanded over \$30 million for GME to be included in the per member capitated rate, but did not provide to DMS cost report data or calculations to support their request. For state fiscal year 2010-2011, DMS calculated that the three Region 3 eligible hospitals would have approximately \$33 million in total GME costs based on the formula in the State Plan, but that the total portion Medicaid was responsible for would only be approximately \$10.7 million. UHC/Passport Health Plan received from DMS its stipulation of over \$30 million for GME funding to be included in the contracted capitated rate for GME even though that amount was not supported by cost data or calculations. DMS's calculation of Medicaid's financial responsibility for GME in Region 3 of just over \$10 million, approximately one-third of the amount included in the capitated rate, did not support the \$30 million included in the rate.

DMS reported that a portion of the amount of GME included in the contract per member capitated rates with UHC was for other supplemental funding to eligible hospitals, including the Intensity Operating Allowance funding for Norton Healthcare, and the Urban Trauma Center funding for University (of Louisville) Hospital. Since the funding for such other areas was accounted for separately in the actuarial databook and was already included in the contract capitated rate, it is not clear why additional funding for those supplemental areas would be included in the amount designated as GME. It appears the funding provided in the contract for Intensity Operating Allowance and the Urban Trauma Center may have been duplicated in the capitated rate.

Findings and Recommendations

If the GME labeled funding is, in fact, just for GME and not for other supplemental areas, then it appears to be excessive when compared to the amount of GME for which Medicaid should be responsible as calculated by DMS. If it includes funding for other purposes, then it is not a true reflection of GME payments. In either case, either DMS or UHC/Passport Health Plan is not accurately accounting for GME and unnecessary funding is being provided to UHC/Passport at taxpayer expense.

GME Statewide Comparison

DMS paid approximately \$6.3 million in GME to eligible Kentucky hospitals for GME related to non-Passport Medicaid costs in state fiscal year 2009-1010. Region 3 hospitals received approximately \$36.4 million in Medicaid funds from Passport for GME during the same time period. See Tables 31 and 32 below.

Table 31: DMS FY 2009-2010 GME Payments by the Commonwealth Made Directly to Non-Region 3 Hospitals

Facility Name	Annual GME Amount
Central Baptist Hospital	\$ 36,452
Ephraim McDowell Regional Medical Center	4,078
Hazard Appalachian Regional Healthcare	64,072
Jewish & St. Mary's Healthcare*	23,971
Methodist Hospital	49,036
Norton Healthcare*	258,734
Our Lady of Bellefonte Hospital	12,949
Pikeville Methodist Hospital	139,763
Regional Medical Center	138,839
St. Claire Medical Center	47,320
St Elizabeth Medical Center	134,681
St. Joseph Hospital	8,909
TJ Samson Community Hospital	109,627
University of Kentucky Hospital	4,555,226
University of Louisville Hospital*	740,258
Total	\$6,323,915

* Payments to Region 3 hospitals included in the chart were for non-Passport Medicaid recipients.
Source: DMS

Table 32: Passport FY 2009-2010 GME Payments to Region 3 Hospitals

Facility Name	Annual GME Amount
Norton Healthcare, Jewish Hospital & St. Mary's Healthcare, and University (of Louisville) Hospital	\$36,457,760

Region 3 eligible hospitals, Norton Healthcare, Jewish Hospital and St. Mary's Healthcare, and University (of Louisville) Hospital each received an extraordinarily larger GME payment than any other eligible hospital in the Commonwealth. Such financial inequity could present a detriment to the rest of the teaching hospitals in the state.

The process by which DMS and UHC/Passport Health Plan determined funding for and paid GME for Passport for Region 3 hospitals lacked clarity and transparency. As we have noted in other findings in this examination, this lack of clarity and transparency makes it difficult to ascertain if actual Medicaid expenditures were fair and equitable, and whether they complied with federal Medicaid regulations.

Recommendations

We recommend that the federal CMS review the calculations used to determine the amount of funding included in contracted capitated rates attributed to GME for UHC/Passport Health Plan, and any GME payments made by Passport Health Plan to Region 3 hospitals, to ensure that Medicaid funds were used for allowable purposes. CMS should review cost reports for Region 3 hospitals to ensure that Medicaid funds were not used to cover more of the hospitals costs than can be attributed to Medicaid recipients.

We further recommend that DMS include contract language to require UHC to use the GME calculation methodology in the approved state plan consistent with GME payments throughout the Commonwealth. DMS should improve its oversight of GME funding by requiring UHC/Passport Health Plan to report on the amount of GME paid to Region 3 hospitals each year.

Additionally, DMS should consider whether paying GME directly to Region 3 hospitals using the approved formula it uses to pay GME to all other eligible hospitals would be a more equitable and transparent method and a better use of Medicaid funds than including the amount in the UHC/Passport Health Plan's capitated rate.

DMS should not include any funding under the title of GME in the negotiated capitated rate with UHC/Passport Health Plan that is not truly GME.

**Finding 18:
Passport Health
Plan daily in-patient
rates and outpatient
settlements paid to
original investor
hospitals were
significantly higher
than those paid to
rural hospitals.**

Passport Health Plan contracted with all participating hospitals in the region to pay an in-patient per diem rate. In addition, Passport Health Plan allocated funds to some hospitals to offset the difference between Passport Health Plan's reimbursable outpatient rates and the hospital's higher actual outpatient rates.

UHC/Passport Health Plan refers to the three hospitals that were part of the initial investment group as owner hospitals. Those hospitals are University (of Louisville) Hospital, Norton Healthcare, and Jewish Hospital & St. Mary's Healthcare. All non-Jefferson County hospitals are referenced by UHC/Passport Health Plan as "rural" according to the Executive Vice-President of UHC/Passport Health Plan. Those same distinctions will be used when discussing owner hospitals versus rural hospitals in this finding.

This finding addresses daily in-patient, or per diem rates and outpatient settlement payments.

*Daily In-Patient
(Per Diem) Rates*

Passport Health Plan paid hospitals a per diem daily rate for inpatient services. For outpatient services provided by the hospital, such as emergency room service or diagnostic testing, services are paid according to a fee schedule.

In response to our inquiry as to how those rates are set, UHC/Passport Health Plan provided information explaining that the original per diem rate was based on a cost report from 1996-1997 under the state fee-for-service plan which was the plan in effect prior to the formation of UHC/Passport Health Plan. UHC/Passport Health Plan stated that since that initial rate setting, UHC/Passport Health Plan has increased the rates “systematically and fairly with all hospitals getting the same percentage increase” regardless of whether they are rural or in Jefferson County.

Our review and analysis of per diem rate and subsequent increases for each hospital over the life of the plan (see Table 33) found the following:

- Not all hospitals received the same percentage increase;
- Not all hospitals received increases at the same time;
- Some hospitals received increases more often than others;
- Owner hospitals per diem rates were significantly higher than rural rates;
- Only one hospital received an increase between inception in 1998 and June 2002;
- Only one hospital received an increase between August 2002 and January 2004;
- Only one hospital received an increase between August 2004 and January 2006;
- Only one hospital received an increase between August 2006 and early 2010; and,
- Most hospitals received increases in July 2002, July 2004, July 2006, and early 2010.

The chart below lists per diem rate increases paid for all of the hospitals in the Passport Health Plan region from 1998 thru 2010, including both the Louisville area hospitals and the rural hospitals. The “\$ Amount of Increase” column represents the dollar value of increases over the reported time frame to in-patient reimbursement rates at each hospital. Also noted is the percentage of increase given to that hospital since the 1998 base year. As noted in the chart below, the owner hospitals as a group received larger increases during that time frame than most of the rural hospitals.

Findings and Recommendations

Table 33: Inpatient Rate Comparison of Owner Versus Rural Hospitals

Hospital	County	\$ Amount of Increase 1998-2010	Percentage Increase ^
Louisville Metro Hospitals			
<i>Owner Hospitals and Affiliates</i>			
Frazier Rehab	Jefferson	\$759.20	115%
Jewish Hospital *	Jefferson	\$452.60	47%
Kosair Children's Hospital *	Jefferson	\$287.90	23%
Norton Hospital Suburban Medical	Jefferson	\$810.35	110%
University of Louisville Hospital *	Jefferson	\$339.11	33%
Norton Suburban Neonatal Intensive Care Unit	Jefferson	\$820.90	111%
Saints Mary & Elizabeth Hospital *	Jefferson	\$452.60	47%
Norton Audubon Hospital	Jefferson	\$535.70	53%
Norton Brownsboro Hospital ~	Jefferson	NA	NA
<i>Non-Owner Hospitals in Louisville Metro</i>			
Kindred Hospital Louisville	Jefferson	\$311.93	36%
Baptist East	Jefferson	\$326.68	50%
Baptist East – Obstetrics	Jefferson	\$630.62	97%
Rural Hospitals			
Twin Lakes Regional Medical Center	Grayson	\$237.48	42%
Hardin Memorial Hospital	Hardin	\$453.98	63%
Baptist Hospital Northeast	Oldham	\$282.70	38%
Flaget Memorial Hospital	Nelson	\$329.61	45%
Jewish Hospital – Shelbyville	Shelby	\$270.56	37%
Spring View Hospital	Marion	\$265.15	39%
Taylor Regional Hospital #	Taylor	\$221.93	32%
Southern Indiana Rehab Hospital #	Floyd, IN	\$97.55	15%
The Kings Daughter's Hospital #	Jefferson, IN	\$101.79	15%
Ephraim McDowell Regional Medical Center #	Boyle	\$211.19	32%
Cardinal Hill Rehab Hospital #	Fayette	\$87.31	15%
Healthsouth Central Kentucky #	Hart	\$77.76	15%
Cardinal Hill Specialty Hospital #	Campbell	\$81.56	5%

Source: APA from information provided by UHC/Passport

Notes: ^ The table shows the percent change before the recent 22% increase to rural hospitals

While not in Passport's 16 county region, this hospital has a contract with Passport to provide services to Passport members.

~ Contract is recent, therefore, no historical comparison is possible

*While these hospitals have increases comparable to rural hospitals, the initial rate was, on average, 30% to 36% higher than rural rates.

*Urban-Rural
Rate Adjustment*

In May 2010, after several rural hospitals were vocal with complaints and after one hospital administrator wrote an opinion letter to the Courier Journal about the disparity in rates between owner hospitals and rural hospitals, UHC/Passport Health Plan implemented a rate increase to rural hospitals to address the inequities. UHC contracted with an accounting firm to analyze the amount of inpatient cost coverage that UHC/Passport Health Plan was providing for the Jefferson County hospital providers versus non-Jefferson County hospital providers. The cost coverage analysis indicated that UHC/Passport Health Plan's inpatient reimbursement rates were covering 74.31 percent of the Jefferson County hospitals cost to provide inpatient services, but only covering 60.02 percent of the cost of the non-Jefferson County provider's cost. The accounting firm recommended adjustments to most of the non-Jefferson County hospital providers to increase their per diem rate to cover 70 percent of their costs. However, this increase in per diem only addressed costs going forward. The fact that Jefferson County hospital providers were receiving more cost coverage than non-Jefferson County hospital providers for years was not addressed by Passport Health Plan and no payment has been made to remedy the past inequity.

*Outpatient Rate
Protection
Settlements*

According to UHC/Passport Health Plan, the "outpatient hospital rate protection" is a contract provision that is used to ensure that certain hospital cost increases are not passed on to Passport Health Plan for payment. Routinely, usually at the beginning of a calendar year, hospitals nationwide update their charges to predict within reason the anticipated increase in costs for providing hospital services in the coming year. Passport Health Plan reimbursed hospitals for their submitted charge increases at the end of the contract year when it was determined by the Board that there were sufficient funds remaining after all reserves and other liabilities were met. The amounts paid to the hospitals for outpatient hospital rate protection settlement payments were the amounts the hospitals would have received had Passport Health Plan not invoked the outpatient hospital rate protection provision of the hospital's contract.

Simply stated, "outpatient rate protection settlements" are discretionary payments of excess funds by UHC/Passport Health Plan to hospitals to offset some of the difference between Passport contractual outpatient rates and the higher rates that hospitals may charge. Hospitals may increase their rates for providing outpatient services beyond that rate which UHC/Passport Health Plan is contractually required to pay. At the end of the contract year and if UHC/Passport Health Plan determines that sufficient excess funds are available, UHC/Passport Health Plan may reimburse hospitals for a portion of the outpatient costs incurred that exceed the contractually agreed amount.

In 2008 and 2009, rate protection settlements of \$1.9 million and \$276,000, respectively, were dispersed to participating hospitals with owner hospitals receiving the majority of the payments.

Findings and Recommendations

Table 34 lists the receiving hospitals, the amount paid, and the percentage of the distribution.

Table 34: Outpatient Rate Settlements

	2008	2008	2009	2009
Hospital	Amount	Percentage of Total	Amount	Percentage of Total
Norton Hospital	\$1,069,143	56%	\$103,122	37%
University of Louisville	456,872	24%	103,582	38%
Jewish Hospital	232,502	12%	23,016	8%
Jewish Shelbyville	87,245	4%	18,911	7%
Baptist East	38,219	2%	9,269	3%
Kindred	15,403	Less than 1%	1338	Less than 1%
Twin Lakes	8,943	Less than 1%	2,982	1%
Taylor Regional	1,635	Less than 1%	12,134	4%
Ephraim McDowell	1,560	Less than 1%	112	Less than 1%
Southern Indiana Rehab	270	Less than 1%	588	Less than 1%
Kings Daughters	2590	Less than 1%	495	Less than 1%
Total Settlements	\$1,914,382		\$275,549	

Settlement payments in 2008 to the owner hospitals accounted for 96 percent of the total settlements for that year, leaving 4 percent for the remaining hospitals. Payments to those remaining hospitals ranged from \$38,219 to \$270.

Settlement payments in 2009 to owner hospitals accounted for 90 percent of the total settlements for that year, leaving 10 percent for the remaining hospitals. Payments to those remaining hospitals ranged from \$12,134 to \$112.

While UHC was asked to provide details of the calculations and methodology used to determine the amount paid to each hospital and to document why the owner hospitals received such a significant portion of the total, UHC did not provide the supporting calculations or the methodology as requested. UHC did provide the percentage of each hospital's rate increase, but provided no underlying data. Therefore, we could not re-perform the calculations to determine how the final amounts were calculated. After review of the documentation and information that was provided by UHC, we still were unable to determine exactly how the outpatient rate protection settlement payments were calculated for each hospital or whether the settlements were calculated fairly and equitably.

The UHC Board of Directors approved the decision to make the settlement payments but neither the Board nor the Finance Committee "received information about any individual hospital's settlement amount." In response to the question regarding the Partnership Council's approval and or knowledge of the payments, Passport Health Plan responded with a description of the Partnership Council's responsibilities, which do not include financial matters.

Findings and Recommendations

Another related example of discretionary cash distributions that appeared to favor the owner hospitals was the use of restricted grants in 2008 and 2009 to direct \$20 million of distributions to the original investors. For detailed discussion of those grants, see Finding 5.

Transparency of all financial information, especially information concerning discretionary distributions, is important to the UHC Board and the Partnership Council in that it allows the Board and Council members to be aware of how excess funds are allocated and to ensure that funds are distributed fairly to all of the hospital providers.

Recommendations

UHC/Passport should ensure that all hospital providers, owner and rural, are treated in an equitable manner and that the Board of Directors, the Finance Committee, and the Partnership Council approve all hospital rate increases, discretionary payments and settlements, the details of which should be made available to them. See Finding 1 for a recommendation regarding a change in the financial governance of Passport Health Plan.

Finding 19: UHC is not in compliance with several terms of its contract with the Commonwealth.

UHC/Passport Health Plan annually contracts with the Commonwealth's DMS to provide medical services under a pre-paid capitated risk method for Medicaid eligible recipients in Region 3. UHC and DMS negotiated and executed annual contracts for fiscal years 2007-08 and 2008-09 that both have specific language governing distribution notice, maximum payment amounts, and lobbying activities under the contract. Several contract violations were found under those specific sections.

Distribution Notice

The section of the annual contracts governing "Advances, Distributions, and Loans," states that:

"The Contractor shall not, without thirty (30) days prior written notice to the Department, make any advances to a related party or Subcontractor. **The Contractor shall not, without similar thirty (30) day prior written notice, make any distribution, loan or loan guarantee to any entity, including another fund or line of business within its organization. Written notice is to be submitted to the Department's Contract Compliance Officer.** The prohibition on advances to Subcontractors contained in this subsection shall not apply to Capitation Payments or payments made by the Contractor to Contractor's Network or UHC." (Emphasis added.)

In December 2008 and December 2009, UHC distributed a total of \$30.4 million to member organizations for the return of original capital investment and for reported indigent care grants. Although UHC filed the required submission for the distributions with Kentucky's DOI, UHC did not provide written notice to DMS as required by the contracts between UHC and DMS. Nor did DMS monitor the contract for compliance with the requirement of the thirty-day written notice for any distributions.

Numerous other distributions also were made in the form of grants, donations, and sponsorships. However, UHC did not provide DMS with the required 30-day notice prior to distribution. See Findings 5 and 7 for lists of such grants and donations.

*Maximum
payment*

The section of the contracts titled "Payment" states that the "fees and expenses relative to the performance of the services outlined in the contract shall not exceed the amount as approved in the contract." The payments made by DMS to UPH relative to the performance of services outlined in the contract, for both fiscal years 2008 and 2009, exceeded the amount approved in the respective contracts.

The amount of the contract as noted on page 1, line one of the contract is acknowledged by DMS as being an estimate that is based on a contractually fixed PMPM rate of reimbursement per eligible group and an estimate of the actual number of eligible members or member months that will be realized during the year. In order to arrive at the contract amount, DMS must extend the PMPM or the fixed and contractually agreed rate of reimbursement, by eligible group times an estimate of the number of eligible members or member months to whom the plan will provide coverage during the following year. That amount then becomes the agreed contract amount between DMS and UHC.

It is understood by both DMS and UHC that while the contractually agreed negotiated rate per eligible group per the contract will not be changed, the actual numbers of persons and resultant member months of coverage provided may be different than that used to arrive at the contract amount. It should be noted that any federally mandated changes in coverage, eligibility, or reimbursement during a contract year could result in some modification to contract reimbursement rates. Per DMS, increases in the volume of member participation in excess of the estimate used to derive the contract amount are the primary reason for actual payments to UHC exceeding the contract amount.

Findings and Recommendations

Table 35 details the contract amount and total payments to UHC for fiscal years 2007-08 and 2008-09.

Table 35: Payments to UHC Exceeded the Contract Amount

	FY 2007-08	FY 2008-09
Contract amount	\$649,111,606	\$713,899,288
Total payments	669,162,940	742,717,915
Payments exceeded contract	\$ 20,051,334	\$ 28,818,627
Percent increase over contract	3.1%	4.0%

Lobbying Activities

See Finding 16 for possible contract violations related to lobbying.

Recommendations

We recommend UHC comply with the contract notification requirements and at least 30 days prior to distribution of funds, including return of capital, indigent care grants, or any other type of distributions notify DMS in writing of such intended distributions. We further recommend DMS require compliance with the contract that it receive notification of any distributions awarded by UHC.

Distribution Notification

Should UHC and DMS both alternatively agree that such notification is not necessary to assure the taxpayers of the Commonwealth that UHC/Passport Health Plan is properly expending Medicaid funds, then they should revise future contracts to reflect that agreement.

Maximum Payment

We recommend DMS track expenditures made to UHC and amend their annual contract with UHC for the provision of Medicaid services for Region 3 when the number of eligible members produces circumstances under which the projected costs to be paid indicate that it will exceed the contract amount. Such an amendment should be approved through the proper contract amendment approval process. DMS should ensure that detailed analysis is maintained to support any increase in the contract amount.

Finding 20: No lease agreements existed for UPA employees providing full-time employee services to UHC.

The services of three “in-substance” employees of UHC/Passport Health Plan were deemed to be “leased” from their employer, UPA, to UHC. However, there was no written lease agreement between UHC and UPA for the services of those employees.

The UHC executive staff was comprised of the Executive Vice-President, the Associate Vice-President, and two administrative support staff.

The individual filling the position of UHC Executive Vice-President was employed by the University of Louisville and reported to the University's Executive Vice-President for Health Affairs. UHC leased the services of that individual from the University of Louisville through a Personal Services Agreement to fill the UHC position of Executive Vice-President. That agreement detailed the obligations of both the University of Louisville and UHC regarding the compensation of UHC's Executive Vice-President.

The UHC Associate Vice-President and the two administrative assistants were employed by UPA. Per UHC, the Associate Vice-President and the two administrative assistants' services were "leased" by UPA to UHC; however, there was not a formal lease or personal services agreement between UHC and UPA for the services of those employees.

A formal employee lease agreement documents the obligations, expectations, and rights of the counterparties as well as those of the individuals involved. A lease agreement should provide mutually agreed guidelines and procedures to insure the rights and obligations of all parties are well defined and are documented as being accepted by all parties involved.

Recommendations UHC and UPA should formally document in writing the personnel services arrangement whereby the services of the Associate Vice-President, the two administrative assistants, and any other UPA employees, are provided to UHC.

EXHIBITS

Time Period	AFDC	AFDC/ TANF Adults	AFDC/ TANF Children	SOBRA	SOBRA Adults	SOBRA Children	PE	Foster Care	SSI with Medicare	SSIw/out Medicare	KCHIP2	KCHIP3	KCHIP1	Average Overall Increase
11/97-4/98	136.00			170.00				176.00	117.00	504.00				
5/98-6/98	137.00			171.01				177.38	117.00	504.65				
7/98-10/98	141.17			175.78				182.25	120.82	515.25				
11/98-6/99	145.35			181.00				187.67	124.39	530.66				
7/99-6/00	143.94			202.11				134.69	193.51	487.26	202.11	202.11		
7/00-1/01	151.47			210.44				142.59	200.51	504.86	210.47	210.47		
2/01-6/01	151.47			210.44				142.59	200.51	504.86	154.50	131.53	207.08	
7/01-6/02	163.59			227.28				154.00	216.55	545.25	166.86	142.05	223.65	
7/02-10/02	175.78			244.21				165.47	232.68	585.87	179.29	152.63	240.31	
11/02-1/03	178.17			203.03				163.88	314.48	622.92	118.82	119.96		
2/03-3/03	177.21			201.18				161.92	324.18	617.15	117.90	118.99		
4/03-5/03	178.00			203.11				163.36	293.36	610.73	118.77	119.78		
6/03-8/03	177.89			203.11				163.36	293.01	610.48	118.77	119.78		
9/03-6/04		304.89	133.72		652.69	167.73	269.61	143.96	377.98	652.72	118.12	115.02		
7/04-10/04		307.72	135.04		658.58	169.18	272.33	146.49	395.54	668.96	120.02	117.12		
11/04-6/05		356.12	163.08		669.12	204.23	250.95	189.53	342.16	642.32	137.44	150.49		
7/05-10/05		366.98	165.69		689.85	207.61	261.60	194.82	363.48	678.54	138.98	152.55		
11/05-12/05		392.45	164.57		695.89	204.14	243.83	232.60	432.31	844.48	143.30	155.71		
1/06-6/06		392.84	166.15		702.74	208.71	244.25	232.53	158.98	845.45	141.90	154.20		
7/06-6/07		425.09	177.90		785.53	225.67	259.16	249.11	172.23	941.96	146.95	159.82		
7/07-12/07		442.00	185.80		814.51	235.37	271.04	262.42	182.34	1,007.69	150.79	164.06		
1/08-6/08		447.93	188.29		825.45	238.53	274.68	265.94	184.79	1,021.22	152.81	166.26		
7/08-6/09		466.46	218.05		820.77	268.07	301.77	295.71	213.46	1,017.22	182.45	195.32		
7/09-9/09		530.42	230.76		904.49	260.67	322.42	266.72	208.64	1,040.21	195.04	214.38		
10/09-6/10		501.25	218.06		854.75	246.33	304.69	252.05	197.16	982.99	184.31	202.59		
7/10-6/11		538.18	213.81		884.47	233.82	321.64	245.05	184.94	994.02	184.26	205.25		
change	41.89	233.29	80.09	33.11	231.78	66.09	52.03	69.05	67.94	490.02	(17.85)	3.14	33.23	106.45
% change	31%	77%	60%	19%	36%	39%	19%	39%	58%	97%	-9%	2%	16%	37%

Notes:

AFDC/TANF – Aid to Families with Dependent Children/Temporary Assistance for Needy Families
 SOBRA – Sixth Omnibus Budget Reconciliation Act (Medicaid for pregnant women and children)
 PE – Presumptive Eligible (for pregnant women who have not yet enrolled in Medicaid)
 SSI – Social Security Insurance
 KCHIP – Kentucky Children’s Health Insurance Plan

Kentucky Medicaid Cost by Region

(See notes below)

Region	SFY 2008					SFY 2009					(estimated) SFY 2010				
	Number of Members	% of Total	Benefits (Medicaid Funding)	% of Total	Average Cost Per member	Number of Members	% of Total	Benefits (Medicaid Funding)	% of Total	Average Cost Per member	Number of Members	% of Total	Benefits (Medicaid Funding)	% of Total	Average Cost Per member
1	36,617	5%	211,435,779	5%	\$ 5,774	38,342	5%	242,529,014	5%	\$ 6,325	38,444	5%	247,810,798	5%	\$ 6,446
2	65,441	9%	385,831,814	8%	\$ 5,896	69,657	9%	439,564,217	8%	\$ 6,310	69,987	9%	464,831,959	9%	\$ 6,642
3	165,893	22%	1,225,307,019	27%	\$ 7,386	178,554	23%	1,459,222,419	28%	\$ 8,172	183,341	23%	1,424,755,733	27%	\$ 7,771
4	101,249	14%	615,623,040	13%	\$ 6,080	106,674	14%	656,074,493	13%	\$ 6,150	107,181	14%	725,460,291	14%	\$ 6,769
5	117,822	16%	667,186,172	15%	\$ 5,663	127,568	16%	807,133,302	16%	\$ 6,327	128,554	16%	833,200,093	16%	\$ 6,481
6	45,524	6%	265,688,220	6%	\$ 5,836	50,099	6%	308,144,571	6%	\$ 6,151	50,620	6%	347,072,241	6%	\$ 6,856
7	56,270	7%	304,003,793	7%	\$ 5,403	58,492	7%	352,814,341	7%	\$ 6,032	57,566	7%	355,894,918	7%	\$ 6,182
8	154,700	21%	879,294,544	19%	\$ 5,684	158,281	20%	1,013,244,178	19%	\$ 6,402	158,176	20%	1,038,498,212	19%	\$ 6,565
	743,516	100%	4,554,370,380	100%	\$ 6,125	787,667	100%	5,278,726,534	100%	\$ 6,702	793,869	100%	5,437,524,246	100%	\$ 6,849
Admin Cost	\$ 101,947,595					\$ 118,650,168					\$ 125,000,000				

Source: Auditor's calculation based on DMS provided data.

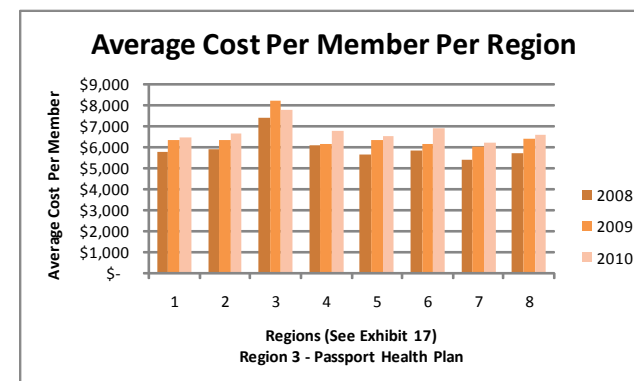
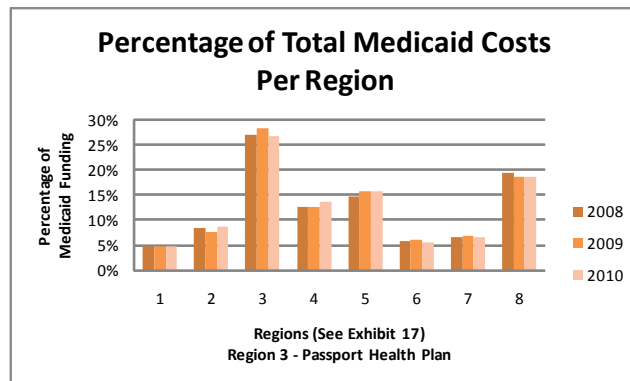
Notes:

The calendar year Managed Care Tax for 2008 and 2009 has been deducted from Region 3 on an estimated SFY basis.

DMS administrative costs have been allocated across all regions.

Region 3 includes non-Passport members and associated administrative cost.

See Exhibit 17 for a map of regions.



July 2007 through June 2008

Eligibility Category	PWC Databook PMPM range			Databook Range	PMPM Actual ⁵ Contract		Average Percent of Databook Range	Percent of Databook High Range
	Low	High			07/07 - 12/07	01/08 -6/08		
TANF Adults	\$ 408.51	\$ 453.23	\$ 44.72		\$ 442.00	\$ 447.93	82%	98%
TANF Children	\$ 165.30	\$ 190.52	\$ 25.22		\$ 185.80	\$ 188.29	86%	98%
Foster Care	\$ 234.91	\$ 269.09	\$ 34.18		\$ 262.42	\$ 265.94	86%	98%
KCHIP - Phase 2	\$ 132.59	\$ 154.62	\$ 22.03		\$ 150.79	\$ 152.81	87%	98%
KCHIP - Phase 3	\$ 144.97	\$ 168.23	\$ 23.26		\$ 164.06	\$ 166.26	87%	98%
Presumptive Eligibility	\$ 252.65	\$ 277.93	\$ 25.28		\$ 271.04	\$ 262.42	56%	96%
SOBRA Adults	\$ 757.72	\$ 835.21	\$ 77.49		\$ 814.51	\$ 825.45	80%	98%
SOBRA Children	\$ 209.82	\$ 241.35	\$ 31.53		\$ 235.37	\$ 238.53	86%	98%
SSI with Medicare	\$ 161.60	\$ 186.97	\$ 25.37		\$ 182.34	\$ 184.79	87%	98%
SSI without Medicare	\$ 906.39	\$ 1,033.30	\$ 126.91		\$ 1,007.69	\$ 1,021.22	85%	98%

Source: DMS

July 2008 through June 2009

Eligibility Category	PWC Databook PMPM range			Actual Contract PMPM	Percent of Databook High	
	Low	High	Databook Range		Databook Range	Percent of Databook High Range
TANF Adults	\$ 421.14	\$ 470.62	\$ 49.48	\$ 466.46	92%	99%
TANF Children	\$ 190.17	\$ 220.60	\$ 30.43	\$ 218.05	92%	99%
Foster Care	\$ 261.05	\$ 298.89	\$ 37.84	\$ 295.71	92%	99%
KCHIP - Phase 2	\$ 157.48	\$ 184.74	\$ 27.26	\$ 182.45	92%	99%
KCHIP - Phase 3	\$ 169.20	\$ 197.72	\$ 28.52	\$ 195.32	92%	99%
Presumptive Eligibility	\$ 270.19	\$ 304.66	\$ 34.47	\$ 301.77	92%	99%
SOBRA Adults	\$ 748.05	\$ 827.46	\$ 79.41	\$ 820.77	92%	99%
SOBRA Children	\$ 234.80	\$ 271.12	\$ 36.32	\$ 268.07	92%	99%
SSI with Medicare	\$ 184.15	\$ 216.15	\$ 32.00	\$ 213.46	92%	99%
SSI without Medicare	\$ 904.77	\$ 1,027.53	\$ 122.76	\$ 1,017.22	92%	99%

Source: DMS

July 2009 - June 2010											
PWC Databook PMPM range							Actual Contract PMPM		Percent of Databook Range	Percent of Databook High Range	
July 2009 - September 2009				October 2009 - June 2010							
w/MCO tax		wo/MCO tax		wo/MCO		w/ MCO		wo/MCO			
Low	High	Low	High	Range		Tax		Tax		wo/MCO	Range
Eligibility Category											
TANF Adults		\$ 512.26	\$ 537.44		\$484.09	\$507.88	\$ 23.79		\$ 530.42	\$501.25	72% 99%
TANF Children		\$ 207.72	\$ 233.81		\$196.29	\$220.95	\$ 24.66		\$ 230.76	\$218.06	88% 99%
Foster Care		\$ 252.49	\$ 270.25		\$238.60	\$255.39	\$ 16.79		\$ 266.72	\$252.05	80% 99%
KCHIP - Phase 2		\$ 182.39	\$ 197.62		\$172.36	\$186.75	\$ 14.39		\$ 195.04	\$184.31	83% 99%
KCHIP - Phase 3		\$ 201.29	\$ 217.22		\$190.22	\$205.27	\$ 15.05		\$ 214.38	\$202.59	82% 99%
Presumptive Eligibility		\$ 312.80	\$ 326.69		\$295.59	\$308.75	\$ 13.16		\$ 322.42	\$304.69	69% 99%
SOBRA Adults		\$ 885.63	\$ 916.46		\$836.92	\$866.06	\$ 29.14		\$ 904.49	\$854.75	61% 99%
SOBRA Children		\$ 234.41	\$ 264.12		\$221.52	\$249.59	\$ 28.07		\$ 260.67	\$246.33	88% 99%
SSI with Medicare		\$ 196.18	\$ 211.40		\$185.39	\$199.77	\$ 14.38		\$ 208.64	\$197.16	82% 99%
SSI without Medicare		\$1,002.51	\$1,053.97		\$947.37	\$996.00	\$ 48.63		\$1,040.21	\$982.99	73% 99%

July 2010 through June 2011

Eligibility Category	PWC Databook PMPM range			Databook Range	Actual Contract PMPM	Percent of Databook High	
	Low	High				Range	Range
TANF Adults	\$ 507.67	\$ 560.75	\$ 53.08		\$ 538.18	57%	96%
TANF Children	\$ 203.82	\$ 221.20	\$ 17.38		\$ 213.81	57%	97%
Foster Care	\$ 233.51	\$ 253.58	\$ 20.07		\$ 245.05	57%	97%
KCHIP - Phase 2	\$ 175.91	\$ 190.43	\$ 14.52		\$ 184.26	58%	97%
KCHIP - Phase 3	\$ 195.43	\$ 212.51	\$ 17.08		\$ 205.25	57%	97%
Presumptive Eligibility	\$ 295.77	\$ 340.78	\$ 45.01		\$ 321.64	57%	94%
SOBRA Adults	\$ 842.72	\$ 915.35	\$ 72.63		\$ 884.47	57%	97%
SOBRA Children	\$ 223.04	\$ 241.78	\$ 18.74		\$ 233.82	58%	97%
SSI with Medicare	\$ 170.00	\$ 195.99	\$ 25.99		\$ 184.94	57%	94%
SSI without Medicare	\$ 945.07	\$ 1,030.22	\$ 85.15		\$ 994.02	57%	96%

University Health Care, Inc, dba Passport Health Plan

Schedule of Cash and Investment and Capital and Surplus Account Balances
1997 through 2009

Cash and Investments

Capital and Surplus

		<i>Percent</i>			<i>Percent</i>	
		<i>Annual</i>			<i>Annual</i>	
		<i>Increase</i>			<i>Increase</i>	
1997	\$ 12,492,058			\$ 1,529,058		
1998	\$ 45,238,604	262%		\$ 2,300,445	50%	
1999	\$ 56,171,254	24%		\$ 7,067,762	207%	
2000	\$ 60,954,058	9%		\$ 12,265,679	74%	
2001	\$ 69,041,991	13%		\$ 18,011,168	47%	
2002	\$ 73,686,438	7%		\$ 23,445,353	30%	
2003	\$ 83,959,032	14%		\$ 31,550,576	35%	
2004	\$ 105,952,258	26%		\$ 43,751,951	39%	
2005	\$ 117,967,750	11%		\$ 50,091,236	14%	
2006	\$ 142,822,239	21%		\$ 64,996,136	30%	
2007	\$ 184,909,601	29%		\$ 88,341,004	36%	
2008	\$ 156,114,607	-16%		\$ 77,182,624	-13%	*
2009	\$ 164,837,138	6%		\$ 91,162,268	18%	*
Percentage increase: 1997 - 2009		1220%			5862%	

* The Cash and Investments and the Capital and Surplus balance has been reduced by the following extraordinary items:

\$ 10,484,162	2008
\$ 11,198,657	2008
\$ 10,000,000	2008 and 2009

Source: University Health Care, Inc. Annual Statements to DOI and audited financial statements

Passport Hospital Owners' Indigent Care Costs versus Payments Received

Passport Hospital 2008	Total Indigent Cost*	DSH Payments**	Net QCCT Payments	Medicaid Payments*	Medicaid Supplemental Payments	Total Uncomp. Costs
U of L	\$169,254,596	\$33,575,276	\$31,885,932	\$ 73,896,684	\$10,716,063	\$19,180,641>
Norton	\$230,120,869	\$ 2,747,117	NA	\$175,879,889	\$16,369,051	\$35,124,812^
Jewish	\$ 46,442,000	\$ 7,384,000	NA	\$ 15,637,000	NA	\$39,058,000<

Passport Hospital 2009	Total Indigent Cost*	DSH Payments**	Net QCCT Payments	Medicaid Payments	Medicaid Supplemental Payments	Total Uncomp. Costs
U of L	\$179,750,386	\$35,052,801	\$31,807,129	\$ 87,885,740	\$14,279,455	\$10,880,261>
Norton	\$257,404,069	\$ 4,816,152	NA	\$205,007,271	\$10,647,696	\$36,932,950^
Jewish	\$ 25,663,150	\$ 2,078,702	NA	\$ 7,536,000	NA	\$23,584,458<

*Includes Medicaid and uninsured indigent costs as reported by the hospitals. For Jewish Medicaid portion includes reported Medicaid gap only. Jewish data for CY 09 was reported for a half year only.

