

Audit Report

Cook Children's Health Plan's Financial Statistical Reports

July 23, 2024

OIG Report No. AUD-24-016



**Inspector
General**

Texas Health
and Human Services



Cook Children's Health Plan's Financial Statistical Reports

Results in Brief

Why OIG Conducted This Audit

The Texas Health and Human Services (HHS) Office of Inspector General (OIG) Audit and Inspections Division (OIG Audit) conducted an audit of Cook Children's Health Plan's (CCHP's) process for preparing and submitting expenses on its financial statistical reports (FSRs). The Texas Health and Human Services Commission (HHSC) paid managed care organizations (MCOs) \$38.8 billion for the provision of Texas Medicaid and CHIP services in state fiscal year 2022, a 20 percent increase from state fiscal year 2021.

During the period from September 1, 2021, through August 31, 2022, CCHP reported on its FSRs \$937.0 million in gross revenue, which included \$921.9 million in capitation payments from HHSC, and served an average of 170,621 members per month for all programs and service areas.

Summary of Review

The audit objective was to determine whether CCHP (a) reported expenses on its FSRs in accordance with contract requirements and (b) designed and implemented effective internal controls over the preparation of its FSRs.

The audit scope covered selected expenses on CCHP's FSRs for state fiscal year 2022, which covered the period from September 1, 2021, through August 31, 2022.

Management Response

CCHP partially agreed with the audit recommendations and indicated corrective actions would be implemented by August 2024.

For more information, contact:

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Conclusion

Cook Children's Health Plan (CCHP) had a process for preparing financial statistical reports (FSRs), which included controls related to removing unallowable expenses and identifying the appropriate FSR sections for reporting allowable expenses. However, CCHP did not always sufficiently establish fair market value and incorrectly reported some expenses.

Key Results

CCHP did not sufficiently establish fair market value for four affiliates when negotiating rates or reporting \$243,764,253 of these expenses on its FSRs. While CCHP developed evidence during the audit that its contracted rates for one affiliate were at fair market value, it did not sufficiently establish a fair market value rate for expenses from the other three affiliates, totaling \$233,612,199.

Additionally, on its FSRs, CCHP understated (a) overall salaries, wages, and benefits expenses by \$212,870 and (b) outsourced behavioral health services expenses by \$59,742. CCHP incorrectly categorized some salaries, wages, and benefits expenses on its FSRs and excluded some affiliate expenses from an informational subsection.

Recommendations

CCHP should:

- Implement a process to establish fair market value for affiliate expenses reported on its FSRs.
- Follow instructions from Texas Health and Human Services Commission (HHSC) Financial Reporting and Audit Coordination (FRAC) to determine the impact of not sufficiently establishing fair market value for the identified affiliates.
- Implement a process to accurately report salaries, wages, and benefits expenses; outsourced services expenses; and affiliate medical expenses.
- Follow instructions from FRAC to determine the impact of incorrectly reporting salaries, wages, and benefits expenses; outsourced services expenses; and affiliate expenses.

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Audit Overview

Overall Conclusion

Cook Children’s Health Plan (CCHP) had a process for preparing financial statistical reports (FSRs), which included controls related to removing unallowable expenses and identifying the appropriate FSR sections for reporting allowable expenses. However, CCHP did not always sufficiently establish fair market value and incorrectly reported some expenses.

Key Audit Results

CCHP did not sufficiently establish fair market value for four affiliates when negotiating rates or reporting \$243,764,253 of these expenses on its FSRs. While CCHP developed evidence during the audit that its contracted rates for one affiliate were at fair market value, it did not sufficiently establish a fair market value rate for expenses from the other three affiliates, totaling \$233,612,199.

Additionally, on its FSRs, CCHP:

- Understated overall salaries, wages, and benefits expenses by \$212,870.
- Incorrectly categorized some salaries, wages, and benefits expenses.
- Understated outsourced behavioral health services expenses by \$59,742.
- Excluded some affiliate expenses from an informational subsection.

The “Detailed Audit Results” section of this report presents additional information about the audit results and is considered written education in accordance with Texas Administrative Code.¹ In addition, other audit issues identified in this report

Objective

The audit objective was to determine whether CCHP (a) reported expenses on its FSRs in accordance with contract requirements and (b) designed and implemented effective internal controls over the preparation of its FSRs.

Scope

The audit scope covered selected expenses on CCHP’s FSRs for state fiscal year 2022, which covered the period from September 1, 2021, through August 31, 2022.

¹ 1 Tex. Admin. Code § 371.1701 (May 1, 2016).

may be subject to liquidated damages or OIG administrative enforcement measures,² including administrative penalties.³

The Texas Health and Human Services (HHS) Office of Inspector General (OIG) Audit and Inspections Division (OIG Audit) offered recommendations to CCHP, which, if implemented, will improve compliance with applicable requirements. OIG Audit communicated other, less significant issues to CCHP in a separate written communication.

OIG Audit presented preliminary audit results, issues, and recommendations to CCHP in a draft report dated June 28, 2024. CCHP partially agreed with the audit recommendations and indicated corrective actions would be implemented by August 2024. CCHP's management responses are included in the report following each recommendation.

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

Key Program Data

CCHP is a managed care organization (MCO) contracted to provide comprehensive health care services to Texas Medicaid and Children's Health Insurance Program (CHIP) members through its network of providers.^{4,5} Under the managed care model, MCOs receive a capitation payment for each member enrolled, based on historical expenses of the populations served. Capitation payments are monthly prospective payments the Texas Health and Human Services Commission (HHSC) makes to MCOs for the provision of covered services.

