

# Audit Report

## **Driscoll Health Plan**

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**A Texas Medicaid and CHIP Managed  
Care Organization**



**Inspector  
General**

**Texas Health  
and Human Services**

**May 27, 2021  
OIG Report No. AUD-21-010**

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# DRISCOLL HEALTH PLAN

*A Texas Medicaid and CHIP Managed Care Organization*

## WHAT THE OIG FOUND

Driscoll Health Plan (Driscoll) incorrectly reported a total of \$894,426 in its 2019 Administrative Expenses Financial Statistical Report (FSR), which provides information on expenses incurred to administer its Medicaid and CHIP programs. Of this amount, Driscoll reported \$606,183 in costs that were unallowable or could not be supported by documentation. An additional \$288,243 were allowable expenses; however, those expenses were reported in an incorrect expense category on the Administrative Expenses FSR. Table 1 summarizes the results of reported expenses tested in our initial sample.

**Table 1: Summary of Expense Categories Tested and Results**

Expense Category	Sample Amount	Sample Amount in Error	Sample Amount Misclassified	Sample Percentage in Error
Other Administrative Expenses	\$ 470,868	\$392,101	\$ 0	83.3%
Marketing and Public Relations	161,617	107,175	21,936	79.9%
Legal and Professional Services	755,965	47,983	0	6.3%
Supplies, Postage, Freight, and Printing	493,843	37,252	266,307	61.5%
Corporate Allocations	986,033	Could not Determine	Could not Determine	Could not Determine
Salaries, Wages, and Benefits	796,938	0	0	0.0%
<b>Total</b>	<b>\$3,665,264</b>	<b>\$584,511</b>	<b>\$288,243</b>	<b>23.8%</b>

Source: OIG Audit

OIG Audit identified an additional \$21,672 in similar unallowable expenses based on a further review of the expense categories in our audit testing, resulting in a total of \$606,183 in costs that were not allowable or could not be supported. In addition, OIG Audit could not determine whether \$2,839,425 in corporate allocation costs were accurately reported because Driscoll reported budgeted expenses instead of actual expenses.

These errors occurred because Driscoll did not establish effective internal controls to help ensure expenses reported on its 2019 Administrative Expenses FSR were accurate, supported, and met contractual requirements.

By reporting the unallowable and unsupported expenses, Driscoll overstated the loss it reported to HHSC for administering its Medicaid and CHIP programs. In addition, the inaccurately reported expense amounts are used to establish the future administrative portion of the managed care capitation rate paid to Driscoll and other managed care organizations. That rate is paid by HHSC to provide for all administrative-related services performed by the MCOs.

## BACKGROUND

The initial audit scope for this audit was Driscoll's 2018 Administrative Expenses FSR. During the planning phase, the audit team learned of Driscoll's use of a third-party administrator in the development and processing of the 2018 FSR. Driscoll transitioned the Administrative Expenses FSR process in-house for 2019 reporting, which included terminating the third-party administrator contract in April 2019.

## WHY THE OIG CONDUCTED THIS AUDIT

Driscoll Health Plan (Driscoll) is a licensed Texas managed care organization (MCO) contracted to provide Medicaid and CHIP services through its network of providers. MCOs submit financial statistical reports (FSRs) to report financial information, including administrative operations expenses related to the Medicaid and CHIP programs in which the MCO participates. Information on the FSR is important because it is used to (a) set the administrative portion of managed care capitation rates for future years, and (b) determine the amount of any experience rebate owed back to Texas Health and Human Services Commission (HHSC).

Driscoll was selected for audit based on risks identified through an OIG Audit analysis of its FSR. The audit objective was to determine whether Driscoll accurately reported selected administrative expenses to HHSC, including a review of internal controls related to developing the Administrative Expenses FSR. The audit scope was Driscoll's 334-day 2019 Administrative Expenses FSR and related internal controls over the preparation of the Administrative Expenses FSR.

## WHAT THE OIG RECOMMENDS

Driscoll should coordinate with HHSC Medicaid and CHIP Services (MCS) Financial Reporting and Audit Coordination to correct the errors identified on the 2019 Administrative Expenses FSR and strengthen its internal controls over its Administrative Expenses FSR.

## MANAGEMENT RESPONSE

Driscoll agreed with the recommendations and will address unallowable and unsupported expenses by July 2021 and implement internal control improvements by October 2021.

