Audit Report

Administrative Expenses Reported by Molina Healthcare of Texas, Inc. on Its Financial Statistical Report

August 16, 2022
OIG Report No. AUD-22-021

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 Audit and Inspections Division (OIG Audit) conducted an audit of Molina Healthcare of Texas, Inc.'s (Molina's) process for preparing and submitting expenses on its 334-day 2020 Combined Administrative and Quality Improvement Expenses financial statistical report (Combined FSR) based on an identified risk of incorrectly reported expenses on the financial statistical report (FSR), including unallowable expenses without sufficient documentation. When unallowable and questioned expenses are included on FSRs, the reported net income may be inaccurate. As a result, there is a risk that the Texas Health and Human Services Commission (HHSC) may rely on inaccurate information when setting capitation rates and calculating experience rebates.

Molina 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, 2019, through August 31, 2020, Molina reported $122.2 million in administrative expenses on the Administrative section of its Combined FSR, including $75.7 million in corporate allocations. Molina also reported $2.1 billion in total gross revenue and served an average of 202,815 members per month for this period.

Conclusion

Molina Healthcare of Texas, Inc.'s (Molina's) process for preparing and submitting expenses on its 334-day 2020 Combined Administrative and Quality Improvement Expenses financial statistical report (Combined FSR) had some control weaknesses. Molina had a process for preparing financial statistical reports (FSRs), which included effective controls related to completing internal checklists and obtaining approval before submission; however, Molina's Combined FSR included some unallowable expenses, unsupported expenses, expenses incurred in a different fiscal year, and inaccurately reported expenses. As a result, Molina overstated expenses by $1,509,835.

Key Results

Molina had some control weaknesses concerning (a) cost methodology determination and application and (b) its Combined FSR preparation processes. Specifically, on its Combined FSR, Molina:

- Incorrectly used premium revenue as a component of its weighted average allocation methodology in the Administrative section.
- Reported corporate allocations across line items rather than carrying forward the actual classification of the expenses.
- Allocated direct administrative expenses across all its lines of business in Texas rather than limiting the expenses it reported to Texas Medicaid programs and CHIP as required.

As a result of the control weaknesses, Molina incorrectly reported 45 of 104 (43.3 percent) indirect and direct expenses, totaling $964,204, on its Combined FSR. Specifically, Molina reported indirect and direct expenses that were (a) unallowable, (b) unsupported, (c) incurred outside of state fiscal year 2020, and (d) inaccurately reported when compared to support. Of these expenses, $712,576 was not allowable because Molina did not submit an updated bonus and incentive plan for 2020 within the required time frame.

Summary of Review

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

The audit scope included Molina's Combined FSR and related internal controls over the preparation of that FSR for state fiscal year 2020, which covered the period from September 1, 2019, through August 31, 2020.

Background

FSRs are a reporting mechanism used by MCOs to provide financial information, including medical and administrative expenses, related to the Medicaid and CHIP programs in which the MCO participates. MCOs are required to submit quarterly and annual FSRs for each program and every service area for which the MCO provides coverage, and a separate Combined FSR to report administrative expenses. The Combined FSR consists of two sections—an Administrative section and a Quality Improvement section—with four numbered parts each. MCO contracts include limitations on administrative expenses recognized by the Medicaid program and establish profit-sharing provisions. The information reported in the Combined FSR is also used by HHSC to calculate each MCO's experience rebate.

Management Response

Molina predominantly agreed with the audit recommendations and indicated corrective actions would be fully implemented when Molina submits is 334-day 2021 FSRs to HHSC.

For more information, contact:
OIGAuditReports@hhs.texas.gov

Based on the issues identified in sample testing, the Texas Health and Human Services (HHS) Office of Inspector General (OIG) Audit and Inspections Division (OIG Audit) reviewed other similar costs reported on the Combined FSR and identified an additional 682 systemic indirect expenses that should not have been reported on the Combined FSR. Those additional incorrectly reported costs totaled $545,631.

OIG Audit used the results of testing performed to determine an estimated recalculation of the experience rebate owed back to the state of Texas as a result of amounts that were identified as unallowable for inclusion on the FSR. OIG Audit calculates the adjustment of the disallowed expenses applied against Molina's reported net income before taxes would create an additional experience rebate balance of $681,659 owed to the Texas Health and Human Services Commission (HHSC). OIG Audit's calculation is an estimate as of the date of this report without consideration of potential required resubmission of Molina's FSRs, financial requirements applicable to the calculation of the experience rebate, or findings from additional reviews, audits, or contractual interest that may apply. HHSC Financial Reporting and Audit Coordination (FRAC) will be responsible for the final calculation of the experience rebate and will notify Molina of any additional payment owed to HHSC.

Recommendations

Molina should:

- Develop and implement a reasonable allocation methodology for all its indirect business units.
- Ensure indirect expenses reported on the Combined FSR are based on actual expenses.
- Strengthen its processes to identify and remove unallowable expenses.
- Develop a process to ensure other lines of business are not included in direct expenses on the Combined FSR.
- Review business units to determine if unallowable indirect expenses are being included prior to allocation.
- Report indirect and direct expenses in the period corresponding to the dates the services were incurred.
- Maintain documentation that meets the standard in the cost principles for salaries reported on the Combined FSR to justify the amount allocated for individuals with some unallowable job duties.
- Ensure unallowable indirect and direct expenses are not included on the Combined FSR.
- Provide a bonus plan to FRAC in accordance with required time frames and prior to reporting bonus expenses on its FSRs.

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Audit Overview

Overall Conclusion

Molina Healthcare of Texas, Inc.'s (Molina's) process for preparing and submitting expenses on its 334-day 2020 Combined Administrative and Quality Improvement Expenses[1] financial statistical report (Combined FSR)[2,3] had some control weaknesses. Molina had a process for preparing financial statistical reports (FSRs), which included effective controls related to completing internal checklists and obtaining approval before submission; however, Molina's Combined FSR included some unallowable expenses, unsupported expenses, expenses incurred in a different fiscal year, and inaccurately reported expenses. As a result, Molina overstated expenses by $1,509,835.

Objective

The audit objective was to determine whether (a) Molina reported expenses on its Combined FSR 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 FSR were designed and operating effectively.

Scope

The audit scope included Molina's Combined FSR and related internal controls over the preparation of that FSR for state fiscal year 2020, which covered the period from September 1, 2019, through August 31, 2020.

[1] Administrative expenses directly or indirectly benefit Texas Medicaid and CHIP, and quality improvement expenses are activities that improve health care quality.

[2] 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.

[3] 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 2020, the period is September 1, 2019, through August 31, 2020.

Key Audit Results

Molina had some control weaknesses concerning (a) cost methodology determination and application and (b) its Combined FSR preparation processes. Specifically, on its Combined FSR, Molina:

- Incorrectly used premium revenue[4] as a component of its weighted average allocation methodology[5] in the Administrative section.
- Reported corporate allocations[6] across line items rather than carrying forward the actual classification of the expenses.
- Allocated direct administrative expenses[7] across all its lines of business in Texas rather than limiting the expenses it reported to Texas Medicaid programs and the Children's Health Insurance Program (CHIP) as required.

As a result of the control weaknesses, Molina incorrectly reported 45 of 104 (43.3 percent) indirect and direct expenses, totaling $964,204, on its Combined FSR. Specifically, Molina reported indirect and direct expenses that were (a) unallowable, (b) unsupported, (c) incurred outside of state fiscal year 2020, and (d) inaccurately reported when compared to support. Of these expenses, $712,576 was not allowable because Molina did not submit an updated bonus and incentive plan for 2020 within the required time frame.

What Prompted This Audit

The Texas Health and Human Services (HHS) Office of Inspector General (OIG) Audit and Inspections Division (OIG Audit) conducted an audit of Molina's Combined FSR based on an identified risk of incorrectly reported expenses on the FSR, including unallowable expenses without sufficient documentation. When unallowable and questioned expenses are included on FSRs, the reported net income may be inaccurate. As a result, there is a risk that HHSC may rely on inaccurate information when setting capitation rates and calculating experience rebates.

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[4] For purposes of this report, "premium revenue" means revenue generated from a per member per month payment whether paid by the state or some other entity.

[5] Weighted average allocation methodology is a mathematical calculation which gives varying degrees of importance to numbers in the calculation.

