Audit Report

Administrative and Medical Expenses Reported on Financial Statistical Reports

Texas Children's Health Plan, Inc.

August 7, 2023

OIG Report No. AUD-23-018

Inspector General

Texas Health and Human Services

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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 Texas Children's Health Plan, Inc.'s (TCHP's) process for preparing and submitting expenses on its 334-day 2021 Medical financial statistical reports (Medical FSRs) and Combined Administrative and Quality Improvement Expenses financial statistical report (Combined FSR) based on the risk of incorrectly reported expenses on the financial statistical reports (FSRs), including unallowable expenses without sufficient support. When unallowable and questioned expenses are included on FSRs, there is a risk that the Texas Health and Human Services Commission (HHSC) may rely on inaccurate information when setting capitation rates. Additionally, reported net income may be inaccurate when calculating experience rebates.

TCHP is a managed care organization (MCO) contracted to provide Medicaid and CHIP services to Texas Medicaid and CHIP members through its network of providers. During the period from September 1, 2020, through August 31, 2021, TCHP reported $2.45 billion in total gross revenue and served an average of 514,865 members per month for all programs and service areas.

Conclusion
Overall, Texas Children's Health Plan, Inc.'s (TCHP's) processes and related controls for preparing and submitting expenses on its 334-day 2021 Medical financial statistical reports (Medical FSRs) and Combined Administrative and Quality Improvement Expenses financial statistical report (Combined FSR) were effective but had some control deficiencies. TCHP had a process for preparing financial statistical reports (FSRs), which included effective controls related to identifying and removing unallowable general ledger amounts and reconciling FSR data to the general ledger.

However, TCHP (a) did not determine the fair market value of affiliate fee-for-service and capitation expenses for four affiliates reported on the Medical FSRs prior to the reporting on the FSRs, (b) did not provide detailed fair market value analysis for affiliate expenses reported on the Medical FSRs, (c) overstated affiliate fee-for-service and capitation expenses on the Medical FSRs for two affiliates, (d) did not report all affiliate expenses on the total related party expenses line on the Medical FSRs, and (e) had control deficiencies in corporate allocations related to (a) reporting of estimates resulting in an understatement on the FSR and (b) reporting accruals. As a result of these issues, TCHP overstated expenses by $5,025,924.

Key Results
After 2021 but before the 334-day FSRs were due to the Texas Health and Human Services Commission (HHSC), TCHP engaged a third-party actuarial firm to perform a fair market value analysis for 2021 and produce reports with the results. TCHP and the third-party actuarial firm used the Medicare Advantage Plan bid instructions to determine the fair market value for some affiliate expenses without obtaining assurance from HHSC that doing so was appropriate. Additionally, TCHP was unable to provide the Texas Health and Human Services (HHS) Office of Inspector General (OIG) Audit and Inspections Division (OIG Audit) with the third-party actuarial firm's detailed analysis because TCHP did not have an agreement in place allowing access to the detailed analysis.

Based on these reports, TCHP paid its affiliates an estimated $5,214,617 of affiliate medical fee-for-service and capitation expenses above fair market value.

Summary of Review
The audit objective was to determine whether (a) TCHP reported expenses on selected components of its Medical and Combined FSRs submitted to HHSC in accordance with contract requirements and laws and (b) the related internal controls over the preparation of the FSRs were designed and operating effectively.

The audit scope covered TCHP's affiliate transactions on the Medical FSRs and internal controls over the preparation of the Medical and Combined FSRs for state fiscal year 2021, which covered the period from September 1, 2020, through August 31, 2021.

Background
FSRs are a reporting mechanism used by MCOs to provide financial information—including medical, administrative, and quality improvement expenses—related to the Medicaid and CHIP programs in which the MCO participates. MCOs are required to submit quarterly and annual Medical FSRs for each program and every service area for which the MCO provides coverage and a separate Combined FSR to report administrative and quality improvement expenses. The information reported in the Medical and Combined FSRs is also used by HHSC to calculate each MCO's experience rebate.

Management Response
TCHP predominantly agreed with the audit recommendations and indicated corrective actions have been completed or would be implemented by December 2023.

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Additionally, on the Medical FSRs, TCHP only reported its fee-for-service affiliate related party expenses on the total related party expenses line. Medical FSR instructions require all affiliate medical expenses to be reported regardless of payment arrangement.

TCHP also reported estimates within its corporate allocation expenses on the Combined FSR, resulting in understated expenses of $188,693.

In addition to the results detailed above, OIG Audit made several observations during the audit, which are included in the report to provide written education to TCHP and do not include recommendations. OIG Audit observed that TCHP:

- Did not include alternative payment model expenses paid to affiliates in its fair market value analysis.
- Inaccurately reported expenses above its provider rate for 16 of 30 affiliate inpatient claims expenses tested.

Recommendations
TCHP should:

- Prepare and maintain support for determining the qualification to report affiliate expenses at fair market value prior to reporting on the FSRs.
- Request guidance from HHSC Financial Reporting and Audit Coordination (FRAC) regarding the appropriateness of using the Medicare Advantage Plan bid instructions as a basis for determining the fair market value of affiliate medical fee-for-service and capitation expenses. While the use of fair market value reporting does not require HHSC's prior approval, failure to obtain assurance for utilizing non-Medicaid guidelines could be subject to HHSC's determination of allowability.
- Implement a process to ensure all subcontractors provide HHSC and its designees prompt, reasonable, and adequate access to any support that is related to the scope of the contract between HHSC and TCHP, as required by the Uniform Managed Care Contract.
- Implement a process to (a) determine when adjustments to fair market value are required for affiliate fee-for-service and capitation medical expenses reported on the Medical FSRs and (b) adjust the reported expenses to fair market value when required.
- Include all affiliate medical expenses it reports in the total related party expenses on the Medical FSRs, Part 5.
- Implement a process to true-up all estimates to actual expenses before it submits the 334-day FSRs to HHSC.
- Implement a process to track actual payments and true-up administrative expenses to report costs actually incurred in the FSRs.

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Audit Overview

Overall Conclusion

Overall, Texas Children's Health Plan, Inc.'s (TCHP's) processes and related controls for preparing and submitting expenses on its 334-day 2021 Medical financial statistical reports (Medical FSRs)[1] and Combined Administrative and Quality Improvement Expenses[2] financial statistical report (Combined FSR)[3,4] were effective but had some control deficiencies. TCHP had a process for preparing financial statistical reports (FSRs), which included effective controls related to identifying and removing unallowable general ledger amounts and reconciling FSR data to the general ledger.

However, TCHP (a) did not determine the fair market value of affiliate fee-for-service and capitation expenses[5] for four affiliates reported on the Medical FSRs prior to reporting on the FSRs, (b) did not provide detailed fair market value analysis for affiliate expenses reported on

Objective

The audit objective was to determine whether (a) TCHP reported expenses on selected components of its Medical and Combined FSRs submitted to the Texas Health and Human Services Commission (HHSC) in accordance with contract requirements and laws and (b) the related internal controls over the preparation of the FSRs were designed and operating effectively.

Scope

The audit scope covered TCHP's affiliate transactions on the Medical FSRs and internal controls over the preparation of the Medical and Combined FSRs for state fiscal year 2021, which covered the period from September 1, 2020, through August 31, 2021.

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[1] Medical FSRs contain income statements with all reportable revenues and expenses, including administrative and quality improvement expenses, that managed care organizations (MCOs) submit to HHSC for each program and service area where the submitting MCO operates.

[2] Administrative expenses directly or indirectly benefit Texas Medicaid and the Children's Health Insurance Program (CHIP), and quality improvement expenses are activities that improve health care quality.

[3] Each managed care organization'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.

[4] 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 2021, the period is September 1, 2020, through August 31, 2021.

[5] Affiliate expenses are medical expenses associated with services provided by related parties.

the Medical FSRs, (c) overstated affiliate fee-for-service[6] and capitation[7] expenses on the Medical FSRs for two affiliates, (d) did not report all affiliate expenses on the total related party expenses line on the Medical FSRs, and (e) had control deficiencies in corporate allocations[8] related to (a) reporting of estimates resulting in an understatement on the FSR and (b) reporting accruals. As a result of these issues, TCHP overstated expenses by $5,025,924.

Key Audit Results

After 2021 but before the 334-day FSRs were due to the Texas Health and Human Services Commission (HHSC), TCHP engaged a third-party actuarial firm to perform a fair market value analysis for 2021 and produce reports with the results. TCHP and the third-party actuarial firm used the Medicare Advantage Plan bid instructions[9] to determine the fair market value for some affiliate expenses without obtaining assurance from HHSC that doing so was appropriate. Additionally, TCHP was unable to provide OIG Audit with the third-party actuarial firm's detailed analysis because TCHP did not have an agreement in place allowing access to the detailed analysis. Based on these reports, TCHP paid its affiliates an estimated $5,214,617 of affiliate medical fee-for-service and capitation expenses above fair market value.