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## INTRODUCTION

The Texas Health and Human Services (HHS) Office of Inspector General Audit and Inspections Division (OIG Audit) conducted an audit of the Driscoll Health Plan (Driscoll) Administrative Expenses Financial Statistical Report (FSR) process for state fiscal year 2019. Driscoll was selected for audit based on risks identified through an OIG Audit analysis of its FSR. Unless otherwise described, any year referenced is the state fiscal year, which covers the period from September 1 through August 31. For state fiscal year 2019, the period is September 1, 2018, through August 21, 2019.

Driscoll is a licensed Texas managed care organization (MCO) contracted to provide Medicaid and CHIP services through its network of providers. The FSR process is a reporting mechanism used by MCOs to provide financial information, including administrative operations expenses, related to the Medicaid programs in which the MCO participates. MCOs are required to submit quarterly and annual FSRs for each program<sup>1</sup> and every service area for which the MCO provides coverage, and a separate FSR to report administrative expenses.

The Texas Health and Human Services Commission (HHSC) Medicaid and CHIP Services (MCS) engages an independent external accounting firm to conduct annual agreed upon procedures engagements of Driscoll. The agreed upon procedures engagements of Driscoll's 2018 and 2019 Administrative Expenses FSRs had not yet begun when this report was published.<sup>2</sup> The final experience rebate amount owed to HHSC for 2019, if any, will be established after the annual agreed upon procedures engagement for 2019 is completed. It is important to note that the administrative portion of future capitation payments will include the amount reported by MCOs as a component considered in the rate setting process, prior to completion of the agreed upon procedure engagements for 2019.

This audit focused on the effectiveness of the internal controls related to certain expense accounts reported in Driscoll's 2019 Administrative Expenses FSR. In June 2020, Driscoll engaged a third-party firm to provide services related to internal controls over financial reporting required by the Texas Department of Insurance.<sup>3</sup> Driscoll indicated the engagement included an evaluation of its current internal controls for financial reporting to include, where applicable, recommendations for improvement.

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<sup>1</sup> Medicaid programs include STAR, STAR+PLUS, STAR Kids, STAR Health, CHIP, Children's Medicaid Dental Services, and CHIP Dental Programs.

<sup>2</sup> In February 2021, HHSC MCS received the final report for the agreed upon procedures engagement of Driscoll's 2017 Administrative Expenses FSR.

<sup>3</sup> 28 Tex. Admin Code § 7.88 (m)(5) (Aug. 31, 2010).

## Objective and Scope

The audit objective was to determine whether Driscoll accurately reported selected administrative expenses to HHSC. The audit scope was Driscoll's 334-day 2019 Administrative Expenses FSR and related internal controls over the preparation of the Administrative Expenses FSR.

The initial audit scope for this audit was Driscoll's 334-day 2018 Administrative Expenses FSR. During the planning phase, the audit team learned of Driscoll's use of a third-party administrator in the development and processing of the 2018 FSR. Driscoll transitioned the administrative expenses FSR process in-house for 2019 reporting, which included terminating the third-party administrator contract in April 2019.

To provide an evaluation of Driscoll's current controls and processes for tracking, recording, and reporting administrative expenses, OIG Audit revised the scope period to the 2019 Administrative Expenses FSR.

## Methodology

To accomplish its objective, OIG Audit collected and analyzed relevant documentation from Driscoll's 2019 Administrative Expenses FSR, including but not limited to the general ledger, payroll registers, journal entries, contracts, and third-party affiliations. OIG Audit used this documentation and information obtained during remote interviews with Driscoll personnel to meet its objective.

OIG Audit selected a non-statistical risk-based sample from each of the following administrative expenses:

- Salaries, wages, and benefits (including bonuses)
- Supplies, postage, freight, and printing
- Legal and professional services, including external audits, tax, and consulting
- Marketing, public relations, and outreach (excluding salaries)
- Other administrative expenses
- Corporate allocations

In addition, OIG Audit selected and planned to test \$359,711 in employee bonuses reported by Driscoll in its 2019 Administrative Expenses FSR. According to HHSC MCS Financial Reporting and Audit Coordination, its initial review of the 2019 Administrative Expenses FSR identified that Driscoll had not submitted a bonus plan for 2019 that would support the bonus expenses as required. In response, Driscoll submitted a revised 2019 Administrative Expenses FSR in December 2020, during audit fieldwork, which included removal of the entire bonus amount. As a result, OIG Audit did not test the bonus expense.

Auditors used professional judgment to select transactions from each administrative expense category that would represent all expenses. A total of 31 individuals was selected to evaluate the salaries, wages, and benefits expense category, and 101 transactions were selected from the other five expense categories. The sampling methodology is detailed in Appendix A.

