



AUDITOR GENERAL

DAVID W. MARTIN, CPA



AGENCY FOR HEALTH CARE ADMINISTRATION CONTRACT MANAGEMENT Operational Audit

SUMMARY

This operational audit of the Agency for Health Care Administration (Agency), for the period July 2005 through February 2007, focused on contract management. Our audit disclosed:

Finding No. 1: The Agency should enhance its contract monitoring policies and procedures to ensure that contract monitoring is adequately conducted. In addition, the written policies and procedures required updates to reflect current practices.

Finding No. 2: The Agency needed to significantly improve oversight of Health Maintenance Organization (HMO) contracts.

Finding No. 3: Contract managers' files did not always contain adequate documentation demonstrating the performance of contract monitoring, including adherence to established standards and criteria, communication of deficiencies to the contractor, and follow up on the contractor's corrective actions.

Finding No. 4: The Agency needs to enhance its contract management policies and procedures by requiring individuals taking part in the contract award or contract monitoring processes to attest in writing that they are independent of, and have no conflicts of interest with respect to, entities selected or monitored.

BACKGROUND

The Agency is responsible for the administration of the Medicaid Program; State health facility licensure, inspection, and regulatory enforcement; the certification of health maintenance organizations

(HMOs); and other duties prescribed by State Statutes. In connection with the conduct of Agency functions and activities, the Agency had executed 145 contracts representing obligations of approximately \$10 billion as of February 2007. Of that amount, approximately \$7 billion related to providing prepaid health care services to Medicaid beneficiaries. Contractual expenditures during the audit period totaled almost \$4 billion. Of that amount, \$3.4 billion was related to prepaid health care contracts (generally contracts with HMOs).

The effective and efficient administration of contracts requires management to implement controls which provide for:

- The analysis and determination of the Agency's need for services.
- The award of contracts through fair and open competition.
- The development and execution of contract documents which contain adequate provisions to ensure that the Agency's goals and objectives will be met.
- The efficient and effective processing of contract-related transactions.
- The monitoring and evaluation of contractor performance.

The Contract Administration Unit (Unit) within the Agency's Procurement Office was responsible for the development and administration of all Agency contracts, agreements, and formal competitive solicitations. The Unit was also responsible for

training, certifying, and evaluating Agency contract managers.

The Agency had established policies and procedures (policy manual) to guide its procurement of goods and services and contract management. The policy manual provided instructions for contract procurement, management, and contract file reviews and identified contract manager responsibilities. The Agency’s policy manual provided that the contract manager was responsible for key contract management functions such as, developing and implementing a contract monitoring plan, ensuring vendor adherence to the contract schedule, receiving and approving required reports and other deliverables, auditing invoices, maintaining accurate records regarding contract balances, and notifying the Unit in writing of problems or potential problems encountered with the contract or changes in contract management.

Contract manager positions have been established throughout the Agency. As of March 29, 2007, the Agency employed 131 contract managers.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Policies and Procedures

As indicated above, the policy manual required contract managers to develop a contract monitoring plan for each contract. Each plan was to include a summarized plan (AHCA Form 2100-0021), which was to address the planned frequency of monitoring and the type of monitoring (i.e., on-site or desktop). As an attachment to the summarized plan, the contract manager was also required to prepare a Monitoring Evaluation Form (ME Form). The initial ME Form was to provide criteria (i.e., detailed service tasks, deliverables, payment documentation, and special provisions) by which the contractor was to be evaluated. The ME Form was to be executed as monitoring was performed and was to include the ratings (for example, “meet standards” or “exceeded standards”) by the contract manager and identify needed performance improvement areas, as applicable.

The Agency had also developed a Contract Manager’s Desk Reference. The Desk Reference instructed the contract managers to complete the contract monitoring plan and the initial ME Form after the contract was signed and to submit a copy of the plan and ME Form to the Unit.

Our audit of Agency compliance with its established contract management policies and procedures disclosed:

- The policy manual required the Contract Administration Unit to conduct “random quarterly reviews” of contract manager files. However, during the audit period, contrary to policy manual requirements, the Unit’s policy was to conduct annual reviews of contract manager files for all active contracts. Agency staff indicated that the annual review policy was implemented in July 2005. However, the policy manual had not been updated to reflect the current procedures. Absent the maintenance of current, written policies and procedures, the controls established by management may not be effectively communicated to those with contract monitoring responsibilities.
- The ME Form required the signatures of the contract manager and the manager’s supervisor, while the summarized plan did not require the signatures of either. Absent signatures on the summarized plan, Agency records did not document supervisory review and approval of the planned monitoring frequency and type.
- Our tests of 20 contract files, relating to Agency contractual obligations of \$4.3 billion, disclosed that documentation was often not submitted to the Unit in accordance with the requirements of the Agency’s Desk Reference:
 - For 3 of the 20 contracts tested, the Unit’s files did not contain the summarized plan. These 3 contracts represented obligations of approximately \$496 million. One contract involved the creation of a Provider Service Network; one contract related to the provision of professional consulting services in support of Florida’s Medicaid reforms; and one contract related to Medicaid fiscal agent services.