What Prompted This Audit

HHSC paid MCOs \$38.8 billion for the provision of Texas Medicaid and CHIP services in state fiscal year 2022, a 20 percent increase from state fiscal year 2021.

MCOs report program costs to HHSC each year on the FSRs. HHSC relies on this information to project future program costs and set capitation rates for Texas Medicaid and CHIP MCOs.

² 1 Tex. Admin. Code § 371.1603 (May 20, 2020).

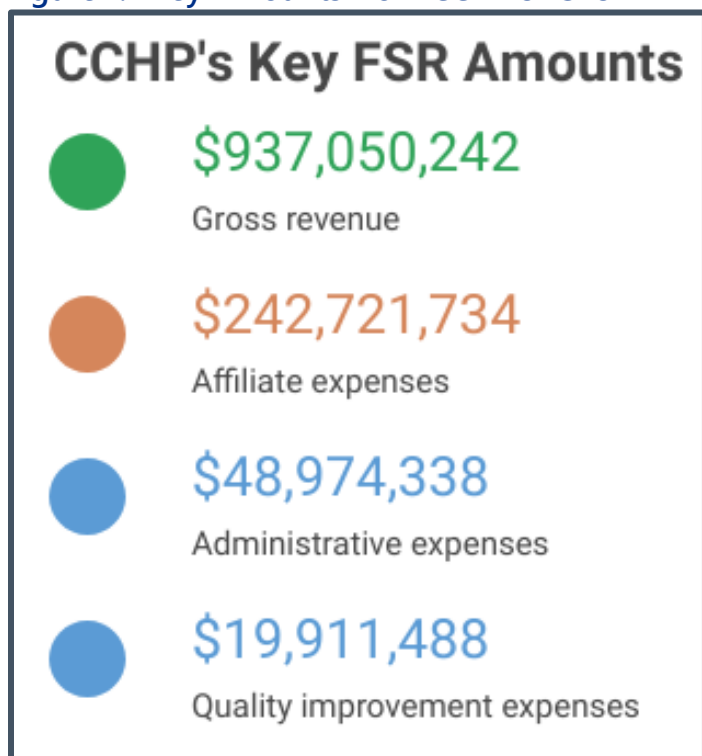
³ Tex. Hum. Res. Code § 32.039 (Apr. 2, 2015).

⁴ Appendix C provides additional information about CCHP, including a map of Texas areas where CCHP provides services.

⁵ In this report, the Uniform Managed Care Contract is used for referencing contract requirements. The managed care contracts relevant to this audit include the Uniform Managed Care Contract and the STAR Kids Managed Care Contract.

During the period from September 1, 2021, through August 31, 2022, CCHP reported on its FSRs \$937.0 million in gross revenue, which included \$921.9 million in capitation payments from HHSC,⁶ and served an average of 170,621 members per month for all programs and service areas. Figure 1 provides key amounts that CCHP reported on its FSRs during the period from September 1, 2021, through August 31, 2022.

Figure 1: Key Amounts from CCHP's FSRs



Source: OIG Audit, based on CCHP's 334-day 2022 FSRs

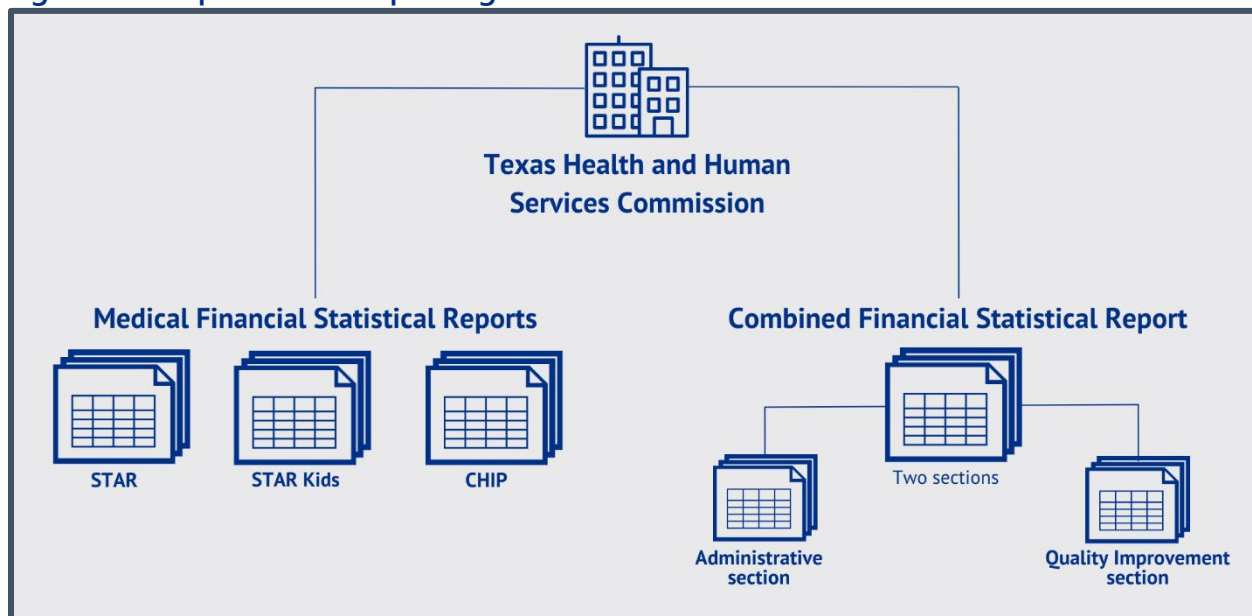
FSRs are a reporting mechanism used by MCOs to provide financial information—including medical, administrative, and quality improvement expenses—related to the Texas Medicaid and CHIP programs in which the MCO participates. MCOs are required to submit (a) medical FSRs for each program and

⁶ Gross revenue reported on the FSRs includes capitation payments (medical premiums and pharmacy premiums), delivery supplemental payments, and investment income.

every service area for which the MCO provides coverage⁷ and (b) a separate combined FSR to report administrative and quality improvement expenses.^{8,9,10}

HHSC uses the amounts reported on the FSRs to set capitation payments and calculate each MCO's experience rebate. Figure 2 outlines CCHP's FSR reporting to HHSC.