**Payment after required match made by U of L Hospital is deducted or in the case of Norton and Jewish hospitals payments as reported by the hospital.

> Certification signed for Passport lists the amount of uncompensated indigent care as \$39,000,000 for 2008 and 2009

^ Certification signed for Passport lists the amount of uncompensated indigent care as \$26,653,591 for 2008 and 2009.

< Certification signed for Passport lists the amount of uncompensated indigent care as \$23,421,000 for 2008, and \$31,033,000 for 2009.

**UHC Paid to University of Louisville for iHOP Administration
January 1, 2007 – June 30, 2010**

	2007	2008	2009	Thru June 2010	Total
Fringe Benefits	\$5,930	\$11,107	\$3,519	\$4,449	\$25,005
Operating Expenses	39	15,353	867	11,420	27,679
Facilities & Administration	6,833	16,522	6,957	18,583	48,895
Salary	36,029	84,223	29,093	42,782	192,127
Total	\$48,831	\$127,205	\$40,436	\$77,234	\$293,706

Note: As this was a limited review, additional expenditures for these services could have been posted in other expenditure account detail, therefore; we may not have seen all of the expenditures related to iHOP administration.

Hotel Name	Website Description of Hotel
Marriott Waterfront in Seattle, Washington	Exceptional downtown location, stunning views of Seattle, WA, superb dining and lavish suites with high-tech amenities
The Fairmont in Washington DC	An urban oasis in the heart of the city, accommodations provide a soothing atmosphere in luxurious surroundings Located in Washington's fashionable West End and adjacent to historic Georgetown, The Fairmont Washington, D.C. hotel welcomes guests in capital style.
Caesars Hotel in Las Vegas, NV	The grandest of Las Vegas Hotels, Caesars Palace, is famous worldwide for its magnificent beauty and impeccable service. This majestic Las Vegas hotel offers a 129,000 square foot casino, 26 restaurants and cafes, sprawling gardens and pools, a world-class spa, and the renowned Colosseum spotlighting world-class stars.
Renaissance Hotel in Washington DC	Located directly across from the Washington Convention Center in the heart of downtown DC, the Renaissance Washington, DC Downtown Hotel is ideal for experiencing the history and culture of the nation's capital. The luxurious Vida Fitness Center and Aura Spa is complementary for our Washington, DC hotel guests.
Hyatt Hotel in Washington DC	A sophisticated sanctuary in Washington's fashionable West End Georgetown neighborhood within this elite Washington DC luxury hotel. Just steps from boutique shopping and minutes to the White House and other historic sites, the striking Tony Chi-designed Park Hyatt Washington offers discriminating travelers exceptional accommodations in a premier location. Award winning dining, uncompromising service and luxurious touches make this urbane DC hotel an enclave of refined taste.
Renaissance Hotel in Philadelphia, PA	This AAA three-diamond Philadelphia luxury hotel's accommodations are just 1 mile from the airport. Guests can enjoy 52 deluxe suites and the largest indoor pool in the area. Join the fun at this luxury hotel's Philadelphia bar, where playful games inspire new cocktails.
Hotel George in Washington DC	Chic, luxury accommodations sporting custom-designed furnishings, stylish décor, and modern lifestyle amenities, including comfortable sitting areas, luxurious beds with Egyptian cotton linens, granite executive desk, marble bathrooms, leather lounges, complimentary in room high-speed internet access for Kimpton In Touch members, modern art, 32" plasma HD TV, iHome radio docking station with MP3 port, yoga program, and spa services. Indulge in a soothing respite from DC's fast pace with all you need to connect to the world.
The W Hotel in New Orleans, LA	In a town known for indulging the senses, we fit right in with stylishly comfortable rooms and posh suites. Our fluffy beds are wrapped in 350-thread-count sheets and topped with down duvets. Slip into Bliss with spa-style bath amenities.

Hotel Name	Website Description of Hotel
Hawks Cay Resort in Key West, FL	A 60 acre island in the Florida Keys that offers the “world’s best fishing; exciting water sports; dolphin interaction programs; a saltwater lagoon; five gorgeous swimming pools; and a variety of luxury accommodations.”
Westin La Paloma Resort in Tucson, AZ	The premiere destination resort in the American Southwest. At The Westin La Paloma, you'll discover an experience with a singular focus: making you feel special every moment of every day. In fact, our guests often remark on the magical qualities of our wonderful haven. Whether you're joining us for business or pleasure, all your senses will be pleasantly engaged, beginning with our Westin Sensory Welcome. Enter our magnificent, light-infused lobby, where grand, 3-story arched windows frame a stunning, panoramic view of the Catalina Mountains. Calming music, soothing aromas, and plush sofas & lounge chairs invite you to leave the cares of the common world behind.
Coeur d’Alene Resort in Coeur d’Alene, ID	A world famous resort that offers a top 25 golf course and multiple spa services. The Resort offers lakefront and lakeview rooms and suites, designed from the ground up with guest comfort in mind. Each room is exquisite, featuring superior sound proofing, individual ventilation units, elevated beds, sofas, spacious bathrooms, widescreen LCD flat-panel television displays, CD players, high-speed internet access and reading chairs. All maximize the spectacular views of the lake and surrounding mountains, while providing guests with an upscale residential atmosphere.
Loews Hotel in Philadelphia, PA	The first skyscraper ever built in the City of Brotherly Love is home to Loews Philadelphia Hotel. Contemporary décor and gracious hospitality make Loews hotel in Philadelphia one of Center City's most inviting luxury hotels. Enjoy supremely comfortable rooms and personalized service at our luxury Philadelphia hotel.
L’Enfant Plaza in Washington DC	An unforgettable stay shrouded in a stylish and world-famous locale at L'Enfant Plaza Hotel - the premier gateway to the nation's capital.
Marriott Harbor Beach Resort & Spa in Ft. Lauderdale, FL	Harbor Beach Marriott Resort & Spa, located on South Florida’s largest private beach, offers 650 beautifully appointed guest rooms and suites. From floor to ceiling, from beds to TV, from walls to windows -- every detail is designed to elevate guests' seaside experience.
Royal Sonesta Hotel in New Orleans, LA	Located in the heart of the French Quarter on Bourbon Street, the Royal Sonesta Hotel New Orleans displays a timeless elegance and refinement reminiscent of its European counterparts. Beautifully appointed guest rooms and suites offer the ultimate in luxury, comfort and amenities and make this one of the best New Orleans French Quarter hotels.

Hotel Name	Website Description of Hotel
Sandpearl Resort in Clearwater, FL	Adorning 700 feet of Clearwater’s pristine beachfront, Sandpearl Resort offers the highest caliber of guest experience, quality of appointments and meeting and conference facilities on the Gulf Coast. The first new resort to be built on Clearwater Beach in 25 years, the Sandpearl Resort has been recognized by Expedia Insiders' Select ranking of top hotels in the world. Offers the highest caliber of guest experience with over 20 different massage and spa services.
Four Seasons Hotel in Philadelphia, PA	Overlooking Logan Square and surrounded by museums, shopping and the financial district, this luxurious hotel in the historic city of Philadelphia offers relaxing spa services and gourmet dining. The Four Seasons Hotel Philadelphia features a quiet garden courtyard with a flowing waterfall and an indoor pool with a tropically landscaped pool deck.

List of Meals and Food Related Purchases
January 1, 2007 – December 31, 2009

Exhibit 8

Date	Vendor Name	Description (from General Ledger)	Amount
1/2/2007	Republic Bank & Trust Co.	Market on Market - Business Meal – Louisville	87.02
1/10/2007	Ermin's French Bakery & Café	Lunches & Cookies	86.28
1/10/2007	Ermin's French Bakery & Café	Gratuity	12.21
1/10/2007	unknown	Holiday Lunch Supplies	49.97
1/10/2007	Republic Bank & Trust Co.	Staff Mtg Lunches	29.70
1/10/2007	Wall Street Deli	KY Mental Hlth Coalition Lunch	40.65
1/24/2007	Come Back Inn Inc.	Partnership Council Dinner	242.00
1/24/2007	Terri Lynn's Catering	Credentialing Comm Mtg	125.50
1/31/2007	unknown	Finance Mtg Refreshments	15.61
1/31/2007	unknown	Staff Lunch Mtg	10.58
2/7/2007	Brownsboro Eatery	Dinner - QMMC Mtg	355.37
2/7/2007	CoolBaker's International LLC	Healthy Family Project	116.31
2/7/2007	Republic Bank & Trust Co.	Market on Market - Business Meal – Louisville	82.76
2/14/2007	UHC employee	Staff Lunch	28.67
2/14/2007	UHC employee	Staff Lunch	23.14
2/14/2007	UHC employee	Staff Lunch	11.85
2/14/2007	Brownsboro Eatery	Meal for Behavioral Health	328.23
2/14/2007	Brownsboro Eatery	Breakfast for UHC Pharmacy	169.60
2/14/2007	Ermin's French Bakery & Café	Medical Criteria Policy Review	57.69
2/14/2007	UHC EVP	Cash Reimb - Business Meals	182.68
2/15/2007	Brownsboro Eatery	Dinner - P&T Committee Mtg	232.99
2/16/2007	Republic Bank & Trust Co.	City Café	15.37
2/21/2007	Republic Bank & Trust Co.	Lilly's - Louisville, KY	100.00
2/21/2007	Republic Bank & Trust Co.	Ditto Grill - Louisville, KY	18.29
2/22/2007	UHC CEO	Meals	171.60
3/1/2007	UHC CEO	Meals	(171.60)
3/1/2007	CoolBaker's International LLC	PBM Oversight	58.47
3/1/2007	Feed Bag	Catering For QMAC Mtg	232.14
3/5/2007	Republic Bank & Trust Co.	Market on Market - Bus Lunch - Louisville, KY	60.25
3/7/2007	UHC CEO	UHC Legislative Mtg – Meals	90.08
3/7/2007	Ermin's French Bakery & Café	Snacks - Passport Adv Committ	20.74

List of Meals and Food Related Purchases
January 1, 2007 – December 31, 2009

Exhibit 8

Date	Vendor Name	Description (from General Ledger)	Amount
3/7/2007	Republic Bank & Trust Co.	PF Chang's - Bus Lunch - Indianapolis, IN	26.60
3/8/2007	Republic Bank & Trust Co.	Johnny Carinos - Bus Lunch - Frankfort, KY	16.72
3/15/2007	Come Back Inn Inc.	Dinner - QMMC Mtg	169.60
3/15/2007	Come Back Inn Inc.	Dinner - Women's Health Commit	127.20
3/15/2007	UHC CEO	Meals	17.69
3/15/2007	CoolBaker's International LLC	PCP Workgroup	90.74
3/15/2007	Ermin's French Bakery & Café	Healthy Family Project Lunch	88.93
3/15/2007	Ermin's French Bakery & Café	Dessert - QMMC Mtg	43.23
3/15/2007	Ermin's French Bakery & Café	Dessert - Women's Health Commi	38.23
3/15/2007	Republic Bank & Trust Co.	The Brown Hotel - Staff Lunch - Louisville, KY	58.88
3/15/2007	Republic Bank & Trust Co.	Business Meals	33.66
3/15/2007	Republic Bank & Trust Co.	NCQA Awards Dinner	256.30
3/15/2007	Stevens & Stevens Deli	External Diversity Council	122.75
3/20/2007	Republic Bank & Trust Co.	Kroger - Board Mtg Refreshments - Louisville	17.34
3/22/2007	UHC employee	Staff Lunch - Mayan Café	24.14
3/22/2007	UHC employee	Meeting Refreshments - Meijer	7.50
3/22/2007	UHC employee	Meeting Refreshments - Kroger	6.19
3/22/2007	Ermin's French Bakery & Café	Breakfast for Behavioral Hlth	19.30
3/22/2007	Republic Bank & Trust Co.	Capitol Annex - Bus Lunch - Frankfort, KY	18.76
3/22/2007	UHC EVP	Cash Reimb - Meals	76.16
3/29/2007	Republic Bank & Trust Co.	Fat Jimmy's - Staff Lunch - Louisville, KY	20.39
4/4/2007	Come Back Inn Inc.	Lunch - P&T Committee	180.20
4/4/2007	Ermin's French Bakery & Café	Lunch - P&T Committee	43.23
4/4/2007	Ermin's French Bakery & Café	Catering - PCP Workgroup Mtg	248.42
4/4/2007	Ermin's French Bakery & Café	Catering - Partnership Council	240.61
4/4/2007	Terri Lynn's Catering	Lunch - Credentialing Comm	125.50
4/5/2007	Republic Bank & Trust Co.	Market on Market - Bus Lunch - Louisville, KY	28.19
4/10/2007	Republic Bank & Trust Co.	Applebee's - Bus Lunch - Frankfort, KY	19.75
4/19/2007	UHC employee	Staff Lunch	20.00
4/19/2007	UHC employee	Meeting Refreshments - Pharmacy	12.71

List of Meals and Food Related Purchases
January 1, 2007 – December 31, 2009

Exhibit 8

Date	Vendor Name	Description (from General Ledger)	Amount
4/19/2007	Republic Bank & Trust Co.	McDonald's - Staff Mtg - Louisville, KY	13.36
4/19/2007	Wall Street Deli	Refreshments of UHC Exec Comm	31.80
4/19/2007	Wall Street Deli	Refreshments of UHC Finance Co	31.78
4/19/2007	Wall Street Deli	Refreshment - UHC/AMHP Oversig	9.27
4/25/2007	Come Back Inn Inc.	Dinner - QMMC Mtg	169.60
4/25/2007	Come Back Inn Inc.	Meal - Child & Adolescent Comm	135.68
4/25/2007	Ermin's French Bakery & Café	Dessert - Child & Adolescent	45.23
4/25/2007	Ermin's French Bakery & Café	Dessert - QMMC Mtg	43.23
4/25/2007	Feed Bag	Catering - QMAC Mtg	220.53
4/25/2007	Republic Bank & Trust Co.	Joe's Crab - Admin Prof Day Lunch - Louisville, KY	66.18
4/26/2007	Republic Bank & Trust Co.	KT's Restaurant & Bar - Bus Lunch - Louisville, KY	42.29
4/26/2007	UHC employee	Refreshments - Board of Directors	18.21
4/26/2007	UHC employee	Refreshments - Pharmacy Com Mtg	9.56
4/26/2007	UHC employee	Refreshments - Finance Com Mtg	6.06
4/26/2007	UHC employee	Refreshments - Pharmacy Com Mtg	4.00
4/27/2007	Republic Bank & Trust Co.	Safier Deli - Bus Lunch - Louisville, KY	21.88
4/30/2007	Republic Bank & Trust Co.	HMS Host, ORD Airport - Business Meal - Chicago, IL	11.61
5/3/2007	Café	External CLAS	137.68
5/3/2007	Republic Bank & Trust Co.	Walmart - Refreshments - Lawrenceburg, KY	44.54
5/7/2007	Republic Bank & Trust Co.	Safier Deli - Bus Lunch - Louisville, KY	8.22
5/10/2007	Café	Glorious Women of Color	119.04
5/11/2007	Republic Bank & Trust Co.	Papa John's - Lunch Mtg - Louisville, KY	47.12
5/11/2007	Republic Bank & Trust Co.	McDonald's - Lunch Mtg - Louisville, KY	17.81
5/14/2007	Wall Street Deli	Hispanic/Latino Lunch	87.79
5/21/2007	Republic Bank & Trust Co.	Primo - Business Dinner - Louisville, KY	122.70
5/23/2007	CoolBaker's International LLC	Partnership Council Orientation	39.20
5/23/2007	UHC employee	Refreshments - Exec Mtg	18.04
5/23/2007	UHC employee	Refreshments - Finance Committee	16.48
5/23/2007	UHC employee	Staff Lunch MJB & NLR	11.00
5/23/2007	UHC employee	Refreshments - Pharmacy Comm	10.73
5/23/2007	UHC employee	Refreshments - Exec Committee	8.88
5/24/2007	Ermin's French Bakery & Café	Catering Dinner for Partnership	217.19
5/25/2007	Republic Bank & Trust Co.	McDonald's - Lunch Mtg - Louisville, KY	26.71

List of Meals and Food Related Purchases
January 1, 2007 – December 31, 2009

Exhibit 8

Date	Vendor Name	Description (from General Ledger)	Amount
5/29/2007	Republic Bank & Trust Co.	McDonald's - Lunch - Louisville, KY	12.05
5/31/2007	Ermin's French Bakery & Café	Breakfast - Behavioral Hlth Mtg	37.60
5/31/2007	Republic Bank & Trust Co.	Primo - Bus Lunch - Louisville, KY	69.42
6/1/2007	Republic Bank & Trust Co.	Market on Market - Bus Lunch - Louisville, KY	145.17
6/1/2007	Republic Bank & Trust Co.	McDonald's - Staff Mtg - Louisville, KY	18.50
6/7/2007	Ermin's French Bakery & Café	Medical Criteria Policy	47.70
6/7/2007	Republic Bank & Trust Co.	Vincenzo's - Louisville, KY	20.85
6/11/2007	Republic Bank & Trust Co.	Legal Seafoods - Bus Meal - Baltimore, MD	64.40
6/11/2007	Republic Bank & Trust Co.	McCormich & Schmick's - Bus Meal - Baltimore, MD	54.47
6/12/2007	Republic Bank & Trust Co.	Hawk & Dove - Bus Meal - Washington, DC	39.11
6/13/2007	Republic Bank & Trust Co.	Vallegias Italian Rest - Bus Meal - Baltimore, MD	33.30
6/14/2007	Ermin's French Bakery & Café	Dinner - Behavioral Health	189.76
6/14/2007	Republic Bank & Trust Co.	McCormich & Schmick's - Bus Meal - Baltimore, MD	37.00
6/19/2007	Republic Bank & Trust Co.	HMS Host, ORD Airport - Meal - Chicago, IL	16.20
6/20/2007	Republic Bank & Trust Co.	Caesars Café Lago - Bus Meal - Las Vegas, NV	20.70
6/21/2007	UHC employee	Meals	144.90
6/21/2007	UHC employee	Lunch - Capital Annex Dept	11.17
6/21/2007	Come Back Inn Inc.	Dinner - QMMC Mtg	135.15
6/21/2007	Ermin's French Bakery & Café	Dessert - QMMC Mtg	43.83
6/21/2007	Republic Bank & Trust Co.	Caesars Nero's - Las Vegas, NV	86.51
6/21/2007	Republic Bank & Trust Co.	Caesars Café Lago - Bus Meal - Las Vegas, NV	21.00
6/21/2007	Wall Street Deli	PCP Workgroup Mtg	31.78
6/22/2007	Republic Bank & Trust Co.	HMS Host LAS Airport - Las Vegas, NV	13.88
6/25/2007	Republic Bank & Trust Co.	Primo - Bus Lunch - Louisville, KY	34.68
6/26/2007	Republic Bank & Trust Co.	McDonald's - Bus Lunch - Louisville, KY	13.36
6/27/2007	Republic Bank & Trust Co.	McDonald's - Bus Lunch - Louisville, KY	11.85
6/28/2007	Toll Bridge Inn	QMAC Mtg	170.00
7/3/2007	Republic Bank & Trust Co.	Primo - Staff Mtg - Louisville, KY	64.18
7/5/2007	UHC EVP	Cash Reimb - Meals	108.52

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Exhibit 8

Date	Vendor Name	Description (from General Ledger)	Amount
7/10/2007	Republic Bank & Trust Co.	Wick's - Bus Lunch - Louisville, KY	22.17
7/11/2007	Republic Bank & Trust Co.	Serafini - Bus Lunch - Frankfort, KY	49.40
7/12/2007	Ermin's French Bakery & Café	PAD Committee Mtg	74.67
7/12/2007	Republic Bank & Trust Co.	Wendy's - Bus Lunch - Louisville, KY	7.30
7/12/2007	UHC EVP	Cash Reimb - Business Lunch Malone's	45.77
7/17/2007	Republic Bank & Trust Co.	Primo - Bus Lunch - Louisville, KY	48.34
7/24/2007	Come Back Inn Inc.	Dinner for QMMC	101.76
7/25/2007	Republic Bank & Trust Co.	Vincenzo's Bus Lunch	20.85
7/30/2007	Republic Bank & Trust Co.	Q'doba - Lunch - Frankfort, KY	14.69
7/31/2007	Republic Bank & Trust Co.	Friday's - Bus Lunch - Crestview Hill, KY	52.98
7/31/2007	Republic Bank & Trust Co.	Starbucks - Snacks - Frankfort, KY	14.52
7/31/2007	Republic Bank & Trust Co.	Starbucks - Snacks - Frankfort, KY	5.94
7/31/2007	Republic Bank & Trust Co.	Starbucks - Snacks - Frankfort, KY	2.28
8/1/2007	Republic Bank & Trust Co.	Saffron's Persian Cuisine - Staff Lunch - Louisville, KY	42.79
8/2/2007	Petty Cash	Walmart - Finance Refreshment	11.26
8/2/2007	Petty Cash	Refreshment Snack Cup - Meijer	10.55
8/2/2007	Petty Cash	Walmart - Finance Mtg Refresh	10.17
8/2/2007	Terri Lynn's Catering	Credentialing Comm Mtg	105.47
8/2/2007	Toll Bridge Inn	Partnership Council Dinner	150.00
8/9/2007	UHC employee	Staff Lunch - McDonald's	4.01
8/9/2007	UHC AVP	Cash Reimbursements - Meals	23.26
8/9/2007	Republic Bank & Trust Co.	Market on Market - Board Mtg Refrmts - Louisville, KY	61.03
8/9/2007	UHC employee	Wick's Pizza - Business Lunch	27.83
8/9/2007	UHC employee	Meijer - Snack Cups for Mtg	6.33
8/10/2007	Republic Bank & Trust Co.	Wick's Pizza - Bus Lunch - Louisville, KY	43.17
8/16/2007	Ermin's French Bakery & Café	Medical Criteria Policy Review	64.01
8/16/2007	Republic Bank & Trust Co.	Bombay Brazier - Bus Lunch - Frankfort, KY	43.58
8/21/2007	Republic Bank & Trust Co.	Capitol Annex - Bus Lunch - Frankfort, KY	9.88
8/23/2007	Catering Company	QMMC Mtg Dinner	255.13
8/23/2007	Republic Bank & Trust Co.	Primo - Bus Dinner - Louisville, KY	49.40
8/23/2007	Republic Bank & Trust Co.	Safier Deli - Staff Lunch - Louisville, KY	22.38
8/23/2007	Toll Bridge Inn	QMAC Dinner	150.00
8/31/2007	Republic Bank & Trust Co.	Primo - Lunch - Louisville, KY	48.84
9/5/2007	Come Back Inn Inc.	Lunch - P&T Committee	110.24
9/6/2007	Republic Bank & Trust Co.	Market on Market - Lunch - Louisville, KY	68.40

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Date	Vendor Name	Description (from General Ledger)	Amount
9/13/2007	UHC employee	Office Refreshments	92.04
9/13/2007	UHC employee	Office Refreshments	24.90
9/13/2007	UHC employee	Refreshments for Executive Committee	17.28
9/19/2007	Republic Bank & Trust Co.	Toast on Market - Louisville, KY	34.15
9/20/2007	CoolBaker's International LLC	Lunches for Mtg	112.23
9/20/2007	CoolBaker's International LLC	Lunches - PCS Next Steps	62.91
9/20/2007	Ermin's French Bakery & Café	Dessert - PAD Committee	30.87
9/20/2007	Ermin's French Bakery & Café	Dessert - Pharmacy	20.02
9/20/2007	University Club	Breakfast Pastries	11.45
9/25/2007	Ermin's French Bakery & Café	Dinner - Child & Adolescent Comm	172.56
9/25/2007	Petty Cash	Artemisia	31.80
9/25/2007	Wall Street Deli	Inv Seot 19 07	153.19
9/25/2007	Wall Street Deli	Partnership Council Mtg	41.98
9/25/2007	Wall Street Deli	PCP Workgroup Mtg	34.98
9/26/2007	UHC employee	Office Refreshments	5.70
9/26/2007	CoolBaker's International LLC	Lunches for Mtg	55.79
9/26/2007	CoolBaker's International LLC	Lunches for Mtg	50.19
9/26/2007	UHC employee	Refreshments	2.50
9/26/2007	UHC EVP	Cash Reimb - Employee Meal	10.74
9/26/2007	UHC EVP	Cash Reimb - Employee Meal	7.24
9/26/2007	UHC EVP	Cash Reimb - Employee Meal	5.19
9/26/2007	UHC EVP	Cash Reimb - Refreshments	2.52
10/2/2007	Republic Bank & Trust Co.	Carrabba's Italian Grill - Louisville, KY	45.07
10/8/2007	Café	9/25/07 - Credentialing Committee	111.72
10/8/2007	Catering Company	Dinner - Women's Hlth Committee	335.55
10/8/2007	Catering Company	Dinner - QMMC Mtg	219.08
10/8/2007	CoolBaker's International LLC	Lunches for Mtg	87.67
10/16/2007	Republic Bank & Trust Co.	Applebee's - Frankfort, KY	61.00
10/18/2007	Republic Bank & Trust Co.	Lynn's Paradise Café - Louisville, KY	35.96
10/25/2007	UHC employee	Staff Lunch - Italian Grill	20.88
10/25/2007	City Café, Inc.	Lunch Mtg - Assisting Provider	33.75
10/25/2007	Feed Bag	Catering - QMAC Mtg	247.08
10/30/2007	Republic Bank & Trust Co.	Artemisia - Louisville, KY	76.25

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Date	Vendor Name	Description (from General Ledger)	Amount
10/31/2007	Republic Bank & Trust Co.	Capital Grille - Washington, DC	342.20
10/31/2007	Republic Bank & Trust Co.	HMS Host SDF Airport - Louisville, KY	41.00
11/1/2007	Come Back Inn Inc.	Dinner - QMMC Mtg	169.60
11/1/2007	CoolBaker's International LLC	Lunches for Mtg	87.67
11/1/2007	CoolBaker's International LLC	Pharmacy Committee Mtg	49.79
11/1/2007	Ermin's French Bakery & Café	Dessert - QMMC Mtg	30.05
11/1/2007	Republic Bank & Trust Co.	Oceanaire Seafood	1,428.10
11/2/2007	Republic Bank & Trust Co.	Ruth's Chris Steakhouse - Washington, DC	220.00
11/3/2007	Republic Bank & Trust Co.	Potbelly Sandwich - Chicago, IL	12.44
11/3/2007	Republic Bank & Trust Co.	Villa Pizza - Dulles, VA	17.01
11/6/2007	Republic Bank & Trust Co.	Malone's - Lexington, KY	65.66
11/7/2007	Republic Bank & Trust Co.	Wick's Pizza - Louisville, KY	28.87
11/8/2007	CoolBaker's International LLC	UHC - PHP Mtg Luncheon	109.31
11/8/2007	UHC employee	Lunch for IT	22.86
11/8/2007	UHC employee	Board Mtg Refreshments	19.73
11/8/2007	Toll Bridge Inn	ER Subcommittee Dinner	150.00
11/12/2007	Republic Bank & Trust Co.	Fogo De Chao - Washington, DC	174.38
11/13/2007	Republic Bank & Trust Co.	Ruth's Chris Steakhouse - Washington, DC	206.00
11/14/2007	Republic Bank & Trust Co.	McDonald's - MD	7.73
11/15/2007	CoolBaker's International LLC	Luncheon Mtg	71.05
11/15/2007	CoolBaker's International LLC	UHC Investment Committee	87.77
11/15/2007	Ermin's French Bakery & Café	Dinner - QMMC Mtg	189.45
11/21/2007	Café	Catering - QMAC Orientation	110.96
11/21/2007	Come Back Inn Inc.	Dinner - Pharmacy Committee	144.16
11/21/2007	Ermin's French Bakery & Café	Catering - Partnership Council	387.53
11/27/2007	Republic Bank & Trust Co.	Avalon - Louisville, KY	158.10
11/29/2007	UHC employee	Staff Lunch - Exec Mtg Refresh	85.57
11/29/2007	UHC employee	Staff Lunch - Primo	17.84
11/29/2007	UHC employee	Staff Lunch - McDonald's	4.45
11/29/2007	UHC employee	UHC Exec Committee Refreshments	2.59
11/29/2007	CoolBaker's International LLC	Lunch Mtg	56.12

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Date	Vendor Name	Description (from General Ledger)	Amount
11/29/2007	CoolBaker's International LLC	Lunch Mtg	50.79
11/29/2007	UHC AVP	Cash Reimbursements - Meals	9.13
12/3/2007	Republic Bank & Trust Co.	Cardinal Hall of Fame - Louisville, KY	30.77
12/3/2007	Republic Bank & Trust Co.	Cracker Barrel - Jeffersontown, KY	20.84
12/5/2007	Republic Bank & Trust Co.	The Old Spaghetti Factory - Louisville, KY	81.09
12/5/2007	Terri Lynn's Catering	Credentialing Comm Mtg	130.86
12/6/2007	CoolBaker's International LLC	Lunch Mtg	98.10
12/6/2007	CoolBaker's International LLC	Lunch Mtg	69.26
12/6/2007	Ermin's French Bakery & Café	Medical Criteria Policy Review	51.52
12/11/2007	Republic Bank & Trust Co.	Vincenzo's - Louisville, KY	133.84
12/12/2007	CoolBaker's International LLC	Lunch Mtg	56.01
12/17/2007	Republic Bank & Trust Co.	Striped Bass - Philadelphia, PA	324.35
12/19/2007	CoolBaker's International LLC	PCP Workgrp Mtg 12/11/07	22.25
12/20/2007	UHC employee	Meals at E Health Summit	92.07
12/20/2007	UHC employee	Walmart Office Refreshments	14.63
12/20/2007	CoolBaker's International LLC	Refreshments - Oversight Commi	49.79
12/20/2007	Masterson's Catering	Catering for QMAC	593.76
12/20/2007	Simmons, Jacqueline	Reimb for Holiday Dinner - QMMC	780.54
12/21/2007	Republic Bank & Trust Co.	Hilton Food/Beverage	128.30
12/27/2007	Republic Bank & Trust Co.	Starbucks - Frankfort, KY	3.71
Total 2007			\$19,865.75

Date	Vendor Name	Description (from General Ledger)	Amount
1/3/2008	Republic Bank & Trust Co.	Fogo De Chao - Washington, DC	160.65
1/4/2008	UHC CEO	Reimb for Business Dinner	185.03
1/4/2008	CoolBaker's International LLC	Business Lunch Mtg	81.48
1/4/2008	Ermin's French Bakery & Café	Dinner - Child & Adolescent Hlth	185.24
1/4/2008	Petty Cash	Staff Lunch - Taco Bell	7.06
1/4/2008	Petty Cash	Finance Mtg Refreshments - Walmart	5.46
1/4/2008	Petty Cash	Staff Lunch - McDonald's	4.24

