New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor

Department of Human Services
Division of Medical Assistance and Health Services
Transportation Broker Services Contract
Capitation Rates

July 1, 2014 to June 30, 2016

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State Auditor

New Jersey State Legislature

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Enclosed is our report on the audit of the Department of Human Services, Division of Medical Assistance and Health Services, Transportation Broker Services Contract — Capitation Rates for the period of July 1, 2014 to June 30, 2016. If you would like a personal briefing, please call me at (609) 847-3470.

Stephen M. Eells
State Auditor
March 30, 2017

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Scope

We have completed an audit of the Department of Human Services, Division of Medical Assistance and Health Services, Transportation Broker Services Contract – Capitation Rates for the period July 1, 2014 to June 30, 2016. Our audit included financial activities accounted for in the state's General Fund and was limited to a comparison of total capitation paid for all recipients to the direct costs incurred by the transportation broker for non-emergency medical transportation services. This is the first of two reports we will issue regarding the Transportation Broker Services contract. Our second report will measure utilization and contract performance.

The Transportation Broker Services contract established a sole provider (broker) responsible for arranging three types of non-emergent services for Medicaid recipients in all counties through its provider network: mobility assistance vehicles, ambulance, and livery services. The Department of Human Services, Division of Medical Assistance and Health Services is responsible for monitoring the transportation broker services contract and for oversight of the fiscal agent responsible for receiving and maintaining encounter claims submitted by the broker. Annual expenditures under the contract were $171.7 million and $177.9 million in fiscal years 2015 and 2016, respectively, to provide services to approximately 1.6 million Medicaid recipients. Expenditures are partially reimbursed by the federal government.

Objective

The objective of our audit was to determine whether the transportation broker services contract capitation rates were reasonable when compared to direct transportation costs.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 finding and conclusion based on our audit objective.

In preparation for our testing, we studied legislation, the administrative code, and the transportation broker services contract. Provisions we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our testing of financial transactions. We also reviewed financial trends and interviewed agency personnel to obtain an understanding of the program and the internal controls.

Our testing encompassed 100 percent of costs associated with the contract. Documentation relating to the costs reviewed was received directly from the agency or the broker, or was derived through queries of the agency's shared data warehouse.

Conclusion

We found the transportation broker services contract capitation rates, although compliant with the contract terms, were not reasonable when compared to the direct transportation costs.

Background

The Division of Medical Assistance and Health Services (division) has contracted with a transportation broker (broker) to provide non-emergency medical transportation services to Medicaid recipients. The five-year contract, which began in July 2009 and has received multiple extensions and capitation rate adjustments, currently expires in May 2017. The broker is paid a set monthly fee, called a capitation, for each eligible Medicaid recipient and submits detailed claim information (encounter claims) to the state's fiscal agent for review. The claims are then subjected to various edits to ensure their validity. The current monthly capitation rate of $9.04 has remained unchanged since July 1, 2014, even though there has been a series of contract amendments during this period. Capitation rates are calculated based on estimated usage and historical transportation costs, with the assumption that some recipients will utilize services more frequently than others. This method leaves the division at risk of overpaying when the broker's actual direct costs differ from the assumptions used in capitation rate calculations. Beginning in October 2014, the broker has been voluntarily returning a portion of capitation payments on a monthly basis; this returned capitation has averaged $1.3 million per month during our audit period.

Capitation Rate

The capitation rate was not reasonable when compared to the broker's actual direct costs of transportation submitted as encounter claims.

Our calculation, based on actual direct transportation costs submitted as encounter claims, disclosed that the division paid excess capitation of at least $20.8 million during our audit period in addition to the $27.2 million of voluntary returned capitation from the broker. The Division of Purchase and Property has issued a Request for Proposal (RFP) for a new transportation broker services contract and is in the process of reviewing bids. A major change with the new RFP requires the broker's direct transportation costs to be at least 80 percent of capitation payments received. Although this requirement is not in the terms of the current contract, we used the 80 percent minimum requirement from the new RFP to calculate reasonable costs. The schedule below shows our calculation of the excess capitation paid using this methodology.