[6] 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.

[7] 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 costs.

Based on the issues identified in sample testing, the Texas Health and Human Services (HHS) Office of Inspector General (OIG) Audit and Inspections Division (OIG Audit) reviewed other similar costs reported on the Combined FSR and identified an additional 682 systemic indirect expenses[8] that should not have been reported on the Combined FSR. Those additional incorrectly reported costs totaled $545,631.[9]

Table 1 details the number and amount of Molina's incorrectly reported indirect and direct expenses.

Table 1: Molina's Incorrectly Reported Indirect and Direct Expenses

Finding Type	Tested Expenses		Systemic Expenses	
	Number	Amount	Number	Amount
Indirect Expenses				
Unallowable expenses	22	$ 142,060	679	$543,139[10]
Unsupported expenses	4	13,438	3	2,492
Expenses incurred out of period	2	3,716[11]	—	—
Indirect Subtotal	28	159,214	682	545,631
Direct Expenses				
Unallowable expenses	11[12]	715,458	—	—
Unsupported expenses	1	3,947	—	—
Expenses incurred out of period	1	55	—	—
Inaccurately reported expenses	4	85,530	—	—
Direct Subtotal	17	804,990	—	—
Total	**45**	**$964,204**	**682**	**$ 545,631**

Source: OIG Audit

[8] OIG Audit determined systemic effect by identifying related expenses in Molina's general ledger that indicated the same issues as the expenses tested as part of the audit. For example, systemic salary expenses for an employee found during testing to have unallowable job duties would include salary expenses tested and all salary expenses related to the employee within the general ledger.

[9] OIG Audit did not test the systemic transactions but provided them to Molina during fieldwork as representation of each issue occurring beyond the items tested.

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

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

[12] The number of unallowable direct expenses includes incorrectly reported bonuses on the Administrative and Quality Improvement FSRs.

OIG Audit used the results of testing performed to determine an estimated recalculation of the experience rebate[14] owed back to the state of Texas as a result of amounts that were identified as unallowable for inclusion on the FSR. OIG Audit calculates the adjustment of the disallowed expenses applied against Molina's reported net income before taxes would create an additional experience rebate balance of $681,659 owed to the Texas Health and Human Services Commission (HHSC).
OIG Audit's calculation is an estimate as of the date of this report without consideration of potential required resubmission of Molina's FSRs, financial requirements applicable to the calculation of the experience rebate, or findings from additional reviews, audits, or contractual interest[15] that may apply. HHSC Financial Reporting and Audit Coordination (FRAC) will be responsible for the final calculation of the experience rebate and will notify Molina of any additional payment owed to HHSC. Table 2 provides additional details about these amounts.

Experience Rebate Calculation and Payment

Molina reported net income of $146,720,985 on its 2020 334-day FSRs. As a result, Molina calculated an experience rebate of $24,895,892 owed to HHSC. FRAC confirmed that, as of July 15, 2022, Molina has remitted $24,957,723[13] in payments to HHSC towards its calculated experience rebate.

Table 2: Molina's Experience Rebate Amounts

Category	Amount
Molina's adjusted income subject to an experience rebate	$146,720,985
Molina's incorrectly reported expenses	+$ 1,509,835
OIG Audit's adjusted income subject to an experience rebate	$148,230,820
OIG Audit's Estimated Experience Rebate	**+ $ 681,659**

Source: OIG Audit

[13] Payments by Molina include (a) $24,895,892 towards the experience rebate owed and (b) $61,831 towards interest determined by Molina and added to their payment.

[14] 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.

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

OIG Audit offered recommendations to Molina, which, if implemented, will help ensure compliance with applicable requirements.

The "Detailed Audit Results" section of this report presents additional information about the audit results. In addition, audit issues identified in this report may be referred to HHSC for potential pursuit of enforcement remedies or OIG administrative enforcement measures,[16] including administrative penalties.[17]

OIG Audit presented preliminary audit results, issues, and recommendations to Molina in a draft report dated July 20, 2022. Molina predominantly agreed with the audit recommendations and indicated corrective actions would be fully implemented when Molina submits its 334-day 2021 FSRs to HHSC. Molina's management responses are included in the report following each recommendation.

OIG Audit thanks management and staff at Molina and Molina Healthcare, Inc. (MHI) for their cooperation and assistance during this audit.

Key Program Data

Molina is a managed care organization (MCO) contracted to provide Medicaid and CHIP services to Texas Medicaid and CHIP members through its network of providers.[18] The managed care contracts relevant to this audit include the Uniform Managed Care Contract, the STAR+PLUS Expansion Contract, and the CHIP Rural Service Area Contract. For the purpose of this report, the Uniform Managed Care Contract is used for referencing contract requirements. See Appendix E for a map of Texas areas where Molina provides services.

During the period from September 1, 2019, through August 31, 2020, Molina reported $122.2 million in administrative expenses on the Administrative section of its Combined FSR, including $75.7 million in corporate allocations. Molina also

[16] 1 Tex. Admin. Code § 371.1603 (May 20, 2020).

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

[18] Molina provides health care services in seven service areas—Bexar, CHIP Rural Service Area (RSA), Dallas, El Paso, Harris, Hidalgo, and Jefferson—through the STAR program, the STAR+PLUS program, and CHIP.

reported $2.1 billion in total gross revenue[19] and served an average of 202,815 members per month for this period.

Under the managed care model, MCOs receive a capitation payment for each member enrolled, based on historical expenses by 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.

FSRs are a reporting mechanism used by MCOs to provide financial information, including medical and administrative expenses, related to the Medicaid and CHIP programs in which the MCO participates. MCOs are required to submit quarterly and annual FSRs for each program and every service area for which the MCO provides coverage, and a separate Combined FSR to report administrative 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. MCO contracts include limitations on administrative expenses recognized by the Medicaid program and establish profit-sharing provisions.

The information reported in the Combined FSR 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 2020 FSRs prior to completion of the 2020 FSR agreed upon procedures engagements.[21]

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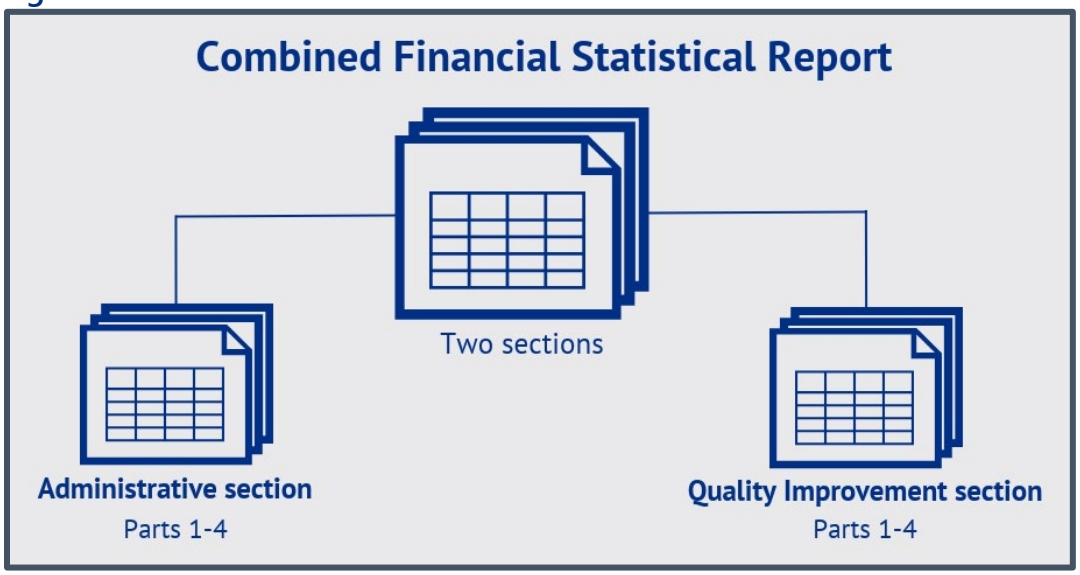
[19] Gross revenue reported on the Combined FSR includes capitated medical premium payments, delivery supplemental payments, pharmacy premiums, and investment income.

[20] Uniform Managed Care Contract, Attachment B-1, § 8.1.17.1, v. 2.29 (Sept. 1, 2019) through v. 2.33 (June 1, 2021).