OIG Audit obtained supporting documentation for each transaction tested. The documentation was tested to ensure that expenses were allowable, supported, and accurately reported.

OIG Audit also performed limited testing of information technology (IT) general controls involving access to computers used to prepare the Administrative Expenses FSR.

OIG Audit presented audit results, issues, and recommendations to Driscoll in a draft report dated May 7, 2021. Driscoll provided management responses to the recommendations, indicating it agreed with the recommendations and will (a) address unallowable and unsupported expenses reported on Driscoll's 2019 Administrative Expenses FSR by July 31, 2021, and (b) implement improvements to internal controls for Administrative Expenses FSR preparation and reporting by October 31, 2021. Driscoll's management responses are included in the report following each recommendation.

## Criteria

OIG Audit used the following criteria to evaluate the information provided:

- 2 C.F.R. § 200.445(a) (2013)
- Uniform Managed Care Contract, v. 2.26 (2018) through v. 2.28 (2019)
- Uniform Managed Care Manual, Chapter 5.3.1.84, v. 2.0 (2018)
- Uniform Managed Care Manual, Chapter 6.1, v. 2.6 and 2.7 (2018 and 2019)

## Auditing Standards

### Generally Accepted Government Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## AUDIT RESULTS

Driscoll incorrectly reported a total of \$894,426 in administrative expenses in 2019. Of this amount, Driscoll reported \$606,183 in costs that were unallowable or could not be supported by documentation. An additional \$288,243 were allowable expenses; however, those expenses were reported in an incorrect expense category on the 2019 Administrative Expenses FSR. Details about the misclassified expenses are provided in Appendix B.

In addition, because Driscoll reported budgeted expenses rather than actual expenses for its affiliate third-party administrator, OIG Audit was unable to determine whether \$2,839,425 reported in corporate allocations was accurate. Driscoll did not perform a true-up of the 2019 affiliate third-party administrator expenses as required, which would have helped ensure that it reported only actual costs.<sup>4</sup>

These errors occurred because Driscoll did not establish effective internal controls to help ensure its 2019 Administrative Expenses FSR was accurate, supported, and met contractual requirements.

While there were inaccuracies in its 2019 Administrative Expenses FSR, it is important to note that Driscoll accurately reported \$796,938 in salaries and wages tested for 2019 and maintained documentation to support the reported amount. Salaries and wages represent the largest administrative expense reported on the 2019 Administrative Expenses FSR (36 percent).

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<sup>4</sup> Uniform Managed Care Manual, Chapter 6.1, § I(D)(5) “Administrative expense assessment ‘true-up,’” v. 2.6 and 2.7 (May 15, 2018, and May 29, 2019) states, “In many cases, [affiliate administrative services] Subcontracts may be initially paid monthly, based on a pre-determined formula, such as a percentage of the MCO’s revenues, a fixed per-member-per-month amount, or a flat monthly amount. When such a formula-based approach is used by an Affiliate, the MCO must do a ‘true-up’ of the actual allowable charges incurred by the Affiliate, versus the amounts initially recorded on the FSR by the formula. The ‘true-up’ can be performed using a justifiable methodology based on verifiable data. The MCO must modify the FSR accordingly to represent only allowable costs actually incurred by the Affiliate. Such a ‘true-up’ must be done, and its impact included into the FSR.”

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**Issue 1: Driscoll Reported Unallowable, Unsupported, and Misclassified Expenses and Did Not Have Effective Controls**

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Driscoll is required to report both direct and indirect administrative expenses that support the Texas Medicaid programs it operates on its Administrative Expenses FSR.<sup>5</sup> Driscoll's accounting records and supporting documentation must be maintained in accordance with the HHSC Uniform Managed Care Contract along with Federal Acquisition Regulations, Generally Accepted Accounting Principles, and the Uniform Managed Care Manual (UMCM).

In addition, Driscoll is required to maintain the following to support financial information reported to HHSC.<sup>6</sup>

- Accounting records for the Medicaid and CHIP programs, separate and apart from other corporate accounting records.
- Records for all refunds, payment adjustments, capitation payments, interest income, and payments for administrative services or functions.
- Separate records for medical and administrative fees, charges, and payments.
- An accounting system that provides an audit trail containing sufficient financial documentation to allow for the reconciliation of billings, reports, and financial statements with all general ledger accounts.

Driscoll also is required to perform a true-up of its actual, allowable, affiliate third-party administrator expenses.

