



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services, Region IX
90 – 7th Street, Suite 3-650
San Francisco, CA 94103

February 27, 2012

Report Number: A-09-12-02006

Ms. Patricia McManaman
Director
Department of Human Services
State of Hawaii
1390 Miller Street, Room 209
Honolulu, HI 96813-2936

Dear Ms. McManaman:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Contract Provisions for the Hawaii QUEST Expanded Access Risk Share Program Not Implemented*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Doug Preussler, Audit Manager, at (415) 437-8360 or through email at Doug.Preussler@oig.hhs.gov. Please refer to report number A-09-12-02006 in all correspondence.

Sincerely,

/Lori A. Ahlstrand/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Jackie Garner
Consortium Administrator
Consortium for Medicaid and Children's Health Operations
Centers for Medicare & Medicaid Services
233 North Michigan Avenue, Suite 600
Chicago, IL 60601

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**CONTRACT PROVISIONS FOR THE
HAWAII QUEST EXPANDED ACCESS
RISK SHARE PROGRAM
NOT IMPLEMENTED**



Daniel R. Levinson
Inspector General

February 2012
A-09-12-02006

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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THIS REPORT IS AVAILABLE TO THE PUBLIC
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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

INTRODUCTION

BACKGROUND

Medicaid Program

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. In Hawaii, the Department of Human Services (State agency) administers the program.

Section 1115 of the Act provides the Secretary of Health and Human Services with broad authority to authorize demonstration projects to assist in promoting the objectives of the Medicaid program. Under section 1115, the Secretary may waive compliance with any of the requirements of section 1902 of the Act to enable States to carry out these projects and receive Federal funds.

Hawaii QUEST Expanded Access Program

Hawaii provides comprehensive Medicaid coverage across the State to healthy children and adults through managed care plans that receive capitated payments. The plans provide health services in return for a monthly fixed payment for each enrolled recipient.

The QUEST Expanded Access program, a section 1115 demonstration project, permitted the State agency to enroll aged, blind, and disabled populations in a capitated managed-care delivery system for all covered services, including home-based community services and primary, acute, and long-term care. Effective February 1, 2009, the State agency contracted with two managed-care health plans to participate in the QUEST Expanded Access program: Evercare and 'Ohana Health Plan. The contract with each plan incorporates the State agency's request for proposal RFP-MQD-2008-006 and the plan's individual proposal.

Risk Share Program

The QUEST Expanded Access risk share program (referenced in RFP-MQD-2008-006, Appendix B) was required to be implemented on February 1, 2009. The objective of the risk share program is to address the risk of a significant difference between total revenue (capitated payments) received by the health plans for delivery of health care services and the aggregate health care expenses of the plans. Specifically, the established capitation rates may not be appropriate for the health services provided to the enrolled population.

Under the risk share program, the State agency shares in any significant difference between the capitated payments and the actual net health care expenditures of the health plans. The plans are required to submit annual financial reports within 45 days of the annual reporting period ended June 30, the State's fiscal yearend. However, because some of the data may not be available within the 45-day period, the State agency will request that the plans submit updated financial

reports for the fiscal year ended June 30 for any adjustments through December 31. The updated financial reports are due to the State agency by January 15.

Upon receiving the updated annual financial reports, the State agency is required to develop an aggregate profit-and-loss statement and to compute a net loss or gain percentage based on the total capitated payments to the health plans. The State agency uses this information to determine whether the risk sharing provisions of the contract are applicable.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the State agency properly implemented the contract provisions for the QUEST Expanded Access risk share program.

Scope

Our audit covered the period February 1, 2009, through June 30, 2010. We did not review the State agency's overall internal control structure because our objective did not require us to do so. We limited our review of the State agency's internal controls to those controls applicable to the contract provisions of the risk share program.

We conducted fieldwork in November 2011 at the State agency's offices in Honolulu and Kapolei, Hawaii.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws and regulations,
- reviewed the State agency's contract terms with Evercare and 'Ohana Health Plan,
- held discussions with CMS and State agency officials to gain an understanding of the QUEST Expanded Access risk share program and how the State agency administers and monitors the program, and
- discussed the results of our review with the State agency.

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 finding and conclusions based on our audit objective.

FINDING AND RECOMMENDATION

The State agency did not implement the contract provisions for the QUEST Expanded Access risk share program for the period February 1, 2009, through June 30, 2010. The State agency did not calculate a net loss or gain percentage based on total capitated payments to the two health plans for the two State fiscal years ended June 30, 2009, and June 30, 2010. The State agency informed us that it had not implemented contract provisions for the risk share program because it is still adjusting certain capitation rates for the 2-year period. Because the payment amounts have not been finalized, the health plans have not been able to update the required financial reports.

RECOMMENDATION

We recommend that the State agency finalize payments to the health plans and implement the contract provisions for the risk share program as soon as possible.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our finding. The State agency described actions that it had taken or planned to take to address our recommendation. The State agency's comments are included in their entirety as the Appendix.

APPENDIX

APPENDIX: STATE AGENCY COMMENTS

NEIL ABERCROMBIE
GOVERNOR



PATRICIA McMANAMAN
DIRECTOR

BARBARA A. YAMASHITA
DEPUTY DIRECTOR

**STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES**

P. O. Box 339
Honolulu, Hawaii 96809-0339

February 7, 2012

Ms. Lori A. Ahlstrand
Regional Inspector General for Audit Services
Office of Audit Services, Region IX
90-7th Street, Suite 3-650
San Francisco, California 94103

Dear Ms. Ahlstrand:

Enclosed is the Department of Human Services' responses and corrective action plan related to your audit entitled *Contract Provisions for the Hawaii QUEST Expanded Access Risk Share Program Not Implemented*, audit number A-09-12-02006 dated January 2012. We appreciate the opportunity to comment on the audit report.

Sincerely,

A handwritten signature in black ink, appearing to read "Patricia McManaman".

Patricia McManaman
Director

Enclosure

Enclosure

Findings and Recommendation

The State agency did not implement the contract provisions for the QUEST Expanded Access (QExA) risk share program for the period February 1, 2009, through June 30, 2010. The State agency did not calculate a net loss or gain percentage based on total capitated payments to the two health plans for the two State fiscal years ended June 30, 2009, and June 30, 2010. The State agency informed us that it had not implemented contract provisions for the risk share program because it is still adjusting certain capitation rates for the 2-year period. Because the payment amounts have not been finalized, the health plans have not been able to update the required financial reports.

Auditor's Recommendation

We recommend that the State agency finalize payments to the health plans and implement the contract provisions for the risk share program as soon as possible.

Concurrence/Corrective Action Taken or Planned

We concur with the auditor's findings. The Department of Human Services has completed all of the retroactive adjustment related to the capitation payments referred to in the Findings and Recommendation as of December 2011. Updated financial statements from the QExA plans will be submitted by February 17, 2012. We expect the risk share calculation for state fiscal years ending June 2009 and June 2010 to be completed by March 2, 2012.