



Preliminary Report

# Review of the Health Care Authority’s Budget Structure

**LEGISLATIVE AUDITOR'S CONCLUSION:**

The complexity of HCA’s accounting structure reflects service delivery and helps to fulfill reporting requirements.

The expenditure forecast work group that includes HCA, OFM, and legislative staff lacks a formal structure that could improve the utility of and confidence in the forecast.

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September 2021





2020 Legislature:  
**Review HCA  
budget & accounting  
structures**

## Medicaid is largest part of HCA budget

- Health coverage for eligible low-income adults, children, people with disabilities, others.
- Funded by the state, with a match from the federal government.

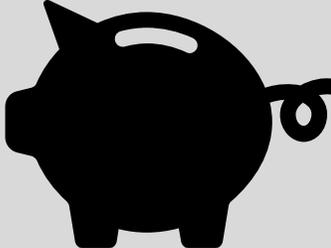


# Presentation Overview

Accounting  
Structure



Budget  
Development



Forecast  
Work Group





# Presentation Overview

## Accounting Structure

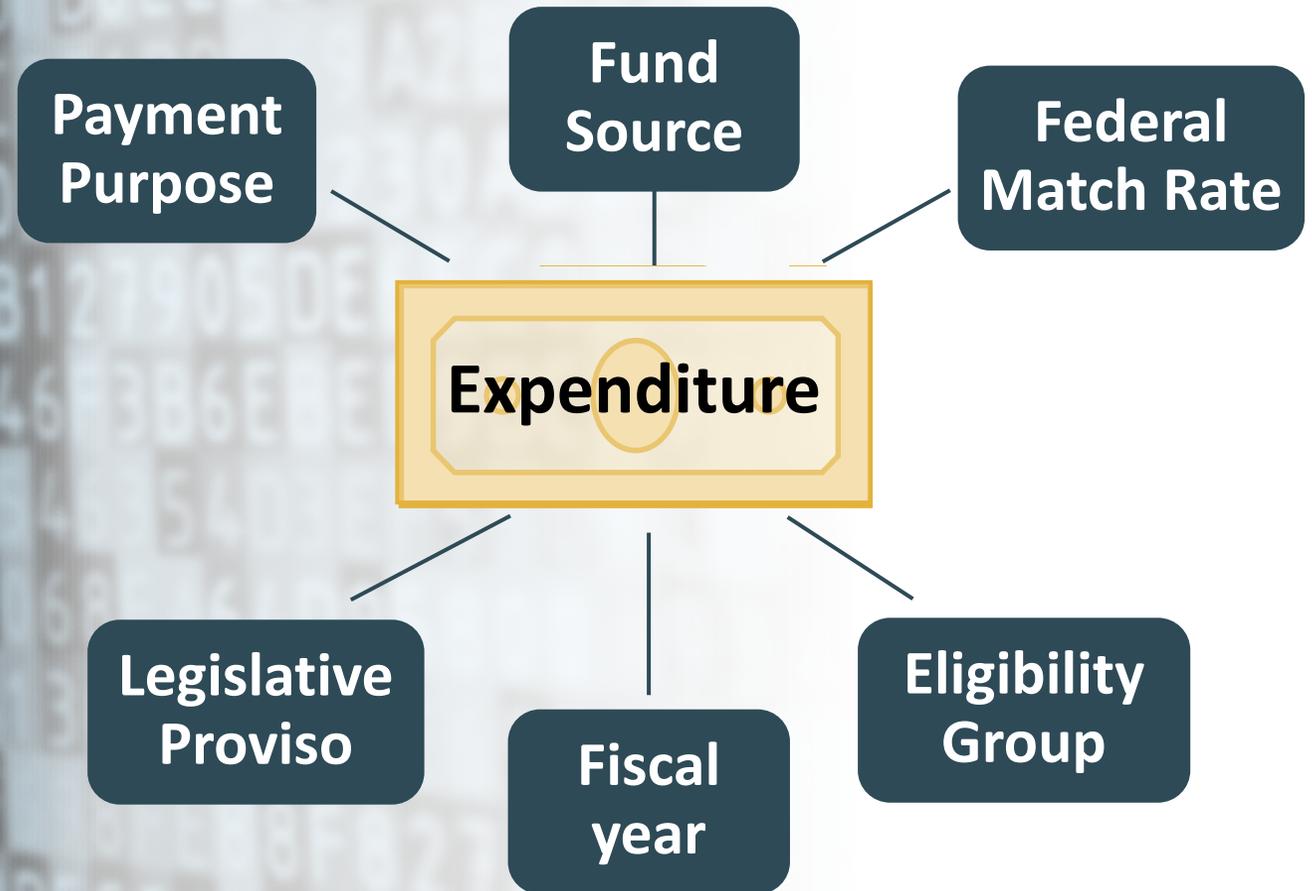


- Detail supports federal reporting.
- Complexity reflects service delivery changes.
- Managed care affects information available.

