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JUL 3 2012

State of Wisconsin
Department of Health Services

Scott Walker, Governor
Dennis G. Smith, Secretary

July 2, 2012

Senator Robert Cowles
Co-Chair Joint Legislative Audit Committee
Room 118 South, State Capitol
P.O. Box 7882
Madison, WI 53707-7882

Representative Samantha Kerkman
Co-Chair Joint Legislative Audit Committee
Room 315 North, State Capitol
P.O. Box 8952
Madison, WI 53708

Dear Senator Cowles and Representative Kerkman:

In its December 2011 audit for the Medicaid program, the Legislative Audit Bureau recommended that the Department report to the Joint Legislative Audit Committee on seven recommendations contained within the audit:

1. *Develop separate accounting codes for administrative expenditures for the Medical Assistance and FoodShare programs*

   The Department is working to subdivide Medicaid expenditures into additional "numeric" appropriations within the s. 20.435(4)(b) appropriation. This change will require modifications to the Medicaid management information system, InterChange, to group expenditures into the new subcategories and then upload them into FMS (the Department's accounting system) and Wismart. The Department expects to implement these changes in time for FY 14, the beginning of the next biennium.

2. *Ensure it has adequate funding for contractual services before authorizing expenditures*

   Consistent with the LAB recommendations, the Department has implemented a new process by which the Division of Enterprise Services will review all administrative contract amendments for funding availability and to ensure compliance with procurement rules. DHS has formalized this process in its Accounting Policies and Procedures Manual. A team consisting of staff from Division of Health Care Access and Accountability, Division of Enterprise Services, and the Office of Policy Initiatives and Budget meet on a monthly basis to monitor and project administrative expenditures and advise Department leadership on necessary steps to address funding issues.

3. *Use bids to solicit the most appropriate and effective administrative services at the most competitive price.*

   DHS continues to pursue all appropriate opportunities to solicit the most qualified administrative services vendors according to state procurement policies and statutory regulation. Since the audit was released last December, the Department has procured a new external quality review organization (EQRO) through a competitive process. In addition, when the current Medicaid actuarial services contract expires, we plan to competitively bid for a new contract to obtain the required services at the most favorable price.

   The Department has also begun a request for proposal (RFP) process to select multiple "revenue maximization" vendors to assist the Medicaid program in properly claiming federal revenue and/or reduce program costs. Vendors selected through the RFP process will in turn compete for individual revenue maximization projects in the future. DHS will require the vendors to undergo a more rigorous review process for each project, including evaluations of detailed work plans, identification of measureable program and fiscal deliverables, and evaluation of contractors' proposed rate structures for each initiative. Through this process, DHS is establishing higher expectations for cost effectiveness and program outcomes.

   The Department will review other Medicaid administrative services contracts as their contracting authority expires or as new requirements arise. We will continue to use the procurement process to obtain more value for funds expended, improve vendor performance, and achieve measureable deliverables.

4. *Review existing contracted services to identify whether cost savings could be achieved by using state employees.*

   The Department has undertaken a thorough review of Medicaid contract staff to identify which perform functions that are traditional state roles. It received approval from the Joint Committee on Finance at its September 2011 and March 2012 meetings to create 50.5 FTE AF to replace contractors, for a total annual savings of $816,700 GPR. DHS will consider requesting additional FTE in its 2013-15 biennial budget request to replace other contract positions where savings could be achieved. Finally, as directed by the Governor and Legislature in Act 32, we have been working with counties to implement a regionalized, more efficient, income maintenance program for determining Medicaid and FoodShare eligibility, which was successfully implemented January 1st. As part of that process, DHS phased down the Enrollment Services Center at the end of FY 12, eliminating 335 contract staff at HP.

5. *Consider the potential benefits of enrolling recipients into HMOs in a more timely manner*

   The Department is pursuing changes to allow recipients to enroll in an HMO sooner than what current policies allow. Most recipients, after they become Medicaid eligible, remain in fee for service for two or more months before they can enroll in an HMO. The Department's

long term goal is to have both eligibility determination and HMO enrollment be real-time and simultaneous.

The Department is also exploring changes that would allow recipients to re-enroll more quickly into their HMOs if they become temporarily ineligible. Currently, if they return to Medicaid after a break in their eligibility, it may take one or two months before the Department re-enrolls them in an HMO.

In addition, the Department is reviewing exemptions in its HMO enrollment policy that allows individuals to remain in fee for service temporarily or permanently. The goal of the review is to assess the continued necessity of the various exemptions as well as their duration.

6. *Account for all Medical Assistance expenditures in determining total program costs.*

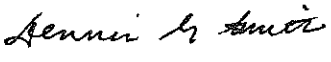
In its report, LAB addressed the Community Options Program (COP) appropriation under s. 20.435(7)(bd). LAB notes that counties use a portion of COP funds as match for Medicaid services and asks why that portion is not included within the Medicaid appropriation structure. The Department allocates COP funds from the legislatively designated COP appropriation, and counties choose to use the funds for Medicaid and non-Medicaid services, based on the care needs of their residents in any given year. Dividing the funds into Medicaid and non-Medicaid appropriations would provide more clarity to Medicaid expenditures, but would limit county flexibility to meet client needs. At this time, the Department recommends retaining both Medicaid and non-Medicaid COP funds in the (7)(bd) appropriation at this time in order to maximize county flexibility.

7. *Develop a more detailed biennial budget request and financial reporting structure to allow it to routinely budget and account for all Medical Assistance costs by subprogram.*

The Department plans to include a more detailed summary of Medicaid funding requests in its biennial budget request that will be submitted on September 15, 2012. As noted under item 1, the Department is working with its fiscal agent to subdivide Medicaid expenditures into additional numeric appropriations by FY 14.

Please contact me if you would like any additional information about these items.

Sincerely,



Dennis G. Smith
Secretary