

National Heritage Insurance Company Accounts Receivable, Claim Counts, and Selected Trust Funds Related to Administering Medicaid Claims for the Health and Human Services Commission

July 7, 2003

Members of the Legislative Audit Committee:

Our audit of National Heritage Insurance Company (NHIC) accounts receivable, claim counts, and selected trust funds identified no errors that would materially affect (1) Medicaid funds that NHIC administers on behalf of the Health and Human Services Commission (Commission) or (2) the amount the Commission paid NHIC for administering Medicaid claims. Specifically:

- We determined that NHIC's accounts receivable balance related to administering Medicaid claims on the Commission's behalf was \$60,428,710 as of April 2003. The accounts receivable represent funds owed to the State and originate from a wide variety of circumstances involving overpayments to and assessments against providers. These funds return to the State through the payment mechanism outlined in NHIC's contract with the Commission. An issue exists relating to the collection of these receivables, a large portion of which has been owed to the State for more than a year. A portion of the accounts receivable balance may be uncollectible. NHIC and the Commission are working to resolve the issue as to who has responsibility for the collection of these funds. The Commission is ultimately responsible for ensuring that these funds are returned to the State. In addition to determining NHIC's accounts receivable balance, we reviewed the processes NHIC uses to set up accounts receivable, adjust accounts receivable amounts, and apply related payments. We noted no issues that would materially affect the accuracy of NHIC's accounts receivable balance.
- We noted no errors in NHIC's fiscal year 2001 and 2002 claim counts that would materially affect the amount that the Commission paid NHIC to administer Medicaid claims. NHIC's contract with the Commission specifies that the Commission will pay NHIC the lower of two alternative amounts: one alternative amount is dependent on claim counts and the other is based on actual costs (see text box for additional details). In fiscal years 2001 and 2002, the lower payment amount was the amount that was based on actual costs. Although we found some errors in NHIC's claim counts, those errors were not large enough to make the payment amount based on claim counts less than the payment amount based on actual costs.
- Our analysis of the fund balances in NHIC's Incurred Claims Liability Reserve Fund and its Risk Stabilization Reserve Fund did not identify any material errors. We also reviewed NHIC's investment and cash management practices related to those two funds and identified no significant issues. It is important to note that the need for those funds will no longer exist when, in early 2004, the Commission changes the method of fiscal administration from an insured arrangement with its Medicaid claims administrator to a fiscal agent arrangement. We verified that the total cash balance of all state funds held by NHIC was \$388,883,710 on August 31, 2001. NHIC reports that the unexpended cash balance in all state funds was \$249 million as of May 31, 2003. After the Commission converts to the fiscal agent method of fiscal administration, any remaining balances will revert to the State and will be used to pay pending and future claims. Under the insured arrangement, the Commission advances funds to its Medicaid claims administrator to pay Medicaid providers; under the fiscal

Alternative Payment Methods in NHIC's Contract with the Commission

NHIC's contract with the Commission specifies that the Commission will pay NHIC the lower of:

- A fixed amount plus a fee per claim.
- NHIC's actual costs plus a 9.4116 percent general and administrative fee and a 15 percent mark-up fee.

In fiscal years 2001 and 2002, the lower amount was the second alternative listed above; therefore, NHIC's payment was not based on its reported claims counts.

SAO Report No. 03-043

agent arrangement, the Commission will reimburse its Medicaid claims administrator for the actual amount of the payments the administrator makes to Medicaid providers.

This report is our third and final report regarding NHIC's administration of Medicaid claims. Our prior two reports were *An Audit of the Administrative Expenses the National Heritage Insurance Company Charged to the Health and Human Services Commission in Fiscal Year 2002* (SAO Report No. 03-036, June 2003) and *An Audit of the Administrative Expenses the National Heritage Insurance Company Charged to the Health and Human Services Commission* (SAO Report No. 03-016, January 2003—This audit covered fiscal year 2001.). In both prior reports, we concluded that NHIC should pay refunds to the State for unallowable expenditures it made related to the administration of Medicaid claims.

We thank the Commission for its cooperation during this audit. If you have any questions, please contact Joanna B. Peavy, CPA, Audit Manager, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

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cc: Mr. Albert Hawkins, Commissioner, Health and Human Services Commission

Summary of Objective, Scope, and Methodology

In accordance with our agreement with the Commission, our objective was to audit (1) NHIC's accounts receivable balance; (2) the accuracy of NHIC's claim counts; and (3) NHIC's Incurred Claims Liability Reserve Fund balance, Risk Stabilization Reserve Fund balance, and investment and cash management practices related to these two funds. We have previously reported on the additional objective to determine the validity of expenditures that NHIC charged the Commission in fiscal years 2001 and 2002.

Our scope covered NHIC's accounts receivable balance as of April 2003. We reviewed NHIC's reported claim counts in fiscal years 2001 and 2002. Our review of balances in NHIC's Incurred Claims Liability Reserve Fund and its Risk Stabilization Reserve Fund focused on fiscal years 2001 through 2003.

The audit methodology consisted of collecting information, performing selected audit tests and other procedures, and analyzing and evaluating the results against established criteria. This audit was conducted in accordance with generally accepted government auditing standards.