[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.

Figure 1 outlines the structure of Molina's Combined FSR.

Figure 1: Structure of Molina's Combined FSR



Source: OIG Audit

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 the allowability of indirect and direct expenses reported on the Administrative portion of the Combined FSR specific to line items for legal and professional services, legal salaries, bonuses, and marketing. For each expense tested, Molina provided documentation to support the existence of the expense and proof of payment.

For the purposes of this report, a designation of "allowable" or "unallowable" reflects what is reportable on the Combined FSR. To be allowable, expenses must conform to the requirements of the Uniform Managed Care Manual cost principles, which include being reasonable and allocable. Costs that are not allowable may still be incurred and paid by the MCO but may not be reported on the FSR.[22]

Overall, Molina's system of internal controls operated as intended; however, Molina had some internal control weaknesses that resulted in certain incorrectly reported expenses on the Combined FSR. The following sections of this report provide additional detail about the instances of noncompliance identified by OIG Audit.

There may be a potential impact to Quality Improvement expenses on the FSR based on systemic results detailed below. Because the focus of the audit was on the Administrative section of the Combined FSR, OIG Audit did not test specific expenses reported on the Quality Improvement section of the Combined FSR. As a result, OIG Audit could not determine if the unallowable indirect expenses identified impacted the amounts Molina reported on the Quality Improvement FSR in addition to the amounts identified for the Administrative FSR. However, OIG Audit did identify direct bonus expenses reported on the Quality Improvement section of the Combined FSR that were not allowable.

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 2020, the period is September 1, 2019, through August 31, 2020.

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

Internal Controls Over Combined FSR Preparation

To determine whether Molina's internal controls were designed and operating effectively, OIG Audit conducted (a) interviews with Molina management and staff and (b) walkthroughs of the Combined FSR process at Molina, which included reviewing processes for collecting and reporting expenses, reconciling general ledger data to line items within the Combined FSR, and reviewing internal approvals. Molina's internal controls related to completing internal quality assurance checklists and obtaining executive management approvals of FSRs before submission were generally operating as intended; however, Molina had some control weaknesses concerning (a) cost methodology determination and application and (b) the Combined FSR preparation processes.

Chapter 1.1: Molina Used an Incorrect Weighted Average Allocation Methodology

Molina used premium revenue as a component of its weighted average allocation methodology for the Bonuses; Salaries, Wages, and Benefits (Legal Salaries);[23] Legal and Professional Services; and Marketing, Public Relations (PR), and Outreach (Marketing) indirect line items on the Administrative FSR for the business units[24] tested. Molina uses a weighted average with a 60/40 split between membership and premium revenue as a default allocation methodology when another methodology is not specifically used to allocate expenses to a business unit.

Since not all expense categories are driven by premium revenue, premium revenue as a component of a weighted average allocation methodology can result in an unreasonable amount of expenses being allocated to the FSR. This

[23] OIG Audit limited testing of salaries included in the Salaries, Wages, and Benefits FSR line item to salaries for the legal business unit.

[24] "Business units" is a term MHI uses to describe specific divisions or departments in its chart of accounts. MHI reports expenses to business units.

allocation issue was previously identified in a 2017 agreed upon procedures engagement of Molina's Administrative FSR.[25]

While Molina provided established justification for using premium revenue as a component of its weighted average allocation methodology, this practice was not appropriate for the FSR line items tested. However, for the purposes of identifying overreported expenses in this audit, OIG Audit did not consider expenses to be overreported when this allocation methodology was the sole concern.

Recommendation 1.1

Molina should develop and implement a reasonable allocation methodology for all its indirect business units.

Management Response

Action Plan

Molina believes our indirect allocation methodology is reasonable and reflective of the global efforts of each business unit and, therefore, conforms to the requirements of the Uniform Managed Care Manual cost principles. Our allocation methodology is based upon studies of the business unit's actual underlying work efforts and utilizes specific drivers when they are applicable; however, certain indirect business units are not associated with specific drivers, so those costs are allocated using a blend of general drivers (membership and premium revenue), which is reasonable and customary under such circumstances. Molina does focus on continuous improvement in its allocation methodology and recently conducted an updated study of business units whose costs were allocated using a blend of membership and premium revenue to determine if the blend of general drivers was still the best method. The updated study identified a few business units for which specific drivers were identified and we are in the process of implementing such changes to our methodology.

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[25] DK Partners, *Texas Health and Human Services Commission and Molina Healthcare of Texas, Inc.: Agreed-Upon Procedures Report*, "STAR+PLUS, STAR, and CHIP FSR Reporting Period: September 2016 to August 2017 (SFY 2017) 334-Day FSRs" (Nov. 2020).

Responsible Manager

Vice President, Financial Planning and Analysis

Target Implementation Date

In calendar year 2022 (state fiscal year 2021) an updated cost study process was implemented and will be reassessed annually going forward to review and enhance the methodology to allocate the costs of business units when needed.

Chapter 1.2: Molina Allocated Expenses Across Line Items in the Administrative FSR, Part 2, Rather Than Carrying Forward the Actual Classification of the Expenses

On the Administrative FSR, Part 2, Molina based its methodology for recording corporate allocations on accrued amounts[26] calculated prior to removing unallowable expenses. As a result, Molina reported inaccurate amounts for all expense categories listed on Part 2. While Molina used actual costs on the Administrative FSR, Part 1, it used accrued gross indirect costs[27] to allocate indirect costs to line items on the Administrative FSR, Part 2, instead of actual indirect costs that excluded unallowable department costs and accounts.

For example, Molina reported $473,271 of indirect marketing expenses on the Administrative FSR, Part 2; however, Molina's general ledger did not include any actual expenses applicable to the marketing expenses reported. When OIG Audit informed Molina of this discrepancy, Molina reallocated the marketing costs originally reported on the Administrative FSR, Part 2, to other line items on Part 2 of the Administrative FSR and provided OIG Audit with a revised Administrative FSR, Part 2, that eliminated marketing expenses completely,[28] indicating that Molina initially miscategorized $473,271 on the Marketing FSR line item.

Additionally, because Molina allocated expenses across line items in the Administrative FSR, Part 2, rather than carrying forward the actual classification of the expenses reported in Part 1, OIG Audit could not reconcile any of Molina's data and documentation with the tested line items on Molina's original or revised Combined FSR without additional documentation and assistance from Molina or MHI. MCOs may initially be paid on a monthly predetermined basis; however, the MCO must (a) perform a "true-up" of the actual allowable charges incurred by the affiliate prior to submitting the 334-day FSR and (b) modify the FSR to ensure

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[26] An accrual is an accounting adjustment used for expenses that will be incurred but the actual amount hasn't been paid.

[27] Indirect costs are administrative costs that cannot be easily traced to a specific activity of the entity.

[28] Details about Molina's original and revised Administrative FSR, Part 2, are provided in Appendix D.

that only allowable costs are reported.[29,30] Molina did not consistently true-up reported costs. MCOs cannot report indirect expenses that do not benefit Texas Medicaid or CHIP,[31] and reporting accrued amounts does not fulfill the requirement to report actual expenses that directly benefit Texas Medicaid and CHIP.[32]

While Molina removes some unallowable indirect expenses through limited sampling as part of its FSR preparation process, Molina recorded unallowable transactions within indirect business units prior to allocation. Molina asserted it was difficult to obtain supporting documentation of indirect expenses from corporate accounting, which contributed to Molina not identifying unallowable indirect costs in its FSR preparation process.

Recommendation 1.2a

Molina should ensure indirect expenses reported on the Combined FSR are based on actual expenses.

Management Response

Action Plan

Molina has enhanced the process of breaking down the actual expenses from Part 1, line 24 of the FSR into Part 2. As it pertains to the finding on the Marketing costs on Part 2, line 17, on a go forward basis, we will not be distributing the cost to line 17 and will be adjusting the distribution to Legal & Professional Services on line 15 to align with the actual costs included in Part 1 (no financial impact).

Responsible Manager

Market Chief Financial Officer

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

[30] Uniform Managed Care Manual, Chapter 6.1, v. 2.7 requires the true-up to be completed and the impact included by the 334-day FSR.

