

PERFORMANCE AUDIT
OF THE
REQUEST FOR PROPOSAL FOR THE CHILDREN'S SPECIALTY
AND CHILDREN'S COMPREHENSIVE HEALTH CARE PLAN

DEPARTMENT OF COMMUNITY HEALTH
AND
DEPARTMENT OF MANAGEMENT AND BUDGET

September 1998

EXECUTIVE DIGEST

REQUEST FOR PROPOSAL FOR THE CHILDREN'S SPECIALTY AND CHILDREN'S COMPREHENSIVE HEALTH CARE PLAN

INTRODUCTION

This report, issued in September 1998, contains the results of our performance audit* of the Request for Proposal (RFP) for the Children's Specialty and Children's Comprehensive Health Care Plan 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

The RFP was developed by DCH and the DMB Office of Purchasing. The purpose of this RFP was to solicit proposals from qualified health plans seeking contracts with the State to provide or arrange for a comprehensive and specialty-focused set of organized health care services for children on a Statewide basis.

* See glossary on page 24 for definition.

Proposals submitted pursuant to the RFP were evaluated by a 10-member joint evaluation committee* (Committee), which used a three-step process to evaluate proposals received from three health plans. Upon the completion of its evaluation process, the Committee recommended that the Office of Purchasing award contracts to all three health plans.

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, we a noted reportable condition* related to documentation of evaluations (Finding 1).

Noteworthy Accomplishments: The Children's Specialty and Children's Comprehensive Health Care Plan RFP represents several years of collaborative work among the Children's Special Health Care Services Plan Division, consumer and professional stakeholders, health care providers, and other public and private agencies. Michigan has developed a national model for managed care for the children with special health care needs.

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.

* See glossary on page 24 for definition.

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.

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.

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 Children's Specialty and Children's Comprehensive Health Care Plan. 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 Children's Specialty and Children's Comprehensive Health Care Plan records and activities for the period May 1, 1997 through March 31, 1998. To accomplish our objectives, we reviewed methods and standards used to evaluate health plans and to measure outcomes and interviewed DCH and DMB staff. We evaluated various features of the RFP for compliance with State and federal laws and regulations, State procurement rules, and contracting laws and regulations. We also evaluated the RFP provisions related to health plans' financial practices and the criteria used in assessing health plans' financial data.

AGENCY RESPONSES

Our audit report includes 1 finding and 1 corresponding recommendation directed to DMB. DMB will take the recommendation under advisement. There were no findings or recommendations directed to DCH.

Mr. James K. Haveman, Jr., Director
Department of Community Health
and
Ms. Janet E. Phipps, Director
Department of Management and Budget
Lewis Cass Building
Lansing, Michigan

Dear Mr. Haveman and Ms. Phipps:

This is our report on the performance audit of the Request for Proposal for the Children's Specialty and Children's Comprehensive Health Care Plan developed by the Department of Community Health and the Department of Management and Budget.

This report contains our executive digest; description of plan; audit objectives, scope, and methodology and agency responses; comments, finding, recommendation, and agency preliminary response; responses to legislative questions, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, finding, and recommendation are organized by audit objective. The agency preliminary response was taken from the Department of Management and Budget's response subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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Description of Plan

The request for proposal (RFP) for the Children's Specialty and Children's Comprehensive Health Care Plan was developed by the Department of Community Health (DCH) and the Office of Purchasing, Department of Management and Budget (DMB). The purpose of this RFP was to solicit proposals from qualified health plans seeking contracts with the State to provide or arrange for a comprehensive and specialty-focused set of organized health care services for children on a Statewide basis. This included some persons over the age of 21 with cystic fibrosis and certain coagulation disorders.

There are two enrollment tracks for individuals enrolled in the plan. Track I, Children's Specialty Health Care, is for members who do not have Medicaid* coverage. This track provides for the full range of specialty health care services required for the qualifying diagnosis and covers a limited preventive and primary care benefit of periodic well child examinations and immunizations. If the member/family elects to purchase comprehensive supplemental coverage from the qualified health plan, a full range of preventive and primary care benefits will be available. The qualified health plan will offer to eligible members enrolled in Track I the option to purchase, by monthly payment, the equivalent of the Medicaid State Plan coverages not related to the member's qualifying diagnosis(es). Track II, Children's Comprehensive Health Care, is for members who have Medicaid coverage. This track provides for the full range of health care services currently covered under the Medicaid State Plan, with an emphasis on the specialty needs and services required for the Children's Specialty Health Care qualifying diagnosis(es).