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Date	Vendor Name	Description (from General Ledger)	Amount
1/10/2008	CoolBaker's International LLC	Business Lunch Mtg	86.32
1/11/2008	Republic Bank & Trust Co.	Safier Deli - Louisville, KY	20.43
1/14/2008	Republic Bank & Trust Co.	Cattleman Roadhouse - Shelbyville, KY	19.80
1/15/2008	Republic Bank & Trust Co.	Serafini - Frankfort, KY	57.00
1/17/2008	CoolBaker's International LLC	Business Lunch Mtg	43.07
1/17/2008	Republic Bank & Trust Co.	Striped Bass	324.35
1/17/2008	Republic Bank & Trust Co.	Vincenzo's	133.84
1/23/2008	Republic Bank & Trust Co.	Terri Lynn's Catering - Floyds Knobs, IN	59.10
1/23/2008	Republic Bank & Trust Co.	Cattleman Roadhouse - Shelbyville, KY	21.00
1/24/2008	UHC employee	Holiday Staff Get Together	46.51
1/24/2008	UHC employee	3rd Ave Café - Staff Lunch	14.11
1/24/2008	UHC employee	Artemisia - Staff Lunch	13.13
1/24/2008	Come Back Inn Inc.	Partnership Council Mtg	169.60
1/24/2008	CoolBaker's International LLC	Pharmacy Committee Refreshments	53.18
1/24/2008	CoolBaker's International LLC	Partnership Council Mtg	30.41
1/24/2008	Ermin's French Bakery & Café	QMMC Mtg - Dinner	189.45
1/24/2008	UHC AVP	Cash Reimb - AMHP Mtg Meals	32.91
1/24/2008	Republic Bank & Trust Co.	Macaroni Grille - Louisville, KY	41.72
1/24/2008	UHC EVP	Cash Reimb - Business Lunch	20.69
1/25/2008	Republic Bank & Trust Co.	Beef O'Brady's - Frankfort, KY	24.14
1/31/2008	Republic Bank & Trust Co.	Capital Grille - Washington, DC	354.80
1/31/2008	Republic Bank & Trust Co.	Central Café - Washington, DC	76.05
2/1/2008	Republic Bank & Trust Co.	Kinthead's - Washington, DC	98.58
2/4/2008	Republic Bank & Trust Co.	Primo - Louisville, KY	37.68
2/7/2008	Ermin's French Bakery & Café	Medical Criteria Policy Review	49.40
2/7/2008	Terri Lynn's Catering	Credentialing Comm Mtg	129.00
2/14/2008	UHC employee	Staff Lunch	21.26
2/14/2008	CoolBaker's International LLC	Compliance Plan Lunch Mtg	76.39
2/14/2008	CoolBaker's International LLC	Bill Wagner Lunch Mtg	69.09
2/14/2008	Petty Cash	Staff Lunch	32.82
2/14/2008	Petty Cash	Staff Lunch	30.48
2/14/2008	Petty Cash	Mtg Refreshments	6.49
2/14/2008	Petty Cash	Staff Lunch	4.24

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Date	Vendor Name	Description (from General Ledger)	Amount
2/14/2008	Republic Bank & Trust Co.	Starbucks	3.71
2/14/2008	Republic Bank & Trust Co.	Papa John's - Louisville, KY	23.84
2/20/2008	Republic Bank & Trust Co.	Mojitos Tapas - Louisville, KY	67.46
2/25/2008	Republic Bank & Trust Co.	Carabba's - Staff Lunch - Louisville, KY	34.58
2/27/2008	Republic Bank & Trust Co.	Capitol Annex Café - Business Lunch - Frankfort, KY	13.10
2/27/2008	Republic Bank & Trust Co.	Capitol Annex Café - Staff Lunch - Frankfort, KY	3.66
2/28/2008	CoolBaker's International LLC	Lunch Mtg	65.71
2/28/2008	Toll Bridge Inn	QMAC Dinner	187.50
2/29/2008	Republic Bank & Trust Co.	Capital Grille - Business Lunch - Washington, DC	80.82
3/6/2008	CoolBaker's International LLC	Lunch Mtg	81.69
3/6/2008	CoolBaker's International LLC	Waiver Mtg	65.07
3/6/2008	Republic Bank & Trust Co.	Safier Deli - Business Lunch - Louisville, KY	26.08
3/6/2008	Terri Lynn's Catering	Credentialing Comm Mtg	128.26
3/13/2008	Aramark Refreshment Svcs	Drinks for Meetings	173.54
3/13/2008	CoolBaker's International LLC	Meeting	73.21
3/18/2008	Republic Bank & Trust Co.	Mojito Tapas - Business Lunch - Louisville, KY	67.45
3/19/2008	Republic Bank & Trust Co.	Ernesto's - Staff Lunch - Louisville, KY	26.17
3/20/2008	UHC AVP	Cash Reimb - Ruth Chris	147.05
3/20/2008	UHC AVP	Cash Reimb - Starbucks	13.04
3/20/2008	UHC AVP	Cash Reimb - US Senate Restaurant	3.75
3/21/2008	Republic Bank & Trust Co.	Q'doba - Business Lunch - Frankfort, KY	23.14
3/24/2008	Republic Bank & Trust Co.	Panera Bread - Business Lunch - Frankfort, KY	14.38
3/26/2008	Republic Bank & Trust Co.	Serafini - Business Lunch - Frankfort, KY	25.84
3/27/2008	UHC employee	Staff Lunch	10.15
3/27/2008	UHC employee	Arby's - Staff Lunch	6.99
3/27/2008	CoolBaker's International LLC	Lunch - Going Over Lawsuit	67.25
3/27/2008	CoolBaker's International LLC	Lunch Mtg	65.07
3/27/2008	CoolBaker's International LLC	Board Mtg Refreshments	28.92
3/27/2008	Petty Cash	Staff Lunch	20.00
3/27/2008	Petty Cash	Staff Lunch	12.50

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Date	Vendor Name	Description (from General Ledger)	Amount
3/27/2008	Petty Cash	Staff Lunch	9.20
3/27/2008	Petty Cash	Pharmacy Mtg Refreshments	6.19
3/27/2008	UHC employee	Long John Silvers	9.88
3/28/2008	Republic Bank & Trust Co.	Portofino - Lunch - Lexington, KY	66.24
4/3/2008	Catering Company	Dinner - Women's Hlth Mtg	287.00
4/3/2008	Catering Company	Dinner - QMMC Mtg	267.00
4/3/2008	Come Back Inn Inc.	Dinner - Partnership Council Mtg	127.20
4/3/2008	CoolBaker's International LLC	Partnership Council Mtg	30.41
4/3/2008	Ermin's French Bakery & Café	QMMC Mtg - Dinner	198.96
4/3/2008	Ermin's French Bakery & Café	External CLAS Council Mtg	137.46
4/3/2008	Republic Bank & Trust Co.	Phillips Famous Seafood - Baltimore, MD	66.64
4/3/2008	Republic Bank & Trust Co.	Charlie Chiang's Kwai - Lunch - Linthicum, MD	8.48
4/3/2008	Terri Lynn's Catering	Credentialing Comm Mtg	137.38
4/11/2008	Republic Bank & Trust Co.	Ginza Japanese Cuisine - Frankfort, KY	70.89
4/14/2008	Republic Bank & Trust Co.	Applebee's - Lunch - Frankfort, KY	29.97
4/16/2008	Republic Bank & Trust Co.	Wick's Pizza - Lunch - Louisville, KY	89.83
4/16/2008	UHC employee	Safier Deli - Staff Lunch	10.07
4/16/2008	UHC employee	Wendy's - Staff Lunch	5.91
4/17/2008	Aramark Refreshment Svcs	Drinks for Meetings	204.51
4/17/2008	UHC employee	Sam's - Office Refreshments	84.54
4/17/2008	UHC employee	Walmart - Office Refreshments	47.86
4/17/2008	UHC employee	Meijer - Office Refreshments	6.87
4/17/2008	UHC employee	McDonald's - Staff Breakfast	3.58
4/17/2008	Catering Company	Catering - Pharmacy Committee	199.75
4/17/2008	CoolBaker's International LLC	Lunch Mtg	65.07
4/17/2008	Ermin's French Bakery & Café	Medical Criteria Review	51.52
4/18/2008	Republic Bank & Trust Co.	Bonefish Grill - Louisville, KY	64.17
4/20/2008	Republic Bank & Trust Co.	Bertonlini's - Lunch - King of Prussia, PA	146.00
4/24/2008	Come Back Inn Inc.	PCP Workgroup Mtg - Dinner	127.20
4/24/2008	CoolBaker's International LLC	Lunch Mtg	53.75
4/24/2008	CoolBaker's International LLC	Lunch Mtg	42.62
4/24/2008	CoolBaker's International LLC	PCP Workgroup Mtg - Desserts	30.41

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Date	Vendor Name	Description (from General Ledger)	Amount
5/1/2008	CoolBaker's International LLC	UHC Investment Committee Break	56.23
5/1/2008	Feed Bag	Catering - QMAC Mtg	274.54
5/1/2008	Gumby's Garden Catering	Home of the Innocents Lunch Mtg	176.00
5/5/2008	Republic Bank & Trust Co.	Molly Malone's - Louisville, KY	35.00
5/8/2008	Aramark Refreshment Svcs	Drinks & Kitchen Supplies	342.47
5/8/2008	CoolBaker's International LLC	Lunch Meeting	44.01
5/8/2008	CoolBaker's International LLC	Staff Lunch	25.93
5/8/2008	UHC AVP	Cash Reimb - Meal While Traveling	4.59
5/8/2008	Gumby's Garden Catering	Refreshments - Exec Committee	127.00
5/8/2008	Gumby's Garden Catering	Refreshments - Finance Committee	55.00
5/8/2008	Republic Bank & Trust Co.	Artemisia Restaurant - Louisville, KY	37.80
5/13/2008	Republic Bank & Trust Co.	Basa's Restaurant - Louisville, KY	144.00
5/19/2008	Republic Bank & Trust Co.	CHFS Cafeteria - Frankfort, KY	18.52
5/20/2008	Republic Bank & Trust Co.	Carabba's Italian Grill - Louisville, KY	35.65
5/22/2008	UHC employee	Staff Lunch - Lilly's	56.64
5/22/2008	UHC employee	Staff Lunch - Italian Grill	8.41
5/22/2008	UHC employee	Wendy's	6.35
5/28/2008	Come Back Inn Inc.	Dinner - Partnership Council Mtg	127.20
5/28/2008	Come Back Inn Inc.	Dinner - Child Adolescent Comm	101.76
5/28/2008	CoolBaker's International LLC	Dessert - Partnership Council Mtg	30.41
5/28/2008	Republic Bank & Trust Co.	Safier Deli - Louisville, KY	31.23
5/30/2008	Republic Bank & Trust Co.	Saffron's Persian Cuisine - Louisville, KY	68.00
6/3/2008	Republic Bank & Trust Co.	The Brown Hotel - Louisville, KY	39.92
6/5/2008	CoolBaker's International LLC	GME Mtg	117.44
6/5/2008	CoolBaker's International LLC	Pharmacy Committee Refreshments	54.24
6/5/2008	Ermin's French Bakery & Café	Medical Criteria Policy Review	49.40
6/5/2008	Republic Bank & Trust Co.	Toast on Market - Louisville, KY	60.59
6/6/2008	Republic Bank & Trust Co.	Primo - Louisville, KY	82.76
6/9/2008	Republic Bank & Trust Co.	Safier Deli - Louisville, KY	20.74
6/14/2008	Republic Bank & Trust Co.	Applebee's - Louisville, KY	33.86
6/18/2008	CoolBaker's International LLC	Lunch - Mtg	66.13
6/25/2008	Feed Bag	Catering For QMAC Mtg	316.68
6/27/2008	Republic Bank & Trust Co.	Lotsa Pasta - Louisville, KY	72.99

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Date	Vendor Name	Description (from General Ledger)	Amount
6/30/2008	Republic Bank & Trust Co.	Market on Market - Louisville, KY	120.12
7/2/2008	Aramark Refreshment Svcs	Drinks for Meetings	213.98
7/2/2008	Catering Company	Dinner - QMMC	265.00
7/2/2008	Catering Company	Dinner - QMMC	239.00
7/2/2008	Catering Company	Dinner - QMMC	195.10
7/2/2008	CoolBaker's International LLC	UHC/PHP Staff Lunch Mtg	157.97
7/2/2008	CoolBaker's International LLC	UHC/PHP Staff Breakfast Mtg	84.77
7/8/2008	Republic Bank & Trust Co.	The Brown Hotel - Louisville, KY	33.68
7/10/2008	Catering Company	Catering - Pharmacy & Therapeut	199.75
7/16/2008	Come Back Inn Inc.	PCP Workgroup Mtg - Dinner	169.60
7/16/2008	CoolBaker's International LLC	Consultant Mtg	54.81
7/16/2008	CoolBaker's International LLC	Executive Committee Mtg	33.58
7/16/2008	CoolBaker's International LLC	PCP Workgroup Desserts	30.41
7/16/2008	UHC employee	Kroger - Office Refreshments	65.77
7/16/2008	UHC employee	Meals	6.24
7/17/2008	Republic Bank & Trust Co.	Artemisia Restaurant - Louisville, KY	21.02
7/17/2008	Republic Bank & Trust Co.	Sbarro - Philadelphia, PA	12.48
7/22/2008	Republic Bank & Trust Co.	Emeril's - New Orleans, LA	406.62
7/23/2008	Aramark Refreshment Svcs	Drinks for Meetings	272.15
7/23/2008	Come Back Inn Inc.	Partnership Council - Dinner	169.60
7/23/2008	CoolBaker's International LLC	Lunch Mtg	128.23
7/23/2008	CoolBaker's International LLC	Partnership Council - Desserts	30.41
7/23/2008	Republic Bank & Trust Co.	Commander's Palace - New Orleans, LA	546.00
7/23/2008	Republic Bank & Trust Co.	Court of Two Sisters - New Orleans, LA	49.10
8/1/2008	Republic Bank & Trust Co.	HMS Host, Airport Restaurant - Charlotte, NC	25.88
8/6/2008	Republic Bank & Trust Co.	Toast on Market - Louisville, KY	30.03
8/7/2008	CoolBaker's International LLC	Finance Committee Mtg Refreshments	33.58
8/7/2008	Ermin's French Bakery & Café	Medical Policy Criteria Comm	61.68
8/7/2008	Republic Bank & Trust Co.	Serafini - Frankfort, KY	117.34
8/12/2008	Republic Bank & Trust Co.	Saffron's Persian Cuisine - Louisville, KY	63.80

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Date	Vendor Name	Description (from General Ledger)	Amount
8/13/2008	CoolBaker's International LLC	Lunch	76.56
8/14/2008	Republic Bank & Trust Co.	Primo - Louisville, KY	90.68
8/15/2008	Republic Bank & Trust Co.	The Old Spaghetti Factory - Louisville, KY	79.50
8/20/2008	CoolBaker's International LLC	KCHIP Coalition Mtg	152.13
8/20/2008	UHC AVP	Cash Reimb - Wolfgang Puck Kansas City	17.92
8/20/2008	UHC AVP	Cash Reimb - Quizno's	8.25
8/20/2008	UHC AVP	Cash Reimb - Grab-N-Go	3.32
8/21/2008	UHC EVP	Cash Reimb - Kansas City/Philly Trip Meal	41.46
8/26/2008	Republic Bank & Trust Co.	Safier Deli - Louisville, KY	24.37
8/28/2008	Aramark Refreshment Svcs	Drinks for Meetings	170.90
8/28/2008	Sicilian Pizza & Pasta LLC	Dinner - QMMC Mtg	149.72
8/28/2008	Terri Lynn's Catering	Credentialing Comm Mtg	137.38
9/3/2008	Sicilian Pizza & Pasta LLC	Dinner - Child Adolescent	150.74
9/4/2008	CoolBaker's International LLC	Lunch Mtg	66.13
9/4/2008	CoolBaker's International LLC	Mtg Refreshments - Finance	33.58
9/4/2008	Republic Bank & Trust Co.	Q'doba - Frankfort, KY	10.56
9/10/2008	CoolBaker's International LLC	Meeting	88.78
9/10/2008	Republic Bank & Trust Co.	Market on Market - Louisville, KY	41.59
9/18/2008	Come Back Inn Inc.	PCP Workgroup - Dinner	169.60
9/18/2008	CoolBaker's International LLC	School Based Services Mtg	77.45
9/18/2008	CoolBaker's International LLC	Board Mtg Refreshments	33.58
9/18/2008	CoolBaker's International LLC	PCP Workgroup Desserts	30.41
9/18/2008	UHC EVP	Cash Reimb - Business Lunch	202.76
9/23/2008	Republic Bank & Trust Co.	Artemisia Restaurant - Louisville, KY	28.85
9/24/2008	Aramark Refreshment Svcs	Drinks	201.30
9/24/2008	Aramark Refreshment Svcs	Coffee & Supplies	50.50
9/24/2008	Aramark Refreshment Svcs	Kitchen Refreshments	45.67
9/24/2008	CoolBaker's International LLC	Partnership Council Mtg	30.41
9/25/2008	Sicilian Pizza & Pasta LLC	Dinner - Women's Hlth Mtg	171.18
9/25/2008	Sicilian Pizza & Pasta LLC	Dinner - QMMC Mtg	171.18
10/2/2008	Petty Cash	Walmart Refreshments	16.90
10/2/2008	Petty Cash	Arby's Staff Lunch	14.81

List of Meals and Food Related Purchases
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Exhibit 8

Date	Vendor Name	Description (from General Ledger)	Amount
10/2/2008	Petty Cash	Kroger - Mtg Refreshments	7.58
10/2/2008	Petty Cash	Mtg Refreshments & Supplies	6.81
10/2/2008	Petty Cash	McDonald's - Staff Lunch	6.03
10/2/2008	Petty Cash	McDonald's - Staff Lunch	4.43
10/9/2008	CoolBaker's International LLC	Finance Committee Mtg	33.58
10/9/2008	Ermin's French Bakery & Café	Medical Criteria Policy Review	54.91
10/16/2008	Aramark Refreshment Svcs	Drinks	217.79
10/16/2008	Aramark Refreshment Svcs	Emergency Supply of Drinks	106.86
10/16/2008	Aramark Refreshment Svcs	Coffee Supplies	55.37
10/16/2008	Aramark Refreshment Svcs	Kitchen Refreshments	52.49
10/16/2008	CoolBaker's International LLC	Investment Committee Mtg	82.66
10/16/2008	CoolBaker's International LLC	PCP Workgroup Mtg	30.41
10/16/2008	Feed Bag	PCP Workgroup - Dinner	174.11
10/20/2008	Republic Bank & Trust Co.	KT's Restaurant & Bar - Louisville, KY	58.39
10/23/2008	CoolBaker's International LLC	GME Lunch Mtg	64.60
10/23/2008	CoolBaker's International LLC	Mgt Oversight Committee Mtg	33.58
10/23/2008	CoolBaker's International LLC	Pharmacy Committee Mtg	31.36
10/23/2008	Sicilian Pizza & Pasta LLC	Dinner - QMMC Mtg	180.19
10/27/2008	Republic Bank & Trust Co.	California Pizza Kitchen - Louisville, KY	28.88
10/30/2008	Come Back Inn Inc.	ER Subcommittee Dinner	212.00
10/30/2008	CoolBaker's International LLC	ER Subcommittee Desserts	30.41
11/6/2008	CoolBaker's International LLC	Finance Committee Mtg Refreshments	102.99
11/6/2008	CoolBaker's International LLC	Lunch Mtg	73.64
11/6/2008	CoolBaker's International LLC	Executive Committee Mtg Refreshments	45.03
11/6/2008	CoolBaker's International LLC	Partnership Council Orientation	20.02
11/6/2008	UHC EVP	Cash Reimb - Lunch Q'doba	22.41
11/12/2008	Republic Bank & Trust Co.	Saffron's Persian Cuisine - Louisville, KY	38.18
11/13/2008	CoolBaker's International LLC	Investment Committee	77.99
11/13/2008	Terri Lynn's Catering	Lunch Mtg	177.87

List of Meals and Food Related Purchases
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Exhibit 8

Date	Vendor Name	Description (from General Ledger)	Amount
11/13/2008	Terri Lynn's Catering	Lunch Mtg	157.62
11/17/2008	Republic Bank & Trust Co.	Lynn's Paradise Café - Louisville, KY	39.98
11/20/2008	Catering Company	Catering - P&T Mtg	198.75
11/20/2008	CoolBaker's International LLC	Pharmacy Committee Mtg Refreshments	54.24
11/20/2008	Sicilian Pizza & Pasta LLC	Dinner - QMMC Mtg	180.10
11/21/2008	Republic Bank & Trust Co.	Hawks Cay Beach Grill - Duck Key, FL	44.32
11/21/2008	Republic Bank & Trust Co.	Green Turtle Inn - Islamorada, FL	220.90
11/22/2008	Republic Bank & Trust Co.	KFC - Marathon, FL	18.09
11/26/2008	Ermin's French Bakery & Café	Partnership Council Dinner	241.78
12/2/2008	Republic Bank & Trust Co.	Artemisia Restaurant - Louisville, KY	33.68
12/11/2008	CoolBaker's International LLC	Exec Committee Mtg Refreshments	27.88
12/11/2008	Ermin's French Bakery & Café	Desserts - PAD Committee	58.40
12/11/2008	Republic Bank & Trust Co.	Cake Flour on Market - Louisville, KY	26.50
12/15/2008	Republic Bank & Trust Co.	Ramsis Café on the World - Louisville, KY	54.58
12/17/2008	Come Back Inn Inc.	PCP Workgroup - Dinner	169.60
12/17/2008	CoolBaker's International LLC	Business Lunch	81.22
12/17/2008	CoolBaker's International LLC	PCP Workgroup Desserts	30.41
12/17/2008	Masterson's Catering	Catering for QMAC	734.23
12/17/2008	Terri Lynn's Catering	Lunches	157.62
12/18/2008	Aramark Refreshment Svcs	Drinks for Meetings	160.13
12/18/2008	Aramark Refreshment Svcs	Coffee Supplies	61.11
12/18/2008	CoolBaker's International LLC	Lunch Mtg w/Consultant	57.18
12/18/2008	UHC AVP	Cash Reimb - NCOIL Edy's/Cinnabon	10.70
12/18/2008	UHC AVP	Cash Reimb - NCOIL Pizza Hut	7.56
12/18/2008	Republic Bank & Trust Co.	Cake Flour on Market - Louisville, KY	287.35
12/18/2008	Republic Bank & Trust Co.	Basa's Restaurant - Louisville, KY	100.00
12/18/2008	Republic Bank & Trust Co.	The White Linen Tea Co - Louisville, KY	150.00
12/18/2008	UHC EVP	Cash Reimb - NCOIL Pizza Hut	7.56
Total 2008			\$21,812.11

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Date	Vendor Name	Description (from General Ledger)	Amount
1/5/2009	Republic Bank & Trust Co.	Bristol Bar & Grille - Louisville, KY	79.42
1/8/2009	Feed Bag	Catering For QMAC Mtg	295.74
1/8/2009	Feed Bag	Catering For QMAC Mtg	195.74
1/8/2009	Feed Bag	Catering For QMAC Mtg	(195.74)
1/12/2009	Republic Bank & Trust Co.	Arby's - Louisville, KY	22.00
1/14/2009	Come Back Inn Inc.	Meal for Child & Adolescent HI	110.24
1/14/2009	CoolBaker's International LLC	Pharmacy Comm Mtg	54.24
1/15/2009	Republic Bank & Trust Co.	Ramsi's Café on the World	54.58
1/15/2009	Republic Bank & Trust Co.	Artemisia Restaurant	33.68
1/15/2009	Sicilian Pizza & Pasta LLC	Dinner - QMMC Mtg	178.19
1/22/2009	CoolBaker's International LLC	Finance Comm Mtg Refreshments	95.55
1/22/2009	Kroger	Mtg Refreshments	30.44
1/27/2009	Republic Bank & Trust Co.	Capital Grille - Washington, DC	98.35
1/29/2009	Come Back Inn Inc.	Dinner - Partnership Council	212.00
1/29/2009	CoolBaker's International LLC	Refreshments - Exec Comm Mtg	53.87
1/29/2009	CoolBaker's International LLC	Desserts - Partnership Council	30.41
2/2/2009	Republic Bank & Trust Co.	Wick's Pizza Parlor - Louisville, KY	39.58
2/11/2009	Republic Bank & Trust Co.	The Brown Hotel - Louisville, KY	76.84
2/12/2009	Aramark Refreshment Svcs	Drinks for Meeting	163.14
2/18/2009	Cash	Saffron's - Staff Lunch	41.00
2/18/2009	Cash	Arby's - Staff Lunch	26.13
2/20/2009	Republic Bank & Trust Co.	Toast on Market - Louisville, KY	30.18
2/23/2009	Republic Bank & Trust Co.	Bristol Bar & Grille - Louisville, KY	94.23
2/24/2009	Republic Bank & Trust Co.	North End Café - Louisville, KY	40.21
2/25/2009	Catering Company	Catering for QMMC Mtg	286.00
2/25/2009	Republic Bank & Trust Co.	Q'doba - Frankfort, KY	11.94
2/25/2009	Wall Street Deli	Partnership Council Orientation	29.60
2/26/2009	Wall Street Deli	Catering for QMAC Mtg	241.13
3/2/2009	Republic Bank & Trust Co.	Wick's Pizza Parlor - Louisville, KY	42.51
3/4/2009	CoolBaker's International LLC	Lunch Mtg	77.45
3/4/2009	CoolBaker's International LLC	Lunch Mtg	74.27
3/4/2009	CoolBaker's International LLC	Breakfast Mtg	69.71

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Date	Vendor Name	Description (from General Ledger)	Amount
3/4/2009	CoolBaker's International LLC	Lunch Mtg	52.69
3/4/2009	CoolBaker's International LLC	Exec Comm Mtg Refreshments	27.88
3/5/2009	Catering Company	Dinner for Child & Adolescent	145.35
3/5/2009	CoolBaker's International LLC	Finance Comm Mtg Refreshments	27.88
3/5/2009	UHC employee	Safier Deli	37.60
3/11/2009	Come Back Inn Inc.	Dinner - QMMC Mtg	169.60
3/11/2009	Come Back Inn Inc.	Dinner - PAD Mtg	127.20
3/11/2009	Ermin's French Bakery & Café	Desserts - QMMC Mtg	34.87
3/11/2009	Ermin's French Bakery & Café	Desserts - Passport Adv Mtg	29.58
3/12/2009	Café	KCHIP Coalition Planning - Lunch	91.68
3/12/2009	University Club	Practice Mgt Seminar - Lunch	3,137.17
3/12/2009	University Club	Practice Mgt Seminar - Breakfast	1,026.58
3/16/2009	Republic Bank & Trust Co.	Pesto's Italian Restaurant - Louisville, KY	29.85
3/17/2009	Republic Bank & Trust Co.	Wick's Pizza Parlor - Louisville, KY	40.64
3/19/2009	Come Back Inn Inc.	PCP Workgroup - Dinner	127.20
3/19/2009	CoolBaker's International LLC	Refreshments - Oversight Comm	68.15
3/19/2009	CoolBaker's International LLC	Staff Lunch Mtg	61.81
3/19/2009	CoolBaker's International LLC	Refreshments - Pharmacy Comm	35.98
3/19/2009	CoolBaker's International LLC	PCP Workgroup - Desserts	30.41
3/19/2009	Republic Bank & Trust Co.	Toast on Market - Louisville, KY	72.99
3/20/2009	Republic Bank & Trust Co.	Saffron's Persian Café - Louisville, KY	20.62
3/23/2009	Republic Bank & Trust Co.	The Brown Hotel - Louisville, KY	41.04
3/25/2009	Come Back Inn Inc.	Partnership Council - Dinner	212.00
3/25/2009	CoolBaker's International LLC	Partnership Council - Desserts	30.41
4/1/2009	Aramark Refreshment Svcs	Office & Mtg Refreshments	193.95
4/1/2009	CoolBaker's International LLC	Lunch Mtg	55.98
4/1/2009	CoolBaker's International LLC	Finance Comm Mtg Refreshments	27.88
4/1/2009	UHC AVP	Cash Reimb - Serafini Business Lunch	53.00
4/1/2009	UHC AVP	Cash Reimb - Speedway Grill Business	3.67

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Date	Vendor Name	Description (from General Ledger)	Amount
4/1/2009	UHC AVP	Cash Reimb - Coco Cola Café Business	3.67
4/1/2009	UHC AVP	Cash Reimb - Cibo Market Business Meal	2.73
4/1/2009	UHC EVP	Cash Reimb - Avalon Business Lunch	86.96
4/1/2009	UHC EVP	Cash Reimb - Artemisia Business Lunch	50.00
4/1/2009	UHC EVP	Cash Reimb - Capitol Annex Business Lunch	11.63
4/2/2009	Republic Bank & Trust Co.	Janos - Tucson, AZ	62.81
4/8/2009	AMHP employee	Meals - KCHIP	244.20
4/15/2009	Republic Bank & Trust Co.	Panera Bread - Frankfort, KY	6.34
4/16/2009	CoolBaker's International LLC	Lunch - Credentialing Mtg	152.95
4/16/2009	UHC AVP	Cash Reimb - ACAP Conf Meals	28.21
4/16/2009	Republic Bank & Trust Co.	Toast on Market - Louisville, KY	24.67
4/17/2009	Republic Bank & Trust Co.	Road to Morocco - Simpsonville, KY	40.00
4/22/2009	Café	KCHIP Lunch Mtg	138.22
4/22/2009	Come Back Inn Inc.	QMMC Dinner	169.60
4/22/2009	CoolBaker's International LLC	EMR/ika Presentation Luncheon	128.23
4/22/2009	CoolBaker's International LLC	Oversight Comm Mtg Refreshments	63.48
4/22/2009	CoolBaker's International LLC	QMMC - Desserts	35.50
4/22/2009	UHC AVP	Cash Reimb - Dental Site Visit Meals	184.24
4/22/2009	Lebanon - Marion County	Member Luncheon Meals	10.00
4/23/2009	Republic Bank & Trust Co.	Einstein Bros Bagels	62.81
4/29/2009	CoolBaker's International LLC	HEN Fellows Program Refreshments	226.72
4/29/2009	CoolBaker's International LLC	Lunch Mtg w/Tom Luber	63.48
4/29/2009	Ermin's French Bakery & Café	Lunch - Medical Criteria Policy	89.40
4/29/2009	Fern Creek Community Assoc	Membership Luncheon	12.00
4/29/2009	Republic Bank & Trust Co.	Wick's Pizza - Louisville, KY	40.41
4/29/2009	Wall Street Deli	Catering - QMAC Mtg	270.34
5/5/2009	Aramark Refreshment Svcs	Office & Mtg Refreshments	237.14
5/5/2009	CoolBaker's International LLC	Lunch Mtg w/Leprechaun	97.98
5/5/2009	CoolBaker's International LLC	Refreshments for Finance Mtg	90.66
5/5/2009	Republic Bank & Trust Co.	DeSha's (CHS @ Creative)	28.38
5/5/2009	Wall Street Deli	Credentialing Mtg	91.28

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Date	Vendor Name	Description (from General Ledger)	Amount
5/6/2009	Indulge Catering	KCHIP Enrollment - Lunch Mtg	147.50
5/6/2009	Republic Bank & Trust Co.	Sbarro - Charlotte, NC	7.45
5/6/2009	UHC employee	Saffron's	63.04
5/13/2009	UHC EVP	Cash Reimb - Pizza Hut	9.96
5/16/2009	Republic Bank & Trust Co.	Beverly Coeur d'Alene Resort, ID	269.49
5/16/2009	Republic Bank & Trust Co.	Sbarro - St Paul, MN	7.25
5/17/2009	Republic Bank & Trust Co.	Moon Time - Coeur d'Alene, ID	42.62
5/19/2009	CoolBaker's International LLC	Refreshments for Pharmacy Over	66.85
5/19/2009	Republic Bank & Trust Co.	Regatta Seafood Grill - Lexington, KY	50.73
5/20/2009	Republic Bank & Trust Co.	Serafini - Frankfort, KY	21.43
5/22/2009	Republic Bank & Trust Co.	Wick's Pizza - Louisville, KY	24.08
5/26/2009	Republic Bank & Trust Co.	The Brown Hotel - Louisville, KY	80.08
5/28/2009	Come Back Inn Inc.	Dinner - Child & Adolescent Comm	135.68
5/28/2009	Ermin's French Bakery & Café	Desserts - Child & Adolescent Hlth	29.58
5/28/2009	Republic Bank & Trust Co.	Jimmy John's - Louisville, KY	37.52
5/29/2009	Republic Bank & Trust Co.	Ri Ra Irish Pub - Louisville, KY	601.53
6/2/2009	Republic Bank & Trust Co.	Proof on Main - Louisville, KY	50.00
6/3/2009	Café	KCHIP Lunch Mtg	77.76
6/3/2009	Come Back Inn Inc.	Partnership Council - Dinner	212.00
6/3/2009	CoolBaker's International LLC	Partnership Council - Desserts	30.41
6/3/2009	Republic Bank & Trust Co.	Jimmy John's - Louisville, KY	29.51
6/4/2009	Republic Bank & Trust Co.	HoneyBaked Ham & Café - Louisville, KY	48.46
6/9/2009	Aramark Refreshment Svcs	Office & Mtg Refreshments	166.22
6/9/2009	CoolBaker's International LLC	Refreshments - Board of Directors	171.16
6/9/2009	CoolBaker's International LLC	Refreshments - Finance Comm	162.92
6/9/2009	CoolBaker's International LLC	Refreshments - Exec Comm Mtg	74.78
6/9/2009	Ermin's French Bakery & Café	Medical Criteria Policy Review	52.79
6/9/2009	Kroger	Mtg Refreshments	14.98
6/10/2009	Republic Bank & Trust Co.	The Café - Louisville, KY	89.29
6/12/2009	Wall Street Deli	Dinners	256.96
6/17/2009	Come Back Inn Inc.	PCP Workgroup - Dinner	212.00
6/17/2009	CoolBaker's International LLC	PCP Workgroup - Desserts	30.41
6/19/2009	Republic Bank & Trust Co.	Panera Bread - Frankfort, KY	7.40

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Date	Vendor Name	Description (from General Ledger)	Amount
6/23/2009	Republic Bank & Trust Co.	Adelias Bakery Café - Frankfort, KY	25.73
6/24/2009	Terri Lynn's Catering	Box Lunches	157.62
6/25/2009	Thompson Publishing Group	Pizza Party	80.43
6/30/2009	Aramark Refreshment Svcs	Office & Mtg Refreshments	195.96
6/30/2009	CoolBaker's International LLC	Refreshments for Board of Directors	101.28
6/30/2009	CoolBaker's International LLC	Refreshments - Finance Comm	98.55
7/1/2009	AMHP employee	Appreciation Pizza Party	80.43
7/1/2009	Republic Bank & Trust Co.	Wick's Pizza - Louisville, KY	130.11
7/1/2009	Thompson Publishing Group	Pizza Party	(80.43)
7/8/2009	Come Back Inn Inc.	Dinner - QMMC Mtg 6/2/09	169.60
7/8/2009	CoolBaker's International LLC	Lunch meeting	74.03
7/8/2009	CoolBaker's International LLC	Desserts - QMMC Mtg 6/2/09	35.50
7/9/2009	Café	KCHIP Coalition Planning	84.67
7/13/2009	Republic Bank & Trust Co.	Saffron's Persian Cuisine - Louisville, KY	57.68
7/22/2009	CoolBaker's International LLC	Business Lunch	34.48
7/27/2009	Café	Lunch Mtg	111.97
7/27/2009	Come Back Inn Inc.	Mtg Dinner	203.52
7/27/2009	CoolBaker's International LLC	Mtg Refreshments	99.71
7/27/2009	CoolBaker's International LLC	Cookie Tray	30.41
8/6/2009	CoolBaker's International LLC	Doral Dental Audit Mtg	121.43
8/6/2009	CoolBaker's International LLC	Access to PHP Info Mtg	97.64
8/6/2009	CoolBaker's International LLC	UHC Pharmacy Oversight Comm	54.24
8/6/2009	CoolBaker's International LLC	Finance Comm Mtg Refreshments	33.58
8/6/2009	Kroger	Office Refreshments	187.45
8/6/2009	Republic Bank & Trust Co.	Wick's Pizza - Louisville, KY	73.23
8/7/2009	Republic Bank & Trust Co.	Panera Bread - Frankfort, KY	13.53
8/11/2009	Republic Bank & Trust Co.	Jack Fry's - Louisville, KY	28.65
8/12/2009	Ermin's French Bakery & Café	MCPRC Comm	61.46
8/13/2009	Republic Bank & Trust Co.	Wick's Pizza - Louisville, KY	40.68