Figure 2: Required FSR Reporting CCHP Provided to HHSC



Source: OIG Audit

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 2022, the period is September 1, 2021, through August 31, 2022.

⁷ Medical FSRs contain income statements with all reportable revenues and expenses, including administrative and quality improvement expenses.

⁸ Administrative expenses directly or indirectly support Texas Medicaid and CHIP, and quality improvement expenses are activities that improve health care quality and outcomes.

⁹ Uniform Managed Care Contract, Attachment B-1, § 8.1.17.1, v. 2.34 (Sept. 1, 2021, as amended).

¹⁰ Each MCO's FSRs for each state fiscal year are due to HHSC 334 days after the end of the state fiscal year and are referred to as 334-day FSRs.

Financial Statistical Reports and the Experience Rebate

The Uniform Managed Care Contract establishes profit sharing terms through an experience rebate calculation. Each MCO may retain profit up to three percent for Texas Medicaid and CHIP before the HHSC profit sharing experience rebate applies.¹¹ In 2022, the experience rebate terms required MCOs to remit any profit above five percent to HHSC. Table 1 provides details about the experience rebate profit distribution in 2022.

Table 1: HHSC’s Experience Rebate Profit Sharing Distribution in 2022

MCO Profit for Texas Medicaid and CHIP	MCO Share	HHSC Share
Less than or equal to 3%	100%	0%
Greater than 3% and less than or equal to 5%	80%	20%
Greater than 5%	0%	100%

Source: OIG Audit

While each MCO must calculate its expected experience rebate, HHSC Financial Reporting and Audit Coordination (FRAC) is responsible for the final experience rebate calculation. The results of this audit and other work overseen by FRAC¹² are considered in the final experience rebate calculation.

In 2022, CCHP calculated an expected experience rebate of \$70,102,667 and asserted it remitted \$83,235,090¹³ in payments to HHSC towards its calculated experience rebate. However, based on the understated expenses identified in Chapter 2, the experience rebate due to the state should be reduced by \$272,612. Table 2 on the following page provides additional details about these amounts.

¹¹ In this report, profit is the MCO’s net income before taxes as a percentage of revenue for the Texas Medicaid and CHIP programs using revenues and expenses included on the FSRs.

¹² FRAC contracts with external accounting firms to perform agreed upon procedures engagements of each MCO’s FSRs.

¹³ CCHP’s payments to HHSC include \$83,235,090 towards the experience rebate owed. As of March 19, 2024, CCHP had overpaid by \$13,132,423.

Table 2: CCHP’s Experience Rebate Amounts

Category	Amount
CCHP’s calculated experience rebate	\$ 70,102,667
OIG Audit’s estimated experience rebate adjustment	-\$ 272,612
OIG Audit’s estimated experience rebate	\$ 69,830,055

Source: OIG Audit

OIG Audit’s calculation is an estimate as of the date of this report without consideration of potential required resubmission of CCHP’s FSRs, financial requirements applicable to the calculation of the experience rebate, or findings from additional reviews, audits, or contractual interest¹⁴ that may apply.

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.

¹⁴ An MCO may owe interest as a result of late payments or underpayment of the experience rebate.

Detailed Audit Results

Overall, CCHP's system of controls operated as intended; however, CCHP had some control weaknesses that resulted in misstated expenses on its FSRs.

For the purposes of this report, a designation of "allowable" or "unallowable" reflects what is reportable on the FSRs. To be allowable, expenses must conform to the requirements of Uniform Managed Care Manual cost principles, which include being reasonable and allocable. Expenses that are not allowable may still be incurred and paid by the MCO but may not be reported on the FSR.¹⁵

The following sections of this report provide additional details about the findings of noncompliance identified by OIG Audit.

¹⁵ Uniform Managed Care Manual, Chapter 6.1, § I(A), v. 2.9 (June 14, 2021).

Chapter 1: CCHP Did Not Sufficiently Establish Fair Market Value for Some Affiliate Expenses

CCHP did not sufficiently establish fair market value of services provided by four affiliates when negotiating rates or reporting \$243,764,253 of these expenses on its FSRs. MCOs must report affiliate expenses at fair market value or at the affiliate’s actual cost incurred.^{16,17} When an MCO does not report affiliate expenses at cost and has not established fair market value, there is a risk that the MCO may have overpaid its affiliate and overstated expenses for the state of Texas.

Fair market value is the probable price of a good or service between an MCO and an unrelated party that are both knowledgeable of relevant facts, not under any obligation to buy or sell, and entitled to all rights and benefits of the good or service.¹⁸

While CCHP developed evidence during the audit that its contracted rates for Cook Children’s Home Health were at fair market value,¹⁹ it did not sufficiently establish a fair market value rate for the other three affiliates, totaling \$233,612,199. Table 3 provides additional details about these amounts.

