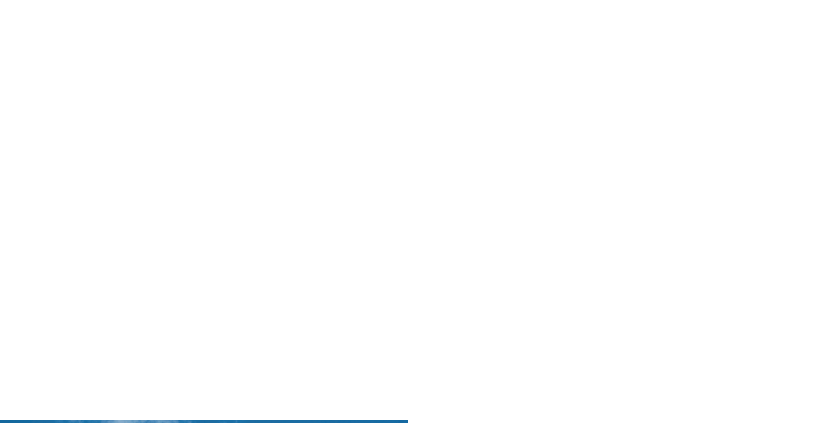
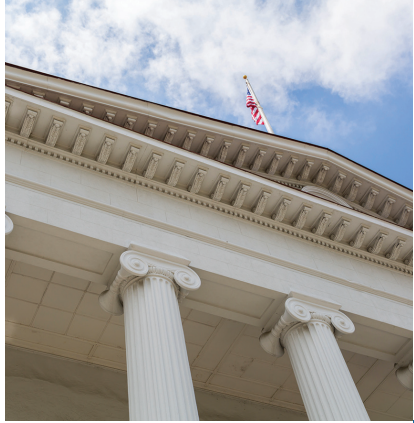
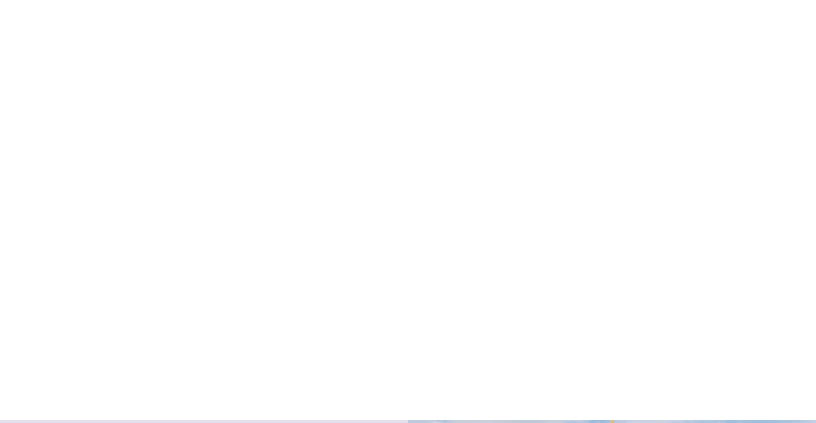
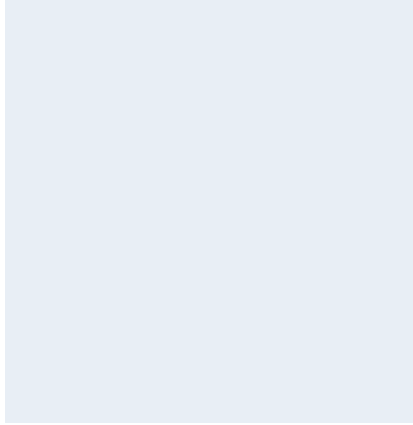


PARTNERING WITH MEDICAID LEADERS

Working Through the Challenges of Medicaid Budgeting and Transformation



ALVAREZ & MARSAL



Medicaid has surpassed both employer-based programs and Medicare to become the largest health insurance program in the U.S. today, covering over 68 million Americans. With the implementation of The Affordable Care Act (ACA), Medicaid has and will continue to expand to cover millions of previously uninsured adults, children, seniors and individuals with disabilities. Additionally, the Center for Medicare and Medicaid Services has issued regulations for home and community-based settings that will impact state Medicaid offices.

As part of this expansion and new regulatory environment, state spending on Medicaid services rose by 8.1% in 2013 and is expected to have increased 2.7% in 2014. Driven by increased state and Federal spending under the ACA, the National Association of State Budget Officers estimated Medicaid spending to account for 25.8% of total state spending in 2014.¹

As a result of this expansion and other ACA-related pressures, leaders of state Human Services departments face increasing fiscal pressures and must understand and navigate through a web of regulatory, programmatic, advocacy, provider and legislative issues in order to address their program's financial challenges.