# Accounting structure

A system of codes used to track expenditures and provide information.

OFM and HCA set codes.



# Accounting structure for Medicaid provides detail needed for federal reporting

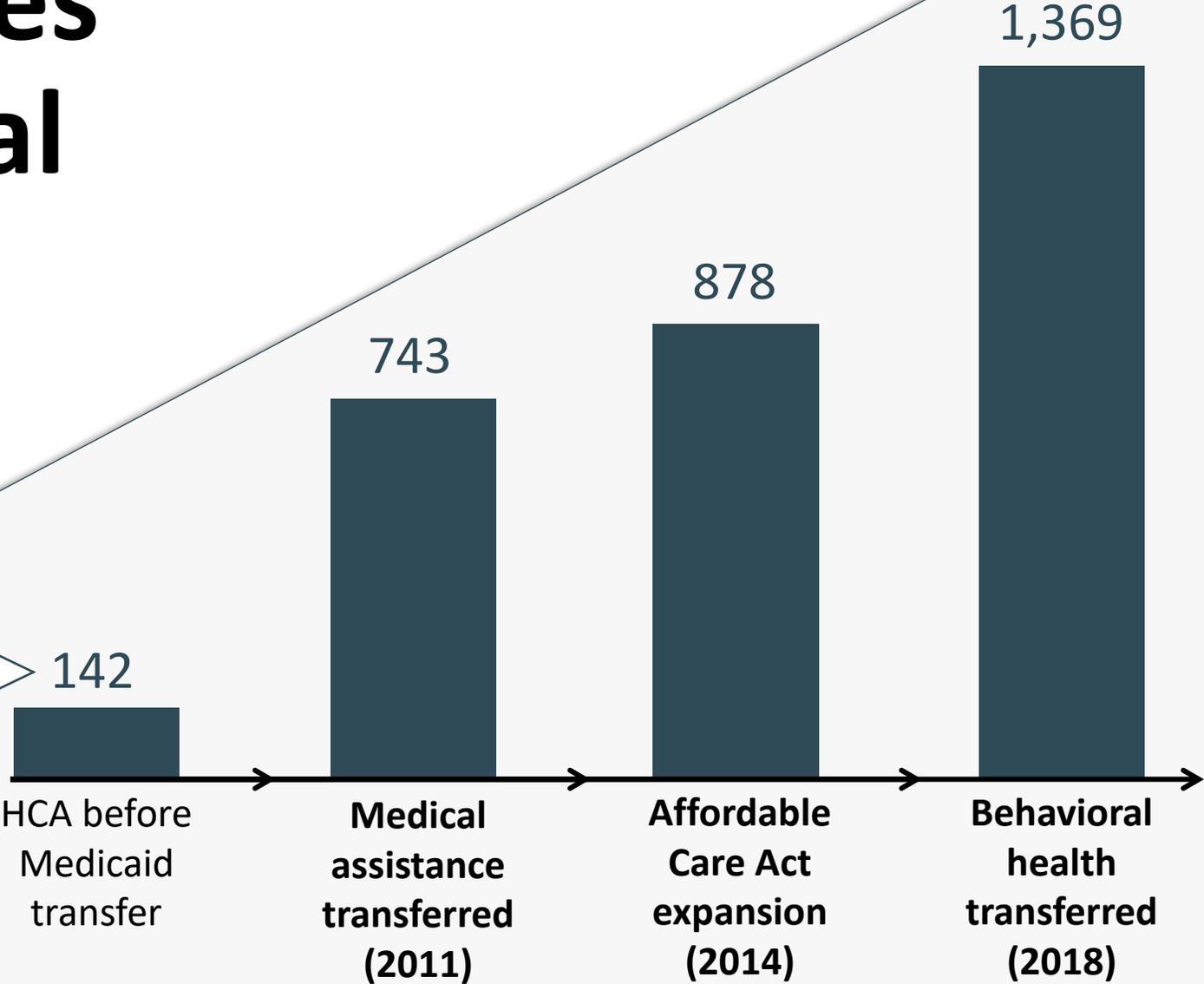
SUB-SUBJECT	M641
PROGRAM INDEX	H12N1
COST OBJECTIVE	TONEN

**Monthly rate paid for adults eligible through Medicaid Expansion  
93% federal match rate, Q1, FFY 2020**

# Program changes led to additional codes

Statewide One Washington project will require HCA to replace its accounting structure and codes.

