

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**Lessons Learned from Medicaid's Use of
External Quality Review Organizations**



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EXECUTIVE SUMMARY

PURPOSE

To identify lessons State Medicaid agencies have learned in using external quality review organizations to assist with their oversight of managed care plans.

BACKGROUND

The Balanced Budget Act of 1997 increases States' authority to establish Medicaid managed care programs without obtaining Federal approval. In exchange for this flexibility, the Act requires that the State Medicaid agencies contract with a "qualified" outside entity to conduct an annual review of managed care plans. The Act refers to these outside entities as External Quality Review Organizations (EQROs) and provides enhanced funding for this activity.

In response to the requirements of the Balanced Budget Act, HCFA is working with its own contractors to define the types of external organizations qualified as EQROs and to determine, by January 1, 1999, the functions these organizations will carry out. Previously, each Medicaid agency could define the scope of the external review. An agency received enhanced Federal funding only if it used a Peer Review Organization (PRO) as the EQRO. This inquiry is intended to provide HCFA lessons learned by Medicaid agencies through their experiences with EQROs and offer guidance to HCFA as it defines the EQRO mandate.

We focused on 7 State Medicaid agencies: Arizona, California, Massachusetts, Minnesota, Missouri, Ohio, and Washington. These States have considerable experience in managed care or in working with EQROs. We relied on 3 primary sources of data for this inspection: EQRO contracts from our sample agencies, EQRO reports from those agencies, and interviews with Medicaid officials at those agencies.

FINDINGS

EQRO Functions

The State Medicaid agencies in our sample charged the EQRO with one or more of the following 7 activities: focused studies, encounter data validation, Health Plan Employer Data and Information Set (HEDIS) validation, individual case review, technical assistance, evaluation of health plans' internal quality of care studies, and administration of satisfaction surveys.

Focused studies are the predominant EQRO function; yet Medicaid officials are increasingly aware of their limited value.

All 7 of our sample Medicaid agencies contract with EQROs to carry out focused studies and spend far more to support this function than any of the other EQRO functions. Focused studies rely on review of medical records to capture specific types of services delivered to a group of people, such as immunizations given to children. On average, the agencies in our sample spent

nearly 80 percent of their EQRO budgets on focused studies. Yet Medicaid officials express concern about their limited perspective. At best, focused studies capture a slice of care delivered to one or two subpopulations.

The sample agencies are beginning to shift attention from focused studies to other functions.

Medicaid agencies are testing ways to broaden their quality oversight to complement the narrowness of a focused study. The agencies are pursuing innovative strategies in quality oversight that are probing the limits of what traditional EQRO contractors can do. For example, in the last several years, Medicaid agencies have been turning to encounter data, health plan process reviews, and enrollee feedback, through surveys and focus groups, to obtain different perspectives on quality.

Types of Contractors

The sample agencies depend on the PROs to conduct focused studies. However, they express reservations about the PROs' expertise for other EQRO functions.

For years the PROs have been working on behalf of the Medicare Program to improve medical practice by looking at medical records, identifying baselines, designing interventions and re-measuring. Much of this expertise is useful in conducting focused studies. However, some Medicaid officials expressed reservations about the PROs' expertise in performing non-traditional activities such as processing and verifying encounter claims, or conducting consumer interviews or focus groups.

The sample agencies have found that different types of contractors can contribute to external quality oversight.

We found that over the last 2 years, all of the Medicaid agencies in our sample have hired one or more external contractors to perform quality oversight activities. These contractors range from universities and consulting groups that perform social science research and data analysis to marketing firms that specialize in consumer surveys and focus groups. Although the agencies received no enhanced Federal matching funds for this activity, each believed it was worth the expense to hire a contractor with specialized experience.

Medicaid Agency Management of EQRO Contracts

The sample agencies have found that an effective relationship with an EQRO calls for a partnership.

Quality oversight work, if it is to be effective, calls for the Medicaid agency to have an on-going, continuous relationship with the EQRO through each stage of the review process. To do so, officials agree, the agency must work in partnership with the EQRO through each stage of the project.

States have learned that having their own staff expertise in quality oversight techniques and experience with managed care is vital to effective contractor management.

To work effectively with contractors in overseeing the quality of managed care, State Medicaid agencies must have a core of their own staff with knowledge bases and skills tailored to managed care environments rather than to the fee-for-service environments to which State Medicaid staff have been accustomed. Medicaid agencies also must have staff who are well-versed in the latest quality oversight and measurement techniques to work in partnership with external contractors.