Alvarez & Marsal's (A&M) proven public sector experience enables leadership to address these challenges. We provide both the analytical capabilities and political expertise necessary to successfully implement effective financial solutions across a complex community of stakeholders. Our professionals have expertise in dual eligible populations, specializing in evaluating demand for services, provider assessments and emerging models of care delivery. We have worked with secretaries, deputies, chiefs of staff, and chief financial and budget officers of state Human Services departments, as well as actuaries and chief operations officers on the state and county levels, in order to meet the challenges of the current Medicaid budgetary environment.

1. National Association of State Budget Officers. (2014). State Expenditure Report: Examining Fiscal 2012-2014 State Spending. Retrieved from: <https://www.nasbo.org/sites/default/files/State%20Expenditure%20Report%20%28Fiscal%202012-2014%29S.pdf>

Sophisticated Cost Modeling Meets Operational Savvy

A lack of visibility into cost drivers such as growth in rates, utilization or enrollment leads to a loss of control over fiscal management and a loss in confidence of department leaders.

First and foremost, program leaders need a structured budgeting approach to fully understand current and emerging financial trends and cost pressures. However, financial analysis alone is not sufficient to address the multifaceted operational, financial and political issues facing today's state human services programs. This analysis must be combined with implementable cost-saving initiatives that take into account policy goals, participant outcomes, regulatory restrictions and stakeholder and political reactions. Our professionals have the senior leadership skills required to deliver improved financial transparency and the operational expertise needed to minimize objections and realize both cost savings and operational improvement.

A&M implements a "bottom-up" budget approach highlighting cost pressure items; monthly reporting tools to manage and understand fiscal trends; and financial management process assessment and improvement.

To support these goals, A&M offers the following services:

- Interim CFO / Interim Budget Director / Interim Director of Program Support
- Litigation support / appeals negotiation (strategic and financial advice)
- Interim finance and / or budget office support
- Legislative affairs support (strategic and financial advice)
- Implementation of improved budget development and reporting processes
- Assistance with managing relationships with all Medicaid stakeholders (internal management, CMS, providers, participant advocacy groups, and lobbyists)

- Provider pay transformation support – helping clients understand the fiscal and political impacts of rate decisions, including changing rate methodologies
- Organizational realignment, including current workforce assessment and recruiting support
- Business process reengineering to transform existing systems, reduce costs and focus on outcomes
- Review of internal controls and regulatory compliance requirements

THE A&M ADVANTAGE

Long after an assessment is delivered, A&M's professionals will work alongside your staff to ensure deadlines are met and change is realized.

A&M can help leaders with the extensive preparations needed to meet tomorrow's financial and operational challenges. Our project teams excel at managing relationships with all Medicaid stakeholders (internal management, CMS, legislators, providers and participant advocacy); providing guidance and analysis to support legal strategies; as well as communication strategies for policy changes on rate methodologies or governing regulations.