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

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

Target Implementation Date

Implemented and enhanced in July 2022 and will be reflected in the state fiscal year 2021 334 day FSR.

Recommendation 1.2b

Molina should strengthen its processes to identify and remove unallowable expenses.

Management Response

Action Plan

Molina removes many unallowable indirect costs using testing and sampling methodologies as part of its FSR preparation process, and is continuously making enhancements to its process to improve accuracy in removing such costs from the final FSRs. Molina has implemented enhancements to its testing and sampling methodology in state fiscal year 2021/2022.

Responsible Manager

Market Chief Financial Officer

Target Implementation Date

Previously implemented (calendar year 2021) and will be reflected in the state fiscal year 2021 334 day FSR.

Chapter 1.3: Molina Allocated Direct Administrative Expenses Across Incorrect Lines of Business

On the Combined FSR, Molina incorrectly allocated direct administrative expenses across all of its lines of business in Texas—including the health insurance marketplace, Medicare, and the Medicare-Medicaid Plan (MMP)—based on the weighted average of Texas-entity premium revenue and membership rather than identifying specific expenses incurred for Texas Medicaid programs and CHIP. If direct administrative expenses are not allocated to the correct FSR, unallowable expenses related to other lines of business may be included on the Combined FSR. For the purposes of identifying incorrectly reported costs, OIG Audit tested administrative costs and line items specific to Medicaid and CHIP. Incorrectly reported direct expenses are discussed further in Chapter 3 of this report.

On the Administrative FSR, Part 1, Molina included other programs in the legal and professional services and marketing expenses reported; however, Molina should have limited the expenses it reported on the Combined FSR to Texas Medicaid programs and CHIP.[33]

Recommendation 1.3

Molina should develop a process to ensure other lines of business are not included in direct expenses on the Combined FSR.

Management Response

Action Plan

Molina does focus on continuous improvement in its allocation methodology and recently conducted an updated study of business units which identified certain administrative costs that can be directly attributed to a specific line of business. Accordingly, we have implemented enhancements to our process, effective state fiscal year 2021, that removes these expenses from the

[33] Uniform Managed Care Manual, Chapter 5.3.1.84, "Objective," v. 2.0 (Dec. 15, 2018) through v. 2.1 (Mar. 15, 2021).

remaining pool of costs not directly attributable to a specific line of business that are allocated across the products.

Responsible Manager

Market Chief Financial Officer

Target Implementation Date

Previously implemented (calendar year 2021) and will be reflected in the state fiscal year 2021 334 day FSR.

Indirect Expenses

Chapter 2: Molina Incorrectly Reported Certain Indirect Administrative Expenses on its FSR

Molina incorrectly reported 28 of 62 (45.2 percent) indirect administrative expenses tested within the Legal and Professional Services line item, including related salary expenses as well as bonus expenses, reported on its Combined FSR. Specifically, those indirect expenses were (a) unallowable, (b) unsupported, or (c) incurred outside of 2020, the applicable state fiscal year. As a result, Molina overreported expenses that totaled $159,213[34] for the sample tested. OIG Audit performed further analysis and identified an additional 682 related expenses that were incorrectly reported and determined to be systemic expenses[35] that totaled $545,631.[36] Figure 2 details the tested and systemic indirect expenses Molina incorrectly reported.

Figure 2: Molina's Incorrectly Reported Indirect Expenses by Expense Type

Expense Type	Tested Expenses			Systemic Expenses	
Legal and Professional Services	48%	21 of 44	$95,615	500	$306,961
Legal Salary	55%	6 of 11	$4,292	176	$168,601
Bonus	14%	1 of 7	$59,307	6	$70,068
			$159,214		$545,630

Source: OIG Audit

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

[35] OIG Audit determined systemic effect by identifying related expenses in Molina's general ledger that indicated the same issues as the expenses tested as part of the audit. OIG Audit did not test the systemic transactions but provided them to Molina during fieldwork as representation of each issue occurring beyond the items tested.

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

Incorrect reporting occurred because Molina does not review each business unit to determine if unallowable expenses were included prior to allocating indirect expenses to determined lines of business. Additionally, Molina asserted that it is not able to obtain supporting documentation or allocation methodology documentation from MHI's corporate accounting with ease.

For the expenses tested as part of this audit, Molina consistently reported expenses outside of the period they were incurred, which was also identified as an issue in previous agreed upon procedures engagements.[37,38]

Legal and Professional Services Expenses

Molina incorrectly reported 21 of 44 (47.7 percent) indirect legal and professional services expenses tested, totaling $95,615. Specifically, Molina's Combined FSR included indirect legal and professional services expenses that were unallowable, unsupported, and incurred outside of 2020, the applicable state fiscal year.

MCOs may not report expenses related to lobbying, litigation, consulting for another state, and investment management on the Combined FSR.[39]

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[37] DK Partners, *Texas Health and Human Services Commission and Molina Healthcare of Texas, Inc.: Agreed-Upon Procedures Report*, "STAR+PLUS, STAR, and CHIP FSR Reporting Period: September 2015 to August 2016 (SFY 2016) 334-Day FSRs" (July 19, 2020).

[38] DK Partners, *Texas Health and Human Services Commission and Molina Healthcare of Texas, Inc.: Agreed-Upon Procedures Report*, "STAR+PLUS, STAR, and CHIP FSR Reporting Period: September 2016 to August 2017 (SFY 2017) 334-Day FSRs" (Nov. 30, 2020).

[39] Uniform Managed Care Manual, Chapter 6.1, § VI(18), VI(24), VI(30), and VI(37)(a), v. 2.7 (May 29, 2019) through v. 2.9 (June 14, 2021).

Table 3 details the number and amount of Molina's incorrectly reported indirect legal and professional services expenses.

Table 3: Molina's Incorrectly Reported Indirect Legal and Professional Services Expenses

Finding Type	Tested Expenses		Systemic Expenses	
	Number	Amount	Number	Amount
Indirect Expenses				
Unallowable expenses	15	$78,461	497	$304,469
Unsupported expenses	4	13,438	3	2,492
Expenses incurred out of period	2	3,716	—	—
Total	**21**	**$95,615**	**500**	**$306,961**

Source: OIG Audit

Molina reported 15 legal and professional services expenses, totaling $78,461, to vendors with contracts outlining unallowable work performed. For example, Molina included $28,852 in costs for investment management expenses and $1,795 in lobbying expenses in its business unit when allocating indirect costs to Part 2 of the Combined FSR. Molina should not have reported any expenses it paid to these vendors on its Combined FSR; therefore, 224 additional expenses paid to these vendors, totaling $262,790, were not allowable.

Additionally, Molina allocated non-Texas legal and professional services expenses that Molina management agreed did not benefit Texas Medicaid and CHIP programs. As a result, OIG Audit identified an additional 273 expenses, totaling $41,679, that were incorrectly included on the Combined FSR for the same reason.

Molina did not provide sufficient supporting documentation for four legal and professional services expenses, totaling $13,438. Specifically, Molina (a) did not provide three relevant contracts to support one legal and professional services expense due to confidentiality concerns and (b) provided an incomplete contract to support two additional expenses. Also, Molina could not provide an explanation for another expense related to consulting and travel. As a result, OIG Audit could not determine allowability for the affected expenses and

determined that those expenses, along with an additional $2,492 in related systemic expenses, should not have been reported on the Combined FSR.

Further, Molina incorrectly reported two expenses, totaling $3,716, incurred in 2019 to its Combined FSR.[40]

Salary Expenses

Molina incorrectly reported legal salary expenses for 6 of 11 (54.5 percent) indirect expenses tested as part of this audit, totaling $4,292. Specifically, Molina reported legal salaries expenses that were for employees with unallowable job duties. Table 4 details the number and amount of Molina's incorrectly reported indirect legal salary expenses.

Table 4: Molina's Incorrectly Reported Indirect Legal Salary Expenses

Finding Type	Tested Expenses		Systemic Expenses[41]	
	Number	Amount	Number	Amount
Indirect Expenses				
Unallowable expenses	6	$4,292	176	$168,601

Source: OIG Audit

Of the 10 employees tested as part of this audit, 6 (60.0 percent) had unallowable duties listed in their job description. Specifically, employees' job descriptions included duties related to litigations, arbitration, lawsuits, and work on Medicare.[42] MCOs are not permitted to report expenses related to civil proceedings and claims on the Combined FSR;[43] therefore, Molina incorrectly reported $4,292 for unallowable expenses.

