

**AGENCY FOR HEALTH CARE
ADMINISTRATION**

**STATEWIDE MEDICAID MANAGED CARE
PROGRAM IMPLEMENTATION**

Operational Audit



SECRETARY OF THE AGENCY FOR HEALTH CARE ADMINISTRATION

The Agency for Health Care Administration is created by Section 20.42, Florida Statutes. The head of the Agency is the Secretary who is appointed by the Governor, subject to confirmation by the Senate. Elizabeth Dudek served as Secretary during the period of our audit.

The audit team leader was Millicent Burns, CPA, and the audit was supervised by Karen Van Amburg, CPA. Please address inquiries regarding this report to Lisa A. Norman, CPA, Audit Manager, by e-mail at lisanorman@aud.state.fl.us or by telephone at (850) 412-2831.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

AGENCY FOR HEALTH CARE ADMINISTRATION

Statewide Medicaid Managed Care Program Implementation

SUMMARY

This operational audit of the Agency for Health Care Administration (Agency) focused on the Agency's implementation of the Statewide Medicaid Managed Care Program (SMMCP). Our audit disclosed that the Agency had developed a plan to facilitate the SMMCP implementation and had, as of March 31, 2014, met its planned transition dates. However, we also noted that the Agency had not developed a detailed staffing plan designed to promote the efficient and effective performance of the Agency's responsibilities after the SMMCP is fully implemented.

BACKGROUND

State law¹ designates the Agency for Health Care Administration (Agency) as the State government entity responsible for administering the State's Medicaid program. The objective of the Medicaid program is to provide payments for medical assistance to low-income persons who are age 65 or over, blind, disabled, or members of families with dependent children or qualified pregnant women or children. During the 2012-13 fiscal year, the Agency made Medicaid payments totaling approximately \$19 billion to medical providers.

Since its creation in 1992, the Agency has been responsible for administering the State's Medicaid program predominately under a fee-for-service (FFS) delivery model. Under the FFS delivery model, health care providers are paid by the Agency for each service, such as an office visit, medical test, or procedure. Rates for these services are set by the Agency and can be developed based on the cost of the service, rates from the private market, or a percentage of the Medicare rate for equivalent services. The Agency's Division of Medicaid, located in Tallahassee, and the Agency's 11 regions, located throughout the State, were organized and established to accomplish tasks under the FFS delivery model, with functions primarily focused on claims payment oversight.

Pursuant to State law,² in May 2011 the Agency began implementation of the Statewide Medicaid Managed Care Program (SMMCP) for all covered medical assistance and long-term care services. The SMMCP was designed to emphasize patient-centered care and active patient participation, provide fully integrated care with access to providers and services through a uniform Statewide program, and implement innovations in reimbursement methodologies, plan quality, and plan accountability. State law³ directed the Agency to create the SMMCP with two key components: the Managed Medical Assistance Program (MMAP) and the Long-Term Care Managed Care Program (LTCMCP). The MMAP is the medical component of the SMMCP and includes physician services, hospital stays, and prescribed medications. The LTCMCP includes institutional care, such as nursing facilities and hospices, as well as home and community-based services.

In a managed care delivery system, enrollees receive most or all of their Medicaid services from an organization under contract with the Agency. These managed care organizations provide Medicaid services to enrollees in exchange for a monthly payment from the Agency. Implementation of the SMMCP represents a significant change in the Agency's business model and operations. The Agency will shift from its role as a claims processing service provider under the FFS delivery model to a role of oversight and accountability for the managed care organizations it contracts for services with under the SMMCP. Although the Agency's business model and operations will significantly change as

¹ Section 20.42(3), Florida Statutes.

² Chapter 2011-134, Laws of Florida.

³ Chapter 409, Part IV, Florida Statutes.

the SMMCP delivery model is implemented, as shown in **EXHIBIT A** to this report, the Agency’s 11 regions will continue to exist. A chart, as of November 26, 2013, of the proposed Division of Medicaid organizational structure after full implementation of the SMMCP is included as **EXHIBIT B** to this report.