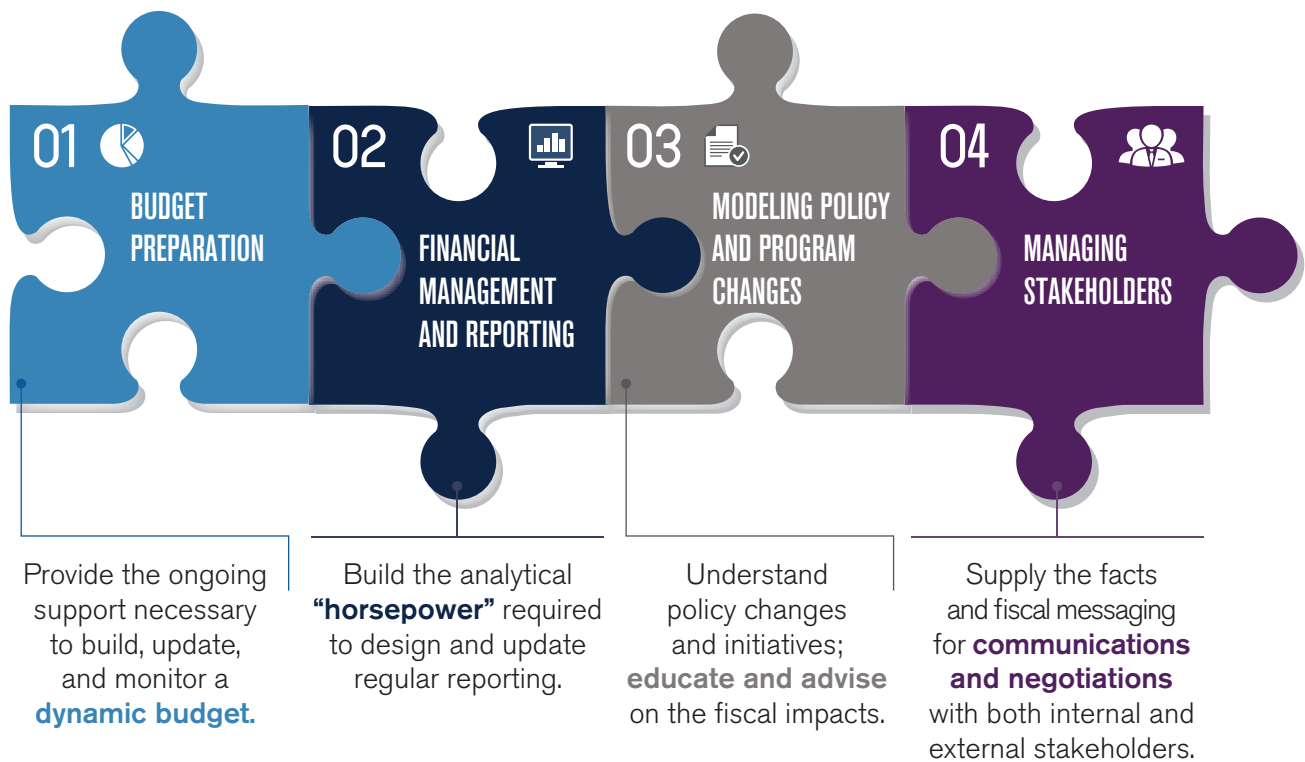
A&M's Public Sector Human Services practice has worked with a variety of state Medicaid program and budget offices to significantly reduce costs, increase fiscal transparency, better predict spending trends, drive improved outcomes, and increase credibility with legislative committees.

Client Challenges

Full ACA implementation has been and will continue to be more disruptive in the states that adopt the Medicaid expansion. However, regardless of what each state decides, significant changes are already taking effect throughout the U.S. The results of future Medicaid reforms will influence the ACA's goals for coverage, participant outcomes and cost control. States must implement ACA enrollment and policy changes while still managing existing large and complex programs.

The task for state Human Services department leaders is formidable. Understanding and utilizing the necessary tools to develop an effective strategy is part of the challenge. Also, Medicaid executives are often challenged to defend fiscal, programmatic and operational choices to external stakeholders and need a strategy to ensure political pressures do not derail change efforts. Finally, the regulations issued by CMS for home and community-based settings will have major fiscal and programmatic impacts on State Medicaid office.

A&M Human Services practice enhances the fiscal capabilities of our State Medicaid clients through a model of flexible and ongoing support.



Client Success Stories

CASE STUDY #1

A client, challenged with longstanding weaknesses in budgeting and financial management sought to replace its legacy financial management IT platform and A&M was engaged to perform an assessment of business processes and recommend the future of the financial IT platform. Through interviewing key staff members, leadership and providers, and comprehensively mapping all current financial processes, we determined that the platform was not the sole issue and suggested several operational reforms around the underlying payment system, organization structure and existing processes that would not have been resolved by a new financial IT platform. As A&M helps to implement these reforms, the client is increasing its ability to accurately report on current expenditure trends and budget for future program expenditures.

THE RESULT

Transparency of short- and long-term programmatic expenditures through better defined processes and procedures that will create a future state that is better able to support service delivery and outcomes for individuals. Immediate changes in processes have led to significantly higher Federal funds capture.

CASE STUDY #2

Prior to engaging A&M, a client decided to transition a large portion of its cost-based services to a fee schedule without performing the necessary financial impact analysis of its largest, most politically connected providers. As a result, the department was forced to pull back. We were engaged to help manage the transition successfully through an interim CFO function. A&M developed a strong fact-base, along with a defensible messaging strategy, which allowed the client to manage through the political resistance and resulted in a transition of \$500 million in services to a fee-schedule model.

THE RESULT

Increased credibility with stakeholders, including budget offices, service providers, families and advocates and the legislature.