Total unique codes for three code types



# Managed care accounting codes have less information about specific service costs

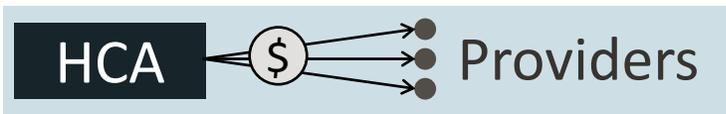
## Accounting codes capture HCA's payments

Other HCA systems collect data about services provided.

**Fee for service**

17% enrollees

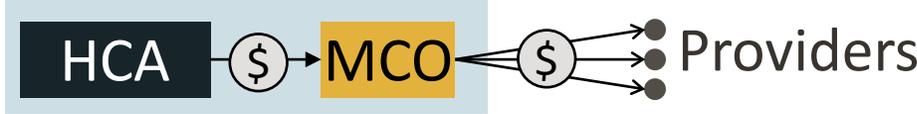
HCA pays healthcare providers directly for services provided.



**Managed care**

83% enrollees

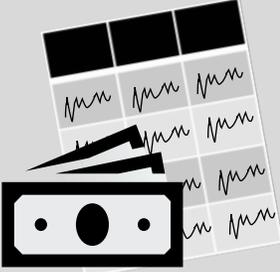
HCA pays a managed care organization (MCO) a flat monthly rate per member for all services. The MCO pays providers.