Additionally, on the Medical FSRs, TCHP only reported its fee-for-service affiliate related party expenses on the total related party expenses line. Medical FSR instructions require all affiliate medical expenses to be reported regardless of payment arrangement.

[6] Fee-for-service is a payment model under which providers receive a payment for each unit of service provided to members.

[7] Capitation is a payment model under which a fixed, predetermined fee is paid to providers for the provision of all covered services provided to members.

[8] Corporate allocations allow an entity to distribute costs to various lines of business. For example, utility bills should be allocated to Medicare lines of business, Medicaid lines of business, and private insurance lines of business.

[9] A Medicare Advantage Plan bid is a bid submitted to the U.S. Centers for Medicare and Medicaid Services (CMS) by an organization applying to participate in a Medicare Advantage program. CMS publishes instructions for completing the Medicare Advantage Plan bid.

TCHP also reported estimates within its corporate allocation expenses on the Combined FSR, resulting in understated expenses of $188,693.

Table 1 details the overall impact of TCHP's inaccurately reported expenses, totaling $5,025,924.

Table 1: Summary of TCHP's Inaccurately Reported Expenses

Finding Type	Misstated Expenses
Estimated affiliate medical expenses overstated	$5,214,617
Corporate allocation expenses understated	(188,693)
Total	**$5,025,924**

Source: OIG Audit

The Texas Health and Human Services (HHS) Office of Inspector General (OIG) Audit and Inspections Division (OIG Audit) used the results of testing performed to determine an estimated recalculation of the experience rebate[10] owed back to the state of Texas as a result of amounts that were identified as inaccurately reported on the FSR. OIG Audit calculates that the adjustment of the misstated expenses applied against TCHP's reported net income before taxes would create an additional experience rebate balance of $5,025,924 owed to HHSC. OIG Audit's calculation is an estimate as of the date of this report without consideration of potential required resubmission of TCHP's FSRs, financial requirements applicable to the calculation of the experience rebate, or findings from additional reviews, audits, or contractual interest[11] that may apply. HHSC Financial Reporting and Audit Coordination (FRAC) will be responsible for the final calculation of the experience rebate and will notify TCHP of any additional payment owed to HHSC. Table 2 provides additional details about these amounts.

[10] An "experience rebate" is the portion of the MCO's net income before taxes that is shared with the state based on profit-sharing provisions in HHSC's contracts with the MCO.

[11] Interest rate expenses may be incurred as a result of late payments or underpayment of the experience rebate.

Table 2: TCHP's Experience Rebate Amounts

Category	Amount
TCHP's adjusted income subject to an experience rebate	$386,699,909
TCHP's incorrectly reported expenses	+$ 5,025,924
OIG Audit's adjusted income subject to an experience rebate	$391,725,834[12]
OIG Audit's estimated experience rebate	**+$ 5,025,924**

Source: OIG Audit

What Prompted This Audit

OIG Audit conducted an audit of TCHP's Medical and Combined FSRs based on the risk of incorrectly reported expenses on the FSRs, including unallowable expenses without sufficient support. When unallowable and questioned expenses are included on FSRs, there is a risk that HHSC may rely on inaccurate information when setting capitation rates. Additionally, reported net income may be inaccurate when calculating experience rebates.

In addition to the results detailed above, OIG Audit made several observations during the audit, which are included in the report to provide written education to TCHP and do not include recommendations. OIG Audit observed that TCHP:

- Did not include alternative payment model expenses paid to affiliates in its fair market value analysis.
- Inaccurately reported expenses above its provider rate for 16 of 30 affiliate inpatient claims expenses tested.

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.[13] In addition, other audit issues identified in this report may be subject to liquidated damages or OIG administrative enforcement measures,[14] including administrative penalties.[15]

[12] Discrepancy between the individual amounts and the total is due to rounding.

[13] 1 Tex. Admin. Code § 371.1701 (May 1, 2016).

[14] 1 Tex. Admin. Code § 371.1603 (May 20, 2020).

[15] Tex. Hum. Res. Code § 32.039 (Apr. 2, 2015).

OIG Audit offered recommendations to TCHP, which, if implemented, will help improve compliance with applicable requirements. OIG Audit communicated other, less significant issues to TCHP in a separate written communication.

OIG Audit presented preliminary audit results, issues, and recommendations to TCHP in a draft report dated July 10, 2023. TCHP predominantly agreed with the audit recommendations and indicated corrective actions have been completed or would be implemented by December 2023. Management responses from TCHP are included in the report following each recommendation.

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

Key Program Data

TCHP is a managed care organization (MCO) contracted to provide Medicaid and Children's Health Insurance Program (CHIP) services to Texas Medicaid and CHIP members through its network of providers.[17] The managed care contracts relevant to this audit include the Uniform Managed Care Contract and the STAR Kids Managed Care Contract. For the purpose of this report, the Uniform Managed Care Contract is used for referencing contract requirements. See Appendix D for a map of Texas areas where TCHP provides services.

Experience Rebate Calculation and Payment

TCHP reported net income of $386,699,909 on its 2021 334-day FSRs. As a result, TCHP calculated an experience rebate of $210,051,324 owed to HHSC. FRAC confirmed that, as of April 13, 2023, TCHP has remitted $215,820,253[16] in payments to HHSC towards its calculated experience rebate.

[16] Payments by TCHP include $215,820,253 towards the experience rebate owed. As of April 13, 2023, TCHP has overpaid by $5,768,929.

[17] TCHP provides health care services in three service areas—Harris, Jefferson, and Medicaid Rural Service Area (MRSA) Northeast—through the STAR program, the STAR Kids program, and CHIP.

During the period from September 1, 2020, through August 31, 2021, TCHP reported $2.45 billion in total gross revenue[18] and served an average of 514,865 members per month for all programs and service areas. Figure 1 provides key amounts that TCHP reported on its FSRs during the period from September 1, 2021, through August 31, 2022.

Figure 1: Key Amounts from TCHP's Medical and Combined FSRs

TCHP's Key FSR Amounts

$2,453,452,575
Gross revenue across all FSRs

$467,936,915
Affiliate expenses on the Medical FSRs

$122,651,395
Administrative expenses on the Combined FSR

$26,193,002
Quality improvement expenses on the Combined FSR

Source: OIG Audit, based on TCHP's 334-day 2021 Medical and Combined FSRs[19]

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 HHSC makes to MCOs for the provision of covered services. HHSC makes capitation payments to MCOs at fixed, per member per month rates based on members' associated risk groups.

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[18] Gross revenue reported on the FSRs includes capitated medical premium payments, delivery supplemental payments, pharmacy premiums, and investment income.

[19] In Figure 1, the amount for affiliate expenses on the Medical FSRs is based on TCHP's total related party expenses reported on the Medical FSRs, which only reflected affiliate fee-for-service expenses rather than all affiliate medical expenses as required. Therefore, the amount in Figure 1 varies from the affiliate expenses discussed in portions of the "Detailed Audit Results" section of this report.

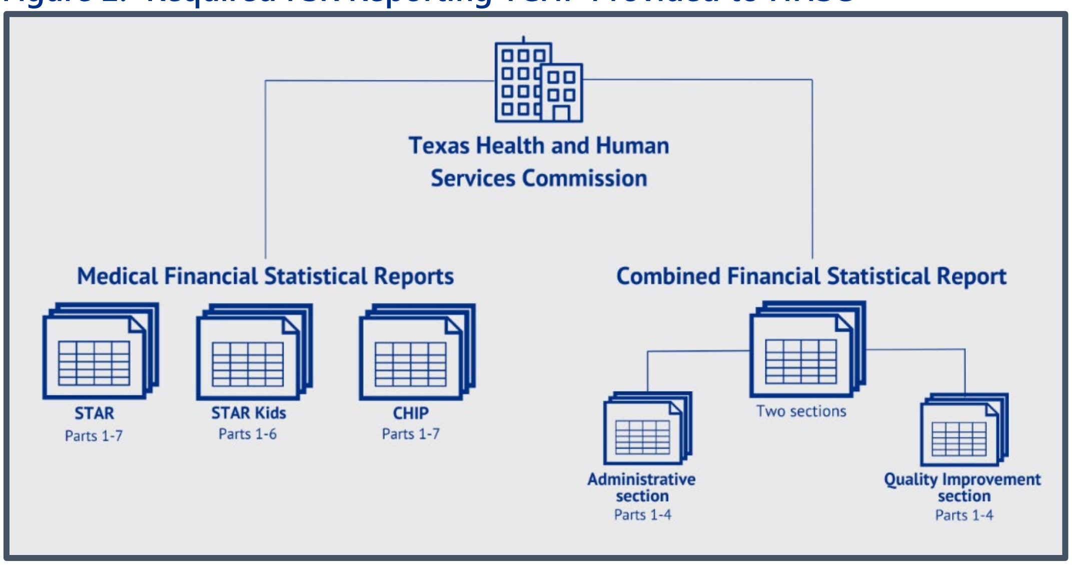
FSRs are a reporting mechanism used by MCOs to provide financial information—including medical, administrative, and quality improvement expenses—related to the Medicaid and CHIP programs in which the MCO participates. MCOs are required to submit quarterly and annual Medical FSRs for each program and every service area for which the MCO provides coverage and a separate Combined FSR to report administrative and quality improvement expenses.[20] The Combined FSR consists of two sections—an administrative section (Administrative FSR) and a quality improvement section (Quality Improvement FSR)—with four numbered parts each.

