

State Auditor's Office

Robert E. Johnson Building
1501 North Congress Avenue
Suite 4.224
Austin, Texas 78701

Phone: (512) 936-9500
Fax: (512) 936-9400

A Follow-Up Audit of Medicaid Managed Care at the Department of Health

August 21, 2000

Members of the Legislative Audit Committee:

Since February 1998, the Department of Health (Department) has improved its oversight of the Medicaid managed care program. The Department has implemented adequate controls over both contract administration with health maintenance organizations (HMOs) and the reporting of encounter data, which is the record of services provided to patients. However, the Department should ensure that HMOs continue to improve the accuracy and completeness of the encounter data. The Public Policy Research Institute at Texas A&M University noted in January 2000 that "obtaining reliable and accurate encounter data remains a significant obstacle to measuring quality [of] and access [to]" the managed care program.

During the past two years, the Department contracted for an external review of Medicaid recipients' access to care and the quality of care provided to Medicaid recipients enrolled in managed care plans. The external review showed that while the percentage of complete and accurate encounter data was very low in fiscal year 1997, it increased significantly in fiscal year 1998. (See table below.)

Percentage of Times the Medical Record Matched the HMO Encounter Data File			
Fiscal Year	Member ID	Member ID and Date of Service	Member ID, Date of Service, and Provider
1998	83.9%	64.3%	48.4%
1997	57.5%	30.2%	25.6%

Source: Texas Health Quality Alliance, 1999 Validation of Performance Objectives, Utilization Management Tables, and Encounter Data

The status of each recommendation from *An Audit Report on Medicaid Managed Care at the Texas Department of Health* (SAO Report No. 98-028, February 1998) is attached. The Department has implemented four of the recommendations and is taking appropriate action to fully implement the others. If you have any questions, please contact Joanna B. Peavy, Audit Manager, or Jon Nelson, Project Manager, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

khm/Attachment

cc: Mr. William R. Archer, M.D., Commissioner, Department of Health
Mr. Don Gilbert, Commissioner, Health and Human Services Commission
Members of the Board of Health

Objective, Scope, and Methodology

The objective of this audit was to follow up on a prior State Auditor's Office audit in February 1998. We reviewed the adequacy of contract administration by the Department with HMOs and the usefulness and accuracy of encounter data reported by HMOs. This audit was conducted in accordance with generally accepted government auditing standards.

SAO Report No. 00-039

Status of Recommendations From *An Audit Report on Medicaid Managed Care at the Texas Department of Health* (SAO Report No. 98-028, February 1998)

Section 1-A:

The Bureau of Managed Care Is Not Adequately Staffed to Appropriately Monitor and Oversee the Managed Care Program

Recommendation:

Partially Implemented

We recommend the Bureau of Managed Care work aggressively to fill each of the vacant positions within the Bureau. Policies and procedures to be followed by staff should be formalized and documented, and new staff members should be trained in the policies and procedures so that they fully understand the responsibilities of their positions.

Status:

The Bureau has filled positions, but there are still vacancies because of staff turnover. In March 2000, there were 9 vacancies out of 60 positions. According to management, there were 8 vacancies in August 2000. The Bureau has a policies and procedures manual, and it has implemented training sessions. However, the policies and procedures manual does not provide specific guidance for monitoring and analysis of program data. Management will complete specific guidelines by September 2000.

Section 1-B:

Medicaid Managed Care Data Cannot Be Directly or Easily Accessed by Staff Within the Bureau Of Managed Care

Recommendation:

Partially Implemented

We recommend the Bureau of Managed Care thoroughly evaluate what its Medicaid managed care information needs are and what barriers to those information needs exist. The Bureau should then develop several alternatives to obtaining the information and evaluate the cost effectiveness of each. We recommend the Department complete as soon as possible its current evaluation of using a data warehouse to provide a central location to store and access data.

Status:

The Bureau is using information from utilization management reports, focused studies, satisfaction surveys, HMO on-site reviews, and encounter data analysis. Encounter data is not yet complete and accurate. The Bureau can access Medicaid managed care data through three different sources:

1. Ad hoc requests to National Heritage Insurance Company (NHIC).
2. Vision 21, a NHIC-developed system for use by the State to query Medicaid information.
3. Texas Health Quality Alliance detail Medicaid managed care administrative claims/encounter data. Compass 21 will further enhance data collection efforts, but the contractor (NHIC) estimates that it will not be implemented until December 2001.

Section 1-C:

Contract Revisions Between the Department and the Managed Care Organizations Are Not Always Formalized

Recommendation:

Implemented

We recommend all revisions to contracts be formalized and documented as amendments to the contract. Memoranda of understanding between the Department and managed care organizations may serve as an alternative to formal contract amendments. However, such memoranda should be distributed to all contract signatories and key stakeholders and be included in the master contract files.

Section 1-D:

The System Contractor Performs Unauthorized Modifications to Data Submitted by the Managed Care Organizations

Recommendation:

Implemented

We recommend the Bureau of Managed Care re-evaluate the various levels of edits to determine location appropriateness. Editing should be performed as early in processing as possible to allow correction by the creator of the data.

Section 1-E:

The Automated System Maintained by the System Contractor Has Not Been Independently Reviewed to Ensure Adequacy of Controls in Over Four Years

Recommendation:

Implemented

We recommend the Department conduct or arrange for an independent review of the automated controls of the system contractor, NHIC. This review should include a comprehensive analysis of controls over contract compliance, fiscal management, and the automated system.

Section 2:

Cost Effectiveness Cannot Be Ensured Without the Development of Written Policies and Procedures for Updating Capitation Rates

Recommendation:

Partially Implemented

We recommend the Bureau of Statistics and Analysis develop and implement written policies and procedures for evaluating and updating capitated rates in the periods subsequent to initial roll out. We also recommend encounter data be obtained, verified, and used in the analysis of the capitation rates to ensure that the rates established are a reasonable reflection of the actual services provided.

Status:

The Bureau of Statistics and Analysis is working closely with the Health and Human Services Commission to establish policies and procedures for evaluating and updating capitated rates. A workgroup has been formed to examine the data and method currently used to establish payments to HMOs, identify alternatives (which could include the use of encounter data), and recommend what the State should do in the future. The Commission has contracted with a vendor for an evaluation of the cost effectiveness and methodology used in the capitation rates.

Section 3:

The Bureau of Managed Care Cannot Ensure Program Outcomes Are Met When Outcome Information Is Not Routinely Collected and Analyzed

Recommendation:

Implemented

We recommend the Department evaluate its current process of collecting, analyzing, and reviewing data from the MCOs. Controls should be established to ensure that all required information is documented and communicated consistently to MCOs and Department staff. Additionally, work loads should be analyzed to determine that critical reviews are adequately covered and conducted in a timely manner.