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[40] Uniform 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).

[41] Systemic expenses include salary expenses for one employee identified in bonus testing as having unallowable duties listed in their job description. OIG Audit did not test the systemic transactions but provided them to Molina during fieldwork as representation of each issue occurring beyond the items tested.

[42] Uniform Managed Care Manual, Chapter 6.1, § V(2), v. 2.7 (May 29, 2019) through v. 2.9 (June 14, 2021).

[43] Uniform Managed Care Manual, Chapter 6.1, § VI(18), v. 2.7 (May 29, 2019) through v. 2.9 (June 14, 2021).

OIG Audit annualized the salaries for the six employees with unallowable duties listed in their job description and determined $107,298 was the systemic amount, comprised of 150 individual expenses, reported on the Combined FSR. The salary expenses for one additional employee, comprised of 26 individual expenses totaling $61,303, with a bonus expense connected to unallowable job duties were also not allowable.

Because Molina could not provide required personnel activity reports or equivalent documentation for the salaries reported on the Combined FSR, auditors were not able to determine how much of each employee's salary accounted for unallowable duties. As a result, total salary expenses for the employees tested with unallowable duties in their job descriptions were unallowable. Molina management stated that, moving forward, they have begun time studies discussions with the heads of the different business units.

Bonus Expenses

Molina incorrectly reported indirect bonus expenses for one of 7 (14.3 percent) indirect bonuses tested as part of this audit, totaling $59,307. Specifically, Molina reported one bonus for an employee with unallowable job description duties on the Combined FSR. Table 5 details the number and amount of Molina's incorrectly reported indirect bonus expenses.

Table 5: Molina's Incorrectly Reported Indirect Bonus Expenses

Finding Type	Tested Expenses		Systemic Expenses[44]	
	Number	Amount	Number	Amount
Indirect Expenses				
Unallowable expenses	1	$59,307	6	$70,068

Source: OIG Audit

[44] Systemic expenses include bonus expenses for six employees identified in salary testing as having unallowable duties listed in their job description. OIG Audit did not test the systemic transactions but provided them to Molina during fieldwork as representation of each issue occurring beyond the items tested.

The unallowable duties listed on the job description associated with the incorrectly reported bonus expense included duties predominantly focused on growing Molina's business, bids, and proposals, which is not permitted.[45]

Recommendation 2a

Molina should review business units to determine if unallowable indirect expenses are being included prior to allocation.

Management Response

Action Plan

Molina agrees that, even after our historical efforts to remove costs, certain unallowable costs have been allocated into indirect costs. Molina does systematically remove unallowable expenses identified in the Cost Principles as provided in a process document during the audit. However, as noted previously, Molina will continue refining the business unit cost study process to enhance our removal of unallowable costs.

Responsible Manager

Market Chief Financial Officer

Target Implementation Date

Previously enhanced (calendar year 2021) with additional enhancements in place prior to finalizing the state fiscal year 2021 FSR (August 2022).

Recommendation 2b

Molina should report indirect expenses in the period corresponding to the dates the services were incurred.

Management Response

Action Plan

Molina agrees that certain expenses incurred outside of the period were included in the current period. Molina's Accounts Payable system pays invoices,

[45] Uniform Managed Care Manual, Chapter 6.1, § VI(38), v. 2.7 (May 29, 2019) through v. 2.9 (June 14, 2021).

and the expenses are posted to the general ledger in the month they are paid. Known unpaid invoices are accrued in conformity with Generally Accepted Accounting Principles (GAAP). For FSR purposes, this creates a cutoff issue. The Accounts Payable system uses a post date to identify the months in which the invoices are posted. However, we note that the cutoff issue impacts both the beginning and the end of the fiscal year and, therefore, these cutoff issues generally represent timing issues that largely offset each other and do not have a material impact on the FSR. If the expenses are being disallowed for run-in, then the offsetting run-out expenses should be considered prior to evaluating the net FSR impact.

Molina has further enhanced this process for state fiscal year 2021 with sampling of both run-in and run-out expenses and will be adjusting state fiscal year 2021 FSRs (as well as amending state fiscal year 2020's FSR) to account for any net timing difference.

Responsible Manager

Market Chief Financial Officer

Target Implementation Date

Previously implemented (calendar year 2021) and further enhanced in July 2022 and will be reflected in the state fiscal year 2021 334 day FSR.

Recommendation 2c

Molina should maintain documentation that meets the standard in the cost principles for salaries reported on the Combined FSR to justify the amount allocated for individuals with some unallowable job duties.

Management Response

Action Plan

As stated in a response to an earlier comment in this this report, Molina annually reassesses the business unit cost studies and makes changes, as necessary, to ensure the business unit costs are allocated appropriately. Molina has a material number of employees who has costs allocated to the various lines of business based upon the overall function and assigned allocation

method of the employees' given business unit. That allocation would align with the departments level of effort/support focused on any one segment, like Texas Medicaid. Molina will continue enhancing, refining, and memorializing the cost study process to ensure that the annual FSR costs allocated reflect the efforts captured during the cost study process.

Responsible Manager

Market Chief Financial Officer

Target Implementation Date

Molina has implemented the enhanced cost study process in calendar year 2022 and will continue refining and memorizing the outcome annually.

Recommendation 2d

Molina should ensure unallowable indirect expenses are not included on the Combined FSR.

Management Response

Action Plan

While many unallowable costs have been proactively identified and removed historically, Molina is continuously making enhancements to the FSR process to ensure as many unallowable costs as feasible are removed from the final FSRs. Molina has also implemented proactive testing and sampling that has been expanded in state fiscal year 2021/2022.

Responsible Manager

Market Chief Financial Officer

Target Implementation Date

Previously implemented (calendar year 2021) and will be reflected in the state fiscal year 2021 334 day FSR.

Direct Expenses

Chapter 3: Molina Incorrectly Reported Certain Direct Administrative Expenses on its FSR

Molina incorrectly reported 15 of 42 (35.7 percent) direct administrative expenses tested. Specifically, Molina's Combined FSR included direct expenses that were (a) unallowable, (b) unsupported, (c) incurred outside of 2020, the applicable state fiscal year, and (d) inaccurately reported. Also, Molina did not submit an updated bonus plan. As a result, Molina overreported its direct administrative expenses by a total of $804,990. OIG Audit did not identify any additional systemic effect. Figure 3 details the tested and systemic direct expenses Molina incorrectly reported.

Figure 3: Molina's Incorrectly Reported Direct Expenses by Expense Type

Expense Type	Tested Expenses		Systemic Expenses	
Marketing	61% (11 of 18)	$76,984	–	–
Legal and Professional Services	17% (4 of 24)	$15,430	–	–
Bonus		$712,576	–	–
		$804,990		–

Source: OIG Audit

Marketing Expenses

On the Marketing line item of the Administrative FSR, Part 1, Molina incorrectly reported marketing expenses for 11 of 18 (61.1 percent) direct marketing expenses tested, totaling $76,984. Specifically, Molina reported expenses that were (a) unallowable, (b) incurred outside of 2020, the applicable state fiscal year, and (c) inaccurate.

Table 6 details the number and amount of Molina's incorrectly reported direct marketing expenses.

Table 6: Molina's Incorrectly Reported Direct Marketing Expenses

Finding Type	Tested Expenses		Systemic Expenses	
	Number	Amount	Number	Amount
Direct Expenses				
Unallowable expenses	8	$ 829	—	—
Expenses incurred out of period	1	55	—	—
Inaccurately reported expenses	2	76,100	—	—
Total	**11**	**$76,984**	**—**	**—**

Source: OIG Audit

Molina reported direct marketing expenses that incorrectly included (a) one value-added service expense and (b) seven MMP expenses. The value-added service expense is an allowable cost to the Medicaid programs; however, that cost was not allowed to be reported in the marketing expense line item. Specifically, while MCOs may include value-added services on the Administrative FSR, Part 1, such expenses should be added to the Total Administrative Value-Added Services line item, which would exclude them from the administrative expenses HHSC uses to calculate the experience rebate.[46] MMP expenses are not allowable Medicaid expenses and should not be reported on the Administrative FSR; instead, MMP expenses must be reported in the FSR specific to the MMP program.[47]

Additionally, Molina (a) reported one nonrecurring direct marketing expense incurred in August 2019 to the 2020 Combined FSR and (b) inaccurately reported two advertising expenses to the Combined FSR. In both instances, Molina reported an inaccurate amount on the Combined FSR when compared to

[46] Uniform Managed Care Manual, Chapter 5.3.1.84, "Line 26 Total Administrative Value-Added Services," v. 2.0 (Dec. 15, 2018) through v. 2.1 (Mar. 15, 2021).

