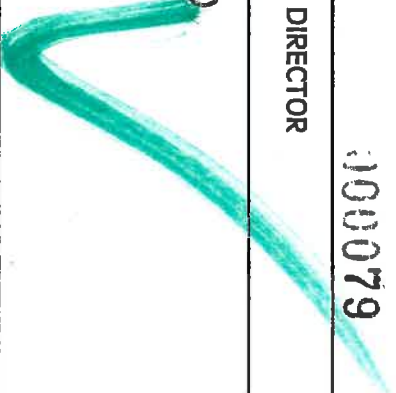


**DEPARTMENT OF HEALTH AND HUMAN SERVICES  
OFFICE OF DIRECTOR**

**ACTION REFERRAL**

TO	DATE
<i>Wells</i>	<i>8-8-08</i>

DIRECTOR'S USE ONLY		ACTION REQUESTED	
1. LOC NUMBER	<i>100079</i>	<input type="checkbox"/> Prepare reply for the Director's signature	DATE DUE _____
2. DATE SIGNED BY DIRECTOR	<i>cc: Depo</i> 	<input type="checkbox"/> Prepare reply for appropriate signature	DATE DUE _____
		<input type="checkbox"/> FOIA	DATE DUE _____
		<input checked="" type="checkbox"/> Necessary Action	

APPROVALS (Only when prepared for director's signature)	APPROVE	* DISAPPROVE (Note reason for disapproval and return to preparer.)	COMMENT
1.			
2.			
3.			
4.			



*WJL*  
*Log: dup*  
*N/A*

VIA CERTIFIED MAIL

August 5, 2008

Mr. John G. Crysler  
Senior Vice President  
& Managing Director (previous)  
ACS Healthcare, LLC  
9040 Roswell Road  
Atlanta, GA 30350

**RECEIVED**  
AUG 07 2008  
Department of Health & Human Services  
OFFICE OF THE DIRECTOR

Mr. Christopher T. Deelsnyder  
Senior Vice President  
& Managing Director (current)  
ACS Healthcare, LLC  
9040 Roswell Road  
Atlanta, GA 30350

Mr. Patrick Ross  
Senior Vice President  
ACS State Healthcare, LLC  
9040 Roswell Road  
Atlanta, GA 30350

Re: South Carolina (or "Client") TPL Program – Termination of Subcontract with  
ACS State Healthcare, LLC

Dear Mr. Crysler, Mr. Deelsnyder, and Mr. Ross:

HMS was surprised to have received your letter dated August 3, 2008 regarding the Termination of the Subcontract between ACS State Healthcare, LLC ("ACS") and Health Management Systems, Inc ("HMS") referenced above. As you clearly know, the original term of the Subcontract ended on the very day you sent your letter alleging various material breaches of the contract. Your unilateral right to renew the contract required notice of renewal given 30 days prior to the expiration of the original term. We can only conclude that your assertions of contractual breaches are not directed at justifying your decision not to renew the Subcontract or at seeking redress for our supposed failures to perform, but are intended to create a paper trail of alleged deficiencies that can be used against us in future competitive situations.

We do not believe HMS has committed any material breach of the Subcontract and we will not leave unaddressed unsubstantiated claims that we are in default under the

contract. Below is a list of the alleged contract breaches cited in the letter from ACS dated August 3, 2008 and HMS's response to each:

1. *Failure to provide the Daily Flash Report, Daily Reconciliation Report, Monthly Closing Report, and the Twelve Month Check Reconciliation which was included in the Tracer accounts receivable functionality proposed by PCG*

HMS met this requirement as per ACS's directed methodology. At ACS's request, it was agreed during the initial system design meetings between HMS and ACS in August 2006, which included ACS team members Dale Schnackel and Alice Griffin, the parties agreed that all reporting would be the responsibility of ACS and be generated from ACS's systems. It was requested and agreed upon by ACS that HMS would transmit the data needed for these reports to ACS in an approved format. HMS has continually provided all of the data required for ACS to generate these reports and did so in a timely fashion.

2. *Failure to provide Web-based HPP application as proposed. There is currently still no web based technology in use and PCG's promises to deliver same on different occasions has not occurred;*

To the contrary, HMS was ready and able to implement our Web-based application, PIER, on the agreed-upon date of July 1, 2008 pending ACS's approval of a contract amendment to protect the use of our proprietary software application. To date, ACS has made no effort to contact HMS in response to our contract amendment requests. Despite the lack of response by ACS, HMS provided DHHS staff access to the PIER test site to review the system and ensure that all their modifications and specifications had been met by HMS. This would allow for immediate implementation upon execution of the contract amendment by ACS.