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<sup>5</sup> Uniform Managed Care Manual, Chapter 5.3.1.84, Admin - Part 1, v. 2.0 (Dec. 15, 2018).

<sup>6</sup> Uniform Managed Care Contract, Attachment B-1 § 8.1.17, v. 2.26 (Sept. 1, 2018) through v. 2.28 (Mar. 1, 2019).



The 2019 Administrative Expenses FSR Driscoll submitted to HHSC incorrectly included \$872,754 of costs tested, including (a) \$584,511 in unallowable and unsupported expenses and (b) \$288,243 in misclassified expenses, as detailed in Table 1.

**Table 1: Summary of Expense Categories Tested and Results**

Expense Category	Amount Reported on the FSR	Sample Amount	Sample Amount in Error	Sample Amount Misclassified	Sample Percentage in Error
Other Administrative Expenses	\$ 644,643	\$ 470,868	\$392,101	\$ 0	83.3%
Marketing and Public Relations	559,826	161,617	107,175	21,936	79.9%
Legal and Professional Services	7,404,842	755,965	47,983	0	6.3%
Supplies, Postage, Freight, and Printing	3,781,099	493,843	37,252	266,307	61.5%
Corporate Allocations	3,603,706	986,033	Could not Determine	Could not Determine	Could not Determine
Salaries, Wages, and Benefits	18,867,473	796,938	0	0	0.0%
<b>Total</b>	<b>\$34,861,589</b>	<b>\$3,665,264</b>	<b>\$584,511</b>	<b>\$288,243</b>	<b>23.8%</b>

Source: *OIG Audit*

In addition to the testing of sampled transactions detailed in Table 1, if a sampled transaction was identified as an error and there were other similar or related transactions reported on the 2019 Administrative Expenses FSR, such as transactions of the same type or to the same vendor, OIG Audit conducted an additional review of the similar or related transactions. This review identified an additional \$21,672 in unallowable expenses in the “other administrative expenses” and “marketing and public relations” categories. This resulted in an overall total of \$606,183 in costs that were unallowable or could not be supported by documentation.

By reporting the unallowable and unsupported expenses, Driscoll overstated its initial loss reported to HHSC. In addition, the inaccurately reported expense amounts may be used to establish future administrative rates paid to Driscoll and other managed care organizations. Misclassified expenses result in the Administrative Expenses FSR misrepresenting actual expenses for those categories.

The annual agreed upon procedures engagements contracted by MCS may have identified and disallowed some of the same expenses OIG Audit identified in this report. However, the agreed upon procedures engagement for the 2019 Administrative Expenses FSR will not be completed before future administrative rates have been established.

### Weaknesses in Internal Control

Driscoll reported unallowable, unsupported, and misclassified information because it did not have an effectively designed system of internal controls for financial reporting for its Administrative Expenses FSR. Specifically, Driscoll did not consistently maintain (a) documentation to support payments for administrative services or (b) an accounting system that supports reconciliation of the Administrative Expenses FSR with all general ledger accounts. Driscoll furthermore did not perform a true-up of its affiliate third-party administrator expenses incurred as required.

Driscoll used manual processes for determining allowable expenses and the amounts to report on its 2019 Administrative Expenses FSR. The manual processes were not supported by documented policies and procedures, and were not enhanced by automated controls that may reduce the risk of human error and support internal control activities such as (a) validating reported expenses, (b) retaining support documentation, and (c) recording evidence of secondary review and verification of the Administrative Expenses FSR prior to submittal to HHSC.

Additionally, Driscoll did not adequately conduct a review of the 2019 Administrative Expenses FSR prior to submitting to HHSC to help ensure (a) discrepancies between its general ledger and the 2019 Administrative Expenses FSR were reconciled and the required true-up of affiliate third-party administrator expenses was completed and (b) expenses were allowable, appropriately reported, and supported by detailed documentation.

Detailed results are presented in the sections that follow.

### **Other Administrative Expenses**

OIG Audit reviewed documentation for 16 transactions classified as “other administrative expenses” totaling \$470,868 and identified 8 unallowable and unsupported expenses totaling \$392,101. Based on a review of similar transactions in the population, additional related transactions of \$21,564 were unallowable, bringing the total to \$413,665. The errors were associated with bank transfers, bank fees, and memberships to organizations:

- A transfer of \$372,427 between two investment accounts was erroneously recorded as an administrative expense. The bank transfer did not represent an actual expense to Driscoll for its Medicaid programs and, therefore, should not have been reported on the 2019 Administrative Expenses FSR.
- Bank fees totaling \$3,839 were reported as expenses on the 2019 Administrative Expenses FSR, but Driscoll did not provide bank statements confirming the bank fees were incurred.