As part of the SMMCP implementation plan, the Agency established schedules for the roll-out of each of the SMMCP’s key components. As shown in Table 1, the LTCMCP component was rolled out by region beginning in August 2013.

**Table 1
Long-Term Care Managed Care Program
Regional Roll-out Schedule**

Actual Enrollment Effective Date	Region	Total Eligible Population
August 1, 2013	7	9,338
	8	5,596
September 1, 2013	9	7,854
	2	4,058
November 1, 2013	10	7,877
	11	17,257
February 1, 2014	5	9,963
	6	9,575
March 1, 2014	1	2,973
	3	6,911
	4	9,087
Total		<u>90,489</u>

Source: Agency Web site and Agency records.

Table 2 shows the Agency’s planned regional roll-out schedule for the MMAP component of the SMMCP.

**Table 2
Managed Medical Assistance Program
Regional Roll-out Schedule**

Planned Enrollment Effective Date	Region	Total Projected Enrollment By Region
May 1, 2014	2	118,181
	3	260,346
	4	302,581
June 1, 2014	5	189,529
	6	413,256
	8	208,587
July 1, 2014	10	253,299
	11	575,187
August 1, 2014	1	103,383
	7	388,517
	9	258,305
Total		<u>3,071,171</u>

Source: Agency Web site and Agency records.

In August 2011, Agency management reported⁴ that, as of June 1, 2011, approximately 47 percent of the Medicaid population was enrolled in managed care, with managed care expenditures representing approximately 18 percent of the Medicaid program budget. According to Agency management, upon full SMMCP implementation, scheduled for October 2014, approximately 85 percent of the State's Medicaid population will be enrolled in managed care and the related expenditures are expected to make up more than 60 percent of the total Medicaid program budget.⁵ Agency management also reported that, as of June 2011, the Agency had 882 positions dedicated to Medicaid functions, of which 657 supported functions related to the FFS delivery model and 225 supported functions related to the managed care delivery model. As the Agency transitions from the FFS delivery model to managed care under the SMMCP, Agency management indicated that responsibilities under the FFS delivery model, such as prior authorization, utilization management, and program and provider monitoring, will primarily become the responsibility of the managed care providers. Upon full SMMCP implementation, Agency responsibilities will shift toward functions such as contracting, contract compliance and monitoring, and policy-related functions.

Our review of the Agency's implementation of the SMMCP found that Agency management had developed a plan to facilitate the SMMCP implementation and, as of March 31, 2014, the planned transition dates had been met. However, we also noted that Agency management needs to fully develop a detailed staffing plan to advance the workforce transition and promote the efficient and effective performance of the Agency's responsibilities after the SMMCP is fully implemented.

FINDING AND RECOMMENDATION

Finding No. 1: SMMCP Post-Implementation Staffing Plan

State law⁶ required that the Agency develop a reorganization plan for the realignment of administrative resources of the Medicaid program to respond to the changes in functional responsibilities and priorities necessary to implement the SMMCP. In developing the plan, the Agency was required to assess current capabilities, identify shifts in staffing and other resources necessary to strengthen procurement and contract management functions, and establish an implementation timeline. In August 2011, the Agency completed a reorganization plan which indicated that, at the time the plan was prepared, total staffing needs after full implementation of the SMMCP were difficult to predict. Consequently, the plan included an analysis of the potential shifts in staff roles and responsibilities and likely changes in administrative focus, rather than identifying the specific staffing resources necessary upon full implementation.

