



**New Jersey State Legislature  
Office of Legislative Services  
Office of the State Auditor**

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**Department of Human Services  
Division of Medical Assistance  
and Health Services  
Managed Care Contract  
Vaccines for Children Program**

July 1, 2005 - November 25, 2008

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## New Jersey State Legislature

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The Honorable Richard J. Codey  
President of the Senate

The Honorable Joseph J. Roberts, Jr.  
Speaker of the General Assembly

Mr. Albert Porroni  
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Office of Legislative Services

Enclosed is our report on the audit of the Department of Human Services, Division of Medical Assistance and Health Services, Managed Care Contract Vaccines for Children Program for the period of July 1, 2005 to November 25, 2008. If you would like a personal briefing, please call me at (609) 292-3700.

A handwritten signature in black ink that reads "Stephen M. Eells".

Stephen M. Eells  
Assistant State Auditor  
February 23, 2009

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**Department of Human Services  
Division of Medical Assistance and Health Services  
Managed Care Contract  
Vaccines for Children Program**

***Scope***

We have completed an audit of the Department of Human Services, Division of Medical Assistance and Health Services, Managed Care Contract as it relates to the Department of Health and Senior Services' Vaccines for Children program for the period July 1, 2005 through November 25, 2008. This audit was performed in conjunction with our overall review of the Managed Care program. Several audit reports will be issued on selected topics relating to Managed Care.

***Objectives***

The objective of our audit was to determine whether managed care organizations complied with the Managed Care contract as it relates to the use of the Vaccines for Children program. We also reviewed the effectiveness of the division's contract monitoring process relating to this program.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

***Methodology***

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, and policies of the division. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our analysis of encounter claims for vaccines. We also reviewed financial trends and interviewed division personnel to obtain an understanding of the program and the internal controls.

A nonstatistical sampling approach was used. Our samples of encounter claims for vaccines were designed to provide conclusions about the validity of payments as well as internal control and compliance attributes. Sample populations were sorted and encounter claims for vaccines were judgmentally selected for testing.

## ***Background***

### **Managed Care**

The Division of Medical Assistance and Health Services administer the state's Medicaid and NJ FamilyCare programs which provide medical assistance to needy or uninsured individuals. Medicaid pays providers by one of two methods: the fee-for-service method, in which a provider is paid for every Medicaid eligible service rendered to the recipient; or the capitation method, in which a managed care organization (MCO) receives a monthly payment for each recipient enrolled in the plan. The NJ FamilyCare program uses the capitation method to pay providers. The MCO is responsible for ensuring enrollees have access to a comprehensive range of preventative, primary, and specialty services. Five MCOs participate in the state's managed care program which is intended to provide quality health care in a cost-effective manner. In return for the monthly capitation, the MCOs ensure that each enrollee has a primary care provider and adequate access to quality health care and needed medical services. MCOs enter into contracts with health care providers for delivering these services to enrollees and are responsible for paying the actual service providers.

The division contracts with a consultant to develop actuarially sound capitation rates annually. In determining capitation rates, the division will review encounter data, eligibility data, programmatic changes, demographic changes, and health plan financial reports. The primary data source for the capitation rates are the medical expenses reported through the financial data submitted by the MCOs. To arrive at the final managed care capitation rates, the consultant

analyzes each of the five MCOs' administrative expenses and includes a pre-tax underwriting profit as a flat percentage. For fiscal year 2009 the administrative expense and pre-tax underwriting profit rate components were 13.5 percent of the monthly capitation rate.

For the year ended December 31, 2008 the state spent \$2 billion on managed care for approximately 800,000 Medicaid and NJ FamilyCare enrollees. MCOs are contractually obligated to submit information on enrollee medical services, known as encounters, to the division quarterly. An encounter is a professional face-to-face contact or transaction between an enrollee and provider who delivers services. Encounter data is comprised of the services rendered during the contact. For the state's Managed Care program, encounters include: visits to a physician or other medical provider, inpatient stays in hospitals, and purchases of durable medical equipment or hearing aids.

#### **Vaccines for Children program**

The Department of Health and Senior Services' Vaccines for Children (VFC) program is a federally funded, state operated vaccine supply program that began nationally in October 1994. The program supplies vaccines at no cost to all public providers and private care providers who agree to administer federally purchased vaccines. The VFC program was created to meet the vaccination needs of children from birth through 18 years of age. Children enrolled in Medicaid or the Medicaid expansion portion of NJ FamilyCare are eligible to receive VFC provided vaccines. Under the program, providers are eligible to receive a fee of \$11.50 per injection through the MCOs for administering the vaccine.

#### ***Conclusions***

We found that MCOs were not in compliance with the Managed Care contract as it relates to the use of the Vaccines for Children (VFC) program resulting in claims paid by the MCOs to providers

for vaccines from July 1, 2005 through November 25, 2008 that should have been free under the program. The division did not effectively monitor the contract to ensure that MCOs did not receive any reimbursement for the costs of VFC covered vaccines.

**Managed care organizations were reimbursed for vaccines that should have been free under the Vaccines for Children program.**

The division contracts with five managed care organizations (MCOs) to provide comprehensive health care services to eligible beneficiaries. The contract requires that MCO providers enroll in the VFC program and use the free vaccines for its enrollees if the vaccine is covered by the program. The contract further states that MCOs shall not receive from the division any reimbursement for the costs of VFC covered vaccines.