The information reported in the Medical and Combined FSRs is also used by HHSC to calculate each MCO's experience rebate.

It is important to note that future capitation payments will be set using amounts reported on the 2021 FSRs prior to completion of the 2021 FSR agreed upon procedures engagements.[21]

Figure 2 outlines TCHP's Medical and Combined FSR reporting to HHSC.

Figure 2: Required FSR Reporting TCHP Provided to HHSC



Source: OIG Audit

[20] Uniform Managed Care Contract, Attachment B-1, § 8.1.17.1, v. 2.31 (Sept. 1, 2020) through v. 2.35 (Mar. 1, 2022).

[21] The agreed upon procedures engagements are attestation engagements performed on each MCO's 334-day FSRs by independent, external accounting firms contracted by HHSC to gain confidence on reported FSR data.

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.

Detailed Audit Results

OIG Audit reviewed affiliate medical expenses reported on the Medical FSRs. TCHP provided documentation intended to support that the affiliate medical expenses were allowable and qualified to be reported at fair market value.

OIG Audit also reviewed medical claims expenses TCHP paid to one of its affiliates and reported on the STAR Kids Medical FSR for the Harris service area (STAR Kids Medical FSR–Harris).[22,23] For each expense tested, TCHP provided documentation intended to support that the expenses existed, were allowable, and were reported accurately per the terms of the contract with its affiliate.

OIG Audit performed control testing to review the allowability of indirect and direct expenses reported on the Combined FSR. For each control tested, TCHP provided documentation intended to demonstrate that the controls were operating effectively.

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.[24]

Overall, TCHP’s system of controls operated as intended; however, TCHP had some control deficiencies that resulted in certain unallowable reported expenses on its Medical and Combined FSRs. The following sections of this report provide additional details about the findings of noncompliance identified by 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 2021, the period is September 1, 2020, through August 31, 2021.

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[22] The STAR Kids Medical FSR–Harris contains a summary income statement with all reportable revenues and expenses for the STAR Kids program operated by TCHP in the Harris service area.

[23] On the STAR Kids Medical FSR–Harris, OIG Audit only tested medical claims expenses. During the period from September 1, 2020, through August 31, 2021, TCHP served an average of 21,684 Texas Medicaid members per month enrolled in STAR Kids in the Harris service area.

[24] Uniform Managed Care Manual, Chapter 6.1, § I(A), v. 2.7 (May 29, 2019) through v. 2.9 (June 14, 2021).

Fair Market Value

When reporting affiliate expenses at fair market value on its FSRs, an MCO must be prepared to provide support for determining the fair market value qualification. Fair market value applies to a good or service that (a) is standardized, equivalent, measurable, or comparable; (b) is bought and sold widely by multiple unrelated third-party sellers; or (c) has a readily available independent source for comparative market pricing data. An MCO must also demonstrate that it reported the applicable expenses at fair market value.[25] If fair market value cannot be established, or sufficient evidence of fair market value cannot be provided, affiliate expenses for services provided must be reported at the affiliate's actual cost incurred.[26]

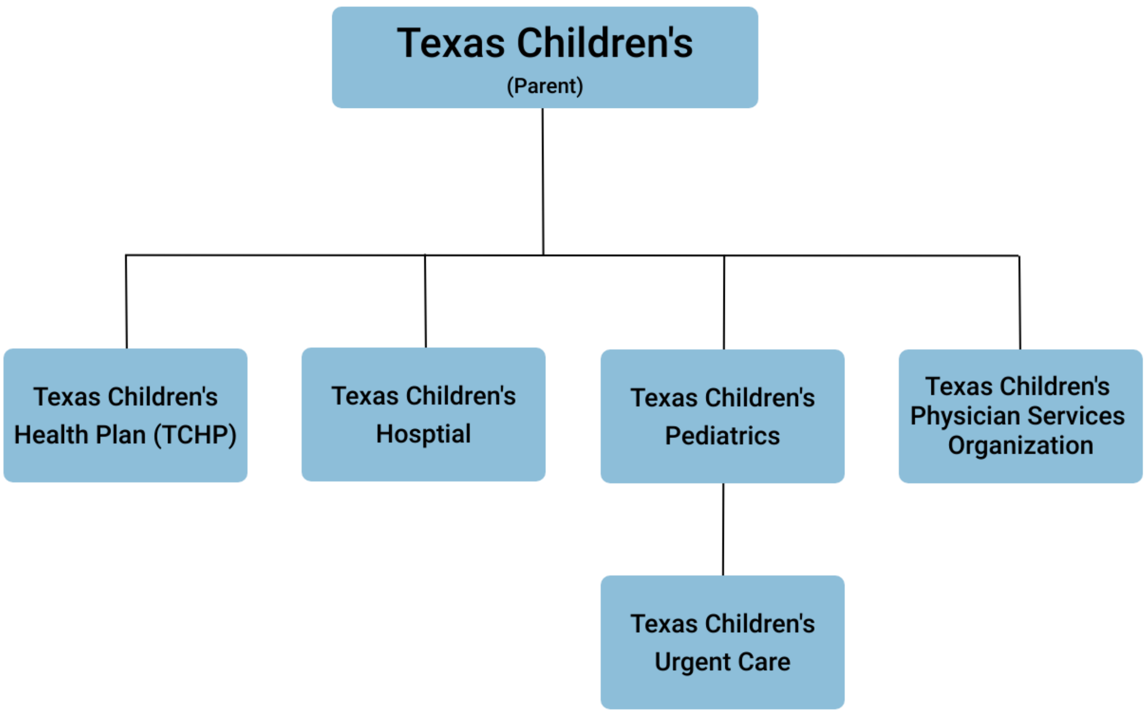
[25] Uniform Managed Care Manual, Chapter 6.1, § I(E)(3), v. 2.7 (May 29, 2019) through v. 2.9 (June 14, 2021).

[26] Uniform Managed Care Manual, Chapter 6.1, § I(D), v. 2.7 (May 29, 2019) through v. 2.9 (June 14, 2021).

TCHP Corporate and Affiliate Structure

As illustrated in Figure 3, Texas Children's is the ultimate parent company of TCHP; Texas Children's Hospital; Texas Children's Pediatrics; Texas Children's Physician Services Organization; and Texas Children's Urgent Care, which is a subsidiary of Texas Children's Pediatrics.

Figure 3: Ownership Structures Among Texas Children's Subsidiaries[27]

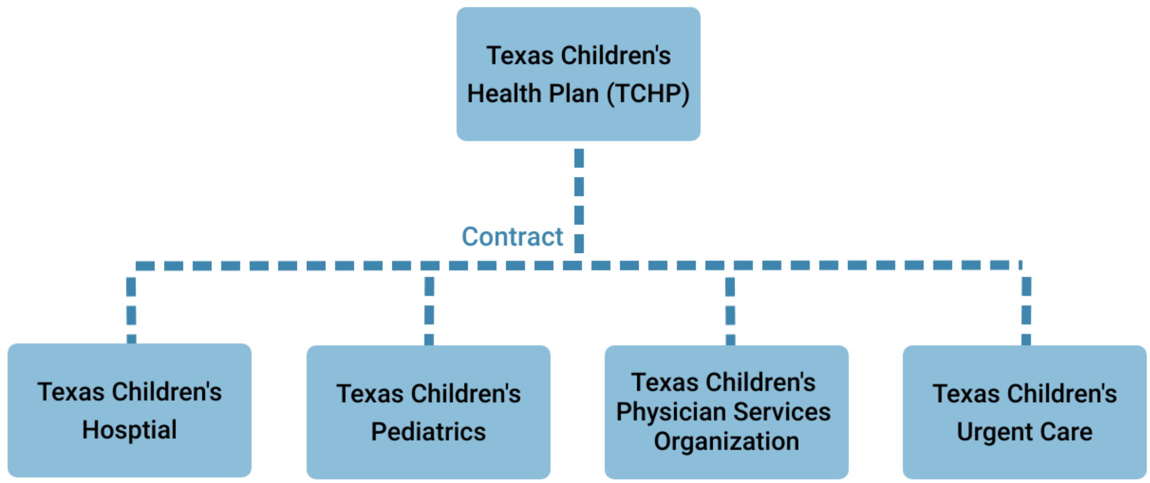


Source: OIG Audit

[27] Figure 3 does not include Texas Children's subsidiaries that OIG Audit did not test for fair market value.

As illustrated in Figure 4, TCHP contracts with Texas Children's Hospital, Texas Children's Pediatrics, Texas Children's Physician Services Organization, and Texas Children's Urgent Care to provide medical services to TCHP's members.