- For 16 of the 20 contracts tested, the Unit’s files did not contain the ME Form that was to be executed by the contract manager during the monitoring of the contractors.

Through the receipt of copies of both the summarized plan and the ME Form for each contract, the Unit is provided a basis for measuring contract manager compliance with the Agency’s contract monitoring internal controls. Absent contract manager submission of the summarized plan and ME Form, and the Unit’s follow up when they are not submitted, the Agency has reduced assurance that breakdowns in its contract monitoring controls will be timely detected and corrected.

Recommendation: The Agency should update its written policies and procedures to reflect management’s intent with respect to the Unit’s contract management oversight procedures. The Agency should also implement procedures to ensure that contract monitoring plans and attachments are timely submitted to the Contract Administration Unit. Further, the Agency should consider revising the summarized plan format to include provision for written approval by the contract manager’s supervisor.

Finding No. 2: HMO Contract Monitoring

As noted above, the Agency had contracted with HMOs to provide prepaid health care services for Medicaid beneficiaries. Our audit included tests of the monitoring of four HMO contracts. We noted that as of June 14, 2007, the Agency had not adopted for HMO contractors, written contract management procedures. The absence of written policies and procedures contributed to the following HMO contractor monitoring deficiencies disclosed by our audit:

- Contract managers had been designated for each HMO contract; however, because of the complexity of the HMO contracts, contract monitoring activities (such as desk and on-site reviews, reviews of contractually-required reports, and maintaining records of contract balances) were assigned to various staff in different units within the Agency. There were no reporting or communication mechanisms

in place that would allow HMO contract managers to oversee or review all monitoring activities to ensure that contract terms and reporting requirements were met by the HMO contractors.

- The Bureau of Managed Health Care (MHC), within the Division of Health Quality Assurance (HQA) was responsible for HMO contract monitoring. MHC had created a survey tool to evaluate contractor performance, and during the period July 2005 through February 2007, surveys were completed for two of the four HMO contracts. However, detailed monitoring plans had not been developed describing specific monitoring activities, such as when the surveys and other monitoring activities were to be performed.
- The Contract Administration Unit was responsible for conducting reviews of the contract management files and had developed a contract file review tool as a checklist. However, when conducting HMO contract file reviews, Unit staff did not complete the checklist for key activities such as contract monitoring, contract payments, and the review of contractually-required reports.

Absent sufficient oversight and communication, including the adoption of written HMO contract monitoring policies and procedures, the Agency has not established sufficient controls to reasonably ensure HMO services were delivered in accordance with contractual requirements. As noted above, the HMO contracts represent a significant portion of the contractual obligations at the Agency.

Recommendation: The Agency should adopt written policies and procedures to govern the monitoring of HMO contractors. The written policies and procedures should specifically assign responsibility for particular monitoring activities and ensure that all monitoring results are communicated to the applicable contract manager. The HMO contract manager should ensure that contracts are adequately monitored and that the level of planned monitoring is adequately explained and documented in the monitoring plan. In addition, the Contract Administration Unit should address all applicable activities during the review of HMO contracts.

Finding No. 3: Contract Manager Files

Effective contract administration includes the monitoring of contractors to determine compliance with contractual provisions and provides a means for early detection of potential performance problems.

Our review of 16 non-HMO contract manager’s files disclosed that for 2 contracts, Agency files did not contain documentation to demonstrate that the approved monitoring criteria had been applied in evaluating the contractor’s performance, monitoring findings were communicated to the contractor, and corrective actions were verified, if applicable. These 2 contracts represented contractual obligations of approximately \$31 million. One contract involved the provision of services to assist the Agency in developing Medicaid reform implementation strategies and options, and the other involved the implementation and operation of an HIV/AIDS disease management program for certain Medicaid beneficiaries.

Recommendation: The Agency should enhance its documentation policies and procedures to ensure that all documentation supporting monitoring activities is maintained in the contract manager’s files.

