



SUMMARY

A Limited Review of Medicaid Managed Care Rates and Expenditures and Other Administrative Issues at DHHS



INTRODUCTION

After the Department of Health and Human Services (DHHS) incurred a deficit in state general fund appropriations for FY 10-11, members of the General Assembly requested an audit of DHHS's management of the state Medicaid program in South Carolina. We examined the following issues in this review:

- The number of clients enrolled in Medicaid from 2006 through 2011.
- How DHHS enrolls clients in Medicaid health plans and identify potential cost savings.
- How DHHS manages the administrative costs for managed care organizations and identify potential cost savings.
- If DHHS could achieve additional cost savings in other Medicaid programs.

BACKGROUND

DHHS administers the state Medicaid program. Medicaid is a health insurance program that pays for medical services needed by poor, elderly, and disabled people. In South Carolina, about 70% of the program is funded by the federal government, and about 30% is paid for with state funds. In the FY 11-12 appropriations act, DHHS was appropriated almost \$5.8 billion in total funds, including \$917 million in state funds. In November 2011, there were 896,132 individuals enrolled in Medicaid. Fifty-seven percent of these were children, 34% were adults, and 9% were elderly.

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MEDICAID ENROLLMENT

DHHS reports Medicaid enrollment in different ways so the change in the Medicaid population differs depending on the data used. The number of people enrolled in Medicaid has increased about 11% from FY 04-05 through FY 10-11 and a greater percentage of those enrolled are receiving services, increasing 37% during that period.

MEDICAID MANAGED CARE

We found that total enrollment in and expenditures on Medicaid managed care have increased and fee-for-service total enrollment and expenditures have decreased. However, average expenditure per enrollee has increased in both fee-for-service and managed care, but to different degrees. We also found that the agency lacks a sufficient review process for some managed care rates.

From FY 08-09 through FY 10-11, total expenditures for fee-for-service decreased although not as much as enrollment decreased. Total expenditures for MHNs increased at the same rate as enrollment, while MCO expenditures increased slightly faster than enrollment.

DHHS pays medical home networks (MHNs) a \$10 per member per month fee from which MHNs pay the primary care provider an agreed-upon fee. For FY 10-11, these payments totaled approximately \$14 million. Other states in CMS Region 4 pay case management fees ranging between \$1 and \$5. DHHS relies on CMS approval for determining that the rate is adequate and appropriate, but the U.S. Government Accountability Office found that CMS's oversight of states' Medicaid managed care rate setting was inadequate. DHHS should develop a formal process for regularly reviewing MHN rates for adequacy and appropriateness.

The Department of Insurance (DOI) is not involved in the managed care organization (MCO) rate setting process but reviews the MCOs for financial solvency. DOI could share these reviews with DHHS to assist in ensuring that the MCOs DHHS contracts with are in a sound business position and can continue to provide the level of service that DHHS desires for Medicaid beneficiaries.

MCO ADMINISTRATIVE EXPENSE

We found DHHS has not reviewed MCO administrative costs leading to the possibility that the capitation rates may include payment of unallowable administrative costs. We also found DHHS has no method in place to review how MCO administrative costs trend on a per-enrollee basis. Administrative costs outpaced MCO enrollment by over 30% over the last five years.

The administrative allowance in the MCO capitation rate is designed for the MCO to cover its administrative overhead costs such as labor, marketing, buildings and rent and includes a 1% profit factor. In FY 06-07, the administrative rate was 13.75% and in FY 10-11, the administrative rate had dropped to 11.63%. The agency recently set the rate at 9.5%. From FY 06-07 through FY 10-11, we found:

- Average annual administrative expense increased 24.3%.
- Average monthly enrollment increased 347.5%.
- Total administrative expenses increased 456.4%.

DHHS has no formal method to determine the rate that administrative costs were increasing. Also, DHHS did not review MCO administrative expenses to identify and remove unallowable administrative costs for future rate setting purposes. DHHS has contracted with a consulting firm to review all four Medicaid MCO annual cost reports to identify unallowable administrative expenses for rate setting purposes. In reviews by this firm in other states, administrative costs have been reduced from 13% to 32%. Should similar results be realized in South Carolina, the potential range of savings is approximately \$22 to \$55 million when applied to the total administrative cost for FY 10-11 of \$172 million.

PHARMACY

We found that DHHS's payments for pharmacy services have decreased 27% from FY 06-07 through FY 10-11. We also found that DHHS should establish a regular schedule to review what the agency pays pharmacists and how much beneficiaries are charged in co-payments. DHHS lowered its dispensing fee amount from \$4.05 to \$3.00 on July 8, 2011, and increased beneficiaries' co-payments to \$3.40 on April 1, 2011. South Carolina has one of the lowest dispensing fees paid to pharmacists in CMS Region 4 and one of the highest co-payments charged to beneficiaries. However, DHHS does not review its pharmacy rates on a regular basis. If DHHS regularly reviewed pharmacy rates, then the agency could discover additional savings.

From FY 06-07 through FY 10-11, DHHS's pharmacy personnel costs decreased while the pharmacy point-of-sale computer system costs increased. The pharmacy point-of-sale vendor is paid an escalating contracted rate for administering the contract which has changed due to policy changes.

PROCUREMENT

We found that DHHS does not correctly procure providers under the state emergency procurement regulation. From October 1, 2010, through December 31, 2011, DHHS had seven emergency procurements totaling \$135.4 million. In our March 2009 audit of DHHS's Non-Emergency Medical Transportation (NEMT) program, we recommended that the agency comply with state law regarding the use of emergency procurements. However, from January 1, 2011, through December 31, 2011, DHHS had emergency procurements totaling \$132.3 million for NEMT services.

We also reviewed three other emergency contracts that DHHS had during this time period. We concluded that DHHS did not procure restructuring and financial advisory services in accordance with state law. This contract was originally for \$770,000, but through amendments has increased to an amount not to exceed \$2.4 million, as of March 2012. DHHS had ample time to secure this contract under normal procurement methods. By engaging in emergency procurements, DHHS may not be getting the best service for the best price.

FOR MORE INFORMATION

Our full report, including comments from relevant agencies, is published on the Internet. Copies can also be obtained by contacting our office.

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