Meeting Fiscal Challenges

THE FOLLOWING CLIENT EXPERIENCES ILLUSTRATE A&M'S COMMITMENT TO HELPING MEDICAID PROGRAM LEADERS

Pennsylvania Department of Human Services (DHS), Office of Developmental Programs (ODP)

Serving initially as the interim finance director, A&M is currently supporting the program with the implementation of fiscal controls and accountability measures for more than \$3.1 billion in services to individuals with intellectual and developmental disabilities. To date, we have been instrumental in recovering over \$50 million in funds, developing new processes and practices around fiscal controls, assisting with rate analysis and development and developing new fiscal regulations. A&M testified on behalf of the Department to the Pennsylvania Legislature. Our team also works closely with DHS leadership to help ODP manage an influx of litigation from providers appealing assigned rates. A&M runs financial analyses for each appeal and will also lead negotiations directly with providers. Additionally, we have been delivering fiscal advice as part of the new Deputy Secretary's strategic planning team, which is developing solutions to ODP's systemic financial and programmatic challenges.

Maryland Developmental Disabilities Administration (DDA)

After facing an unexpected \$25.6 million reversion of state funds in 2011, the State of Maryland, Developmental Disabilities Administration (DDA) engaged A&M to provide financial re-engineering services and a recommendation around the department's IT platform. As A&M conducted a detailed as-is analysis of the DDA's fiscal processes, opportunities for immediate improvement were identified along with the need for broader structural changes within the agency. With enforceable deadlines to implement regulatory changes and the need for near-term improvements, A&M's scope of work expanded to provide day-to-day financial, operational, and project management support to address immediate weaknesses and move the DDA towards its future operating state. Key legislation has now been passed to move the DDA from a prospective to reimbursement funding system. A&M is working with the DDA to define the future process for a new information technology platform. While transformation takes time, A&M is helping the DDA to create a system that will truly meet the needs of individuals with developmental disabilities while providing enhanced fiscal transparency and operational oversight.

North Carolina Department of Health and Human Services (DHHS)

Facing cost overruns of \$300-600M each year for the previous four state fiscal years, and according to a report provided to the State's Office of Budget Management, an ineffective organizational structure and lack of understanding of key expenditure drivers, North Carolina's Department of Health and Human Services (DHHS) engaged A&M to build a robust, bottoms-up forecast / budget model, provide interim finance leadership and staff support and re-align human capital to better meet the organization's needs. A&M's hands-on, action-oriented team quickly established credibility and was asked to serve as the Interim CFO and Budget Director for the Division of Medical Assistance (DMA). The team developed a comprehensive and transparent forecast / budget model that served as the basis for the biennium budget and was accepted by two of DMA's primary stakeholders – the State's Office of Budget Management and Fiscal Research Division – as the shared projections for the upcoming two-year cycle. Just as importantly, this robust model and the associated results were submitted earlier than any DHHS / DMA submission in many years, significantly reducing the credibility gap that had existed prior to A&M's arrival. Moreover, A&M created sustainable change in the finance department by creating a replicable process for the DMA finance staff to apply the model as well as developing and implementing over 50 new financial policies and procedures that will enable DMA to sustain improvements and maintain fiscal controls.

Lastly, A&M's human capital team designed and supported the implementation of an agency-wide reorganization with a focus on accountability, communication and coordination for both the administrative (Finance, IT, Office of the Director) and operational (Clinical, Compliance, and Operations) departments; the organization realignment was the first since DMA was formed in 1978.

South Carolina Department of Health and Human Services(SCDHHS)

In the face of a \$250 million operating deficit, the State of South Carolina Department of Health & Human Services engaged A&M to provide financial and organizational re-engineering and interim staffing services to improve its financial forecasting and budgeting processes. While serving initially as Interim Director of Policy and Budget, A&M created a performance-driven resource allocation budgeting approach based on measurement, data, analytics and modeling. Our efforts included identification of potential operational cost savings; development of cash flow forecast models and reconciliation process; and implementation of a new organizational structure for finance and administration. A&M oversaw the development of the department's budgets for two fiscal years, as well as the development of long-term forecasts, including the preparation of a five-year budget outlook.

ALVAREZ & MARSAL'S PUBLIC SECTOR HUMAN SERVICES PRACTICE HAS THE EXPERIENCE AND FINANCIAL ACUMEN NECESSARY TO HELP MEDICAID-FUNDED PROGRAMS NAVIGATE AN INCREASINGLY COMPLEX LANDSCAPE.

For More Information

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**LEADERSHIP.
PROBLEM SOLVING.
VALUE CREATION.**

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) when conventional approaches are not enough to activate change and achieve results.

Privately-held since 1983, A&M is a leading global professional services firm that delivers performance improvement, turnaround management and business advisory services to organizations seeking to transform operations, catapult growth and accelerate results through decisive action. Our senior professionals are experienced operators, world-class consultants and industry veterans who draw upon the firm's restructuring heritage to help leaders turn change into a strategic business asset, manage risk and unlock value at every stage.

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