Table 3: Summary of Affiliate Expenses CCHP Reported on Its FSRs

Affiliate	Expense Type	Established Fair Market Value	CCHP’s Reported Expenses
Cook Children’s Medical Center	Medical Claims	No	\$ 209,424,950
Cook Children’s Physician Network	Medical Claims	No	22,983,107
Cook Children’s Home Health	Medical Claims	Yes	10,152,054
Cook Children’s Health Care System	Rent	No	1,204,142
Total			\$243,764,253

Source: OIG Audit, based on CCHP’s 334-day 2022 FSRs

¹⁶ Uniform Managed Care Manual, Chapter 6.1, § I(E)(3), v. 2.9 (June 14, 2021).

¹⁷ Uniform Managed Care Manual, Chapter 6.1, § I(D), v. 2.9 (June 14, 2021).

¹⁸ Uniform Managed Care Manual, Chapter 6.1, § II, v. 2.9 (June 14, 2021).

¹⁹ CCHP provided an analysis of 2021 payments as evidence to support the 2022 contract rates were at fair market value.

CCHP provided non-affiliate contracts and limited analysis of expenses for all four affiliates to support that it made and reported the payments at fair market value. However, CCHP did not (a) have a process in place to establish fair market value for affiliate expenses prior to reporting, (b) provide sufficient evidence for three of the four affiliates, and (c) meet requirements to establish fair market value for the transactions.^{20,21}

Recommendation 1a

CCHP should implement a process to establish fair market value for affiliate expenses reported on its FSRs.

Management Response

Action Plan

Cook Children’s Health Plan believes we have in place appropriate processes to establish fair market value for affiliate expenses reported on our FSRs.

Fair market value process for state fiscal year 2022

The Cost Principles effective for state fiscal year 2022 require MCOs to be prepared to provide HHSC and their auditors with the rationale used to determine fair market value. We provided HHSC with the analysis when requested, including the methodology used for each affiliate fair market value evaluation.

Fair market value evaluation based on affiliate versus non-affiliate agreements

We conducted our fair market value evaluation by comparing the rates we pay our affiliates against comparable non-affiliate contracted provider rates. We were able to identify comparable facilities and physician groups where contracted rates were equal to or higher than those paid to our affiliates. For example, we compared our reimbursement to our affiliate hospital with another contracted children’s hospital in the Dallas–Fort Worth area. Similarly, our

²⁰ Uniform Managed Care Manual, Chapter 6.1, § I(E)(3), v. 2.9 (June 14, 2021).

²¹ Uniform Managed Care Manual, Chapter 6.1, § I(D), v. 2.9 (June 14, 2021).

physician group affiliate reimbursement rates were also compared with another contracted multi-specialty group in the area.

Fair market value evaluation among MCOs based on affiliate's hospital charge master

We were also able to use our affiliated hospital's charge master file to compare our reimbursement rates with those paid by other MCOs. This reimbursement analysis included APR-DRG, HCPSC, and revenue codes. Those results also show CCHP's reimbursement rate to our affiliate hospital to be the same or lower than other MCOs' rates. Based on these multiple analyses, we consider our affiliates to have been paid at fair market value.

HHSC request on fair market value analysis

As requested by HHSC/FRAC to all MCOs, we provided CCHP's Fair Market Value Analysis for state fiscal years 2021, 2022, 2023, and 2024 in February 2024. We consider the fair market value analysis complete for those years and that CCHP met the requirements established by HHSC in Uniform Managed Care Manual, Chapter 6.1, "Cost Principles for Expenses."

Next steps and action items

We will request feedback from HHSC FRAC on the OIG audit findings and follow their instructions on any further recommended changes to our process and analysis.

Responsible Manager

Vice President of Finance and Chief Financial Officer

Target Implementation Date

Schedule meeting with HHSC—August 2024

Updates to fair market value process (depending on HHSC instructions)—
August 2024

Auditor Comment

OIG Audit appreciates the feedback provided by CCHP in its management response. OIG Audit stands by this recommendation. CCHP must demonstrate that the affiliate expenses meet the fair market value criteria. While CCHP

provided limited analysis for all four affiliates, CCHP did not sufficiently establish the fair market value of some affiliate expenses included on the FSRs.

Recommendation 1b

CCHP should follow instructions from FRAC to determine the impact of not sufficiently establishing fair market value for the identified affiliates.

Management Response

CCHP agrees to contact FRAC for further instructions regarding its fair market value analysis process and results.

Action Plan

We contacted HHSC FRAC on July 12, 2024, asking for additional directions in light of the OIG audit findings and we will follow any further recommended instructions regarding the fair market value process.

Responsible Manager

Vice President of Finance and Chief Financial Officer

Target Implementation Date

August 2024

Chapter 2: CCHP Incorrectly Reported Expenses on Its FSRs

Overall, CCHP supported that tested expenses were paid, incurred, and allowable through documentation to support (a) reported salaries, wages, and benefits expenses for 30 distinct employee job titles and (b) 36 outsourced behavioral health services expenses. However, CCHP had some control weaknesses that resulted in understated (a) overall salaries, wages, and benefits expenses by \$212,870 and (b) outsourced behavioral health services expenses by \$59,742. Additionally, CCHP incorrectly categorized some salaries, wages, and benefits expenses on its FSRs and excluded some affiliate expenses from an informational subsection.

HHSC may rely on inaccurate information when setting capitation rates and calculating experience rebates when Texas Medicaid and CHIP expenses are incorrectly reported.

Salaries, Wages, and Benefits

CCHP excluded some salaries, wages, and benefits expenses on its FSRs due to incorrect labeling in its accounting system, which resulted in an understatement of \$212,870. On the FSRs, each MCO must include salaries, wages, and benefits expenses that it paid to support Texas Medicaid and CHIP services.²²

CCHP incorrectly reported an additional \$49,007 of salaries, wages, and benefits expenses as quality improvement expenses instead of administrative expenses as required by HHSC.²³ CCHP's FSR reporting process did not accurately distribute expenses when a job function included both administrative and quality improvement components. In this instance, the misstated amount did not impact the estimated experience rebate amount owed to HHSC.