# Presentation Overview

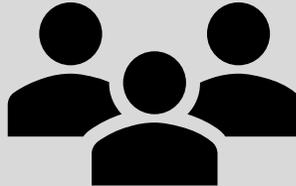
Accounting  
Structure



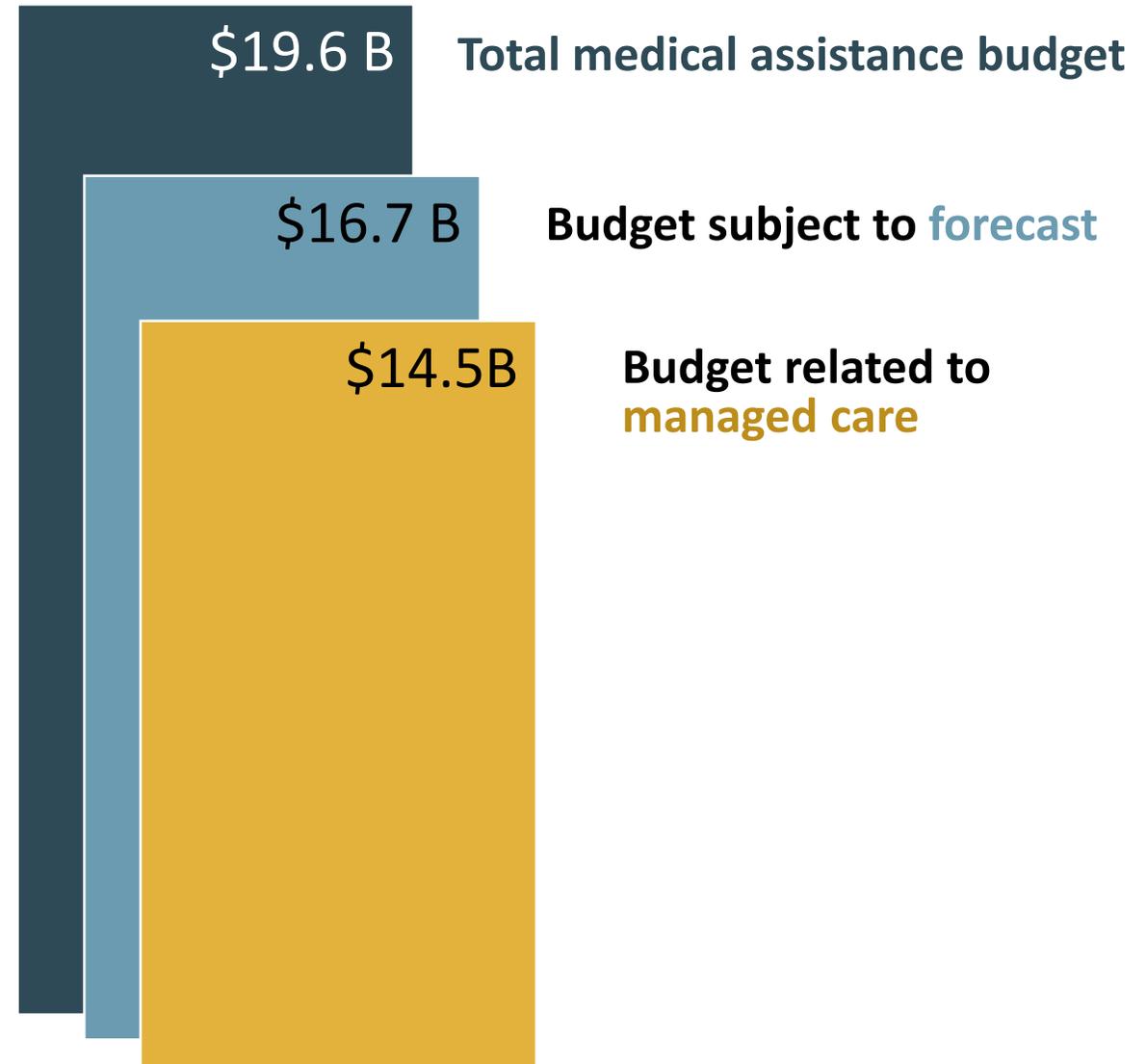
Budget  
Development



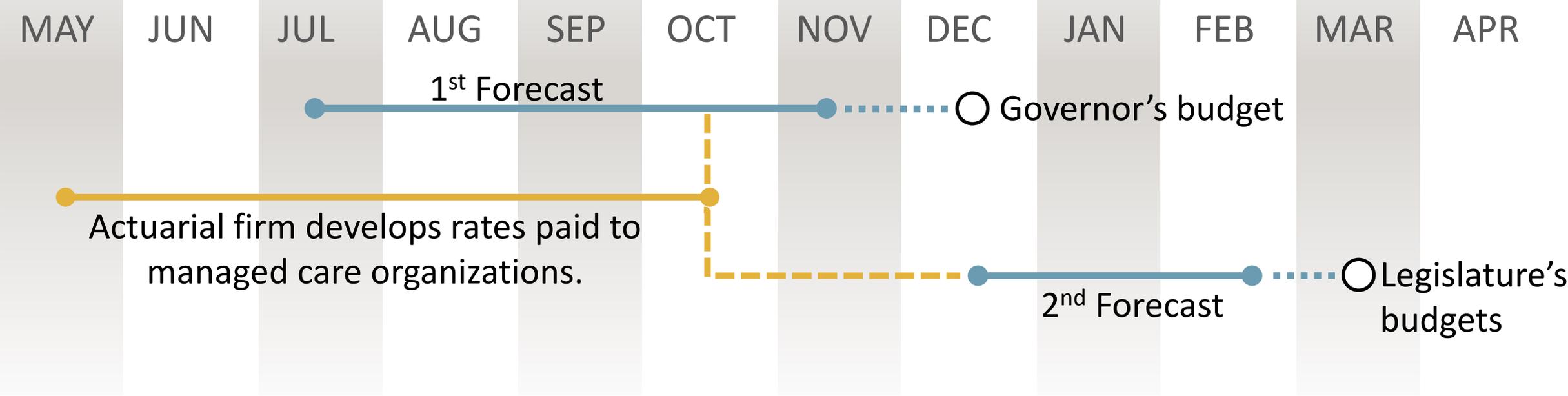
Forecast  
Work Group



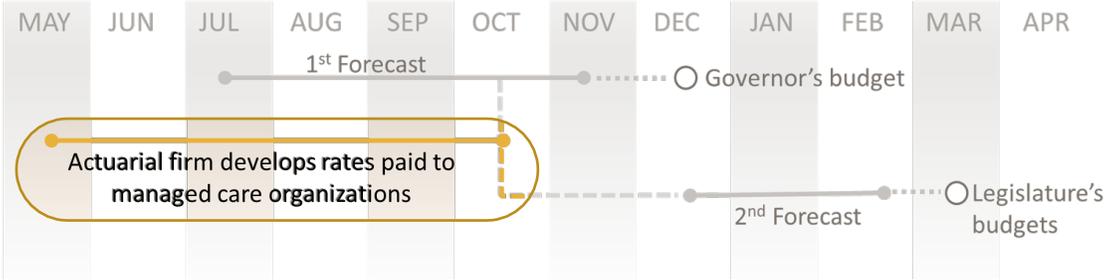
**Medical assistance budget is based on managed care rates and expenditure forecast**