[47] Uniform Managed Care Manual, Chapter 5.3.1.84, "Objective," v. 2.0 (Dec. 15, 2018) through v. 2.1 (Mar. 15, 2021).

support. All data reported on the Combined FSR must be updated to reflect the most recent actual expense amounts.[48]

Legal and Professional Services Expenses

On the Legal and Professional Services line on the Administrative FSR, Part 1, Molina incorrectly reported certain legal and professional services expenses for 4 of 24 (16.7 percent) direct expenses tested. Specifically, Molina reported unallowable expenses, unsupported expenses, and inaccurate expenses. Table 7 details the number and amount of Molina's incorrectly reported direct legal and professional services expenses.

Table 7: Molina's Incorrectly Reported Direct Legal and Professional Services Expenses

Finding Type	Tested Expenses		Systemic Expenses	
	Number	Amount	Number	Amount
Direct Expenses				
Unallowable expenses	1	$ 2,053	—	—
Unsupported expenses	1	3,947	—	—
Inaccurately reported expenses	2	9,430	—	—
Total	**4**	**$15,430**	**—**	**—**

Source: OIG Audit

For two expenses, Molina attempted to reverse the accrual of amounts that should not be allocated to Texas Medicaid but did not reverse the full amounts. One of these expenses, totaling $2,053, was unallowable because it was for services completed under a terminated contract. Additionally, Molina did not have sufficient support to demonstrate the payment for one legal and professional services expense, totaling $3,947, it allocated to the Combined FSR.

Per the description in Molina's general ledger, Molina allocated two additional expenses, totaling $9,430, across two state fiscal years; however, the

[48] Uniform 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).

documentation Molina provided did not detail which portion of the two expenses should be reported on the 2020 Combined FSR.

Bonus Expenses

Molina did not submit an updated bonus plan for the direct bonuses it expensed on the Combined FSR. Per the Uniform Managed Care Manual *Deliverables Requirements Matrix*, bonus payments to employees are allowable if the bonus plan is provided to FRAC within required time frames.[49] However, Molina did not provide an updated bonus plan to FRAC prior to the start of 2020, and Molina did not provide a bonus plan until notified by OIG Audit in November 2021 that FRAC did not have a bonus plan on file.

OIG Audit coordinated with FRAC on this issue, and FRAC determined that the direct bonuses Molina reported on the Administrative FSR, Part 1, were not allowable. Molina confirmed that all bonuses reported on the Quality Improvement FSR were direct bonuses; therefore, OIG Audit also included these bonuses in the amount. Table 8 details the amount of Molina's incorrectly reported direct bonus expenses.

Table 8: Molina's Incorrectly Report Direct Bonus Expenses

Finding Type	Bonus Amounts
Direct Expenses	
Unallowable Bonus Expenses (Administrative FSR, Part 1)	$289,793
Unallowable Bonus Expenses (Quality Improvement FSR)[50]	422,783
Total	**$712,576**

Source: OIG Audit

[49] Uniform Managed Care Manual, Chapter 5.0, Line 21, "Employee Bonus/Incentive Payment Plan," v. 2.6 (Apr. 15, 2019), and Chapter 5.0.1, "Employee Bonus/Incentive Payment Plan," v. 2.0 (Oct. 1, 2019) through v. 2.4 (June 25, 2021).

[50] The Quality Improvement FSR was not included in the scope of the audit and was not tested. Molina management confirmed all bonuses reported on the Quality Improvement FSR were direct expenses.

Recommendation 3a

Molina should ensure unallowable direct expenses are not included on the Combined FSR.

Management Response

Action Plan

Molina has improved, and will continue to improve, its identification of unallowable expenses in the general ledger, and to remove such costs prior to reporting in the FSR. We have adopted an enhanced process to remove unallowable expenses for state fiscal year 2021.

Further, Molina did submit an updated bonus plan in calendar year 2021 and calendar year 2022 and will continue to annually submit updated bonus plans going forward.

Responsible Manager

Market Chief Financial Officer

Target Implementation Date

Previously implemented and will be reflected in the state fiscal year 2021 334 day FSR.

Recommendation 3b

Molina should report direct expenses in the period corresponding to the dates the services were incurred.

Management Response

Action Plan

Molina agrees that certain expenses incurred outside of the period were included in the current period. Molina's Accounts Payable system pays invoices, and the expenses are posted to the general ledger in the month they are paid. Known unpaid invoices are accrued in conformity with Generally Accepted Accounting Principles (GAAP). For FSR purposes, this creates a cutoff issue. The Accounts Payable system uses a post date to identify the months in which the invoices are posted. However, we note that the cutoff issue impacts both the beginning and the end of the fiscal year and, therefore, these cutoff issues generally represent timing issues that largely offset each other and do not have

a material impact on the FSR. If the expenses are being disallowed for run-in, then the offsetting run-out expenses should be considered prior to evaluating the net FSR impact.

Molina has further enhanced this process for state fiscal year 2021 with sampling of both run-in and run-out expenses and will be adjusting state fiscal year 2021 FSRs (as well as amending state fiscal year 2020's FSR) to account for any net timing difference, regardless of materiality.

Responsible Manager

Market Chief Financial Officer

Target Implementation Date

Previously implemented and will be reflected in the state fiscal year 2021 334 day FSR.

Recommendation 3c

Molina should provide a bonus plan to FRAC in accordance with the required time frames set forth in the Uniform Managed Care Manual *Deliverables Requirements Matrix* and prior to reporting bonus expenses on its FSRs.

Management Response

Action Plan

Bonus plans have been submitted for calendar year 2021 and calendar year 2022. Calendar year 2022's bonus plan was recently acknowledged as being "*in compliance with HHSC Uniform Managed Care Contract 8.1.17.1 (l), Uniform Managed Care Manual 6.1 Cost Principles, and Federal Acquisition Regulation 31.205-6(f)*" as an outcome of FRAC's desk level review.

Molina will continue to submit bonus plans annually going forward.

Responsible Manager

Market Chief Financial Officer

Target Implementation Date

Previously implemented and acknowledged as noted.

Appendix A: Objective, Scope, and Criteria

Objective and Scope

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

The audit scope included Molina's Combined FSR and related internal controls over the preparation of that Combined FSR for state fiscal year 2020, which covered the period from September 1, 2019, through August 31, 2020.

Criteria

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

- Uniform Managed Care Contract, Attachment B-1, § 8.1.17.1, v. 2.29 (2019) through v. 2.33 (2021)
- Uniform Managed Care Manual, Chapter 5.0, v. 2.6 (2019), and Chapter 5.0.1, v. 2.0 (2019) through v. 2.4 (2021)
- Uniform Managed Care Manual, Chapter 5.3.1.84, v. 2.0 (2018) through v. 2.1 (2021)
- Uniform Managed Care Manual, Chapter 6.1, v. 2.7 (2019) through v. 2.9 (2021)
- U.S. General Services Administration, U.S. Department of Defense, and U.S. National Aeronautics and Space Administration, Federal Acquisition Regulation, Vol. 1, Part 31 (2019), as amended

Appendix B: Methodology and Data Reliability

OIG Audit issued an engagement letter to Molina on November 22, 2021, providing information about the upcoming audit, and conducted fieldwork from November 22, 2021, through May 31, 2022.

OIG Audit reviewed Parts 1 and 2 on the Administrative FSR. Part 1 consists of direct expenses reported for Texas Medicaid and CHIP, and Part 2 includes corporate allocations and indirect expenses. Both Parts 1 and 2 are divided into line items on the FSR, which indicate the type of expense stated. OIG Audit tested the Bonuses, Legal Salaries, Legal and Professional Services, and Marketing line items on the FSR for both Parts 1 and 2.

