Medicaid Performance Audit
Overview

Presentation to Joint Health and Human Services Appropriation Committee

February 14, 2013
Authorization

This audit was authorized by the General Assembly under Section 10.9A of House Bill 950 titled Modify Appropriations Act.
Objectives

- To determine if the division’s administrative functions complied with State and federal requirements, and allowed for efficient use of funds

- To evaluate the division’s processes for preparing annual budgets and monitoring expenditures to determine if it accurately predicted and assessed program costs

- To review the process for State Plan Amendments

- To assess the flow of budget and expenditure information from the division to other stakeholders
Administrative Expenses

- Compared to other states with similar medical assistance payment spending, NC administrative costs are significantly higher.

- $180 million above average spending for our nine-state peer group.
The Division of Medical Assistance (DMA) consistently exceeds budgeted amounts for contracted administrative costs.

DMA only controls about 33% ($256.7 million) of the total administrative expenses for the NC Medicaid program. Other Department of Health and Human Services (DHHS) divisions spend the remaining 67% ($524.3 million), and there is little internal oversight of these expenses.
DHHS does not have a comprehensive Public Assistance Cost Allocation Plan, and DMA does not have a cost allocation plan. Having comprehensive cost allocation plans would allow better management of administrative costs.
Budget and Financial Projections

- DMA’s budget has significantly exceeded Certified Budget and incurred State General Fund shortfalls of $418.2 million in 2012, $403.6 million in 2011, and $316.7 million in 2010.
Contrary to state statute, DMA retained $131.8 million of federal funds owed in FY12. Most of this was drug rebate money.

Directives to achieve budgeted savings were not followed. For example, DMA failed to comply with a legislative mandate to eliminate inflationary increases for nursing facilities.
DMA focuses on forecasts just for medical payments, not all relevant expenses. Known expenditures for personal care services ($41.7 million) and a partial repayment for the 2009 overdraw ($40.9 million), were not included in the 2012 budget. DMA began the year with an $82.6 million shortfall.
DMA does not follow best practices for its forecasting methodology by comparing forecasts to actual budget performance.

Financial projections do not extend beyond the current biennium. Best practices recommend multi-year forecasts to allow long-term planning.
State Plan Amendments

- State Plan Amendments (SPAs) delays have had little impact on shortfalls over the past three years, and the SPA process appears to be effective.

- Projected savings were not realized because DMA’s projections did not account for implementation time.
DMA never intended to retroactively implement SPAs to achieve savings.

Two problems:
- Potential provider appeals and/or lawsuits for retroactive implementation
- Medicaid Management Information System constraints
Reporting

- DMA is not providing timely and useful reports and essential data to stakeholders such as Office of State Budget and Management (OSBM) and Fiscal Research.
Thank you to:

- The General Assembly for giving us the opportunity to perform this audit
- Our subject matter experts PHBV
- My staff, particularly Kenneth Barnette, Laura Bullock, Jane Seo and Eric Faust
Questions?