



## SUMMARY

# A Review of Budgeting Practices and Recent Deficits at the Department of Health and Human Services



### INTRODUCTION

The Department of Health and Human Services (DHHS) administers the state's Medicaid program.

Medicaid is a government health insurance program for categories of persons without insurance who have limited incomes or a combination of limited incomes and assets.

Among the clients served by DHHS are children under age 19, adults living with and responsible for the care of children under 18, pregnant women, persons with disabilities, and the elderly for services and premiums not covered by Medicare.

The General Assembly and the Department of Health and Human Services requested that the Legislative Audit Council review budgeting and related issues at the department.

In FY 10-11, DHHS spent approximately \$5.9 billion, including 23% in state funds and 77% in federal matching funds.

The current management team of the agency was constituted in early 2011.

### TREND IN DHHS EXPENDITURES VERSUS THE NUMBER OF MEDICAID CLIENTS FY 07-08–FY 10-11

- Total expenditures increased 26% — from \$4.7 billion to \$5.9 billion.
- The average monthly number of Medicaid enrollees increased 18% — from 718,345 to 850,590.
- Expenditures per average monthly Medicaid enrollee increased 6.5% — from \$6,496 to \$6,915.
- Expenditures per capita increased 20% — from \$1,059 to \$1,272.

### DHHS DEFICITS

To avoid a deficit in FY 09-10, the department made timing adjustments in the payment and receipt of \$46.4 million in non-federal funds and \$67.8 million in federal funds. These actions were not authorized by the FY 09-10 appropriations act. In addition, the department made questionable use of \$5.5 million in non-federal funds from a restricted account.

During the FY 10-11 appropriation process, the department did not inform the General Assembly of a projected deficit, the foundation of which was the deficit averted in the FY 09-10. If the department had not received a \$222.5 million funding supplement from the Budget and Control Board to offset the FY 10-11 deficit, the state could have lost an additional \$700 million in federal matching funds.

DHHS did not have a structured system of forecasting expenditures, revenues, and cash. During our review, the department improved the structure of its forecasting process, including the increased use of actuarial analysis.

## BUDGET MONITORING

Neither DHHS nor central state government had an adequate process for periodic budget monitoring.

During our review, DHHS reported its plans to implement a quarterly budget and quarterly variance reporting system. This action, however, is being made on a voluntary basis by DHHS.

Current state law does not require that agencies submit, at the beginning of each fiscal year, annual budgets separated into quarterly budgets for expenditures, revenues, and cash flow. It also does not require quarterly budget variance reports to be produced by each state agency, comparing budgeted revenues, expenditures, and cash to actual amounts.

## QUESTIONABLE MCO CONTRACT RATE INCREASE

The department increased the “capitation rate” four months early for a managed care organization that had recently acquired another managed care organization. As a result, the company was paid an extra \$2.3 million. During FY 09-10 and FY 10-11, DHHS implemented rate changes for all MCO organizations four times — October 2009, April 2010, October 2010, and April 2011. An early rate increase outside of this pattern was implemented for only one company in June 2010.

## DHHS EXECUTIVES ACCEPTING JOBS FROM COMPANY WITH DHHS CONTRACTS

State law does not adequately limit the activities of agency employees who resign to work for companies that do business with the state. In January 2011, a DHHS bureau chief in care management and medical support services and a deputy director of medical services, each of whom had responsibility for approving payments to a company that administered a private medical home network, resigned and accepted employment with that company.

## MEDICAID CLIENT STATISTICS FY 10-11

- 22% of South Carolinians statewide were covered by Medicaid.
- The portion of South Carolina residents covered by Medicaid across the state ranged from 15% in Beaufort County to 42% in Dillon County.
- 43% of children in South Carolina were covered by Medicaid.
- Half of births statewide and 85% of births to teens were funded by Medicaid.
- 75% of nursing home beds statewide were funded by Medicaid.

FOR MORE  
INFORMATION

Our full report, including comments from relevant agencies, is published on the Internet. Copies can also be obtained by contacting our office.

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