



STATE OF WASHINGTON

April 2, 2014

The Honorable Troy Kelley
Washington State Auditor
P.O. Box 40021
Olympia, WA 98504-0021

Dear Auditor Kelley:

Thank you for the opportunity to review and respond to the State Auditor's Office (SAO) performance audit of the Health Care Authority's (HCA) oversight of the Medicaid Managed Care program. We appreciate the efforts of the audit team and believe that implementation of its recommendations will strengthen managed care financial and program integrity oversight, as well as increase overall effectiveness in our stewardship of Medicaid funds.

HCA appreciates the SAO's analysis and thoughtful recommendations. The agency generally concurs with recommendations regarding the value of, and the need for, increased oversight. However, HCA strongly disagrees with the underlying analytical methodology applied during the review. It is based on a biased sampling approach that does not align with generally accepted statistical sampling methods. The underlying methodology used a sampling of outliers, which was then applied to the entire universe, making the sample biased toward overpayments.

HCA has begun implementing some of the recommendations contained in this report, but a number of them represent a significant undertaking that will take a few years to complete. An important component of the process is putting in place the structure and staffing necessary to move from a Medicaid fee-for-service organization to a purchaser of health care through a managed care framework. As a part of that effort, HCA is working to redirect staff resources to managed care monitoring, data analytics and contract oversight.

The performance audit reviewed HCA and Managed Care Organization (MCO) processes in place during state fiscal year 2010. Since that time, HCA has implemented a number of significant organizational improvements and MCO contract changes to reinforce the oversight function. Improvements already implemented or in progress include:

- ✓ HCA established an Encounter Data Quality Control Unit in the fall of 2013. The unit is responsible for collecting and validating encounter data from plans, and developing processes that utilize the data for quality monitoring, rate setting, and other critical analytic and strategic purposes. Accurate encounter data strengthens the agency's ability to measure and oversee managed care plan quality, utilization, finances, and contract compliance.
- ✓ HCA is in the process of transitioning the base data source to encounter data based on the principle that the best source of data for actuarial analysis is encounter data submitted by MCOs. This will ensure that HCA has access to, and understands, the data on which rates are based. It will also provide an additional incentive for MCOs to submit complete and accurate encounter data to HCA.

MCOs have responded to the change by increasing their focus on the quality and completeness of the encounter data submitted.

- ✓ The 2014 MCO contract incorporated explicit financial penalties for failing to submit timely and accurate claims/encounter data. HCA is implementing a reconciliation process to validate submitted encounter data against MCO cost reports. The contract also includes provisions to return funds withheld from monthly capitation payments if MCOs can adequately reconcile encounter data submissions to the cost reports.
- ✓ HCA began a Managed Care Program Integrity Initiative in the spring of 2012 to examine strategies to refocus program integrity and accountability efforts from fee-for-service to managed care. Initial efforts examined the quality of encounter data and led to establishing the HCA Encounter Data Quality Unit discussed above. The Initiative is now focused on the use of encounter data analytics to identify patterns of fraud, waste and abuse, and to ensure adequate utilization of services.
- ✓ HCA is strengthening its quality and monitoring activities. HCA conducts an annual monitoring review of each MCO with additional scrutiny on enrollee grievances, care coordination activities, and program integrity activities. The agency also contracts with an External Quality Review Organization to provide a federally required annual external review of the quality, access and timeliness of care.

We recognize and fully support the need for adequate MCO monitoring and oversight. HCA believes the progress we have already made will serve us well in planning and implementing the recommendations included in this performance audit report.

Thank you for the opportunity to respond to the draft audit report and to highlight our continued commitment to further enhance the oversight of the Medicaid Managed Care program. We appreciate the efforts of your staff in conducting the audit and engaging HCA early on its draft findings.

Sincerely,



Dorothy F. Teeter, MHA
Director
Health Care Authority



David Schumacher
Director
Office of Financial Management

cc: Joby Shimomura, Chief of Staff, Office of the Governor
Kelly Wicker, Deputy Chief of Staff, Office of the Governor
Ted Sturdevant, Executive Director for Legislative Affairs, Office of the Governor
Tracy Guerin, Deputy Director, Office of Financial Management
Wendy Korthuis-Smith, Director, Results Washington, Office of the Governor
Tammy Firkins, Performance Audit Liaison, Results Washington, Office of the Governor
MaryAnne Lindeblad, Medicaid Director, Health Care Authority
Thuy Hua-Ly, Chief Financial Officer, Health Care Authority
Cathie Ott, Division Director, Program and Payment Integrity, Health Care Authority