

Cabinet Agencies' Performance Audit Action Item(s) & Status**Health Care Authority's Oversight of the Medicaid Managed Care Program**

(See also [cabinet agency response](#) for full context to Washington State Auditor's Office (SAO) [report](#), October 2014)

Agencies included in the performance audit: the Health Care Authority (HCA).

SAO Findings Summary:

1. Inadequate oversight and data analysis led to overpayments.
2. Undetected overpayments in 2010 resulted in potentially higher premium costs in 2013.
3. Data used to set 2013 premium rates was not verified and retained.
4. Inconsistent reporting of administrative costs, recoveries and rebates.

SAO Recommendations (Rec) in brief:

1. Create and implement a comprehensive revenue, cost reporting and monitoring system to enhance accountability and ensure the managed care organizations comply with contract provisions.
2. Conduct regular audits according to a routine, ongoing schedule to ensure compliance with respect to appropriate medical costs, allowable administrative costs, cost recoveries and compliance with specific contract performance requirements.
3. Establish clear criteria, specific to Washington, to define cost principles in determining allowable expenses.
4. Provide specific guidance for the Medical Loss Ratio calculation, including the definition of medical and administrative costs.
5. Create procedures and instructions for the organizations that addresses recording and reporting costs incurred and recoveries realized, including those following the date of submission of the Experience Reports to the HCA's third-party actuary.
6. Establish clear, specific, cost reporting guidance for the organizations that addresses the timing of reporting pharmacy rebates to ensure they all calculate and report pharmacy rebates consistently.
7. Establish a specific schedule for the timing of rate re-determinations.
8. Work with the actuary to require transparency and support in the rate setting process.
9. Require the actuary to give the HCA information used to calculate the capitation rate, including how sub-capitation payments and related fee-for-service equivalents were taken into account in the rate setting process.
10. Ensure that MCOs . . . review system edit checks and post-payment procedures to ensure claims are reviewed in sufficient detail to identify miscoding and other causes of overpayments.
11. Ensure that MCOs . . . retain a copy of the data file that is sent to the third-party actuary, with sufficiently detailed data fields to allow audit of the data.
12. Ensure that MCOs . . . strengthen their review process to determine if administrative expenses are allowable and properly allocated.
13. Ensure that MCOs . . . create formal documented policies and procedures for the calculation and reporting of pharmacy rebates and reinsurance recoveries that comply with instructions provided by the HCA's third-party actuary.
14. Ensure that MCOs . . . structure contracts with delegated entities to ensure medical and administrative costs are clearly defined and distinguishable.
15. Ensure that MCOs . . . are transparent in the treatment of claims and recoveries involving CHPW and the Network.
16. Address these recommendations.
17. HCA update its contract language with the managed care organizations to allow the state to recover overpayments identified in state and other audits.

The table below shows the current status of action items the agency initiated to address issues identified in the performance audit report. Please see the [cabinet agency response](#) for additional context and any additional steps already taken.

For an explanation of the columns below, [see the legend](#).

Rec	Status	Action Steps	Lead Agency	Due Date	Current Resources?	Budget Impact?	Legislation Required?	Notes
1	Complete	Develop Action Plan and Implementation Strategy.	HCA	N/A	No	Yes	No	The Legislature has authorized \$2.3 million in the 2015-17 Biennium for development and implementation of a system with enhanced capabilities for monitoring contract compliance activities and automated reconciliation and reporting of encounter data received from MCOs.
2	Complete	Complete Action Plan and Implementation Strategy.	HCA	N/A	Yes	No	No	HCA submitted a report to Legislature in February 2014 outlining a plan to review its management and staffing structure. Since then, HCA has developed a strategy for realignment which is now being implemented. It includes shifting administrative resources, including comprehensive program audit resources, from a fee-for-service focus to managed care and value-based purchasing.
3,12, 14	Complete	HCA will define cost principles for use by the MCOs in determining allowable expenses for inclusion in the 2015 contract.	HCA	N/A	Yes	No	No	Following CMS guidelines, the Apple Health MCO contract allows a fixed proportion of contract payments to be applied to non-medical expenditures. Administrative costs exceeding this fixed administrative ratio are not reimbursed.
4	Complete	HCA has provided clearer guidance for the calculation of the Medical Loss Ratio in the 2014 contract.	HCA	N/A	Yes	No	No	This was completed prior to the SAO publishing their report.
5	Complete	Procedures and instructions will be developed for inclusion in the MCO contract.	HCA	N/A	Yes	No	No	Procedures are now included in the Apple Health MCO contract
6,13	In	Procedures and instructions will	HCA	1/31/	Yes	No	No	All MCOs report pharmacy rebates on an

