



**FEDERATED STATES OF MICRONESIA**  
**Office of The National Public Auditor**  
**P.O. Box PS-05, Palikir, Pohnpei FSM 96941**  
**Tel: (691) 320-2862/2863; Fax: (691) 320-5482;**  
CID Hot Line: (691) 320-6768; E-mail: hhainrick@fsmopa.fm

Excellency Manny Mori, President  
Honorable Members, FSM Congress

## **Executive Summary – Audit Report No. 2011-05**

The Office of the National Public Auditor (ONPA) announces the release of Audit Report No. 2011-05, Audit of the Chuuk State Off-Island Medical Referral Program For Non-Insured Patients. A digital copy of the report is available for public review online at [www.fsmopa.fm](http://www.fsmopa.fm) and printed copies are available at the ONPA's offices in Palikir, Pohnpei and Weno, Chuuk. The audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States.

The State of Chuuk has approximately 53,595 people of which approximately 39,000 do not have medical insurance. The Off-Island Medical Referral Program for Non-Insured Patients (NIP Program), funded by a US Compact Sector Grant, was established by the Chuuk State Department of Health Services (DHS) in fiscal year 2007.

DHS entered into an agreement with a third party administrator (TPA) to facilitate and manage medical services in the Philippine Islands (PI) to the patients referred for treatment to the PI. A formal agreement between the TPA and Chuuk State Hospital was signed in March 2007 by the Chuuk State Governor, DHS Director, Director of Dept. of Administrative Services (DAS), and Attorney General; the US Compact Funds Control Commission (CFCC) on behalf of the funding source; and the TPA Contracting Officer on behalf of the TPA.

The Program funding began with an annual budget of \$200,000 in fiscal year 2007, increased to \$300,000 in fiscal years 2008 and 2009, and in fiscal year 2010 increased to \$400,000 for a cumulative sum of \$1.2 million at September 30, 2010. Part of the funding, specifically \$250,000, was advanced to the TPA to draw from when reimbursements of medical cost were slow.

Names of patients who are potential beneficiaries of the Program are submitted to DHS by local physicians. The cases requested are reviewed by the NIP Program medical referral committee (Committee) and if approved, are accepted into the Program to receive medical benefits in the PI and travel benefits to/from plus a stipend, for the patient plus an accompanying escort who is usually a family member. The Committee is comprised of 3 physicians plus the DHS Director and Assistant Director.

The objective of the audit was to determine whether the Chuuk State DHS expended the funds in accordance with the Program requirements and the TPA Agreement.

The audit found that the Program requirements and the TPA Agreement were not followed by Chuuk DHS. In the short period of its existence (e.g. since 2007), the Program administration was deeply plagued with numerous control and compliance deficiencies involving approximately

\$415,578 or approximately 35% of the total program funds of \$1.2 million through September 30,2010.

Of the 48 patients funded from the Program:

1. \$262,589 was expended on just 7 patients, of which \$122,589 exceeded the per patient program limit. Furthermore, \$174,000 of the total \$262,589 was expended for just 5 (of the 7) patients who were treated for conditions specifically excluded by the Program; 3 of the 5 patients treated for excluded conditions died shortly after their return to Chuuk.
2. \$68,168 was expended on 4 patients with medical insurance and were therefore not eligible.
3. \$26,153 was expended for travel to Hawaii in violation of the Sector Grant.
4. \$58,668 was expended in overcharges and unsupported charges. These include physician fees not supported by receipts, payment of service fees to the TPA beyond the maximum allowed, overpaid stipends to patients, and payment of irregular fees (refundable room deposits).
5. The \$250,000 advanced to the TPA is largely at risk of loss since DHS did not retain control of the account and significant amounts of claims are now disputed between the TPA and DHS.

The Program requires patient beneficiaries to share in the cost if financially able; however, DHS did not implement this requirement.

DHS failed to monitor and did not approve treatment for problems diagnosed while patients were at the off-island hospitals and this resulted in significant charges for medical treatments that were entirely different from the condition approved by DHS. The audit recognizes the limited local capability in Chuuk to properly diagnose patient medical problems but also reported that DHS did not have a procedure to review and approve or not approve for problems diagnosed at off-island hospitals.

The authorities designed the NIP Program with the spirit and intent of serving the low-income, financially disabled individuals without insurance in need of medical services not available locally. Instead, the Program benefited only a few people and became plagued with numerous control and compliance deficiencies. Other finding details are included in the audit report, which also included numerous recommendations to address those findings.



Haser Hainrick  
Public Auditor

May 31,2011

Xc: Governor, Chuuk State

Members, House of Senate and Representatives  
Director, Dept. of Health Services Director,  
Dept. of Administrative Services Compact  
Funds Control Commission

**OFFICE OF THE NATIONAL PUBLIC AUDITOR**  
**FEDERATED STATES OF MICRONESIA**

---

**AUDIT OF CHUUK STATE OFF-ISLAND MEDICAL REFERRAL PROGRAM FOR  
NON-INSURED PATIENTS  
(FY 2007-2010 February)**

**Report 2011-05**



**Haser H. Hainrick**  
**National Public Auditor**

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

---

**Table of Contents**

INTRODUCTION	
Background.....	1
Objective, Scope and Methodology.....	2
Prior Audit Coverage.....	3
Conclusion.....	3
FINDINGS AND RECOMMENDATIONS	
Finding 1: Use of \$174,000 for Disallowed Conditions, Ineligible Recipients, and Hawaii Airfare Causes and Recommendations.....	4 6
Finding 2: Patient To Share Cost Was Not Implemented.....	7
Cause and Recommendation.....	8
Finding 3: Loss of Control Over Trust Funds.....	8
Causes and Recommendations.....	10
Finding 4: Payment of \$58,668 In Unsupported Charges And Over-Charging by TPA .....	11
Causes and Recommendations.....	13
Finding 5: Overspending of \$122,589.....	14
Causes and Recommendations.....	15
Finding 6: Expanded Medical Services Not Approved.....	16
Cause and Recommendation.....	17
Finding 7: Physician Fees - 70% of Vouchers Tested Lack Support.....	17
Causes and Recommendations.....	18
APPENDIX 1: TPA and Program Guideline Amendments.....	19
APPENDIX 2: Process Overview.....	20
MANAGEMENT RESPONSES.....	22
ONPA EVALUATION OF MANAGEMENT RESPONSE.....	29
NATIONAL PUBLIC AUDITOR’S COMMENTS.....	<b>ERROR! BOOKMARK NOT DEFINED.</b>
ONPA CONTACT AND STAFF ACKNOWLEDGEMENT.....	31

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

**INTRODUCTION**

**Background**

Medical Referral Program for Non-Insured Patients

The State of Chuuk has approximately 53,595 people of which 39,000 do not have medical insurance. The Off-Island Medical Referral Program for Non-Insured Patients (Program), funded by a US Compact Sector Grant, was established by the Chuuk State Department of Health Services (DHS) in fiscal year 2007 to provide funding for uninsured patients needing medical services not available locally, and who do not have the personal financial resources for off-island care.

A document, called the “Proposed Guidelines for Off-Island Medical Referral of Non-Insured Patients”<sup>1</sup>, developed by the DHS, specifies the Program benefits and limits, the types and amounts of expenses to be covered, the patient conditions that are excluded or not covered, and limits off-island medical providers to hospitals in the Philippines affiliated with the Third Party Administrator (TPA) The Guidelines, henceforth referred to as the Program requirements, were accepted by all parties as having the full effect of a contract.

To provide for the off-island medical coverage, Chuuk State Hospital (CSH) entered into an agreement called the “Third Party Administrator Agreement for Off-Island Referral of Non-Insured Patients” (TPA Agreement)<sup>2</sup> with a managed care organization that is affiliated with several hospitals in the Philippine Islands.