- Expenses totaling \$37,399 for memberships in four organizations were unallowable.<sup>7</sup> Of the total, \$37,199 was for membership in three organizations whose activities include lobbying. Driscoll reported the full membership expense for the three organizations and did not (a) provide support for allocating the full amount or (b) reduce the reported membership expenses to represent only the non-lobbying activities of each organization. According to the UMCM, costs of memberships in organizations substantially engaged in lobbying are unallowable. The remaining \$200 was for membership in a local chamber of commerce. Costs of memberships in civic or community social organizations are also unallowable.

### **Marketing and Public Relations**

Driscoll reported a total of \$107,284 in transactions within its marketing and public relations costs that were unallowable or unsupported. Specifically, OIG Audit reviewed documentation for 30 marketing and public relations transactions totaling \$161,617 and identified 24 unallowable and unsupported transactions totaling \$107,175. An additional \$108 in unallowable and unsupported costs was also identified through a review of similar transactions.

Four other transactions totaling \$21,936 were allowable but were incorrectly classified as marketing and public relations expenses.

Driscoll did not provide evidence that the expenses were allowable, such as documentation indicating that a marketing expense was related to or benefited the HHSC Medicaid or CHIP programs or members. Unallowable marketing and public relations expenses include (a) contributions, donations, and paid sponsorships, (b) entertainment, (c) alcoholic beverages, and (d) any media or efforts that do not mention an HHSC program.<sup>8</sup>

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<sup>7</sup> Uniform Managed Care Manual, Chapter 6.1, §§ VI(34)(d) and (e), v. 2.6 and 2.7 (May 15, 2018, and May 29, 2019).

<sup>8</sup> Uniform Managed Care Manual, Chapter 6.1, §§ VI(5), VI(16), VI(21), VI(32)(d)(1), and VI(32)(d)(3)(vii), and VI(32)(d)(3)(ix), v. 2.6 and 2.7 (May 15, 2018, and May 29, 2019).

The unallowable expenses reported by Driscoll are summarized in Table 2.

**Table 2: Marketing and Public Relations Expense Reporting Errors**

Transactions Description	Number of Transactions	Unallowable Expense Type	Amount
Festival and scholarship foundation sponsorships; member funerals	4	Contributions, donations, and paid sponsorships	\$ 6,958
Holiday parties	7	Entertainment for employees or providers. One transaction included gratuity and another included both alcohol and gratuity.	37,137
Picnics and other company parties	3	Entertainment for employees.	950
Retreat bundled with restaurant meal	1	Entertainment	33,090
Provider meeting	1	Entertainment including food and gratuity	2,333
Restaurant Meal	1	Entertainment including alcohol and gratuity	3,677
Outreach Activities	5	Marketing with no evidence that activity was related to an HHSC program	12,138
Videos	2	Marketing with no evidence that video was related to an HHSC program	11,000
Total	24		\$107,284 <sup>9</sup>

Source: *OIG Audit*

The additional four misclassified transactions totaling \$21,936 were paid to physicians contracted to perform utilization management services and should have been reported as salaries and wages.<sup>10</sup> Although these reported expenses were allowable, the incorrect classifications caused marketing and public relations expenses to be overstated and the salaries and wages expense to be understated. The UCMCM lists appropriate expenses that should be reported in each category. Reporting expenses in the incorrect categories misrepresents the actual expenses for the affected expense categories.

### Legal and Professional Services

OIG Audit reviewed documentation for six legal and professional services transactions totaling \$755,965. Most of those costs were allowable and supported; however, one transaction totaling \$47,983 was for proposal costs, which is

<sup>9</sup> Discrepancy between the individual amounts and the total is due to rounding.