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Date	Vendor Name	Description (from General Ledger)	Amount
8/13/2009	Republic Bank & Trust Co.	Starbuck's (Marriott Downtown) - Louisville	18.19
8/15/2009	Republic Bank & Trust Co.	Ruby Tuesday - Louisville, KY	155.17
8/19/2009	Republic Bank & Trust Co.	Puerto Vallarta - New Albany, IN	98.00
8/20/2009	Come Back Inn Inc.	PCP Workgroup - Special Mtg	212.00
8/20/2009	CoolBaker's International LLC	PCP Workgroup - Special Mtg	30.41
8/26/2009	CoolBaker's International LLC	Exec Comm Mtg Refreshments	70.92
8/26/2009	CoolBaker's International LLC	Global Settlement Impact Mtg	29.55
8/26/2009	Republic Bank & Trust Co.	Saffron's Persian Café - Louisville, KY	29.40
8/28/2009	Republic Bank & Trust Co.	Wick's Pizza - Louisville, KY	75.58
9/1/2009	Republic Bank & Trust Co.	Adelias Bakery Café - Frankfort, KY	10.44
9/2/2009	CoolBaker's International LLC	Finance Comm Mtg Refreshments	105.88
9/2/2009	CoolBaker's International LLC	Lunch Mtg	90.75
9/2/2009	UHC employee	Cake for EVP	35.00
9/4/2009	Republic Bank & Trust Co.	Arby's - Louisville, KY	19.76
9/9/2009	Come Back Inn Inc.	Dinner - QMMC Mtg	169.60
9/9/2009	CoolBaker's International LLC	Desserts - QMMC Mtg	45.78
9/9/2009	UHC EVP	Cash Reimb - Meal	10.41
9/11/2009	Republic Bank & Trust Co.	Saffron's Persian Café - Louisville, KY	29.29
9/14/2009	Republic Bank & Trust Co.	Wick's Pizza - Louisville, KY	75.03
9/22/2009	Republic Bank & Trust Co.	Art & Soul - Washington, DC	557.59
9/23/2009	Café	KCHIP Coalition Lunch Mtg	88.37
9/23/2009	Come Back Inn Inc.	Food Tray for PAD Committee	84.80
9/23/2009	Come Back Inn Inc.	Partnership Council - Dinner	212.00
9/23/2009	CoolBaker's International LLC	AMHP Contact Mtg	93.35
9/23/2009	CoolBaker's International LLC	Partnership Council - Dinner	30.41
9/23/2009	Ermin's French Bakery & Café	Dessert Tray for PAD Comm	36.34
9/30/2009	Republic Bank & Trust Co.	Jimmy John's - Louisville, KY	23.00
10/1/2009	Come Back Inn Inc.	ER Subcommittee Dinner	212.00
10/1/2009	CoolBaker's International LLC	ER Subcommittee Desserts	30.41
10/6/2009	Republic Bank & Trust Co.	Saffron's Persian Cuisine - Louisville, KY	52.44

**List of Meals and Food Related Purchases
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Exhibit 8

Date	Vendor Name	Description (from General Ledger)	Amount
10/7/2009	CoolBaker's International LLC	Pharmacy Oversight Comm	66.85
10/12/2009	Republic Bank & Trust Co.	Wick's Pizza - Louisville, KY	42.25
10/13/2009	Come Back Inn Inc.	Dinner - QMMC Mtg	212.00
10/13/2009	CoolBaker's International LLC	Desserts - QMMC Mtg	35.50
10/13/2009	Grayson County Chamber of Comm	KCHIP Annual Dinner Reservations	25.00
10/13/2009	Indulge Catering	KCHIP Coalition Strategy Mtg	92.50
10/14/2009	Republic Bank & Trust Co.	Marriott Riverbend Grill - Philadelphia, PA	63.95
10/15/2009	Republic Bank & Trust Co.	Hibachi of Penns Landing - Philadelphia, PA	163.35
10/16/2009	Republic Bank & Trust Co.	Meals	708.06
10/16/2009	Republic Bank & Trust Co.	Meals	69.13
10/16/2009	Wall Street Deli	Catering - QMAC Mtg	344.34
10/22/2009	CoolBaker's International LLC	GME Mtg w/Consultants	100.57
10/22/2009	CoolBaker's International LLC	Finance Comm Mtg	59.51
10/28/2009	Come Back Inn Inc.	PCP Workgroup - Dinner	169.60
10/28/2009	CoolBaker's International LLC	PCP Workgroup Desserts	30.41
10/29/2009	Republic Bank & Trust Co.	Wick's Pizza - Louisville, KY	22.99
11/4/2009	Terri Lynn's Catering	Catering - Government Relation	341.85
11/5/2009	Aramark Refreshment Svcs	Office & Mtg Refreshments	165.36
11/5/2009	Aramark Refreshment Svcs	Coffee	43.60
11/5/2009	Aramark Refreshment Svcs	Office & Mtg Refreshments	30.40
11/5/2009	CoolBaker's International LLC	Board of Directors Mtg Refreshments	114.20
11/5/2009	CoolBaker's International LLC	Refreshments for EMR Mtg	107.34
11/9/2009	Republic Bank & Trust Co.	Basa's Restaurant - Louisville, KY	92.00
11/11/2009	Cash	Old Spaghetti Factory	26.00
11/11/2009	Cash	Cake Flour	9.00
11/11/2009	CoolBaker's International LLC	Refreshments for Finance Comm	144.82
11/11/2009	Oldham County Chamber of	McConnell Luncheon	12.00
11/11/2009	Republic Bank & Trust Co.	Homemade Ice Cream & Pie Kitchen – Louisville	54.00
11/11/2009	Republic Bank & Trust Co.	Arby's - Louisville, KY	19.79
11/11/2009	Wall Street Deli	Partnership Council Orientation	33.96
11/16/2009	Republic Bank & Trust Co.	Saffron's Persian Cuisine - Louisville, KY	41.58

List of Meals and Food Related Purchases
January 1, 2007 – December 31, 2009

Exhibit 8

Date	Vendor Name	Description (from General Ledger)	Amount
11/16/2009	Republic Bank & Trust Co.	Safier Deli - Louisville, KY	25.20
11/17/2009	Republic Bank & Trust Co.	Toast on Market - Louisville, KY	26.32
11/17/2009	Republic Bank & Trust Co.	Cake Flour on Market - Louisville, KY	84.00
11/18/2009	Aramark Refreshment Svcs	Office & Mtg Refreshments	197.49
11/18/2009	CoolBaker's International LLC	Refreshments for Exec Comm	46.35
11/18/2009	unknown	Food	33.94
11/19/2009	Republic Bank & Trust Co.	Commander's Palace - New Orleans, LA	466.40
11/20/2009	Republic Bank & Trust Co.	Rotolo's Pizzeria, French Quarter - New Orleans, LA	41.65
11/20/2009	Republic Bank & Trust Co.	Café Beignet - New Orleans, LA	9.32
11/24/2009	Ermin's French Bakery & Café	Partnership Council Dinner	221.25
11/24/2009	unknown	Wheatley Hlth Fair - KCHIP Bas	750.00
11/24/2009	Jarfi's Bistro & Catering LL	KCHIP Press Conf Lunch	1,581.00
11/24/2009	Kroger	Wheatley Hlth Fair - KCHIP Bas	1,124.50
11/24/2009	Republic Bank & Trust Co.	Red Lobster - St Matthews, KY	76.48
11/25/2009	Catering Company	Behavioral Hlth & P&T Food	211.80
11/25/2009	Catering Company	PHP P&T Food	131.40
11/25/2009	unknown	KCHIP Food Baskets	750.00
11/30/2009	unknown	KCHIP Food Baskets	(750.00)
11/30/2009	Republic Bank & Trust Co.	Terri Lynn's Catering - Floyds Knobs, IN	221.01
12/7/2009	Republic Bank & Trust Co.	Saffron's Persian Cuisine - Louisville, KY	35.15
12/8/2009	AMHP employee	Reimb for Holiday Dinner	747.18
12/8/2009	Republic Bank & Trust Co.	Homemade Ice Cream & Pie Kitchen – Louisville	72.00
12/11/2009	Republic Bank & Trust Co.	Cake Flour on Market - Louisville, KY	14.00
12/15/2009	Republic Bank & Trust Co.	Quizno's - Louisville, KY	22.95
12/16/2009	University Club	KCHIP Holiday Luncheon	411.11
12/17/2009	Come Back Inn Inc.	Meal for PAD Committee	63.60
12/17/2009	Come Back Inn Inc.	PCP Workgroup - Dinner	169.60
12/17/2009	CoolBaker's International LLC	Refreshments for Finance Comm	55.15
12/17/2009	CoolBaker's International LLC	Refreshments for UHC Board Dir	53.71
12/17/2009	CoolBaker's International LLC	PCP Workgroup Desserts	30.41
12/17/2009	Masterson's Catering	Catering for QMAC	689.63
12/18/2009	Republic Bank & Trust Co.	Toast on Market - Louisville, KY	28.00

List of Meals and Food Related Purchases
January 1, 2007 – December 31, 2009

Exhibit 8

Date	Vendor Name	Description (from General Ledger)	Amount
12/21/2009	Cash	The Café	20.91
12/21/2009	Ermin's French Bakery & Café	Medical Criteria Policy	53.56
12/21/2009	UHC AVP	Cash Reimb - Meal	8.64
12/21/2009	Indulge Catering	KCHIP Coalition Lunch Mtg	94.00
12/21/2009	Republic Bank & Trust Co.	Credit - Basa's - Louisville, KY	(0.23)
12/21/2009	Republic Bank & Trust Co.	Credit - Safier Deli	(3.00)
12/21/2009	Wall Street Deli	Lunches	84.08
12/21/2009	Wall Street Deli	KCHIP Coalition Lunch Mtg	58.42
12/23/2009	Wall Street Deli	KCHIP Coalition Lunch Mtg	98.42
12/23/2009	Wall Street Deli	KCHIP Coalition Lunch Mtg	(58.42)
Total 2009			\$31,316.07

Notes: Where Republic Bank & Trust Co. is the vendor name, a credit card was used to make the purchase.
Where "UHC employee" or "AMHP employee" is the vendor, the purchase was made by an employee, then the employee was reimbursed.
Where "UHC EVP" is the vendor, the purchase was made by the UHC Executive Vice President, then reimbursed.
Where "UHC AVP" is the vendor, the purchase was made by the UHC Associate Vice President, then reimbursed.

Food Expenses Exceeding \$1,000 at Five Vendors in 2007

Vendor	Amount Spent at Vendor	Number of Purchases at Vendor	Average Spent Per Purchase at Vendor
Ermin's French Bakery & Café	\$2,544	27	\$4
Comeback Inn, Inc.	1,685	11	153
Coolbaker's International, LLC	1,481	21	71
Oceanaire Seafood	1,428	1	1,428
Brownsboro Eatery	1,086	4	272
Total	\$8,224	64	\$129

Food Expenses Exceeding \$1,000 at Seven Vendors in 2008

Vendor	Amount Spent at Vendor	Number of Purchases at Vendor	Average Spent Per Purchase at Vendor
Coolbaker's International, LLC	\$3,524	60	\$59
Aramark Refreshment Svcs	2,329	15	155
Catering Company	1,851	8	231
Comeback Inn, Inc.	1,543	10	154
Ermin's French Bakery & Café	1,278	11	116
Terry Lynn's Catering	1,025	7	146
Sicilian Pizza & Pasta, LLC	1,003	6	167
Total	\$12,553	117	\$107

Food Expenses Exceeding \$1,000 at Seven Vendors in 2009

Vendor	Amount Spent at Vendor	Number of Purchases at Vendor	Average Spent Per Purchase at Vendor
University Club	\$4,575	3	\$1,525
Coolbaker's International, LLC	4,423	63	70
Comeback Inn, Inc.	3,566	21	170
Jarfi's Bistro & Catering, LLC	1,581	1	1,581
Wall Street Deli	1,450	11	132
Aramark Refreshment Svcs	1,393	9	155
Kroger	1,125	1	1,125
Total	\$18,113	109	\$166

List of Gifts Purchased
January 1, 2007 – December 31, 2009

Exhibit 10

Date	Vendor Name	Description (from General Ledger)	Amount
1/10/2007	Hathaway, Dixie	Candies for Gift Bags	\$114.80
1/10/2007	Republic Bank & Trust Co.	Bereavement Flowers	49.82
1/11/2007	Gourmet Corn & More	19 Holiday Tins w/Nuts/Candy	333.42
1/11/2007	Gourmet Corn & More	5 - 6 1/2 Gal, 3 Flavor w/Nuts	299.15
1/17/2007	Republic Bank & Trust Co.	Amazon.com Bill - WA (book order for EVP)	58.36
2/27/2007	Republic Bank & Trust Co.	Korfhage Landscape - Louisville, KY (Planter)	60.42
3/15/2007	Republic Bank & Trust Co.	Gift Card	100.00
3/20/2007	Republic Bank & Trust Co.	Korfhage Landscape - Louisville, KY (Bereavement Flowers)	86.92
4/20/2007	Republic Bank & Trust Co.	Hanhurst LLC, Louisville Slugger Field – KY	43.00
5/14/2007	Republic Bank & Trust Co.	Bits & Pieces (online)	55.98
5/30/2007	Republic Bank & Trust Co.	Discount Mugs – FL	222.65
6/2/2007	Republic Bank & Trust Co.	Korfhage Landscape - Louisville, KY (Shircliff Father)	97.52
7/6/2007	Republic Bank & Trust Co.	Korfhage Landscape - Louisville, KY (Flowers)	56.71
10/9/2007	Republic Bank & Trust Co.	Tracee Dore Interior Designs	27.56
11/3/2007	Republic Bank & Trust Co.	Paul's Fruit Market - Louisville, KY (Appreciation Fruit Basket)	92.00
11/21/2007	Korfhage Landscape	Get Well Flowers	139.39
11/21/2007	Korfhage Landscape	Funeral Arrangements	83.74
11/21/2007	Korfhage Landscape	Birthday Flowers	44.52

List of Gifts Purchased
January 1, 2007 – December 31, 2009

Exhibit 10

Date	Vendor Name	Description (from General Ledger)	Amount
11/21/2007	Korfhage Landscape	Birthday Flowers	33.92
11/29/2007	UHC Employee	Reimb for Gift	40.01
11/29/2007	UHC Employee	Reimb for Sympathy Card	2.11
12/19/2007	Republic Bank & Trust Co.	Bereavement Flowers (2)	143.63
12/20/2007	Unknown	Reimb for speaker gift	109.53
12/23/2007	Republic Bank & Trust Co.	Radio Shack – PA	20.18
		Total 2007	\$2,315.34

Date	Vendor Name	Description (from General Ledger)	Amount
1/4/2008	Republic Bank & Trust Co.	JD Becker Stores - Louisville, KY	\$63.58
1/15/2008	Republic Bank & Trust Co.	The Clock Depot – Durham, NC	51.77
1/17/2008	American Lung Association	Donation	200.00
2/18/2008	Republic Bank & Trust Co.	Nanz & Kraft Florist – Louisville, KY	90.00
2/18/2008	Republic Bank & Trust Co.	The Clock Depot – Durham, NC	(39.60)
3/27/2008	UHC Employee	Reimb for Gift	13.29
3/27/2008	UHC Employee	Reimb for Get Well Basket	51.44
3/27/2008	UHC Employee	Reimb for Muth Candies	26.66
4/17/2008	Korfhage Landscape	Get Well Soon Flowers	71.02
4/17/2008	Korfhage Landscape	Thank you flowers	64.66
5/22/2008	UHC Employee	Reimb for Flowers	13.77

List of Gifts Purchased
January 1, 2007 – December 31, 2009

Exhibit 10

Date	Vendor Name	Description (from General Ledger)	Amount
7/3/2008	Republic Bank & Trust Co.	Broadway Florist – Louisville, KY	56.18
8/1/2008	Republic Bank & Trust Co.	Korfhage Landscape – Louisville, KY	138.86
8/13/2008	Korfhage Landscape	Flowers – Get Well	60.42
8/13/2008	Korfhage Landscape	Flowers	60.42
8/13/2008	Korfhage Landscape	Flowers – Get Well	39.22
8/15/2008	Republic Bank & Trust Co.	Broadway Florist – Louisville, KY	47.70
9/5/2008	Republic Bank & Trust Co.	Korfhage Landscape – Louisville, KY	72.08
9/10/2008	Republic Bank & Trust Co.	Korfhage Landscape	82.68
9/10/2008	Republic Bank & Trust Co.	Korfhage Landscape	56.18
10/2/2008	Petty Cash	Sympathy Card	2.85
11/8/2008	Republic Bank & Trust Co.	Paul’s Fruit Market – Louisville, KY	47.95
12/2/2008	Republic Bank & Trust Co.	Nanz & Kraft Florist – Louisville, KY	116.85
12/5/2008	Republic Bank & Trust Co.	Broad Run Vineyards – Louisville, KY	680.00
12/17/2008	Republic Bank & Trust Co.	Edible Arrangements – KY	99.64
12/17/2008	Republic Bank & Trust Co.	Edible Arrangements – KY	81.62
12/17/2008	Republic Bank & Trust Co.	Edible Arrangements – KY	81.62
12/17/2008	Republic Bank & Trust Co.	Edible Arrangements – KY	46.64
12/17/2008	Republic Bank & Trust Co.	Edible Arrangements – KY	68.90
12/17/2008	Republic Bank & Trust Co.	Edible Arrangements – DC	102.89
12/18/2008	Republic Bank & Trust Co.	JD Becker Stores – Louisville, KY	15.24

List of Gifts Purchased
January 1, 2007 – December 31, 2009

Exhibit 10

Date	Vendor Name	Description (from General Ledger)	Amount
12/18/2008	Republic Bank & Trust Co.	Edible Arrangements – KY	99.64
12/18/2008	Republic Bank & Trust Co.	Edible Arrangements – DC	106.19
		Total 2008	\$2,770.36

Date	Vendor Name	Description (from General Ledger)	Amount
1/8/2009	Republic Bank & Trust Co.	Korfhage Landscape - Louisville, KY	\$193.98
1/14/2009	Republic Bank & Trust Co.	Paul's Fruit Market - Louisville, KY	114.00
1/15/2009	Republic Bank & Trust Co.	Cake Flour Xmas Gifts	287.35
1/15/2009	Republic Bank & Trust Co.	White Linen Tea Co - Xmas Gifts	150.00
1/15/2009	Republic Bank & Trust Co.	Basa Vietnamese Xmas Gift	100.00
1/15/2009	Republic Bank & Trust Co.	Edible Arrangements Xmas Gifts	99.64
2/6/2009	Republic Bank & Trust Co.	Korfhage Landscape - Louisville, KY	40.23
2/26/2009	Republic Bank & Trust Co.	Broadway Florist - Louisville, KY	68.00
3/2/2009	Republic Bank & Trust Co.	Paul's Fruit Market - Louisville, KY	91.95
3/10/2009	Republic Bank & Trust Co.	Nanz & Kraft Florist - Louisville, KY	106.00
3/27/2009	Republic Bank & Trust Co.	Paul's Fruit Market - Louisville, KY	56.95
4/1/2009	UHC Employee	Reimb for Cake Flour - Gift	63.60
4/1/2009	UHC Employee	Reimb for Cake Flour - Gift	55.12
4/3/2009	Republic Bank & Trust Co.	Korfhage Landscape - Louisville, KY	50.88
4/22/2009	Republic Bank & Trust Co.	Online Photo Products (photomama.com) - NY	14.97
5/9/2009	Republic Bank & Trust Co.	Korfhage Landscape - Louisville, KY	192.77

List of Gifts Purchased
January 1, 2007 – December 31, 2009

Exhibit 10

Date	Vendor Name	Description (from General Ledger)	Amount
5/19/2009	Republic Bank & Trust Co.	Best Buy - Lexington, KY	213.77
5/20/2009	Republic Bank & Trust Co.	AV Outlet - Petersburg, VA	40.28
5/20/2009	Republic Bank & Trust Co.	Nanz & Kraft Florist - Louisville, KY	166.32
5/20/2009	Republic Bank & Trust Co.	Korfhage Landscape - Louisville, KY	75.21
6/2/2009	Republic Bank & Trust Co.	FTD - Huntingburg, IN (Huntingburg Greenhouse in IN)	57.25
6/4/2009	Republic Bank & Trust Co.	Nanz & Kraft Florist - Louisville, KY	59.26
6/8/2009	Republic Bank & Trust Co.	Edible Arrangements - KY	102.82
6/15/2009	Republic Bank & Trust Co.	Edible Arrangements - KY	83.21
7/26/2009	Republic Bank & Trust Co.	Nanz & Kraft Florist - Louisville, KY	84.75
9/17/2009	Republic Bank & Trust Co.	Nanz & Kraft Florist - Louisville, KY	108.02
9/19/2009	Republic Bank & Trust Co.	Paul's Fruit Market - Louisville, KY	56.95
10/28/2009	AMHP Employee	Fruit Basket	51.95
10/28/2009	AMHP Employee	Fruit Basket	47.95
11/27/2009	Republic Bank & Trust Co.	Muth's Candies - Louisville, KY	594.66
12/3/2009	Republic Bank & Trust Co.	Pathelen Flower & Gift Shop - Louisville, KY	100.00
12/17/2009	AMHP Employee	Reimb - Gift Certificate	100.00
12/17/2009	Republic Bank & Trust Co.	Dipped Fruit by Edible Arrangements - CT	79.50
12/17/2009	Republic Bank & Trust Co.	Dipped Fruit by Edible Arrangements - CT	83.74
12/18/2009	Republic Bank & Trust Co.	Edible Arrangements - KY	79.50
12/23/2009	Republic Bank & Trust Co.	Harney & Sons Tea - NY	150.00
12/30/2009	Republic Bank & Trust Co.	Edible Arrangements - KY	102.82

List of Gifts Purchased
January 1, 2007 – December 31, 2009

Exhibit 10

Date	Vendor Name	Description (from General Ledger)	Amount
12/30/2009	Republic Bank & Trust Co.	Edible Arrangements - KY	102.82
		Total 2009	\$4,226.22

Notes: Where Republic Bank & Trust Co. is the vendor name, a credit card was used to make the purchase.
Where "UHC employee" or "AMHP employee" is the vendor, the purchase was made by an employee, then the employee was reimbursed.

Vendor Name	Description (from General Ledger)	2007-2010 Total
Access Services Group	various printing	\$84,610.43
Adrenaline Force Amusements	dining décor for cocktail area	2,850.00
Advanced Pharmacy Concepts	Various	96,903.07
Charlotte Akers	Cleaning	200.00
American Printing House	Audio	954.52
Americanan Community Center	facility rent	1,250.00
AmeriHealth HMO Incorporated	Annual Administrative Fee	70,000.00
AMHP	record misc expenses and EMPLOYEE BONUSES paid by AMPH	251,671.80
AMHP	record misc due to affiliate expenses	(9,239.55)
AMHP	chargebacks & various	2,809,364.01
Amin's Family Practice	chart reviews	60.00
Ruth Atkins	contract & fees	7,200.00
Automatic Data Processing	payroll processing-UHC EVP	57.80
B2B Financial Advantage	delivery of board packets	114.86
Balloons Galore	archway for glorious women	350.00
Margaret Beachy	financial services	600.00
Bee Line Courier	Courier	4,729.01
Jennifer Blum	Cleaning	6,290.00
Mark Blum	temp services - admin assistant	504.00
Bryan P Brothers	independent contractor-passport advantage	75,714.00
Brown Hotel	Conference	51,274.64
Brown Hotel	lodging –consultant	161.01
Buechel Park Baptist Church	facility rent	900.00
C&R Graphics	KCHIP Business Cards	1,221.17
C&H Audio Visual Services	KCHIP	1,487.98
Cadillac Sign & Decal	new logo sign for building	345.49
Cash	fedex kinkos	55.28
Catholic Charities of Louisville	Interpreters	3,349.43

Consulting and Outsourced Services General Ledger Detail by Vendor
January 1, 2007 – June 30, 2010

Exhibit 11

Vendor Name	Description (from General Ledger)	Total
Central Cardiology Associates	chart reviews	100.00
Chamberlin Edmonds & Assoc	Professional services for membership classification	810,000.00
Coakley Tech	printing stork brochures	2,162.00
Commonwealth Cardiology	medical charts	40.00
Commonwealth Centre LLC	Consulting	20,000.00
Communicare Inc	medical records review	3,990.00
DC Tours	Bus-KCHIP Press Conf	125.00
Dean, Dorton, & Ford	professional fees, etc	188,707.94
Deloitte & Touche, LLP	Audit	752,293.00
Deloitte Tax LLP	professional tax services	43,125.00
Dennis Gray MD	medical records review	170.00
Barry Denton	security services	690.00
Domino Partners	labor & materials	5,549.00
Helmer Duverge	PAD-Spanish materials	2,900.00
E&H Integrated Systems	labor	1,479.03
Elizabeth Easton-May	marketing assessment-passport advantage	13,576.91
Epocrates Inc	formulary hosting	40,500.00
BobbieLee Evans	security services	1,162.50
Expressions of You Coffeehouse	breakfast meeting	240.79
Family Life Center	rental fee for facility	300.00
Fedex kinkos	Presentations	1,059.05
Mike Fenton	temp - it tech	187.50
Focal Point Productions	KCIP Gov Press Conf & video for conference	24,555.80
George Fern Company	expense distribution	75.00
Nicole Gaines	contract employment AVP	3,653.60
Galt House Hotel	conference facility	21,737.90
Reavea Giles	expense distribution	78.00
Government Works Inc	mar 10	2,892.90
Health Data Management	fee schedule & drg comparison	82,575.00
Healthcare Options Inc	professional fees and consulting	182,301.28
Hmetrix LLC	development of fee schedule & capitation review	76,400.00
HR Affiliates Outsourcing	Consulting	4,987.50

**Consulting and Outsourced Services General Ledger Detail by Vendor
January 1, 2007 – June 30, 2010**

Exhibit 11

Vendor Name	Description (from General Ledger)	Total
Huron Consulting Services	Pedicare and Medicare Part D & MA-SNP Audit	76,869.59
Indulge Catering	breakfast & lunch meetings	16,733.48
IKA Systems Corp	monthly maintenance & hosting	1,144,000.00
Impressions	Printing KCHIP ad inserts & new business cards	7,263.17
Vivian H Jackson	speaker honorarium & Expenses	1,544.17
Joint commission	conference speakers expense	88.47
Journal Entries	Various	(158,872.54)
Juleps Catering	catering for GWA	2,300.20
Ingenix Consulting	Consulting	12,600.00
Klein Brothers	alter 3 locks and 22 keys	165.80
Ky State Treasurer	OOI Audit	47,747.51
Language Services Consultants	Translations	67,130.00
Leap Frog Inc	domain mgmt & hosting	1,188.80
Legal Aid Society	conference presentation	1,500.00
Leprechaun LLC	Various	1,682,571.72
Louisville Health Information	contribution to LouHIE Business	10,000.00
Lewin Group Inc	professional services	19,525.48
McCarthy & Speaks Strategic	Consulting	208,500.58
Kenneth McGill	Janitorial	820.00
Media Marketers	web site changes	287.50
Mercer Human Resources	Consulting	247,727.51
Midlantic Color Graphics	Plastic ID cards	115,819.55
Richard G Miller	professional services - passport advantage	57,600.00
Milliman USA	actuarial consulting	685,724.36
Minuteman Press	10 yr celebration & flyers	63.39
MPC Promotions	printed pens	246.92
Murphy's Camera	Pictures	1.53
NCQA	application fee	3,750.00
Nephrology Associates	medical charts	90.00
Network Printing	Printing	6,216.90
New South Strategies	Consulting	14,000.00
Tammy Payton	temp services - admin assistant	1,008.00
PC Staffing Inc	application navigators-KCHIP	405,882.27

**Consulting and Outsourced Services General Ledger Detail by Vendor
January 1, 2007 – June 30, 2010**

Exhibit 11

Vendor Name	Description (from General Ledger)	Total
People Strategy Business Consulting	Consulting	6,822.50
Peritus Public Relations	contract fees	92,764.00
PHX Productions	KCHIP - one year anniversary gov	617.05
PJ Delivery service	delivery	427.13
Randstad	Kchip Admin & temps	19,140.21
Stacey Redmon	security services	1,905.00
Rent & Rave	rental of tables for HLP	168.27
Republic Bank	Lynn Imaging	11.14
unknown	Jazz Treo for 1/16/08 event	800.00
UHC employee	expenses & cleaning	825.40
Safran Associates	Consulting	6,515.70
Alicia J Sells	contractual services	16,112.70
Seven Counties Services	medical records review	9,920.00
Sharyne Shiu-Thornton	speaker for conference	1,000.00
Shred it	Shredding	1,909.80
Sign a Rama Downtown	artwork for potential signage	120.00
Southern Strategy Group of Kentucky	Professional Services	337,907.71
Jo Ann Thomas	contract agreement – KCHIP	72,279.29
Treadstone Duplication	Duplicating	668.83
US Advisors inc	consulting fees-reinsurance	144,375.00
UofL	videotaping & dvd copies	1,655.74
UofL	various salary reimbursements	1,366,159.41
University Physicians Group	wages & benefits	951,371.89
University Psychiatric Service	medical records review	1,330.00
Vimarc Group Inc	various marketing - 2008 formal invite for UHC holiday	127,193.21
Vicki Welch	contract agreement	51,989.32
Wire One Communications	AV equipment & installation	15,243.91
Woodcock & Associates	practice mgmt consulting & seminar	28,924.59
Writing to Win Inc	CHIPRA Grant Writer	3,000.00
Young Design	creation of med tracker/incen	910.00
Zen Reprographics	Sign	\$3,180.52
	Total	\$13,695,936.33

**List of Sponsorships and Donations Made By UHC/Passport
January 1, 2007 – June 30, 2010**

Exhibit 12

Vendor Name	Description	Amount
2007		
ALEC - Kentucky Night	Sponsorship	\$350
Americana Community Center	Health Fair Sponsorship	1,000
Centro Latino of Shelbyville	Sponsorship - Health Fair	500
Children's Hospital Foundation	Golf Outing	5,000
Greater Louisville Inc	GLI Annual Dinner Table	725
Greater Louisville Inc	Sponsorship - Legislative Appr	1,000
Greater Louisville Inc	Sponsorship - Who Killed Health	3,000
Healing Place Inc	Sponsorship - Freedom Dinner	1,200
Health Kentucky Inc	Sponsorship	3,500
Hospice of the Bluegrass	Bronze Sponsorship	500
Jewish Hospital Foundation	Gold Sponsorship - The Doctors Ball	10,000
Kentucky Chamber of	Bronze Sponsorship – Chamber	2,500
Kentucky Insurance Council	Sponsorship - Appreciation Dinner	500
Kentucky Insurance Council	Sponsorship	300
Kentucky Opera	Carnevale 2008 Table Sponsor	2,000
Kentucky Public Health	Sponsor - Conner Golf Scramble	450
KET	Sponsorship	500
KY State Treasurer	Sponsorship - eHealth Summit	6,000
Louisville Jefferson Co Metro	World Fest Sponsorship	3,000
Louisville/Jefferson County	Sponsorship - Louisville Night	500
Louisville/Jefferson County	Louisville Night 2/22/07	500
Louisville/Jefferson County	Sponsorship	500
Medicaid Health Plans	2007 MHPA Annual Meeting	7,500
National Conference of	Sponsorship	350
National Foundation for Women	Sponsorship NFWL	2,500
NCQA	Sponsorship	1,000
Norton Healthcare Foundation	Sponsorship	5,000
Paid with Credit Card	Sponsor - King's Daughter Health	500
Southern Legislative Conf	Sponsorship	175
2007 Total		\$60,550
Vendor Name	Description	Amount
2008		
Alzheimer's Assoc	Sponsorship - Memory Walk	\$2,000
Americana Community Center	World Festival Sponsorship	1,000
Boat People SOS – Louisville	Health Fair Sponsorship	500
Boy Scouts of America	Sponsorship – Luncheon	2,000
Brain Injury Assoc of Ky	Sponsorship	1,750

**List of Sponsorships and Donations Made By UHC/Passport
January 1, 2007 – June 30, 2010**

Exhibit 12

Vendor Name	Description	Amount
Bridgehaven Inc	Sponsorship	10,000
Children's Hospital Foundation	Sponsorship - Golf Outing	5,000
Children's Hospital Foundation	Sponsorship - Snow Ball	2,750
Convention Connection Total	Thunder Over Louisville Sponsor	1,000
Council on Mental Retardation	Sponsorship - Art from Heart	1,000
Greater Louisville Inc	Sponsorship - GLI Annual Dinner	725
Greater Louisville Inc	Sponsorship - Healthcare & Elect	3,500
Greater Louisville Inc	Sponsorship - 2008 Holiday Par	1,500
Greater Louisville Inc	Sponsorship - Legislative Lunch	350
Healing Place Inc	Sponsorship - Freedom Dinner	1,200
Health Kentucky Inc	Sponsorship	3,500
Hispanic Latino Coalition	Health Fair Sponsorship	1,000
Hospice of the Bluegrass	Sponsorship - Hospice Gala	500
Jewish Family & Vocational	Table Sponsorship	1,500
Jewish Hospital Foundation	Circle of Care - Drs Ball Dona	10,000
Juvenile Diabetes Research	Sponsorship	1,000
Kentucky Chamber of	Sponsorship	1,000
Kentucky Commission on	Event Sponsorship - Women Health	5,000
Kentucky Insurance Council	Sponsorship - Appreciation Din	300
Kentucky Pediatric Society	Sponsorship	6,000
Kentucky Public Health	Sponsorship	450
King's Daughter's Health Foundation	Sponsorship	500
Louisville Jefferson Co Metro	JHSMH Portion for Luncheon	1,000
Louisville/Jefferson County	Sponsorship - Louisville Night	500
Medicaid Health Plans	Seminar Registration	7,500
Medical News	Sponsorship - 50% Medistar Govern	5,000
National Alliance for the Ment	2008 Walk	3,000
Norton Healthcare Foundation	Sponsorship - Golf Outing	5,000
South Lexington Babe Ruth	Full Page Ad Sponsorship	125
University of Louisville	Autism Awareness Day T-Shirts	2,340
University of Louisville	1/3 Sponsorship of Dr's Ball	3,333
Volunteer's of America of KY In	Sponsorship - Grace House	10,000
Volunteer's of America of KY In	Sponsorship – UofL President	5,000
Reimbursed to AMHP1	Sponsorship of St. Joseph's Hall of Fame Awards- honoring Dan Hilferty	1,500
Reimbursed to AMHP1	Sponsorship of American Heart Association Crystal Gala	2,500
Reimbursed to AMHP1	Sponsorship of Women 4 Women event	5,000
Reimbursed to AMHP1	ALEC Kentucky Night Sponsorship	175