CONCLUSION

In this review, we have not conducted our own independent evaluation of the contributions made either by an official EQRO contractor or by other parties that a State Medicaid agency has contracted with to help it review the quality of care provided by managed care organizations. Thus, we cannot offer firm conclusions about which functions or types of organizations HCFA should qualify for the enhanced Federal reimbursement.

However, we can make 2 observations, stemming from our review of Medicaid agency documents and interviews with Medicaid officials, that may be helpful to HCFA in defining the EQRO requirement.

Medicaid Agencies Find Value in Using a Variety of Quality Oversight Functions. The experienced Medicaid agencies that were part of our review have come to approach quality oversight as a patchwork of complementary strategies including focused studies of medical care, consumer surveys or interviews, and data analysis.

Medicaid Agencies Prefer Using Different Types of Contractors. These agencies have come to see value in engaging the services of a variety of contractors with a variety of skill sets, including, but not limited to, the Medicare Peer Review Organizations.

We also wish to add a note of caution to HCFA concerning the possibility that the enhanced Federal funding for EQROs may create an unintended incentive to overuse external contractors at the expense of developing and maintaining necessary internal expertise. State Medicaid officials have told us that effective quality oversight requires staff that are skilled in a variety of quality oversight techniques and who also possess a sophisticated knowledge of the changing health care marketplace. These staff must work in partnership with contractors to guide and direct activities according to Medicaid agency priorities. The HCFA must walk a fine line between fostering more comprehensive quality oversight and holding Medicaid agency officials accountable for the quality of their Medicaid programs.

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INTRODUCTION

PURPOSE

To identify lessons State Medicaid agencies have learned in using external quality review organizations to assist with their oversight of managed care plans.

BACKGROUND

Balanced Budget Act Changes

The Balanced Budget Act of 1997 (BBA) grants States increased authority to establish Medicaid managed care programs without waivers of Federal law. In exchange for this flexibility, the Act requires that the States contract with an outside entity to conduct an annual review of managed care plans. The Act refers to these outside entities as External Quality Review Organizations (EQROs).

To facilitate effective implementation of this new EQRO requirement, the BBA calls for HCFA to take two important steps. One is to define the types of external organizations that would be regarded as “qualified” as EQROs. The other is to determine, by January 1, 1999, the functions these organizations would be allowed to carry out. At present, HCFA is working with its own contractors to develop guidance for the States in both these areas.

As an indication of the significance it attaches to this external review, the BBA authorizes enhanced Federal funding at a 75 percent matching rate for any qualified EQRO. Previously, a Medicaid agency itself could define the scope of the review and could receive enhanced Federal funding only if the State chose a PRO as the EQRO.¹ However, the BBA changed this by authorizing enhanced funding for any qualified entity.

Our inquiry is intended to help HCFA provide this guidance. It emerges from discussions with HCFA officials who indicated that it would be helpful to review the lessons that State Medicaid agencies have learned from their experiences in using EQROs and, more generally, in using contractors to help provide quality oversight of managed care plans.

The Challenge of Quality Oversight

As the emphasis on managed care has increased, State Medicaid agencies have been searching for effective means of providing quality oversight. In this quest, they have found few guideposts beyond HCFA’s Quality Assurance Reform Initiative (QARI) and no formulas to follow.² In fact, in a rapidly changing environment, some of these agencies are themselves among the most experienced purchasers and overseers of managed care.

The Medicaid agencies find a wide array of quality review functions they can rely upon, each with its own strengths and weaknesses. These include focused clinical studies, collection and analysis of encounter data, collection and dissemination of standardized performance data, individual case

reviews, announced or unannounced surveys of health plans, surveys of beneficiaries and/or providers, analysis of complaints, appeals, or disenrollment trends and use of ombudsmen.

Some of these functions can be performed by the Medicaid agency itself; some in partnership with other State agencies, such as public health agencies; and some under contract with outside parties--either the official EQRO, which would allow for the 75 percent Federal match, or another external party, which would be reimbursable at the regular Federal matching rate under the Medicaid program. The EQRO contract that is the focus of this report is one of the vehicles that States can use in their mix of quality oversight efforts. The key challenge is to determine how best to use it, to what extent, and how.

METHODOLOGY

We focused on 7 States for this inspection: Arizona, California, Massachusetts, Minnesota, Missouri, Ohio, and Washington. We chose these States because they are among the States having considerable experience in managed care or in working with EQROs.

The predominant focus of our inquiry is on the quality oversight activities performed by review organizations that have been funded at the enhanced 75 percent Federal matching rate. Throughout the report, we refer to them as the EQROs. We refer to other entities that State Medicaid agencies contract with to help with their quality oversight more generically as contractors or other external review organizations.

