

# Audit Highlights



Highlights of performance audit report on the Division of Health Care Financing and Policy issued on January 12, 2023.

Legislative Auditor report # LA24-01.

## Background

The mission of the Division of Health Care Financing and Policy (Division) is to: 1) purchase and provide quality health care services to low-income Nevadans in the most efficient manner; 2) promote equal access to health care at an affordable cost to the taxpayers of Nevada; 3) restrain the growth of health care costs; and 4) review Medicaid and other state health care programs to maximize potential federal revenue. The Division administers both Nevada Medicaid and Check Up programs.

Managed Care Organizations (MCOs) are contracted with the Division to provide covered medical services to recipients currently living in urban Clark County and Washoe County. In calendar year 2021, the State had three MCOs that provided medical benefits and one dental benefit administrator. MCOs are paid a monthly risk-based capitated rate for each enrolled recipient. Approximately 75% of the state's Medicaid and Check Up population receive medical benefits through an MCO.

In fiscal year 2021, the Division was primarily funded with federal grants totaling \$3.7 billion and state appropriations of about \$873 million. As of May 25, 2022, the Division had 314 positions authorized of which 273 positions were filled, for a vacancy rate of 13%. The Division has offices located in Carson City, Elko, Las Vegas, and Reno.

## Purpose of Audit

The purpose of the audit was to determine if the Division of Health Care Financing and Policy monitored certain activities related to Managed Care Organizations' enrolled participants and drug rebate payments.

## Audit Recommendations

This audit report contains 10 recommendations to reduce improper MCO capitation payments and improve the collection of MCO supplemental drug rebates.

The Division accepted the 10 recommendations.

## Recommendation Status

The Division's 60-day plan for corrective action is due on April 10, 2023. In addition, the 6-month report on the status of audit recommendations is due on October 10, 2023.

# Dual Enrollments and Supplemental Drug Rebates

## Division of Health Care Financing and Policy

### Summary

The Division does not have adequate processes in place to monitor certain MCO activities, which resulted in over \$34 million in improper payments and uncollected funds. Specifically, the Division does not identify individuals concurrently enrolled in other states' Medicaid programs. Consequently, the Division made improper monthly capitation payments to MCOs because federal law does not allow an individual to be enrolled in more than one state. We conservatively estimate over \$22.9 million in improper capitation payments were made during calendar years 2020 and 2021. In addition, the Division's lack of oversight related to MCOs' supplemental drug rebate payments resulted in \$6.9 million dollars going uncollected for almost 2 years. Additionally, \$4.2 million in rebates were invoiced to drug manufacturers by MCOs but not remitted to the State. Without action and effective oversight activities, improper capitation payments will continue and supplemental drug rebates will go uncollected.

### Key Findings

The Division does not utilize available information to identify recipients enrolled in Medicaid in another state and to end related MCO capitation payments. Because payments are automatic and made each month regardless of actual medical services rendered, significant improper payments accrue when out-of-state recipients are not identified timely, and action is not taken to disenroll them from the MCO. We identified 7,092 individuals who were enrolled in a Nevada Medicaid MCO during calendar year 2020, and also enrolled in another state's Medicaid program. For 44 of 50 (88%) recipients randomly selected and tested from the population, we observed capitation payments continued an average of 12 months after the individual enrolled in another state's Medicaid program. As a result, we conservatively estimate MCOs received over \$22.9 million in improper payments during calendar years 2020 and 2021. (page 6)

The Division's oversight of the supplemental drug rebate program is inadequate. During the 2019 Legislative Session, Senate Bill 378 was passed and included a provision that MCOs remit supplemental drug rebates to the State, less an administrative fee. This requirement went into effect on January 1, 2020. The Division issued a memorandum on March 27, 2019, to MCOs detailing the requirement to submit rebates less a 1% administrative fee at the end of each quarter. Despite issuing the memorandum, we found the Division took no additional action to collect or verify millions of dollars in supplemental drug rebates. While two MCOs remitted rebate payments to the State, one did not. After our inquiry to the Division on November 30, 2021, the MCO made a payment for \$6.9 million in supplemental drug rebates owed. Neither the Division nor the MCO could explain why payment was not remitted, even though two other MCOs submitted supplemental drug rebate payments to the Division totaling over \$7.4 million as of March 31, 2021. (page 10)

In addition, the Division did not obtain supporting documentation to ensure supplemental drug rebate payments made were accurate or timely. We requested supporting documentation and determined another \$900,000 in drug rebates was collected by MCOs, but not remitted to the State. Furthermore, another \$3.3 million in rebates was invoiced to drug manufacturers by MCOs, but remains uncollected by the MCOs. The Division has not established formal policies and procedures over the collection and review of supplemental drug rebates, and the reconciliation of supplemental drug rebates invoiced, collected, and received by MCOs. (page 10)

The Division has not complied with requirements to audit certain MCO activities related to supplemental drug rebates. State law requires the Division perform an annual audit of each MCO, including an analysis of all claims processed to evaluate supplemental drug rebate compliance. Furthermore, MCOs are required to obtain an annual audit of internal controls to ensure the integrity of financial transactions and claims processing. The results of these audits must be posted on the Division's website. According to the Division, staff turnover impacted the Division's ability to perform and obtain audits. In addition, the Division does not have policies and procedures related to the auditing of supplemental drug rebates or internal controls. Without policies and procedures, Division staff will lack adequate guidance to ensure compliance with laws and contract provisions. (page 11)