3. *Failure to provide data matches that contain accurate information. Only one data match was provided to ACS in January 2007. The data match contained inaccurate information (as confirmed by ACS and PCG's grading); PCG performed a second data match in March 2007, from which no new policies were submitted for accretion to the SC MMIS TPL subsystem.*

HMS provided data match information to ACS in a raw, unverified format as specifically requested by ACS and made several requests to ACS, without response, to supply us with the core data files needed to perform routine data matches.

ACS representatives, including Alice Griffin, approached HMS to provide a data match in late January 2007 to supplement ACS's own efforts to perform this work. Although Ms. Griffin was informed that the very tight timeline she imposed would not allow for HMS's standard filtering, grading, and edit processes. Despite our warnings that the end result may be of compromised

quality, she insisted on receiving the raw, unverified data match without the quality enhancement processes.

Further, HMS data matches were hampered by ACS's inability to provide HMS with complete data files to perform the matches, despite multiple, unanswered requests to ACS's Dale Schnackel and Alice Griffith for updated, appropriate data. Instead, ACS only provided HMS with old recipient eligibility data (i.e., most recent file added to ACS server was on May 17, 2007) and did not provide any "known policy" files. In March 2007, at ACS's request, HMS provided unverified data match file results to ACS. According to our contract at that time ACS would be responsible for the verification of these match results and updating the policy information to MMIS. HMS had no control over and was not responsible for how the data was used or why no policy accretions were completed.

4. *Lack of effort to perform credit balance audits and failure to recover*

To the contrary, HMS has put forth significant effort and made progress in credit balance audits as per contract and client requirements. HMS presented the project approach to DHHS Hospital representatives in a meeting at the DHHS Jefferson Square office, and after receiving required notification from DHHS that they had communicated HMS's authorization to perform these audits to state hospital, HMS proceeded expeditiously. HMS completed the first audit in June 2007. Since then, HMS has also completed audits of 16 of the top 20 hospital in South Carolina and the remaining four hospitals are scheduled for audit in August 2008.

Regarding recovery results, in many instances ACS staff had difficulty categorizing the credit balance checks appropriately; in some cases, ACS personnel categorized credit balance checks as provider TPL refunds. Even in cases where HMS hand delivered checks to ACS and specifically informed the ACS supervisor they were credit balance refund checks, the checks were incorrectly categorized. Additionally, some providers were sending checks to incorrect lockboxes. Once these issues were corrected, progress on recoveries was more apparent.

5. *Failure to obtain advanced written authorization from ACS prior to meeting with the South Carolina customer to discuss contract-related services.*

HMS notified ACS about *all* contract-related meetings with the South Carolina customer, and an ACS representative attended most of these meetings.

At DHHS's request, HMS staff met with DHHS representatives bi-weekly to discuss the operational aspects of the current contractual services (HIPP and Credit Balance projects). These meetings were held at the ACS office on 1628 Browning Rd. and ACS project management was invited by HMS to all meetings. Any other incidence of an HMS employee attending a meeting with DHHS was to

discuss work clearly outside of the current scope of the TPL contract between ACS and DHHS.

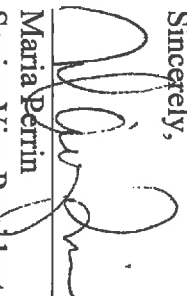
Given HMS's response to ACS's alleged material breaches above, we assert that no material breaches have occurred. Further, even if a breach had occurred, the above referenced contract requires that the subcontractor be notified in writing of the breach and given 15 days to cure the breach. At no time did ACS communicate their concerns of the alleged breaches listed.

**Therefore, HMS accepts ACS's non-renewal of the referenced subcontract as one of convenience and not due to material breach.**

Also, please note that your termination letter was addressed to the CEO of Public Consulting Group (PCG), William S. Mosakowski. The referenced contract was novated to HMS effective July 1, 2006, at which time HMS assumed full legal and operational responsibility for the contract. Therefore, all correspondence regarding this contract should directed to HMS only, not PCG.

If you have any questions or wish to discuss this information, please contact Ms. Kimberly Glenn, Senior Vice President (704-927-8310) at your convenience.

Sincerely,

  
\_\_\_\_\_  
Maria Perrin  
Senior Vice President

CC:

Ms. Kimberly Glenn  
Mr. Milton German  
Mr. William Wells  
Ms. Deirdre Singleton  
Ms. Felicity Meyers  
Ms. Emma Forkner