**List of Sponsorships and Donations Made By UHC/Passport
January 1, 2007 – June 30, 2010**

Exhibit 12

Vendor Name	Description	Amount
Reimbursed to AMHP1	SLC Kentucky Night Sponsorship	166
Reimbursed to AMHP1	NCSL Kentucky Night Sponsorship	175
2008 Total		\$117,339
Vendor Name	Description	Amount
2009		
2NOT1 Fatherhood & Families	Conference Sponsor	\$500
American Academy of Pediatric	Sponsorship	6,000
American Heart Association	Kentuckiana Crystal Gala	2,500
Americana Community Center	World Festival Sponsorship	1,000
Arcoiris Latino	Contribution	300
Blue Grass Community Foundation	Spring Meeting Funding Support	5,000
Bluegrass Regional MH/MR Board	CIT Conference Sponsorship	2,500
Boy Scouts of America	Sponsorship - Award Dinner	3,000
Boy Scouts of America	Dodgeball Tournament	1,000
Brain Injury Association of Ky	Sponsorship	2,500
Bridgehaven Inc	Sponsorship	10,000
CASA Inc	KCHP Sponsor	4,000
Center for Women & Families	Sponsorship for Direct Service	5,000
Champions 4 Her Walk, Run & Fe	Sponsorship Fee	15,000
Children's Hospital Foundation	Sponsorship - Golf Outing	5,000
Children's Hospital Foundation	Sponsorship	3,000
Dare to Care Inc	Sponsorship - Hunger Walk	2,500
Epilepsy Foundation Kentuckian	Bag Tag Sponsor for Golf	750
Father Maloney's Boys Haven In	KCHIP - Golf Scramble	700
Government Strategies	Co-Sponsorship - Senate Majority	600
Government Strategies	Sponsorship	600
Greater Louisville Inc	Sponsorship - GLI Annual Meeting	725
Greater Louisville Inc	Sponsorship - Legislative Lunch	350
Greater Louisville Inc	Holiday Party Sponsorship	2,000
Health Kentucky Inc	Sponsorship	3,500
Home of the Innocents	Partner Sponsorship	10,000
Hospice of the Bluegrass	Sponsor - 10th Annual Gala	500
Jefferson County Sheriff's Off	Sponsorship	500
Jewish Hospital Foundation	Sponsorship	10,000
AMHP Employee	Reimburse - Donation to Americana	100
Juvenile Diabetes Research	Sponsorship - Cure Gala	1,000

**List of Sponsorships and Donations Made By UHC/Passport
January 1, 2007 – June 30, 2010**

Exhibit 12

Vendor Name	Description	Amount
Kentucky Chamber of	Sponsor - KY Chamber Annual Mt	5,000
Kentucky Commission on	Event Sponsorship	3,000
Kentucky Derby Festival Inc	2009 Inflatable Character Sponsor	10,000
Kentucky Diabetes Network	Sponsorship	2,500
Kentucky Insurance Council	Sponsorship - Appreciation Reception	300
Kentucky Opera	2010 Carnevale Sponsorship	3,000
Louisville Baseball Club Inc	KCHIP Sponsored Event	350
Medicaid Health Plans	Annual Meeting Sponsorship	7,500
Medical News	Sponsorship - Governor's Dignity	10,000
National Alliance for the Ment	NAMI Walk 2009	3,000
Norton Healthcare Foundation	Sponsorship	5,000
South Lexington Babe Ruth	Full Page Ad Sponsorship	125
University of Louisville	Sponsorship	1,000
University of Louisville	Sponsorship	500
Volunteers of America of KY	Sponsorship	5,000
Women For Women Inc	Sponsorship - Gold Tournament	1,500
2009 Total		\$157,900
Vendor Name	Description	Amount
Thru June 2010		
American Heart Association	Sponsorship - Crystal Gala	\$2,500
Americana Community Center	Americana World Festival	1,000
Boy Scouts of America	Sponsorship - Luncheon	3,000
Bullitt County Chamber of	KCHIP Sponsor	200
Center for Women & Families	Sponsorship for Direct Service	5,000
Champions 4 Her Walk, Run &	Sponsor	15,000
Children's Hospital Foundation	Sponsor	5,000
Epilepsy Foundation Kentuckian	2010 Brainstorms Conf	5,000
Greater Breckinridge County	KCHIP - Sponsored Breakfast	100
Greater Louisville Inc	Sponsorship - Driving Innovation	3,500
Home of the Innocents	Sponsorship - Oaks Branch	10,000
Juvenile Diabetes Research	Sponsorship - Cure Gala	1,000
Kentucky Chamber of	Sponsorship - Chamber Day	1,000
Kentucky Chamber of	Sponsorship Ky Chamber 7/13	5,000
Kentucky Host Committee	Sponsor	10,000
Kentucky Refugee Ministries	Sponsorship	1,000
King's Daughter's Health Foundation	15th Annual Rocky	250
Louisville/Jefferson County	Sponsorship - Louisville Night	500
Medical News	2010 Medistar Sponsor	7,500

**List of Sponsorships and Donations Made By UHC/Passport
January 1, 2007 – June 30, 2010**

Exhibit 12

Vendor Name	Description	Amount
NCQA	Sponsorship - NCQA Awards Dinner	1,000
Norton Healthcare Foundation	Sponsorship - Golf Outing	5,000
Phillis Wheatley Elementary Sc	Sponsorship Health Fair	500
SWANS Inc	Contribution to the Grace Project	500
University of KY Center for Re	Sponsorship	2,750
University of Louisville	Sponsorship	1,000
Thru June 2010 Total		\$87,300
Total for 2007-June 2010		\$423,089

Note 1: Where "Reimbursed to AMHP" is the vendor, AMHP paid the fee initially, then UHC/Passport reimbursed AMHP

**List of Association Fees and Dues Paid By UHC/Passport
January 1, 2007 – June 30, 2010**

Exhibit 13

Vendor	Description	Amount
2007		
Greater Louisville Medical Soc	2008 Membership Dues – Executive Vice President	\$170
Reimburse AMHP ¹	Ky Chamber of Commerce	5,500
Reimburse AMHP	Greater Louisville Inc	2,500
Reimburse AMHP	American Health Plans Association	16,800
Reimburse AMHP	Health Enterprises	1,500
Reimburse AMHP	Medicaid Health Plans of America	17,500
Kentucky Hospital Association	Dues for Y/E June 2008	500
Kentucky Primary Care Association	Annual Membership	200
Kentucky Public Health	KPHA Membership Dues – Turner	250
Ky Assoc of Health Plans	Annual Membership Dues	6889
Paid with credit card ²	KHA Membership Dues 2007	500
University Club	6 months @ 32.50; 6 months @ 35.00	405
	2007 Total	\$52,714
2008		
Reimburse to AMHP	American Health Insurance Plans	\$16,800
Reimburse to AMHP	Medicaid Health Plans of America	17,500
Reimburse to AMHP	Health Enterprises Network	1,500
Reimburse to AMHP	Greater Louisville Inc	2,500
Reimburse to AMHP	Kentucky Chamber of Commerce	6,050
Reimburse to AMHP	Kentucky Association of Health Plans	10,000
Reimburse to AMHP	Special Needs Plan Alliance Dues – Medicare	11,903
Greater Louisville Medical Society	2009 Dues – Executive Vice President	220
Kentucky Hospital Assoc	Dues	500
Kentucky Primary Care Assoc	Annual Membership	200
Kentucky Primary Care Assoc	Annual Membership Dues	200
Kentucky Public Health	Dues Renewal – Executive Vice President	250
Paid with credit card	National Association of Professional Women – Membership	619
University Club	6 months @ 35.00; 6 months @ 37.00	432
	2008 Total	\$68,674
2009		
America's Health Insurance Plans	Annual Dues	\$17,640
Reimburse AMHP	Medicaid Health Plans of America	17,500
Bardstown – Nelson County	Chamber of Commerce Membership	430
Bardstown – Nelson County	2010 Membership Dues	430
Bullitt County Chamber of Commerce	Chamber of Commerce Membership	400
Bullitt County of Chamber of Commerce	Membership Dues	400
Carroll County	Membership	250

**List of Association Fees and Dues Paid By UHC/Passport
January 1, 2007 – June 30, 2010**

Exhibit 13

Vendor	Description	Amount
Elizabethtown – Hardin County	Membership dues 2009	132
Elizabethtown – Hardin County	KCHIP 2010 Membership Dues	132
Fern Creek Community Assn	Membership Dues	120
Grayson County Chamber of Commerce	Chamber of Commerce Membership	75
Grayson County Chamber of Commerce	KCHIP 2010 Membership Dues	75
Greater Breckinridge County	Membership Dues	75
Greater Louisville Inc	Annual Dues	1,500
Greater Louisville Inc	Annual Dues	2,500
Greater Louisville Medical Soc	2010 Dues – Executive Vice President	220
Henry County Chamber of Commerce	Chamber of Commerce Membership	350
Jeffersontown Chamber of Commerce	Chamber of Commerce Membership	100
Kentucky Chamber of Commerce	Annual Dues	6,655
Kentucky Hospital Assoc	Dues	500
Ky Assoc of Health Plans	Annual Dues	7,500
LaRue County	Chamber of Commerce Membership	50
LaRue County	KCHIP 2010 Membership Dues	50
Lebanon – Marion County	Membership	500
Lebanon – Marion County	Membership Dues	500
Louisville East – Middletown	Annual Membership Dues	75
Meade County Area Chamber of Commerce	Membership Dues	156
Meade County Area Chamber of Commerce	KCHIP 2010 Membership Dues	125
National Health Policy Group	2008-2009 SNP Alliance Fee	11,906
Oldham County Chamber of Commerce	2009 Membership Dues	500
Oldham County Chamber of Commerce	Chamber 2010 Membership Dues	500
Radcliff – Hardin County Chamber of Commerce	Chamber of Commerce Membership	100
Springfield – Washington County	Membership Dues	325
University Club	12 months @37.00	444
	2009 Total	\$72,215
2010		
America’s Health Insurance Plan	Annual Dues	\$18,169
Bullitt County Chamber of Commerce	Women’s Council	30
Carroll County	2010 Membership Renewal	55
Fern Creek Community Assoc.	2010 Membership Dues	120
Greater Louisville Incorporate	Annual Dues	4,000

**List of Association Fees and Dues Paid By UHC/Passport
January 1, 2007 – June 30, 2010**

Exhibit 13

Vendor	Description	Amount
Henry County Chamber of Commerce	KCHIP membership dues	350
Kentucky Chamber of Commerce	Annual Dues 2010	6,655
Kentucky Hospital Assn	Dues	500
Ky Association of Health Plans	Annual Dues	7,500
Medicaid Health Plans	Annual Dues	17,500
Radcliff-Hardin County Chamber	2010 Membership Renewal	76
Paid by credit card	Nat'l Assoc of Professional Women	995
Shelby County Chamber of Commerce	KCHIP 2010 Membership Dues	300
University Club	6 months	188
WT&C Corporate Services	Annual Fees for Services	135
	2010 Total (Thru 6/30/10)	\$56,573
	Total for 2007 thru 2010	\$193,603

Note 1: Where "Reimburse AMHP" is listed as the vendor, AMHP originally paid the fees/dues and was reimbursed by UHC.

Note 2: Where "Paid with credit card" is listed as the vendor, a credit card was used to pay the fees/dues and no vendor was identified.

2008	2008		2009	2009		2010	2010
EVP	AVP		EVP	AVP		EVP	AVP
89,907.53	10,799.36		46501.71	11799.84		50,023.44	55,305.12
51,469.60	19,791.03		96295.26	10499.84			12,600.64
53,723.44	9,499.36		56494.27	10499.84			12,600.64
47,651.78	9,499.36			48524.01			12,600.64
	9,499.36			17999.28			14,539.20
	14,132.04			11999.52			4,361.76
	9,499.36			11999.52			
	10,199.70			11999.52			
	10,499.84			11999.52			
	10,499.84			11999.52			
	15,749.76			17999.28			
	10,499.84			11999.52			
\$242,752.35	\$140,168.85		\$199,291.24	\$189,319.21		\$50,023.44	\$112,008.00

Notes: EVP – Executive Vice President

AVP – Associate Vice President

UHC'S CODE OF CONDUCT

Ethical Responsibilities of UHC

UHC's Board of Directors has adopted this Code of Conduct (the "Code"). The Code applies to all UHC employees. Compliance with the Code and the UHC Compliance Program is a condition of employment.

We must conduct UHC business in accordance with all applicable laws, regulations and contractual obligations. We must behave ethically and with integrity and always follow the principles of the UHC Compliance Program when making business decisions. It is each employee's responsibility to be familiar with our Code of Conduct and adhere to all UHC policies and procedures. Violations of the Code, law or UHC policies and procedures, or failure to report such violations, will result in disciplinary action up to and including termination.

It is the responsibility of each employee to be truthful and cooperate fully with any UHC-related investigation or audit. We must furnish all related materials and facts concerning the suspected violation. We must ensure that the information we furnish is accurate, complete, and is not misleading.

Compliance with the Law

We will comply with all federal, state, and local laws and regulations. We are each responsible for ensuring our own compliance with laws, regulations and contractual obligations that are applicable to UHC. Any questions or concerns regarding specific laws, regulations, or any legal issue should be promptly brought to the attention of the UHC Compliance Officer.

Conflict of Interest Policy

We have signed and agreed to the UHC Conflict of Interest policy as applicable. We must avoid situations where our personal interests could conflict, or reasonably appear to conflict, with the interests of UHC. We must be free of actual, apparent or potential conflicts of interest when dealing with persons or business entities on behalf of UHC. We must award business solely on merit, getting the best value for UHC, and wherever practical, on a competitive basis. A conflict of interest occurs whenever an employee permits the prospect of direct or indirect personal gain to influence his or her judgment or actions in making decisions regarding UHC business.

Gifts, Gratuities and Kickbacks

We must maintain the highest standards of integrity and objectivity in dealing with contractors, vendors and service providers. Gifts or items of value must never be offered to or accepted from government employees. Under no circumstances will we accept or give kickbacks when obtaining or awarding contracts, services, referrals, goods, or business. A kickback means to willfully offer, receive, request or pay anything of value, even nominal value, in order to induce or reward referrals of business including goods or services.

Confidentiality of Information

We must protect the confidentiality of the information handled by UHC concerning our members and our clients both inside and outside of UHC. We will take precautions to avoid improper, inappropriate or inadvertent disclosures of sensitive, confidential or privileged information, records or documents. We will maintain and protect this information even after termination of employment with UHC.

Maintenance and Accuracy of Records

We will keep accurate, true and complete UHC records. Accuracy and reliability in the preparation of all business records are mandated by law and are of critical importance to UHC's decision-making processes and to the proper discharge of our financial, legal and reporting obligations. We must never misrepresent facts, falsify or suppress records. In addition, all records should be stored for the period of time required by applicable laws or contracts or UHC policy, whichever is longest.

Work Environment

We are committed to maintaining a work environment that is safe and secure and where we treat each other with honesty, dignity, and respect. We value the diverse contributions of all people, regardless of their position, sexual orientation, family status, age, race, sex, disability, religion, or national origin. All employment practices are based on ability and performance.

All employees have the right to work in, and UHC is committed to, an environment free from harassment and discrimination, where privacy and dignity are respected and all are protected from offensive, obscene, or threatening behavior. UHC will not tolerate sexual advances, actions, comments, inappropriate physical contact or any other conduct that is intimidating or otherwise creates an offensive or hostile work environment.

UHC often needs to acquire and retain personal information on individual employees for effective operation of our UHC. It is the policy of UHC to maintain the confidentiality of this information and to limit access to authorized persons who need the information for business or legal purposes.

Cooperating with the Government

UHC is committed to comply with the laws and regulations that govern the programs we administer, e.g., Medicare and Medicaid. We must always show respect for government and regulatory officials. We will cooperate with all reasonable requests for information from government and regulatory agencies. All information provided shall be truthful and accurate. We will never take any steps that would impede, obstruct, improperly influence the conclusions of, or affect the integrity or availability of any review or investigation performed by government personnel.

Non-Retaliation

Associates and Delegated Entities will not be subject to retaliation or reprisal for reporting, in good faith, actions that they feel violate the UHC Code of Conduct or Compliance Program. Any Associate or Contractor engaging in any act of reprisal for

any good faith reporting will be subject to disciplinary action and/or termination of his/her relationship with UHC.

**UNIVERSITY HEALTH CARE, INC.
CONFLICT OF INTEREST POLICY**

ARTICLE I
Purpose

University Health Care, Inc. (the "Corporation") is a non-profit, tax-exempt organization incorporated under the laws of the Commonwealth of Kentucky. The purpose of this conflict of interest policy is to protect the Corporation's interest when it is contemplating entering into, renewing, modifying, terminating or evaluating a transaction or arrangement that might benefit the private interest of an executive officer or director of the Corporation or might result in a possible excess benefit transaction. This policy is intended to supplement but not replace any applicable state and federal laws governing conflict of interest applicable to nonprofit and charitable organizations.

ARTICLE II
Definitions

1. Interested Person

Any director, executive officer, or member of a Corporation committee with governing board delegated powers, who has a direct or indirect financial interest, as defined below, is an interested person.

2. Financial Interest

A person has a financial interest if the person has, directly or indirectly, through business, investment, or immediate family:

- A. an ownership or investment interest in any entity with which the Corporation has an actual or proposed transaction or arrangement,
- B. a compensation arrangement with the Corporation or with any entity or individual with which the Corporation has an actual or proposed transaction or arrangement, or
- C. a potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which the Corporation is negotiating an actual or proposed transaction or arrangement.

Compensation includes direct and indirect remuneration as well as gifts or favors that are not insubstantial.

A financial interest is not necessarily a conflict of interest. Under this Article II, Section 2, a person who has a financial interest may have a conflict of interest only if the appropriate governing board or Corporation committee decides that a conflict of interest exists.

This policy acknowledges that certain directors, executive officers, and members of Corporation committees with governing board delegated powers serve as directors or executive

officers of the Corporation's member organizations. Notwithstanding anything to the contrary contained herein, no director, executive officer, or member of a Corporation committee with governing board delegated powers shall be deemed to have a conflict of interest solely because of the service of such director, executive officer, or committee member as a director or executive officer of a member organization of the Corporation.

ARTICLE III **Procedures**

1. Duty to Disclose

In connection with any actual or possible conflict of interest, an interested person must disclose the existence of the financial interest and be given the opportunity to disclose all material facts to the directors and members of committees with governing board delegated powers considering the proposed transaction or arrangement.

2. Determining Whether a Conflict of Interest Exists

After disclosure of the financial interest and all material facts, and after any discussion with the interested person, the board or committee members shall decide if a conflict of interest exists.

3. Procedures for Addressing the Conflict of Interest

A. An interested person may make a presentation at the governing board or committee meeting and may be present and participate in the discussion of, and the vote on, the transaction or arrangement involving the possible conflict of interest.

B. The chairperson of the governing board or committee shall, if appropriate, appoint a disinterested person or committee to investigate alternatives to the proposed transaction or arrangement.

C. The governing board or committee shall determine by a majority vote whether the transaction or arrangement is in the Corporation's best interest, for its own benefit, and whether it is fair and reasonable. In conformity with the above determination it shall make its decision as to whether to enter into the transaction or arrangement.

ARTICLE IV **Records of Proceedings**

The minutes of the governing board and all committees with board delegated powers shall contain:

A. The names of the persons who disclosed or otherwise were found to have a financial interest in connection with an actual or possible conflict of interest, the nature of the financial interest, any action taken to determine whether a conflict of interest was present, and the governing board's or committee's decision as to whether a conflict of interest in fact existed.

B. The names of the persons who were present for discussions and votes relating to the transaction or arrangement, the content of the discussion, including any alternatives to the proposed transaction or arrangement, and a record of any votes taken in connection with the proceedings.

ARTICLE V
Annual Statements

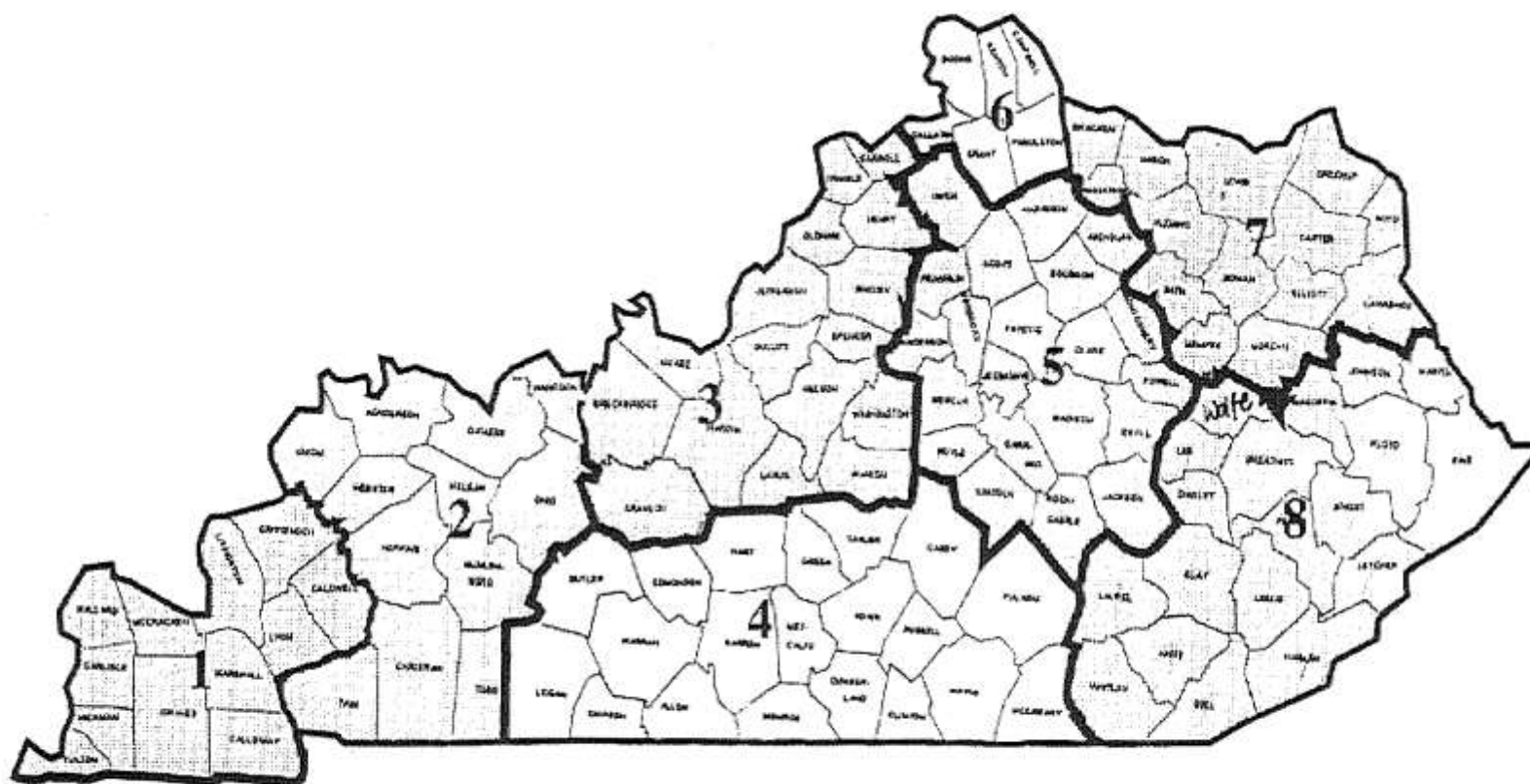
Each director, executive officer and member of a Corporation committee with governing board delegated powers shall annually sign a statement which affirms such person:

- A. Has received a copy of this conflict of interest policy;
- B. Has read and understands the policy;
- C. Has agreed to comply with the policy; and

D. Understands the Corporation is a non-profit, tax-exempt organization and in order to maintain its federal tax exemption it must engage primarily in activities which accomplish one or more of its tax-exempt purposes.

15160445.1

Kentucky Medicaid Health Care Regions



Source: CMS March 12, 2004 Evaluation of the Kentucky Health Care Partnership Program: A Comparison of the Managed Care Experiences in Regions 3 and 5

CABINET FOR HEALTH AND FAMILY SERVICES RESPONSE



**CABINET FOR HEALTH AND FAMILY SERVICES
DEPARTMENT FOR MEDICAID SERVICES**

Steven L. Beshear
Governor

275 E. Main Street, 6W-A
Frankfort, KY 40621
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Janie Miller
Secretary

Neville Wise
Acting Commissioner

November 4, 2010

Brian Lykins, Director
Office of Technology and Special Audits
Auditor of Public Accounts
209 St. Clair Street
Frankfort, Kentucky 40601

Dear Mr. Lykins:

The Cabinet for Health and Family Services (CHFS), Department for Medicaid Services (DMS) appreciates the opportunity to respond to the Auditor of Public Accounts (APA) report entitled "Examination of Certain Policies, Procedures, Controls, and Financial Activity of University Health Care, Inc., dba Passport Health Plan, and its Affiliation with the University of Louisville and the Cabinet for Health and Family Services."

This report raises serious issues regarding governance, lack of internal controls and transparency, excessive spending, and conflicts of interests by the Passport Health Plan that will require responsive action to restore accountability by the Passport Health Plan. The mission of the Kentucky Health Care Partnership Program, from 13 years ago and continuing today, is to provide health care to Medicaid beneficiaries in an efficient, cost-effective manner necessary to control growth in Medicaid costs. Every tax dollar of Medicaid funds paid to Passport, both federal and state, must be spent in accordance with that mission, and the Passport Health Plan must implement policies and procedures to assure that.

The report also identifies findings and recommendations that will improve the Department's oversight and financial analyses of Passport's financial data. The Department agrees with most of the findings and recommendations offered in this report and plans to use the report to ensure that the problems identified are addressed and that the Passport Health Plan returns to being an appropriate steward of Medicaid taxpayer funds. As indicated in the APA report, the primary goal of the Section 1115 waiver is to improve access to health care and needed services to Medicaid beneficiaries. To that end, we welcome the opportunity to review and comment upon the findings and recommendations within the report. While Passport Health Plan has been requested to respond to this report directly to the APA, the Department will be developing a corrective action plan and is taking steps to initiate discussions with the Passport Health Plan Board of Directors to develop a plan to address the issues.

The Kentucky Department for Medicaid Services first entered into a contract with UHC dba Passport Health Plan effective November 1, 1997 in order to partner with a provider-owned and operated managed care program to provide Medicaid covered services to select Medicaid eligibles in a sixteen (16) county region including Jefferson and surrounding counties. This program, referred to as the Kentucky Health Care Partnership Demonstration, operates under a Section 1115 Demonstration Project waiver obtained by the state from the Centers for Medicaid and Medicare Services. From a Kentucky Medicaid Program management perspective, this was an important step in that it provided an additional care management model option to the Commonwealth in addition to the primary care case management model that had been utilized by the Department through the KenPAC program.

Capitated, managed care approaches were appealing to states in that they promised the opportunity to save money and produce predictable Medicaid expenditures. Medicaid managed care programs were (initially) required to save money under federal Medicaid regulations in that capitation rates were required to be less than the cost of services in the fee-for-service environment. The entry of the Kentucky Medicaid Program into capitated, managed care was envisioned as a means of obtaining the benefits of managed care for select Medicaid recipients while providing a fixed per-member-per-month payment to managed care organizations and bringing predictability to Program expenditures. Note that beginning in 2003, changes in the federal regulations brought about by the 1997 Balanced Budget Act changed the requirements that managed care costs be less than the fee-for-service experience to requirements that the capitation rates must be actuarially sound. Going forward, this federal change resulted in Passport Health Plan's (Passport's) costs being compared to its historical costs rather than the fee-for-service program costs outside of Passport for purposes of establishing rates.

Specifically, the Kentucky Health Care Partnership Demonstration waiver called for traditional Medicaid providers to organize as a risk-bearing entity with administrative capacity (internally or through contract with others) to provide overall plan management. Over the course of the last thirteen (13) years, Passport has been a valued partner of the Commonwealth in the Louisville and surrounding area as it developed the capacity to provide covered services and bear risk. Passport is required by the Department for Medicaid Services to meet specified requirements related to quality of care and access to service. Passport is licensed as a Health Maintenance Organization and regulated by the Department of Insurance. Passport has been recognized by U.S. News and World Report as being among the top ranked Medicaid managed care plans in the country. The Department for Medicaid Services continues to value the services provided to Medicaid beneficiaries through Passport, but is greatly concerned about the issues raised in this audit report and will seek to have each addressed as outlined below in each of the findings and recommendations.

CHFS Response to Findings

Finding 1: The governing authority for University Health Care did not have regional representation in the conduct of the financial administration of the Passport Health Plan.

Recommendations:

- The Governance of Passport be reevaluated and possibly restructured to include broad regional representation which could be accomplished by combining the UHC Board with the Partnership Council.

- Kentucky DMS may want to consider including a requirement in its annual contract calling for governance by considerable health care provider and beneficiary representation.
- The UHC Board of Directors should adopt a policy that requires rotation of the Chairman of the Board to ensure that governance of Passport is fair and equitable.
- Region 3 partnership should operate as a "provider-controlled" managed care organization as was the original intention, with significant beneficiary representation on its governing board and providers and beneficiaries deciding how best to manage both health care needs and costs.

Cabinet Response: There are a number of ways to establish a governance structure that would meet the waiver and regulatory requirements (907 KAR 1:705). While the Cabinet believes the governance structure may meet the technical requirements, it appears from the APA report that the Passport Board of Directors was not using the Partnership Council with regard to the strategy for dealing with excess reserves. The Department feels that the Partnership Council should have been consulted for suggested recommendations to the Board on how to use excess reserves to improve plan operations, to improve benefits for Medicaid eligibles or to return or "share" any cost savings with the Department. The interaction between the Board and the Council would bring about increased accountability and transparency to the decisions of the Passport Board.

The Department will require Passport's Board of Directors to develop a Corrective Action Plan to address the serious findings in the APA audit report. The Department of Insurance will also be consulted in the development of a Corrective Action Plan to ensure adequate policies and procedures are in place to protect the financial solvency and overall financial management of the HMO.

Finding 2: A cost analysis has not been performed to determine the cost effectiveness of Passport Health Plan.

Recommendations:

- Kentucky DMS conduct an analysis, or secure a qualified external source to conduct an analysis, that compares the actual costs of Passport Health Plan to the costs that would have been incurred by the Commonwealth if the same services in the same region had been paid through a fee-for-service program.
- DMS use the results of this analysis in its contractual negotiations with UHC.

Cabinet Response: The Department, since early 2008, has increased its financial analysis of Passport. For rate years starting in July 2008, July 2009, and July 2010, the Department began utilizing all information available to ascertain Passport financial information necessary to evaluate the cost of the Passport Health Plan relative to the costs of the same services for the same eligible categories in the balance of the state. In fact, rate increases relative to the increase in the per capita costs have been held to 3.1%, 3.1% and 0% for the last three rate periods specified above. Negotiated rate increases for prior years had been noticeably higher and Medicaid Program staff was unaware of previous attempts to analyze and use excess reserves in the rate negotiation process prior to 2008.

The DMS has already undertaken the first steps toward performing more in-depth costs analyses. Information was provided to the Legislative Research Commission staff during the 2010 regular session of the General Assembly related to costs in Region 3 as compared to the fee-for-service costs of the program in the balance of the state for a comparable group of eligibles and services (see attachment). This analysis demonstrated the Medicaid cost by Medicaid managed care region over the

most recent fiscal years. The Department provided to legislative staff the results of its analysis of the costs to the Medicaid program of Passport and that of Program costs for similar recipients and similar services under the fee-for-service system and showed that per member costs were higher in Region 3 than in any other region of the state and were growing at rates higher than those in the balance of the state. While it is true that the fee-for-service costs were also higher in Region 3, the spread of per capita costs between the rest of the state and the Passport plan has widened over the last 13 years. This analysis was an initial first step in attempting to document in a trend series the costs of Passport as contrasted with the comparative costs of providing Medicaid services in the rest of the state.

The DMS agrees, however, that an analysis of cost savings by Passport is needed to develop information for Medicaid and Cabinet officials, as well as for legislative members. A contract of this size, one of the largest in the Commonwealth, should be negotiated with adequate cost/benefit information available. The DMS will secure an external, independent, and qualified consultant to perform the analysis and to develop estimates of what the Medicaid costs would be in Region 3 through a fee-for-service program. Additionally, notwithstanding current budgetary constraints, the DMS agrees to enhance its internal capacity to develop cost analyses and information regarding managed care delivery systems.

Finding 3: DMS lacked sufficient financial analysis to effectively negotiate with UHC.

Recommendations:

- DMS establish a procedure for, and documentation of, a review of the UHC/Passport Health Plan Annual Statements.
- DMS include an analysis and discussion of UHC/Passport excess reserves, and any future use of those reserves as part of the annual negotiations.
- DMS document the annual negotiations process and retain a record of the process and the negotiations including the time, place, attendees, topics discussed and results as well as details related to the calculation of rates and final contract amount.

Cabinet Response: The report notes that DMS had an extensive oversight system for monitoring the performance of the contract with UHC for administration of the health plan (page 25). As noted throughout the APA report, the Cabinet and the Department had pointed out their growing concern to Passport officials regarding the excess levels of reserves and the fact that requested premium rate increases were and would continue to be reduced due to the Plan having reserves greater than that required to meet their HMO licensing standards. Passport officials had been repeatedly told since June of 2008 that contrary to previous rate negotiations, excess reserves would be considered and taken into account in setting negotiated rates as excessive reserves documented the ability of Passport to continue its operations without obtaining requested premium increases. The Department has fairly extensive documentation of the FY 2011 rate negotiation process. Excess reserves and reduction of those reserve levels through negotiated lower rates was discussed by both the DMS and Passport. A zero percent rate increase was the resulting negotiated rate for the FY 2011 contract.