We relied on 3 primary sources of data in this inspection. First, we reviewed EQRO contracts from each of our seven sample Medicaid agencies. The contracts specify the tasks that the EQROs are to perform and the deliverables, such as reports, conferences, or medical record reviews. Second, we examined EQRO reports and data from each Medicaid agency in our sample. Third, we conducted structured interviews with Medicaid agency officials in each sample State. We asked these officials to elaborate on the functions of the Medicaid contractor; the contract language, timeframes, and deliverables; and their experiences managing and working with contractors.

We conducted our review in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

FINDINGS

EQRO Functions

The State Agencies in our sample contracted for seven EQRO functions.

The State Medicaid agencies in our sample charged the EQRO contractor with one or more of the following 7 activities: focused studies, encounter data validation, Health Plan Employer Data and Information Set (HEDIS) validation, individual case review, technical assistance, evaluation of health plans' internal quality of care studies, and administration of satisfaction surveys.

Table 1	
EQRO Functions Performed in 7 Sample States	
EQRO FUNCTION	DESCRIPTION
Focused Studies	<p>Design and conduct a clinical quality of care study or medical audit. Among study topics included in the sample States are the following:</p> <ul style="list-style-type: none"> ■ <input type="checkbox"/> childhood immunization rates, ■ <input type="checkbox"/> pediatric preventive care, ■ <input type="checkbox"/> prenatal care, ■ <input type="checkbox"/> EPSDT/well-child visits, ■ <input type="checkbox"/> childhood asthma, ■ <input type="checkbox"/> access to care, ■ <input type="checkbox"/> care for disabled populations, ■ <input type="checkbox"/> diabetes care, and ■ <input type="checkbox"/> HIV management. <p>In some cases the contractor is responsible for follow-up work with health plans to help design and assess program improvements.</p>
Encounter Data Validation Through Chart Review	Review of medical records to verify a sample of the encounter data the Medicaid agency receives from health plans. This includes a review of definitions, coding, and reporting specifications to ensure health plans are counting the same services in the same way.
Health Plan Employer Data and Information Set (HEDIS) Validation	Review of medical records to verify a sample of the HEDIS data that the agency receives from health plans. This includes a review of definitions, coding, and reporting specifications to ensure health plans are counting the same services in the same way.
Individual Case Review	Clinical review of an individual case to determine appropriateness of prior medical treatment or future course of treatment. Done at the request of the Medicaid agency for unusual, complex, or controversial cases.

Technical Assistance to Managed Care Plans or the Medicaid Agency	Involves a range of activities such as clinical case review, review of inpatient stays, utilization reviews, consultation on internal clinical studies the health plan conducts, advice on follow-up actions in response to findings of a focused study, or organization of a quality conference for health plans.
Evaluation of Health Plans' Internal Quality of Care Studies	Assess the appropriateness of the health plan's staff, resources, and quality measurement tools and techniques. Also assess the reliability of the data the studies produce, whether the findings are appropriately interpreted, and the effectiveness of the resulting corrective action.
Consumer Satisfaction Surveys	Print and mail the survey to consumers and follow-up with a reminder phone call to late responders. Compile results into a database and present to the Medicaid agency.

Focused studies are the predominant EQRO function; yet Medicaid officials are increasingly aware of their limited value.

All 7 of our sample Medicaid agencies contract with EQROs to carry out focused studies of one kind or another and spend far more to support this function than any of the other EQRO functions. On average, the agencies in our sample spent nearly 80 percent of their EQRO budgets on focused studies. For two agencies, it is the only function they are contracting with the EQRO to perform. For a third agency, it is one of only two functions that the EQRO is responsible for carrying out. No other EQRO function stands out as commonly used by the agencies in our sample.

We found 3 major reasons why Medicaid agencies tend to use the EQRO to conduct focused studies. First, a focused study is a contained and manageable project with findings that can easily be turned into improvement projects. Second, HCFA includes focused studies as a key component of the Quality Assurance Reform Initiative, and it requires all Medicaid agencies with Section 1115 waivers to conduct focused studies as a condition of the waiver. Finally, focused studies usually require a medical record review performed by nurses or other clinical staff, just the sort of work Peer Review Organizations (PROs) traditionally have done. All of our sample Medicaid agencies contract with a PRO as the EQRO.

However, Medicaid officials are increasingly aware of the limited value of focused studies. Focused studies fail to offer a broad assessment of the care delivered to all those enrolled in the State's Medicaid program. At best they capture a slice of care delivered to one or two subpopulations. Even if a Medicaid agency designed the perfect system to capture prenatal care visits or child immunizations, this is only a tiny fraction of care provided to the Medicaid population. Attempts to broaden focused studies or make them more probing will almost certainly raise the cost significantly.