A trust account was set-up with an initial deposit of \$50,000 and over time, the deposit was increased to \$250,000. The TPA expended the trust account funds on the medical needs of patients. To replenish the account, the TPA submits claims for reimbursement to the DHS from the beginning of the TPA Agreement in 2007 through January 2010. The TPA Agreement was amended on January 25, 2010 to have billings sent directly to Compact Funds Control Commission (CFCC). CFCC then reviewed billings, prepared reimbursement documents and requested replenishment checks. As compensation, the TPA retains eight percent of the final amount of each claim or no more than \$600 per claim as specified in the TPA agreement.

Both the TPA Agreement and the Program requirements underwent three amendments during the period covered by the audit and one amendment while the audit is ongoing. Selected sections of the amendments are included in Appendix 1 on page 19 of this report.

Medical Referral Committee and the Referral Budget

---

<sup>1</sup> The Guidelines are accepted as the official program regulations. The Chuuk State Attorney General and the DHS  
<sup>2</sup> Original TPA Agreement signed by the DHS Director (2/28/07), Governor (5/8/07), TPA representative (3/6/07), DAS Director (3/1/07), and Attorney General (3/1/07). The agreement was in effect on the date first written and shall continue in force for a period of one year. Thereafter, the agreement is automatically renewed for a one-year period unless either party submits notice of termination.

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

The medical referral committee is comprised of five members, three of whom are physicians, plus the Director and the Deputy Director of DHS. One of the three physicians, who is also Chief of the Dispensary, is the Chairperson. The committee meets monthly and on an impromptu basis for urgent cases.

The process begins with the attending physician's initial request to refer a patient off-island based on the physician's diagnoses. The physician summarizes the initial diagnosis in the medical/surgical summary form and forwards it to the Medical Referral Committee for evaluation. When the committee convenes for a meeting, the attending physician presents the patient's case to the committee.

The Program, funded by the U.S. Compact Health Sector Grant began with an annual budget of \$200,000 in fiscal year 2007; increased to \$300,000 in fiscal years 2008 and 2009; and in fiscal year 2010 increased to \$400,000.

**Objective, Scope and Methodology**

Objective: We performed this audit to determine whether the Chuuk State DHS expended the funds in accordance with the Program requirements and the TPA Agreement.

Scope: The audit scope included the processes by which patients are referred off-island, the management of the Third Party Administrator contract, as well as expenditures incurred during fiscal years 2007 to 2010 through February 2010. We conducted this audit pursuant to Title 55 FSMC Chapter 5, which states in part:

*"...the Public Auditor shall inspect and audit transactions, accounts, books, and other financial records of every branch, department, office, and agency, board, of the National Government and of other public legal entities, including, but not limited to, States, subdivisions thereof, and nonprofit organizations receiving public funds from the National Government..." , and;*

*"...The Public Auditor shall have the discretion to perform audits..."*

Methodology: We designed audit procedures to test whether the funds were expended in accordance with the TPA Agreement and the Program requirements.

To determine whether the funds for the referral Program were expended in accordance with the TPA agreement, the audit team reviewed 100 percent of the payment vouchers and a judgmental sample of the patient medical summaries. Furthermore, the audit team interviewed the Director of DHS, the members of the Medical Referral Committee including its Chairman, the CFCC official, the Chief of Finance, the Certification Accountant at the Dept. of Administrative Services (DAS), and the referral committee accountant.

To determine whether the DHS operates the Program in accordance with the Program requirements, the audit team reviewed patient medical diagnoses and/or discharge summaries of selected patients to determine eligibility. The audit team also conducted interviews with the:

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

- Referral Committee: Chairman, the physician members and the committee accountant
- Chuuk State: Chief of Finance and the DAS fund certification accountant
- Chuuk Compact Fund Control Commission (CFCC): Consultant

We conducted this audit in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

**Prior Audit Coverage**

We performed this audit as a continuation and follow up of previous ONPA audit of Chuuk State Department of Health Services Procurement and Inventory Management System (Audit Report No. 2010-03 dated February 10, 2010). In that audit, we identified two findings that were relevant to the current audit objective as follows:

1. Purchases (third party administrator contract) made with appearance of conflict of interest.
2. Purchase Orders (third party administrator contract) not subjected to competitive bidding.

**Conclusion**

Based on our audit, we conclude that the Chuuk State DHS did not comply with the TPA Agreement nor the Program requirements in the spending of Program funds.

For example:

- The authorities designed the Off-Island Medical Program for the non-insured with the spirit and intent of serving the low-income, financially disabled individuals without insurance coverage and significant sums (i.e. \$1,200,000) were allocated to the Program. Instead, only a few from among Chuuk's larger populace have benefited.
- In the short period of its existence (i.e. since 2007) the Program administration is deeply plagued with numerous control and compliance deficiencies involving minimally, approximately \$415,578 in dollar value (see findings) or 35% of the total program funds.
- Ineligible patients received benefits and significant program expenses were incurred for treatments not allowed or not authorized by the Program and the TPA Agreement.

This audit highlights instances of noncompliance that resulted in significant waste.

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

**FINDINGS AND RECOMMENDATIONS**

**Finding 1: Use of \$174,000 for Disallowed Conditions, Ineligible Recipients, and Airfare to Hawaii**

The Program requirements specify the types of diseases covered by the Program, the excluded medical conditions, the benefits provided, and the Program limitations<sup>3</sup>.

The Program requirements state that the following four medical conditions are not covered:<sup>4</sup>

1. *Any malignant cancers that are irreversible with documented medical reports attached*
2. *Acute or chronic renal failure cases secondary to diabetes mellitus and chronic renal diseases that are documented medical reports to end-stage cases or incurable diseases*
3. *Any organ transplantation procedures as a result of birth deformities due to congenital, growth and development anomalies; and,*
4. *Treatment procedures and medications for diabetic retinopathy that are deemed irreversible*

The DHS/CSH designed the Program to serve the needs of non-insured individuals.

As stated in the Program Requirements introduction:

*“.... The program, covers specifically for Chuukese residents, in-patients who are admitted at the Chuuk State Hospital that require off-island medical treatment without medical insurance coverage from both private and government sectors.”*

Similarly, the introductory paragraph of the TPA Agreement states:

*“ .... CSH desires to obtain the services of the Third Party Administrator to provide assistance and services for CSH medical referral for uninsured patients...”*

Furthermore, the Program Requirements state:

*The program is limited to several hospitals in the Philippines approved/selected by the Third Party Administrator (TPA), the referral coordinator.*<sup>5</sup>

We identified the following three conditions:

1. Funds Were Used for Disallowed Medical Conditions: Of the 48 total referral patients, 5 had conditions specifically excluded from coverage as specified in the Program Requirements, as follows:

---

<sup>3</sup> Proposed Guidelines for Off-Island...P.1

<sup>4</sup> Proposed Guidelines for Off-Island... P.2

<sup>5</sup> Proposed Guidelines for Off-Island ...P.2

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

**Table 1**  
**Funds Expended on Disallowed Conditions**

Reference	Condition	Funds Expended
Patient 1	Irreversible (stage 3B) gastric lymphoma cancer <sup>6</sup>	\$61,000
Patient 2	Irreversible (stage 3B) ductal (buccal) cancer <sup>7</sup>	\$23,000
Patient 3	Irreversible (stage 3B) laryngeal cancer <sup>8</sup>	\$29,000
Patient 4	Irreversible (stage 3B) breast cancer	\$38,000
Patient 5	Irreversible (stage 4) nasopharyngeal cancer	\$23,000
Total		\$174,000

As a result, the Program expended \$174,000 to treat five patients for conditions disallowed by the Program Requirements, three of whom died months after returning to Chuuk State.

