

# **University Health Care, Inc.**

*dba Passport Health Plan*

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**Mark B. Carter**  
Interim Chief Executive Officer

**William B. Wagner, MSSW**  
Interim Chairman of the Board

January 6, 2011

The Honorable Crit Luallen  
Auditor of Public Accounts  
209 Saint Clair Street  
Frankfort, Kentucky 40601-181

Dear Ms. Luallen:

Pursuant to the request set forth in your letter to Secretary Janie Miller and Dr. Larry Cook dated November 9, 2010, please accept this letter as our progress report regarding the implementation of your audit recommendations. As you know, the Board of Directors (the "Board") of University Health Care, Inc. ("UHC") held their Annual Meeting on December 8, 2010 in Louisville. During the meeting, the Board reviewed the finding and recommendations included in your report and the requests set forth in a letter dated December 1, 2010 from Secretary Janie Miller (the "Secretary"). The Board, after hearing a report from the Interim CEO, authorized a number of actions intended to address your recommendations and Secretary Miller's requests.

In order to comply with our reporting requirements to your office, please consider the following:

1. Governance

In addition to authorizing certain Board and management changes as previously communicated to the Secretary, the Board authorized its Interim Chair to appoint an Ad Hoc Committee to review the UHC governance structure and make recommendations that will allow for a continuing contract with the Cabinet.

Early during the week of January 3, 2011, the Chair will appoint a ten to eleven person committee consisting of one member from each sponsoring organization, two to three members from the Partnership Council (each member to come from outside of the "sponsoring organizations" and three community members. The community members will consist of representatives from academia, public charities and area business.

The charge to this committee will be to study UHC's current governance structure, review the recommendations from your office and the Secretary's and make a recommendation(s) for the consideration of the Board of Directors. The Committee will develop a recommendation that

meets the requests for broader regional representation of participating providers and community representatives.

We expect the Ad Hoc Committee to make a recommendation no later than the February 2011 Board meeting.

2. Spending on Lobbying

All contracts with lobbying firms have been cancelled effective December 31, 2010 consistent with notice requirements within those agreements. The Board, after reviewing its funding sources, which consist of Medicaid, Medicare Advantage and Investment Income, directed management not to utilize funds derived directly or indirectly from former Medicaid funds to support lobbying activities.

3. Adoption of APA Recommended Standards for Public and Nonprofit Boards

The Board adopted the APA standards generally and directed management to develop a set of policies and procedures to implement those standards in a manner appropriate for UHC. This effort will be ongoing during 2011.

4. Corporate Compliance Officer

The Board directed the Interim CEO to recruit and propose candidates for the position of Chief Compliance Officer. The title "Chief Compliance Officer" is significant given the responsibility for sub-contractor oversight placed on UHC under the Medicare Advantage program in addition to the CMS 1115 Waiver. This effort is in process as of the date of this letter. It should be noted that the uncertainty surrounding UHC could require establishing this function initially as an "interim" position.

5. Review of Distributions

State Senator Tim Shaughnessy of Louisville had previously requested an Opinion of the Attorney General (AG) to determine the legality of the distributions made to the UHC corporate members. Because Senator Shaughnessy's request is already pending, UHC chose to provide its legal analysis to the AG as that request is being considered. UHC's analysis is set forth in a nearly 100 page submission to the AG from Thomas J. Luber, Esquire et al dated December 17, 2010. Our analysis concludes that the distributions were in fact allowed under Kentucky law and were permissible under the Internal Revenue Code.

Nevertheless, the Board recognizes the controversy surrounding these distributions and is conducting its own internal review of this matter. Consistent with your request, the Board directed the Interim CEO to take the necessary steps to segregate \$30.5 million within its accounts and to maintain such funds under the control of the Board of Directors. These funds will be deemed "Board-designated" and given separate presentation within its statement of financial position. Such funds cannot be accessed without the specific action of the Board of Directors.

6. Internal Auditor

Because there exists material uncertainty as to whether UHC and the Cabinet will be able to reach terms on a new contract, management was authorized to retain an independent firm to provide such services through June 30, 2011. Management has received three proposals for Internal Audit services and is evaluating those proposals at the present time. We expect an Internal Audit firm to be in place no later than January 15, 2011.

7. Review of Expenditures

The Interim CEO has already begun his review of expenditures and has taken steps to insure that expenditures made by UHC and its sub-contractors in the future are reasonable and necessary. In order to complete the retroactive review, management will request the assistance of the Internal Audit firm upon engagement. Travel and meals expenditures will be reviewed in detail.

8. Audit of UHC, Inc. and It's Subcontractors

The Board directed management and UHC's sub-contractors to cooperate with the Cabinet and all other regulatory bodies in further audits as requested by the Cabinet. Management notes that numerous requests for information (from the Ethics Branch of the Legislative Research Commission, Department of Insurance, and the Cabinet for Health and Family Services) have been received and requested information is being provided promptly.

9. Cost Effectiveness Analysis

The Board directed the Interim CEO to: 1. Cooperate with the consultant retained by the Secretary to conduct the Cabinet's review and 2. Retain an independent consultant to assist UHC with its own analysis of cost effectiveness.

10. Open Meetings

The Board acknowledged the request of the Cabinet for Health and Family Services and Department of Insurance for the meeting they held with board members to be an open meeting. The Board will conduct meetings, or portions of meetings where the attendance of officials of the Commonwealth is necessary to be in compliance with the Commonwealth of Kentucky open meeting laws, rules and regulations.

The Board directed its management to develop policies and procedures that would improve transparency around financial performance and reporting, quality, patient and provider satisfaction and other appropriate matters. Management will begin providing the Partnership Council with financial reports during its next scheduled meeting.

It is important to note, however, that the Attorney General opinion referred to in your December 1, 2010 letter concludes that University Health Care, Inc. is subject to the "open records" provisions of the public agency laws and specifically concluded in a footnote that UHC is not subject to the "open meeting" provisions of such laws, rules and regulations. UHC is involved in litigation with the Courier Journal to resolve this issue and the Attorney General

opinion is not binding pending the outcome of the litigation. The Board of UHC believes it is entitled to due process related to this matter and at the present time intends to see the litigation through to its conclusion.

The Board will not use Medicaid funds to pursue this litigation (instead the Board will use cash generated from its Medicare Advantage program and from its unrestricted reserves and income on reserves for this purpose).

#### 11. Targeted Financial Examination

We have received an extensive request for information from the Department of Insurance and provided such information to its auditor, Jeff Gaither, on December 23, 2010. We will cooperate fully with that examination.

We recognize the foregoing follows the format used by the Secretary in her December 1, 2010 letter and we plan to provide a detailed response to each finding and recommendation included in your November 2010 report. Please be assured that we are aggressively implementing your recommendations although with limited resources.

We trust that the foregoing represents a satisfactory response to your request for a progress report. We reiterate our commitment to working with the Cabinet for Health and Family Services and with your office to address the concerns raised while we simultaneously begin the process of developing a new relationship under a new contract for the period beginning July 1, 2011.

If you have any questions related to the foregoing, please do not hesitate to call Mark Carter at (502) 540-1311.

Sincerely,



Mark B. Carter  
Interim Chief Executive Officer



William B. Wagner, MSSW  
Interim Chairman of the Board

CC: William B. Wagner, MSSW  
Members of the UHC Board of Directors