# Managed care rate development starts in May each year. The forecast is completed twice a year.



# Independent actuarial firm develops the rates paid to managed care organizations



**Collect medical and financial data.**

**Compare medical and financial data.**

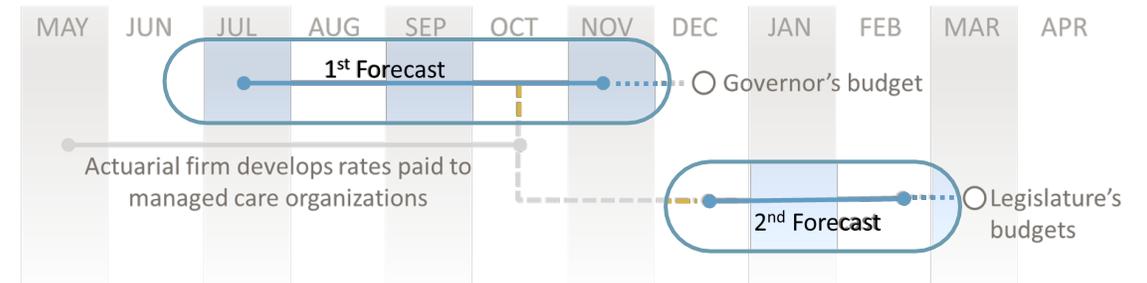
**Develop trends to predict service use & cost.**

**Calculate base rates and adjust for age, location, gender.**

Rates must adhere to federal rules and actuarial standards.

# OFM leads the expenditure forecasts

HCA and legislative staff provide data and review.



OFM staff compile data from state system.

OFM forecasts trends from expenditures and caseload.

OFM adjusts forecasted trends.

HCA proposes & documents changes.

OFM and legislative staff develop budget.

COMPARED TO COUNTERPARTS  
IN MOST OTHER STATES,

**Legislative staff in  
Washington have more  
opportunities for  
involvement in  
Medicaid budgeting**

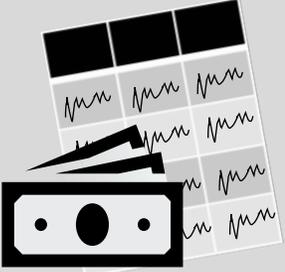
	Managed care rate setting	Caseload and/or expenditure forecasting
WA	✓	✓
VA	✓	✓
OR	✗	✓
AZ	✗	✗
MN	✗	✗
IN	✗	✗
LA	✗	✗

Comparison states chosen based on total Medicaid enrollment, percent of enrollees in managed care, geographic diversity, and stakeholder feedback.



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Forecast  
Work Group



# Work group includes ~15 staff from OFM, HCA, and Legislature

- ▶ Produces forecast twice per year.
- ▶ Has organized processes and schedule.
- ▶ Bases forecast on updated estimates and actual data.

# Work group members view forecast's purposes differently

Purpose	Leg. Staff	OFM	HCA
Support Governor's and Legislature's budgets	✓	✓	✓
Understand cost drivers and trends	✓	✓	✗
Monitor expenditures	✓	✓	✗
Identify issues with HCA's accounting and program management	✓	✗	✗

# Variations between the forecast and actual costs led to calls to evaluate and change the forecast work group process

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## 2003\*

WSIPP evaluation recommended:

- Clearly defined roles.
- Prioritized analyses.
- Formal quality assurance and review.

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## 2016

Legislature transferred responsibility for the forecast from HCA to OFM.

\*DSHS administered Medicaid until 2011.

# Work group does not have a formal structure

Caseload Forecast Council and Economic and Revenue Forecast Council have formal structures.

WSIPP report recommended that the work group adopt a formal charter.

Academic literature: Formal structure can build confidence in forecast among decision-makers.



# Legislative Auditor's Recommendation

OFM should lead the medical assistance forecast work group in developing a charter that specifies its purposes, structure, and decision-making protocols.

- Essential elements include purposes, intended customers, detailed roles and responsibilities, protocols, rules, documentation, processes, & quality assurance.



## Next Steps

Proposed Final Report | December 2021

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