> The Combined FSR consists of two sections—an Administrative section and a Quality Improvement section, which was not tested as part of this audit.

Specifically, OIG Audit tested the following indirect expenses on the Administrative FSR, Part 2:

- Line 5 – Salaries, Wages, & Benefits[51]
- Line 6 – Bonuses
- Line 15 – Legal & Professional Services

OIG Audit also tested the following direct expenses on the Administrative FSR, Part 1:

- Line 2 – Bonuses
- Line 11 – Legal & Professional Services
- Line 13 – Marketing, Public Relations (PR), and Outreach

[51] OIG Audit limited testing of salaries included in the Salaries, Wages, and Benefits FSR line item to salaries for the legal business unit.

OIG Audit reviewed Molina's system of internal controls, including components of internal control,[52] within the context of the audit objectives by:

- Interviewing Molina management and staff with oversight responsibilities for maintenance, submission, review, and approval of Combined FSR-related activities.
- Reviewing relevant documentation, such as policies, procedures, and documented approvals.
- Performing selected tests of the relevant documentation.

Sampling Methodology and Data Reliability

Auditors selected nonstatistical samples related to expenses reported on the Combined FSR. 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 Combined FSRs, auditors (a) analyzed the data for reasonableness and completeness, (b) compared data against published FSR data, and (c) interviewed staff who were knowledgeable about the data. OIG Audit determined that the data was sufficiently reliable for the purpose of this audit.

[52] 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).

Appendix C: Breakdown of Incorrectly Reported Expenses

Table C.1 details, by expense type, Molina's incorrectly reported (a) $704,844 of indirect expense amounts and (b) $804,990 of direct expense amounts.

Table C.1: Molina's Incorrectly Reported Indirect and Direct Expense Amounts by Expense Type

Expense Type	Unallowable Expenses		Unsupported Expenses		Expenses Incurred Out of Period		Inaccurately Reported Expenses		Total
	Tested	Systemic	Tested	Systemic	Tested	Systemic	Tested	Systemic	
Indirect Expenses									
Legal and Professional Services	$ 78,461	$304,469	$13,438	$2,492	$3,716	—	—	—	**$402,576**
Legal Salary	$ 4,292	$168,601	—	—	—	—	—	—	**$ 172,893**
Bonus	$ 59,307	$ 70,068	—	—	—	—	—	—	**$ 129,375**
Direct Expenses									
Marketing	$ 829	—	—	—	$ 55	—	$76,100	—	**$ 76,984**
Legal and Professional Services	$ 2,053	—	$ 3,947	—	—	—	$ 9,430	—	**$ 15,430**
Bonus	$712,576	—	—	—	—	—	—	—	**$ 712,576**

Source: OIG Audit

Appendix D: Molina's Detailed Administrative FSR, Part 2

Table D.1 outlines (a) the original, unadjusted amounts Molina reported on its Administrative FSR, Part 2, and (b) the revised, adjusted amounts Molina reported on the revised Administrative FSR, Part 2, it provided to OIG Audit.

Table D.1: Detailed Original and Revised Amounts on Molina's Administrative FSR, Part 2

Administrative FSR Line No.	Administrative FSR Category	Original Amount Reported by Molina	Revised Amount Reported by Molina
Part 2, Line 5	Salaries, wages, and benefits, excluding bonuses	$44,618,572	$44,899,171
Part 2, Line 6	Bonuses	4,312,881	4,340,004
Part 2, Line 7	Rent, lease, or mortgage payment for office space	1,974,394	1,986,810
Part 2, Line 8	Utilities (if not included in rent), excluding phone and telecommunications	139,816	140,695
Part 2, Line 9	Phone, telecommunications, cell phones, T1, and broadband	1,007,525	1,013,861
Part 2, Line 10	Equipment lease or rent	123,479	124,255
Part 2, Line 11	Computer hardware and software purchases, uncapitalized	7,173,822	7,218,937
Part 2, Line 12	Furniture, fixture, & other equipment purchased, uncapitalized	87,849	88,402
Part 2, Line 13	Maintenance, repairs, custodial, and security	54,169	54,510
Part 2, Line 14	Supplies, postage, freight, printing	793,398	798,388
Part 2, Line 15	Legal and professional services, including external audit, tax, consulting	8,102,793	8,153,750
Part 2, Line 16	Travel expenses	331,368	333,452
Part 2, Line 17	Marketing, PR, and outreach (excluding salaries)	473,271	—
Part 2, Line 18	Taxes (excluding income taxes) and licensing	231,366	232,821
Part 2, Line 19	Insurance	735,522	740,147
Part 2, Line 20	Depreciation and amortization	3,498,696	3,520,698
Part 2, Line 21	Subtotal	73,658,920[53]	73,645,901
Part 2, Line 22	Other expenses	2,070,074	2,083,092
Part 2, Line 23	**Total corporate allocations**	**$75,728,994**	**$75,728,993**

Source: OIG Audit

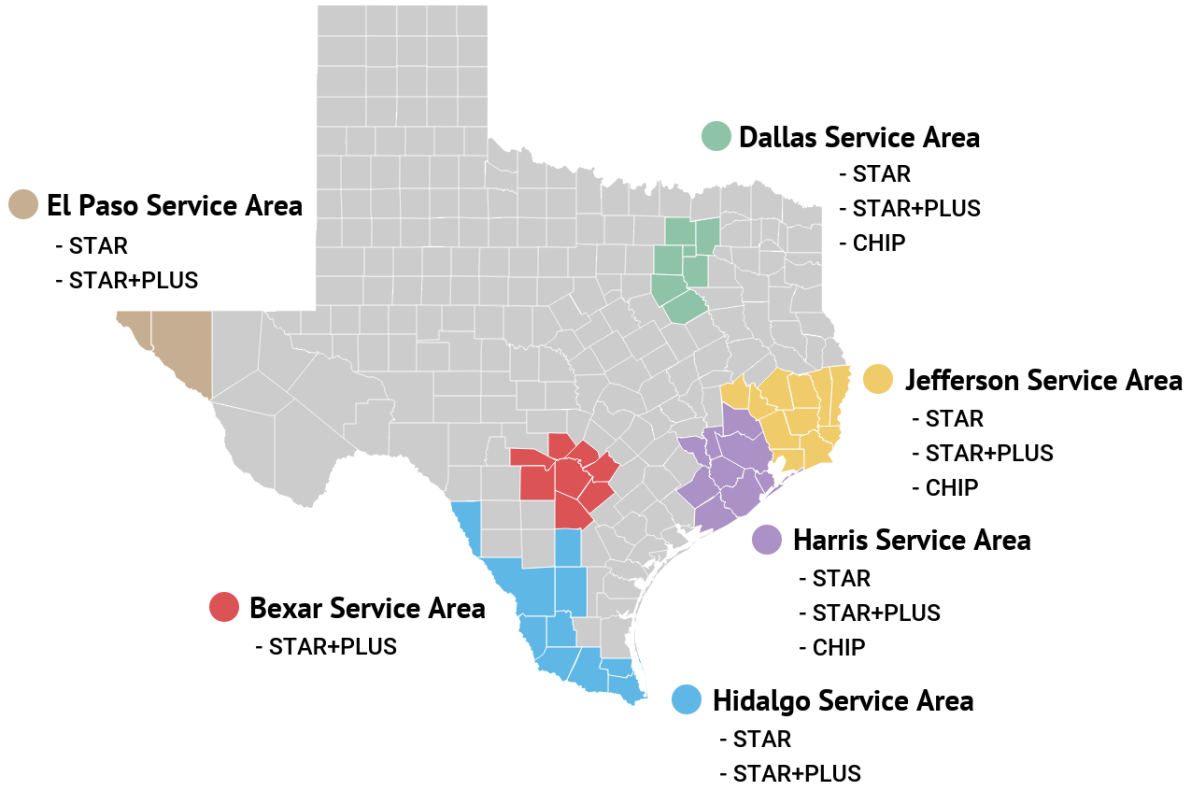
[53] Discrepancy between the individual amounts and the total is due to rounding.

Appendix E: HHSC Service Areas Served by Molina

Molina, a subsidiary of MHI, provides health care services to Texas Medicaid and CHIP members in the Bexar, CHIP Rural Service Area (RSA), Dallas, El Paso, Harris, Hidalgo, and Jefferson service areas through the STAR program, the STAR+PLUS program, and CHIP.

