Administrative and Medical Expenses Reported on Financial Statistical Reports

Texas Children's Health Plan, Inc.

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.