



Office of the
Washington
State Auditor
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PERFORMANCE AUDIT

Report Highlights

Medicaid and Managed Care Organizations:

Ensuring strong program integrity efforts and accurate encounter data

Medicaid is Washington's largest public assistance program, providing health insurance for more than one in four Washingtonians. In fiscal year 2022, federal and Washington state funds for Medicaid spending totaled more than \$17.6 billion. State Medicaid agencies have turned toward a managed care model to reduce costs and better manage how health services are used. The Health Care Authority (HCA) contracts with five managed care organizations (MCOs) to provide services. HCA pays each MCO a monthly premium for each person enrolled with them. In exchange, the MCOs must provide covered services for all enrollees and comply with HCA's contracts. MCOs must send HCA encounter data, which details all services provided. Encounter data is also one factor used in calculating the premiums paid to the MCOs each month. Program integrity efforts focus on paying the right dollar amount to the right provider for the right reason. These efforts are intended to prevent fraud and other improper payments so that taxpayer dollars are available for delivering necessary care. This audit sought opportunities to improve MCO program integrity efforts and HCA's related oversight, and examined how HCA and the MCOs ensure accurate encounter data is reported to the state's insurance actuary. Note: This audit examined only the three MCOs responsible for the most enrollees.

MCOs took key steps to prevent fraud and improve encounter data, but additional leading practices could strengthen these efforts

The three audited MCOs followed all required and most leading program integrity practices to identify potential fraud or other improper payments. MCOs met their contractual obligations for program integrity activities, such as identifying providers that should not participate in Medicaid due to past fraudulent behavior and verifying patients received billed services. All three MCOs used basic data analytics, such as identifying outliers that could indicate fraud or other improper payments, and two of the MCOs used advanced predictive analytics, which uses historical data to flag possibly fraudulent activity. However, program integrity efforts could be strengthened by applying additional data analytics that are recommended by leading practices.

MCO procedures also included key overpayment reporting requirements, but HCA did not verify the completeness of these reports. Overpayment recoveries are considered in the rate setting process, so incomplete or inaccurate information could affect the accuracy of premium rates. The audited MCOs had many tools and processes in place to ensure complete and accurate encounter data. For example, MCOs followed all required and leading practices for receiving information from providers. All MCOs also monitored encounter data they submitted to HCA, and during the audit period one conducted its own internal audits that retrospectively compared provider claims to encounters. Finally, all audited MCOs used automated system checks to screen encounter data for complete and accurate information before they submitted it to HCA.

HCA has strengthened oversight of MCO efforts, but could improve performance measures, information verification and formal processes for penalties

Although HCA has strengthened oversight of MCO program integrity efforts, it could include related performance measures in its contracts. HCA has increased efforts related to oversight of managed care program integrity efforts and incorporated related requirements into its contracts. These requirements touch on issues ranging from the penalties for MCO contract noncompliance to documentation and communication. Adding performance measures specific to MCO program integrity efforts to its contracts would offer additional assurance that MCOs meet expectations.

HCA had many practices in place to monitor MCO encounter data, but could improve information verification. We found contracts incorporated most required and leading practices around encounter data, but lacked performance targets for key encounter data fields, such as unacceptable rates of error for missing data, record rejections and duplicate records. HCA also validated encounter data in multiple ways, such as through automated system checks recommended by CMS. In addition, HCA regularly compared encounter records to MCO reported information, however, managers did not request supporting documentation for reported paid claim amounts. In general, HCA implemented many monitoring and communication practices to ensure accurate encounter data submissions. Finally, HCA can impose financial penalties against MCOs that do not meet contractual obligations, but lacked documented policies for doing so, which could lead to penalties being applied inconsistently.

State Auditor's Conclusions

More than one out of four Washingtonians relies on Medicaid for health care coverage, making it one of our largest and most important public services. We audit Medicaid in multiple ways, providing multifaceted reviews of the program's finances and operations.

This performance audit found the state Health Care Authority and contracted managed care organizations are taking key steps to prevent fraud and to ensure they are using accurate data about patient care and its costs. This report also offers a robust set of recommendations for improving their processes, especially in terms of providing accurate information used to establish the premiums paid by the state. Each improvement in a large, complex system can yield substantial rewards, and in the case of Washington's managed care model we see the potential for significant gains. Managed care provides services to about 85 percent of the 2.3 million Medicaid enrollees in our state. In the past fiscal year, each of the state's five contracted managed care organizations received at least \$1 billion in premiums – and one received several times that amount. By putting in place our detailed recommendations to improve program integrity, the Health Care Authority can do even more to prevent fraud, reduce overall costs, and ensure Medicaid funding is available to deliver care to millions of Washingtonians.

Recommendations

We made a series of recommendations to HCA to improve oversight of MCO program integrity efforts and encounter data quality. We also communicated several other potential improvements related to internal controls to HCA management and those charged with governance in a letter dated August 25, 2023.