OLA **OFFICE OF THE LEGISLATIVE AUDITOR**
STATE OF MINNESOTA

Financial Management of Health Care Programs

Update to 2008 Evaluation Report

Problems Identified

- **Inadequate Cost Controls.** Medical spending per managed care enrollee in Minnesota's publicly funded health care programs grew 12 percent annually between 2000 and 2006, while administrative spending per enrollee grew 8 percent annually. The Department of Human Services (DHS) had mixed success implementing cost containment strategies it proposed in 2005.

- **Insufficient Restrictions on "County-Based Purchasing."** Three of the nine health plans that administered managed care on behalf of DHS were county-based organizations, and the statutes governing them provided for insufficient control and accountability. For example, the law did not limit their expenditures to health care purposes, and it locked DHS into single-plan purchasing arrangements in some counties for indefinite periods.

Changes Implemented

- **Legislature Received Additional Information on Implementation of Cost Containment Strategies.** As OLA recommended, DHS provided the Legislature in February 2009 with a status report on 12 cost containment strategies it proposed four years earlier. Also, in response to a 2009 OLA evaluation, the Legislature and DHS took various steps to improve the fiscal integrity of Medicaid-funded personal care services.

- **Legislation Imposed New Restrictions and Reporting Requirements on Health Plans.** *Laws of Minnesota* 2008, chapter 364, placed limits on health plans' administrative cost growth; required health plans to report administrative cost information that is consistent with uniform state guidelines; required counting health plans' interest and investment earnings as income when DHS computes capitation rates for publicly funded health care programs; and placed new limits on county-based purchasing organizations.

Action Needed

- **Implement Consistent Cost Reporting Practices and Review Reasonableness of Expenses.** Legislation (HF 3066 and SF 3094) is pending in the 2010 Legislature to address inconsistencies in the way health plans allocate their administrative expenses and investment income across business lines. The bills would also establish an advisory group to recommend by mid-2011 detailed standards and procedures for examining the reasonableness of health plans' administrative spending for publicly funded programs.

- **Review Adequacy of Provider Rates.** Aside from a 3 percent increase in 2000, the Legislature has not increased since 1992 the rates paid to physicians in Minnesota's fee-for-service program. A 2009 DHS study found that Minnesota's rates are often lower than those in comparison states. Also, DHS has taken a long time to implement rates based on "relative value units," as required by law; it hopes to do this by the end of 2010.

Financial Management of Health Care Programs is available at http://www.auditor.leg.state.mn.us.
For more information, contact Joel Alter at 651-296-8313 or joel.alter@state.mn.us.