Legislative Audit Division
Performance Audit Summary

Medicaid-Related Contracts, Waivers, and Administrative Processes

March 2002

Introduction

At the request of the Legislative Finance Committee (LFC), the Legislative Audit Division conducted a limited scope performance audit of the management of Medicaid funds at the Department of Public Health and Human Services (DPHHS). Specifically, the LFC expressed concerns regarding:

- Awarding Medicaid contracts.
- Management of waivers.
- Potential federal noncompliance with freedom of choice and availability of service requirements.

Our primary audit objective was to examine controls over divisions within DPHHS that administer the provision of Medicaid-funded services. DPHHS compliance with statutory requirements for funding, waivers services, contracting controls, and cost controls were reviewed.

There were two areas not included in our review. Due to the recent completion of the Legislative Audit Division's financial-compliance audit, we did not review specific financial controls previously tested. Recommendations were made to strengthen Medicaid financial accountability.

Another area not included in our audit objectives was the management of individual Medicaid program services. The department relies on a variety of means to determine provider service quality including licensure and certification, patient feedback, federal audits/reviews, the state surveillance utilization and review subsystem, independent assessment, and prior authorization reviews.

Management of Montana Medicaid Funds

DPHHS is the Montana agency responsible for administering Medicaid funding. Eight divisions administer programs that use Medicaid funds. For fiscal year 2001, Montana's Medicaid budget was approximately $518 million. Direct Medicaid related administrative costs for Montana in the fiscal year were over $20 million. Indirect administrative costs were over $15 million.

Additional Medicaid Controls Still Needed

Although the department is taking steps to strengthen management, we noted several examples where additional controls are needed to improve coordination and decision-making. The following highlights these examples.

- No Central Oversight - Each division was assigned unique responsibilities, then encouraged to develop internal controls and processes to assure effectiveness. This approach focused on Medicaid services provided by the divisions, rather than management consistency and efficiencies. Since reorganization, Medicaid operations evolved without centralized oversight. It has not been clear who should be responsible for overall operational results.

- No Formal Budgeting and Tracking Methodology - Information on program activities and expenditures was available in some form in all divisions. The level of detail differed from division to division.

- Provider Selection Procedures - There are four different approaches used to identify and select Medicaid services providers. In the past, concerns have been raised with some divisions' practices regarding compliance with federal requirements intended to insure recipients can obtain services from any qualified provider.

- No Formal Method for Sharing Best Practices - There is no system for sharing best Medicaid practices between divisions.

The department has already taken the first step for improving controls. Additional resources in the form of a deputy director and an internal auditor have been committed to improve communication and coordination. We observed the initial efforts of a deputy director to strengthen planning and generally increase communications between Medicaid divisions.

We believe these additional resources can and should be an integral part of department efforts to improve

Medicaid administrative controls. Specifically, because of the importance of Medicaid funding to Montana, the deputy director should be designated as the focal point for management oversight and Medicaid budget and expenditures.

Federal Oversight of Medicaid Waivers

Following approval, the federal government routinely reviews state waiver activities to verify the original intent is met. The divisions maintain documentation reflecting federal findings and recommendations as well as the state's responses. This documentation reflected communication and coordination with federal staff. During the 2000 federal review a concern about freedom of choice limitations was identified. ***The federal agency's identification of this concern did not disrupt services developed by the division, jeopardize the future funding availability, or impact division Medicaid administrative activities.***

Waiver Controls Are in Place

Medicaid waiver controls at the department include defined procedures for coordinating services and assuring services are not duplicated. ***Communication and coordination between federal and state officials allows for issue resolution both during application processing and during the formal waiver review conducted by the federal government.***

Medicaid Contract Controls

We identified two categories of Medicaid contracts: those for recipient benefits and those for administrative and program management duties. Contracts for recipient benefits include provider services, recipient screenings, utilization reviews, and prior authorizations.

The department has designated contract monitors in each division. We noted the monitors were familiar with department policy on contracting. Each monitor referred to a manual including the policy and the boilerplate language. Most received training in procurement and contracting. All indicated they use department legal staff when questions relating to contracts arose. Contracts in each of the divisions were routed through the monitors for review prior to signature by the division administrator. Monitors also use a summary sheet to document the people involved in the contracting process. ***If followed, these controls provide assurance that federal funding availability should continue and should not impact department administrative activities.***

Cost Allocation Plan Compliance

Montana's cost allocation plan was initially approved on July 1, 1999 and was re-certified for federal fiscal year 2000. A new version of the plan has been drafted to incorporate reporting and tracking capabilities of the new state accounting system. The federal oversight organization, Centers for Medicare and Medicaid, is aware of Montana's intention to revise the plan.

During the most recent financial-compliance audit of the department, audit staff tested procedures to determine costs were allocated in accordance with the plan. ***Costs were allocated appropriately, the allocation was accurate, and final allocations matched billing amounts.***

Fiscal Management Flexibility

Department staff was projecting costs for Medicaid benefits would exceed the budget amount for fiscal year 2002 and were evaluating alternatives to reduce expenditures. Section 53-6-101 (11), MCA, allows the department to set priorities to limit, reduce, or otherwise curtail the amount, scope, or duration of Medicaid benefits if available funds are not sufficient to provide assistance to all eligible people. The intent to this language is to provide for flexibility in fiscal management of Medicaid benefit expenditures. We reviewed how mandatory versus optional benefit services affected cost control decision-making.

Phrase "Optional Benefit Services" is Misleading

Federal criteria allow states to identify the list of optional benefit services currently included in Montana law. However, once optional benefits are identified by the Legislature in the law, the optional benefits are effectively mandatory. Montana's legislature has not identified specific benefits for limitation from the optional list. Once an optional benefit is statutorily defined, legislators have expressed concern about reducing the level of care.

The department's ability to manage Medicaid benefits expenditures is limited because essentially all Medicaid services are considered to be mandatory for eligible recipients. Elimination of services by department staff is not a realistic solution for cost control since the department's management is not initially responsible for making policy decisions impacting the level of care for eligible Medicaid recipients.

For a complete copy of the report (02P-01) or for further information contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at http://leg.mt.gov/audit.