



Minnesota Department of **Human Services**

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## **Managed Care Organization Audits Key Observations and Findings for Fiscal Year 2011**

On March 21, 2011, Governor Dayton issued Executive Order 11-06 - Creating Public Disclosure for Minnesota's Managed Health Care Programs. Consistent with the executive order, the Minnesota Department of Commerce reviewed the managed care organizations' expense allocations to Minnesota's public health care programs, reviewed the managed care organizations' premium deficiency reserves, and provided a retrospective review of reserves. The Department of Human Services identified the following key observations and findings:

**Contributions to Affiliate Organizations**—Managed care organizations made contributions to affiliated charitable organizations and foundations.

**Executive Salary Allocations**—Managed care organizations did not limit the executives' salary or compensation amounts before allocating those expenses to the public programs.

**Marketing and Advertising**—Managed care organizations allocated marketing and advertising expenses to public programs. The Medical Assistance (MA) contract restricts a managed care organization from marketing and promotion to MA recipients who are not current enrollees.

**Math Error in Expense Allocations**—A managed care organization's expense allocation formula contained a mathematical error that lowered net operating income by \$1.57 million.

**Margin for Unpaid Claim Liability**—Managed care organizations' estimates for unpaid claims were overly conservative and the managed care organizations held more funds for unpaid claims than has been historically necessary.

**Premium Deficiency Reserve**—Managed care organizations may have set premium deficiency reserves at unnecessarily high levels.

**Inadequate Documentation** - Managed care organizations did not always have adequate supporting documentation for allocating administrative expenses and setting premium deficiency reserves.

**Lobbying Costs**—A managed care organization inappropriately allocated lobbying expenses to the Medical Assistance and MinnesotaCare program.

**Inappropriate Expense Allocation**—A managed care organization inappropriately allocated Medicare expenses to the Medical Assistance and MinnesotaCare program.

DHS will review these findings further and follow up with actions that could include revising the funds collected under the 1 percent profit cap, incorporating the findings into future rate setting and/or referring the findings for outside evaluation.