Finding No. 4: Procedures to Detect Conflicts of Interest

Section 287.057(20), Florida Statutes, requires that for any procurement in excess of \$25,000 accomplished without competition, individuals taking part in the development or selection of criteria for evaluation, the evaluation process, and the award process shall attest in writing that they are independent of, and have no conflict of interest in, the entities evaluated and selected.

Also, while Florida law does not require written attestations of independence for those involved in the award of contracts using competitive means, as a matter of good business practice, attestations should be obtained. Further documentation of the independence and impartiality of individuals involved

in the monitoring of contractors helps ensure, in fact and appearance, a fair and objective contract management process. Section 112.313(7)(a), Florida Statutes, addresses the importance of State employees being free of conflicts of interest with respect to the procurement and management of contractual services.

The Agency’s contract initiation form required that a conflict of interest questionnaire (COQ) be attached to the form for single source and exempt service contract awards. Agency staff indicated it was policy for COQs to be executed by all staff involved in noncompetitive awards or if the assigned contract manager changed. The COQ was used to attest to the employee’s independence and impartiality.

Our tests of the Agency’s COQ-related policies and procedures disclosed the following:

- Our test of 13 contracts that were awarded without competition disclosed that in all 13 instances, COQs were missing for one or more employees involved in the procurement process. Agency staff responded that the policy manual will be updated to reflect a new requirement that all parties involved in the procurement process complete a COQ.
- Agency policies and procedures did not require all individuals involved in competitive contract awards or the contract monitoring process to sign a COQ attesting to the absence of conflicts of interest.

Recommendation: The Agency should continue efforts to enhance policies and procedures to ensure that there are no conflicts of interest for employees involved in the award of contracts. Due to the importance of the contract manager’s involvement in the management of contracts, the Agency should also consider adopting procedures requiring contract managers to periodically identify in writing any actual or perceived conflicts of interest that may impact the performance of their assigned duties.

SUBSEQUENT EVENTS

Subsequent to the end of audit field work, the records of one of the Agency’s HMO contractors were obtained for review by Federal authorities. As of January 10, 2008, details were not available that would

allow a determination of the impact, if any, on the results of our audit.

OBJECTIVES, SCOPE, AND METHODOLOGY

This operational audit focused on the Agency’s actions related to contract management. Our objectives were:

- To evaluate the effectiveness of established internal controls in achieving management’s control objectives in the categories of compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the validity and reliability of records and reports; and the safeguarding of assets.
- To evaluate management’s performance in achieving compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the validity and reliability of records and reports; and the safeguarding of assets.

Our audit included examinations of various transactions (as well as events and conditions) occurring during the period July 2005 through February 2007. In conducting our audit, we:

- Interviewed Agency personnel.
- Obtained an understanding of internal controls and observed, documented, and tested key processes and procedures related to contract management.
- From a population of 145 contracts, we reviewed and tested Agency records related to 20 contracts, representing obligations of \$4.3 billion, in regards to contractual provisions,

contractual payments, and contract monitoring. We reviewed contract files maintained by the contract managers, as well as those maintained in the Contract Administration Unit.

- Examined records supporting the award of contracts. Our audit did not include detail tests of the award and negotiation of HMO contracts. Such tests may be included within the scope of future audits.
- Performed various other auditing procedures as necessary to accomplish the objectives of the audit.

An expanded review was performed of two of the tested contracts. The results of those reviews are published as audit report No. 2008-033, regarding the Medicaid Non-Emergency Transportation Services contract, and audit report No. 2008-035, regarding the Medicaid Third-Party Liability contract.

AUTHORITY

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.

David W. Martin, CPA
Auditor General

MANAGEMENT RESPONSE

In a letter dated February 20, 2008, the Secretary responded to our findings. The letter is included in its entirety at the end of this report as Appendix A.

To promote accountability in government and improvement in government operations, the Auditor General makes operational audits of selected programs, activities, and functions of State agencies. This operational audit was conducted in accordance with applicable Generally Accepted Government Auditing Standards. This audit was conducted by Ying Ying Chen, CPA, and supervised by Peggy Miller, CPA. Please address inquiries regarding his report to Jane Flowers, CPA, Audit Manager, by e-mail (janeflowers@aud.state.fl.us) or by telephone (850-487-9136).

This report and other audit reports prepared by the Auditor General can be obtained on our Web site (<http://www.myflorida.com/audgen/>); by telephone (850-487-9024); or by mail (G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450).

