

# Medi-Cal Managed Care Program

## The Departments of Managed Health Care and Health Care Services Could Improve Their Oversight of Local Initiatives Participating in the Medi-Cal Two-Plan Model

### REPORT NUMBER 2011-104, ISSUED DECEMBER 2011

This report concludes that both the departments of Managed Health Care (Managed Health Care) and Health Care Services (Health Care Services) have inconsistencies in the financial reviews they conduct of local initiatives that participate in the California Medi-Cal Assistance Program's (Medi-Cal) managed care two-plan model. Under this model, both a county entity, known as a local initiative and a commercial health plan provide managed care services to Medi-Cal beneficiaries. Managed Health Care is chronically late in completing its financial report reviews, thus seriously lessening their value as an oversight tool. Further, Managed Health Care does not have an effective process to monitor local initiatives' responses to corrective action plans that result from its financial examinations. For its part, Health Care Services is inconsistent in performing financial reviews, does not always ensure that all financial requirements are included, and has not performed financial reviews with the frequency outlined in its fiscal monitoring unit's internal policy. Analyses performed by Health Care services overlap the financial viability analysis that Managed Health Care generates from local initiatives' consolidated financial reports. Finally, both Managed Health Care and Health Care Services fail to conduct medical audits—intended to review several aspects of the provision of health care—of the health delivery system of each local initiative within the frequency required by law.

Our review also included the local initiatives' administration of the Medi-Cal two-plan model. Although most local initiatives hold tangible net equity (TNE) balances—the central measure of financial viability under the Knox-Keene Health Care Service Plan Act of 1975—that are significantly higher than the required TNE minimum balances—Health Care Services' performance indicators show that California's eight local initiatives in operation during the time covered by our audit provide a satisfactory level of care to beneficiaries. The four local initiatives we visited generally had adequate fiscal processes and internal controls to monitor their administrative expenses, although weak past policies at Kern Health Systems allowed it to enter into two contracts for medical claims reviews that were not cost-effective. Our review also found that the four local initiatives we visited use similar methods to set and approve salaries, although the salaries and retirement benefits of their highest-paid executives vary significantly.

In the report, the California State Auditor (state auditor) made the following recommendations to Managed Health Care and Health Care Services. We made no recommendations to the local initiatives. The state auditor's determination regarding the current status of recommendations is based on Managed Health Care and Health Care Services' responses to the state auditor as of December 2011.

#### **Recommendation 1.1—See pages 16—19 of the audit report for information on the related finding.**

To monitor local initiatives' financial viability and compliance with the Knox-Keene Act requirements, Managed Health Care should develop a formal policy to ensure that it reviews financial reports in a timely manner, and that administrative expenses are correctly categorized.

#### ***Managed Health Care's Action: Pending.***

Managed Health Care indicates it will develop and implement formal policies and procedures, make necessary changes or additions to its financial filing system to help implement and monitor the policies and procedures, ensure that staff and management are informed and trained on the new policies and procedures, and develop a management reporting tool to monitor adherence to the policies and procedures. Managed Health Care also stated that it will remind staff that review of administrative expenses, and correct categorization of such expenses, is part of the overall financial review process.

**Recommendation 1.2—See pages 20 and 21 of the audit report for information on the related finding.**

To ensure that all four financial soundness elements included in Health Care Services' contract are being reviewed, it should conduct financial reviews consistently and update its review tool to include working capital.

***Health Care Services' Action: Fully implemented.***

Health Care Services' Fiscal Monitoring Unit has developed and implemented a revised worksheet that includes all four financial soundness elements.

**Recommendation 1.3—See pages 20 and 21 of the audit report for information on the related finding.**

Health Care Services should develop a formal policy to ensure that it conducts financial reviews in a timely manner.

***Health Care Services' Action: Pending.***

Health Care Services states it drafted a written policy that addressed the timeliness of the financial reviews, which it anticipates executive management will review and approve by the end of January 2012.

**Recommendation 1.4—See pages 21 and 22 of the audit report for information on the related finding.**

To make its financial solvency reviews more efficient and reduce the risk of errors, Health Care Services should coordinate with Managed Health Care when analyzing local initiatives' consolidated financial reports.

***Health Care Services' Action: Pending.***

Health Care Services said that it would collaborate with Managed Health Care to eliminate duplication of effort in to the consolidated review of financial statements and that it will place reliance on the automated ratios that Managed Health Care generates.

**Recommendation 1.5—See pages 22—24 of the audit report for information on the related finding.**

To ensure that local initiatives implement corrective action plans, Managed Health Care should devise a more effective process to track, monitor, and review the status of local initiatives' corrective actions as they relate to financial examination requirements.

***Managed Health Care's Action: Pending.***

Managed Health Care said it will develop a corrective action plan tracking feature in its database to allow for the ready identification of corrective action plans and their status, as well as the decisions staff make concerning the corrective actions taken.

**Recommendation 1.6—See pages 25—27 of the audit report for information on the related finding.**

Health Care Services should ensure that it performs annual medical audits of local initiatives as required by law.

*Health Care Services' Action: Pending.*

Health Care Services asserts that it will resume annual medical audits of all Medi-Cal managed care plans in early 2012 and that it will work in conjunction with Managed Health Care, to the extent feasible.

**Recommendation 1.7—See pages 25—27 of the audit report for information on the related finding.**

Managed Health Care should ensure that it obtains timely medical audits from Health Care Services. If it is unable to obtain timely medical audits from Health Care Services, it should conduct them itself.

*Managed Health Care's Action: Fully implemented.*

Managed Health Care has developed and implemented a written policy to track and secure copies of Health Care Services' medical audits and findings, and to the extent necessary, to timely schedule a Knox-Keene Act medical audit in the event that Health Care Services does not conduct its annual medical audit.