2. Funds Were Used For Ineligible Recipients, i.e. Persons Already Covered By Medical Insurance: The audit revealed that insured individuals were beneficiaries of the Program. Four individuals with insurance were referred off-island by the Program. This resulted in the expenditure of \$68,168 of Program funds as described in Table 2 below:

**Table 2**  
**List of Insured Patients Who Wrongly Benefited**

Patient	Employer	Period of Hospitalization	Total	ONPA Comments
A	Government	Jul-08 to Sep-08	\$50,517	Confirmed by Chuuk State Health Care Plan (CSHCP) as insured
B	Government	Oct-08	\$11,691	Confirmed by CSHCP as insured
C	Non-working	Nov-07	\$3,110	Confirmed by MICARE as a beneficiary
D	Government	Oct-08	\$2,850	Confirmed by CSHCP as a beneficiary
Total			\$68,168	

The Program must often deny or postpone sending non-insured patients due to the lack of available funds.

As a result, at least 3 (per patient coverage limit is \$20,000<sup>9</sup>) eligible recipients were denied medical treatments due to the misuse of funds.

<sup>6</sup> Also called stomach cancer or cancer that starts with the stomach

<sup>7</sup> Ductal Cancer or mammary ductal carcinoma is the most common type of breast cancer in women.

<sup>8</sup> Laryngeal cancer occurs when cancerous (malignant) cells form on the tissues of the larynx or voice box.

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

3. Funds Used For Airfare to Hawaii, Disallowed By Program: DHS directed the expenditure of \$39,780 to fly 28 individuals to Hawaii for medical treatment. Of these individuals, the audit team noted that the CFCC denied the TPA's requests for reimbursement relating to 19 of the travelers amounting to \$25,627, but reimbursed the nine remaining airfares amounting to \$14,153.

However, the audit team noted that the TPA withdrew \$12,000 of the denied airfares from the trust account without proper authorization from Chuuk State. This indicated the fact that Chuuk State has no control over withdrawals of funds in the trust account.

In summary, program funds amounting to \$26,153 (\$14,153+12,000) were used for airfare to Hawaii, in violation of the Sector Grant and the program requirements then in effect. Subsequent to these particular airfares, the program requirement was amended to allow funding of airfares to destinations of patients other than the Philippines. However, the amendment was in violation of the Sector Grant and funding the airfare was a violation.

As a result, this amount was no longer available for other recipients who were eligible.

### **Causes**

Several factors caused non-compliance with the Program Requirements, as follows:

1. Program Requirements Not Properly Disseminated: The CFCC Official informed the team that the DHS did not provide CFCC with copies of the Program Requirements. He was not aware of their existence and hence did not use them for compliance purposes.
2. Inadequate Diagnostic Facility: Chuuk State Hospital has limited diagnostic facilities. A local physician, without the resources / capacities to diagnose accurately the stage a disease such as cancer has progressed, is not able to determine accurately whether a patient should be a candidate for off-island treatment. Moreover, at times, the patient's condition may be too severe to return and further medical procedures and treatments were required. The Program has not developed procedures to address these situations.
3. Lack of Comprehensive Policy and Procedures: The Program Requirements were intended only as a temporary document<sup>10</sup> until a more comprehensive policy and procedure is developed. As such, there are multiple deficiencies including:
  - a. Lack of policy / procedure as to patients who were authorized / referred with disallowed medical conditions to off-island hospitals, due to inadequate diagnoses.
  - b. Lack of policy / procedure for patients with excludable conditions who the medical referral committee wish to approve, i.e. there is no procedure for exceptions.

---

<sup>9</sup> Proposed Guidelines For Off Island ...paragraph 2 under "Sourcing of Funds/Maximum Benefits" on Page 6.

<sup>10</sup> Page 7 ... quotation: "the above emergency guidelines were developed by the Department of Health Services to use while a more thoroughly thought out Rules and Regulations for execution of the program is being fleshed out." The document continues by stating that the Medical Referral Committee shall submit to the Director of DHS a more detailed Rules and Regulations for submittal to the Governor for final review and approval.

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

- c. **Misnamed Title:** The document specifies the Program Requirements, they are misnamed as guidelines.
- 4. **Social Pressure:** Telling a patient that he or she is not eligible under the off-island Program for medical care is not easy for a physician to convey.<sup>11</sup> These actions are difficult to do especially in small communities with large extended families.

**Recommendations**

We recommend the DHS Director:

- 1. Disseminate the Program requirements to all parties involved in the processing, payment, or approval of benefits.
- 2. Amend the Program requirements to include procedures to:
  - a. Handle exceptions to the program, to document and approve the reasons, dollar amounts, and approval.
  - b. Provide minimal treatment of patients with misdiagnosed conditions, i.e. referral of patients having cancer determined while off-island to be irreversible.
- 3. Amend the TPA Agreement to include procedures appropriate for patients diagnosed while off-island with excluded conditions.
- 4. Require the medical referral committee to keep listings of insured patients from both Micronesia Care (MiCare) and CSHCP available on hand at all times during meetings. The secretary / clerk should ensure that the updated listings are available to the committee members for reference purposes.
- 5. Implement a process that would require the patient to fill out a standard form providing information such as income, employer medical insurance and confirmed by the secretary / clerk that would also document the approval of the Medical Referral Committee. Such information should be required prior to approval.
- 6. Recover the disallowed airfares for the trust fund.

**Finding 2: Patient to Share Cost Was Not Implemented**

The Program requirements specify:

*All patients referred off-island should provide a minimal amount of deferred payment of the expenses encountered..., however, in the case where one cannot pay, the program should not refuse treatment to the patient as needed.*<sup>12</sup>

---

<sup>11</sup> Emails between Grant Manager and a Chukese citizen dated April 18 and April 21, 2008.

<sup>12</sup> Proposed Guidelines for Off-Island...section 2.8 on page 5

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

This would require the Program staff to ask patients for financial information to determine a reasonable amount for the patient to contribute, and then establish a payment plan.

DHS did not develop a procedure to institute this requirement and patients do not share in the cost of services provided.

As a result, the opportunity to collect revenue from patients for the Program was lost. Although most likely not all patients could afford deferred payment, some could have afforded at least a minimal amount. This revenue would have increased the funds available for use by the Program and thus more persons could benefit.

**Cause**

No One Was Assigned to Assess or Collect Patient Payments: The DHS did not assign any Administrative staff to the Off-Island Referral Program operations. The Medical Referral Committee, made up of three physicians, is responsible for all tasks associated with the Program. The physicians, focused on medical issues and patient care, found little or no time to be involved in the daily administration.

**Recommendation**

We recommend that the DHS Director revisit the Program requirements with regard to deferred collection of a patient's share of the cost to:

1. Weigh the cost with the potential benefit in implementing procedures to determine, assess, and collect patient payments.
2. Designate a hospital administrative staff to do the collection or remove the requirement from the Program Requirements.

**Finding 3: Loss of Control over Trust Funds**

The TPA Agreement specified the terms and conditions for establishing and maintaining a bank trust account:

- *CSH shall establish a Trust Account<sup>13</sup> with an initial deposit of \$50,000.<sup>14</sup>*
- *TPA shall pay medical claims from the Trust Account<sup>15</sup> for and on-behalf of the CSH*

---

<sup>13</sup> 2/28/07 TPA Agreement...section 1(a) page 2.

<sup>14</sup> Subsequent amendments to the TPA Agreement added \$150,000 (8/08/08) and \$50,000 (2/12/10) and increased the total deposits in the trust account to \$250,000.

<sup>15</sup> 2/28/07 TPA Agreement. section 1(a) page 2.