During the audit period, of the 1.3 million claims for vaccines that should have been free under the program MCOs paid 78,400 claims totaling \$1.6 million to 997 providers. These inappropriate claims are included in the annual rate setting calculation (50 percent federally funded).

Our review disclosed that the division does not have adequate procedures in place to verify that all MCO providers are enrolled in the VFC program. Instead, it relies on the MCOs to develop their own in-house edits to ensure that their providers are enrolled in the VFC program and that they do not pay for any VFC covered vaccines. Our review of 20 providers with the highest dollars in claims for VFC covered vaccines, totaling \$792,000, disclosed that five providers with claims totaling \$116,000 were not enrolled in the VFC program. The remaining 15 providers were enrolled in the VFC program but still submitted claims totaling \$676,000 for VFC covered vaccines. We conclude that the MCO edits are lacking and additional monitoring needs to be undertaken by the division.

***Recommendation***

The division should take steps to ensure that MCO providers are enrolled in the VFC program and that MCOs do not receive any reimbursement for the costs of VFC covered vaccines by excluding claims paid for VFC covered vaccines from future rate setting calculations.

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JON S. CORZINE  
*Governor*

JENNIFER VELEZ  
*Commissioner*  
JOHN R. GUHL  
*Director*

February 18, 2009

Stephen M. Eells, Assistant State Auditor  
Office of Legislative Services  
Office of the State Auditor  
125 South Warren Street  
P O Box 067  
Trenton, NJ 08625-0067

Dear Mr. Eells:

This is in response to your letter of January 28, 2009 to Commissioner Velez concerning the Office of Legislative Services (OLS) draft audit report entitled "Department of Human Services Division of Medical Assistance and Health Services Managed Care Contract Vaccines for Children Program." The letter provides an opportunity to comment on the audit report.

The Vaccines for Children (VFC) program is a federally funded, state operated vaccine supply program that supplies vaccines at no cost to all public providers and private care providers who agree to administer federally purchased vaccines. Children enrolled in Medicaid or the Medicaid expansion portion of NJ FamilyCare are eligible to receive VFC provided vaccines.

The objective of this audit was to determine whether managed care organizations complied with the Managed Care contract as it relates to the use of the Vaccines for Children program. Also reviewed was the effectiveness of the division's contract monitoring process relating to this program.

#### Conclusion

The audit found that during the audited period, from July 1, 2005 through November 25, 2008, the five contracted managed care organizations (MCOs) were not in complete compliance with the Managed Care contract as it relates to the use of the Vaccines for Children (VFC) program. This resulted in some claims paid by the MCOs to providers for vaccines that should have been free under the program. The division did not effectively monitor the contract to ensure that MCOs did not receive any reimbursement for the costs of VFC covered vaccines.

During the audit period, the program MCOs paid 78,400 claims totaling \$1.6 million to 997 providers for vaccines that should have been free under the VFC program. These inappropriate claims are included in the annual rate setting calculation (50 percent federally funded).

**A review of the available information indicates the MCOs make significant efforts to comply with the contract requirements for VFC program participation. The MCOs have either specific requirements for participation; provider education and counseling; claims payment edits; and/or other restrictions to address contract compliance in this regard. However, there are situations where the VFC program is not appropriate or available for the provision of vaccines such as:**

- **intermittent shortages and/or delayed delivery of VFC vaccines;**
- **some providers do not qualify for participation due to a limited specialty and the requirement to provide all/any vaccines; and**
- **some vaccines may be provided prior to inclusion in the VFC program.**

**As indicated in the audit report, approximately 1.3 million claims for vaccines were processed properly by the MCOs and the Division of Medical Assistance and Health Services (DMAHS).**

**DMAHS acknowledges that the applicable contract requirements are specific; do not include any exceptions for the situations mentioned previously; and the questioned claims were not excluded from the annual rate setting calculations. Based on this information, DMAHS must concur that the auditor's finding is correct.**

### Recommendations

1. The division should take steps to ensure that MCO providers are enrolled in the VFC program.

**DMAHS will work with the MCOs to ensure the greatest number of providers are enrolled in the VFC program while maintaining the availability of vaccines for enrolled beneficiaries. DMAHS will review the applicable contract requirements and the requirements of the VFC program to address any exceptions that are needed to assure the timely provision of vaccines to enrolled beneficiaries at the lowest available cost.**

2. The division should take steps to ensure that MCOs do not receive any reimbursement for the costs of VFC covered vaccines by excluding claims paid for VFC covered vaccines from future rate setting calculations.

**This recommendation is being considered for the MCO capitation rate setting process in concert with the applicable contract requirements for State fiscal year 2010. The use of detailed encounter data will enable the identification of**

Stephen M. Eells  
February 18, 2009  
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**all inappropriate VFC claims which will then be excluded from the capitation rates for the new contract year.**

If you have any questions or require additional information, please contact me or David Lowenthal at 609-588-7933.

Sincerely,

A handwritten signature in black ink that reads "John R. Guhl, vjgH". The signature is written in a cursive style with a large, stylized "H" at the end.

John R. Guhl  
Director

JRG:L

c: Jennifer Velez  
David Lowenthal