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	Progress	be developed for inclusion in the MCO contract.		2016				accrual basis consistent with the claims data provided, as instructed by the actuary. Requirements for formal documented policies and procedures will be included in the next contract revision.
7,8,9	Complete	Identify new expertise needed to implement the managed care rate-setting function.	HCA	N/A	Yes	No	No	This was completed prior to the SAO publishing their report.
7,8,9	Complete	Recruit staff resources identified	HCA	N/A	Yes	No	No	An actuary was hired in October 2014.
7,8,9	Complete	Share rate-setting information between HCA and contracted actuary.	HCA	N/A	Yes	No	No	All data provided to actuaries by MCOs that was used for 2016 Apple Health rate setting was shared with HCA.
7,8,9	Complete	Develop systems and processes to increase rate-setting transparency.	HCA	N/A	Yes	No	No	HCA has progressively increased the amount of data and process details that are shared by the actuaries as internal expertise to review the information has increased. We have added an in-house actuary function and continue to build this capacity.
7,8,9	Complete	Develop processes to appropriately review and communicate rate-setting information to the agency and the authorizing environment.	HCA	N/A	Yes	No	No	HCA and actuarial contractor Milliman jointly present the results of rate setting to the authorizing environment, leveraging the Per-Cap Forecast workgroup that has both executive and legislative representatives.
10	Complete	Complete research on best practices for Medicaid review of managed care organization (MCO) claims adjudication systems.	HCA	N/A	Yes	No	No	Best practices incorporate National Correct Coding Initiative (NCCI) edits. This methodology was developed by CMS and based on coding conventions defined and approved by the American Medical Association.
10	Complete	HCA will add language to the MCO contracts to require the	HCA	N/A	Yes	No	No	NCCI is a CMS program that consists of coding policies and edits designed to

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		use of NCCI edits.						prevent improper payments. There are two types of NCCI edits: Procedure-to-Procedure edits that define code pairs that should not be submitted together, and Medically Unlikely edits that define reasonable and accepted units of service for services rendered by a single provider for a single client on the same day. The program was implemented to ensure accurate coding and reporting of services by physicians, and the coding policies are based on coding conventions defined and approved by the American Medical Association (AMA). By contract, MCOs are required to follow NCCI policies and to incorporate compatible NCCI methodologies in their payment systems.
10	Complete	Improvement plans adopted.	HCA	N/A	Yes	No	No	The Apple Health MCO contract includes financial penalties related to timely and accurate submission of Encounter Data. HCA has worked closely with MCOs to develop a clear and complete understanding of the top reasons/error codes for Encounter Data denials. Penalties are based on the MCOs' ability/inability to reconcile their Encounter Data submissions to their General Ledger for several service categories. The accuracy and timeliness of Encounter Data submissions has improved as HCA continues to prepare these analyses and require MCO compliance.

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10	Complete	MCO contract improvements implemented.	HCA	N/A	Yes	No	No	The Apple Health MCO contract includes financial penalties related to timely and accurate submission of Encounter Data. HCA has worked closely with MCOs to develop a clear and complete understanding of the top reasons/error codes for Encounter Data denials. Penalties are based on the MCOs' ability/inability to reconcile their Encounter Data submissions to their General Ledger for several service categories. The accuracy and timeliness of Encounter Data submissions has improved as HCA continues to prepare these analyses and require MCO compliance.
11	Complete	Add language to the MCO contracts to require retention of the data files sent to the actuary.	HCA	N/A	Yes	No	No	HCA retains copies of the data used in rate setting.
15	Complete	The 2015 Apple Health contract will include a provision to require accurate and timely recording of transactions between the MCOs and its network.	HCA	N/A	Yes	No	No	The Apple Health MCO contract requires accurate and timely recording of transactions.
16,17	Complete	Develop Action Plan and Implementation Strategy.	HCA	N/A	Yes	No	No	The Apple Health MCO contract includes provisions regarding recovering overpayments.