

*Letter sent electronically*

March 15, 2016

Gay Ann Williams Vice President, Plan Administrator  
Health Net Access  
1230 W. Washington Street  
Tempe, AZ 85281

James Woys Chief Financial & Operating Officer  
Health Net Inc.  
21650 Oxnard Street  
Woodland Hills, CA 91367

**RE: Update February 4, 2015 Compliance Action - Sanction**

Dear Ms. Williams and Mr. Woys:

This letter is Arizona Health Care Cost Containment System (AHCCCS), Division of Health Care Management (DHCM)'s response to Health Net Access' (HNA) progress on the February 4, 2015 Compliance Action (February Sanction). The February Sanction addressed HNA's failure to demonstrate its commitment to Arizona Medicaid as evidenced by HNA's ongoing noncompliance with contractual requirements, failure to commit the resources necessary to ensure full and continuing implementation of these contractual requirements.

The February Sanction letter included the following terms:

Failure to correct the deficiencies as outlined in this letter may result in additional compliance actions, pursuant to Acute Care Contract Section D, Paragraph 72 and Section E Paragraphs 45 and 48, up to and including additional sanctions, further restriction on member enrollment to include choice, non renewal of the one year option in 2016 to extend the contract; and/or termination of the contract in whole or in part due to failure of the Contractor to comply with any terms or condition of this contract.

The Acute Care Contract YH14-0001-03 Section E, Paragraph 45 states the term of the Contract is for three initial years, with up to two one-year extensions not to exceed a total contracting period of 5 years. Any contract extensions are at the sole option of AHCCCS. HNA's Acute Care Contract was awarded effective October 1, 2013 and terminates September 30, 2016.

AHCCCS is exercising its option to extend HNA's Contract for one year. As a result, the Contract will remain effective until September 30, 2017.

The February Sanction issued February 4, 2015 included a capped enrollment for auto assignment of members to HNA. Throughout 2015 AHCCCS issued multiple additional compliance actions to HNA. While HNA has complied with many of the requirements of the

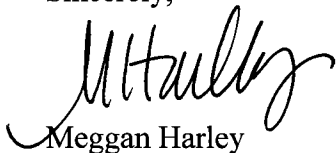
February Sanction, the compliance action will remain open and the enrollment cap will remain in place until further notice in order for AHCCCS to monitor closely HNA's ability to maintain sustained contract compliance.

AHCCCS strongly encourages HNA to use this extension to meaningfully and thoughtfully address issues impacting the AHCCCS Acute Care Contract and HNA's overall performance, including but not limited to:

- **Transition of Operational Responsibilities:** As part of the acquisition approved by AHCCCS on January 6, 2016, HNA will be implementing system changes, entering into a Management Services Agreement, and obtaining new subcontractors for many of its delegated subcontracts. AHCCCS expects a smooth and seamless transition for HNA's members and providers. HNA must work to ensure that this transition does not adversely impact its performance under the Contract.
- **Attention to Provider Claim Disputes:** HNA should address its volume of provider claims disputes and high proportion of overturned claim disputes due to incorrect handling by HNA staff. Since July 2015, HNA has received between 382 and 702 claims disputes each month. While AHCCCS acknowledges the number of claim disputes have decreased in recent months, HNA still receives more disputes relative to its membership size than other AHCCCS Contractors. In addition, more than half of these disputes are overturned due to incorrect processing by HNA staff. While this issue has not to date risen to a level requiring compliance action, it does reflect an area of concern identified in the February Sanction. HNA should ensure it conducts root cause analysis and takes appropriate actions regarding these issues in its current and future claims processing systems and claims dispute process.

If you have any questions regarding this matter, please feel free to contact Virginia Rountree, Assistant Director of Operations, AHCCCS at (602) 417-4112 or [Virginia.Rountree@azahcccs.gov](mailto:Virginia.Rountree@azahcccs.gov).

Sincerely,



Meggan Harley  
Procurement and Contracts Manager

Cc: Susan Gilkey, Director Regulatory Compliance & Reporting, Health Net Access  
Chandra Hara, Contract Compliance Officer, Health Net Access  
Virginia Rountree, Assistant Director, AHCCCS  
Shelli Silver, Assistant Director, AHCCCS  
Christina Quast, Operations Manager, AHCCCS  
Jay Dunkleberger, Operations and Compliance Officer, AHCCCS

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