* See glossary on page 24 for definition.

Audit Objectives, Scope, and Methodology and Agency Responses

Audit Objectives

Our performance audit of the Request for Proposal (RFP) for the Children's Specialty and Children's Comprehensive Health Care Plan developed by the Department of Community Health (DCH) and the Department of Management and Budget (DMB) had the following objectives:

1. To assess DCH's and DMB's effectiveness in the RFP development, health plan selection, and contract awards recommendation processes.
2. 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.
3. To assess the adequacy of financial requirement provisions of the RFP.

Audit Scope

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 Children's Specialty and Children's Comprehensive Health Care Plan. 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.

Audit Methodology

Our audit procedures were conducted during the period October 1997 through March 1998 and included examinations of the Children's Specialty and Children's Comprehensive Health Care Plan records and activities for the period May 1, 1997 through March 31, 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, State procurement rules, and contracting laws and regulations.

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

Agency Responses

Our audit report includes 1 finding and 1 recommendation directed to DMB. DMB will take the recommendation under advisement. There were no findings or recommendations directed to DCH.

The agency preliminary response which follows the recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and DMB Administrative Guide procedure 1280.02 require DMB to develop a formal response to our audit finding and recommendation within 60 days after release of the audit report.

COMMENTS, FINDING, RECOMMENDATION, AND AGENCY PRELIMINARY RESPONSE

EFFECTIVENESS IN DEVELOPMENT, SELECTION, AND RECOMMENDATION PROCESSES

COMMENT

Background: Proposals submitted pursuant to the request for proposal (RFP) for the Children's Specialty and Children's Comprehensive Health Care Plan were evaluated by a 10-member (7 voting members) joint evaluation committee (Committee), which consisted of staff from the Department of Community Health (DCH), the Department of Management and Budget (DMB), the Family Independence Agency, and the Department of Consumer and Industry Services. The Committee used a three-step process to evaluate the proposals received from three health plans:

1. Proposals were reviewed to determine if they were complete and submitted in accordance with RFP instructions.
2. Proposals were evaluated and scored on a "pass/fail" basis to determine if the health plans met standards necessary to become "qualified health plans."
3. Proposals were evaluated and scored to determine if they contained attributes applicable to the unique needs of the specialty children population.

Upon completion of its evaluation process, the Committee recommended that the DMB Office of Purchasing award contracts to all three health plans. The Office of Purchasing concurred with the Committee recommendations. The State Administrative Board approved the contract awards on June 3, 1997.

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, we noted a reportable condition related to documentation of evaluations.

Noteworthy Accomplishments: The Children's Specialty and Children's Comprehensive Health Care Plan RFP represents several years of collaborative work among the Children's Special Health Care Services Plan Division, consumer and professional stakeholders, health care providers, and other public and private agencies. Michigan has developed a national model for managed care for the children with special health care needs.

FINDING

1. Documentation of Evaluations

The Office of Purchasing did not have the Committee members' evaluations of managed care proposals to support summary conclusions regarding health plan qualifications.

The Committee served in an advisory capacity to the State purchasing director and was selected by the Office of Purchasing to perform a three-step evaluation of health plan proposals submitted in response to the RFP. Committee members were required to have the necessary knowledge, education, objectivity, and experience to render fair and impartial service.

DMB Administrative Guide procedure 0510.07 requires the Office of Purchasing to advise the Committee on how the Committee functions and to provide each member with an evaluation form listing selection criteria for the evaluation process. The procedure also requires that Committee members be able to write, in a clear and succinct manner, a rationale which supports the numeric evaluations that they assign to the various requirements of a RFP. In the event of a vendor protest, members of the Committee may be called on to defend their individual evaluations.

We reviewed summary score sheets for each of the three health plans awarded contracts and noted the lack of documentation in steps 2 and 3 of the evaluation process:

a. Step 2

In step 2 of the evaluation process, each Committee member was to confirm that each health plan met specific criteria contained in 11 overall standards related to organizational and administrative structure, administrative requirements, financial viability, ability to meet levels of service, accessibility, management information system, accreditation, licensing, incorporation, governing body, and insolvency protection. The scoring process should have consisted of assigning numeric evaluations, including rationales to support the numeric evaluations.

The summary score sheets indicated only whether the health plans met the 11 overall standards. Documented rationale was not available to ensure that the Committee had considered each specific criteria in reaching its conclusion. As a result, we could not substantiate the validity of the summary scores or whether the scores were developed in accordance with the DMB Administrative Guide procedure 0510.07.