The DMS has made greater attempts to use Passport financial information and convey state budget constraints in recent years. Administrative caps on spending have been in place within the contract; however, the extent of excessive spending identified in the APA report indicates that the caps may not

have served as a sufficient incentive for Passport to control unnecessary spending. DMS and the Department's Actuary annually reviews and requires Passport to reconcile variances between medical claims encounter data submitted to the DMS and medical expense claims reported on Passport's Annual Financial Statements. This reconciliation process allows discretionary expenditures made by Passport such as Indigent Care Payments to be excluded from calculation of the actuarially certified rate range resulting in a lower rate of increase in the final contracted rates.

The report further notes that Passport is required to submit to the Department of Insurance an annual statement that contains significant details on the financial operations and condition of University Health Care/Passport including reserve calculations (page 26). DMS will work with the Department of Insurance to establish a procedure for documenting University Health Care/ Passport excess reserves to ensure that appropriate recognition of excess reserves is considered in annual negotiations. DMS will document the annual negotiations process and retain records of the process; however, the DMS would note that the final resulting contract is ultimately the documentation of the results of the negotiations process.

Finding 4: DMS documentation of monitoring and oversight of UHC/Passport Health Plan was not adequate.

Recommendations:

- DMS document managed care oversight policies and procedures to ensure consistency and continuity.
- DMS require documentation from UHC/Passport that allows DMS a more informed review of financial activity (including detailed information regarding discretionary payments).
- DMS request and review SAS 70 audits of UHC/Passport's third party administrators to ensure that the data received from Passport Health Plan is processed in an environment with good internal controls and appropriate information technology security.

Cabinet Response: The report notes that the DMS personnel responsible for University Health Care/Passport oversight on a daily basis appeared to be knowledgeable and to have a good understanding of these oversight responsibilities (page 28); however, DMS agrees to develop written policies and procedures to assure ongoing consistency and continuity of the contract monitoring process. DMS has already undertaken more aggressive monitoring and oversight efforts which have resulted in more favorable contract terms for the Commonwealth during the last three contract negotiations. The rate of increase in the per-member-per-month amount was limited to 3.1% in FY 09 and 10, and 0% increase in FY 11.

DMS notes that an independent audit of Passport's financial statements and financial reporting process by a private firm was performed annually. Independent audit reports were provided to and reviewed by DMS. The DMS relied on independent audits to identify inappropriate misclassifications of expenses and other items which could have a material effect on the statement of the financial condition of Passport. Since the APA report raises serious questions regarding improper internal controls, excessive spending, misclassification of reported expenses and spending not related to the provision of Medicaid services to Program beneficiaries, the Department will require a complete financial audit of Passport be performed, including its major subcontractors, and that rotation of the audit firm used be made periodically.

DMS has and will continue to require additional documentation from University Health Care/Passport regarding discretionary payments. We agree, however, that as a public entity, Passport is subject to a higher standard of accountability and review due to the expenditures of public funds. The DMS will require a detailed financial audit of Passport expenditures to assure that a complete and thorough knowledge of Passport expenditures is available to DMS for rate setting contract negotiations.

DMS agrees to require and review SAS 70 audits of University Health Care/Passport's third party administrators as recommended by the APA. In addition, the Department will be discussing with the Passport Board other recommended enhancements to internal controls as recommended by the APA.

Finding 5: UHC made cash distributions to enhance its negotiating position with DMS.

Recommendations:

- UHC, when negotiating future contracts with DMS, consider its excess reserves as funds available for its annual spending plan and that UHC develop procedures to ensure transparency and judicious spending.
- DMS include an analysis and discussion of UHC/Passport's excess reserves, and any future use for those reserves, as part of the annual contract negotiations between UHC and the Commonwealth; the analysis and discussion should be documented.
- If distributions or grants are made, UHC should solicit more regionally diverse and representative guidance as to the purpose and distribution of funds and assure that awards be equitable, based on an allocation methodology that considers uncompensated care costs among all providers in Passport that incur such costs.
- UHC Board of Directors develop and adopt a formal application, approval and documentation process to ensure consistency with mission and that all facts and circumstances relative to Board and committee approval are available to, discussed by, and documented by the Board or committee minutes.

Cabinet Response: DMS agrees that University Health Care/Passport should consider excess reserves as funds available for its annual spending plan and that Passport should develop an internal policy for determining excess reserves and a plan for "spending down" those reserves by identifying the amount that would be offered in the rate negotiation process in the form of reductions to capitation rates to be paid by DMS. The DMS suggests that such internal policies be developed and vetted by the Partnership Council and Board of Directors to ensure accountability and transparency in the operations of the plan.

DMS agrees to analyze Passport financial statement information regarding excess reserves and develop appropriate methodologies to consider how excess reserves should be factored into capitation rates to be paid to Passport under future contracts. DMS agrees to include in future contracts a process of identifying excess reserves and establishing the methodology of how excess reserves would be "spent down" by reducing capitation rates. DMS agrees to document use of and consideration of how excess reserves will be treated in future rate negotiations.

As noted above in the Cabinet Response to Finding 3, and throughout the APA report, the Cabinet and the Department pointed out the growing concern to Passport officials of the excess levels of reserves and the fact that requested premium rate increases were and would continue to be reduced due to the

Plan having reserves greater than required to meet their HMO licensing standards. Passport officials were repeatedly told since June of 2008 that contrary to previous rate negotiations, excess reserves would be considered and taken into account in setting negotiated rates as excessive reserves documented the ability of Passport to continue its operations without obtaining requested premium increases. The Department has fairly extensive documentation of the FY 11 rate negotiation process. Excess reserves and reduction of those reserve levels through negotiated lower rates was discussed by both the DMS and Passport. A zero percent rate increase was the resulting negotiated rate.

Passport officials verbally discussed with the DMS and Cabinet the possibility of a return of capital to investors and ideas around grants for indigent care which would lower reserve levels. The DMS and Cabinet officials indicated that a return of capital investment to investors would not be viewed negatively from the Program side; however, Passport was verbally advised that this was an issue under the jurisdiction of the Department of Insurance and would be subject to provisions of corporate law. Passport officials were advised that the Program would be able to identify the buildup of reserves and any adjustments made to lower reserves and that such information would be taken into consideration in future rate negotiations. Specific details of the three distributions by Passport did not become known to the DMS or the Cabinet until several months after the distributions occurred. The last negotiation, for rates effective July 1, 2010, did take into consideration excess reserve levels of Passport.

If future distributions are made, DMS agrees that Passport should develop a formalized process for application and review in order to assure greater equitability in any such awards.

Finding 6: Compliance with KRS and IRS regulations is questionable regarding UHC distributions.

Recommendations:

- UHC seek an opinion from the Office of the Attorney General and/or an IRS interpretation regarding distributions of restricted grants, return to capital and excess assets.

Cabinet Response: DMS will require that University Health Care/Passport seek opinions from the Office of the Attorney General and/or IRS regarding distributions of restricted grants, return of capital investments, and excess assets. Additional action by the DMS may be required depending upon the opinions provided as it relates to the Department's compliance with CMS waiver requirements.

Finding 7: Passport Health Plan awarded various grants to favor certain organizations.

Recommendations:

- If grants are awarded, they should be equitable and based on an allocation methodology that considers Passport Health Plan membership and need of all Region 3 counties.
- The Executive Committee and the UHC Board ensure that all circumstances relative to Board and committee approval of grants be made available to, discussed by, and documented by the Board or committee in meeting minutes.
- The Board review the administrative expenditures associated with awarding grants that are reimbursed to the University of Louisville to weigh cost versus benefit, and determine if the expenditures are a prudent use of taxpayer funds.

- DMS and UHC find an equitable way to ensure that school health services for Medicaid recipients are covered.

Cabinet Response: The DMS agrees that any grants awarded should be for the purpose of furthering the mission of the plan as it relates to assuring quality health services are provided to Medicaid recipients and that an allocation methodology should be used that considers plan membership and the needs of all Region 3 counties and providers. DMS will require prior approval of any methodology utilized by the Board in making awards.

There are two categories of health related services provided in schools for which the Medicaid program may provide reimbursement: 1) services related to a child's Individual Education Plan (IEP); and 2) preventive and primary care services. With respect to the final recommendation above, it should be noted that DMS pays for school based services provided in Region 3 for services under a child's Individual Education Plan (IEP) outside of the Passport contract. Under the terms of the waiver, DMS has provided funds to Passport to provide primary care services to Medicaid eligible children enrolled in Passport. Passport chooses the site of service and provider to deliver the primary care services to children in Region 3.

Finding 8: UHC grants, GME, and other distributions were not reported separately in the financial statements.

Recommendations:

- UHC/PHP disclose all discretionary cash distributions including the name of the recipient, the amount of the distribution, and the nature of the contribution in such a manner as to provide sufficient transparency and accountability to the public and to the state; disclosures be recorded in UHC/PHPs financial records and reported separately to reflect the true nature of the expenditure; UHC/PHP disclose details in all monthly and annual financial statements submitted to the Board of Directors, the Finance Committee, and its annual financial statement submitted to DMS; and disclosures be timely with sufficient lead time prior to compilation of DMS's actuarial rate setting databook.
- UHC cease recording donations/sponsorships as "marketing and advertising".

Cabinet response: DMS will require University Health Care/Passport to provide detailed reports of all discretionary cash distributions as part of its financial reports.

Finding 9: UHC spent funds on questionable travel, meals, and gifts, with uncertain benefit to Passport Health Plan recipients.

Recommendations:

- UHC/Passport Health Plan ensure that all travel expenses relate to mission and improve the health and quality of life of its members and be spent prudently and efficiently;
- UHC/Passport Health Plan executive staffs consider whether such frequent travel is necessary and a judicious use of taxpayer dollars.
- UHC Board of Directors, including the Partnership Council, review and approve all travel expenditures incurred by UHC's Executive Vice-President, as well as all out-of-state travel expenditures for other staff and board members.

- The Board should improve its policies governing spending related to travel to include consideration of relevance, necessity, amount of resources that should be allocated and expected benefit to Passport beneficiaries.
- The Board and Partnership Council should receive regular, detailed financial information regarding travel expenditures to determine if such spending is appropriate.
- The Board should implement a policy to define when it is appropriate for meals to be purchased on behalf of employees, board members, vendors and guests including specifying documentation that must be provided to ensure the business purpose and necessity of the meal.

Cabinet response: DMS was unaware of the level of expenditures on travel and meals expended by Passport executive staff, and agrees with the recommendations of the Auditor. The DMS will require the Board to develop a Corrective Action Plan to address excessive spending and lack of internal controls.

Finding 10: UHC spent nearly \$14 million on consulting and outsourced services including \$1 million for lobbying and public relations.

Recommendations:

- UHC/Passport Health Plan executive staff should reevaluate whether use of numerous consultants, many of which are lobbyists, are a necessary expense and a judicious use of taxpayer dollars.
- UHC/Passport Board of Directors, including the Partnership Council, should review and approve consulting and outsourced service contracts over a specified amount to ensure that funds are spent only on services necessary for continued operation of Passport Health Plan.
- To ensure transparency, detailed financial information and contract deliverables regarding expenditures should be shared with the Board of Directors and the Partnership Council on a regular basis.

Cabinet response: DMS will require the Board to correct excessive spending on lobbying and public relations. DMS will require a mid-year contract amendment to ensure that Medicaid funds are not used for lobbying.

Finding 11: UHC contributed over \$423,000 in donations and sponsorships with questionable benefit to Passport recipients.

Recommendations:

- UHC/Passport Health Plan Board should reevaluate donations made to various organizations to determine whether they benefit Passport recipients and are a prudent use of taxpayer funds.
- UHC /Passport Health Plan Board should establish a policy to determine which sponsorships are appropriate, if any. To assure transparency, the Board and Partnership Council should, on a regular basis, receive and review financial information (with a separate line for donations and sponsorships) to determine if these expenditures are appropriate and related to the purposes of Passport Health Plan.

Cabinet response: DMS agrees with the Auditor and will require details of discretionary expenditures in future financial reports. To the extent it cannot be documented that donations or sponsorships directly benefit the health care of Passport recipients, DMS will disallow donation expenses as part of future contract negotiations.

Finding 12: UHC spent over \$250,000 on membership fees to various organizations.

Recommendations:

- UHC Board of Directors should reevaluate its memberships associations to determine which memberships provide a potential benefit to Passport Health Plan recipients and are a prudent use of taxpayer funds.
- To assure transparency, financial information should be provided to the Board and Partnership Council on a regular basis to assure understanding of the types of expenditures on membership fees and whether they are appropriate and related to the purposes of Passport.

Cabinet response: The DMS agrees with the Auditor and will require disclosure of organizational memberships as part of Passport's quarterly and annual financial reports. While memberships in professional organizations can be beneficial, to the extent such membership fees do not directly benefit the Commonwealth or the healthcare of Passport recipients, DMS will disallow such membership expense in future contract negotiations.

Finding 13: Two UHC executives received significant annual salaries and bonuses and UHC paid a "10 Year Anniversary bonus" to AmeriHealth Mercy Kentucky employees.

Recommendations:

- UHC/Passport Health Plan Board of Directors, including the Partnership Council, consider whether the amounts paid to its executive staff are commensurate with their duties, responsibilities and availability.
- Consider whether the awarding of bonuses to executives and AmeriHealth Mercy staff are a necessary and efficient use of taxpayer funds.
- UHC/Passport Board document in its meeting minutes all salary adjustments and bonuses approved for staff.
- UHC account for and disclose in the financial statements all staff bonuses and reimbursements as salaries and wages rather than consulting expense.
- UHC Board of Directors and the Partnership Council establish and improve policies governing staff spending and require pre-approval for certain expenditures like out-of-state travel.
- To assure transparency, financial information be provided to the Board and Partnership Council on a regular basis to assure understanding of the types of staff expenditures and whether they are appropriate and related to the purposes of Passport Health Plan.
- UHC Board of Directors and Partnership Council establish and improve policies governing spending by its staff, including pre-approval of expenditures such as out-of-state travel. Information should be presented so that Board and Council members gain an understanding of expenditures made and whether they are appropriate.
- UHC staff members evaluate all expenditures to determine if they are necessary and if the benefits to the program outweigh the costs.
- DMS take the nature and amount of questionable spending not related to providing medical care for Medicaid recipients into consideration when determining capitated rates.

Cabinet Response: In view of the current budget constraints faced by the Commonwealth, the extent of spending on executive salaries, lease expenses, and bonuses paid by Passport is excessive. The DMS will require that a specific examination of the nature and amount of spending on bonuses and salaries be conducted to ensure that only those costs that are reasonable are included in the contract with UHC/Passport with appropriate adjustments made to the contract.

Finding 14: UHC's Conflict of Interest Policy and Code of Conduct were weak and it was uncertain to whom the Code of Conduct applied.

Recommendations:

- UHC Board of Directors should strengthen UHC's Code of Conduct for by establishing a comprehensive code ethics applicable to Board and staff members including any employed by other entities but leased to UHC.
- To assure compliance, UHC should adopt policies, procedures and responsibilities for reporting potential unethical conduct, investigating such activity and criteria for disciplinary procedures.

Cabinet response: DMS will require the Board to develop a Corrective Action Plan to include the development and implementation of an updated code of ethics for Board and staff members, including "leased" employees.

Finding 15: Numerous conflicts of interest existed for UHC and its executive staff members.

Recommendations:

- UHC Board of Directors should follow-up on actions recommended by the APA and take appropriate action to remove all conflicts of interest for UHC, the Board of Directors and its staff.
- The UHC Board of Directors should ensure that conflict of interest standards be adopted within a comprehensive code of ethics.
- The UHC Board should adopt policies that address and enforce the UHC Code of Conduct.
- To ensure compliance with a code of ethics, the UHC Board should adopt policies for reporting potential unethical conduct, investigating activity and criteria for sanctions or disciplinary procedures.

Cabinet response: DMS agrees with the Auditor, and is very concerned about the conflicts of interest found in the audit and will require the Board to develop a Corrective Action Plan to include the development and implementation of a conflict of interest policy for Board and staff members, including "leased" employees.

Finding 16: UHC's lobbying activities were substantial and may conflict with its Articles of Incorporation and contract language.

Recommendations:

- The Board of Directors should review the necessity for the high level of lobbying costs expended by UHC and determine whether such expenditures are a proper use of funds.
- The Board should determine the potential benefit of lobbying efforts for Medicaid recipients and appropriateness of time and expenses allocated by UHC staff on such activities.
- In order to comply with its Articles of Incorporation, no substantial part of UHC's activities should be engaging in attempts to influence legislation.
- UHC should comply with contract terms and cease any attempts to influence members of Congress relating to federal contracts, grants, agreements or loans.
- CHFS should consider including contract language to prohibit state funds being utilized for lobbying activities.

Cabinet Response: DMS agrees with the Auditor and will require a mid-year contract amendment to ensure that Medicaid funds are not used for lobbying.

Finding 17: GME funding to and by Passport Health Plan lacked transparency and may be excessive.

Recommendations:

- Center for Medicaid Services (CMS) should review the calculations used to determine the amount of funding included in the contracted capitated rates attributable to GME for UHC/Passport Health Plan, and any GME payments made by Passport to Region 3 hospitals to ensure that Medicaid funds were not used to cover more of the Hospitals costs than can be attributed to Medicaid recipients. CMS should review cost reports for Region 3 hospitals to ensure Medicaid funds were not used to cover more of the hospital's costs than can be attributed to Medicaid.
- DMS should include contract language to require UHC to use the GME calculation consistent with the approved Medicaid state plan and as used throughout the rest of the Commonwealth.
- DMS should improve oversight of GME funding by requiring UHC/Passport Health Plan to report on the amount of GME paid to Region 3 hospitals annually.
- DMS should consider whether paying GME directly to Region 3 hospitals using the approved formula it uses to pay all other eligible hospitals would be a more equitable and transparent method and better use of Medicaid funds than including the amount in the UHC/Passport Health Plan capitated rate.
- DMS should not include any funding under the title of GME in the negotiated capitated rate with UHC/Passport that is not truly GME.

Cabinet Response: DMS acknowledges that GME costs requested for Passport hospitals is complicated and has grown significantly over the last three years. DMS agrees that it has had difficulty obtaining the Medicaid allowable expense for GME over the last few years; however, the DMS has repeatedly raised questions and disallowed growth in the amount of GME paid by Passport to its hospitals. We disagree with the APA with regard to the rate negotiation effective with July 1, 2011 and the amount of GME included in the rates agreed upon. While an approximate amount of \$30 million was included in the databook (the DMS substituted its calculation for Jewish Hospital for the Passport proposed GME payment for Jewish Hospital since Jewish Hospital does not receive Supplemental Payments under the Medicaid State Plan--see below), the DMS did not allow for that amount to be included in the rate calculation for establishing Passport's rates. Inclusion of the amount in the databook was an item that was demanded by Passport in order to continue with the Passport contract. We agree that there is still some additional work and analysis around the GME issue that must be performed to address payment in future rate periods.

This report accurately notes that applicable statutes and regulations require the University of Louisville Hospital and Norton Healthcare to be reimbursed by the Medicaid Program at Medicare allowable costs through Urban Trauma Center and Intensity Operating Allowance (IOA) provisions sometimes referred to as "Supplemental Payments". However, GME payments do not duplicate these payments as this report suggests. Since the intent of the Supplemental Hospital Payments are to reimburse these two hospitals approximately "at cost", a decrease in payments made by Passport for GME expenses would raise uncompensated cost for these hospitals and result in an increase in the Urban Trauma Center and IOA payments to University of Louisville Hospital and Norton Healthcare respectively. Therefore, a reduction in the amount allowed in the actuarial analysis for GME would have increased the amount allowed in the analysis for these Supplemental Hospital Payments.

Finding 18: Passport Health Plan daily in-patient rates and outpatient settlements paid to original investor hospitals were significantly higher than those paid to rural hospitals.

Recommendation:

- UHC/Passport Health Plan should ensure that all hospital providers are treated in an equitable manner and that the Board of Directors, Finance Committee and the Partnership Council approve all hospital rate increases, discretionary payments and settlements and be provided with a level of detail to make an informed decision.

Cabinet response: DMS agrees that rates and outpatient settlements must be equitable so as to be consistent with the original intent of the partnership and will require a corrective plan of action from the Board to address this issue.

Finding 19: UHC is not in compliance with several terms of its contract with the Commonwealth.

Recommendations:

- UHC comply with the contract notification requirements and at least 30 days prior to distribution of funds notify DMS in writing of such intended distributions.
- DMS require compliance with the contract that it receive notification of any distributions awarded by UHC.
- Should UHC and DMS both agree that such notification is not necessary to ensure that UHC Passport is properly expending Medicaid funds, then future contracts should be revised to reflect that agreement.
- DMS should track expenditures and amend their annual contract when the number of eligibles produces circumstances when projected costs exceed the contract amount.
- Such amendment should be approved through the contract amendment approval process and include a detailed analysis to support any increase process.

Cabinet Response: As has previously been discussed, the Cabinet expressed concerns regarding the level of reserves; however, neither DMS nor the Cabinet was ever advised, either verbally or in writing that distributions had been made, only that a return of capital was being considered and that a grant program was being considered. No specifics were provided to the DMS or Cabinet. However, the DMS will require that any future distributions be submitted and approved by the DMS. DMS will track expenditures and amend the annual Passport contract if the number of eligibles produces circumstances resulting in projected costs exceeding the contract amount.

Finding 20: No lease agreements existed for UPA employees providing full-time employee services to UHC.

Recommendations:

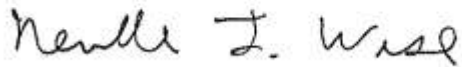
- UHC and UPA should formally document in writing the personnel services provided to PHP.

Cabinet Response: The DMS agrees with the Auditor and will require that such lease services should be documented in writing to account for any expenses paid for these services.

Brian Lykins
November 4, 2010
Page Fourteen

We would like to thank the Auditor and staff for this professionally conducted audit. The DMS views this performance audit as a means of assisting the Department with guidance and providing expertise in structuring its work to ensure accountability and transparency. This report has identified serious deficiencies both in internal controls and appropriate spending of state and federal taxpayers dollars by Passport. We look forward to implementing these recommendations. Thank you for providing the Department the opportunity to comment on the APA review. If you have additional questions, please feel free to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Neville I. Wise".

Neville Wise
Acting Commissioner

Attachment



Attachment

CABINET FOR HEALTH AND FAMILY SERVICES
DEPARTMENT FOR MEDICAID SERVICES

Steven L. Beshear
Governor

275 E. Main Street, 6W-A
Frankfort, KY 40621
www.chfs.ky.gov

Janie Miller
Secretary

Elizabeth A. Johnson
Commissioner

February 16, 2010

Cindy Murray
House Budget Review
Subcommittee on Human Resources
Legislative Research Commission
Room 136, Capitol Annex
Frankfort, Kentucky 40601

Dear Ms. Murray:

This is response to your first question requesting a comparison of Passport Health Plan actual average cost per eligible to the regular Medicaid Program's average cost per eligible.

Response:

- The Medicaid Program's per member per month expenditure for coverage of comparable eligibles and services by the Passport Health Plan is higher than in other Medicaid regions of the state and for the state as a whole and its rate of growth exceeds the growth rate of Medicaid expenditures in the remainder of the state as seen below.

The Medicaid Program's per member per month (PMPM) expenditure for the Passport Health Plan (Jefferson County and surrounding 15 counties) is as follows for the last five fiscal years:

Passport Health Plan PMPM Costs

	Average Weighted PMPM	% Growth
FY 2005	\$300.62	-
FY 2006	\$311.11	3.5%
FY 2007	\$344.85	10.8%
FY 2008	\$366.64	6.3%
FY 2009	\$388.89	6.1%

The Medicaid Program's per member per month (PMPM) expenditure for the comparable eligibles and services in the remaining 104 Kentucky counties (excluding the Passport region) is as follows for the last five years:

Comparable Medicaid Population in Balance of State

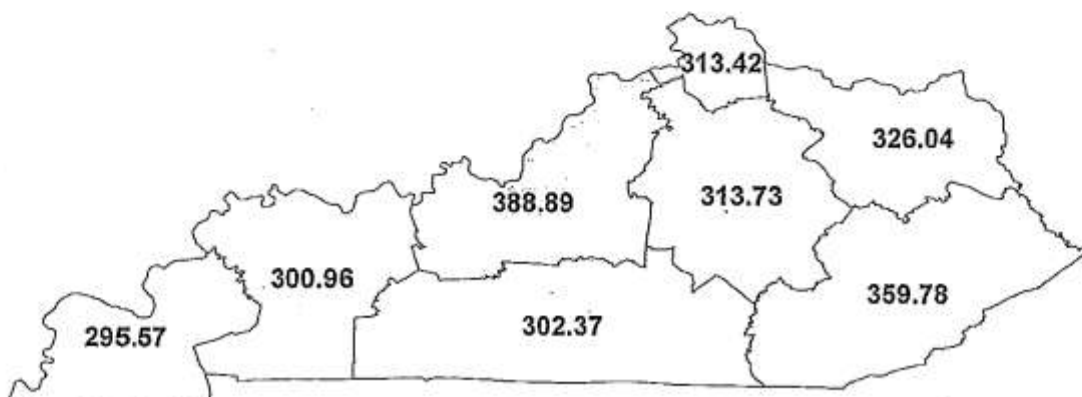
	Average Weighted PMPM	% Growth
FY 2005	\$277.41	-
FY 2006	\$283.68	2.3%
FY 2007	\$295.57	4.2%
FY 2008	\$309.07	4.6%
FY 2009	\$321.59	4.1%

To ensure comparability for analysis purposes, the Passport Health Plan figures exclude payments to Passport to compensate them for paying the Managed Care Tax of 5.5%. In addition, the comparable eligible and services expenditures for the balance of the state were increased by 2.5% for administrative expense, increased to reflect global hospital settlement costs, and reduced to reflect drug rebates to ensure the most appropriate comparison. To the extent that drug rebates are received by the Passport Health Plan, they are accounted for in the amounts paid to Passport.

Independent of the previous analysis, staff developed a listing of all members by county and by month that were either in Passport, or would be eligible for Passport if they were in the 16 county region. For the 16 Passport counties, the list only included members in Passport for the entire month and in then Passport region at the end of the month. For the comparable population, the list only included people that were outside the Passport region at the end of the month and were not in Passport at any point during the month.

Below are the comparable figures broken down by the state Medicaid regions.

**Passport and Comparable Fee for Service Populations
Per Member per Month Cost
By Medical Region of Residence
State Fiscal Year 2009**



A portion of the member per month expenditures accounted for in the comparison above relate to administrative expenditures. To account for fluctuations in the total figures, it is important to show a break out of administrative expenditures to see if increases or decreases in administrative loads have a bearing on the overall costs.

- Administrative expenditures of the Passport Health Plan have increased over the last few years and comprise 7 to 8% of the total amount paid (depending on the year) to the Passport Health Plan. Some of the increase is attributable to the increase in covered members and increases starting in calendar 2005 reflect the costs of the Managed Care Organization provider tax. Conversely, administrative expenses for the non-Passport portion of the Medicaid Program for all populations, including a comparable population and the more expensive Medicaid recipients in long-term care and waivers, amount to about 2.5% of the total dollars spent.

Passport Health Plan Administrative Expenses

	Administrative Expenditures	Total Payments to Passport	% Administrative Expense
CY 2003	\$32,639,128	\$423,707,854	7.7%
CY 2004	\$38,085,552	\$468,654,164	8.1%
CY 2005	\$57,519,656	\$528,834,433	10.9%
CY 2006	\$72,907,764	\$587,023,150	12.4%
CY 2007	\$76,206,399	\$626,769,039	12.2%
CY 2008	\$84,399,940	\$716,374,365	11.8%

Additionally, an actuarial analysis conducted of Passport's costs (medical expenses only) has concluded that Passport's costs are higher than costs (medical claims costs) for comparable populations served in the traditional Medicaid fee-for-service program, driven largely by higher inpatient costs. Please note that certain cost adjustments were made by the actuary, which render the analysis a comparison of selected services costs only. Using Passport's population distribution to determine the relative weighting of the eligibility categories, the actuarial analysis compares what the Passport Health Plan's cost for certain services was compared to a comparable Medicaid population under the traditional Medicaid program. As the table below shows, Passport's costs were slightly less for physician and pharmacy services, 1.16 and 1.23 higher for outpatient hospital and other services, and inpatient hospital services was 1.56 times as high as the regular Medicaid program on a statewide basis. The owners of Passport Health Plan include one or more hospitals.

MEDICAID ONLY COMPOSITE COST

FY 07/FY 08 Average Weighted by Passport Enrollment Distribution

Category of Service	PMPM FFS Statewide	PMPM Passport	Ratio of Passport PMPM to Statewide FFS
Inpatient	\$60.61	\$94.52	1.56
Outpatient	\$50.40	\$58.33	1.16
Physician	\$85.21	\$83.27	0.98
Pharmacy	\$54.74	\$52.16	0.95
Other	\$11.51	\$14.15	1.23
Total	\$262.48	\$302.43	1.15

A recent analysis of emergency room utilization in the Medicaid Program and the Passport Health Plan was recently conducted to determine any significant differences in ER utilization. Please see Attachment A.

Your second question was: "That it has been represented that Passport Health Plan had close to \$100 million in reserves at the end of the year which was distributed back to stockholders and from which approximately \$10 million was paid as bonuses to the executive officers. Please respond to this representation including if access to services was denied or reimbursement rates were lowered in order to have this reserve at the end."

Response:

In order to answer your question, staff reviewed financial filings submitted to the Department of Insurance and provide the following information relative to those filings below:

- **Financial Analysis:** According to filings made with the Department of Insurance, Passport Health Plan has increased its solvency as defined by total capital and surplus by 76% between 2004 and 2008. The Passport Health Plan shows significant net profits from both its underwriting operations and from investments. Its financial situation shows its reserves at 299% of the usual statutory requirements and significantly in excess of special legislative statutory reserve levels established for the Passport Health Plan pursuant to KRS Chapter 304.38-070(3). Given the history of higher per capita payments and increases in excess of those for comparable Medicaid eligibles in the balance of the state, this data raises concerns that excess reserves may have accumulated due to premiums that were higher than what was needed to sustain the program. Attached is data from financial filings made with regard to Passport Health Plan.

University Health Care, Inc. d/b/a Passport Health Plan

	CY 2004 Amount	CY 2005*		CY 2006**		CY 2007		CY 2008	
		Amount	% Change	Amount	% Change	Amount	% Change	Amount	% Change
Total Capital and Surplus	43,751,951	50,091,238	14.5%	64,998,136	29.8%	88,341,003	35.9%	77,182,624	-12.6%
Total Revenues	468,654,164	526,270,336	12.3%	716,434,659	36.1%	745,271,240	4.0%	844,730,193	13.3%
Total Medical and Hospital Expenses	420,786,586	465,020,243	10.5%	616,190,044	32.9%	642,214,404	3.9%	731,516,272	13.9%
Total Administrative Expenses	38,085,552	57,519,656	51.0%	86,879,824	51.0%	91,535,284	5.4%	98,615,404	7.7%
Net Underwriting Gain (Loss)	9,424,449	3,360,526	-64.3%	8,691,345	158.6%	13,438,228	54.6%	13,496,845	0.4%
Net Investment Gain (Loss)	1,844,802	3,936,761		6,729,342		7,080,950		-11,198,657	
Net Income (Loss)	11,535,697	7,297,307	-36.7%	15,420,687	111.3%	20,519,176	33.1%	2,298,188	-88.6%

* - The MCO provider tax was instituted in CY 2005 and Passport payments were increased in sufficient amounts to pass through the tax.

** - Passport began offering a Medicare supplement plan in CY 2008 and is reflected in increased revenue and expenses accordingly.

- It appears that the Passport Health Plan has sought and received approval for three extraordinary distributions of capital and surplus in the amount of approximately \$30.5 million in the last 15 months.

Filings with the Department of Insurance obtained through open records requests document three extraordinary distributions of capital and surplus. The first distribution was applied for and approved in November 2008 and called for a \$10.5 million distribution to return initial capital contributions made by the members of the organization. The distribution was in the form of cash and the Form D filings made by

Cindy Murray
Page 5
February 16, 2010

Passport indicated that Passport's statutory net worth exceeded the required minimum amount of \$48 million. The filing indicated the \$10.5 million was distributed as follows:

MSPA (U of L Physicians)	\$5,383,750
Norton Healthcare	\$1,348,581
Jewish Hospital	\$1,348,581
University Medical Center	\$1,313,250
Louisville/Jefferson County Primary Care Association or its members (FQHCs, U of L PCC, Metro Health Department)	\$1,090,000

The second extraordinary distribution was applied for in November 2008 and made in December 2008 in the amount of \$10 million. The filing made by Passport indicates that the distribution of \$10 million was to be made in cash for the purposes of providing restricted grants to members of its organization for indigent care. In that filing, the statutory net worth of Passport exceeded the required minimum amount of \$48 million. The distribution of \$10 million to the members was follows:

U of L Office of Executive Vice President	\$5,250,000
Norton Healthcare	\$1,330,000
Jewish Hospital	\$1,330,000
University Medical Center	\$1,330,000
Park DuValle Health Center	\$ 250,300
Family Health Care	\$ 509,700

It appears that a third distribution may have also occurred in November 2009 for another \$10 million to provide restricted grants to members of its organization for indigent care. The distribution was the same as the one immediately above. In that filing, it indicates that the statutory net worth exceeds the required minimum amount of \$52,000,000 and again the distribution was in the form of cash.

- A legislator has publicly expressed concern regarding the lack of transparency surrounding where the funds went and for what purposes the entities received the funds given that the principal source of funds were from public state and federal Medicaid monies. The Auditor of Public Accounts has been requested to audit the Passport Health Plan to ensure transparency. Attached are copies of the Form D filings related to the extraordinary distributions. These distributions raise questions about the health plan's continuing to generate excessive profits that are then distributed to the owners or others in the region at a time when many other Medicaid providers throughout the state have not had similar increases for years.

If you have any questions, please feel free to contact me at 502-564-4321.

Sincerely,



Elizabeth Johnson, Esq.
Commissioner

Attachments

c: Rep. Jimmie Lee

Comparison data on emergency room utilization for Passport and regular Medicaid

Fiscal Year 2009 monthly eligibility data was used to examine each member's Passport status and county of residence. Passport does not provide coverage for individuals that reside in an institutional setting, nor does it cover patients accessing services through waivers. These individuals receive service in the regular Medicaid program and therefore were removed from the comparative Non-Passport population.