Figure E.1 illustrates the Texas managed care services areas and associated programs covered by Molina.

Figure E.1: Texas Managed Care Service Areas and Programs Covered by Molina[54]



Source: OIG Audit

[54] Molina also covers CHIP RSA, which includes 173 Texas counties and is not included in Figure E.1.

Table E.1 identifies the Texas counties included in the service areas covered by Molina.

Table E.1: Molina Service Area Counties[55]

Service Area	Texas Counties
Bexar	Atascosa, Bandera, Bexar, Comal, Guadalupe, Kendall, Medina, and Wilson
Dallas	Collin, Dallas, Ellis, Hunt, Kaufman, Navarro, and Rockwall
El Paso	El Paso and Hudspeth
Harris	Austin, Brazoria, Fort Bend, Galveston, Harris, Matagorda, Montgomery, Waller, and Wharton
Hidalgo	Cameron, Duval, Hidalgo, Jim Hogg, Maverick, McMullen, Starr, Webb, Willacy, and Zapata
Jefferson	Chambers, Hardin, Jasper, Jefferson, Liberty, Newton, Orange, Polk, San Jacinto, Tyler, and Walker
CHIP RSA	Anderson, Angelina, Andrews, Archer, Armstrong, Bailey, Baylor, Bell, Blanco, Borden, Bosque, Bowie, Brazos, Brewster, Briscoe, Brown, Burleson, Callahan, Cameron, Camp, Cass, Castro, Cherokee, Childress, Clay, Cochran, Coke, Coleman, Collingsworth, Colorado, Comanche, Concho, Coryell, Cooke, Cottle, Crane, Crockett, Culberson, Dallam, Dawson, Delta, DeWitt, Dickens, Dimmit, Donley, Duval, Eastland, Ector, Edwards, Erath, Falls, Fannin, Fisher, Foard, Franklin, Freestone, Frio, Gaines, Gillespie, Glasscock, Gonzales, Gray, Grayson, Grimes, Gregg, Hall, Hamilton, Hansford, Hardeman, Harrison, Hartley, Haskell, Hemphill, Henderson, Hidalgo, Hill, Hopkins, Howard, Houston, Irion, Jack, Jackson, Jeff Davis, Jim Hogg, Jones, Kent, Kerr, Kimble, King, Kinney, Knox, Lamar, Lampasas, LaSalle, Lavaca, Leon, Limestone, Lipscomb, Llano, Loving, Madison, Marion, Martin, Mason, Maverick, McCulloch, McLennan, McMullen, Menard, Midland, Milam, Mills, Mitchell, Montague, Moore, Morris, Motley, Nacogdoches, Nolan, Ochiltree, Oldham, Palo Pinto, Panola, Parmer, Pecos, Presidio, Rains, Reagan, Real, Red River, Reeves, Robertson, Runnels, Rusk, Sabine, San Augustine, San Saba, Schleicher, Scurry, Shackelford, Shelby, Sherman, Smith, Somervell, Star, Stephens, Sterling, Stonewall, Sutton, Taylor, Terrell, Throckmorton, Titus, Tom Green, Trinity, Upton, Upshur, Uvalde, Van Zandt, Val Verde, Ward, Washington, Webb, Wheeler, Wichita, Wilbarger, Willacy, Winkler, Wood, Yoakum, Young, Zapata, and Zavala

Source: OIG Audit compiled from information contained in "MCO Service Area Information," HHS, https://www.txvendordrug.com/about/manuals/pharmacy-provider-procedure-manual/p-19-documents/managed-care-resource-documents (accessed June 10, 2022)

[55] The counties included in each service area are current as of January 1, 2022.

Appendix F: Summary of Recommendations

Table F.1: Summary of Recommendations to Molina

No.	Recommendation
1.1	Molina should develop and implement a reasonable allocation methodology for all its indirect business units.
1.2a	Molina should ensure indirect expenses reported on the Combined FSR are based on actual expenses.
1.2b	Molina should strengthen its processes to identify and remove unallowable expenses.
1.3	Molina should develop a process to ensure other lines of business are not included in direct expenses on the Combined FSR.
2a	Molina should review business units to determine if unallowable indirect expenses are being included prior to allocation.
2b	Molina should report indirect expenses in the period corresponding to the dates the services were incurred.
2c	Molina should maintain documentation that meets the standard in the cost principles for salaries reported on the Combined FSR to justify the amount allocated for individuals with some unallowable job duties.
2d	Molina should ensure unallowable indirect expenses are not included on the Combined FSR.
3a	Molina should ensure unallowable direct expenses are not included on the Combined FSR.
3b	Molina should report direct expenses in the period corresponding to the dates the services were incurred.
3c	Molina should provide a bonus plan to FRAC in accordance with the required time frames set forth in the Uniform Managed Care Manual *Deliverables Requirements Matrix* and prior to reporting bonus expenses on its FSRs.

Source: OIG Audit

Appendix G: Related Reports

- 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
- Processing of Outlier Nursing Facility STAR+PLUS Claims and Adjustments: Molina Healthcare of Texas, AUD-21-004, December 9, 2020
- Audit of Medicaid and CHIP MCO Special Investigative Units: Molina Healthcare of Texas, AUD-20-011, May 22, 2020
- Audit of Texas Medicaid and CHIP Pharmacy Benefit Services Delivered by Molina and Its PBM, Caremark, AUD-19-023, July 19, 2019

Appendix H: 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 June 10, 2022)

For more information on Molina Healthcare of Texas, Inc.:

"Showing Information for Texas," Molina Healthcare, https://www.molinahealthcare.com/members/tx/en-us (accessed June 10, 2022)

For more information on Molina Healthcare, Inc.:

"Company Information," Molina Healthcare, Inc., https://www.molinahealthcare.com/members/common/en-us/abtmolina/compinfo/compinfo.aspx (accessed June 10, 2022)

Appendix I: Report Team and Distribution

Report Team

OIG staff members who contributed to this audit report include:

- Kacy J. VerColen, CPA, Deputy Inspector General of Audit and Inspections
- Anton Dutchover, CPA, Audit Director
- Amy Adler, CPA, CPE, Audit Director
- Patrick Smith, CIA, CRMA, Senior Managing Auditor
- Donna Knapp, CPA, CFF, CITP, CFE, CVA, Audit Project Manager
- Enrico Palage, CFE, Audit Project Manager
- Erin Powell, Senior Auditor
- Courtlin Burke, Staff Auditor
- Raquel Cortez, Staff Auditor
- Abram Valdes, CPA, Staff Auditor
- Jim Hicks, CISA, Quality Assurance Reviewer
- Brad Etnyre, CIA, CGAP, Quality Assurance Reviewer
- Leia Villaret, Quality Assurance Reviewer
- Ashley Rains, CFE, Senior Audit Operations Analyst

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- Nicole Guerrero, Chief Audit Executive
- Stephanie Stephens, Chief Medicaid and CHIP Services Officer, Medicaid and CHIP Services
- Emily Zalkovsky, Deputy State Medicaid Director, Medicaid and CHIP Services
- Shannon Kelley, Deputy Executive Commissioner for Managed Care
- Dana L. Collins, Deputy Executive Commissioner for Operations, Medicaid and CHIP Services
- Jason Mendl, Director, Financial Reporting and Audit Coordination
- Camisha Banks, Deputy Associate Commissioner of Managed Care Compliance and Operations

Molina Healthcare of Texas, Inc.

- Chris Coffey, Chief Executive Officer and Plan President
- Bruce Lane, Market Chief Financial Officer
- Carole Swanson, Director of Finance
- Michael Neaton, Vice President, Financial Planning and Analysis

Appendix J: 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
- Audrey O'Neill, Principal Deputy Inspector General, Chief of Audit and Inspections
- Susan Biles, Chief of Staff, Chief of Policy and Performance
- Erik Cary, Chief Counsel
- Christine Maldonado, Chief of Operations and Workforce Leadership
- Steve Johnson, Chief of Investigations and Reviews

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

To Contact OIG

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- Mail: Texas Health and Human Services
  Office of Inspector General
  P.O. Box 85200
  Austin, Texas 78708-5200
- Phone: 512-491-2000