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

- *CSH will replenish the Trust Account for any amounts<sup>16</sup> paid by TPA based upon the verified monthly paid claims report duly supported with documents, copies of receipts, and invoices and other evidence of payment constituting each claim. The replenishment furnished by CSH shall be disbursed to the Trust Account generally within 30 days from receipt of TPA's report or additional documents. TPA may submit for reimbursement more than once every month should the medical claims already exceed the initial deposit of \$50,000.*
- *CSH shall make monthly payment to TPA. The TPA shall deposit the payments into the Trust Account to pay claims and to compensate the TPA.*<sup>17</sup>
- *In the event of termination by TPA of the TPA Agreement, any amount remaining as a balance in the Trust Account shall ... revert to the CSH*<sup>18</sup>.

We found that:

1. The TPA opened a bank account and deposited Sector Grant Funds, received through Chuuk State into the TPA controlled trust account.

DAS forwarded completed signature cards to the TPA for Chuuk State to become a signatory of the bank account, however, Chuuk State is still not a signatory because of additional requirements by the bank.

As a result, Chuuk State no longer had custody (lost control) of the Sector Grant Funds.

2. The TPA did not deposit \$260,335 into the Trust Account as required by the Sector Grant Funds Agreement. Only \$478,139 (65%) out of the \$738,474 total replenishment checks were deposited to this account. The TPA deposited the remaining amount of \$260,335 to their two other bank accounts.

As a result, not only was the TPA not in compliance with the TPA Agreement but the Trust account does not include all Program funding. Hence, financial reporting of the account is incomplete.

3. The TPA deposited funds from other programs into the Trust Account for example, funds from the Chuuk State Health Care Plan (CSHCP).

As a result, funds intended as reimbursement for other programs were comingled with the Trust Account.

---

<sup>16</sup> Effective January 25, 2010, the TPA was modified to change the replenishment system to reimbursement basis. The memo requires that the TPA should use its own fund to pay service providers on a reimbursement basis and the trust account could be used only for emergency cases.

<sup>17</sup> 2/28/07 TPA Agreement. Section 4 page 3.

<sup>18</sup> 2/28/07 TPA Agreement. Section 1(c) page 2.

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

4. At Risk Trust Account received advance payments totaling \$250,000. The trust account received an advance deposit of \$50,000 on 7/19/07, with additional advance deposits of \$150,000 on 8/08/08 and another \$50,000 on 2/12/10 for a total of \$250,000. The funds were made available to the TPA not as a reimbursement of medical expenditures but as prepayment of benefits. The TPA disburses the funds to pay its medical providers then submits claims for reimbursements.
- a. Trust Account Not Reconciled: The audit team found the accounting over the trust account deficient; transactions per the bank statements were not reconciled to the accounting records since the account opened in May 2007. During the course of the audit, the audit team performed a top-level reconciliation of the account and identified a shortage of \$5,455 as of February 28, 2010. This was reviewed with the CFCC Consultant.
  - b. Pending Claims of \$115,236: TPA claims submitted to CFCC for reimbursement from 2008 amounting to \$34,678 and from 2009 of \$80,558, are on hold until the TPA furnishes the requested documentation to support the claims.
  - c. Denied Claims of \$21,241: TPA claims submitted to CFCC for reimbursement from 2008 amounting to \$3,140 and from 2009 of \$18,101, were denied for reimbursement. The TPA Agreement does not contain a procedure to resolve denied claims that were already paid by the TPA from the \$250,000 of advance payments.

Additionally, Finding 1, item 3 on page 6 refers to \$12,000 of airfare to Hawaii that was denied by CFCC for funding, however, the TPA withdrew the amount.

As a result, also considering the lack of control and lack of accountability over the trust account, a significant amount of the \$250,000 described herein is at risk of loss.

### **Causes**

There are multiple factors causing the problems discussed.

1. DHS Failed to Set-Up the Trust Account: Instead, DAS recorded all funding as expenditures despite the absence of, or prior to receiving billing invoices and supporting documents. Chuuk State is still not a signatory of the Trust bank account because of additional requirements required by the bank to complete the process.
2. Required Fund Level for the Trust Account Was Not Maintained: The DHS did not maintain the required level for the Trust Account fund (minimum of \$50,000) until February 2010. Prior to that, replenishing of the funds was slow and dragging. Consequently, the TPA used its own funds to advance payments to the various medical service providers. When DHS replenished the funds, the TPA did not deposit all the replenishment checks to the Trust account but deposited some checks to other bank accounts.
3. Lack of Monitoring Activities: Control procedures to monitor the Trust account were lacking.

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

**Recommendations**

We recommend the CFCC Consultant:

1. Facilitate with urgency the process of adding Chuuk State as a signatory to the Trust Account. Or, close the account.
2. Perform a fund reconciliation and immediately recover or resolve with the TPA any unaccounted or shortage amount in the trust account. Thereafter, there should be a monthly reconciliation of the trust account to ensure reconciling items are properly corrected.
3. Process the outstanding requests for reimbursement/replenishment to TPA within the agreed 30 days and make the necessary adjustment in the books to truly establish the trust account as an asset in the general ledger and recognize the correct balance of the fund.
4. Deny claims that are not in compliance with the TPA Agreement and the Program Guidelines (requirements) terms and conditions, or that are not properly supported by applicable documents.
5. Amend the TPA Agreement to include a process and procedure to resolve pending claims and process denied claims including trust account repayment/reconciliation. (See also recommendation 1.C. for finding 4).

**Finding 4: Payment of \$58,668 of Unsupported charges and Over-charging by TPA**

The TPA Agreement and the Program Requirements specify the types of supporting documentation, the amounts and limits for expense allowances, and provision for a fee as compensation to the TPA, as follows:

The TPA agreement states the required documentation to support the billings.

- *CSH will replenish the Trust Account for any amounts paid by TPA based upon a verified monthly paid claims report that is duly supported with documents, copies of receipts, invoice, and other evidences of disbursement or payment constituting each claim. CSH may request and TPA shall agree to furnish additional documents deemed necessary for clarity of the report*

Furthermore, the TPA agreement states the allowed fees by the TPA (service fees).

- *TPA shall retain eight percent (8%) of the final amount of each claim after the review, adjudication and discount but not more than \$600 per claim as compensation in full for services provided under this agreement.*

The Program Requirements specify the amounts and limits for the expense allowance (stipend) for the patient or escort. During the period covered by the audit, these requirements were specified as follows:

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

- *Outpatient referrals shall receive reasonable accommodations with an expense allowance of \$30 per day. The escort shall receive reasonable accommodations ... with \$25 per day allowance.*
- *Patient shall receive reasonable accommodation or subsistence with an expense allowance of not more than \$15 per day. In all cases any allowance shall not be more than 20 days.<sup>19</sup> Amended: The Director may at his discretion extend the period of 20 days upon request by the patient or his/her escort.<sup>20</sup>*

Standard procedures for verifying medical bills should include confirmation of:

- Services provided were compliant with the agreement terms and conditions
- Fees charged were for services authorized, and are supported by the appropriate documentation.
- Dollar totals are mathematically correct.

The audit team reviewed the payments related to physician fees, professional service fees, stipends and miscellaneous expenses included in the TPA billings. The results of the audit revealed that the verification procedures were inadequate. Official receipts and certified professional fee vouchers did not consistently support the payment of physicians' and other medical fees.

Further, there was no verification performed to ensure the physician fees did not exceed the agreed fee schedule<sup>21</sup>.

Table 3 below lists in summary the various overcharges and unsupported charges.

**Table 3**  
**Examples of TPA Overcharges and Unsupported Charges**

Issue	Amount	Result
Physician fees not supported by receipts	\$45,110	Chuuk State may have paid invalid charges
TPA overcharged service fees ( <i>Beyond the maximum per patient</i> )	\$7,177	Chuuk State paid for wrongful charges without detection.
TPA overpaid stipend patients / escorts ( <i>Beyond the maximum per patient</i> )	\$4,545	Chuuk State paid for benefits beyond the limits stated in the guideline / requirements.
TPA charged for irregular fees	\$1,836	Chuuk State paid for reimbursable room deposits.
Total	\$58,668	

<sup>19</sup> Amendment to TPA Guidelines signed on July 2, 2008 by the Governor, the DHS Director and the Attorney General.

