



An Audit Report on

# The Implementation Status of Recommendations from a Prior Audit of the Health and Human Services Commission's Medicaid Managed Care Rate-setting Process

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An Audit Report on the Health and Human Services Commission's Medicaid Managed Care Rate-setting Process (SAO Report No. 23-005) was released in October 2022 and contained three recommendations for improving the Commission's procurement and Medicaid managed care rate-setting processes.

**The Commission fully implemented two recommendations; corrective action was ongoing for another recommendation.**

The Commission fully implemented recommendations to (1) better leverage its existing oversight of managed care organization (MCO) financial reporting to inform the rate-setting process and (2) enhance communication with state oversight entities. However, the Commission did not fully implement the recommendation to verify that it obtained all contract team members' required certifications and disclosures when completing its solicitation review checklist for procurements.

This follow-up audit was conducted in accordance with Rider 5, page X-6, the General Appropriations Act (88th Legislature). Figure 1 on the next page shows the implementation status of the three recommendations from the prior State Auditor's Office report related to the Commission's Medicaid managed care rate-setting process.

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## Definition of Implementation Status

Each implementation status is defined as follows:









-  **Fully Implemented:** Successful development and use of a process, system, or policy to implement a recommendation.
-  **Substantially Implemented:** Successful development but inconsistent use of a process, system, or policy to implement a recommendation.
-  **Incomplete or Ongoing:** Ongoing development of a process, system, or policy to address a recommendation.
-  **Not Implemented:** Lack of a formal process, system, or policy to address a recommendation.
-  **Not Applicable:** N/A signifies that the recommendation is no longer applicable.

Figure 1

## Implementation Status of Prior Audit Recommendations

Recommendations from <i>An Audit Report on the Health and Human Services Commission's Medicaid Managed Care Rate-setting Process</i> (SAO Report No. 23-005, October 2022)	Implementation Status Determined by Auditors
<b>Chapter 2</b> <span style="float: right;">Original Rating: Low <span style="color: green;">●</span></span>	
<p>The Commission should develop and implement a process to consistently communicate to its Actuarial Analysis Department the results of the agreed-upon procedures engagements and year-end reconciliations of MCO financial statistical reports.</p>	 Fully Implemented
<b>Chapter 3</b> <span style="float: right;">Original Rating: Medium <span style="color: orange;">●</span></span>	
<p>To enhance communication with state oversight entities in its preliminary and final rate reports, the Commission should:</p> <ul style="list-style-type: none"> <li>• Include a thorough explanation of all rounding methodologies used in the rate-setting process.</li> <li>• Explicitly address whether analyses pertinent to the rate-setting process were conducted by the Data Analysis Unit.</li> </ul>	 Fully Implemented
<b>Chapter 4-B</b> <span style="float: right;">Original Rating: High <span style="color: red;">●</span></span>	
<p>The Commission should verify that it obtained all contract team members' <sup>a</sup> required certifications and disclosures <sup>b</sup> when completing its solicitation review checklist.</p> <p><b>Auditor Comments:</b></p> <p>The Commission verified that it obtained all contract team members' required nondisclosure and conflict of interest certifications for the three procurements tested. However, for each of the three procurements tested, the Commission did not obtain all nepotism disclosure forms as required by Texas Government Code, Section 2262.004. Specifically, the Commission did not obtain that form for 4 (8 percent) of the 50 contract team members.</p> <p>The Commission used a review checklist to verify completion of planning and procurement steps. While the Commission completed its review checklists for all three procurements tested, it did not identify the missing nepotism disclosure forms. Not verifying compliance with nepotism disclosure requirements increases the risk that the Commission might not identify, and if necessary mitigate, potential conflicts of interest.</p>	 Ongoing
<p><sup>a</sup> Contract team members include purchasing personnel such as purchasers, evaluation team members, contract negotiators, and compliance and quality control staff.</p> <p><sup>b</sup> To comply with conflicts of interest disclosure requirements, the Commission requires applicable employees involved in procuring and managing contracts to complete a nondisclosure and conflict of interest certification form, as well as a nepotism disclosure form.</p>	

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## The Commission's Management's Response

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### Statement of Agreement/Disagreement

Agree

### Action Plan

Effective April 2021, the Commission adopted Policy 403, Non-Disclosure, Conflict of Interest, and Nepotism Certification, establishing requirements for how the Health and Human Services (HHS) Procurement and Contracting Services (PCS) division ensures compliance with statutory requirements for procurement and contracting-related non-disclosure, conflict of interest, and nepotism certification.