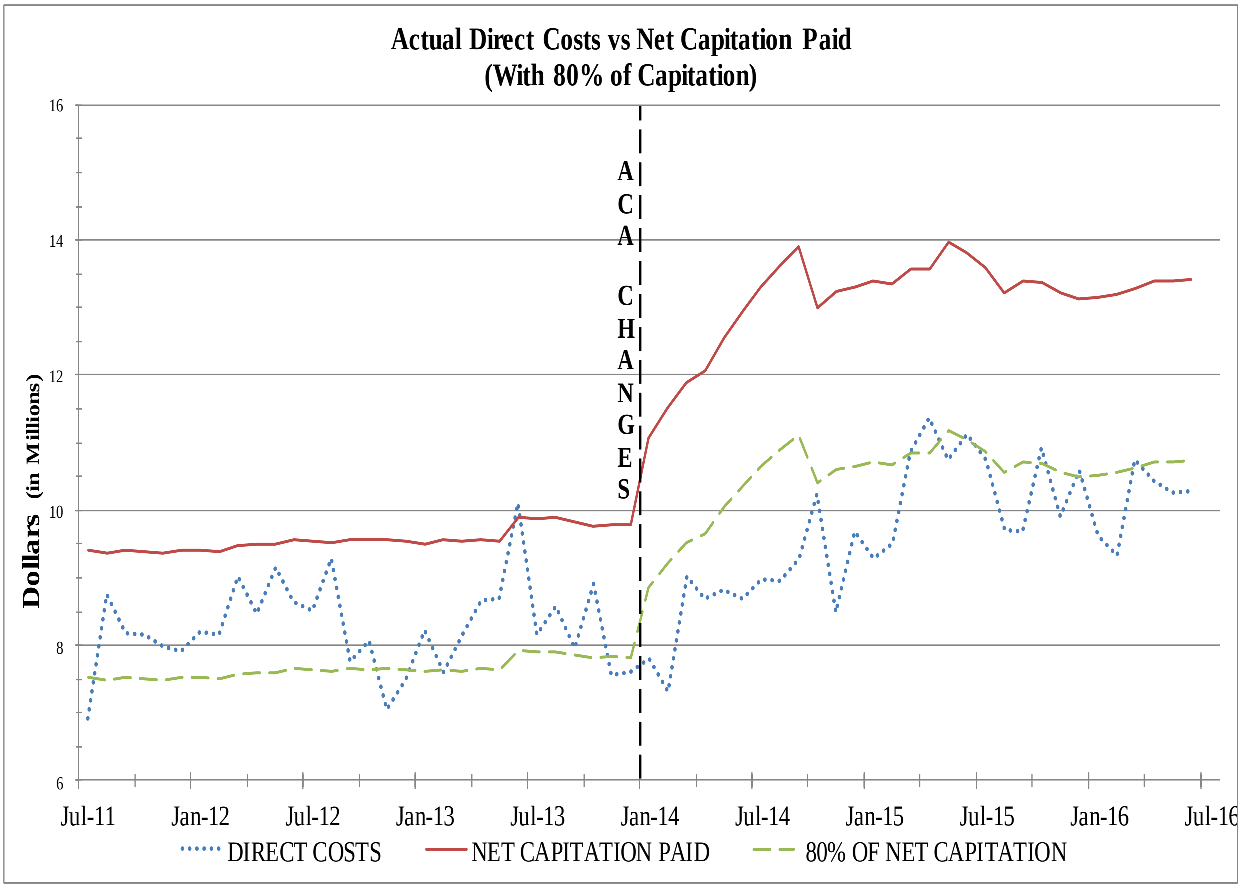
	Capitation Paid	①Net Capitation	②Actual Direct Costs	③Anticipated Capitation	④Excess Capitation
FY 2015	$ 171,692,327	$ 162,013,069	$ 118,504,748	$ 148,130,935	$ 13,882,134
FY 2016	$ 177,943,794	$ 159,732,509	$ 122,245,847	$ 152,807,309	$ 6,925,200
TOTAL	$ 349,636,121	$ 321,745,578	$ 240,750,596	$ 300,938,245	$ 20,807,333

① - Net Capitation = Capitation Paid - Liquidated Damages - Capitation Returned
② - Actual Direct Costs = Paid Encounters + Denied Encounters
③ - Anticipated Capitation = Actual Direct Costs / 80% Requirement
④ - Excess Capitation = Net Capitation - Anticipated Capitation

As illustrated above, we compared the net capitation paid (capitation paid *less* liquidated damages *less* capitation returned) to the actual direct costs (encounter claims *plus* denied encounter claims) submitted by the broker each month, to determine if the direct costs were within 80 percent of the capitation paid. While the monthly percentage calculated ranged between 64 and 84 percent, we found that direct transportation costs of the broker averaged only 74.8 percent of the capitation paid during our audit period. We calculated that the division could have paid the broker $20.8 million less for these services, and actual direct costs would have been at 80 percent of capitation paid.