The sample agencies are beginning to shift attention from focused studies to other functions.

Medicaid agencies are testing ways to broaden their quality oversight to complement the narrowness of a focused study. Three of the seven Medicaid agencies in our sample are using the EQRO to validate encounter data and another is using the EQRO to validate HEDIS data. Another official spoke about adding HEDIS data validation and satisfaction surveys to the EQRO contract next year. Yet another recently added administration of the Consumer Assessment of Health Plans Study (CAHPS) to its list of EQRO functions.³ The kinds of quality studies Medicaid agencies undertake are constantly evolving. As one official put it, EQRO is “no longer just a nurse reviewer doing chart reviews.” As Medicaid agencies innovate, they are probing the limits of what traditional EQRO contractors can do.

Types of Contractors

The sample agencies depend on the PROs to conduct focused studies. However, they express reservations about the PROs’ expertise for other EQRO functions.

For years the PROs have been working on behalf of the Medicare Program to improve medical practice by looking at medical records, identifying baselines, designing interventions and re-measuring. Much of this expertise is useful in conducting focused studies. Indeed, 5 of the 7 agency officials said they were very satisfied with the PRO; three had the same PRO contractor for 5 years or more. However, these same Medicaid officials expressed reservations about the PROs’ expertise in performing other activities such as processing and verifying encounter claims, or conducting interviews or focus groups.

In the past, PROs, working under EQRO contracts with Medicaid agencies, have sometimes subcontracted such functions out to others. To claim enhanced funding, a Medicaid agency had to contract with other entities using a PRO as the primary contractor. While subcontracting is a way to draw in needed expertise, the situation can easily get out of hand for the Medicaid agency if there are subcontractors to manage. One State Medicaid official described an instance in which a subcontractor performed poorly at the crucial task of compiling consumer survey results. The State agency was too far removed to oversee the work and influence its quality. The Medicaid official would have preferred contracting directly with an organization that had experience conducting consumer surveys. This year, the PRO will compile the survey results, despite its lack of expertise in the area.

The sample agencies have found that many different types of contractors can contribute to external quality oversight.

We found that over the last 2 years, all 7 Medicaid agencies in our sample hired another contractor to perform quality oversight activities. They contracted with six different types of contractors besides the PRO: organizations with health services research experience, universities, consulting groups, claims or data groups, medical review organizations, and marketing or survey firms. In addition four of our seven sample Medicaid agencies have arrangements with other State agencies, such as the Departments of Health, Mental Health, or Data and Audit to oversee Medicaid program quality. None of the Medicaid agencies receive enhanced funding for these

activities, yet they are all important pieces of the agency’s quality oversight.

The activities range from administering consumer surveys to conducting specialized focus groups, validating claims data to monitoring drug utilization, and from monitoring length of stay in mental health facilities to conducting preadmission screening for hospitalizations. Although the agencies received no enhanced Federal matching funds for these activities, each believed it was worth the expense to hire a contractor with specialized experience.

Administering surveys and validating claims or encounter data were by far the most common functions that our Medicaid agencies used other contractors to perform. Six of the 7 Medicaid agencies in our sample conduct consumer satisfaction surveys and none uses the PRO. Two have subcontracts through the PRO, three have separate contracts, and one does the survey in-house. In addition, 5 of the Medicaid agencies validate encounter data using an external contract or State agency staff; only 2 use the PRO.

Some Medicaid agencies are using the other contractors to perform unusual or specialized functions. For example, one Medicaid agency hired a survey research firm, at the regular Federal funding rate, to conduct focus group interviews with recipients. The firm specialized in unusual projects, and had a staff of foreign language moderators and special equipment to conduct telephone focus groups in rural areas. Two other agencies hired contractors at the regular Medicaid funding rate to collect, process or validate encounter data. Another Medicaid agency is using an external contractor to develop ambulatory patient groupings that work for both reimbursement and quality oversight. This complex project requires developing a new method of documenting and coding visits using claims data. This same agency has another contractor that is conducting analysis on drug utilization to develop a quality oversight approach to manage the pharmacy benefit.

Medicaid Agency Management of EQRO Contracts

The sample agencies have found that an effective relationship with an EQRO calls for a partnership.