The Agency contracted with a third party to conduct an independent, external assessment of the Agency's organizational and workforce needs required to fully implement the SMMCP and transition State Medicaid recipients from the FFS delivery model to the managed care delivery model. In a report dated May 21, 2013, the contractor noted that there were activities imperative to the success of the transition of the organization and workforce that needed to begin immediately. Included among those activities were the implementation of a new SMMCP operating model, the development of new business processes, the addition of new skills and competencies, and the transition of the workforce. The contractor found that the workforce transition required developing the requisite skill sets among

⁴ Agency for Health Care Administration, *Realignment of Medicaid Administrative Resources Necessary for the Implementation of House Bill 7107 and House Bill 7109, Report Pursuant to HB 7109*, dated August 1, 2011.

⁵ The remaining 40 percent of the Medicaid program budget will continue to be used for other Medicaid services such as those provided by the Medically Needy program, Pharmacy Services program, Low Income Pool program, Disproportionate Share program, and the Developmental Disabilities waiver administered by the Agency for Persons With Disabilities.

⁶ Chapter 2011-135, Laws of Florida.

existing staff or recruiting new staff and recommended that the Agency develop a detailed workforce staffing plan aligned with the SMMCP operating model.

As part of our audit, we examined documentation related to the Agency's transition plan; reviewed the Agency's methodology for monitoring the progress of the implementation, including interim progress reports to stakeholders; and evaluated the Agency's strategy for operations after the SMMCP is fully implemented. Our audit procedures disclosed that, while Agency management had identified the functional areas and roles needed after SMMCP implementation and, based on those functions and roles, had designed the proposed organizational structure depicted in **EXHIBIT B** to this report, Agency management had not established detailed staffing plans with organizational charts that included the required number of staff by position in each proposed functional area or indicated how current staff would be placed in the roles within the new functional areas. In response to our audit inquiries, Agency management indicated that the Agency had prioritized obtaining Federal authority for the SMMCP model, procuring the managed care provider contracts, and enrolling individuals into the managed care plans and that staffing plans would be finalized in early 2015.

A detailed staffing plan aligned with the SMMCP operating model for all functional areas would enhance the Agency's ability to efficiently and effectively execute its statutory Medicaid program responsibilities after the SMMCP is fully implemented in October 2014.

Recommendation: To advance the workforce transition and promote the efficient and effective performance of the Agency's responsibilities after the SMMCP is fully implemented, we recommend that Agency management establish, prior to the full implementation of the SMMCP on October 1, 2014, detailed staffing plans with organizational charts for all Medicaid-related functional areas.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from January 2014 through March 2014 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.

This operational audit focused on the Agency's implementation of the Statewide Medicaid Managed Care Program. The overall objectives of the audit were:

- To evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, administrative rules, contracts, grant agreements, and guidelines.
- To examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.

- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable governing laws, rules, or contracts, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

In conducting our audit we:

- Interviewed Agency staff, reviewed applicable laws and regulations, and examined Agency documentation to gain an understanding of the SMMCP requirements as well as the required implementation tasks and dates.
- Examined the Agency's transition plan and project plan timeline to determine if the Agency had established a clearly defined plan for transitioning to the SMMCP.
- Evaluated Agency internal controls established to ensure the successful implementation of the SMMCP in accordance with applicable laws and regulations and to identify and track the various SMMCP implementation tasks.
- Determined whether the Agency's transition plan and project plan timeline clearly defined responsibility for project tasks, complied with State law, and were adequately supported and properly communicated to appropriate parties by examining:
 - Internal and external assessments of the SMMCP.
 - Documentation relating to the overall project management governance structure.
 - Minutes of meetings held by Agency management to assess and monitor overall SMMCP implementation as well as the MMAP and LTCMCP components.
 - Presentations made by Agency staff to legislative committees regarding the status of the SMMCP implementation.
 - Documentation relating to the Agency's organizational structure before and after SMMCP implementation, including the Agency's current organizational structure, the Agency's proposed

post-implementation functional areas and roles, and the proposed future operating model presented by the external assessment.

