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

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.

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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.