Quality oversight work, if it is to be effective, calls for the Medicaid agency to have an on-going, continuous relationship with the EQRO through each stage of the review process. Our sample agencies agree that the Medicaid agency must be a part of the inception, design and follow-through of the project. It must be ready to work with a contractor to make changes. The Medicaid agency and contractor need to develop enough rapport that they can effectively discuss, and as necessary modify, the agency’s intent in light of operational realities. One Medicaid official gave us an example of adapting to sudden change. The Medicaid agency planned to enroll disabled recipients into managed care plans, but at the last minute the State legislature reversed course. The agency had already signed a contract with the EQRO to study the effects of the new managed care expansion. The two rewrote the scope of work together to reflect the changed circumstances.

Quality oversight is a long-term undertaking. One State official noted, it is best to leave an

EQRO in place for a few years to get over the learning curve and really reap the benefit of the review. It is difficult for a new contractor to pick up in the middle of an improvement plan if it did not perform the original work. Quality oversight techniques are constantly evolving. The agency and contractor need to become comfortable enough with one another that each can learn from the other's innovations, while maintaining an appropriate and balanced working relationship.

The sample agencies have learned that having their own staff expertise in quality oversight techniques and experience with managed care is vital to effective contractor management.

Medicaid agencies need people with expertise, such as applied research, design, and database management skills, in addition to a solid grasp of managed care and the health care market. Most State Medicaid programs have been shifting their enrollees from traditional fee-for-service health care to managed care arrangements.⁴ This rapid and fundamental change has forced Medicaid agencies to retool themselves, much like private corporations do when entering new markets or introducing new product lines. As we note in a previous report, Medicaid agencies face many organizational challenges in becoming prudent purchasers of high quality, managed care.⁵

Medicaid agency staff must be able to interact with the EQRO contractor as peers working toward a common goal of reviewing and improving the Medicaid program. Agency officials tell us they are constantly communicating with the contractor to specify what the review should cover, give feedback on the details of the review methodology, understand and approve the analysis techniques, and keep abreast of findings. Medicaid officials find that if they fail to ask the contractor probing questions, or to determine how best to follow-up on what the contractor has found, their effectiveness as partners is compromised.

CONCLUSION

As we noted at the beginning of this report, HCFA must define the types of external organizations qualified as EQROs and determine, by January 1, 1999, the functions these organizations will carry out. In this review, we have not conducted our own independent evaluation of the contributions made either by an official EQRO contractor or by other parties that a State Medicaid agency has contracted with to help it review the quality of care provided by managed care organizations. Thus, we cannot offer firm conclusions about which functions or types of organizations HCFA should qualify for the enhanced Federal reimbursement.

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Medicaid Agencies Find Value in Using a Variety of Quality Oversight Functions. The experienced Medicaid agencies that were part of our review have come to approach quality oversight as a patchwork of complementary strategies including focused studies of medical care, consumer surveys or interviews, and data analysis.

Medicaid Agencies Prefer Using Different Types of Contractors. These agencies have come to see value in engaging the services of a variety of contractors with a variety of skill sets, including, but not limited to, the Medicare Peer Review Organizations.

We also wish to add a note of caution to HCFA concerning the possibility that the enhanced Federal funding for EQROs may create an unintended incentive to overuse external contractors at the expense of developing and maintaining necessary internal expertise. State Medicaid officials have told us that effective quality oversight requires staff that are skilled in a variety of quality oversight techniques and who also possess a sophisticated knowledge of the changing health care marketplace. These staff must work in partnership with contractors to guide and direct activities according to Medicaid agency priorities. The HCFA must walk a fine line between fostering more comprehensive quality oversight and holding Medicaid agency officials accountable for the quality of their Medicaid programs.

APPENDIX A

1. Prior to the BBA, a Medicaid agency had to select an EQRO that was either a PRO or a “PRO-like” entity, to qualify for enhanced Federal funding. HCFA determined whether an entity was “PRO-like” on a case-by-case basis and at the request of a Medicaid agency.
2. HCFA introduced the Quality Assurance Reform Initiative (QARI) in 1993 to guide State Medicaid agencies as they developed methods and standards for monitoring the quality of care provided to Medicaid managed care enrollees. QARI provides a general approach for Medicaid agencies to follow, but does not offer specific tools or methodologies for agencies to use. The HCFA is currently revising the QARI standards.
3. The Consumer Assessment of Health Plans Study (CAHPS) is a standardized managed care enrollee satisfaction survey.
4. The HCFA web page (www.hcfa.gov/medicaid) shows national Medicaid managed care enrollment climbing from 9.53% in 1991 to 47.82% in 1997.
5. Department of Health and Human Services, Office of Inspector General, *Retooling State Medicaid Agencies for Managed Care*, OEI-01-95-00260, August 1997, addresses this issue in more detail.