<sup>20</sup> Amendment to the TPA Guidelines signed on April 4, 2009 by the Governor and the TPA Representative.

<sup>21</sup> The TPA Agreement states that physician professional fees, laboratory expenses, medicines and rehabilitation expenses are to be based on standardized Relative Unit Value (SRUV) of 100 as established and used in the Philippines. In other words, these charges are not to exceed these amounts.

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

As a result, significant amounts of overcharges and unsupported charges were paid with program funds.

The ultimate result of using Program funds to pay excessive and unsupported charges is that \$58,668 was no longer available for other patients denied off-island medical services for lack of funding.

**Causes**

The following factors caused the above problems:

1. Medical Claim Replenishment: The TPA submits requests for replenishments / disbursements as expenses were incurred, with the TPA's standard service fee added in each bill. Since there was no monitoring of total service fees accumulated for the same patient against the ceiling, some service fees exceeded the \$600 maximum per patient as stated in the TPA Agreement.
2. Inadequate Review of Claims: The conditions above indicate an inadequate supervisory review of the transaction. Problems such as the lack of supporting documents, unsupported physicians fees, overcharged stipend and billing errors were not detected.
3. Reliance on TPA to verify that physician fees, laboratory charges, and medicine pricing do not exceed the Standardized Relative Unit Value (SRUV).

**Recommendations**

We recommend the following:

1. The DHS Director:
  - a. Provide oversight to help ensure medical procedures are necessary.
  - b. Amend the TPA agreement to require the TPA to include with the billings:
    - 1) patient charges to-date totals. This would help facilitate monitoring of maximum limits (maximum cost per patient of \$20,000 & service fees of \$600).
    - 2) proof that the services provided / billed were approved by the medical referral committee.
    - 3) a control sheet that is a checklist of procedures performed to ensure all supporting documentation is attached, fees charged do not exceed 100% SRUV, all services were approved by the medical referral committee.
  - c. Amend the TPA agreement to include a process and procedure to resolve disputed billings.
  - d. Amend the agreement to include penalties for billing errors.
2. The CFCC Comptroller:
  - a. Establish internal processes and procedures adequate to assure that before payment is made:
    - 1) fees and charges on the billings do not exceed the agreed upon rates and are truly due and payable. This should include verification that charges do not exceed 100% SRUV and are fully supported by credible receipts and professional fee vouchers;
    - 2) services rendered were pre-approved by the medical referral committee.

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

- b. Notify the TPA that payments will only be made for charges that fully comply. Help facilitate the TPA to provide billings that are fully self-verifying, i.e. a "reasonable person" can quickly review the packet and conclude that all charges are due and payable, do not exceed the agreed maximum rate, and were pre-approved by the medical referral committee.

**Finding 5: Overspending of \$122,589**

The Program Requirements specify the following requirements:

- *A maximum of \$20,000 shall be the total amount of coverage per patient that would be referred off-island under the non-insured program.*<sup>22</sup>
- *All patients that are referred off-island under the non-insured program should provide a copy of the medical treatment and report*<sup>23</sup> *to the Chuuk State Medical Referral Coordinator*<sup>24</sup>.

The audit revealed that the DHS failed to monitor the Program. In violation of the guidelines, the DHS spent the Program funds beyond the maximum benefits per patient.

The DHS paid medical bills in excess of the maximum benefit per patient totaling \$122,589 for 7 patients out of a total of 48 patients sent off-island.

Table 4 below lists the amounts billed per patient and the excess spent.

**Table 4**  
**Examples of Patients Receiving Excessive Benefits**

Patient	Total Bills	Excessive Benefit
A	\$ 61,352	\$ 41,352
B	50,517	30,517
C	38,542	18,542
D	37,005	17,005
E	29,185	9,185
F	22,988	2,988
G	23,000	3,000
Total:	\$ 262,589	\$ 122,589

---

<sup>22</sup> Proposed Guidelines for Off-Island...paragraph 2 under ‘Sourcing of Funds/Maximum Benefits on Page 6.

<sup>23</sup> Discharge summary or medical certificate with clinical summary of the final diagnosis and all medical procedures or laboratory tests, treatments and drugs administered on the patient

<sup>24</sup> Proposed Guidelines for Off-Island...Section 2.7 on P.5.

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

As a result, funding for medical services for 6 additional uninsured Chuukese citizens in critical need of off-island referral was no longer available<sup>25</sup>.

The above conditions exposed the referral Program funds to the risk of abuse and unnecessary medical costs.

**Causes**

Multiple factors caused the problems discussed. DHS did not issue copies of the Program guidelines as well as the amendments to the appropriate staff/offices for monitoring of compliance. Also, the DHS did not ensure filing of the patient's medical treatment report for reference purposes.

1. Program Guidelines Not Properly Disseminated: CFCC was not aware of the existence of the guidelines and did not use them for compliance purposes. Upon interviewing the CFCC official that independently checks transactions, said that the DHS did not provide them a copy of the Program Requirements.

However, the CFCC official said that the DHS should still be responsible for monitoring the limit on each referred patient because DHS decides the referral and approves the additional medical treatments including costs.

2. Medical Treatment Report Not Filed: The DHS failed to file copies of medical treatment reports (discharge summary) of patients who were referred off-island under the non-insured Program. On inquiry, a member of the medical referral committee said that the patients are not providing DHS with copies upon their return from an off-island hospital. Furthermore, we noted that DHS is not keeping complete medical records of a patient.

As a result, there was failure to determine the eligibility of the medical procedures, extra treatments, and routine care provided to patients at off-island hospitals. Furthermore, this denied the Chuuk State hospital physician with future reference of the patient's medical history in case of follow-up, check up or treatments.

**Recommendations**

We recommend the DHS Director:

1. Ensure distribution of the TPA Program Requirements to all concerned entities to help ensure compliance.
2. Modify the Agreement to require the TPA to submit the patient's medical records and treatment report with patient permission upon submission of medical claims for payment. This is to ensure that medical records are intact at the CSH and available for future review and reference.

---

<sup>25</sup> The overspent amount of \$122,589 at \$20,000 maximum benefit per patient as specified in the program guidelines / requirements, could have provided benefit to an additional 6 patients.

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

**Finding 6: Expanded Medical Services Not Approved**

The TPA agreement specifies the required review of medical procedures.

*The TPA shall review all requests for the referral services to contracted providers to assure such services are eligible under the medical referral program criteria or requirements and are medically necessary.*

The DHS failed to monitor and did not approve treatment of patients for problems diagnosed while at the off-island hospital.

The audit team noted that the actual medical services performed on patients were for problems entirely different from the initial medical/surgical summaries<sup>26</sup> submitted to the referral committee prior to referral. The audit team noted that while the off-island attending physicians had occasionally provided (by email) the status and conditions of the patients along with the corresponding recommendations as to treatments, *approval by the medical referral committee was not obtained.*

Table 5 below provides examples of patients who received medical treatment unrelated to the condition authorized for treatment, plus one patient with an extended stay.

**Table 5**  
**Examples of Medical Services Without Prior Authorization**  
 (Treatment for Diseases Unrelated to the Referral Condition, or Extended Stay in Hospital)

<b>Patient</b>	<b>Initial Diagnoses</b>	<b>ONPA Comments</b>
A	Ovarian Tumor	Received treatment for heart condition: Not authorized.
B	Hydrocephalus <sup>27</sup>	After treating this condition, the patient underwent another surgery for <i>cleft lip and palate</i> <sup>28</sup> which was not in the surgical summary specified for approval.  Furthermore, this condition is congenital, a non-covered condition under the referral Program.
C	Femoral fracture left with disability	Treated by cardiologist, the patient did not have heart problems when referred off-island, not approved.
D	Ischemic Heart Disease <sup>29</sup>	Treated by a neurologist, an ophthalmologist, and an ear, nose and throat (ENT) specialist. Not approved.
E	Papillary Cancer <sup>30</sup>	The patient extended the stay for one month.