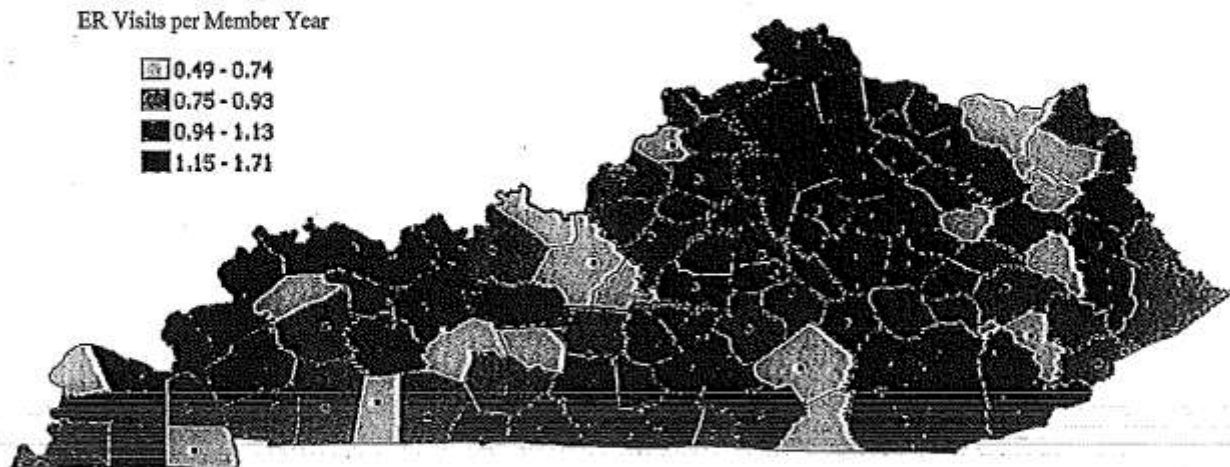
For each of the 12 months of Fiscal Year 2009, a list of all Passport and comparative Non-Passport individuals was created along with their county of residence for the given month. This list was matched to claims data to pick up the number of Emergency Room (ER) visits based on procedure codes and revenue codes during the individuals given month of coverage.

It should be noted that Passport detail in the claims data is based on submitted encounters, whereas the comparative Non-Passport data is based on true claims that are required to be submitted in order for the provider to be paid. This difference could lead to some under-reporting of Passport ER visits. In addition, Medicaid does not pay for ER visits resulting in an admission to the hospital; however an ER visit, with subsequent referral to another hospital will be paid. Therefore regions with hospital ERs that have high rates of referrals to other hospitals may report higher ER utilization, and conversely, hospitals with high rates of admission will report lower ER utilization.

After matching of eligible members by county to any corresponding ER claims, summary information was compiled regarding the relative difference between the two populations. The number of total member months was divided by twelve to state the aggregate member years. The number of total ER visits by the members represented in the member years was divided by the number of member years to obtain ER visits per member year. For Passport this figure was 0.80 and for the comparative Non-Passport population the figure was 0.97 visits per member year.

The following map portrays county-level detail behind these figures and provides some insight regarding the distinction between the Passport Region and the rest of the state. Darker regions on the map signify a higher number of ER visits per member year. Black dots signify hospital locations. Note that seven of Passports sixteen counties do not have a hospital. More importantly, not shown below, Jefferson County accounts for 63 percent of Passport's covered members; a similar concentration is not found in the Non-Passport region. Yet, there are counties in and outside of the Passport region that have lower numbers of ER visits per member year than Jefferson County.

**ER Visits per Member Year
By County of Residence
Fiscal Year 2009**



While not conclusive, this data suggest that the number of visits per member per year has some correlation to the presence of a hospital in the county where the member lives. In fact, there are several counties, which do not have a hospital, which have lower numbers of ER visits per member per year than both counties in the regular Medicaid program and counties in the Passport region.

University Health Care, Inc.

dba Passport Health Plan

552 East Market Street, Suite 202
Louisville, Kentucky 40202-7107

Phone (502) 540-1311 Fax (502) 540-1312
www.universityhealthcareinc.com

Larry N. Cook, MD
CEO & Chairman of the Board

Shannon R. Turner, JD
Executive Vice President

Nici C. Gaines
Associate Vice President

November 26, 2008

Hon. Sharron Burton
General Counsel
Kentucky Department of Insurance
215 West Main Street
Frankfort, Kentucky 40601

Dear Ms. Burton:

Thank you very much for the quick review of University Health Care's request to return the initial capital contribution to the members of the organization. In response to the initial meeting and subsequent request submission, please find attached the completed Form D for this transaction.

With respect to the Louisville-Jefferson County Primary Care Association, the capital amount will be distributed equally to the four members of the association: the Louisville Metro Health Department, Family Health Centers, Park DuValle and the University of Louisville Primary Care Center.

Please contact me at 502-540-1311 or 859-948-7667 should you have any questions or need additional information.

Sincerely,


Shannon R. Turner

Form D

PRIOR NOTICE OF A TRANSACTION

Filed with the Kentucky Department of Insurance

By

University Health Care, Inc. ("UHC")

Date: November , 2008

Name, Title, Address and Phone Number of the Individual to Whom Notices and Correspondence Concerning This Statement Shall Be Addressed:

Shannon R. Turner, Executive Vice President
University Health Care, Inc.
552 East Market Street, Ste. 202
Louisville, KY 40202
(502) 540-1311 - Office

ITEM 1. IDENTITY OF PARTIES TO TRANSACTION

Furnish the following information for each of the parties to the transaction:

MSPA

1. Name: **University of Louisville Medical School Practice Association ("MSPA")**
2. Home office address: **Abell Administration Building, 323 East Chestnut Street, Room 509, University of Louisville, Louisville, KY 40292**
3. Principal executive office address: **Same**
4. The organizational structure (i.e., corporation, partnership, individual, trust, etc.): **Not-for-profit corporation.**
5. A description of the nature of the parties' business operations: **Teaching and health care services.**
6. Relationship, if any, of other parties to the transaction to the insurer filing the notice, including any ownership or debtor/creditor interest by the other parties to the transaction in the insurer seeking approval, or by the insurer filing the notice in the affiliated parties: **Not-for-profit member of UHC.**
7. Where the transaction is with a nonaffiliate, the name(s) of the affiliate(s) which will receive, in whole or in substantial part, the proceeds of the transaction: **Not applicable.**

Norton Healthcare

1. Name: **Norton Healthcare, Inc. ("Norton")**

2. Home office address: 200 E. Chestnut Street, Louisville, KY 40202
3. Principal executive office address: Same
4. The organizational structure (i.e., corporation, partnership, individual, trust, etc.): **Not-for-profit corporation.**
5. A description of the nature of the parties' business operations: **Health care services.**
6. Relationship, if any, of other parties to the transaction to the insurer filing the notice, including any ownership or debtor/creditor interest by the other parties to the transaction in the insurer seeking approval, or by the insurer filing the notice in the affiliated parties: **Not-for-profit member of UHC.**
7. Where the transaction is with a nonaffiliate, the name(s) of the affiliate(s) which will receive, in whole or in substantial part, the proceeds of the transaction: **Not applicable.**

Jewish Hospital

1. Name: **Jewish Hospital & St. Mary's Healthcare, Inc. ("Jewish")**
2. Home office address: 217 East Main Street, Louisville, KY 40202
3. Principal executive office address: Same
4. The organizational structure (i.e., corporation, partnership, individual, trust, etc.): **Not-for-profit corporation.**
5. A description of the nature of the parties' business operations: **Health care services.**
6. Relationship, if any, of other parties to the transaction to the insurer filing the notice, including any ownership or debtor/creditor interest by the other parties to the transaction in the insurer seeking approval, or by the insurer filing the notice in the affiliated parties: **Not-for-profit member of UHC.**
7. Where the transaction is with a nonaffiliate, the name(s) of the affiliate(s) which will receive, in whole or in substantial part, the proceeds of the transaction: **Not applicable.**

University Medical Center

1. Name: **University Medical Center, Inc. ("UMC")**
2. Home office address: 530 S. Jackson St., Louisville, KY 40202
3. Principal executive office address: Same
4. The organizational structure (i.e., corporation, partnership, individual, trust, etc.): **Not-for-profit corporation.**
5. A description of the nature of the parties' business operations: **Health care services.**

6. Relationship, if any, of other parties to the transaction to the insurer filing the notice, including any ownership or debtor/creditor interest by the other parties to the transaction in the insurer seeking approval, or by the insurer filing the notice in the affiliated parties: **Not-for-profit member of UHC.**
7. Where the transaction is with a nonaffiliate, the name(s) of the affiliate(s) which will receive, in whole or in substantial part, the proceeds of the transaction: **Not applicable.**

Louisville/Jefferson County Primary Care Association or its members (FQHC's, UofL PCC, Metro Health Dept.)

1. Name: **Louisville/Jefferson County Primary Care Association ("JCPCA")**
2. Home office address: **Family Health Centers, Inc., 2215 Portland Avenue, Louisville, KY 40212; University of Louisville Primary Care Centers, 530 S. Jackson St., Louisville, KY 40202; Park Duvalle Community Health Center, Inc., 3015 Wilson Avenue, Louisville, KY 40211; Louisville Metro Health Department, 400 E. Gray Street, Louisville, KY 40202.**
3. Principal executive office address: **Same**
4. The organizational structure (i.e., corporation, partnership, individual, trust, etc.): **Not-for-profit corporation.**
5. A description of the nature of the parties' business operations: **Health care services.**
6. Relationship, if any, of other parties to the transaction to the insurer filing the notice, including any ownership or debtor/creditor interest by the other parties to the transaction in the insurer seeking approval, or by the insurer filing the notice in the affiliated parties: **Not-for-profit member of UHC.**
7. Where the transaction is with a nonaffiliate, the name(s) of the affiliate(s) which will receive, in whole or in substantial part, the proceeds of the transaction: **Not applicable.**

ITEM 2. DESCRIPTION OF THE TRANSACTION

Furnish the following information for each transaction for which notice is being given:

1. Statement as to whether notice is being given under KRS 304.37-030(2)(a)1, 2, 3, 4, or 5: **Notice being given under the extraordinary distribution provisions of KRS 304.37-030(2)(a)(5).**
2. A statement of the nature of the transaction: **This is the official notice to make a distribution to UHC's not-for-profit members to return the initial capital, without interest, which these organizations invested in UHC. See Schedule A setting forth the payment amounts.**
3. The proposed effective date of the transaction. **Before the end of the calendar year.**

ITEM 3. EXTRAORDINARY DISTRIBUTIONS Per 806 KAR 37:010, requests for approval of extraordinary distributions by an insurer that is not a life insurer shall include the following:

1. The amount of the proposed distribution: **\$10,484,162.00**
2. The date established for payment of the distribution: **Before year end.**
3. A statement as to whether the distribution is to be in cash or other property and, if in property, a description thereof, its cost, and its fair market value together with an explanation of the basis for valuation: **The distribution is to be in the form of cash.**
4. A copy of the calculations determining that the proposed distribution is extraordinary. Per 806 KAR 37:010, the insurer shall include the following information:

A. The amounts, dates, and form of payment of all distributions paid within the period of twelve (12) consecutive months ending on the date fixed for payment of the proposed distribution for which approval is sought and commencing on the day after the same day of the same month in the last preceding year: **No extraordinary distributions have been made within the prior 12 consecutive month period. Payments have been made under the Medicaid program as part of care delivery.**

B. Surplus as regards policyholders (total capital and surplus) as of the 31st day of December next preceding: **UHC has surplus as regards policyholders as of December 31, 2007, in the amount of approximately \$88,000,000.00.**

C. The net income less realized capital gains for the twelve (12) month period ending the 31st day of December next preceding and the two (2) preceding twelve (12) month periods: **See Schedule B.**

5. A balance sheet and statement of income for the period intervening from the last annual statement filed with the executive director and the end of the month preceding the month in which the requests for distribution approval is submitted: **See Schedule C.**

6. A brief statement as to the effect of the proposed distribution upon the insurer's surplus and the reasonableness of surplus in relation to the insurer's outstanding liabilities and the adequacy of surplus relative to the insurer's financial needs: **UHC's statutory net worth exceeds the required minimum amount of \$48,000,000. This distribution will not impact the Kentucky statutory requirement of maintaining \$48,000,000.**

ITEM 4. SIGNATURE AND CERTIFICATION

Signature and certification required as follow:

SIGNATURE AND CERTIFICATION

The undersigned deposes and says that he has duly executed the attached notice dated November 24, 2008, for and on behalf of University Health Care, Inc.; that he is the CEO of the company and that he is authorized to execute and file the instrument. Deponent further says that he is familiar with

the instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information, and belief.

A handwritten signature in cursive script, appearing to read "Shannon R. Turner", is written over a horizontal line.

Shannon R. Turner

15200928.6



SCHEDULE A

<u>Organization</u>	<u>Amount of Initial Investment</u>
MSPA (UofL Physicians)	\$ 5,383,750
Norton Healthcare	\$ 1,348,581
Jewish Hospital	\$ 1,348,581
University Medical Center	\$ 1,313,250
Louisville/Jefferson County Primary Care Association or its members (FQHC's, UofL PCC, Metro Health Dept.)	<u>\$ 1,090,000</u>
TOTAL	\$10,484,162

15201243.1

Schedule B

Below is the net income before realized gains/(losses) for the 3 years prior to 2008:

2007	\$21,488,090
2006	\$15,398,316
2005	\$ 7,229,111

15201256.1

Schedule C

University Health Care
Statement of Operations
October 31, 2008

	Actual YTD
Enrollment Revenue	<u>\$704,330,274</u>
Medical Expenses	<u>600,617,231</u>
Administrative Expenses	45,571,301
Other Expenses	3,903,135
Premium Tax	<u>31,892,559</u>
Sub Total - Operating Exps.	81,366,995
Total Expenses	<u>681,984,226</u>
Total Income from Operations	22,346,048
Investment Income	<u>1,669,324</u>
Net Income	<u><u>\$24,015,372</u></u>

University Health Care

Balance Sheet

October 31, 2008

ASSETS

Current Assets:

Cash and Equivalents
Marketable Securities
Accounts Receivable
Prepaid Expenses
Total Current Assets

Other Assets:

Restricted Asset-Statutory Deposit

Total Assets

LIABILITIES AND NET ASSETS

Current Liabilities:

Accrued Medical Expenses
Payable to CMS
Accrued Other Liabilities
Premium Deficiency Reserve
Unearned Premiums
Accrued Premium Taxes
Total Current Liabilities

Net Assets

Net Assets, beginning of the year
Change in Unrealized Gain/(Losses)
Excess Revenue over Expenses
Total Net Assets

Total Liabilities and Net Assets

October 2008

\$101,271,905
83,561,645
28,582,562
17,605
\$213,433,717

543,545

\$213,977,262

\$81,855,328
2,728,549
15,248,812
13,330,580
3,274,938
116,438,207

90,258,743
(16,735,065)
24,015,572
97,539,055

\$213,977,262

University Health Care, Inc.

dba Passport Health Plan

552 East Market Street, Suite 202
Louisville, Kentucky 40202-7107

Phone (502) 540-1311 Fax (502) 540-1312
www.universityhealthcareinc.com

Larry N. Cook, MD
CEO & Chairman of the Board

Shannon R. Turner, JD
Executive Vice President

Niel C. Gaines
Associate Vice President

November 26, 2008

Hon. Sharron Burton
General Counsel
Kentucky Department of Insurance
215 West Main Street
Frankfort, Kentucky 40601

Dear Ms. Burton:

University Health Care, Inc. appreciates the Department's consideration of our request to make restricted grants to member organizations and affiliates for the support of indigent care. In response to the initial meeting and subsequent request submission, please find attached the completed Form D for this transaction.

Please contact me at 502-540-1311 or 859-948-7667 should you have any questions or need additional information. Again, we appreciate the help provided by you and your team. Have a Happy Thanksgiving!

Sincerely,


Shannon R. Turner

Form D

PRIOR NOTICE OF A TRANSACTION

Filed with the Kentucky Department of Insurance

By

University Health Care, Inc. ("UHC")

Date: November, 2008

Name, Title, Address and Phone Number of the Individual to Whom Notices and Correspondence Concerning This Statement Shall Be Addressed:

Shannon R. Turner, Executive Vice President
University Health Care, Inc.
552 East Market Street, Ste. 202
Louisville, KY 40202
(502) 540-1311 - Office

ITEM 1. IDENTITY OF PARTIES TO TRANSACTION

Furnish the following information for each of the parties to the transaction:

U of L School of Medicine

1. Name: University of Louisville Medical School Practice Association, Office of the Executive Vice-President
2. Home office address: Abel Administration Building, 323 East Chestnut Street, Third Floor, University of Louisville, Louisville, KY 40292; Attention: Dr. Larry Cook
3. Principal executive office address: Same
4. The organizational structure (i.e., corporation, partnership, individual, trust, etc.): Governmental entity.
5. A description of the nature of the parties' business operations: Teaching and health care services.
6. Relationship, if any, of other parties to the transaction to the insurer filing the notice, including any ownership or debtor/creditor interest by the other parties to the transaction in the insurer seeking approval, or by the insurer filing the notice in the affiliated parties: Affiliated with the not-for-profit member of UHC, Medical School Practice Association.
7. Where the transaction is with a nonaffiliate, the name(s) of the affiliate(s) which will receive, in whole or in substantial part, the proceeds of the transaction: Not applicable.

Norton Healthcare

1. Name: Norton Healthcare, Inc. ("Norton")
2. Home office address: 200 E. Chestnut Street, Louisville, KY 40202
3. Principal executive office address: Same
4. The organizational structure (i.e., corporation, partnership, individual, trust, etc.): **Not-for-profit corporation.**
5. A description of the nature of the parties' business operations: **Health care services.**
6. Relationship, if any, of other parties to the transaction to the insurer filing the notice, including any ownership or debtor/creditor interest by the other parties to the transaction in the insurer seeking approval, or by the insurer filing the notice in the affiliated parties: **Not-for-profit member of UHC.**
7. Where the transaction is with a nonaffiliate, the name(s) of the affiliate(s) which will receive, in whole or in substantial part, the proceeds of the transaction: **Not applicable.**

Jewish Hospital

1. Name: Jewish Hospital & St. Mary's Healthcare, Inc. ("Jewish")
2. Home office address: 217 East Main Street, Louisville, KY 40202
3. Principal executive office address: Same
4. The organizational structure (i.e., corporation, partnership, individual, trust, etc.): **Not-for-profit corporation.**
5. A description of the nature of the parties' business operations: **Health care services.**
6. Relationship, if any, of other parties to the transaction to the insurer filing the notice, including any ownership or debtor/creditor interest by the other parties to the transaction in the insurer seeking approval, or by the insurer filing the notice in the affiliated parties: **Not-for-profit member of UHC.**
7. Where the transaction is with a nonaffiliate, the name(s) of the affiliate(s) which will receive, in whole or in substantial part, the proceeds of the transaction: **Not applicable.**

University Medical Center

1. Name: University Medical Center, Inc. ("UMC")
2. Home office address: 530 S. Jackson St., Louisville, KY 40202
3. Principal executive office address: Same
4. The organizational structure (i.e., corporation, partnership, individual, trust, etc.): **Not-for-profit corporation.**

5. A description of the nature of the parties' business operations: **Health care services.**
6. Relationship, if any, of other parties to the transaction to the insurer filing the notice, including any ownership or debtor/creditor interest by the other parties to the transaction in the insurer seeking approval, or by the insurer filing the notice in the affiliated parties: **Not-for-profit member of UHC.**
7. Where the transaction is with a nonaffiliate, the name(s) of the affiliate(s) which will receive, in whole or in substantial part, the proceeds of the transaction: **Not applicable.**

Park DuValle Community Health Center, Inc.

1. Name: **Park DuValle Community Health Centers, Inc.**
2. Home office address: **Park Duvalle Community Health Center, Inc., 3015 Wilson Avenue, Louisville, KY 40211;**
3. Principal executive office address: **Same**
4. The organizational structure (i.e., corporation, partnership, individual, trust, etc.): **Not-for-profit corporation.**
5. A description of the nature of the parties' business operations: **Health care services.**
6. Relationship, if any, of other parties to the transaction to the insurer filing the notice, including any ownership or debtor/creditor interest by the other parties to the transaction in the insurer seeking approval, or by the insurer filing the notice in the affiliated parties: **Affiliated with the not-for-profit member of UHC; Jefferson County Primary Care Association.**
7. Where the transaction is with a nonaffiliate, the name(s) of the affiliate(s) which will receive, in whole or in substantial part, the proceeds of the transaction: **Not applicable.**

Family Health Centers, Inc.

1. Name: **Family Health Centers, Inc.**
2. Home office address: **2215 Portland Avenue, Louisville, KY 40212;**
3. Principal executive office address: **Same**
4. The organizational structure (i.e., corporation, partnership, individual, trust, etc.): **Not-for-profit corporation.**
5. A description of the nature of the parties' business operations: **Health care services.**
6. Relationship, if any, of other parties to the transaction to the insurer filing the notice, including any ownership or debtor/creditor interest by the other parties to the transaction in the insurer seeking approval, or by the insurer filing the notice in the affiliated parties: **Affiliated with the not-for-profit member of UHC; Jefferson County Primary Care Association.**

7. Where the transaction is with a nonaffiliate, the name(s) of the affiliate(s) which will receive, in whole or in substantial part, the proceeds of the transaction: Not applicable.

ITEM 2. DESCRIPTION OF THE TRANSACTION

Furnish the following information for each transaction for which notice is being given:

1. Statement as to whether notice is being given under KRS 304.37-030(2)(a)1, 2, 3, 4, or 5: Notice being given under the extraordinary distribution provisions of KRS 304.37-030(2)(a)(5).
2. A statement of the nature of the transaction: This is the official notice to make a distribution to UHC's not-for-profit members and affiliates of not-for-profit members in the form of a restricted grant for indigent care. See Schedule A setting forth the payment amounts. Each organization provides indigent care in the UHC region and these monies are to help with this important work in these difficult economic times. Each organization will be required to report back to UHC regarding the use of the funds.
3. The proposed effective date of the transaction. Before the end of the calendar year.

ITEM 3. EXTRAORDINARY DISTRIBUTIONS Per 806 KAR 37:010, requests for approval of extraordinary distributions by an insurer that is not a life insurer shall include the following:

1. The amount of the proposed distribution: \$10,000,000.00
2. The date established for payment of the distribution: Before year end.
3. A statement as to whether the distribution is to be in cash or other property and, if in property, a description thereof, its cost, and its fair market value together with an explanation of the basis for valuation: The distribution is to be in the form of cash.
4. A copy of the calculations determining that the proposed distribution is extraordinary. Per 806 KAR 37:010, the insurer shall include the following information:

A. The amounts, dates, and form of payment of all distributions paid within the period of twelve (12) consecutive months ending on the date fixed for payment of the proposed distribution for which approval is sought and commencing on the day after the same day of the same month in the last preceding year: No extraordinary distributions have been made within the prior 12 consecutive month period. Payments have been made under the Medicaid program as part of care delivery.

B. Surplus as regards policyholders (total capital and surplus) as of the 31st day of December next preceding: UHC has surplus as regards policyholders as of December 31, 2007, in the amount of approximately \$88,000,000.00.

C. The net income less realized capital gains for the twelve (12) month period ending the 31st day of December next preceding and the two (2) preceding twelve (12) month periods: See Schedule B.

5. A balance sheet and statement of income for the period intervening from the last annual statement filed with the executive director and the end of the month preceding the month in which the requests for distribution approval is submitted: See Schedule C.

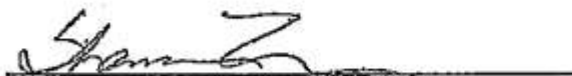
6. A brief statement as to the effect of the proposed distribution upon the insurer's surplus and the reasonableness of surplus in relation to the insurer's outstanding liabilities and the adequacy of surplus relative to the insurer's financial needs: UHC's statutory net worth exceeds the required minimum amount of \$48,000,000. This distribution along with the return of capital request will not impact the Kentucky statutory requirement of maintaining \$48,000,000.

ITEM 4. SIGNATURE AND CERTIFICATION

Signature and certification required as follow:

SIGNATURE AND CERTIFICATION

The undersigned deposes and says that he has duly executed the attached notice dated November 26, 2008, for and on behalf of University Health Care, Inc.; that he is the CEO of the company and that he is authorized to execute and file the instrument. Deponent further says that he is familiar with the instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information, and belief.



Shannon R. Turner

15201248.1

SCHEDULE A

<u>Organization</u>	<u>Amount of Initial Investment</u>
U. of L. Office of the Executive Vice President	\$ 5,250,000
Norton Healthcare	\$ 1,330,000
Jewish Hospital	\$ 1,330,000
University Medical Center	\$ 1,330,000
Park DuValle	\$ 250,300
Family Health Center	\$ 509,700
TOTAL	\$10,000,000

15201249.1

Schedule B

Below is the net income before realized gains/(losses) for the 3 years prior to 2008:

2007	\$21,488,090
2006	\$15,398,316
2005	\$ 7,229,111

15201256.1

Schedule C

University Health Care
Statement of Operations
October 31, 2008

	<u>Actual YTD</u>
Enrollment Revenue	<u>\$704,330,274</u>
Medical Expenses	<u>600,617,231</u>
Administrative Expenses	45,571,301
Other Expenses	3,903,135
Premium Tax	<u>31,892,559</u>
Sub Total - Operating Exps.	81,366,995
Total Expenses	<u>681,984,226</u>
Total Income from Operations	22,346,048
Investment Income	<u>1,669,324</u>
Net Income	<u><u>\$24,015,372</u></u>

University Health Care
Balance Sheet
October 31, 2008

ASSETS

Current Assets:

Cash and Equivalents
 Marketable Securities
 Accounts Receivable
 Prepaid Expenses
 Total Current Assets

Other Assets:

Restricted Asset-Statutory Deposit

Total Assets

LIABILITIES AND NET ASSETS

Current Liabilities:

Accrued Medical Expenses
 Payable to CMS
 Accrued Other Liabilities
 Premium Deficiency Reserve
 Unearned Premiums
 Accrued Premium Taxes
 Total Current Liabilities

Net Assets

Net Assets, beginning of the year
 Change in Unrealized Gain/(Losses)
 Excess Revenue over Expenses
 Total Net Assets

Total Liabilities and Net Assets

October 2008

\$101,271,905
 83,561,645
 28,582,562
 17,605
\$213,433,717

543,545

\$213,977,262

\$81,855,328
 2,728,549
 15,248,812

13,330,580
 3,274,938
116,438,207

90,258,748
 (16,735,065)
 24,015,372
97,539,055

\$213,977,262



PUBLIC PROTECTION CABINET

Steven L. Beshear
Governor

Department of Insurance
P.O. Box 517
Frankfort, Kentucky 40602-0517
1-800-595-6053
<http://insurance.ky.gov>

Robert D. Vance
Secretary

Sharon P. Clark
Commissioner

December 10, 2008

Shannon R. Turner
Executive Vice President
University Health Care, Inc.
552 East Market St., Suite 202
Louisville, KY 40207-7107

Dear Ms. Turner:

We are in receipt of your Form D filing dated November 26, 2008 on behalf of University Health Care, Inc., seeking approval of a capital distribution in the amount of \$10,000,000.00.

This distribution represents a return of paid in capital and qualifies as an extraordinary distribution per KRS 304.37-030(5). The Department of Insurance does not disapprove the distribution; provided that University Health Care, Inc. must continue to maintain both unimpaired paid-in capital of one million dollars (\$1,000,000) and bona fide additional surplus of two hundred fifty thousand dollars (\$250,000) pursuant to KRS 304.38-070. In addition, the company should maintain a Risk Based Capital ratio (RBC) above company action level (200%) pursuant to 806 KAR 38:100.

If you have any questions, please feel free to contact me at (502) 564-6082 ext. 4320.

Sincerely,

Bill Clark, CPA
Financial Analyst

cc: Amanda Ross
Sharon Burton



PUBLIC PROTECTION CABINET

Steven L. Beshear
Governor

Department of Insurance
P.O. Box 517
Frankfort, Kentucky 40602-0517
1-800-596-6053
<http://insurance.ky.gov>

Robert D. Vance
Secretary

Sharon P. Clark
Commissioner

May 13, 2009

Shannon R. Turner
Executive Vice President
University Health Care, Inc.
552 East Market St., Suite 202
Louisville, KY 40207-7107

RE: Excessive Extraordinary Distribution

Dear Ms. Turner:

In November 2008, University Healthcare submitted a Form D requesting approval of an extraordinary distribution in the amount of \$10,000,000. The Department of Insurance ("DOI") sent a letter dated December 10, 2008 "not disapproving" the extraordinary distribution in the amount of \$10,000,000.

Per KRS 304.37-030(5), no insurer subject to registration under KRS 304.37-020 shall pay any extraordinary dividend or make any other extraordinary distribution to its stockholders until thirty (30) days after the executive director has received notice of the declaration thereof and has not within the period disapproved the payment, or the executive director shall have approved the payment within the thirty (30) day period. Also, per KRS 304.37-030(1)(e), material transactions by registered insurers with their affiliates shall be subject to the following standards: The insurer's surplus as regards policyholders, following any dividends or distributions to shareholder affiliates shall be reasonable in relation to the insurer's outstanding liabilities and adequate to its financial needs.

Inherent in the above statutes not only is the fact that a 30-day notice is required, but also that the DOI approves the dollar amount of the distribution so as to insure that all applicable standards within the transaction are upheld.

The DOI approved the capital distribution in the amount of \$10,000,000. However, as reflected in the 2008 annual statement, specifically the income statement and the Notes to Financial Statements, Note #10, the amount actually distributed was \$10,484,162. If this is correct, University Healthcare is in violation of statute. Please confirm that the amount

distributed was above the amount approved. Also, we will not take action at this time, but want to put University Healthcare on notice that if this were to occur again that action would be taken.

Sincerely,

A handwritten signature in black ink, appearing to be 'Amanda Ross', written over a horizontal line.

Amanda Ross
Director, Financial Standards & Examination

AR:jg

cc: Dr. Larry N. Cook, MD

JAN 15 2009

APPENDIX D
FORM D
PRIOR NOTICE OF A TRANSACTION

Filed with the Kentucky Office of Insurance By:

University Health Care, Inc. ("UHC")

Date: November 30, 2009

Name, Title, Address and Phone Number of the Individual to Whom Notices and Correspondence Concerning This Statement Shall Be Addressed:

Shannon R. Turner, Executive Vice President
University Health Care, Inc.
552 East Market Street, Ste. 202
Louisville, KY 40202
(502) 540-1311 - Office

Item 1. Identity of Parties to the Transaction

Furnish the following information for each of the parties to the transaction:

U of L School Of Medicine

- **Name: University of Louisville, Office of the Executive Vice-President**
- **Address: Abell Administration Building, 323 East Chestnut Street, Third Floor, University of Louisville, KY 40292; Attention: Dr. Larry Cook**
- **A description of the nature of the parties' business operations: Teaching and health care services**
- **Relationship, if any, of other parties to the transaction to the captive filing the notice, including any ownership, debtor or creditor interest in the insurer seeking approval, by any other parties to the transaction or by the insurer filing the notice for the affiliated parties:
The University of Louisville has a contractual relationship with the Medical School Practice Associate, a not-for-profit member of UHC, however this relationship does not rise to the level of affiliate as defined in statute.**

Norton Healthcare

- Name: **Norton Healthcare, Inc. ("Norton")**
- Address: **200 E. Chestnut Street, Louisville, KY 40202**
- A description of the nature of the parties' business operations: **Health care services.**
- Relationship, if any, of other parties to the transaction to the insurer filing the notice, including any ownership or debtor/creditor interest by the other parties to the transaction in the insurer seeking approval, or by the insurer filing the notice in the affiliated parties: **Not-for-profit member of UHC.**

Jewish Hospital

- Name: **Jewish Hospital & St. Mary's Healthcare, Inc. ("Jewish")**
- Address: **217 East Main Street, Louisville, KY 40202**
- A description of the nature of the parties' business operations: **Health care services.**
- Relationship, if any, of other parties to the transaction to the insurer filing the notice, including any ownership or debtor/creditor interest by the other parties to the transaction in the insurer seeking approval, or by the insurer filing the notice in the affiliated parties: **Not-for-profit member of UHC.**

University Medical Center

- Name: **University Medical Center, Inc. ("UMC")**
- Address: **530 S. Jackson Street, Louisville, KY 40202**
- A description of the nature of the parties' business operations: **Health care services.**
- Relationship, if any, of other parties to the transaction to the insurer filing the notice, including any ownership or debtor/creditor interest by the other parties to the transaction in the insurer seeking approval, or by the insurer filing the notice in the affiliated parties: **Not-for-profit member of UHC.**

Park DuValle Community Health Center, Inc.

- Name: **Park DuValle Community Health Center, Inc.**
- Address: **Park DuValle Community Center, Inc., 3015 Wilson Avenue, Louisville, KY 40211**
- A description of the nature of the parties' business operations: **Health care services.**
- Relationship, if any, of other parties to the transaction to the insurer filing the notice, including any ownership or debtor/creditor interest by the other parties to the transaction in the insurer seeking approval, or by the insurer filing the notice in the affiliated parties: **Member organization of the Jefferson County Primary Care Association, a not-for-profit member of UHC.**

Family Health Centers, Inc.