Figure 4: TCHP's Contract Structures with Its Affiliates Reported at Fair Market Value[28]



Source: OIG Audit

[28] Figure 4 does not include TCHP affiliates that OIG Audit did not test for fair market value.

Chapter 1.1: TCHP Did Not Determine Fair Market Value Timely for Affiliate Expenses Reported on the Medical FSRs

On the Medical FSRs, TCHP used fair market value to report expenses paid to four of its affiliates: Texas Children's Hospital, Texas Children's Pediatrics, Texas Children's Physician Services Organization, and Texas Children's Urgent Care.[29]

Prior to reporting the Medical FSRs for 2021, TCHP did not have a process in place to demonstrate support of its fair market value qualification for affiliate expenses as required by the Uniform Managed Care Manual.[30] Therefore, TCHP did not determine and verify that its affiliates were paid a fair market value for affiliate medical fee-for-service and capitation expenses prior to reporting affiliate expenses on the FSRs.

Recommendation 1.1

TCHP should prepare and maintain support for determining the qualification to report affiliate expenses at fair market value prior to reporting on the FSRs.

Management Response

Action Plan

TCHP will perform its analyses of fair market value payments with affiliates prior to reporting such expenses on the FSRs.

Responsible Manager

Assistant Vice President of Finance

Target Implementation Date

TCHP is currently performing the fair market value analyses for State Fiscal Year 2024, and will be completed by August 31, 2023.

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[29] TCHP paid three of these affiliates—Texas Children's Hospital, Texas Children's Physician Services Organization, and Texas Children's Urgent Care—through a fee-for-service model, and TCHP paid Texas Children's Pediatrics through both fee-for-service and capitation models.

[30] Uniform Managed Care Manual, Chapter 6.1, § I(E)(3), v. 2.7 (May 29, 2019) through v. 2.9 (June 14, 2021).

Chapter 1.2: TCHP Did Not Provide Detailed Fair Market Value Analysis for Affiliate Expenses Reported on the Medical FSRs

After 2021 but before the 334-day FSRs were due to HHSC, TCHP engaged a third-party actuarial firm to perform a retroactive fair market value analysis for the affiliate medical fee-for-service and capitation expenses it paid in 2021.[31] The third-party actuarial firm produced four reports summarizing its fair market value analysis and conclusions for each of the four affiliates. TCHP provided these four reports—dated between February 22, 2022, and February 25, 2022—to OIG Audit during the audit planning phase in response to OIG Audit's request for support used to determine the qualification to report affiliate expenses at fair market value.

These reports identified a population of nonaffiliated provider claims paid by TCHP that the third-party actuarial firm deemed standardized, equivalent, measurable, and comparable. Further, based on its experience with Medicare Advantage Plan bids, the third-party actuarial firm determined in the Texas Children's Urgent Care report that affiliate medical expenses reported on the FSRs were at fair market value if within a five percent reimbursement range of nonaffiliated providers. TCHP asserted that the fair market value reimbursement range within five percent of nonaffiliated providers was also applicable to all fair market value reports produced for 2021.

TCHP and its third-party actuarial firm did not obtain assurance from HHSC that it was appropriate to use the Medicare Advantage Plan bid instructions to determine fair market value for affiliate medical fee-for-service and capitation expenses. Based on the fair market value calculations performed by TCHP's contracted third-party actuarial firm, OIG Audit used the Medicare Advantage Plan bid instructions in its fair market value recalculations; however, OIG Audit does not assert on the appropriateness of using the Medicare Advantage Plan bid instructions to determine fair market value. For all current and future FSRs,

[31] The third-party actuarial firm provided reports for expenses paid to Texas Children's Hospital, Texas Children's Pediatrics, Texas Children's Physician Services Organization, and Texas Children's Urgent Care.

HHSC maintains full discretion to determine if it is appropriate to use the Medicare Advantage Plan bid instructions to determine fair market value.

OIG Audit requested that TCHP provide the detailed analysis performed by the third-party actuarial firm to support the fair market value reports. However, TCHP was unable to meet this request because its contract did not allow distribution of the third-party actuarial firm's detailed analysis. MCOs must provide access to any subcontractor records related to the scope of the Uniform Managed Care Contract and related subcontracts to (a) HHSC, (b) any other state or federal entity identified by HHSC, and (c) any entity engaged with HHSC.[32,33] While OIG Audit inquired about the analysis used to reach the conclusions in the fair market value reports, OIG Audit could not fully assess the validity of methodologies and assumptions used in the fair market value analysis.

For example, the fair market value analysis for Texas Children's Hospital was performed for the period from October 2020 through September 2021 and considered outpatient and inpatient claims separately. When analyzing the fair market value of outpatient claims, the third-party actuarial firm considered 70 Healthcare Common Procedure Coding System codes,[34] which represented 24 percent of the total allowed outpatient claims expenses at Texas Children's Hospital and excluded the remaining 76 percent of allowed outpatient claims expenses. Further, when analyzing the fair market value of inpatient claims, the third-party actuarial firm considered non-outlier inpatient admissions,[35] which represented 84 percent of the total allowed inpatient claims expenses at Texas Children's Hospital and excluded the remaining 16 percent of allowed inpatient claims expenses. Table 3 estimates the dollar amount of outpatient and inpatient claims expenses that the third-party actuarial firm excluded from the Texas Children's Hospital fair market value analysis using amounts reported on the

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[32] Uniform Managed Care Contract, Attachment A, §§ 9.02(a) and 9.03(a)–(b), v. 2.31 (Sept. 1, 2020) through v. 2.35 (Mar. 1, 2022).

[33] Uniform Managed Care Manual, Chapter 6.1, § I(E)(3), v. 2.7 (May 29, 2019) through v. 2.9 (June 14, 2021).

[34] Healthcare Common Procedure Coding System codes are billing codes published by CMS to identify medical services, procedures, products, and supplies.

[35] Outlier inpatient admissions are inpatient claims that meet the criteria for exceptionally long lengths of stay, which allows a supplemental outlier payment to compensate for the additional expenses.

FSRs. OIG Audit's independent calculation is an estimate based on the information provided by TCHP and details from the third-party actuarial firm's fair market value reports.

Table 3: Estimated Outpatient and Inpatient Claims Expenses Excluded from the Texas Children's Hospital Fair Market Value Analysis for the FSRs

Claim Type	Expenses Paid to Texas Children's Hospital[36]	Percentage of Expenses Excluded	OIG Audit's Estimated Excluded Expenses
Outpatient	$ 133,929,102	76%	$101,786,117
Inpatient	212,837,967	16%	34,054,075
Total	**$346,767,069**		**$135,840,192**

Source: OIG Audit

Recommendation 1.2a

TCHP should request guidance from FRAC regarding the appropriateness of using the Medicare Advantage Plan bid instructions as a basis for determining the fair market value of affiliate medical fee-for-service and capitation expenses. While the use of fair market value reporting does not require HHSC's prior approval, failure to obtain assurance for utilizing non-Medicaid guidelines could be subject to HHSC's determination of allowability.

Management Response

Action Plan

There is no published regulation or guidance on the methodology MCOs should follow for fair market value assessments. TCHP's third party subcontractor followed the CMS Medicare Advantage methodology for fair market value in line with nationally recognized standards. TCHP will provide the fair market value analyses for State Fiscal Year 2024 to HHSC FRAC once

[36] For each service type it reported on the Medical FSRs, TCHP provided OIG Audit with the amount of expenses that it paid to Texas Children's Hospital. In Table 3, the expenses paid to Texas Children's Hospital (a) are limited to amounts fully attributable to outpatient or inpatient service types and (b) exclude amounts attributable to service types with both outpatient and inpatient services, such as behavioral health services. As a result, the total expenses paid to Texas Children's Hospital as listed in Table 3 will not reconcile to Tables 4 and 6.

completed, and will work with HHSC FRAC to determine the appropriateness of the methodologies used as a basis in the analyses.

Responsible Manager

Assistant Vice President of Finance

Target Implementation Date

TCHP has offered to meet with HHSC FRAC to discuss the fair market value methodology planned for the current fair market value analyses for State Fiscal Year 2024, which will be completed and shared with HHSC FRAC prior to August 31, 2023.

Recommendation 1.2b

TCHP should implement a process to ensure all subcontractors provide HHSC and its designees prompt, reasonable, and adequate access to any support that is related to the scope of the contract between HHSC and TCHP, as required by the Uniform Managed Care Contract.

Management Response

Action Plan

TCHP has a process in place for regulatory obligations to be included in subcontractor agreements, including provisions that subcontractors provide HHSC and its designees prompt, reasonable, and adequate access to any support that is related to the scope of the contract between HHSC and TCHP, as required by the Uniform Managed Care Contract. In the matter of this subcontractor, TCHP determined there was a gap due to a transition in personnel. The appropriate addendum will be added to this agreement and our process will be reviewed to ensure proper controls are in place to prevent this from occurring going forward.