We determined actual direct costs using encounter data from the division's shared data warehouse (SDW). The contract requires the broker to provide monthly encounter claims to the state's fiscal agent, who then subjects the claims to various edits. In addition, the new RFP, which was issued in July 2014, establishes the encounter records as the basis for reconciliation to the broker's records. The division instead relies on reports submitted by the broker, even though they do not audit or verify these reports, to assure them the capitation they have paid is reasonable when compared to direct costs. The broker reports show that their direct costs meet the 80 percent minimum requirement established by the new RFP. We did not rely on the costs reported by the broker because they are not audited. We did, however, include denied encounter claims in our calculation in order to give the broker the benefit of the doubt and to be more conservative in our overpayment calculation.

Our comparison of the capitation payments to actual direct costs from fiscal year 2012 to fiscal year 2014 disclosed that the capitation rates were reasonable for most of this period. However, as a result of provisions of the Affordable Care Act (ACA) becoming effective January 1, 2014, the number of eligible Medicaid recipients increased significantly. The following chart depicts the net capitation paid, the 80 percent of net capitation payment amounts, and the direct costs of the broker to provide transportation services each month per SDW claims.



Our analysis indicated that the 500,000 newly eligible recipients resulting from the ACA changes were comprised almost exclusively of 19 to 64-year-olds. This age group did not use transportation services as frequently as the original Medicaid population. However, the only adjustment to the capitation rate since the expansion of the population was a decrease from \$9.16 to \$9.04 on July 1, 2014. No other rate adjustments were made when extensions were granted to the original contract, despite there being a much larger population using proportionally less services. As a result, monthly capitation payments since January 2014 have increased significantly, while actual direct costs have increased minimally.

Recommendation

As noted previously, the proposed new contract states that the direct transportation expenses of the program must be at least 80 percent of capitation payments received. It also requires the division to be able to reconcile paid amounts from the encounter records to within 98 percent of the paid claim amounts submitted on bi-annual profit and loss statements by the broker. However, we recommend the division take a more proactive approach by monitoring the independently verified encounter claims and comparing actual direct transportation costs to capitation payments to ensure the actual direct transportation costs are at least 80 percent of the capitation paid. This process should be performed quarterly, and the new contract should allow capitation rates to be adjusted accordingly to more accurately reflect actual direct transportation costs and eliminate the need for the returned capitation payments.

State of New Jersey

CHRIS CHRISTIE
GOVERNOR

KIM GUADAGNO
Lt. Governor

DEPARTMENT OF HUMAN SERVICES
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ELIZABETH CONNOLLY
ACTING COMMISSIONER

March 29, 2017

Mr. John J. Termyna, Assistant State Auditor
New Jersey State Legislator
Office of the State Auditor
125 South Warren Street
P.O. Box 067
Trenton, NJ 08625

Dear Mr. Termyna:

The Department of Human Services is in receipt of a draft audit report issued by your office, **"Department of Human Services' (DHS) Division of Medical Assistance and Health Services (DMAHS), Transportation Broker Services Contract, Capitation Rates".** The objective of the audit was to determine whether the transportation broker services contract capitation rates were reasonable when compared to direct transportation costs.

As affirmed by the Auditor, the capitation rates paid to the transportation broker are compliant with the contract terms. The Department, however, disagrees with the draft report's conclusion that the capitation rates are too high.

The transportation broker contract does not require the actual/direct transportation costs to be at least 80% of the capitation payments. A new transportation broker RFP issued in 2016 includes an 80% provision. Nevertheless, the transportation broker has been returning monthly capitation payments <u>on a voluntary basis</u> to keep its actual/direct costs in the 80% range.

Direct transportation costs for the audit period as shown in the Broker's financial statements provided to DMAHS exceed the transportation encounter claims in the Shared Data Warehouse (SDW) by approximately $18M. There were several months during which the difference between the Broker's financial statements and the SDW were significant. The Broker advised that it has documents showing the actual payments to the providers, which were submitted to the SDW. Claims include payment for and distribution of mass transit tickets to DMAHS clients. These claims are submitted at a default rate of $1.75; however, the broker's reported costs on its financial statements averaged about $2.33. This difference resulted in approximately $4 million, a point the Auditor did not recognize in its report.

Further, the broker's financial statements included approximately $1.9 million in direct transportation costs that were not included in its claims. These costs included additional labor for multi-step transfers of wheel chair and stretcher clients, out of state transfers above contracted rates and mileage adjustments. This information also was excluded from the Auditor's report.

For these reasons, the Department believes that the draft audit report should acknowledge the $5.9M in claims highlighted above. If you have any questions, please do not hesitate to contact me, or Richard H. Hurd, at 609-588-2550.

Sincerely,

Elizabeth Connolly
Acting Commissioner

c: Richard H. Hurd, DMAHS Chief of Staff