²² Uniform Managed Care Manual, Chapter 5.3.1.84, "Admin – Part 1: Administrative Expenses, Line 1: Salaries, wages, and benefits, excl. bonuses" and "QI – Part 1: Quality Improvement Costs by Spending Type, Line 1: Salaries, wages, and benefits, excl. bonuses," v. 2.1 (Mar. 15, 2021).

²³ Uniform Managed Care Manual, Chapter 6.1, § VIII, v. 2.9 (June 14, 2021).

Outsourced Services

CCHP outsources behavioral health services to support its Medicaid and CHIP members and incorrectly excluded \$59,742 of outsourced services expenses on its FSRs. CCHP must include allowable expenses that support Texas Medicaid and CHIP services on its FSRs.²⁴

For all 36 outsourced service expenses tested, CCHP was able to support that the expenses were allowable; however, CCHP used incorrect outsourced service contract rates when compiling the expenses for its FSRs, which resulted in the understatement.

Affiliate Expenses

While CCHP reported total affiliate expenses on its FSRs, it excluded affiliate expenses totaling \$877,224 from an informational subsection due to using incomplete data. HHSC uses this section to monitor MCOs and their affiliates.^{25,26,27} This underreported amount does not impact the estimated experience rebate amount owed to HHSC.

Recommendation 2a

CCHP should implement a process to accurately report salaries, wages, and benefits expenses; outsourced services expenses; and affiliate medical expenses.

²⁴ Uniform Managed Care Manual, Chapter 5.3.1.84, "Admin – Part 1: Administrative Expenses, Line 19: Outsourced Services (Non-Capitated Arrangements)" and "QI – Part 1: Quality Improvement Costs by Spending Type, Line 17: Outsourced Services," v. 2.1 (Mar. 15, 2021).

²⁵ Uniform Managed Care Manual, Chapter 5.3.1.100, "Part 5: Medical Expenses by Service Type, Line 21: Total Related Party Expenses," v. 2.0 (Nov. 28, 2022, as amended).

²⁶ Uniform Managed Care Manual, Chapter 5.3.1.102, "Part 5: Medical Expenses by Service Type, Line 33: Total Related Party Expenses," v. 2.0 (Nov. 28, 2022, as amended).

²⁷ Uniform Managed Care Manual, Chapter 5.3.1.108, "Part 5: Medical Expenses by Service Type, Line 19: Total Related Party Expenses," v. 2.0 (Nov. 28, 2022, as amended).

Management Response

CCHP agrees with this finding.

Action Plan

CCHP will implement the following processes to improve its financial reporting:

- Salaries, wages, and benefits—We will request payroll reports at the employee level for each FSR period to compare the amounts in these reports with the expenses reported in the FSR. Any variances will be reconciled with any salaries excluded or reclassified between Admin and Quality Improvement.
- Outsourced services expenses—Current outsourced services rates do not change during the year. The rates that caused the variance were for a subcontractor we are no longer using. Nevertheless, CCHP will update its FSR standard operating procedure to add another step to validate FSR reported amounts in the Admin/Quality Improvement Outsourced expenses against subcontractor’s contracted rates.
- Affiliate medical expenses—CCHP created a new FSR validation process that compares supporting data against the FSR reported amounts. This validation will help identify incomplete data or variances in amounts reported.

Responsible Managers

Vice President of Finance and Chief Financial Officer
Director of Accounting

Target Implementation Date

Salaries, wages, and benefits payroll report comparison—August 2024

Outsourced services expenses—August 2024

Affiliate medical expenses—completed in March 2024

Recommendation 2b

CCHP should follow instructions from FRAC to determine the impact of incorrectly reporting salaries, wages, and benefits expenses; outsourced services expenses; and affiliate expenses.

Management Response

CCHP agrees to contact FRAC for additional direction regarding OIG audit findings.

Action Plan

CCHP contacted HHSC FRAC on July 12, 2024, asking for additional directions and will follow any instructions regarding the understatement of expenses and their impact on CCHP's experience rebate for state fiscal year 2022.

Responsible Managers

Vice President of Finance and Chief Financial Officer
Director of Accounting

Target Implementation Date

August 2024

Appendix A: Objective, Scope, and Criteria

Objective and Scope

The audit objective was to determine whether CCHP (a) reported expenses on its FSRs in accordance with contract requirements and (b) designed and implemented effective internal controls over the preparation of its FSRs.

The audit scope covered selected expenses on CCHP's FSRs for state fiscal year 2022, which covered the period from September 1, 2021, through August 31, 2022.