Responsible Manager

Assistant Vice President of Compliance and SIU

Target Implementation Date

September 2023

Chapter 1.3: TCHP Paid Above Fair Market Value to Some Affiliates for Expenses Reported on the Medical FSRs

Per the fair market value analysis performed by the third-party actuarial firm, TCHP paid three of the four affiliates above fair market value for medical fee-for-service and capitation expenses it reported on the Medical FSRs.

After receiving the fair market value analysis from the third-party actuarial firm, TCHP did not adjust its reported expenses paid to the three affiliates—Texas Children's Pediatrics, Texas Children's Physician Services Organization, and Texas Children's Urgent Care—to the determined fair market value on the Medical FSRs. Based on these reports, TCHP paid its affiliates an estimated $16,685,451 of affiliate medical fee-for-service and capitation expenses above fair market value.[37] Appendix C provides additional details about this estimated amount.

In response to OIG Audit communicating the estimated $16,685,451 of overstated affiliate expenses paid and reported above fair market value on the Medical FSRs, TCHP met with its third-party actuarial firm and identified two additional fair market value reports for Texas Children's Physician Services Organization and Texas Children's Urgent Care that were produced within 30 days of the original reports. TCHP asserted that it was previously unaware of these reports because prior management requested the reports after TCHP's third-party actuarial firm provided the results of the original reports. Instead of using TCHP's paid claims to its affiliates compared to non-affiliates to calculate fair market value, these additional reports used TCHP's contracts with its affiliates compared to other MCO contracts with TCHP's affiliates.

Once TCHP became aware of these additional reports in April 2023, TCHP engaged its third-party actuarial firm to perform a new retroactive fair market value analysis for the affiliate expenses it paid in 2021 to Texas Children's Pediatrics. TCHP requested that this report follow a similar methodology to the

[37] OIG Audit determined the estimated inaccurately reported affiliate medical fee-for-service and capitation expenses for each affiliate by calculating the amount the affiliate was paid above the five percent reimbursement range of nonaffiliate providers.

additional reports covering Texas Children's Physician Services Organization and Texas Children's Urgent Care. However, since the new report covering Texas Children's Pediatrics was (a) initiated and generated after the audit engagement was initiated, (b) not a part of TCHP's historical process for determining fair market value, and (c) completed after the deadline to submit the 334-day FSRs to HHSC, OIG Audit did not consider the report when determining audit results.

The original Texas Children's Hospital report, the Texas Children's Pediatrics report, and the additional reports covering Texas Children's Physician Services Organization and Texas Children's Urgent Care indicated that TCHP inaccurately reported an estimated $5,214,617 of affiliate medical fee-for-service and capitation expenses on the Medical FSRs. Appendix C provides additional details about this estimated amount.

OIG Audit accepted these additional reports performed by TCHP's third-party actuarial firm as evidence that TCHP inaccurately reported an estimated $5,214,617 (in lieu of $16,685,451) of affiliate medical fee-for-service and capitation expenses above fair market value on the Medical FSRs.

Table 4 provides additional details on TCHP's estimated affiliate expenses reported above fair market value based on the original reports and the additional reports.

Table 4: Summary of TCHP's Estimated Medical Fee-for-Service and Capitation Expenses Adjustments

Affiliate Fair Market Value Reports	TCHP's Reported Expenses	OIG Audit's Adjusted Amount	OIG Audit's Calculated Affiliate Expenses Reported Above Fair Market Value
Original	$468,942,401	$452,256,950	$16,685,451
Additional	$468,942,401	$463,727,784	$ 5,214,617

Source: OIG Audit

Recommendation 1.3

TCHP should implement a process to (a) determine when adjustments to fair market value are required for affiliate fee-for-service and capitation medical expenses reported on the Medical FSRs and (b) adjust the reported expenses to fair market value when required.

Management Response

Action Plan

TCHP will review the fair market value analyses to determine if affiliate expenses are above fair market value beginning in State Fiscal Year 2024, and will calculate an adjustment to affiliate expenses to be incorporated into the 90 and 334 day FSRs.

Responsible Manager

Assistant Vice President of Finance

Target Implementation Date

December 2023

Affiliate Transactions

Chapter 2: TCHP Did Not Report All Affiliate Expenses on the Medical FSRs

On the Medical FSRs, Part 5, an MCO must report its total related party expenses to reflect the total medical expenses paid to any companies affiliated with the MCO through common ownership that are included in the total medical expenses reported.[38,39,40]

On the Medical FSRs, Part 5, TCHP only reported its total related party expenses to reflect affiliate fee-for-service expenses that were included in the total medical expenses reported. As a result, TCHP included some of its affiliate medical expenses—such as those related to capitation, alternative payment models,[41] and patient-centered medical home[42] services—in the total medical expenses reported on the Medical FSRs but did not include these expenses in the total related party expenses.

TCHP asserted that, historically, TCHP's affiliate medical expenses were limited to fee-for-service expenses; therefore, it did not have a process to include other types of affiliate medical expenses when reporting total related party expenses on the Medical FSRs, Part 5. As a result, TCHP did not report $74,540,153 of total related party expenses on the Medical FSRs, Part 5, as required. The

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[38] Uniform Managed Care Manual, Chapter 5.3.1.70, "Part 5: Medical Expenses by Service Type, Line 19: Total Related Party Expenses," v. 2.1 (Dec. 15, 2018).

[39] Uniform Managed Care Manual, Chapter 5.3.1.90, "Part 5: Medical Expenses by Service Type, Line 20: Total Related Party Expenses," v. 2.0 (June 1, 2021) through v. 2.0.1 (Aug. 1, 2021).

[40] Uniform Managed Care Manual, Chapter 5.3.1.92, "Part 5: Medical Expenses by Service Type, Line 32: Total Related Party Expenses," v. 2.0 (June 1, 2021) through v. 2.0.1 (Aug. 1, 2021).

[41] Alternative payment models are quality-based and shared savings provider payment models designed to improve health outcomes for members; empower members and improve experience of care; lower health care cost trends; and incentivize providers.

[42] A patient-centered medical home is a medical relationship between a primary care physician and patient in which the physician provides comprehensive primary care to the patient and facilitates partnerships between the patient, acute care, and other care providers.

underreported amount does not impact the estimated experience rebate amount owed to HHSC; however, inaccurately reporting affiliate expenses in the total related party expenses limits transparency in the amounts paid to affiliates and can limit HHSC's ability to provide oversight. Table 5 provides additional details about these amounts.

Table 5: TCHP's Estimated Adjustments to Total Related Party Expenses on the Medical FSRs, Part 5

Category	Total Related Party Expenses on the Medical FSRs, Part 5
TCHP's reported amount	$467,936,915
OIG Audit's adjusted amount	542,477,068
Underreported amount	**$ 74,540,153**

Source: OIG Audit

Recommendation 2

TCHP should include all affiliate medical expenses it reports in the total related party expenses on the Medical FSRs, Part 5.

Management Response

Action Plan

TCHP agrees that all non-fee-for-service medical expenses were inadvertently not reported on the total related party line of Part 5 of the Medical FSRs. This inadvertent error was in a disclosure only line item, and therefore did not impact the total cost to the Texas Medicaid program or Experience Rebate. TCHP has updated its procedures used to prepare the FSRs to ensure that all expenses paid to affiliates are appropriately reported in the related party line of Part 5 of the Medical FSRs.

Responsible Manager

Assistant Vice President of Finance

Target Implementation Date

Completed.

Corporate Allocations

Based on interviews and walkthroughs with knowledgeable TCHP management and staff, TCHP had internal controls related to (a) identifying and removing unallowable administrative expenses[43] and (b) reconciling Medical and Combined FSR data to the general ledger. As a result, OIG Audit tested the effectiveness of the controls and found the controls generally operating as intended. However, TCHP had some control deficiencies in corporate allocations performed by one of its affiliates, Texas Children's Hospital, related to (a) reporting of estimates resulting in an understatement on the FSR and (b) reporting accruals.

Key TCHP Internal Controls for FSR Reporting

Through an administrative expense review on the Combined FSR, TCHP identified unallowable general ledger expenses and—based on dates of service, departments, cost centers,[44] accrual journal entries,[45] general ledger accounts, and keywords defined in its policies and procedures—manually removed these expenses from the reported administrative expenses.

Prior to submitting the Medical and Combined FSRs to HHSC, TCHP also performs a review, which consists of a reconciliation report summarizing the data in the Medical and Combined FSRs for each program and every service area covered by TCHP. TCHP reconciles the review files to the general ledger, checks for reasonableness, and investigates or explains any variances. TCHP management reviewed and approved the results of these reviews prior to submitting the Medical and Combined FSRs to HHSC.

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[43] Administrative expenses are costs not directly tied to providing individual services but related to the entity as a whole. For example, utility bills are considered administrative expenses.

[44] Cost centers are business functions or departments that do not directly generate income.