The Office of Purchasing informed us that Committee members considered each specific criteria in the proposals in relation to each of the 11 standards but did not retain the related documentation after the Office of Purchasing made contract award recommendations to the State Administrative Board.

b. Step 3

In step 3 of the evaluation process, the Committee was to evaluate and award points for 38 criteria related to the unique needs of the Specialty Children population. The scoring process should have consisted of assigning scores of 0 - 5 for 16 of the criteria and 0 - 10 for the remaining 22 criteria, including rationales to support the numeric scores.

The Committee informed us that, after hearing oral presentations, some of the criteria were weighted differently than outlined on the evaluation forms. However, the Committee did not document this change. As a result,

Committee members were not uniform in scoring some of the criteria. For example, 4 Committee members scored one criteria using a scale of 0 - 10, while the other 3 members scored the same criteria using a scale of 0 - 5.

Consistent documentation of the Committee's evaluation process is essential to ensure the integrity of the evaluation process in determining if health plans meet established standards.

RECOMMENDATION

We recommend that the Office of Purchasing retain Committee members' evaluations of managed care proposals to support summary conclusions regarding health plan qualifications.

AGENCY PRELIMINARY RESPONSE

DMB will take the recommendation under advisement. DMB will review the procedure for documenting the joint evaluation committee reviews of proposals. DMB views its current practice of summarizing the individual Committee members' evaluations as sufficient and prudent, and will consider the directions regarding the members' individual evaluation notes.

COMPLIANCE WITH LAWS AND REGULATIONS

COMMENT

Background: The RFP process is governed by State laws, procurement rules, and contracting laws and regulations. The federal government establishes regulations, guidelines, and policy interpretations which describe the broad framework within which states can tailor their Medicaid programs.

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.

ADEQUACY OF FINANCIAL REQUIREMENT PROVISIONS

COMMENT

Background: Standards used by the Committee to evaluate health plans' qualifications were based on health maintenance organization licensing standards. This included requirements for financial viability, such as minimum net worth, working capital, written financial plan, and insolvency protection.

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.

SUPPLEMENTAL INFORMATION

RESPONSES TO LEGISLATIVE QUESTIONS

Summary Overview

The following eight questions were included in the legislative request to audit the request for proposal (RFP) for the Children's Specialty and Children's Comprehensive Health Care Plan (Plan) developed by the Department of Community Health (DCH) and the Department of Management and Budget (DMB). Each question is followed by our response:

Question 1: What qualification standards were used to evaluate the health plans?

Response: Standards used to evaluate the health plans' qualifications were based on health maintenance organization (HMO) licensing standards:

(1) Organizational and Administrative Structure

The bidding health plan has corporate qualifications and experience as a managed care organization and has senior level managers and skilled clinicians for medical management activities.

(2) Administrative Requirements

The bidding health plan has policies, procedures, clinical guidelines, medical records, reporting formats, liability coverage, and provider network information specific to delivering Plan services.

(3) Financial Viability

The bidding health plan is financially and actuarially sound with adequate working capital and required trust indenture deposits.

(4) Ability to Meet Levels of Service

The bidding health plan has a network of participating health care providers and agreements with local health departments.

(5) Accessibility

The bidding health plan has adequate locations of primary care physicians and hours of availability.

(6) Management Information System

The bidding health plan has a system capable of collecting, processing, reporting, and maintaining data in accordance with RFP requirements.

(7) Accreditation

The bidding health plan has or will obtain accreditation from an appropriate accrediting organization.

(8) Licensing

While bidding health plans are required to meet qualification standards consistent with HMO licensing standards, the RFP does not require qualified health plans to become a licensed HMO.

(9) Incorporation

The bidding health plan is a Michigan corporation.

(10) Governing Body

The bidding health plan's governing body has at least 33% of its membership consisting of adult enrollees of the bidding health plan and will ensure adoption and implementation of written policies governing the operation of the qualified health plan.

(11) Insolvency Protection

Qualified health plans will be required to meet financial solvency standards to guarantee payment of the plans' obligations to providers and guarantee performance of the plans' obligations under the contract.

In accordance with DMB Administrative Guide procedure 0510.07, these qualifications were evaluated by a joint evaluation committee (Committee). The 10-member (7 voting members) Committee included staff from the DCH, DMB, the Family Independence Agency, and the Department of Consumer and Industry Services. An independent contractor and staff from DCH assisted the Committee in evaluating certain standards. DCH completed readiness reviews of each bidding health plan to ensure that each plan was prepared to meet the conditions of the contract as stipulated in the RFP.

Question 2: What outcome measurements were included in the RFP?