- Documentation related to feedback from stakeholders on the SMMCP implementation and the Agency’s responses and mechanism for tracking implementation.
- Reviewed documentation related to the Agency’s planning process to evaluate whether the Agency had established an appropriate strategy and conducted adequate planning for staffing and an organizational structure subsequent to the implementation of the SMMCP.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the finding and recommendation that is included in this report and which describes the matters requiring corrective actions.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a periodic basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.

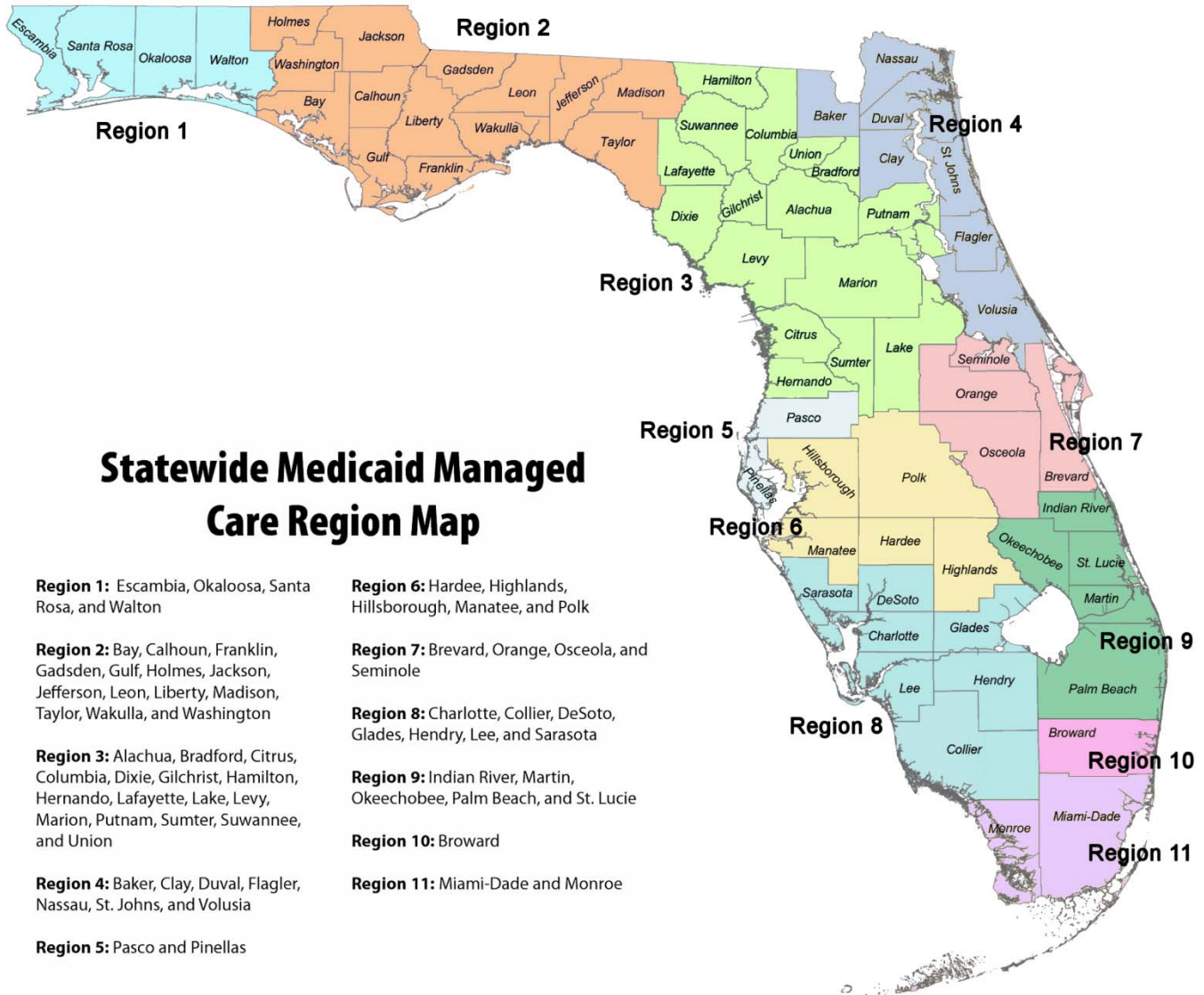


David W. Martin, CPA
Auditor General

MANAGEMENT’S RESPONSE

In a response letter dated May 27, 2014, the Secretary of the Agency provided a response to our finding and recommendation. The Secretary’s response is included as **EXHIBIT C**.

