



# Managed Care Organizations' Administrative Expenses

Update to 2015 Evaluation Report

March 2016

## Problems Identified

- **Insufficient Financial Reporting Requirements.** The Department of Human Services' (DHS's) requests for information to managed care organizations (MCOs) were too general to sufficiently address data complexity, data integrity, and variations among MCOs' recordkeeping and cost allocation processes. Instructions for unallowable expenses and data certification for public health care programs were too vague to ensure consistent interpretation and reporting by MCOs.
- **Weak MCO Contract Language.** DHS contracts with MCOs did not fully specify the form, content, and other provisions required of MCO subcontracts for administrative services that were expensed to state public programs. Revisions to DHS's contracts were needed to address inadequate MCO documentation.
- **Independent Data Verification Needed.** Audits of MCOs data that are conducted by other entities—such as the departments of Health and Commerce—likely will not sufficiently incorporate verification needs specific to public health care programs. More rigorous, ad hoc verification of data by DHS is necessary for DHS to help ensure against overpayment in the development of managed care payment rates.

## Changes Implemented

- **Financial Reporting Standards Improved.** DHS enhanced its annual and quarterly MCO financial reporting template to facilitate MCO compliance with *Minnesota Statutes* 2015, 256B.69, subds. 5i and 9c. This work included extensive updates and improvements to instructions, definitions, and technical guidance regarding: unallowable administrative expenses; reconciliation to other audited financials; and payments to providers outside of the claims process. Enhanced data certification language also aligns with new 2016 state requirements to reconcile data with audited financial filings.
- **More Explicit DHS Contract Language.** In its 2016 contracts with MCOs, DHS more clearly specified requirements regarding subcontracts for administrative services expensed to public programs, including form, content, scope, payment terms, duration, and documentation supporting such expenses.
- **DHS Ad Hoc Audits of MCO Data Underway.** In its 2016 contracts with MCOs, DHS included language for it to conduct ad hoc audits of data outlined in *Minnesota Statutes* 2015, 256B.69, subds. 5i and 9c, and other information. DHS hired audit staff, developed a risk assessment plan, selected priority audit areas, and scoped top projects for auditing MCO data. Development of a schedule and timeline is underway. DHS's first audit work has a tentative start date in early Spring 2016.