In addition to Policy 403, PCS has updated all solicitation procedures to require completion of Form PCS 160, HHSC Solicitation Checklist. Form PCS 160 applies to Requests for Proposal, Requests for Qualifications, Requests for Applications, and Requests for Offers and ensures compliance with statutory requirements for procurement and contracting-related non-disclosure, conflict of interest, and nepotism certification.

One requirement of Form PCS 160 is completion of Form PCS 131, SAO Nepotism Disclosure Purchasing Personnel Tracking Form, which identifies and tracks receipt of PCS 130, PCS 117, and the State Auditor's Disclosure Statement for Purchasing Personnel forms from individuals who assisted with solicitation development, evaluation, and contract award. Also required on Form PCS 160 is the signature of the PCS manager who certifies and reviews the procurement file, prior to upload, that all required documentation is in the procurement file.

PCS will require training within the procurement teams on the SAO Nepotism Disclosure Purchasing Personnel Form.

### Responsible Manager

Associate Commissioner, HHS Procurement and Contracting Services

### Target Implementation Date

Training completed by December 2023.

Already implemented:

Updates have been completed for PCS Policy 403 which was effective April 2021, to various solicitation-specific procedures to identify the requirements, and Form PCS 160, HHSC Solicitation Checklist. These updates were completed to ensure compliance with statutory requirements for procurement and contracting-related non-disclosure, conflict of interest, and nepotism certification. Also, PCS created the PCS 131, SAO Nepotism Disclosure Purchasing Personnel Tracking Form, which is used to ensure we document the individuals who assisted with solicitation development, evaluation, and contract award.

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## Objective, Scope, and Methodology

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### Objective

The objective of this audit was to determine whether the Health and Human Services Commission (Commission) has implemented corrective actions on recommendations from *An Audit Report on the Health and Human Services Commission's Medicaid Managed Care Rate-setting Process* (SAO Report No. 23-005, October 2022).

### Scope

The scope of this audit covered:

- Contracts valued at more than \$1 million that the Commission awarded from November 2022 through June 2023.
- The Commission's process for setting the fiscal year 2024 Medicaid managed care rates.

### Methodology

We conducted this performance audit from July 2023 through September 2023 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 findings and conclusions based on our audit objectives. In addition, during the audit, matters not required to be reported in accordance with *Government Auditing Standards* were communicated to Commission management for consideration.

## Addressing the Audit Objectives

During the audit, we performed the following:

- Interviewed Commission management and staff to gain an understanding of the actions the Commission has taken to address the recommendations in *An Audit Report on the Health and Human Services Commission's Medicaid Managed Care Rate-setting Process* (SAO Report No. 23-005, November 2022).
- Identified the relevant criteria:
  - The General Appropriations Act (87th Legislature).
  - Texas Government Code, Section 2261.252.
  - *The State of Texas Procurement and Contract Management Guide, Version 2.1.*
  - Texas Government Code, Section 2262.004.
  - The Commission's *Contract Management Handbook*.
- Reviewed emails, meeting agendas, and calendar appointments to determine whether the Commission developed and implemented a process to consistently communicate the results of agreed-upon procedures engagements and year-end reconciliations of managed care organization (MCO) financial statistical reports to its Actuarial Analysis Department.
- Reviewed the Commission's communication of the rates to oversight entities to determine whether that communication (1) included a thorough explanation of all rounding methodologies used in the rate-setting process and (2) explicitly addressed whether analyses pertinent to the rate-setting process were conducted by the Data Analysis Unit, as required by the General Appropriations Act (87th Legislature).
- Auditors selected a nonstatistical sample of 3 contracts for testing from a population of 14 contracts; this sample design was chosen to ensure that the sample included items with specific characteristics. Those characteristics included the relative size of the procurement, the functional division making the procurement, and the type of contract. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.
  - For those contracts selected for testing, auditors determined whether the Commission (1) completed its solicitation review checklist and (2) obtained all contract team members' required certifications and disclosures.

### **Data Reliability and Completeness**

Auditors determined that the data set—consisting of contracts valued at more than \$1 million that the Commission awarded from November 2022 through June 2023—from the Commission’s System of Contract Operation and Reporting was sufficiently reliable for the purposes of the audit by: (1) observing Commission staff extract requested data populations, (2) reviewing data queries and report parameters, (3) verifying control totals and record counts, (4) researching specific contracts, and (5) comparing the contracts to those in the contracts database maintained by the Legislative Budget Board.



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