APPENDIX A
MANAGEMENT RESPONSE



CHARLIE CRIST
GOVERNOR

ANDREW C. AGWUNOBI, M.D.
SECRETARY

February 20, 2008

David W. Martin, CPA
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

Thank you for the opportunity to respond to the preliminary and tentative audit findings and recommendations from your audit of Contract Management from July 2005 through February 2007. We appreciate the efforts of your staff and have included our response to the recommendations noted in your report. AHCA continuously looks for opportunities to improve operations and is committed to providing cost-effective and efficient health care services to the citizens of Florida.

In accordance with your request, we have emailed you the preliminary and tentative findings document with our response incorporated therein. If you have any questions regarding our response, please contact Mike Blackburn, Audit Director, at (850) 414-5419.

Sincerely,

Andrew C. Agwunobi, M.D.
Secretary

ACA/mb

Enclosure: Response to the P&T for Contract Management

- cc: Linda Keen, Inspector General
- Mark Thomas, Chief of Staff
- Dyke Snipes, Acting Deputy Secretary, Division of Medicaid
- Janet Parramore, Director, Division of Administrative Services

2727 Mahan Drive, MS#1
Tallahassee, Florida 32308



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**APPENDIX A
MANAGEMENT RESPONSE
(CONTINUED)**

**Agency for Health Care Administration
Response to Auditor General's P&T audit findings for
Contract Management,
July 2005 through February 2007**

Finding 1:

The Agency should enhance its contract monitoring policies and procedures to ensure that contract monitoring is adequately conducted. In addition, the written policies and procedures required updates to reflect current practices.

Recommendation:

The Agency should update its written policies and procedures to reflect management's intent with respect to the Unit's contract management oversight procedures. The Agency should also implement procedures to ensure that contract monitoring plans and attachments are timely submitted to the Contract Administration Unit. Further, the Agency should consider revising the summarized plan format to include provision for written approval by the contract manager's supervisor.

Agency Response:

Contract Monitoring Plan submission is now required prior to contract execution. Agency Procurement Policies and Procedures will be revised to indicate this new requirement. Additionally, the existing Contract Monitoring Plan form will be revised to include a requirement for contract manager supervisor signature.

Finding 2:

The Agency needed to significantly improve oversight of Health Maintenance Organization (HMO) contracts.

Recommendation:

The Agency should adopt written policies and procedures to govern the monitoring of HMO contractors. The written policies and procedures should specifically assign responsibility for particular monitoring activities and ensure that all monitoring results are communicated to the applicable contract manager. The HMO contract manager should ensure that contracts are adequately monitored and that the level of planned monitoring is adequately explained and documented in the monitoring plan. In addition, the Contract Administration Unit should address all applicable activities during the review of HMO contracts.

Agency Response:

The two Bureaus (Health Systems Development and Managed Care) responsible for the oversight of Medicaid HMO contracts will jointly develop written policies and procedures to implement the recommendation. The Contract Administration Unit will verify adherence to the established policies and procedures during annual file reviews.

**APPENDIX A
MANAGEMENT RESPONSE
(CONTINUED)**

Finding 3:

Contract managers' files did not always contain adequate documentation demonstrating the performance of contract monitoring, including adherence to established standards and criteria, communication of deficiencies to the contractor, and follow up on the contractor's corrective actions.

Recommendation:

The Agency should enhance its documentation policies and procedures to ensure that all documentation supporting monitoring activities is maintained in the contract manager's files.

Agency Response:

The Agency will continue to enhance existing policies and procedures as they relate to monitoring documentation requirements. Additionally, the Contract Administration Unit will develop new forms and guides to assist Contract Managers in documenting monitoring activities.

Finding 4:

The Agency needs to enhance its contract management policies and procedures by requiring individuals taking part in the contract award or contract monitoring processes to attest in writing that they are independent of, and have no conflicts of interest with respect to, entities selected or monitored.

Recommendation:

The Agency should continue efforts to enhance policies and procedures to ensure that there are no conflicts of interest for employees involved in the award of contracts. Due to the importance of the contract manager's involvement in the management of contracts, the Agency should also consider adopting procedures requiring contract managers to periodically identify in writing any actual or perceived conflicts of interest that may impact the performance of their assigned duties.

Agency Response:

Conflict of Interest Questionnaires are now required of every individual involved in the decision making process. (This does not include those individuals reviewing for administrative purposes.) Conflict of Interest Questionnaires are also required any time a change in Contract Manager is requested. Agency policy will be revised to reflect these new requirements. Additionally, Agency policy will be revised to require annual attestation of no conflict from employees actively managing a contract.