<sup>10</sup> Uniform Managed Care Manual, Chapter 5.3.1.84, Part 1, Line 1, v. 2.0 (Dec. 15, 2018) states, "Line 1 Salaries, wages, and benefits, excl. bonuses Enter amounts incurred as salary, wages, or benefits to employees and other staff. Include Temps, Part-time staff, and non-employee staff that are paid as independent contractors. Include payroll taxes and overtime. Also include reimbursement of employee relocation expenses and professional licensing fees such as RNs and CPAs. Exclude bonuses, and the payroll taxes on bonuses."

unallowable, and as a result, should not have been reported on the 2019 Administrative Expenses FSR.<sup>11</sup>

### **Supplies, Postage, Freight, and Printing**

OIG Audit reviewed documentation for 41 supplies, postage, freight, and printing transactions totaling \$493,843, and identified 7 unallowable or unsupported transactions totaling \$37,252:

- Three unsupported postage expenses totaling \$29,300. Supporting documentation, such as meter reports indicating the expenses were incurred in 2019, were not provided. In addition, Driscoll reported two of the three postage expenses totaling \$22,000 on its 2018 Administrative Expenses FSR as well as its 2019 Administrative Expenses FSR. The exact same expense cannot be reported in multiple years.
- A lobbying expense of \$1,000, which was unallowable according to requirements established in the UMCM.<sup>12</sup>
- Three expenses totaling \$6,952 for drink and coffee supplies for Driscoll staff's personal use. Costs of goods or services for personal use of the employees are unallowable.<sup>13</sup>

In addition, 16 transactions totaling \$266,307 were misclassified and incorrectly reported as supplies, postage, freight, and printing. Of the 16 transactions, 13 totaling \$41,231 were for credentialing services. Credentialing is the process of verifying the qualifications of licensed professionals to ensure that they can provide care to patients. These services should have been reported as other administrative expenses. The remaining three transactions totaling \$225,076 were for Driscoll's claims software and should have been reported in the outsourced services, non-capitated line item. The transactions were not for supplies, postage, freight, or printing.

Although these reported expenses were allowable, the incorrect classifications caused this expense category to be overstated and the expense categories where the costs should have been expensed, to be understated. The UMCM lists appropriate expenses that should be reported in each category. Reporting expenses in the incorrect categories misrepresents the actual expenses for the affected expense categories.

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<sup>11</sup> Uniform Managed Care Manual, Chapter 6.1, §§ VI(38), v. 2.6 and 2.7 (May 15, 2018, and May 29, 2019).

<sup>12</sup> Uniform Managed Care Manual, Chapter 6.1, §§ VI(30), v. 2.6 and 2.7 (May 15, 2018, and May 29, 2019).

<sup>13</sup> 2 CFR § 200.445(a) (2013).

## **Corporate Allocations**

OIG Audit reviewed documentation for eight corporate allocation transactions totaling \$986,033. Of the eight allocations, two transactions totaling \$236,619 were monthly expense amounts associated with Driscoll's affiliate third-party administrator. Driscoll did not perform a true-up of its affiliate third-party administrator costs as required and instead reported the budgeted monthly amounts of \$236,619.

The total expense Driscoll reported for the affiliate third-party administrator on the 2019 Administrative Expenses FSR was \$2,839,425. Driscoll did not provide evidence that the \$2,839,425 represented the actual 2019 expenses for the affiliate third-party administrator. As a result, OIG Audit was unable to determine whether the \$2,839,425 was accurately reported or any amount reported in error.

## **Recommendation 1a**

Driscoll should coordinate with HHSC MCS Financial Reporting and Audit Coordination to correct the errors identified on the 2019 Administrative Expenses FSR.

## **Management Response**

### Action Plan

*Driscoll agrees with this recommendation and will coordinate with HHSC MCS Financial Reporting and Audit Coordination to correct the errors identified on the 2019 Administrative Expenses FSR.*

*As it relates to the Corporate Allocations, Driscoll performed a subsequent true up of the reported 2019 corporate allocations of \$3,603,706 to actual costs, reflecting actual costs of \$3,609,216 for the period. Driscoll will provide a summary of the true up with this response and provide the same to HHSC MCS Financial Reporting and Audit Coordination. A process will be established to ensure these Corporate Allocations are adjusted to actual costs on, at least, an annual basis.*

### Responsible Manager

*Senior Director of Finance*

### Target Implementation Date

*July 30, 2021*

## **Auditor Comment**

OIG Audit confirms that Driscoll submitted a true-up of the reported 2019 corporate allocations of \$3,603,706 to actual costs. OIG Audit did not review or verify the true-up because it was not performed as part of the 2019 Administrative Expenses FSR preparation.

## **Recommendation 1b**

Driscoll should strengthen its internal controls over its Administrative Expenses FSR, including:

- Developing and implementing written policies and procedures for preparing the Administrative Expenses FSR and conducting a secondary review prior to submittal to HHSC, including:
  - Processes for addressing the misreported expenses and internal control issues identified in this report.
  - Enhancing the use of automation, as necessary, to strengthen and enforce internal controls and reduce the risk of human error in the Administrative Expenses FSR preparation process.
- Reconciling the Administrative Expenses FSR to the general ledger expense detail and resolving any significant discrepancies.
- Performing a true-up of its actual, allowable, affiliate third-party administrator expenses as required.
- Maintaining detailed documentation to support reported administrative expenses and allocation methodologies for shared costs.