**EXHIBIT A
AGENCY FOR HEALTH CARE ADMINISTRATION REGIONS**



Region 1: Escambia, Okaloosa, Santa Rosa, and Walton

Region 2: Bay, Calhoun, Franklin, Gadsden, Gulf, Holmes, Jackson, Jefferson, Leon, Liberty, Madison, Taylor, Wakulla, and Washington

Region 3: Alachua, Bradford, Citrus, Columbia, Dixie, Gilchrist, Hamilton, Hernando, Lafayette, Lake, Levy, Marion, Putnam, Sumter, Suwannee, and Union

Region 4: Baker, Clay, Duval, Flagler, Nassau, St. Johns, and Volusia

Region 5: Pasco and Pinellas

Region 6: Hardee, Highlands, Hillsborough, Manatee, and Polk

Region 7: Brevard, Orange, Osceola, and Seminole

Region 8: Charlotte, Collier, DeSoto, Glades, Hendry, Lee, and Sarasota

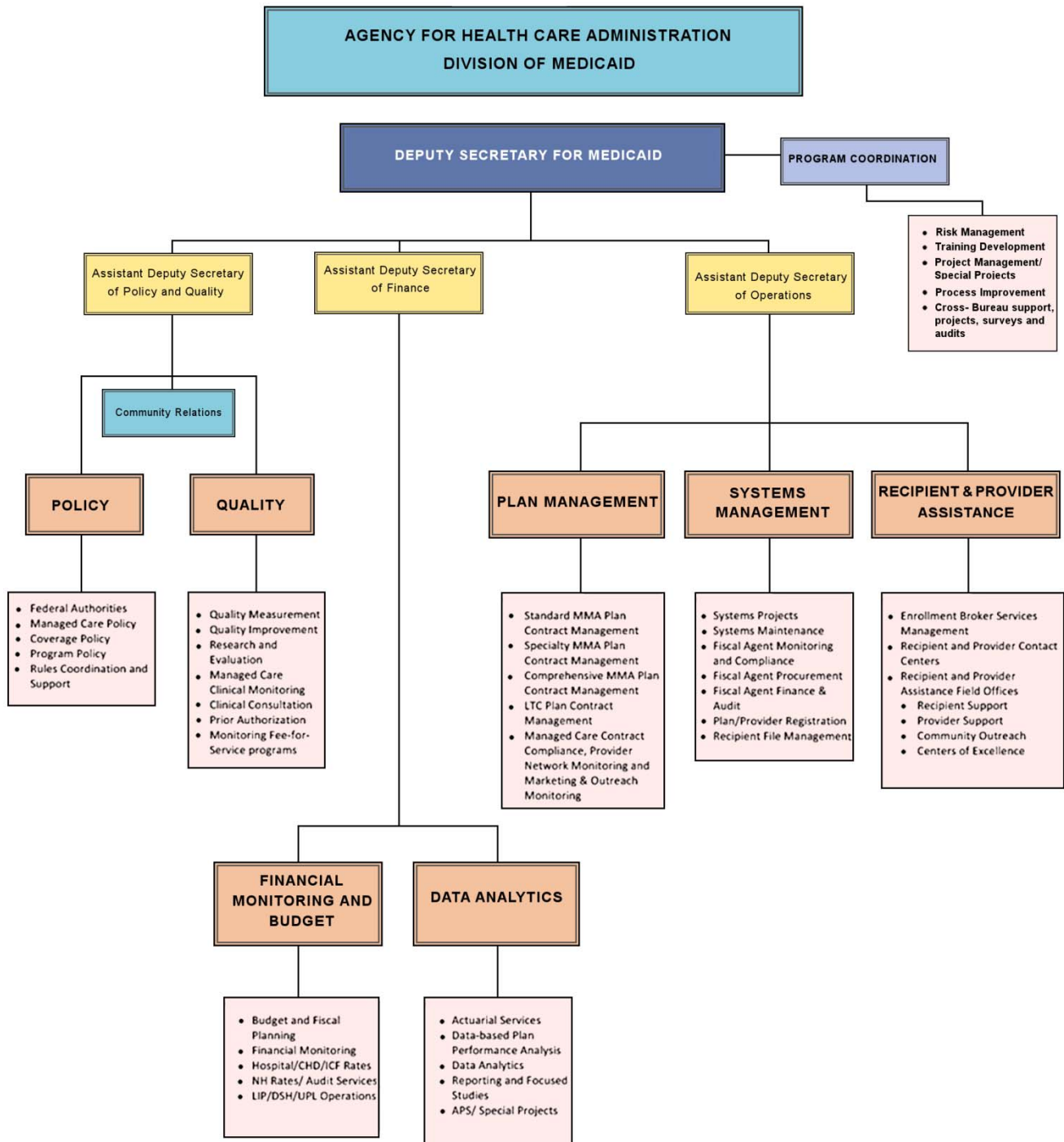
Region 9: Indian River, Martin, Okeechobee, Palm Beach, and St. Lucie