Criteria

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

- Uniform Managed Care Manual, Chapter 5.3.1.84, v. 2.1 (2021)
- Uniform Managed Care Manual, Chapter 5.3.1.100, v. 2.0 (2022, as amended)
- Uniform Managed Care Manual, Chapter 5.3.1.102, v. 2.0 (2022, as amended)
- Uniform Managed Care Manual, Chapter 5.3.1.108, v. 2.0 (2022, as amended)
- Uniform Managed Care Manual, Chapter 6.1, v. 2.9 (2021)

Appendix B: Methodology and Data Reliability

OIG Audit issued an engagement letter to CCHP on November 8, 2023, providing information about the upcoming audit, and conducted fieldwork from November 8, 2023, through March 29, 2024. OIG Audit reviewed selected portions of CCHP's 334-day 2022 Medical FSRs (Medical FSRs) for the Tarrant service area for the STAR program, the STAR Kids program, and CHIP. Each part of these FSRs is divided into line items, which indicate the type of revenues or expenses stated. OIG Audit substantively tested selected portions of the following expenses on CCHP's Medical FSRs:

- STAR Medical FSR–Tarrant:
 - Part 1: Line 12 – Fee-For-Service
 - Part 5: Line 21 – Total Related Party Expenses
- STAR Kids Medical FSR–Tarrant:
 - Part 1: Line 11 – Fee-For-Service
 - Part 5: Line 33 – Total Related Party Expenses
- CHIP Medical FSR–Tarrant:
 - Part 1: Line 12 – Fee-For-Service
 - Part 5: Line 19 – Total Related Party Expenses

OIG Audit reviewed selected portions of CCHP's 334-day 2022 Combined Administrative and Quality Improvement Expenses FSR (Combined FSR), which consisted of two sections—an administrative section and a quality improvement section. Each part of these FSR sections is divided into line items, which indicate the type of expenses stated. OIG Audit substantively tested selected portions of the following expenses on CCHP's Combined FSRs:

- Administrative Section–Part 1:
 - Line 1 – Salaries, Wages, and Benefits (excl. bonuses)
 - Line 3 – Rent, Lease, or Mortgage Payment for Office Space
 - Line 19 – Outsourced Services

- Quality Improvement Section–Part 1
 - Line 1 – Salaries, wages, and benefits (excl. bonuses)
 - Line 3 – Rent, Lease, or Mortgage Payment for Office Space
 - Line 17 – Outsourced Services

Additionally, OIG Audit tested controls related to all expenses reported on CCHP’s Combined FSR administrative section, Part 1, and quality improvement section, Part 1.

OIG Audit reviewed CCHP’s system of internal controls, including components of internal control,²⁸ within the context of the audit objectives by:

- Interviewing CCHP management and staff with oversight responsibilities for maintenance, submission, review, and approval of FSR-related activities.
- Reviewing relevant documentation, such as policies, procedures, and documented approvals.
- Replicating selected FSR compilation and review controls.
- Reconciling FSR-reported amounts to CCHP’s information systems and supporting documents.

Sampling Methodology

Affiliate Expenses

Auditors selected the entire population of affiliate fee-for-service medical expenses paid to Cook Children’s Medical Center, Cook Children’s Physician Network, and Cook Children’s Home Health. Additionally, auditors selected the entire population of affiliate rent expenses paid to Cook Children’s Health Care System. Therefore, the test results for these affiliate expenses represent the entire population.

²⁸ For more information on the components of internal control, see the United States Government Accountability Office’s *Standards for Internal Control in the Federal Government*, (Sept. 2014), <https://www.gao.gov/assets/gao-14-704g.pdf> (accessed Apr. 16, 2021).

Salaries, Wages, and Benefits Expenses

Auditors selected nonstatistical samples related to salary, wages, and benefits expenses reported on the Combined FSRs. This sample design was chosen to address specific risk factors, such as expense amounts and job titles. The sample items were not representative of the population; therefore, it would not be appropriate to project the test results to the population.

Outsourced Services Expenses

Auditors selected nonstatistical samples related to outsourced services expenses reported on the quality improvement section of the Combined FSR. This sample design was chosen to address specific risk factors, such as expense amounts and related manual controls. The sample items were not representative of the population; therefore, it would not be appropriate to project the test results to the population.