## **Management Response**

### Action Plan

*Driscoll agrees with this recommendation and has taken steps to strengthen internal controls over Administrative Expenses in the FSR including the following action items.*

*Driscoll Health Plan has engaged the consulting services of BKD CPAs & Advisors to assist Management, staff and departmental leaders to develop and implement internal controls over financial reporting in multiple inter-disciplinary key control points for both revenue, expenses and Information Technology/Systems.*

*This project includes the following steps:*

- *Identification of significant financial statement components*
- *Documentation and evaluation of significant business and IT processes*
- *Identification of any internal control gaps in these processes*
- *Installation of additional procedures to close the gaps*
- *Evaluation and examination of these new procedures to ensure they have been instituted*

*An outcome of this project will be the development and implementation of written policies for the preparation of the Administrative Expenses FSR and include the secondary review and approval of the FSR prior to submission.*

*In addition, Driscoll will institute a policy to true up the Corporate Allocations to actual charges. As mentioned in our Management Response to Recommendation 1a, we have included a reconciliation of 2019 Corporate Allocations for your review. The process to true up these Allocations to actual charges will be performed, at least, on an annual basis.*

*Driscoll will also review the staffing and composition of its Finance department to ensure it has been fully and appropriately staffed to meet its deliverables. This review has already added a new Senior Director of Finance, hired within the past six months and will likely include another position (Senior Accountant) to be added in the next ninety days.*

Responsible Manager

*Senior Director of Finance*

Target Implementation Date

*October 31, 2021*



## CONCLUSION

Driscoll reported unallowable and unsupported costs on its 2019 Administrative Expenses FSR, and it misclassified other costs. These errors occurred because Driscoll did not establish an effective system of internal controls over the preparation of its Administrative Expenses FSR.

OIG Audit concluded that:

- Driscoll's 2019 Administrative Expenses FSR included (a) \$606,183 in unallowable and unsupported expenses and (b) \$288,243 in allowable expenses reported to incorrect Administrative Expenses FSR line items.
- Driscoll did not conduct a true-up of its affiliate third-party administrator costs as required. As a result, OIG Audit could not determine whether the budgeted amount of \$2,839,425 reported as a corporate allocation on the 2019 Administrative Expenses FSR accurately represented the affiliate third-party administrator's actual expense.

In addition, Driscoll did not have documented policies and procedures to prepare the Administrative Expenses FSR, including a secondary review process, to help ensure the 2019 Administrative Expenses FSR submitted to HHSC was accurate, reported only allowable expenses, and was supported by documentation.

OIG Audit offered recommendations to Driscoll, which, if implemented, will address unallowable and unsupported expenses reported on Driscoll's Administrative Expenses FSR for 2019, and improve the accuracy of expenses reported in future years.

OIG Audit thanks management and staff at Driscoll for their cooperation and assistance during this audit.

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## Appendix A: Sampling Methodology

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Driscoll reported total expenses of \$53,012,087 on its 2019 Administrative Expenses FSR. Of this amount, OIG Audit selected a non-statistical risk-based sample totaling \$34,861,589 from the following categories of administrative expenses:

- Salaries, wages, and benefits (including bonuses)
- Supplies, postage, freight, and printing
- Legal and professional services, including external audits, tax, and consulting
- Marketing, public relations, and outreach (excluding salaries)
- Other administrative expenses
- Corporate allocations

These sample designs were chosen to address specific risk factors identified in the populations. The sample items were generally not representative of the populations for the expense categories; therefore, it would not be appropriate to project the test results to those populations. Professional judgment was used to select transactions from each administrative expense category that would represent all expenses. A total of 31 individuals were selected to evaluate the salaries, wages, and benefits expense category, and 101 transactions were selected from the other five expense categories.

If a sampled transaction was determined to be in error and there were other similar or related transactions reported on the 2019 Administrative Expenses FSR, such as transactions of the same type or to the same vendor, OIG Audit conducted additional testing of the similar or related transactions.

Table 3 shows the dollar amounts for the sampled transactions and the errors noted for related transactions.

