



North Carolina Department of Health and Human Services

2001 Mail Service Center • Raleigh, North Carolina 27699-2001

Tel 919-733-4534 • Fax 919-715-4645

Michael F. Easley, Governor
Carmen Hooker Odom, Secretary

Lanier M. Cansler, Deputy Secretary

MEMORANDUM

To: The Joint Legislative Commission on Governmental Operations
From: Lanier M. Cansler
Date: January 20, 2004
Re: Report on Division of Medical Assistance (Medicaid) – Management Infrastructure Improvements – Addition of seven (7) receipt supported finance and management positions

One of the greatest challenges facing state government is managing and controlling the growth of the Medicaid budget. For fiscal year 2002-03, state appropriations for the North Carolina Medicaid program made up over 15% of the total General Fund appropriations. When considering the State's total operating budget for 2002-03, that is considering funds from all sources, **Medicaid represented over 26% of the total budget**, making the Medicaid program budget larger than any other state agency including the Department of Public Instruction. All indications are, based upon population growth and trends, increased health care costs, etc., the program will continue annual growth at a rate of eight to twelve percent.

The size, and the projected rate of growth, of the Medicaid program make a strong and effective program management infrastructure an absolute necessity. Medicaid currently provides health care **coverage for up to 1.4 million North Carolinians** annually, effectively making the program the second largest health insurer in the State. The program also deals with almost **60,000 health care providers**, currently resulting in over **sixty million provider claims** being filed annually. While the program has more than quadrupled in size over the past twelve years, the management infrastructure for the program has not been adjusted to adequately deal with the increasing volume of activity and the complexity of constantly changing Federal laws, rules, and regulations as well as requirements created by the General Assembly. The result has been a management infrastructure that is incapable of maintaining proper and adequate control and oversight over a growing seven-plus billion dollar program, much less adequately or efficiently deal with all the special projects, reviews, and other requirements. Some of these management infrastructure failures have been reported as news headlines.

It is extremely important that the Department build a depth of knowledge within the Division with respect to major operational processes. Currently, in a number of instances, when one person is out of the office, no one else within the entire Division has the knowledge to complete particular tasks. The result is a function shuts down until that individual returns. It is impossible to build necessary management capacity when resources are stretched too thin. Currently, knowledge of too many areas of responsibility rests with too few people, and there is no process of checks and balances to avoid costly problems or mistakes because the necessary resources simply do not exist within the Division.

In addition, because of the lack of capacity, a number of important budget and finance functions have not been performed regularly including analysis of spending and revenues for all administrative costs, identification of critical needs and development of cost estimates, funding plan to support critical needs, ensuring that cost allocation procedures and documentation are complete, review of grants, review of MOU's and contracts to determine appropriate FFP and funding, review of budget bill to identify issues prior to passage and ensure that DMA is complying with the terms once passed, ensuring that internal controls are documented and understood, routine reports on contract spending, etc.. In addition, the Division has not had the ability to keep current on the review or audit of cost reports which are considered in establishing reimbursement rates. The process for establishing rates and analyzing policy changes has not been updated and necessary cost models completed. Medicaid projections, and the cost of policy changes, are not subjected to the necessary review



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and controls that should be in place to ensure proper management of the Division's budget. Continued inability to provide critical attention to budget and other financial duties hampers improving overall management of the division.

It is the intention of the Department of Health and Human Services to continue to improve management in the Medicaid program, and to look for every opportunity to control the growth of the Medicaid budget. Consequently, it is absolutely necessary that the management infrastructure within the Division of Medical Assistance be modified, and expanded where necessary, to create the ability to accomplish that goal. The Department has closely studied the management structure and capacity, and has developed plans for restructuring Division management and expanding expertise and capabilities with respect to program management. These plans will allow for increased supervision and oversight, checks and balances, and avoid having too few people with too much responsibility. It will provide greater capabilities in evaluating clinical activities, monitoring utilization, and allowing for an increased focus on best practices, including cost effective and evidence based care. It will allow the Division to develop improved processes for establishing provider rates for reimbursement, better management of contractual relationships, and coordinate efforts between business and clinical sections. In short, these plans will place the Medicaid program on positive path with the necessary management infrastructure to properly and effectively manage the State's largest program.