



Medicaid Performance Audit Overview

Presentation to Joint Health and Human
Services Appropriation Committee

February 14, 2013

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Authorization

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

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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

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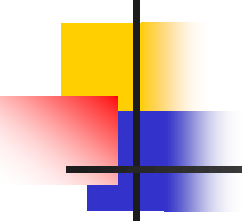


Administrative Expenses

- 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.

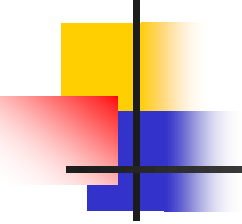
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- The Division of Medical Assistance (DMA) consistently exceeds budgeted amounts for contracted administrative costs.
 - DMA only controls about 33% (\$256.7 million) of the total administrative expenses for the NC Medicaid program. Other Department of Health and Human Services (DHHS) divisions spend the remaining 67% (\$524.3 million), and there is little internal oversight of these expenses.

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- 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.

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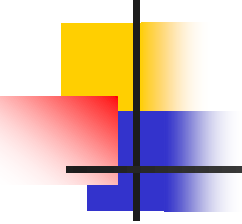


Budget and Financial Projections

- 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.

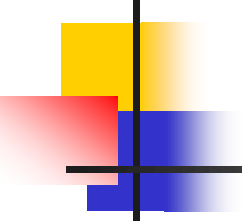
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- Contrary to state statute, DMA retained \$131.8 million of federal funds owed in FY12. Most of this was drug rebate money.
 - Directives to achieve budgeted savings were not followed. For example, DMA failed to comply with a legislative mandate to eliminate inflationary increases for nursing facilities.

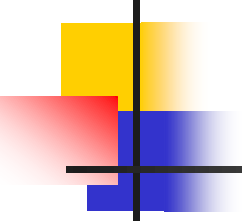
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- DMA focuses on forecasts just for medical payments, not all relevant expenses. Known expenditures for personal care services (\$41.7 million) and a partial repayment for the 2009 overdraw (\$40.9 million), were not included in the 2012 budget. DMA began the year with an \$82.6 million shortfall.

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- 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.

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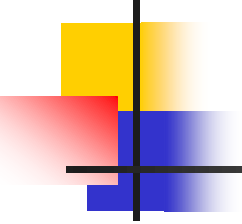


State Plan Amendments

- 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.

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- 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

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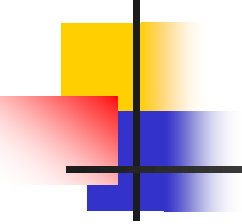


Reporting

- 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.

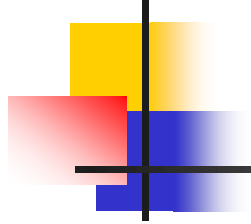
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- Thank you to:
 - The General Assembly for giving us the opportunity to perform this audit
 - Our subject matter experts PHBV
 - My staff, particularly Kenneth Barnette, Laura Bullock, Jane Seo and Eric Faust

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Questions?