Response: The RFP included the following four minimum outcomes that successful health plans are expected to achieve during the contract period:

- (1) Written individualized health care plans for 100% of Plan enrollees.
- (2) An immunization rate of 100% for infants.
- (3) Age-appropriate immunizations for 90% of all two-year-olds.
- (4) Age-appropriate well child/Early and Periodic Screening, Diagnosis, and Treatment screenings for at least 90% of the children.

Additional requirements complementing the four minimum outcomes include: an "encounter data reporting system," which requires the successful health plans to provide DCH with data on the services provided to enrollees; a "Grievance/Complaint Adjudication Coordinator" and management information system capabilities for processing enrollee grievances and complaints; submission of required reports on quality improvement programs; and annual enrollee satisfaction surveys conducted in collaboration with DCH.

Question 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?

Response: We obtained managed care RFPs from other states (Indiana, Pennsylvania, Missouri, and Arizona) that recently implemented similar RFPs and compared them with the Michigan RFP. Our comparison included provisions for evaluation standards, performance measures, outcome measurement reporting, level of services, involvement of state purchasing offices, financial and post-audit requirements, and compliance with federal Health Care Financing Administration (HCFA) requirements. We found that the provisions of the Michigan RFP did not differ significantly from those of the other four states.

Question 4: Did the terms of the RFP comply with HCFA requirements?

Response: A waiver from HCFA was not required because enrollment into the Plan is not mandatory at this time. HCFA requires a waiver for mandatory enrollment.

Question 5: What level of services was required?

Response: The level of services required by the RFP is consistent with that presently offered by the Plan. Services include:

- (1) Specialty provider network care.
- (2) Inpatient and outpatient hospital care.
- (3) Home health services.
- (4) Hospice.
- (5) Rehabilitation services.
- (6) Immunizations.
- (7) Short-term mental health care (up to 20 visits).
- (8) Specialty dental services.
- (9) End-stage renal disease services.
- (10) Ancillary services, such as durable medical equipment, medical equipment and supplies, laboratory, and radiology and nuclear medicine.
- (11) Emergency services.
- (12) Pharmacy services.

(13) Transplants and implants.

(14) Vision services.

(15) Early and Periodic Screening, Diagnosis, and Treatment Program.

(16) Cystic Fibrosis and Coagulation Disorders Over Age 21 Program (children under age 21 are also covered for these conditions).

The RFP excluded certain primary health care services, such as inpatient and outpatient psychiatric services; nursing home and nursing home services; experimental or investigational drugs, procedures, or equipment; and mental health services in excess of 20 outpatient visits annually.

Question 6: What involvement was there from the DMB Office of Purchasing?

Response: The Office of Purchasing was involved in the development and implementation of the RFP. The Office of Purchasing issued the RFP and was named as the sole point of contact for all procurement and contractual matters. Also, the Committee was chaired by an Office of Purchasing employee.

Question 7: Were the health plans required to submit audited financial statements and, if so, who evaluated them?

Response: Health plans were not required to submit audited financial statements with their bids. However, they were required to be financially and actuarially sound with a minimum net worth of \$100,000, adequate working capital of \$250,000, and required trust indenture deposits. The financial plans were to include: the bidding health plan's means of achieving and maintaining a positive cash flow; provisions for retirement of existing or proposed debt; an insolvency protection plan; and provisions for an appropriate amount of working capital.

All financial information was evaluated by the Committee and DMB and was verified during the readiness review process. Also, the RFP specifies that successful health plans are required to submit certified annual audits and quarterly

financial statements meeting standards of the Michigan Insurance Bureau, Department of Consumer and Industry Services.

Question 8: Do the terms of the RFP allow State and federal agencies to audit contractors' financial and performance practices?

Response: The RFP specifies that accounting records are to be maintained for a period of six years and are subject to audit by HCFA, the Attorney General, the Auditor General, and other designated State agencies. The RFP also indicates that medical records, policies, procedures, and guidelines are subject to review by DCH and HCFA or their designated agents.

Glossary of Acronyms and Terms

DCH	Department of Community Health (formerly the Departments of Mental Health and Public Health).
DMB	Department of Management and Budget.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
HCFA	Health Care Financing Administration, U.S. Department of Health and Human Services.
HMO	health maintenance organization.
joint evaluation committee	A body that serves in an advisory capacity to evaluate proposals in response to a request for proposal.
Medicaid	Michigan's Medical Assistance Program operated under the authority of Title XIX of the Social Security Act.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.

reportable condition

A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.

RFP

request for proposal.