- Name: **Family Health Centers, Inc.**
- Address: **2215 Portland Avenue, Louisville, KY 40212**
- A description of the nature of the parties' business operations: **Health care services.**
- Relationship, if any, of other parties to the transaction to the insurer filing the notice, including any ownership or debtor/creditor interest by the other parties to the transaction in the insurer seeking approval, or by the insurer filing the notice in the affiliated parties: **Member organization of the Jefferson County Primary Care Association, a not-for-profit member of UHC.**

ITEM 2. DESCRIPTION OF THE TRANSACTION

Furnish the following information for each transaction for which notice is being given:

- (1) A statement as to whether notice is being given under KRS 304.37-030(2)(a)1, 2, 3, 4, or 5: **Notice being given under the extraordinary distribution provisions of KRS 304.37-030(2)(a)(5).**

(2) A statement of the nature of the transaction: **This is the official notice to make a distribution to certain UHC not-for-profit members and other not-for-profit organizations in the form of a restricted grant for indigent care. See Schedule A setting forth the payment amounts. Each organization provides indigent care in the UHC region and these monies are to help with this important work in these difficult economic times. Each organization will be required to report back to UHC regarding the use of these funds.**

(3) The proposed effective date of the transaction: **Before the end of the calendar year.**

ITEM 3. EXTRAORDINARY DISTRIBUTIONS Per 806 KAR 37:010, requests for approval of extraordinary distributions by an insurer that is not a life insurer shall include the following:

1. The amount of the proposed distribution: **\$10,000,000.00**
2. The date established for payment of the dividend: **Before year end**
3. A statement as to whether the distribution is to be in cash or other property and, if in property, a description thereof, its cost, and its fair market value together with an explanation of the basis for valuation: **The distribution is in the form of cash.**
4. A copy of the calculations determining that the proposed distribution is extraordinary. The work paper shall include the following information:

A. The amounts, dates, and form of payment of all paid within the period of twelve (12) consecutive months ending on the date fixed for payment of the proposed distribution for which approval is sought and commencing on the day after the same day of the same month in the last preceding year: **An identical indigent care grant was made in the form of cash to the parties as outlined in Schedule A in December of 2008. Additionally, the initial capital was returned to the not-for-profit sponsors. The amount totaled \$10,484,162.00.**

B. Surplus as regards policyholders (total capital and surplus) as of the 31st day of December next preceding: **UHC has surplus as regards to policyholders as of December 1, 2008, in the amount of approximately \$77,000,000.**

C. The net income less realized capital gains for the twelve (12) month period ending the 31st day of December next preceding and the two (2) preceding twelve (12) month periods: **See Schedule B.**

5. A balance sheet and statement of income for the period intervening from the last annual statement filed with the executive director and the end of the

month preceding the month in which the request for distribution approval is submitted: **See Schedule C.**

6. A brief statement as to the effect of the proposed dividend upon the insurer's surplus and the reasonableness of surplus in relation to the insurer's outstanding liabilities and the adequacy of surplus relative to the insurer's financial needs: **UHC's statutory net worth exceeds the required minimum amount of \$52,000,000. This distribution will not impact the Kentucky statutory requirement of maintaining \$52,000,000.**

ITEM 4. SIGNATURE AND CERTIFICATION

Signature and certification required as follows:

SIGNATURE AND CERTIFICATION

The undersigned deposes and says that he has duly executed the attached notice dated November 30, 2009, for and on behalf of University Health Care, Inc (Name of Applicant); that he is the Executive Vice President (Title of Officer) of the company and that he is authorized to execute and file the instrument. Deponent further says that he is familiar with the instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information, and belief.

Signature: _____



Type or print name beneath: Shannon R. Turner

Schedule C

University Health Care
Statement of Operations
October 31, 2009

	Actual YTD
Enrollment Revenue	\$758,717,456
Medical Expenses	663,921,005
Administrative Expenses	48,899,997
Other Expenses	4,641,560
Premium Tax	31,851,134
Sub Total - Operating Exps.	85,392,691
Total Expenses	749,313,696
Total Income from Operations	9,403,760
Investment Income	4,874,260
Premium Deficiency Reserve	704,316
Net Income	\$14,982,336

University Health Care
Balance Sheet

October 31, 2009

<u>ASSETS</u>		<u>October 2009</u>
<u>Current Assets:</u>		
Cash and Equivalents		\$63,856,175
Marketable Securities		107,373,447
Accounts Receivable		34,274,818
Prepaid Expenses		20,822
Total Current Assets		<u>205,525,262</u>
<u>Other Assets:</u>		
Restricted Asset-Statutory Deposit		542,776
Total Assets		<u>\$206,068,038</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accrued Medical Expenses		\$87,489,872
Payable to CMS		2,584,311
Accrued Other Liabilities		13,384,112
Premium Deficiency Reserve		-
Unearned Premiums		-
Accrued Premium Taxes		-
Total Current Liabilities		<u>103,458,295</u>
<u>Net Assets:</u>		
Net Assets, beginning of the year		79,953,078
Change in Unrealized Gain/(Losses)		7,674,329
Return of Capital		-
Excess Revenue over Expenses		14,982,336
Total Net Assets		<u>102,609,743</u>
Total Liabilities and Net Assets		<u>\$206,068,038</u>

UNIVERSITY HEALTH CARE, INC.,
dba PASSPORT HEALTH PLAN RESPONSE

University Health Care, Inc.

d/b/a Passport Health Plan

552 East Market Street, Suite 202
Louisville, Kentucky 40202-7107

Phone (502) 540-1311 Fax (502) 540-1312
www.universityhealthcareinc.com

Larry N. Cook, MD
CEO & Chairman of the Board

Shannon R. Turner, JD
Executive Vice President

Nici C. Gaines, MBA
Associate Vice President

November 2, 2010

VIA FACSIMILE TO: 502.564.2912
and U.S. CERTIFIED MAIL

The Honorable Crit Luallen
Auditor of Public Accounts
209 St. Clair Street
Frankfort, Kentucky 40601-1817

Dear Ms. Luallen:

I write on behalf of the University Health Care, Inc., ("UHC"), in response to the draft report concerning the examination of University Health Care, Inc., d/b/a Passport Health Plan, and its affiliation with the University of Louisville and the Cabinet for Health and Family Services. Pursuant to KRS § 43.090 (1), UHC requests that this response to the draft report be included with all copies of the final report that your office may publish or distribute.

UHC values the time and attention your office has devoted to reviewing the organization and operation of UHC. Your office has provided a number of recommendations and findings that will cause UHC to evaluate thoroughly its governance and operations over the coming weeks. UHC welcomes that opportunity. In fact, before the start of your office's examination UHC had identified a number of operational issues that relate to recommendations in the report and had begun the process of evaluating and changing its operational model. UHC believes that many of the anticipated changes in our operational processes will address several of the operational recommendations made within the report.

Although UHC maintains that it is not a public agency as the draft report suggests, we recognize that the funds received through our annual contract with the Commonwealth place upon us a duty and responsibility of stewardship to handle those funds in a manner that is consistent with the terms of our contract. UHC takes that responsibility seriously. If there are instances in which UHC may appear to fall short of these standards it is our desire to remedy those occurrences swiftly and with foresight.

As the report points out, UHC has had a small executive team since the beginning of the plan, with nearly all operational services being delivered by a third-party administrator (TPA). At the request of the Commonwealth, UHC was formed by a group of safety net providers to try an innovative approach to Medicaid by managing the program from the

provider's perspective. Because UHC was not a traditional insurance company, the organization relied on a TPA for managing its internal processes, as well as operating the health plan. Your report highlights issues with this structure and UHC is actively in the process of addressing these issues.

Your report also requests UHC to review its operational policies and procedures. Policies and procedures alone do not always address operational challenges, but they do provide a more robust framework for analyzing business judgment issues such as those raised in your report. UHC recognizes that many of the recommendations with the report focus on the value that more robust policies and procedures would bring to UHC by providing additional operational checks and balances and in defining operational expectations. UHC intends to conduct an extensive review and analysis of its TPA operational model as well its policies and procedures with the goal of improving our organization.

A number of findings offer general recommendations that the UHC Board of Directors examine its overall governance structure. UHC commits to review its governance structures and internal discussions will be initiated concerning governance issues.

The most productive attitude in receiving any critique is to receive it in a spirit that strives for improvement. UHC accepts the report with this attitude. There are elements of the report with which we agree; elements with which we respectfully disagree; and many elements that will require deliberation and discussion within UHC's Board.

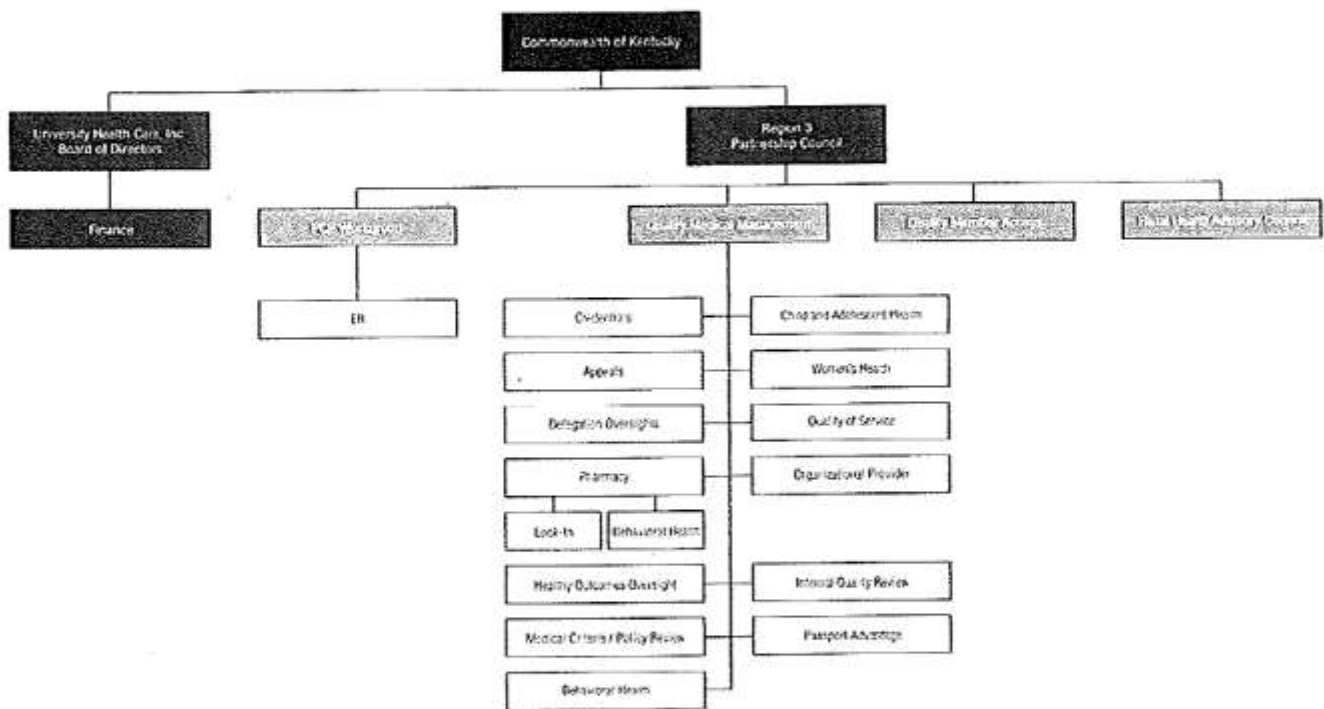
Overview of Passport Health Plan

Passport Health Plan is a nationally recognized health plan leader with a long track record of success in the Commonwealth. Our mission is to improve the health and quality of life of our members, and we have succeeded, as demonstrated by our excellent outcomes year after year since our beginnings in 1997.

Passport operates under an 1115 Demonstration Waiver that must be approved by the Centers for Medicare and Medicaid Services (CMS). The original objectives for Passport as described by the 1115 Waiver application were: 1) improve access and coordination of care for Medicaid members; 2) provide healthcare at the local level through a managed care system, using public and private providers; 3) redirect the focus of healthcare towards primary care and prevention of illness; 4) monitor and improve the quality of healthcare; and 5) implement effective and responsive cost management strategies in the healthcare delivery system designed to stabilize growth in Medicaid cost.

To achieve these objectives, Passport is governed using a collaborative partnership model via a three-party contract with DMS that is signed by UHC and the Partnership Council. The Partnership Council is an independent, non-profit organization that was established to broadly represent Medicaid providers and Passport members and oversee

the daily policy and decision-making of the Plan. Passport's community Partnership Council ensures that providers have input into the medical and quality policies of the program. The Partnership Council has responsibility for review & approval of the annual Quality Improvement (QI) and Utilization Management (UM) Programs & Evaluations, recommending policy decisions, reviewing and evaluating the results of quality activities, providing accountability for oversight of delegated entities, and instituting actions and overseeing follow up as appropriate. The responsibilities of the Partnership Council are extensive, as shown by the many committees guiding and influencing Passport's operations.



This collaborative approach has led to the development of a robust provider network, high levels of provider satisfaction, and proven case and disease management approaches. Unlike commercial plans where providers have long voiced concerns about an insurance company's intrusion into the practice of medicine, Passport seeks the input and assistance of the provider community. This approach has led to ready adoption of numerous medical management strategies with an emphasis on preventive care. Providers incentives are aligned with the outcomes the health plan strives to achieve.

As a result, Passport has proven successful in managing health care costs in the region. Over the past year, Passport's current medical cost increase was 4.5% in comparison with the regional average increase of 9.3% and the national average increase of 7.1% (from Milliman's Health Cost Index Report for the first quarter 2010 and reflect trends for the twelve month

period ending December 2009.) In the first thirteen (13) years of Passport's 1115 Waiver, expenditures have been less than the budget neutrality ceiling limits. As noted by the National Health Policy Forum in their August 29, 2009 paper "The Basics: Medicaid Waivers and Budget Neutrality," the concept of budget neutrality means that federal expenditures may not increase more than they would have in the absence of the waiver program. As of 2008, Passport has achieved total savings of \$202.8 million as calculated by DMS. Additionally, Passport is projected to save an additional \$133.2 million from November 2008 to October 2013 according to current DMS calculations.

Passport has achieved these cost savings while keeping member and provider satisfaction rates high, making improvements in health outcomes, and maintaining provider access. Our members can choose from among 730 primary care practitioners, 2,994 specialists, 34 hospitals, which includes all hospitals in the region, and 1,164 other health care providers.

Nearly 94 cents of every dollar received by Passport to provide services to Kentucky Medicaid beneficiaries goes to the payment of health care providers in our region. The six percent (6%) utilized for administrative expenses includes coverage for a wide variety of services and programs that have been unavailable to fee for services Medicaid program recipients, for example smoking cessation services.

Passport has received national recognition from the National Committee for Quality Assurance (NCQA). We have consistently achieved an "Excellent" NCQA accreditation rating. NCQA Accreditation is a rigorous, comprehensive and transparent evaluation process through which a health plan's overall quality is assessed, including a review of the systems, processes and results that define health plan operations. NCQA accreditation includes focused reviews into the care and service that health plans deliver in important areas such as diabetes, childhood immunizations and mammograms. A rating of "Excellent" means an organization has programs for service and clinical quality that meet or exceed rigorous requirements for consumer protection and quality improvement, and that Healthcare Effectiveness Data and Information Sets, or HEDIS, results are in the highest range of national performance.

Passport has been ranked in the Top 25 Medicaid Health Plans in America by US News & World Report for the past six years. According to the NCQA's Health Insurance Plan Rankings 2010-2011 as published by Consumer Reports, Passport Health Plan is ranked #15 in the top 25 Medicaid health plans in America. Our score was 86.4 out of a possible 100. The health plan ranked #1 received a score of 90.7, a difference of less than 5 points. We are the only Medicaid health plan in the southern region of the United States to achieve the "America's Best Health Plan" badge. The rankings are based on clinical performance, member satisfaction and NCQA Accreditation.

Passport is required to conduct an annual survey of members' and providers' satisfaction with the quality of services provided and their degree of access to services. We measure member satisfaction by participating in the NCQA's Consumer Assessment of Healthcare Providers and Systems (CAHPS) program. Our most recent survey data shows that member complaints against primary care providers (PCPs) decreased 89% at the same time that Passport's membership increased by 13%. We achieved this improvement in member satisfaction with PCPs by collaborating with our providers to share best practices. We also hosted annual practice management seminars, facilitated targeted practice management consulting, and conducted ongoing provider relations outreach. As a result of these efforts, member satisfaction with their personal doctor as well as their perception of how well doctors communicate improved by four percent (4%) from 2008 to 2009.

Passport has increased provider satisfaction as well. In 2009, our overall provider satisfaction rate was 87%, an increase of 16% from 2007. Passport has developed "performance based" provider incentive programs to ensure that providers' goals are aligned with the Plan's goals. Our "Pay for Performance" program is based upon guiding principles. To be included as part of the program, a measure must be:

- Clinically relevant
- Broad enough to affect a significant number of members
- Scientifically sound
- Feasible to collect
- Impacted by physician groups and the health plan
- Showing improvement over time
- Important to Passport Health Plan members
- Aligning with national standards

The program utilizes a phased approach, moving from process to outcomes as appropriate. Each measure is tested prior to inclusion and is part of the program for at least three years with an annual evaluation of the program. The objective is for providers to make targeted improvements in quality, access, and satisfaction, and it has been successful. Passport's Emergency Room rate has reduced eight percent (8%), a decrease that accounts for 9,869 avoided visits annually.

Passport has used the savings from these initiatives to create new, innovative programs that benefit our members. These enhanced benefits include a smoking cessation program, a pediatric obesity program, a diabetes program, an asthma and COPD program, "Mommy & Me" prenatal care program for pregnant women, and a host of other services and activities that our members find valuable.

For example, in 2000 Passport developed a Cultural and Linguistic Services Program to ensure that all of our members have access to and receive important information about their

health care and are not disadvantaged by an inability to speak or write English. This program provides on-site cultural competency and diversity training to Plan providers, associates, and community partners and ensures vital member documents are translated in threshold languages and alternative formats, such as Braille, large type, and audio. We also host an annual professional conference featuring national and regional speakers, offered to providers and advocates free of charge. Our physicians, nurses, dentists, pharmacists, and social workers who attend can receive continuing education credits for their time.

The vast majority of Passport's members are women and children. In 2008 we launched an innovative asthma program called Healthy Hoops Kentucky. The program teaches asthmatic children and their families how to manage the disease through the appropriate use of medication, proper nutrition, monitored exercise, and recreational activities. The event is free and allows kids to spend a half-day with local university coaches and current and former college basketball players doing basketball drills while they receive health and asthma screenings, nutrition information, and education about asthma triggers and management. Professional development seminars for nurses, sports and school coaches are also included.

Passport has also focused on other health threats to our membership, such as smoking. Kentucky has one of the highest rates of cigarette smoking in the country. In 2007 we created our "Yes, You Can!" Smoking Cessation program to assist members who desire to quit smoking. The program combines a pharmacological and behavioral approach to smoking cessation. We provide members with educational material and weekly outreach by a smoking cessation coach to assist with behavior modification and support. The "quit rate" for the program has been approximately 41%.

Passport offers a variety of additional care management programs to improve our members' health, including programs for those with diabetes, coronary artery disease, and asthma, as well as prenatal care programs, such as our "Mommy & Me" program. As a result of our innovative care and disease management programs, Passport has gained national recognition from the Medicaid Health Plans of America for its Best Practices. Yet Passport has always placed a strong focus on preventive care. When Passport first started its mission in 1997 the Early Periodic Screening, Diagnosis, and Testing, (EPSDT), rate was 17%. The EPSDT rate is a measurement of how many children are receiving well-child care services, such as early screening and vaccines. Today the children in the Passport program have an EPSDT screening rate of 95%. This is one of the highest rates in the nation.

Passport has attained national recognition through investing in our members' health, while operating under an "at-risk" model. To provide further context, being "at-risk" means that UHC bears the financial risk if actual health care costs exceed its contract payments from the Commonwealth. Passport's rates are developed by DMS using a "public utility" type of rate setting model, in which cost data is supplied annually to state government and analyzed

by them for negotiating the following year's rates. Through this model the Commonwealth has achieved significant savings, as Passport has been able to slow the increase of health care costs incurred to approximately 4.9% annually. The value of Passport becomes more apparent when you compare it to the approximately 10% annual growth rate in health care costs across the nation. This lower trend rate reduces the cost of care over time and further produces long-term savings by managing care in the interest of better health outcomes.

Passport's operational margins have been less than 1%, despite operating at full financial risk. By contrast, even public utility companies are granted a 5-6% margin to account for risk fluctuations. Our reserves reflect operations over more than a dozen years and include funds from not just Passport Health Plan, but Passport Advantage, our Medicare Advantage Special Needs Plan, as well as investment income.

Finally, it may be helpful to note that in December 2007, your office released a performance audit of reporting practices and expenditures in Kentucky's Medicaid program. On page 27 of the report, the APA concluded that "Kentucky Requires Extensive Reporting by Its Managed Care Contractor" and recommended that the Cabinet "should consider its own reporting requirements for the Passport Managed Care Medicaid Contract and Waiver when developing new Medicaid reports." The report states that since Passport is a Medicaid Waiver, the Passport contract "is held to higher reporting standards than are required of KyHealth Choices under its State Plan Amendments." As the December 2007 report notes, the Quarterly Reports submitted by Passport to DMS include a variety of information, including budget neutrality and fiscal issues, as well as organizational and administrative changes. The report also favorably evaluated UHC's external reviews by noting that Passport is audited annually by an external, independent firm; continually reviewed by DMS; assessed by CMS every three years; and audited by the Kentucky Department of Insurance on a routine basis. Within the context of this extensive government oversight, Passport has continued to enhance the health care of its members in an efficient and economical manner.

UHC offers the following responses to the findings and recommendations of the examination report that pertain to UHC.

Finding 1: The governing authority for University Health Care did not have regional representation in the conduct of the financial administration of Passport Health Plan.

UHC appreciates the report's recognition that UHC's governing bodies comply with 907 KAR 1:705, the Kentucky regulation governing the requirements of the Passport's partnership structure. The report's suggestions as to UHC's governing structures will be discussed within the UHC Board and the Partnership Council.

Finding 2: A cost analysis has not been performed to determine the cost effectiveness of Passport Health Plan.

UHC asserts that the federal government's budget neutrality calculations provide DMS a reasonable and proven measurement for determining the cost effectiveness of the Passport program. In our opinion the report minimizes the meaning and purpose of the federal government's budget neutrality calculations. A brief explanation may provide clarity on UHC's perspective.

As the report notes, Passport Health Plan operates pursuant to a federal statutory mechanism called an 1115 Waiver, named after to Section 1115 of the federal Social Security Act. State Medicaid programs generally operate under distinct federal rules, but those rules may be "waived" by the federal government if a state proposes a project that intends to offer Medicaid benefits in a manner that differs from the way traditional Medicaid is administered.

Although each state is given some flexibility in administering its own Medicaid program, the federal government provides a majority of the funds for Medicaid programs. Accordingly, the federal government imposes numerous rules and policies on Medicaid projects to manage Medicaid costs. One such federal policy, the budget neutrality calculation, requires a state Medicaid agency to prove to the federal government that Medicaid expenditures under a Waiver project will not increase more than would be expected without the Waiver.

In practical terms, the federal government asks Kentucky's Department for Medicaid Services, (DMS), whether Passport costs the same as – or less than – the anticipated cost if the Passport region were to operate under traditional Medicaid. The federal government will not permit a Waiver project to continue if doing so would result in higher costs to the federal government. The renewal applications of Passport's 1115 Waiver, as submitted by DMS, have consistently proved to the satisfaction of the federal government that Passport's Medicaid expenditures have been below the costs DMS would have spent in serving the Passport Members through traditional Medicaid.

Finding 5: UHC made cash distributions to enhance its negotiating position with DMS.

UHC respectfully asserts that distributions do not enhance or affect the financial positions of either DMS or UHC in contract negotiations. DMS stringently reviews UHC's financial statements, including distributions. Additionally, DMS requests and UHC provides all material financial information for consideration of the costs in operating the plan. UHC expenditures are extensively detailed and presented to DMS well in advance of contract negotiations. As noted in Finding 3 on page 26 and Finding 8 on page 46, distributions are

considered and excluded by the DMS actuary who defines the expenditure range within which UHC and DMS negotiate its annual contract.

UHC commits to evaluating and strengthening the policies, procedures and methodologies that govern the decision-making of future grants and distribution. We appreciate the value of policies that assure principles of fairness and equity are given due weight in the administration of the program.

Finding 6: Compliance with KRS and IRS regulations is questionable regarding UHC distributions.

Prior to any transfers being made to UHC's 501 c (3) member organizations, UHC's outside accounting firm and law firm reviewed these proposed transfers and advised UHC that they were permissible under Kentucky law and the Internal Revenue Code. Additionally, the Kentucky Office of Insurance ("KOI") was requested to review the financial condition of UHC and opine on the permissibility of the transfers. As the report notes, formal filings were made to KOI and permission for the transfers was granted through a non-denial letter. DMS was apprised of these transactions verbally and offered no objection.

Finding 7: PHP awarded various grants to favor certain organizations.

UHC commits to evaluating and strengthening its policies, procedures, methodologies and allocations as they may pertain to future grants, including the administrative expenditures and processes associated with those grants.

Finding 8: UHC grants, GME, and other distributions were not reported separately in the financial statements.

UHC complies fully with all financial reporting obligations required by the various government entities that regulate Passport's operations. While UHC believes that its reporting has been consistent with regulatory requirements, it will re-evaluate the financial accounting recommendations to determine whether the suggestions are consistent with the current government protocols required of financial disclosures.

Finding 9: UHC spent funds on questionable travel, meals, and gifts, with uncertain benefit to Passport Health Plan recipients.

UHC values the Auditor's opinions concerning the benefits derived from some of the expenditures related to travel, meals and gifts. UHC commits to re-evaluate and strengthen its oversight of such expenditures and will review and improve the checks and balances to provide further assurances that such expenditures have a demonstrable purpose and benefit to the operation of the plan.

Business expenditures often pose considerations of judgment pertinent to specific circumstances. The analysis of those expenditures may not always be apparent from the documentation. The selection of hotels may involve considerations of the location of a conference or a vendor site visit. Although a less expensive location may be available, less expensive off-site locations may result in increased commuting expenses. Business names may not reflect the services that were provided, (for example, a sedan rented from a limousine service), or the availability of alternatives, (for example a city-wide taxi strike that occurred during two trips.) Similarly, most meal expenditures involved lunches or dinners provided to the volunteer members of UHC and Partnership Council committees who often use the time set aside for meals to conduct the work of UHC. These examples are not offered to diminish the points made by the report's recommendations, but merely to emphasize that an analysis of expenditures requires context.

Finding 10: UHC spent nearly \$14 million on consulting and outsourced services including \$1 million for lobbying and public relations.

UHC values the Auditor's opinions concerning the value and benefit of expenditures related to consulting and outsourced services, including those associated with lobbying and public relations. As the report notes, the nature of Passport necessarily requires the use of consultants to administer and innovate the plan. As a part of UHC's reorganization deliberations concerning the TPA operational model, we anticipate that certain services currently provided by outside consultants may be provided within UHC in the near future. Consistent with the report's recommendations, UHC commits to review thoroughly the value and benefit offered by each consultant and outside service currently engaged by UHC.

Finding 11: UHC contributed over \$423,000 in donations and sponsorships with questionable benefit to Passport recipients.

UHC values the Auditor's opinions concerning the value and benefit of donations and sponsorships made by UHC to various not-for profit organizations. UHC commits to reviewing and strengthening the policies, procedures and oversight protocols that govern the decision-making process for donations and sponsorships requested of UHC. It is important to UHC that all expenditures be thoughtfully evaluated and objectively implemented in accordance with clearly stated policies and procedures.

Finding 12: UHC spent over \$250,000 on membership fees to various organizations.

UHC values the Auditor's opinions concerning the value and benefit of UHC expenditures toward membership fees. The organizations referenced in the report provide valuable educational resources and peer sharing opportunities that allows the plan to evaluate and implement innovative strategies relating to quality, benefits and cost. UHC commits to review such memberships and to re-evaluate whether the benefits afforded by those organizations support the membership costs incurred.

Finding 13: Two UHC executives received significant annual salaries and bonuses and UHC paid a "10 year anniversary bonus" to AMHP Kentucky employees.

UHC commits to review the compensation and bonus arrangements received by UHC's executive staff. UHC intends to access available compensation resources, such as the Warren Survey, to assess an appropriate level of compensation based upon aggregated data from the managed care industry. Additionally, UHC's Board will examine and strengthen the policies and procedures to create better oversight in assuring that executive compensation arrangements are periodically reviewed. Such reviews shall seek to assure that compensation arrangements are consistent with the value of services provided by executive staff, including an assessment of executive performance and the time and attention required to carry out professional responsibilities.

Finding 14: UHC's Conflict of Interest Policy and Code of Conduct were weak and it was uncertain to whom the Code of Conduct applied.

UHC agrees to review its Conflict of Interest and Code of Conduct policies and to address deficiencies in light of your report. UHC recognizes that such policies must possess meaningful and effective processes that monitor conflicts of interest and contain disciplinary consequences for directors and executive staff members who deviate from the standards and expectations set by such policies.

Finding 15: Numerous conflicts of interest existed for UHC and its executive staff members.

UHC commits to reviewing and acting on the conflict of interest concerns referenced in the report. The UHC Board will address these concerns in a deliberate manner. UHC values the need for independent and objective decision-making in its business operations. Any appearances that diminish that value will be studied and addressed in a prompt and appropriate manner.

UHC believes that the proposed reorganization plans currently being evaluated by UHC may address some of the concerns raised by this finding in the report. UHC has been advised by the Executive Vice President and the Associate Vice President that all consulting relationships with UHC vendors have been terminated. Finally, UHC found no evidence to support the allegation that UHC executives received gift cards or suites to the Oaks and Derby.

Finding 16: UHC's lobbying activities were substantial and may conflict with its Articles of Incorporation and contract language.

Respectfully, UHC's believes its government relations activities are in compliance with state and federal laws. According to the findings within the report, UHC's government relations expenditures do not meet the threshold of "substantial," as that term is defined by

the Internal Revenue Code ("IRC") or under UHC's Articles of Incorporation, which should be read consistently with applicable IRC requirements. UHC reports its lobbying expenditures to the IRS annually and these expenditures are in compliance with the Internal Revenue Code limits for a 501c(3) organization of its size.

As a point of clarification, the example offered in the report concerning federal government relations activities pertained to federal legislation, which is allowable under Internal Revenue Code provisions, and not a government agreement as suggested by the report. UHC worked with DMS to analyze the impact of such legislation on the Commonwealth and acted on this matter in an effort to assist the Commonwealth. Further, UHC has found no evidence to support the allegation that paid administrative staff were used to solicit and collect campaign contributions.

As stated in response to Finding 10, UHC values the Auditor's opinions concerning the benefits derived from UHC's lobbying expenditures. UHC commits to re-evaluate the value, cost and benefit such expenditures.

Finding 17: GME funding to and by PHP lacked transparency and may be excessive.

Graduate Medical Education, (GME), is a critical and necessary health care expense incurred by eligible hospitals. State and federal governments have recognized the value of GME and have sought to devise reasonable means of compensating for GME expenses. The data relied upon by DMS and UHC in determining the funding amount of GME is objective and readily available by all parties. Respectfully, UHC finds no support for the conclusion that the methodology used to calculate GME lacks transparency or the amounts actually paid for GME were excessive.

Finding 18: PHP daily inpatient rates and outpatient settlements paid to original investor hospitals were significantly higher than those paid to rural hospitals.

At the inception of Passport, UHC grandfathered the inpatient rates in place under fee-for service Medicaid. When Passport has increased inpatient rates, all hospitals within the region received the same percentage increase. As noted on page 93 of the report, rural hospitals received inpatient rate increases comparable to all other hospitals. Table 33 in the report, however, appears to make an inaccurate comparison of the percentage increase of inpatient rates. Although the dollar column in the Table reflects the dollar increase *after* the rural inpatient adjustment, the percentage column represents the increase *before* the rural

inpatient adjustment. When properly weighted to account for utilization, the following table accurately reflects inpatient rate increases:

Hospital	09 Paid Days	County	Increase 1998 - 2010	Percentage Increase
<u>Louisville Owner Hospitals</u>				
NORTON HOSPITAL	15,578	Jefferson	\$309.34	25%
KOSAIR CHILDREN'S HOSPITAL	26,978	Jefferson	\$287.90	23%
NORTON AUDUBON HOSPITAL	5,354	Jefferson	\$535.70	53%
NORTON SUBURBAN HOSPITAL	9,140	Jefferson	\$810.35	110%
NORTON SUBURBAN NEONATAL INTENSIVE CARE UNIT	3,363	Jefferson	\$820.90	111%
JEWISH HOSPITAL	8,091	Jefferson	\$452.60	47%
SAINTS MARY & ELIZABETH HOSPITAL	3,814	Jefferson	\$452.60	47%
FRAZIER REHAB CENTER	1,779	Jefferson	\$759.20	115%
UNIVERSITY OF LOUISVILLE HOSPITAL	16,129	Jefferson	\$339.11	33%
WEIGHTED AVERAGE INCREASE FOR OWNER HOSPITALS	90,226		\$419.28	39%
<u>Louisville Non-Owner</u>				
BAPTIST EAST	2,560	Jefferson	\$326.68	50%
BAPTIST EAST - OB	2,040	Jefferson	\$630.62	97%
KINDRED HOSPITAL LOUISVILLE	4,094	Jefferson	\$311.93	36%
WEIGHTED AVERAGE INCREASE FOR NON OWNER HOSPITALS	8,694		\$391.05	52%
<u>Rural Hospitals</u>				
BAPTIST HOSPITAL NORTHEAST	1,225	Oldham	\$282.70	38%
FLAGET MEMORIAL HOSPITAL	681	Nelson	\$329.61	45%
HARDIN MEMORIAL HOSPITAL	6,123	Hardin	\$453.98	63%
JEWISH HOSPITAL-SHELBYVILLE	811	Shelby	\$270.56	37%
SPRING VIEW HOSPITAL	696	Marion	\$265.15	39%
SPRING VIEW - OB	397	Marion	\$238.49	28%
TWIN LAKES REGIONAL MEDICAL CENTER	1,795	Grayson	\$237.48	42%
WEIGHTED AVERAGE INCREASE FOR RURAL	11,728		\$364.55	52%

The methodology supporting the "outpatient hospital rate protection" offset was objective and uniform. The amount any hospital received as a result of this offset was based upon the number of outpatient claims processed for services rendered at that hospital. Any payment differentials existing among hospitals would be because of differences in utilization and acuity.

Finding 19: UHC is not in compliance with several terms of its contract with the Commonwealth.

UHC has an ongoing commitment to comply with the terms and conditions of its contract with the Commonwealth. Please note, however, that personal notice of the distributions referenced in the report was delivered to the Secretary of the Cabinet for Health and Family Service, which UHC believes substantially complies with the requirement of the contract.

Finding 20: No lease agreements existed for UPA employees providing full-time employee services to UHC.

UHC agrees with the recommendations in Finding 20. As of the date this response was submitted to your office, written agreements for the University Physician Associates employees leased to UHC have been executed. Additionally, as part of the review of its TPA operational model, UHC intends to transition leased employees to the employment of UHC.

Conclusion

On behalf of University Health Care, Inc., we appreciate the opportunity to respond to the examination report and we hope our answers provide context, clarity and underscore our commitment to continual improvement.

Sincerely,



Larry N. Cook, M.D.

AUDITOR'S REPLY TO
UNIVERSITY HEALTH CARE, INC.,
dba PASSPORT HEALTH PLAN'S RESPONSE
TO REPORT FINDING 18

AUDITOR’S REPLY TO RESPONSE PROVIDED FOR REPORT FINDING 18

As stated in Note ^ of Table 33 on page 93 in the report, “[t]he table shows the percent change before the recent 22% increase to rural hospitals.” The percentage increase column in the table is meant to show the change prior to the rural inpatient adjustment of May 2010, reflective of the rates that were in place during the examination period covered. The percentage increase column is not intended to reflect the dollar or percentage increase after the rural inpatient adjustment, as University Health Care, Inc, has detailed in its response.