<sup>26</sup> Medical/surgical summary is the basis of medical referral committee for evaluating and approving referral of a patient for off-island treatment

<sup>27</sup> Hydrocephalus, a condition characterized by build-up of fluid in the brain

<sup>28</sup> Cleft lip is formed in the top of the lip as either a small gap or an indentation in the lip. Cleft palate is a condition in which the two plates of the skull that form the hard palate (roof of the mouth) are not completely joined.

<sup>29</sup> Ischemia or ischemic heart disease (IHD), or myocardial ischemia, is a disease characterized by reduced blood supply (ischemia) to the heart muscle, usually due to coronary artery disease (atherosclerosis of the coronary arteries). Coronary heart disease is a condition in which plaque (plak) builds up inside the coronary arteries. These arteries supply the heart muscle with oxygen-rich blood. Plaque is made up of fat, cholesterol, calcium, and other substances found in the blood. When plaque builds up in the arteries, the condition is called atherosclerosis.

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

As a result, the referral Program funds were exposed to the risk of abuse, incurring unnecessary expenditures.

**Cause**

There are no existing guidelines for the approval of expanded medical services and the medical referral committee did not formally review or approve the requests for expanded services or change of services based on off-island diagnoses results.

**Recommendation**

We recommend the DHS Director:

Develop and implement control guidelines that would handle prior authorization of procedures for patients' conditions discovered while off-island and/or for additional procedures not approved by the Medical Referral Committee during the evaluation of the patient's case.

**Finding 7: Physician Fees - 70% of Vouchers Tested Lack Support**

The TPA agreement specifies the required review of medical procedures.

*The TPA shall perform a concurrent review of all patients to ensure that the prescribed course of care does not include excessive or unnecessary procedures.*

We noted that the TPA's Medical Utilization Review Officer did not consistently review and evaluate the physician charges.

Of the 132 or \$64,115 professional vouchers tested, we found that 100 vouchers or \$45,415 (70%) were not stamped and signed to evidence review and evaluation. The team also noted that the physician fees were based solely on self-serving dates indicated (either by the physician or by the TPA) and without support of an independent source, e.g. a patient chart, to verify the actual visits to a patient.

In the majority of cases, the total billable daily visits were merely determining the number of days a patient was in the hospital<sup>31</sup> or by calculating the date of arrival (to the Philippines) to date of departure less adjustments<sup>32</sup> for outpatients<sup>33</sup>.

As a result, the Program funds were exposed to the risk of inflated billings for unnecessary treatments and physician fees, especially for visits daily-billed per the calendar.

---

<sup>30</sup> Papillary carcinoma of the thyroid is the most common cancer of the thyroid gland.

<sup>31</sup> An inpatient is a patient admitted and accommodated in a hospital.

<sup>32</sup> Adjusted for waiting time upon arrival and return

<sup>33</sup> An outpatient was accommodated outside of the hospital to save on expenses. An example of this case is a cancer patient for therapy session.

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

**Cause**

The DHS Failed to monitor whether:

- the physicians' daily charges were necessary to the condition of the patient.
- the TPA consistently reviewed professional fees to ensure that the daily-billed visits and procedures were necessary and approved for the particular patient.

**Recommendation**

We recommend the DHS Director:

Develop and implement control procedures to provide an independent assurance on the correctness of the daily-billed visits by physicians (to support the assertion).

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

**APPENDIX 1: TPA AND PROGRAM GUIDELINE AMENDMENTS**

The changes that were relevant to the conditions found during the audit are as follows:

1. First Amendment<sup>34</sup> (July 2, 2008)

The TPA agreement was amended to state the following:

- Increase the trust account from \$50,000 to \$200,000
- Maintain a minimum balance of \$50,000 in the trust account at all times.

2. Second Amendment<sup>35</sup> (July 2, 2008)

The program guidelines were amended to allow the following:

- Referral to other hospitals not located in the Philippines, covering round trip airfares and one approved attendant only.
- Pay necessary expenses in the event of death.
- Pay expense allowance (stipend) at the rate of \$15 per day for 20 days (\$300) irrespective of the length of the treatment of the patient.
- Set the Per Diem rate of medical escort at \$152 per day for a maximum of three days.

3. Third Amendment<sup>36</sup> (April 4, 2009)

The third amendment modified both the TPA Agreement and the program guidelines.

The TPA Agreement was amended to:

- Extend the agreement for an additional period of two years from October 1, 2008 to September 30, 2010.

Likewise, the Program Guidelines were amended to:

- Authorize the DHS Director to grant stipend expense at \$15 per day over the 20 days period upon patients' requests.

4. Fourth Amendment<sup>37</sup> (January 25, 2010)

The Chuuk State Attorney General (AG) documented this amendment to both the TPA Agreement and to the program guidelines in a memorandum form.

The TPA Agreement was amended to require that:

- The trust account should be use for emergency purposes only. The TPA should now use its own funds to pay for service providers on a reimbursement basis.

---

<sup>34</sup> Signed on 7/2/08 by the TPA representative, Governor, DHS Director and by the Attorney General (AG)

<sup>35</sup> Signed on 7/2/08 by the Governor, DAS Director and the AG

<sup>36</sup> Signed on 4/4/09 by the Governor, TPA Representative, AG, Budget Officer and the DAS Director

<sup>37</sup> A memo dated January 25, 2010 was prepared as a result of the meeting attended by the TPA representative, AG, OIA Health Sector Grant Manager, Medical Referral Committee representatives, and CFCC Comptroller and staff to discuss changes to the TPA agreement. The memo, signed by the AG and addressed to DHS Director and the TPA representative, stated that all parties agreed to modify the TPA agreement. Thru email, we inquired from the AG if the memo could effectively amend the TPA. He explained that parties met and agreed to adopt new procedures and guidelines as a way to move forward the referral programs. Thus, it is his opinion that the memo by implication amended the TPA agreement.

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

- The TPA should provide DHS with monthly bank statements, cancelled checks and passbook.
- The CFCC should review monthly billings and supporting documents, follow-up on check printing and then reimburse the TPA.

The AG issued the memo while the audit is ongoing.

**APPENDIX 2: PROCESS OVERVIEW**

The reimbursement of medical expenses for off-island patient involved several steps. The departments involved are DHS/ DAS, and CFCC. The steps are as follows:

1. When the committee for medical referral makes an approval on a patient, a member of the committee, through email, informs the TPA on patient for referral.
2. The TPA or the committee accountant arranges the travel booking of the patient and escort.
3. Billings may begin anytime during or after the referral of the patient. The TPA pays various providers rendering services to the patients using the trust account. Normally, the hospital billings include rooms, supplies, medicines, physician's fees. However, it has been the practice of the TPA to pay and bill separately the physician's fee from hospital bills. In support of payments for physician's fee, the TPA requests the physician to complete, certify and sign professional fee voucher (a TPA form) that contains information such as physician's name and specialty, date and description of service, number of visits, fee rate and total amount of charges. In addition, the TPA attaches official receipts, which the physician issues upon receipt of professional fee. For the stipend, a TPA-prepared stipend fee voucher supports the stipend paid to a patient/escort. The statement of account and official receipts support the hospital bills while official receipts and/or invoices support other chargeable expenses.
4. Monthly, The TPA submits the summarized billings along with supporting documents for replenishment of the trust account.
5. The DHS receives the billings and prepares Miscellaneous Payment Request (MPR) and submits it to the CFCC for review. Starting February of 2010 however, CFCC reviews the billings and prepares the MPR.
6. DHS Director signs the MPR then forwards it to Funds Control Section within DAS.
7. The DAS Director approves the MPR and then by the Governor, if over \$10,000 for final approval.
8. The Department of Health Services follows up on the issuance of the check to ensure<sup>38</sup> its deposit to the TPA trust account until CFCC took over this responsibility in February of 2010.