**Table 3: Summary of Expense Categories Tested**

Expense Category	Amount Reported on the FSR	Number of Transactions Sampled	Sample Amount	Additional Errors with Related Transactions
Other Administrative Expenses—FSR Line 17	\$ 644,643	16	\$ 470,868	\$21,564
Marketing and Public Relations—FSR Line 13	559,826	30	161,617	108
Legal and Professional Services—FSR Line 11	7,404,842	6	755,965	0
Supplies, Postage, Freight, and Printing—FSR Line 10	3,781,099	41	493,843	0
Corporate Allocations—FSR Line 24	3,603,706	8	986,033	0
Salaries, wages, and benefits—FSR Line 1	18,867,473	186 <sup>14</sup>	796,938	0
Total	\$34,861,589	287	\$3,665,264	\$21,672

Source: *OIG Audit*

<sup>14</sup> Thirty-one employees were selected for the sample, and six pay periods were selected to test the salaries for these employees. The number of transactions tested represents six pay periods for 31 employees.

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## Appendix B: Misclassified Expenses on the 2019 Administrative Expenses FSR

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**Table 4: Misclassified Expenses on the 2019 Administrative Expenses FSR**

Number of Transactions	FSR Line Misclassified	Correct FSR Line Categorization	General Ledger Amount
13	Line 10 Supplies, Postage, Freight, and Printing	Line 17 Other Administrative Expenses	\$ 41,231
3	Line 10 Supplies, Postage, Freight, and Printing	Line 19 Outsourced Services (Non-Capitated Arrangements)	225,076
4	Line 13 Marketing, PR, and Outreach (excl. Salaries)	Line 1 Salaries, wages, and benefits, excl. bonuses	21,936
Total			\$288,243

Source: *OIG Audit*

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## Appendix C: Report Team and Distribution

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### Report Team

OIG staff members who contributed to this audit report include:

- Audrey O’Neill, CIA, CFE, CGAP, Chief of Audit and Inspections
- Kacy VerColen, CPA, Deputy Inspector General of Audit and Inspections
- Steve Sizemore, CIA, CISA, CGAP, Audit Director
- Lisa Kanette Blomberg, CPA, CIGA, Senior Managing Auditor
- Melissa Stice Larson, CIA, CISA, CFE, HCISPP, IT Senior Managing Auditor
- Ashley Malone, CISA, IT Senior Auditor
- Summer Grubb, Senior Auditor
- Carolyn Cadena, Staff Auditor
- Olivia Sheridan, Associate Auditor
- Erin Powell, Quality Assurance Reviewer
- Mo Brantley, Senior Audit Operations Analyst

### Report Distribution

#### Health and Human Services

- Cecile Erwin Young, Executive Commissioner
- Kate Hendrix, Chief of Staff
- Maurice McCreary, Jr., Chief Operating Officer
- Victoria Ford, Chief Policy and Regulatory Officer
- Karen Ray, Chief Counsel
- Michelle Alletto, Chief Program and Services Officer
- Nicole Guerrero, Director of Internal Audit
- Stephanie Stephens, State Medicaid Director, Medicaid and CHIP Services
- Shannon Kelley, Associate Commissioner for Managed Care, Medicaid and CHIP Services

- Jason Mendl, Director of Financial Compliance, Medicaid and CHIP Services

#### Driscoll Health Plan

- Robert Parker, Chairman of the Board of Directors
- Joseph Cecil, Interim Chief Executive Officer
- Gregory Ward, Chief Financial Officer
- Timothy Neyer, Senior Director of Finance
- Kennedy Pranskevich, Director of Regulatory Financial Reporting and Regulatory Audit

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## Appendix D: OIG Mission, Leadership, and Contact Information

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The mission of OIG is to prevent, detect, and deter fraud, waste, and abuse through the audit, investigation, and inspection of federal and state taxpayer dollars used in the provision and delivery of health and human services in Texas. The senior leadership guiding the fulfillment of OIG's mission and statutory responsibility includes:

- Sylvia Hernandez Kauffman, Inspector General
- Susan Biles, Chief of Staff
- Dirk Johnson, Chief Counsel
- Christine Maldonado, Chief of Operations and Workforce Leadership
- Juliet Charron, Chief of Strategy
- Steve Johnson, Chief of Investigations and Reviews

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### To Report Fraud, Waste, and Abuse in Texas HHS Programs

- Online: <https://oig.hhsc.texas.gov/report-fraud>
- Phone: 1-800-436-6184

### To Contact OIG

- Email: [OIGCommunications@hhsc.state.tx.us](mailto:OIGCommunications@hhsc.state.tx.us)
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