



Washington State Auditor's Office

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Health Care Authority's Oversight of the Medicaid Managed Care Program

Medicaid managed care is large and growing

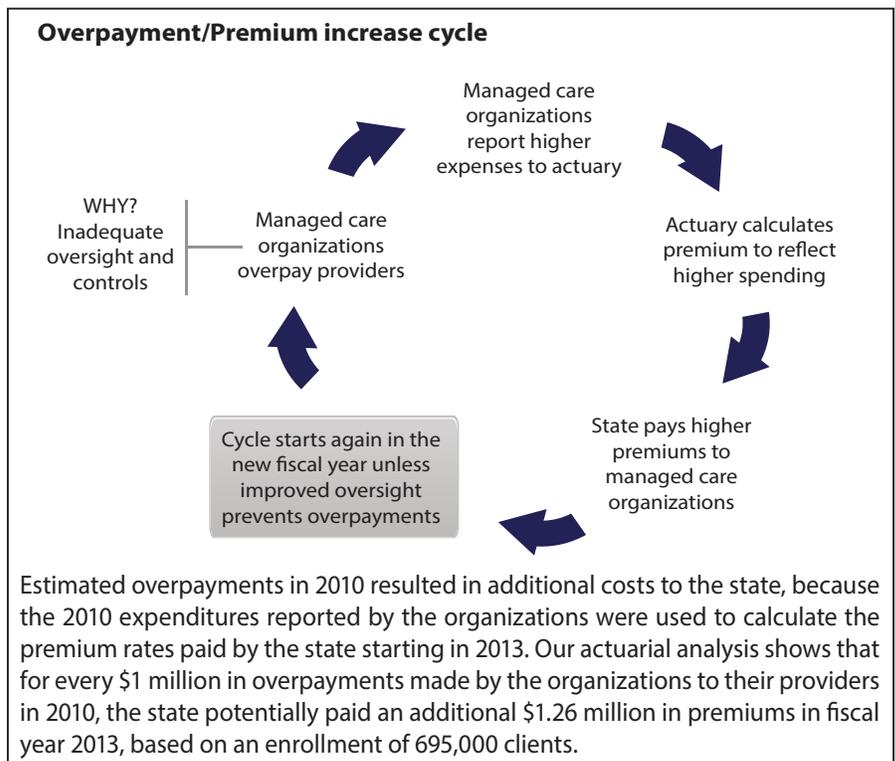
Washington's Medicaid managed care program, jointly funded by the federal and state government, provided health coverage for about 796,000 residents and cost almost \$1.4 billion in 2013. The Health Care Authority (HCA) expects federal health care reforms which began in January 2014 will expand Medicaid coverage to about 328,000 more people in Washington in the next five years, most of whom are expected to receive managed care.

The state's contracted managed care organizations annually process millions of claims for hundreds of thousands of members; the two largest companies cover 80 percent of enrollees. We conducted this performance audit of the managed care program to determine if the state had controls in place to effectively oversee these organizations, and to determine whether overpayments occurred in an amount sufficient to warrant additional monitoring of claims. We found that weaknesses in HCA's oversight led to the managed care organizations paying providers more than was appropriate, which in turn may have led to the state paying higher premiums to these organizations in fiscal year 2013 and beyond.

Inadequate monitoring and insufficient controls led to inappropriate payments in 2010, which potentially affected 2013 premium rates

We found inadequate oversight of the managed care program and limited controls over expenditures. For example, although the HCA's contract requires its managed care organizations to perform data checks to prevent improper payments, the organizations only had checks to analyze hospital claims and did not perform similar checks on professional claims by doctors and other specialists. Performing additional checks, particularly for high risk claims, could help identify and reduce overpayments. Failure to resolve these issues could lead to higher Medicaid costs.

To determine whether overpayments to providers were detected, we examined eight of the highest-risk payment types at the two largest managed care organizations. Our best estimate is that the two managed care organizations overpaid their providers \$17.5 million for claims paid within the eight outlier populations reviewed. Because we limited our samples and intentionally chose only eight high-risk areas with the greatest risk of errors, we cannot use this approach to estimate the amount of overpayments in the entire system or to estimate amounts for potential recovery.



The estimated impact on future premiums was based on a high-level analysis that applied the same assumptions and used the same limited amount of information disclosed in the actuary's rate setting memo. Access to more detailed information on the actuary's rate setting process might have yielded different results. The effect of these estimated overpayments on state premiums therefore warrants improved state oversight of the managed care program.

Examples of inappropriate charges:

- Charging for a more complex medical evaluation than was performed.
- Extra charge for a medical evaluation when the evaluation is already included in the cost of a medical procedure.
- Charging for a hospital stay when there is no evidence the physician ordered inpatient admission.
- No documentation to support the services billed.

HCA did not review relevant managed care organizations' cost data

The state also needs to ensure its managed care organizations correctly report administrative costs and cost recoveries, such as pharmacy rebates and recoveries received from other insurance companies. The HCA's current system does not capture, review or audit these figures, but relies on the organizations to report cost information directly to the HCA's actuary, without state oversight.

We found high error rates (8 percent and 12 percent for the two organizations) of unallowable administrative expenses in the risk-based sample we reviewed. In addition, the organizations also included some administrative costs in their medical costs, which is against program rules.

The HCA's third-party actuary told us that it does not use the administrative cost data reported by the organizations to calculate the portion of the premium rate that applies to administrative expenses. Instead, the actuary uses national averages to set a rate of 13.5 percent of the premium to cover allowable administrative costs, premium tax and risk margin. It is a common practice among insurance actuaries to use national averages, which are not based on audited cost data, to compute premium rates.

We believe that while use of national averages to set administrative expense rates may be common practice, the HCA would benefit from periodically analyzing actual administrative cost data reported by managed care organizations to ensure that it is accurate and reimbursement rates are reasonable. This would ensure that using national average administrative cost reimbursement rates is the right approach for Washington.

Improving Medicaid managed care oversight

Washington needs to collect more information about the performance of its independent contractors. It would benefit from a comprehensive cost reporting and monitoring system to keep managed care organizations accountable for the terms in the contract. An integral part of oversight is giving guidance to the managed care organizations. We found some circumstances in which the state did not provide proper guidance, and others in which the managed care organizations' processes were not consistent or complete. The HCA should also seek to change the contract to allow it to recover a portion of any future overpayments identified and collected following state audits.

AUDIT ISSUES

-  Inadequate oversight and data analysis led to overpayments
-  Undetected overpayments in 2010 resulted in potential higher premium costs in 2013
-  Data used to set 2013 premium rates was not verified and retained
-  Inconsistent reporting of rebates, administrative costs and recoveries

RECOMMENDATIONS

-  Create a comprehensive monitoring and reporting system
-  Review and improve the controls used to prevent overpayments
-  Review and retain data used by the actuary to set premium rates
-  Provide better guidance and require more reporting of key information