

EXECUTIVE DIGEST

REQUEST FOR PROPOSAL FOR THE SOUTHEAST MICHIGAN COMPREHENSIVE HEALTH CARE PROGRAM

INTRODUCTION

This report, issued in June 1998, contains the results of our performance audit* of the Request for Proposal (RFP) for the Southeast Michigan Comprehensive Health Care Program for five counties (Wayne, Oakland, Macomb, Washtenaw, and Genesee) developed by the Department of Community Health (DCH) and the Department of Management and Budget (DMB).

AUDIT PURPOSE

This performance audit was conducted in response to a legislative request and as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are typically conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.

BACKGROUND

DCH and DMB developed the RFP to solicit bids from qualified health plans to provide managed care* programs delivering comprehensive health care services to Medicaid* recipients in the five Southeast Michigan counties.

Proposals submitted pursuant to the RFP were evaluated by an eight-member joint evaluation committee* (Committee), which used a four-step process to evaluate proposals received from 24 health plans. Upon the completion of its evaluation process, the Committee recommended that the DMB Office of Purchasing award contracts to 13 of the 24 health plans. The Office of Purchasing received written appeals from 11 unsuccessful health plans and from 1 health plan that was successful in one county but unsuccessful in another county. These appeals and related proposals were reevaluated by the Committee, and it found that the 12 health plans still did not meet all of the RFP's minimum requirements for qualified health plans. However, the Office of Purchasing reviewed the appeals and related proposals and determined that 5 of the 12 health plans that submitted appeals met the minimum requirements for qualified health plans, which allowed them to proceed through the health plan selection process and be recommended for contract awards.

**AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS**

Audit Objective: To assess DCH's and DMB's effectiveness in the RFP development, health plan selection, and contract awards recommendation processes.

Conclusion: We concluded that DCH and DMB were generally effective in the RFP development, health plan selection, and contract awards recommendation processes. However, our audit disclosed one material condition*:

- The Southeast Michigan Comprehensive Health Care Program RFP's "best and final bid process" was not

effective in ensuring competitive bidding. DMB publicly disclosed the amount of the highest acceptable bid received prior to completing the best and final bid process. This provided the opportunity for two health plans to subsequently submit their best and final bids after knowing, in advance, the amount of the highest acceptable bid received. (Finding 1)

DCH and DMB agreed with our related recommendation and informed us that they have already taken steps to ensure that the methodology of future RFPs will ensure increased competitiveness.

We also noted reportable conditions* related to qualification standards, documentation of evaluations, and planning for the readiness review* process (Findings 2 through 4).

Noteworthy Accomplishments: DCH and DMB developed the RFP as 1 of 5 health care initiatives designed to restructure the delivery of health care services to the Medicaid population. The health care initiatives are intended to improve recipient health care Statewide and result in multimillion dollar savings to the State. DCH estimates that the implementation of the Comprehensive Health Care Program for the five Southeast Michigan counties will result in savings of over \$100 million in fiscal year 1997-98.

Audit Objective: To assess DCH's and DMB's compliance with State and federal laws and regulations in the RFP development, health plan selection, and contract awards recommendation processes.

Conclusion: We concluded that DCH and DMB were generally in compliance with State and federal laws and regulations in the RFP development, health plan selection, and contract awards recommendation processes. However, our assessment disclosed a reportable condition related to the medical care advisory committee (Finding 5).

Audit Objective: To assess the adequacy of financial requirement provisions of the RFP.

Conclusion: We concluded that financial requirement provisions of the RFP were generally adequate. However, our assessment disclosed a reportable condition related to RFP financial viability standards (Finding 6).

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to assess the development of the request for proposal and the related health plan selection and contract awards recommendation processes for the Comprehensive Health Care Program for five Southeast Michigan counties (Wayne, Oakland, Macomb, Washtenaw, and Genesee). Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our objectives were designed primarily to answer the following eight legislative questions:

1. What qualification standards were used to evaluate the health plans?
2. What outcome measurements were included in the RFP?

3. How do the terms of the RFP compare with similar provisions of RFPs issued by other states which have preceded Michigan in managed care initiatives?
4. Did the terms of the RFP comply with requirements of the Health Care Financing Administration, U.S. Department of Health and Human Services?
5. What level of services was required?
6. What involvement was there from the DMB Office of Purchasing?
7. Were the health plans required to submit audited financial statements and, if so, who evaluated them?
8. Do the terms of the RFP allow State and federal agencies to audit contractors' financial and performance practices?

Specific answers to these questions are included in this report as supplemental information.

Our audit methodology included examinations of the Comprehensive Health Care Program records and activities for the period May 1997 through January 1998.

To accomplish our first objective, we reviewed methods and standards used to evaluate health plans and to measure outcomes. Also, we compared provisions of the RFP with government contracting standards and RFPs issued by four other states. In addition, we interviewed DCH and DMB staff involved in the development and implementation of the RFP.

To accomplish our second objective, we evaluated various features of the RFP for compliance with State and federal laws and regulations for the Medicaid Program and State procurement rules and contracting laws and regulations.

To accomplish our third objective, we evaluated the RFP provisions related to health plans' financial practices. Also, we evaluated criteria used in assessing health plans' financial data.

AGENCY RESPONSES

Our audit report includes 6 findings and 6 corresponding recommendations. DCH and DMB agreed with all 6 recommendations.