MCAP

Maricopa Consumers Advocates and Providers
1406 N. 2nd Street
Phoenix, AZ 85004

June 28, 2013

Richard Clarke, Ph.D.
Chief Executive Officer
Magellan Health Services of Arizona
4801 E Washington Street
Suite 100
Phoenix, AZ 85034

Re: FY2012 Recoupment Demands

Dear Dr. Clarke:

Maricopa Consumers Advocates and Providers (MCAP) would like to express its concern with the recent recoupment letters sent to providers related to Fiscal Year 2012 (FY12) and Fiscal Year 2013 (FY13). Although each provider's situation may be unique, there are common themes and positions taken by Magellan that have given our membership great cause for concern. We want to take this opportunity to reach out to Magellan on behalf of our members to voice these concerns, and express our members' desire to resolve this matter taking into account the totality of the circumstances and previous agreements that were relied upon. MCAP requests that Magellan Health Services of Arizona (Magellan) not take any action with respect to its recoupment demands until this matter has been resolved.

Our understanding is that Magellan believes it is entitled to recoup money that was originally allocated during FY12 where providers did not encounter 100% of their contract amount during FY12. This is a reverse of course on the agreements Magellan previously entered into with its contracted providers as to how under-encountered funds and deferred revenue would be handled. In addition, it appears that Magellan has essentially asserted that it is entitled to hold providers to 0% profit, rather than the 4% profit permitted under Magellan's contract.

One common scenario relates to under-encountered funds that Magellan directed providers to take as deferred revenue for FY13 and to use in specific ways. Last year, Magellan contacted providers about FY12 under-encountered funds and deferred revenue. Magellan and the providers agreed that rather than having Magellan recoup FY12 funds, the under-encountered funds and deferred revenue could be used for services in FY13. This agreement was reached in large part because of the significant budget cuts that were to take place in FY13, so that providers would be able to keep up the level of services that they had previously provided and ensure the stability of Magellan's network. The providers worked with Magellan to come up with detailed plans as to how those funds would be spent, which Magellan then approved. In addition, Magellan specifically provided for use of these funds in providers' FY13 budgets.

Magellan's recoupment demands are entirely inconsistent with this agreement to allow providers to spend FY12 funds during FY13, rather than returning the funds to Magellan. In reliance upon Magellan's agreement and at Magellan's direction, providers spent the FY12 under-encountered funds and deferred revenue consistent with the Magellan-approved plans. This resulted in significant additional expenses, including hiring and training additional personnel and providing services that it would not otherwise have been possible to provide. Had Magellan not agreed to allow providers to use the FY12 funds during FY13, providers would not have engaged in these expenditures.

Another scenario involves a change in course of the long-standing reconciliation process used by Magellan. As you are aware, the rates set for services are not cost based, and in certain instances, if providers were only allowed the rate-based encounter value for their services, it would cost providers more to provide those services than the amount they would receive. Given this discrepancy in the system, Magellan has historically looked not only at encountered dollars, but also at the expenses incurred by providers to provide services to ensure the financial solvency of providers. It has also permitted a profit within the 4% limitation provided in its contract. Providers relied upon this reconciliation process for purposes of their financial planning, and were never given any indication that expenses would no longer be considered.

Both of these issues are especially concerning given that providers closed out their FY12 books long ago. Audited financial statements have already been finalized, copies of which were sent to Magellan. At no point prior to the recent recoupment letters did Magellan indicate that it was going to be changing its practices or going back on prior agreements. To do so nearly a year after the end of the fiscal year places providers in a precarious position.

Finally, we understand that Magellan has begun issuing recoupment demands to some providers for FY13, even though FY13 does not end until September 30, 2013. This too is inconsistent with the way Magellan has traditionally operated. Moreover, it often takes providers some time and initial start-up money to ramp up in order to achieve additional encounters. Taking a snapshot mid-year of a provider's encounter levels is not an accurate predictor of where the provider's encounters will end up at the end of the year. These FY13 recoupment demands also do not take into account providers' actual expenses, financial condition or reasonable profit.

These are merely some representative problems that have been expressed by some of our members. There may be other issues not addressed in this letter.

We hope Magellan is cognizant of the serious consequences that will result if it pursues these recoupments. Providers have relied upon Magellan's long-standing practices and its agreements for their financial planning purposes. This change in direction places providers in serious financial harm, which will ultimately harm the entire Maricopa County behavioral health program.

MCAP's provider members hope to come to a quick and amicable resolution with Magellan as to the current recoupment demands. We hope Magellan understands the consequences that beginning any recoupments would have on providers and agrees not to begin recouping any funds until this matter can be resolved.

Sincerely yours,

Ted Williams

Ted Williams
MCAP Chair

cc: ADHS
MCAP