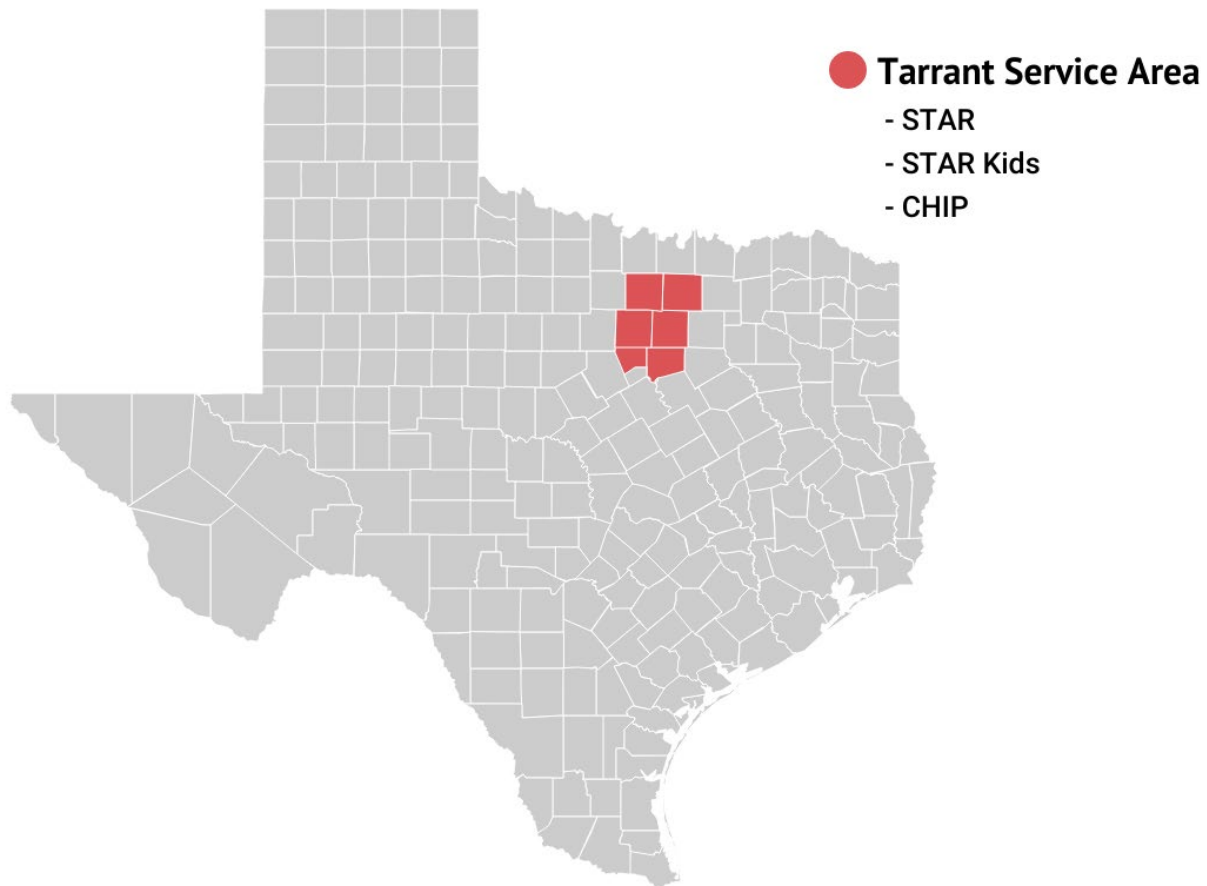
Data Reliability

To assess the reliability of data related to expenses reported on the selected Medical and Combined FSRs, auditors (a) analyzed the data for reasonableness and completeness, (b) compared the data against published FSR data, (c) reconciled the data to an independent source, (d) traced samples of data to source documents, (e) interviewed staff who were knowledgeable about the data, and (f) reviewed related internal controls. OIG Audit determined the data was sufficiently reliable for the purpose of the audit.

Appendix C: Entity at a Glance

CCHP provides health care services to Texas Medicaid and CHIP members in the Tarrant service area²⁹ through the STAR program, the STAR Kids program, and CHIP. Figure C.1 illustrates the Texas managed care service area and associated programs covered by CCHP.

Figure C.1: Texas Managed Care Service Areas and Programs Covered by CCHP



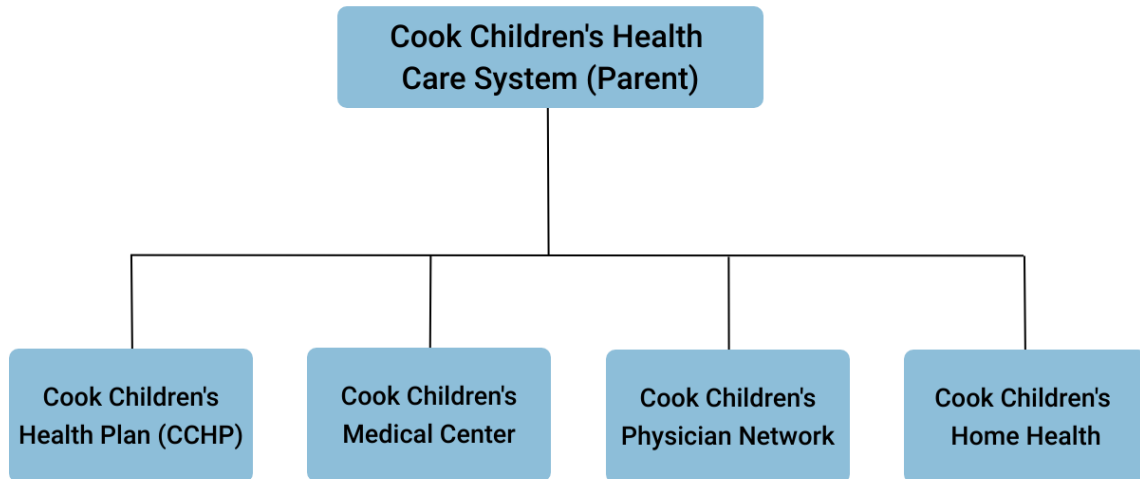
Source: OIG Audit, compiled from information obtained via "MCO Search," HHS, <https://www.txvendordrug.com/resources/mco-search> (accessed Mar. 5, 2024)

²⁹ The Tarrant service areas covers six counties: Denton, Hood, Johnson, Parker, Tarrant, and Wise.

CCHP Corporate and Affiliate Structure

As illustrated in Figure C.2, Cook Children’s Health Care System is the parent company of CCHP, Cook Children’s Medical Center, Cook Children’s Physician Network, and Cook Children’s Home Health.

Figure C.2: Ownership Structures Among Cook Children’s Health Care System’s Subsidiaries³⁰