---

<sup>38</sup>This was made in compliance with the memo dated January 25, 2010, which effected amendment to the TPA agreement. Prior to this memo, most of the replenishment/reimbursement checks were released to Chuuk DHS officers and staff.

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

**Trust Account**

The trust account as envisioned in the TPA agreement would operate similar to that of a revolving fund. Two types of transactions in the fund have accounting significance. The establishment of a trust fund should trigger the setting up of a trust account in the accounting books as an asset of the entity. The other type of transaction refers to the replenishment of the fund. The replenishment does not affect the amount set up in the books for the trust account but increases the expenses for medical referral.

After the establishment of the trust fund, the TPA began to expend the funds on various service providers. The TPA files all of the invoices and documents evidencing payments, and forwards them to DHS for replenishment. The total amount of outstanding bills and the balance in the trust account would equal the amount assigned to the trust fund account.

*Update: The management response indicates the trust account, subsequent to the audit, is now closed and that the TPA receives reimbursement directly, payable to the TPA for deposit into its operating account.*

Office of the National Public Auditor  
Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients

**MANAGEMENT RESPONSE: Chuuk Department of Health Services**

**CHUUK STATE GOVERNMENT**

*DEPARTMENT OF HEALTH SERVICES*

*State of Chuuk*

*Federated States of Micronesia 96942*



P.O Box 400

Phone. (691) 330-2216/2217

**1** FAX. (691) 330-2320

**2**

Mr. Julio Marar . Director  
Dr. Abram Ichin . Deputy Director  
Karita Marcus . Hospital Administrator

**March 23, 2011**

**MS. EVELYN PAUL**

Auditor in Charge  
Office of the National Public Auditor  
Federated States of Micronesia  
PO BOX PS-05  
Palikir, Pohnpei FSM 96941

Dear Ms Paul,

The letter is in response to the audit report that was discussed last week based on the on the clarifications and supporting documents under the NIP Program .

We are hereby sending to you our comments on certain issues that were raised , we also stated and explained the clarifications on those issues for the referred patients from Chuuk under the NIP( Non-Insured Prog.) Program

Respectfully yours,

**Dr. Julius Caesar Arsenal M.D.**

Chief Surgeon  
NIP Coordinator  
Department of Health Services  
Chuuk State Hospital

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

The members of the Chuuk State Hospital Referral Committee as per review of the Audit for Chuuk State Off –island Medical referral Program have stated here several comments and response regarding the report .

As to the issue on the program requirements cases not covered :

- 1. Any malignant cancer (incurable disease) that are irreversible with documented medical reports attached.*
- 2. Acute and Chronic Renal Failure cases secondary to Diabetes Mellitus and Chronic Renal Disease that are documented medical reports to end-stage cases or incurable diseases.*
- 3. Any Organ transplantation procedures as a result of birth deformities due to Congenital, Growth, and Developmental anomalies.*
- 4. Treatment procedures and medications for Diabetic Retinopathy that are deem irreversible.*

We already institute revisions wherein the entire exclusion criteria was abolished and re-written . The entire Guidelines of the program have been revised with legal opinion from the Attorney General’s Office .

The following comments in the audit report showed how the NIP funds were being disbursed

*1. Findings no.1 Paragraph 1 which refers “ Funds were used for disallowed Medical Conditions “.*

These funds that exceeded the treatment allowable amount for 5 patients are beyond our control . Certain Medical/ Surgical cases that has complications during the treatment period. These patients are admitted at the Critical ICU Care Unit for long periods of time due to complications of treatment.

Presently we are now in the process of omitting the \$ 20,000 maximum amount and increased to undetermined amount for treatment. The revision of the program will include that if the treatment exceeds that of the maximum coverage which is the result of the Complications of Treatment resulting in disallowable exceded treatment cost .

In view of this case , the Chuuk State Hospital Referral Committee will conduct an emergency meeting to authorize the approval of the subsequent treatment authorization that has exceeded the limit and assist in subsequent billings .

The Chuuk State Non-Insured Program covers to those individual patients in the state that has no amount of insurance coverage .

In certain instances wherein patients covered previously by Chuuk State Health Care Plan and MI Care Plan whose payment coverage have been ceased or treatment coverage exceeded that of the maximum coverage thus considered no insurance coverage .

These complicated conditions with no insurance coverage can be seen also in situations wherein there was non payment of the insurance premiums or co-payments for these individuals who are citizens in the State of Chuuk . Such instances in emergency cases wherein the urgent

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

need arises the Non- Insured Program will assist the treatment expenses coverage of these patients who are treated off-island medically/surgically .

2. As to the issue on the item #6 on the *recommendation* **“ Recover the disallowed airfares from the Trust Fund “**

These airfares were being used long before the NIP Program started and the practice has also been discontinued . The Chuuk State hospital is paying the amount of the previous airfares so as to recover the previous disallowable airfares under the NIP Program .

**2. Findings No. 2.** The program requirement specify that

**2.8 All patients referred off-island should provide minimal amount of deferred payment of the expenses encountered during the course of off-island treatment, however, in the case where one can not pay, the program shall not refuse treatment to the patient as needed**

The Chuuk State Hospital Referral Committee revisited the Program requirement and recommended to DHS to removed this provision from the Current revision of the Program Guidelines .

The changes and revisions that have been instituted in the guidelines were done based on the recommendations by the previous evaluation team.

**3. Finding # 3**

**“ The NIP Program has lost control of the Trust Account “**

The DHS on this particular issue has already abolished the Trust Account and at the current set-up this has already been none- existent at the moment . The DAS in conjunction with the CFCC are doing their in every which way that the current accounting procedures and updated billings will be so implemented .

**4. Finding # 4-** The TPA agreement mentioned that in order to support the billing , documentation is so required .

**“ Payment of \$58, 668 and Unsupported charges and overcharging by the TPA”**

*Out patient referrals on medical referral shall receive reasonable accommodations with an expense allowance of \$30 dollars per day. For patient escort, the escort shall receive reasonable accommodations from the program fund, except that whenever possible, the escort shall share with the medical referral patient. Authorized family or friend escorts shall be provided with \$25.00 per day allowance.*

The program requirements did specify the amounts and limits for the expense allowance ( stipends) for patients and family escorts . Only that the verification procedures for payments were not properly implemented. These procedures at the moment has been corrected and verified to ensure the the program requirements are properly implemented .

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

The TPA Agreement has been amended currently with the revisions focused also on the billings such as up to date patient charges totals, proof of services provided by the attending physician /professional medical fees and checklist for procedures to be performed thereby ensuring that the charges does not exceed that of the 100% SRUV . The amendment of the agreement suggested should also include the revised processes and procedures for disputed billings as well as penalties for billing errors .

**Finding # 5 : Overspending of \$ 119, 655<sup>39</sup>**

The funding shall be used to cover for as many patients with maximum benefits for off-island medical treatment to an accredited hospital in the Philippines.

*“A maximum of \$ 20,000 shall be the total amount of coverage per patient that will be referred off-island under the non-insured program.*

*All patients that are referred off-island under the non-insured program should provide a copy of the medical treatment and report to Chuuk State Hospital medical referral coordinator “.*

The medical procedures that are performed on each patients are subject to review via emergency referral meeting on that particular patient by the members of the referral committee if it requires urgent medical decision making .