Region 10: Broward

Region 11: Miami-Dade and Monroe

Source: Agency's Web site.

**EXHIBIT B
AGENCY'S PROPOSED SMMCP ORGANIZATIONAL STRUCTURE
AFTER FULL IMPLEMENTATION**



Source: Agency records (as of November 26, 2013).

EXHIBIT C
MANAGEMENT'S RESPONSE



RICK SCOTT
GOVERNOR

ELIZABETH DUDEK
SECRETARY

May 27, 2014

Mr. David W. Martin
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin:

Thank you for the opportunity to respond to the preliminary and tentative findings and recommendations from your Operational Audit of the Agency for Health Care Administration, Statewide Medicaid Managed Care Program Implementation. In accordance with your request, we have emailed you the preliminary and tentative audit findings document with our response incorporated therein.

If you have any questions regarding our response, please contact Mary Beth Sheffield, Audit Director at (850) 412-3978.

Sincerely,


Elizabeth Dudek
Secretary

ED/szg
Enclosure



EXHIBIT C (CONTINUED)
MANAGEMENT'S RESPONSE

Agency for Health Care Administration
Auditor General Operational Audit
Statewide Medicaid Managed Care Program Implementation
Response to Preliminary and Tentative Audit Finding and Recommendation

Finding No. 1:

The Agency had not developed a detailed staffing plan designed to promote the efficient and effective performance of the Agency's responsibilities after the Statewide Medicaid Managed Care Program (SMMCP) is fully implemented.

Recommendation:

To advance the workforce transition and promote the efficient and effective performance of the Agency's responsibilities after the SMMCP is fully implemented, we recommend that Agency management establish, prior to the full implementation of the SMMCP on October 1, 2014, detailed staffing plans with organizational charts for all Medicaid-related functional areas.

Agency Response:

Medicaid and other Agency leadership have worked intensively over the past twelve months to develop a revised organizational model. Major pieces of this model have been detailed and many are already in place. This model will be fully implemented by July 2015, after the SMMC program is operating statewide and after phase down or close out of many major legacy fee-for-service functions. Final determinations regarding the staffing model and staffing level to support the Medicaid program post implementation of SMMC are still underway, as there are uncertainties regarding the workload remaining after full SMMC Program implementation.