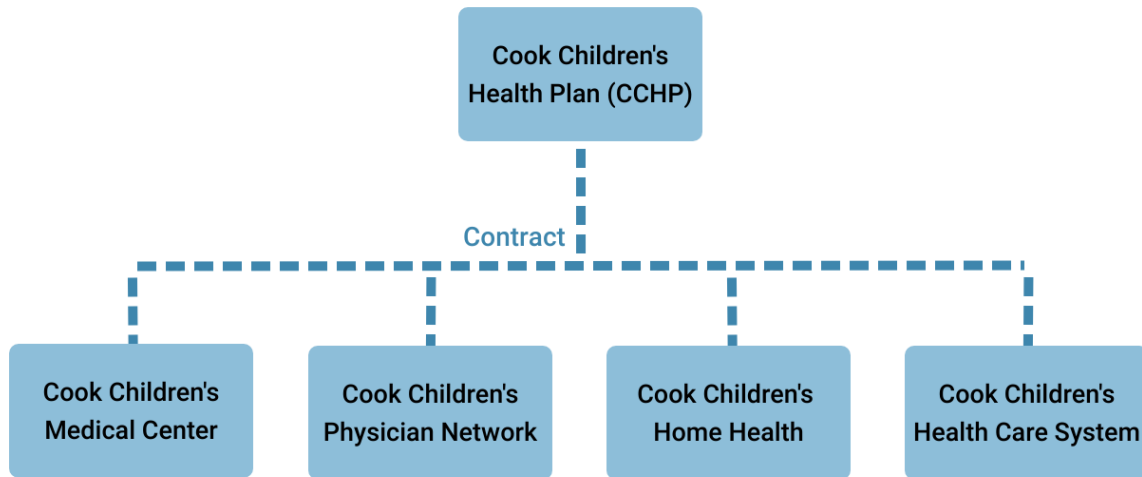


Source: OIG Audit

³⁰ Figure C.2 does not include CCHP affiliates that OIG Audit did not test for fair market value.

As illustrated in Figure C.3, CCHP contracts with Cook Children’s Medical Center, Cook Children’s Physician Network, and Cook Children’s Home Health to provide medical services to CCHP’s members. Additionally, CCHP contracts with Cook Children’s Health Care System to provide office space for CCHP.

Figure C.3: CCHP’s Contract Structures with Its Affiliates Reported at Fair Market Value³¹



Source: OIG Audit

³¹ Figure C.3 does not include CCHP affiliates that OIG Audit did not test for fair market value.

Appendix D: Summary of Recommendations

Table D.1: Summary of Recommendations to CCHP

No.	Recommendation
1a	CCHP should implement a process to establish fair market value for affiliate expenses reported on its FSRs.
1b	CCHP should follow instructions from FRAC to determine the impact of not sufficiently establishing fair market value for the identified affiliates.
2a	CCHP should implement a process to accurately report salaries, wages, and benefits expenses; outsourced services expenses; and affiliate medical expenses.
2b	CCHP should follow instructions from FRAC to determine the impact of incorrectly reporting salaries, wages, and benefits expenses; outsourced services expenses; and affiliate expenses.

Source: OIG Audit

Appendix E: Related Reports

- Administrative and Medical Expenses Reported on Financial Statistical Reports: Texas Children’s Health Plan, Inc., [AUD-23-018](#), August 7, 2023
- Administrative and Medical Expenses Reported on Financial Statistical Reports: UnitedHealthcare Community Plan of Texas, L.L.C. and UnitedHealthcare Insurance Company, Inc., [AUD-22-024](#), August 24, 2022
- Administrative Expenses Reported by Molina Healthcare of Texas, Inc. on Its Financial Statistical Report, [AUD-22-021](#), August 16, 2022
- Driscoll Health Plan: A Texas Medicaid and CHIP Managed Care Organization, [AUD-21-010](#), May 27, 2021
- Reporting and Compliance of Affiliate Third-Party Administrator Services: MCNA Insurance Company, [AUD-21-007](#), February 25, 2021

Appendix F: Resources for Additional Information

The following resources provide additional information about the topics covered in this report.

For more information on Texas Medicaid and CHIP Financial Statistical Reports:

"Medicaid & CHIP Financial Statistical Reports," HHS,
<https://www.hhs.texas.gov/services/health/medicaid-chip/managed-care-contract-management/medicaid-chip-financial-statistical-reports>
(accessed Jul. 19, 2024)

For more information on Cook Children's Health Plan:

Homepage, Cook Children's Health Plan, <https://www.cookchp.org/>
(accessed Jul. 19, 2024)

For more information on Cook Children's Health Care System:

Homepage, Cook Children's, <https://www.cookchildrens.org/>
(accessed Jul. 19, 2024)

For more information on Cook Children's Medical Center:

"Cook Children's Medical Center," Cook Children's,
<https://www.cookchildrens.org/medical-center/fort-worth/>
(accessed Jul. 19, 2024)

For more information on Cook Children's Physician Network:

"Physician Network", Cook Children's
<https://www.cookchildrens.org/healthcare-professionals/physician-network/> (accessed Jul. 19, 2024)

For more information on Cook Children's Home Health:

Homepage, Cook Children's Home Health
<https://www.cookchildrenshomehealth.com/> (accessed Jul. 19, 2024)

Appendix G: Report Team and Distribution

Report Team

OIG staff members who contributed to this audit report include:

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- Abram Valdes, CPA, Audit Project Manager
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Report Distribution

Texas Health and Human Services Commission

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Cook Children's Health Plan

- Karen Love, President
- Richard Lee, Vice President of Finance and Chief Financial Officer
- Yahaira Perez, Director of Accounting
- Kathleen Roman, Director of Regulatory Compliance

Appendix H: OIG Mission, Leadership, and Contact Information

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:

- Raymond Charles Winter, Inspector General
- Susan Biles, Principal Deputy Inspector General
- Kacy J. VerColen, Chief of Audit and Inspections
- Eugenia Krieg, Chief of Staff, Chief of Policy and Performance
- Erik Cary, Chief Counsel
- Diane Salisbury, Chief of Data Reviews
- Matt Chaplin, Chief of Operations
- Steve Johnson, Chief of Investigations and Utilization Reviews

To Obtain Copies of OIG Reports

- OIG website: ReportTexasFraud.com

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

- Online: <https://oig.hhs.texas.gov/report-fraud-waste-or-abuse>
- Phone: 1-800-436-6184

To Contact OIG

- Email: oig.generalinquiries@hhs.texas.gov
- Mail: Texas Health and Human Services
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