[45] An accrual is an accounting adjustment used for expenses that have been incurred but not yet paid.

Chapter 3.1: TCHP Reported Estimated Expenses for Some Corporate Allocations on the Combined FSR

TCHP used estimates based on prior-year and current-year interim corporate allocations for one of its affiliates, Texas Children's Hospital. TCHP did not perform the required true-up of actual expenses for Texas Children's Hospital prior to submitting the 334-day Combined FSR. MCOs must (a) perform a true-up of the actual allowable expenses incurred by the affiliate prior to submitting the 334-day FSRs and (b) modify the FSRs to only report allowable costs.[46,47,48]

Based on an internal calculation,[49] TCHP determined the difference between the estimated and actual corporate allocation for Texas Children's Hospital was not material. As a result, TCHP (a) did not true-up the corporate allocation to reflect the actual amount on the Combined FSR and (b) understated expenses on the Combined FSR by $188,692.78. Table 6 provides additional details about this amount.

Table 6: TCHP's Underreported Corporate Allocations

Category	Corporate Allocations
TCHP's reported amount	$9,422,755
OIG Audit's adjusted amount	9,611,448
Underreported amount	**$ 188,693**

Source: OIG Audit

46 Uniformed Managed Care Manual, Chapter 5.3.1.84, "Admin - Part 1: Administrative Expenses," v. 2.0 (Dec. 15, 2018) through v. 2.1 (Mar. 15, 2021).

47 Uniformed Managed Care Manual, Chapter 6.1, § I(E)(5), v. 2.7 (May 29, 2019) through v. 2.9 (June 14, 2021).

48 Uniformed Managed Care Manual, Chapter 6.1, § I(D)(4), v. 2.7 (May 29, 2019) through v. 2.9 (June 14, 2021).

49 TCHP used the 2021 materiality calculation from its annual independent audit as a threshold to determine what may have represented a material misstatement that warranted an adjustment to its financial statements. 28 Tex. Admin. Code § 7.88 (Aug. 31, 2010, through Apr. 26, 2021) requires that each MCO undergo an annual independent audit.

Recommendation 3.1

TCHP should implement a process to true-up all estimates to actual expenses before it submits the 334-day FSRs to HHSC.

Management Response

Action Plan

TCHP currently has controls and processes to review all true-ups of estimated corporate allocation expenses, which identified that the aforementioned excluded expenses resulted in an understatement of corporate allocations. The finding was a de minimis amount resulting in no additional cost to the Texas Medicaid program, which is why TCHP did not record the adjustment. TCHP will continue with its current controls and processes, but will record all entries without consideration to materiality in accordance with UMCM Chapter 6.1 Cost Principles.

Responsible Manager

Assistant Vice President of Finance

Target Implementation Date

August 2023 in conjunction with the State Fiscal Year 2022 334-day FSRs

Chapter 3.2: TCHP Reported Corporate Allocation Expenses That Included Accrual Amounts

On the Combined FSR, TCHP reported corporate allocations from one of its affiliates, Texas Children's Hospital, for four allocated cost centers that included $9.0 million in accruals. Prior to submitting the 334-day FSRs, TCHP and Texas Children's Hospital each migrated to a new enterprise resource planning software. As a result, TCHP and Texas Children's Hospital each lost (a) the application it used to perform the cost center allocation and (b) tracking for the subsequent actual payments for accruals that needed to be trued up to actual amounts for the Combined FSR. To reduce the risk of understating or overstating expenses on the Combined FSR, TCHP reported the accruals as stated on August 31, 2022.[50,51]

During the audit, TCHP substantiated the actual expenses for the largest vendor included in the accruals. OIG Audit (a) performed limited testing of the actual amounts for this vendor to determine a 1.6 percent variance for the accruals versus the actual amounts and (b) determined that this variance was reasonable based on the low potential monetary impact to the full population. Therefore, OIG Audit did not perform testing on the remainder of the accruals.

Recommendation 3.2

TCHP should implement a process to track actual payments and true-up administrative expenses to report costs actually incurred in the FSRs.

Management Response

Action Plan

TCHP currently has controls, processes, and reporting to track actual payments to be included in the FSRs. TCHP agrees with the observation that it elected to report accruals for these allocations as stated due to a one-time disruption

[50] Uniformed Managed Care Manual, Chapter 5.3.1.84, "Admin - Part 1: Administrative Expenses," v. 2.0 (Dec. 15, 2018) through v. 2.1 (Mar. 15, 2021).

[51] Uniformed Managed Care Manual, Chapter 6.1, § I(E)(5), v. 2.7 (May 29, 2019) through v. 2.9 (June 14, 2021).

associated with the implementation of a new enterprise resource planning software. This resulted in a nominal monetary risk impact to the Texas Medicaid program. TCHP implemented new reporting within the enterprise resource planning software to supplement its existing controls and processes which is being used in preparation of current FSRs.

Responsible Manager

Assistant Vice President of Finance

Target Implementation Date

Completed

Observations

Chapter 4: Observations

The observations identified in this report represent opportunities for written education to TCHP and do not include recommendations. OIG Audit observed that TCHP:

- Did not include alternative payment model expenses paid to affiliates in its fair market value analysis.
- Reported expenses above its provider rate for 16 of 30 affiliate inpatient claims expenses tested.

Alternative Payment Model Expenses Reported on the Medical FSRs

On the Medical FSRs, TCHP reported $7.6 million in alternative payment model expenses paid to two of its affiliates, Texas Children's Hospital and Texas Children's Pediatrics. However, these alternative payment model expenses paid to the affiliates were excluded from the fair market value analysis performed by TCHP's third-party actuarial firm. Additionally, TCHP did not track the actual costs incurred by its affiliates for these expenses.

TCHP should seek guidance from FRAC to determine an appropriate treatment for documenting and supporting its rationale for reporting alternative payment model expenses to affiliates.

Medical Claims Expenses on the STAR Kids Medical FSR–Harris

TCHP inaccurately reported some medical claims expenses it paid to one of its affiliates, Texas Children's Hospital, on the STAR Kids Medical FSR–Harris. Expenses an MCO reports on the Medical FSRs must be necessary, reasonable, and consistent with the MCO's policies and procedures.[52]

[52] 2 C.F.R. § 200.403(a) and (c) (Dec. 26, 2013, and Nov. 12, 2020).

OIG Audit tested 42 affiliate medical claims TCHP reported on the STAR Kids Medical FSR–Harris, which consisted of 12 outpatient claims and 30 inpatient claims. All 12 of the outpatient claims tested were allowable, fully supported, and reported accurately. However, TCHP reported 16 of 30 (53.3 percent) inpatient claims tested at a higher rate than the contracted provider rate with Texas Children's Hospital. As a result, TCHP overstated $134,987 in inpatient claims expenses on the STAR Kids Medical FSR–Harris.

Due to ongoing work at OIG that includes the tested population of Texas Children's Hospital claims, OIG Audit did not include these expenses in the estimated experience rebate impact.

TCHP should consider implementing a process to verify inpatient claim expenses included on the Medical FSRs are reported accurately and in accordance with its policies, procedures, and contracted provider rates.

Appendix A: Objective, Scope, and Criteria

Objective and Scope

The audit objective was to determine whether (a) TCHP reported expenses on selected components of its Medical and Combined FSRs submitted to HHSC in accordance with contract requirements and laws and (b) the related internal controls over the preparation of the FSRs were designed and operating effectively.

The audit scope covered TCHP's affiliate transactions on the Medical FSRs and internal controls over the preparation of the Medical and Combined FSRs for state fiscal year 2021, which covered the period from September 1, 2020, through August 31, 2021.

Criteria

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

- 2 C.F.R. § 200.403 (2013 and 2020)
- Uniform Managed Care Contract, Attachment A, §§ 9.02 and 9.03, v. 2.31 (2020) through v. 2.35 (2022)
- Uniform Managed Care Contract, Attachment B-1, § 8.1.17.1, v. 2.31 (2020) through v. 2.35 (2022)
- Uniform Managed Care Manual, Chapter 5.3.1.70, v. 2.1 (2018)
- Uniform Managed Care Manual, Chapter 5.3.1.84, v. 2.0 (2018) through v. 2.1 (2021)
- Uniform Managed Care Manual, Chapter 5.3.1.90, v. 2.0 (2021) through v. 2.0.1 (2021)
- Uniform Managed Care Manual, Chapter 5.3.1.92, v. 2.0 (2021) through v. 2.0.1 (2021)
- Uniform Managed Care Manual, Chapter 6.1, v. 2.7 (2019) through v. 2.9 (2021)

Appendix B: Methodology and Data Reliability

OIG Audit issued an engagement letter to TCHP on December 16, 2022, providing information about the upcoming audit, and conducted fieldwork from December 16, 2022, through April 6, 2023. OIG Audit reviewed selected portions of TCHP's Medical FSRs, Parts 1, 4, and 5, for the STAR program in two service areas: Harris and Jefferson; the STAR Kids program in three service areas: Harris, Jefferson, and Medicaid Rural Service Area (MRSA) Northeast; and CHIP in two service areas: Harris and Jefferson. 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 TCHP's Medical FSRs:

- STAR Medical FSR–Harris and Jefferson:
  - Part 1:
    - Line 15 – Fee-For-Service
    - Line 16 – Capitated Services
  - Part 5:
    - Line 20 – Total Related Party Expenses
- STAR Kids Medical FSR–Harris, Jefferson, and MRSA Northeast:
  - Part 1:
    - Line 13 – Fee-For-Service
    - Line 14 – Capitated Services
  - Part 5:
    - Line 32 – Total Related Party Expenses
- CHIP Medical FSR–Harris and Jefferson:
  - Part 1:
    - Line 14 – Fee-For-Service
  - Part 5:
    - Line 19 – Total Related Party Expenses

Additionally, OIG Audit tested controls related to selected portions of the following revenues and expenses on TCHP's Medical FSRs:

- STAR Medical FSR–Harris and Jefferson:
  - Part 1:
    - Line 1 – Member Months
    - Line 3 – Medical Premiums
    - Line 4 – Delivery Supplemental Payments
    - Line 5 – Pharmacy Premiums
    - Line 15 – Fee-For-Service
    - Line 16 – Capitated Services
    - Line 20 – Quality Improvement
    - Line 23 – Prescription Expenses (excluding PBM Admin)
    - Line 25 – Administrative Expenses
  - Part 4b:
    - Line 64 – Total Other Medical Expenses
- STAR Kids Medical FSR–Harris, Jefferson, and MRSA Northeast:
  - Part 1:
    - Line 1 – Member Months
    - Line 3 – Medical Premiums
    - Line 4 – Pharmacy Premiums
    - Line 13 – Fee-For-Service
    - Line 14 – Capitated Services
    - Line 18 – Quality Improvement
    - Line 19 – Other Medical Expenses
    - Line 22 – Prescription Expenses (excluding PBM Admin)
    - Line 24 – Administrative Expenses
- CHIP Medical FSR–Harris and Jefferson:
  - Part 1:
    - Line 1 – Member Months
    - Line 3 – Medical Premiums
    - Line 4 – Delivery Supplemental Payments
    - Line 5 – Pharmacy Premiums
    - Line 14 – Fee-For-Service
    - Line 15 – Capitated Services

        - Line 19 – Quality Improvement
        - Line 21 – Prescription Expenses (excluding PBM Admin)
        - Line 23 – Administrative Expenses
    - Part 4b:
        - Line 49 – Total Other Medical Expenses

OIG Audit reviewed TCHP's Combined FSR, which consisted of two sections—an administrative section (Administrative FSR) and a quality improvement section (Quality Improvement FSR). Each part of these FSR sections is divided into line items, which indicate the type of expenses stated. OIG Audit tested controls related to all expenses reported on the Administrative FSR, Part 1, and the following expenses on the Quality Improvement FSR:

- Quality Improvement FSR–Part 1:
    - Line 1 – Salaries, wages, and benefits (excl. bonuses)
    - Line 3 – Rent, Lease, or Mortgage Payment for Office Space
    - Line 22 – Depreciation and Amortization
    - Line 27 – Total Quality Improvement Expenses

OIG Audit reviewed TCHP's system of internal controls, including components of internal control,[53] within the context of the audit objectives by:

- Interviewing TCHP 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 TCHP's information systems and supporting documents.

[53] 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).

Sampling Methodology and Data Reliability

Auditors selected nonstatistical samples related to medical claims expenses reported on the STAR Kids Medical FSR–Harris. This sample design was chosen to include items with specific characteristics, such as claims paid to affiliates, and to address specific risk factors identified in the population, such as expense amount and claim type. The sample items were not representative of the populations; therefore, it would not be appropriate to project the test results to the populations.

To assess the reliability of data related to expenses reported on the selected Medical FSRs and the Combined FSR, auditors (a) analyzed the data for reasonableness and completeness, (b) compared the data against published FSR data, (c) reconciled the data file 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: Fair Market Value Analysis

Table C.1 provides additional details about inaccurately reported affiliate medical fee-for-service and capitation expenses above fair market value on the Medical FSRs based on the original and additional fair market value analysis reports.

Table C.1: TCHP's Estimated Medical Fee-for-Service and Capitation Expenses Adjustments by Affiliate with the Additional Reports Covering Texas Children's Physician Services Organization and Texas Children's Urgent Care

Affiliate	TCHP's Reported Expenses	Reimbursement Rate Above Non-Affiliates	OIG Audit's Adjusted Amount	OIG Audit's Calculated Affiliate Expenses Reported Above Fair Market Value
Texas Children's Hospital	$ 378,228,068	less than or equal to 5%	$ 378,228,068	—
Texas Children's Pediatrics	22,462,669	23%	19,175,449	$3,287,220
Texas Children's Physician Services Organization	61,309,485	see Table C.3	59,382,088	1,927,397
Texas Children's Urgent Care	6,942,178	less than or equal to 5%	6,942,178	—
Total	**$468,942,401**[54]		**$463,727,784**[54]	**$ 5,214,617**

Source: OIG Audit

Per the original fair market value analysis performed by the third-party actuarial firm, TCHP paid three of the four affiliates above fair market value for medical fee-for-service and capitation expenses it reported on the Medical FSRs. Specifically, TCHP paid:

- Texas Children's Hospital within the five percent fair market value reimbursement range of nonaffiliated providers.
- Texas Children's Pediatrics at a 23 percent reimbursement rate above nonaffiliated providers.

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[54] Discrepancy between the individual amounts and the total is due to rounding.

- Texas Children's Physician Services Organization at a 34 percent reimbursement rate above nonaffiliated providers.
- Texas Children's Urgent Care at a seven percent reimbursement rate above nonaffiliated providers.

Table C.2 provides additional details about these amounts.

Table C.2: TCHP's Estimated Medical Fee-for-Service and Capitation Expenses Adjustments by Affiliate Based on the Original Reports

Affiliate	TCHP's Reported Expenses	Reimbursement Rate Above Non-Affiliates	OIG Audit's Adjusted Amount	OIG Audit's Calculated Affiliate Expenses Reported Above Fair Market Value
Texas Children's Hospital	$ 78,228,068	less than or equal to 5%	$ 378,228,068	—
Texas Children's Pediatrics	22,462,669	23%	19,175,449	$ 3,287,220
Texas Children's Physician Services Organization	61,309,485	34%	48,041,014	13,268,471
Texas Children's Urgent Care	6,942,178	7%	6,812,418	129,760
Total	**$468,942,401**[55]		**$452,256,950**[55]	**$16,685,451**

Source: OIG Audit

The additional report provided covering Texas Children's Physician Services Organization identified 12 months of fee-for-service claims TCHP paid to Texas Children's Physician Services Organization for the STAR program, the STAR Kids program, and CHIP. The report compared TCHP's repriced claims to the three nonaffiliated MCOs' contracted rates for each program and determined if the Texas Children's Physician Services Organization fee-for-service expenses were reported on the FSRs at fair market value. Per the report, TCHP paid Texas Children's Physician Services Organization above fair market value for medical fee-for-service expenses it reported on the Medical FSRs in two out of the three

[55] Discrepancy between the individual amounts and the total is due to rounding.

programs. Specifically, TCHP paid Texas Children's Physician Services Organization:

- At an 8.3 percent reimbursement rate above nonaffiliated MCOs for the STAR program.
- Within the five percent fair market value reimbursement range of nonaffiliated MCOs for the STAR Kids program.
- At a 24.5 percent reimbursement rate above nonaffiliated MCOs for CHIP.

Table C.3 provides additional details about these amounts.

Table C.3: TCHP's Estimated Medical Fee-for-Service Expenses Adjustments for Texas Children's Physician Services Organization Based on the Additional Report

Program	TCHP's Reported Expenses	Reimbursement Rate Above Non-Affiliates	OIG Audit's Adjusted Amount	OIG Audit's Calculated Affiliate Expenses Reported Above Fair Market Value
STAR	$ 43,408,183	8.3%	$ 42,085,496	$ 1,322,687
STAR Kids	14,040,460	less than or equal to 5%	14,040,460	—
CHIP	3,860,842	24.5%	3,256,132	604,710
Total	**$61,309,485**		**$59,382,088**	**$1,927,397**

Source: OIG Audit

Additionally, the report covering Texas Children's Urgent Care compared TCHP's contracted rate with Texas Children's Urgent Care to two nonaffiliated MCOs' contracted rates with Texas Children's Urgent Care. Per the report, TCHP paid Texas Children's Urgent Care within the five percent fair market value reimbursement range of nonaffiliated MCOs for fee-for-service expenses it reported on the Medical FSRs.