Most of these patients that exceeded their maximum amount to those patients who underwent surgery. These unexpected surgical complications resulting in prolonged hospital stay in the hospital , additional expenses and extended stay mostly in the Intensive Care Unit . These “ complications in surgery “ resulting in a overspending expenses ( complications of treatment expenses ) resulted in the extra utilization of funds that were utilized way beyond the maximum allowable limit for expenditure .

The DHS have instituted changes that if a patient exceeded the maximum allowable amount , the Chuuk State Referral Committee will conduct an emergency meeting to authorize the additional treatment . The authorization will cover for the excess amount that have been utilized by the patient regardless of the amount exceeded .

These measures and changes instituted to ensure that patients treated under the NIP Program received quality medical care.

---

<sup>39</sup> Corrected to \$122,589. Refer to Table 4.

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

**MANAGEMENT RESPONSE: Chuuk Compact Funds Control Commission**

**COMPACT FUNDS CONTROL COMMISSION**

P.O. BOX 1345 • WENO, CHUUK • FM 96942  
PHONE: 691.330.4605/4960 • FAX: 691.330.4763

**MEMORANDUM**

March 23, 2011

To: Haser Hainrick, National Public Auditor

From: Alan Burnham, CPA

Subj: Audit Report 2011-02  
Audit of Chuuk State Off-Island Medical Referral  
Program for Non-Insured Patients

Greetings Haser:

Thank you for including us in the exit conference held in the office of the Director of Health Services on March 17, 2011. Your recommendations and the discussion during the conference should help us in our review of reimbursements made pursuant to the current Third Party Agreements.

Following are our comments concerning your recommendations:

**Finding 3: Loss of Control over Trust Funds**

Recommendation 1:

Facilitate with urgency the process of adding Chuuk State as a signatory to the Trust Account.

Response:

The balance in Trust Account with Bank of China, Manila, was transferred to the Chuuk State Sector checking account at Bank of Guam on February 24, 2011. The account will no longer be funded with Chuuk State Sector money and will not be used by Chuuk State as part of the Non-Insured Medical Referral Program. Signatory status on the trust account is no longer needed.

Recommendation 2:

Perform a fund reconciliation and immediately recover or resolve with the TPA any unaccounted or shortage amount in the trust account. Thereafter, there should be a monthly reconciliation of the trust account to ensure reconciling items are properly corrected.

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

**Response:**

CFCC has been working with the TPA accountant to resolve differences and unexplained transactions in the trust account and will attempt to recover any shortages once they have been satisfactorily determined. CFCC has requested copies of needed bank statements through March 2011 from the TPA in order to reconcile the account through the date of the final balance transfer to BOG. The bank statements along with supporting documentation have not been received as of the date of this memorandum. The trust account will not be used by the Chuuk State Government after February 2011.

**Recommendation 3:**

Process the outstanding requests for reimbursement/replenishment to TPA within the agreed 30 days and make the necessary adjustment in the books to truly establish the trust account as an asset in the general ledger and recognize the correct balance of the fund.

**Response:**

The 30 reimbursement period is no longer applicable due to new TPA Agreements effective with a new reimbursement period first effective during January 2011. The new reimbursement period is 10 working days upon presentation of a reimbursable claim that includes all required supporting documentation. The DAS Director is responsible for any applicable accounting for the trust account up to the final balance transfer to Bank of Guam and the closing of the account.

**Recommendation 4:**

Deny claims that are not in compliance with the TPA Agreement and the Program Guidelines (requirements) terms and conditions, or that are not properly supported by applicable documents.

**Response:**

Now that CFCC has a copy of the current TPA Guidelines, it will endeavor to ensure compliance with financial requirements included in the Guidelines including obtaining assistance from Health Services concerning approved treatments and maximum charges and will deny improper charges.

**Recommendation No. 5:**

Amend the TPA Agreement to include a process and procedure to resolve pending claims and process denied claims including trust account repayment/reconciliation. (See also recommendation 1.C. for finding 4).

**Response:**

CFCC will work with the Director Health Services, the Attorney General and the TPA to develop a procedure to resolve pending claims and process denied claims. Trust account reconciliation will no longer be required after February 2011.

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

This TPA billing process is easy for a “reasonable person” to quickly review. However, we will have to work with both the Director of Health Services and the TPA to include billing information that ensures a) maximum SRUV rates are not exceeded and b) all charges have been pre-approved by the Medical Referral Committee.

Thank you,



Alan Burnham, CPA

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

**ONPA’S EVALUATION OF MANAGEMENT RESPONSE**

DHS and CFCC generally agreed with the findings and recommendations. They supported the implementation of the majority of the audit recommendations while making a few recommendations redundant by proposing to delete the provisions e.g. limits and excluded conditions, of the TPA agreement or program requirements that gave rise to certain findings and recommendations. ONPA offers the following comments regarding some of the responses:

1. Make the applicability and implementation of the Standard Relative Unit Value (SRUV) clear in the guidelines.
2. DHS and CFCC should not just accept a Professional Fee Voucher with daily billed visits by a physician from date of admission to date of discharge because such daily visits could not be possible. The billable visits must be properly supported.
3. The amendment to the TPA agreement regarding exclusions and coverage limits be properly studied. So as not to easily deplete funds, irreversible conditions and some enhancement procedures should still be retained as exclusions.
4. The TPA agreement should clearly define the patients who are non-insured. If it will allow sharing of medical expenses by other health care plans, there should be written implementation procedures and documentation of the resulted sharing.
5. It is not clear how the Chuuk State Hospital would be able to pay the previous denied airfares for the program to recover the previously disallowed airfares.
6. All concerned should ensure timely compliance of all the terms and conditions of the revised TPA agreement and not just delete provisions if it failed to ensure compliance.

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

**National Public Auditor's Comments**

We would like to thank management and staff of the Chuuk State Department of Health and Services, Chuuk State Department of Administrative Services, and Compact Funds Control Commission for their assistance and cooperation throughout the course of the review.

In addition to providing copies of the final report to the President and members of the Congress, we also sent copies to the Chuuk State Governor, the CFCC, the DHS Director, and the DAS Director. Furthermore, we will make copies available to other interested parties upon request.

If there are any questions or concerns regarding this report, please do not hesitate in contacting our Office. Contact information for the Office can be found on the last page of this report, along with the National Public Auditor and staff who made major contributions to this report.



Haser H. Hainrick  
National Public Auditor

May 31, 2011

**Office of the National Public Auditor**  
**Audit of Chuuk State Off-Island Medical Referral Program For Non-Insured Patients**

**ONPA Contact and Staff Acknowledgements**

---

<b>ONPA CONTACT</b>	Haser H. Hainrick, National Public Auditor Email: <a href="mailto:hhainrick@fsmopa.fm">hhainrick@fsmopa.fm</a>
<b>ACKNOWLEDGEMENTS</b>	In addition to the contact named above, the following staff made key contributions to this report:  <hr/> <p>Ron Sufficool, CPA,CISA,CIA,CFE,CMA Audit Manager Manny San Jose, Jr. Audit Supervisor, CGAP Evelyn Paul, Auditor-In-Charge</p>
<b>ONPA's Mission</b>	We conduct audits and investigations to improve government operations, efficiency and accountability for the public's benefit.
<b>Obtaining Copies of ONPA Audit Reports</b>	The fastest and easiest way to obtain copies of ONPA documents at no cost is through the ONPA Web site <a href="http://www.fsmopa.fm">http://www.fsmopa.fm</a>
<b>Order By Mail or Phone</b>	<hr/> <p>Office of the National Public Auditor P.O. Box PS-05 Palikir, Pohnpei FM 96941 To order by Phone: (691) 320-2862/2863</p>
<b>Contact:</b>	Website: <a href="http://www.fsmopa.fm">http://www.fsmopa.fm</a> Hotline: 691-320-6768

---