



Lawrence F. Alwin, CPA  
State Auditor

A Review of

## The Medicaid Claims Risk Stabilization Reserve Fund the National Heritage Insurance Company Held Pursuant to Its Contract with the Health and Human Services Commission

November 30, 2004

Members of the Legislative Audit Committee:

We verified that the National Heritage Insurance Company (NHIC) has refunded to the State \$8.96 million, all of the funds that remained in NHIC's Medicaid Claims Risk Stabilization Reserve Fund (Reserve Fund). This includes \$7,690,851.08 in the Reserve Fund bank statement balance as of January 31, 2004, as well as an additional \$26,780.23 for interest earned and \$1,243,052.80 for voided checks.

NHIC had established the Reserve Fund pursuant to its contract with the Health and Human Services Commission (Commission), through which it served at the State's Medicaid claims administrator. NHIC ceased serving as the State's Medicaid claims administrator effective January 1, 2004; however, until June 30, 2004, it was still responsible for paying outstanding claims for calendar year 2003 from the balance that remained in the Reserve Fund.

NHIC's Medicaid accounts included (1) an estimated amount held for services provided that were not yet billed to the State and (2) an additional unobligated amount that NHIC kept to ensure that it had sufficient funds to cover all outstanding claims. The unobligated amount represented the Reserve Fund. NHIC paid providers' outstanding claims and refunded the balance of the Reserve Fund to the State. NHIC also refunded to the State interest accrued on state funds held in NHIC accounts and funds from voided checks. It is important to note that we verified only that NHIC refunded the outstanding Reserve Fund balance to the State; our review did not consider the validity of NHIC's use of the Reserve Funds.

The Commission entered into a fiscal agent arrangement with Affiliated Computer Services State Healthcare LLC (ACS), the State's present Medicaid administrator, which began processing Medicaid claims on January 1, 2004.

Unlike the insured arrangement the Commission formerly had with NHIC, the fiscal agent arrangement the Commission has with ACS does not require the Commission to put funds into a reserve fund in advance to enable ACS to pay Medicaid claims.

### Summary of Objective, Scope, and Methodology

We conducted this review in compliance with Rider 3, page II-46, of the General Appropriations Act (78th Legislature), which specifies that:

All transactions involving the transfer or investment of any funds of the Title XIX Medicaid program, held in trust or reserve for the state by any non-governmental entity, shall be subject to audit by the State Auditor's Office.

Our scope covered (1) all Medicaid funds in NHIC accounts that constitute the Medicaid Claims Risk Stabilization Reserve Fund (Reserve Fund) and (2) premiums related to claims submitted to the State for services provided between September 2002 and December 2003.

Our methodology consisted of (1) determining the balance in the Reserve Fund as of January 31, 2004, based on NHIC bank statements and (2) tracing subsequent account activity to determine whether NHIC had refunded the entire balance of the Reserve Fund to the State. This review did not consider the validity of payments NHIC made to providers from the Medicaid accounts.

This project was a review and, therefore, the information in this report was not subjected to all of the tests and confirmations that would be performed in an audit.

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Under the fiscal agent arrangement, the Commission receives weekly information regarding approved claims from ACS and then sends ACS the funds necessary to pay those claims.

The Commission agrees with our conclusion, and we appreciate its cooperation during this review. If you have any questions, please contact Nicole Guerrero, Audit Manager, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA  
State Auditor

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cc: Mr. Albert Hawkins, Executive Commissioner, Health and Human Services Commission