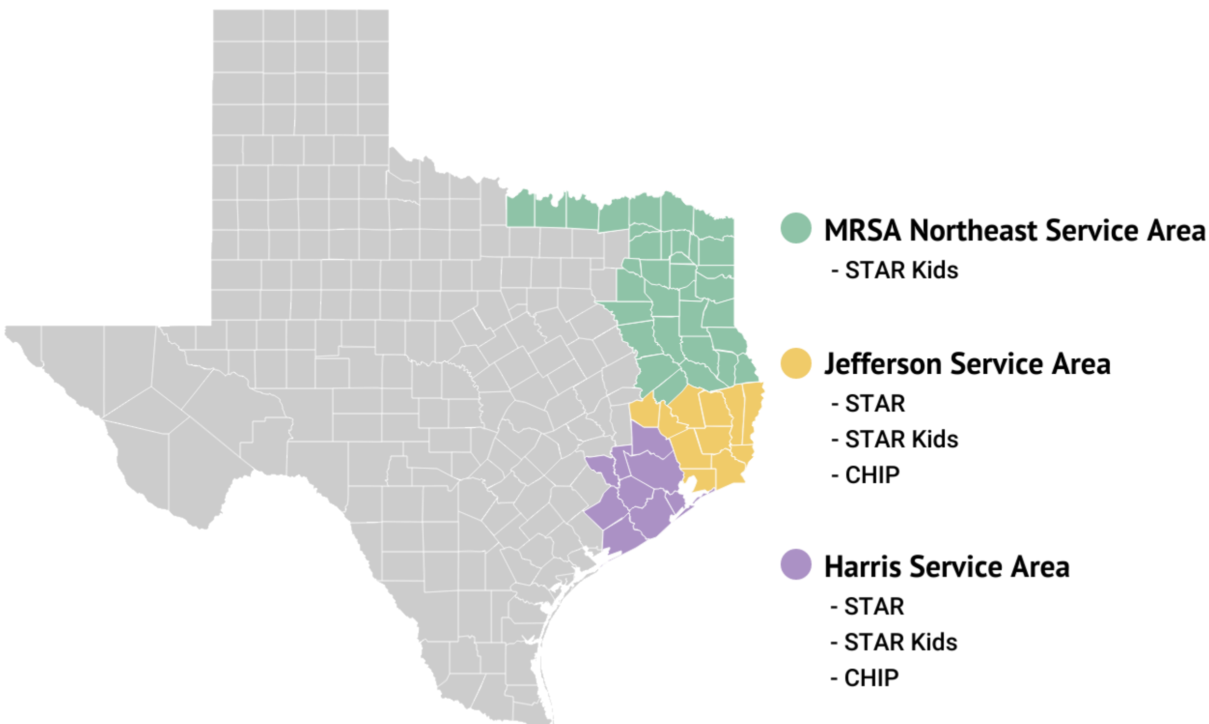
OIG Audit allowed these additional reports as evidence that TCHP overstated its Medical FSR claims expense by $5,214,617. OIG Audit does not assert which method used in the original reports or the additional reports is appropriate to determine fair market value.

Appendix D: HHSC Service Areas Covered by TCHP

TCHP provides health care services to Texas Medicaid and CHIP members in the Harris, Jefferson, and Medicaid Rural Service Area (MRSA) Northeast service areas through the STAR program, the STAR Kids program, and CHIP.

Figure D.1 illustrates the Texas managed care service areas and associated programs covered by TCHP.

Figure D.1: Texas Managed Care Service Areas and Programs Covered by TCHP



Source: OIG Audit, compiled from information contained in "MCO Service Area Information," HHS, https://www.txvendordrug.com/sites/default/files/docs/mco-service-area-information.pdf (accessed Feb. 9, 2023)

Table D.1 identifies the Texas counties included in the service areas covered by TCHP.

Table D.1: TCHP Service Area Counties[56]

Service Area	Texas Counties
Harris	Austin, Brazoria, Fort Bend, Galveston, Harris, Matagorda, Montgomery, Waller, and Wharton
Jefferson	Chambers, Hardin, Jasper, Jefferson, Liberty, Newton, Orange, Polk, San Jacinto, Tyler, and Walker
MRSA Northeast	Anderson, Angelina, Bowie, Camp, Cass, Cherokee, Cooke, Delta, Fannin, Franklin, Grayson, Gregg, Harrison, Henderson, Hopkins, Houston, Lamar, Marion, Montague, Morris, Nacogdoches, Panola, Rains, Red River, Rusk, Sabine, San Augustine, Shelby, Smith, Titus, Trinity, Upshur, Van Zandt, and Wood

Source: OIG Audit compiled from information contained in "MCO Service Area Information," HHS, https://www.txvendordrug.com/sites/default/files/docs/mco-service-area-information.pdf (accessed Feb. 9, 2023)

[56] The counties included in each service area are current as of December 7, 2022.

Appendix E: Summary of Recommendations

Table E.1: Summary of Recommendations to TCHP

No.	Recommendation
1.1	TCHP should prepare and maintain support for determining the qualification to report affiliate expenses at fair market value prior to reporting on the FSRs.
1.2a	TCHP should request guidance from FRAC regarding the appropriateness of using the Medicare Advantage Plan bid instructions as a basis for determining the fair market value of affiliate medical fee-for-service and capitation expenses. While the use of fair market value reporting does not require HHSC's prior approval, failure to obtain assurance for utilizing non-Medicaid guidelines could be subject to HHSC's determination of allowability.
1.2b	TCHP should implement a process to ensure all subcontractors provide HHSC and its designees prompt, reasonable, and adequate access to any support that is related to the scope of the contract between HHSC and TCHP, as required by the Uniform Managed Care Contract.
1.3	TCHP should implement a process to (a) determine when adjustments to fair market value are required for affiliate fee-for-service and capitation medical expenses reported on the Medical FSRs and (b) adjust the reported expenses to fair market value when required.
2	TCHP should include all affiliate medical expenses it reports in the total related party expenses on the Medical FSRs, Part 5.
3.1	TCHP should implement a process to true-up all estimates to actual expenses before it submits the 334-day FSRs to HHSC.
3.2	TCHP should implement a process to track actual payments and true-up administrative expenses to report costs actually incurred in the FSRs.

Source: OIG Audit

Appendix F: Related Reports

- 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
- Security Controls Over Confidential HHS System Information and Business Continuity and Disaster Recovery Plans: Texas Children's Health Plan, AUD-19-025, July 31, 2019
- Audit of Medicaid and CHIP MCO Special Investigative Units: Texas Children's Health Plan, Inc. SIU, IG-16-016, August 24, 2016

Appendix G: Resources for Additional Information

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

For more information on Medicaid and CHIP Financial Statistical Reports:

"Medicaid & CHIP Financial Statistical Report," HHSC, https://www.hhs.texas.gov/services/health/medicaid-chip/managed-care-contract-management/medicaid-chip-financial-statistical-reports (accessed Feb. 8, 2023)

For more information on Texas Children's Health Plan:

Homepage, Texas Children's Health Plan, https://www.texaschildrenshealthplan.org/ (accessed Feb. 8, 2023)

For more information on Texas Children's:

Homepage, Texas Children's, https://www.texaschildrens.org/ (accessed Apr. 4, 2023)

For more information on Texas Children's Hospital:

"Hospitals," Texas Children's Hospital, https://www.texaschildrens.org/hospital (accessed Feb. 9, 2023)

For more information on TCH Pediatric Associates, Inc. d.b.a. Texas Children's Pediatrics:

Homepage, https://www.texaschildrenspediatrics.org/ (accessed Feb. 9, 2023)

For more information on Texas Children's Urgent Care:

Homepage, https://www.texaschildrensurgentcare.org/ (accessed Feb. 9, 2023)

Appendix H: Report Team and Distribution

Report Team

OIG staff members who contributed to this audit report include:

- Anton Dutchover, CPA, Deputy Inspector General of Audit and Inspections
- Patrick Smith, CIA, CRMA, Senior Managing Auditor
- Abram Valdes, CPA, Senior Auditor
- Andrew O'Brien, Senior Auditor
- James Hicks, CISA, Quality Assurance Reviewer
- Ashley Rains, CPE, CFE, Senior Audit Operations Analyst

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Texas Children's Health Plan, Inc.

- Michael Murphy, President
- Dr. Karen Hill, Senior Vice President, Chief Medical Officer
- Jennifer Little, Vice President of Finance at Texas Children's Hospital and Interim Chief Operating Officer at Texas Children's Health Plan
- Ryan Thompson, Assistant Vice President of Finance
- Geoffrey Petrie, Assistant Vice President of Compliance and SIU
- Joshua Studdard, Assistant Director of Finance

Appendix I: 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:

- Sylvia Hernandez Kauffman, Inspector General
- Kacy J. VerColen, Chief of Audit and Inspections
- Diane Salisbury, Chief of Data Reviews
- Susan Biles, Chief of Staff, Chief of Policy and Performance
- Erik Cary, Chief Counsel
- Matt Chaplin, Chief of Operations
- Steve Johnson, Chief of Investigations and Utilization Reviews

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- 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
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