

# SENATE BILL REPORT

## SB 5497

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As Amended by House, April 7, 2023

**Title:** An act relating to medicaid expenditures.

**Brief Description:** Concerning medicaid expenditures.

**Sponsors:** Senators Wilson, L. and Rolfes.

**Brief History:**

**Committee Activity:** Health & Long Term Care: 1/26/23 [w/oRec-WM].

Ways & Means: 2/07/23, 2/14/23 [DP, DNP, w/oRec].

**Floor Activity:** Passed Senate: 3/3/23, 45-3.

Passed House: 4/7/23, 97-0.

### Brief Summary of Bill

- Directs the Health Care Authority (HCA) to provide reasonable oversight of all Medicaid program integrity activities required by federal regulation.
- Requires HCA to establish and maintain effective internal control over any state agency that receives Medicaid funding in compliance with federal regulation.
- Requires HCA to update managed care contracts to include appropriate program integrity requirements.
- Creates the Medicaid Expenditure Forecast Work Group.

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass.

Signed by Senators Rolfes, Chair; Robinson, Vice Chair, Operating & Revenue; Mullet, Vice Chair, Capital; Wilson, L., Ranking Member, Operating; Gildon, Assistant

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.*

Ranking Member, Operating; Schoesler, Ranking Member, Capital; Rivers, Assistant Ranking Member, Capital; Warnick, Assistant Ranking Member, Capital; Billig, Boehnke, Braun, Conway, Hasegawa, Hunt, Keiser, Muzzall, Nguyen, Torres, Wagoner and Wellman.

**Minority Report:** Do not pass.

Signed by Senator Dhingra.

**Minority Report:** That it be referred without recommendation.

Signed by Senators Pedersen and Saldaña.

**Staff:** Sandy Stith (786-7710)

**Background:** The Health Care Authority (HCA) administers the Medicaid program, which is a state-federal program that pays for health care for low-income state residents who meet certain eligibility criteria. Washington's Medicaid program, known as Apple Health, offers a complete medical benefits package, including prescription drug coverage, to eligible families, children under age 19, low-income adults, certain disabled individuals, and pregnant women. During the 2021-2023 biennium, approximately 2.2 million low-income Washingtonians are expected to receive services under these programs, at a total biennial cost of \$20.7 billion, of which \$5 billion is to be from state revenue. The remaining funds are a combination of federal matching funds and other fund sources.

HCA also administers community behavioral health programs. Medicaid-funded services are provided by the Department of Social and Health Services (DSHS) for clients receiving long-term care services and those with developmental disabilities. The Department of Children, Youth, and Families (DCYF) provides Medicaid-funded services for children and young adults with complex needs and who experience significant behavioral health challenges.

HCA is designated as the single state agency responsible for administering medical services programs and under federal regulation is responsible for providing reasonable program integrity oversight and maintaining effective internal control over any state agency that receives Medicaid funding, including those provided by DSHS and DCYF.

In July 2021, the State Auditor's Office (SAO) conducted a performance audit of Medicaid Program Integrity, examining HCA's oversight of efforts at state agencies. This was authorized under Initiative 900 enacted in 2006, which authorizes SAO to conduct independent, comprehensive performance audits of state and local governments. The law specifically directs SAO to review and analyze the economy, efficiency, and effectiveness of the policies, management, fiscal affairs, and operations of state and local governments, agencies, programs, and accounts.

In its findings, SAO made recommendations for HCA to strengthen its program integrity oversight, including, but not limited to:

- improve executive oversight of the agencies program integrity efforts;
- provide federally required oversight of Medicaid program integrity efforts at sister agencies;
- develop a Statewide Fraud and Abuse Prevention Plan;
- develop procedures to provide consistent oversight of program integrity efforts at sister agencies;
- expand program integrity efforts for managed care organizations (MCOs); and
- improve audit selection practices to prioritize resources for high risk cases and meet federal requirements.

The 2020 Legislature directed the Joint Legislative Audit and Review Committee (JLARC) to review the HCA budget and accounting structures. In its December 2021 report, JLARC reported on the historical increase in complexity of HCA's accounting structure from 2011 to present. Since 2011, changes include expanding the eligible population under the Affordable Care Act, the Medicaid Transformation Waiver, and inclusion of behavioral health services. Changes in accounting structure have also occurred because of shifts from fee-for-service to managed care and changes in payment methodologies to include measuring quality outcomes and patient satisfaction. The result has been an increase in the number of account codes used by HCA between 2011 to the present from 142 to 1369.

The Medical Assistance Expenditure Forecast Work Group (MAEF work group) is not defined in statute, and does not have formal bylaws. Other forecasting processes in Washington have more formal structures. In 2016, the Legislature transferred responsibility for the medical assistance expenditure forecast from HCA to the Office of Financial Management (OFM). In its findings, JLARC recommended that OFM should lead the MAEF work group to develop a charter that specifies its purposes, structure, and decision-making protocols.

**Summary of Bill:** HCA must provide reasonable oversight of all Medicaid program integrity activities, and establish and maintain effective internal control over any state agency that receives Medicaid funding. This includes:

- providing administrative oversight for all Title XIX and Title XXI funds received under the medical assistance program;
- providing executive oversight of the agencies program integrity efforts;
- developing a strategic plan and performance measures for program integrity;
- overseeing Medicaid program resources of any state agency expending Medicaid funding;
- developing and maintaining a single, statewide fraud and abuse prevention plan; and
- following best practices for identifying improper Medicaid spending when implementing program integrity activities.

Beginning January 1, 2024, HCA's contracts with MCOs must clearly detail each party's requirements for maintaining program integrity, and the consequences the MCOs face if they do not meet the requirements. The contracts must ensure the penalties are adequate to

ensure compliance. These penalties and remedies include direct collection from providers, sanctions, and liquidated damages.

The Medicaid Expenditure Forecast Work Group (Work Group) is created. The Work Group is managed by OFM. OFM shall employ a forecast manager and appropriate staff to oversee, manage, and develop the expenditure forecast, including the necessary infrastructure and programming. Members of the Work Group include staff from HCA, OFM, the Office of the State Actuary, the two fiscal committees of the Legislature, and other staff deemed necessary.

OFM shall develop a charter for the Work Group in consultation with its members.

HCA must:

- provide all information necessary to complete the expenditure forecast;
- work with its contracted actuary and the Work Group to develop methods and metrics related to managed care program integrity activity that shall be incorporated into annual managed care rate setting;
- work with the Work Group in a transparent manner to ensure program integrity activity is incorporated into the managed care rate setting process; and
- submit data and reports to the Work Group as soon as they are available.

Forecasts developed under this process shall be used to develop budget estimates for OFM and the fiscal committees of the Legislature.

**Appropriation:** None.

**Fiscal Note:** Available.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:** PRO: We support clarifying the responsibilities of the involved parties. There is currently cost shifting without knowledge of long term care rates. Managed care organizations are incentivized to leave clients in lower cost administrative beds rather than move them to more appropriate skilled nursing. This is a cost shift to the hospitals, allowing a low rate to be paid for the administrative day when the client should be in a different setting. The forecast workgroup should also look to set a minimum fee schedule for long term care.

**Persons Testifying:** PRO: Senator Lynda Wilson, Prime Sponsor; Carma Matti-Jackson, Washington Health Care Association.

**Persons Signed In To Testify But Not Testifying:** No one.

**EFFECT OF HOUSE AMENDMENT(S):**

- Removes the codification of the Work Group and the agency responsibilities associated with supporting the Work Group and developing Medicaid expenditure forecasts.