



Arizona Health Care Cost Containment System

Medical Services Contracting

REPORT HIGHLIGHTS PERFORMANCE AUDIT

Subject

AHCCCS, the State's managed care, healthcare program for low-income residents, provides acute care and long-term care by contracting with public and private healthcare organizations. The primary goals of AHCCCS' procurement process are to obtain a high-quality healthcare delivery network, increase choice for members, and reduce costs through competition.

Our Conclusion

AHCCCS has an appropriate contract procurement process. It can enhance the process by establishing general policies and procedures to guide it, ensuring consistency, and improving contract recordkeeping practices. The report also contains other pertinent information about managed care competition in the State and nation and how AHCCCS fosters such competition.



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Contracting Process Needs Minor Improvement

AHCCCS spends over \$2.9 billion annually through contracts with healthcare plans to provide medical services throughout the State. In order to provide greater flexibility in procuring medical services, the Legislature exempted AHCCCS from the State's Procurement Code.

Process consistent with state and federal policies

Although exempt from the state procurement code for its contracts with health plans, AHCCCS still uses a process consistent with state policies. AHCCCS' procurement process also mirrors the federal procurement process.

Key mandatory and optional elements of the state procurement process AHCCCS adopted:

- Issuing requests for information
- Holding pre-proposal conferences
- Issuing requests for proposals
- Publishing the criteria used to evaluate and score proposals
- Issuing best and final offer requests

Contractors we interviewed commented favorably on AHCCCS' procurement process. One contractor, with a long history of working with AHCCCS, noted that the requests for proposals (RFPs) have continually improved.

The process also meets AHCCCS' goal of providing its members a choice of providers, while reducing costs.

Member choice—Within the acute care program, each member has a choice of at least two health plans. In Maricopa and Pima Counties, members can choose from at least five health plans.

Reducing costs—AHCCCS contracting has been recognized for reducing costs. An October 1995 U.S. General Accounting Office study reported that AHCCCS has succeeded in containing costs and that competitive bidding is an effective tool for encouraging contractor participation.

AHCCCS needs better guidelines and documentation

AHCCCS should develop written policies and procedures describing its procurement process. Policies or guidelines would help ensure the process is consistently followed.

In addition, AHCCCS has inadequate documentation to support some of its decisions. For example, AHCCCS considers past performance when awarding acute care contracts, but needs to better document how this is done.

AHCCCS also does not currently consider past performance when awarding its ALTCS contracts, but should.

Finally AHCCCS needs an agency-wide system for tracking various contract documents and correspondence. In a limited review, we could not find several contract documents.

Recommendations

AHCCCS should:

- Develop general policies and procedures for its contract procurement process
- Document its process for evaluating current contractors' past performance in its procurements
- Consider past performance in awarding ALTCS contracts
- Develop an agency-wide system for tracking and keeping contract documents

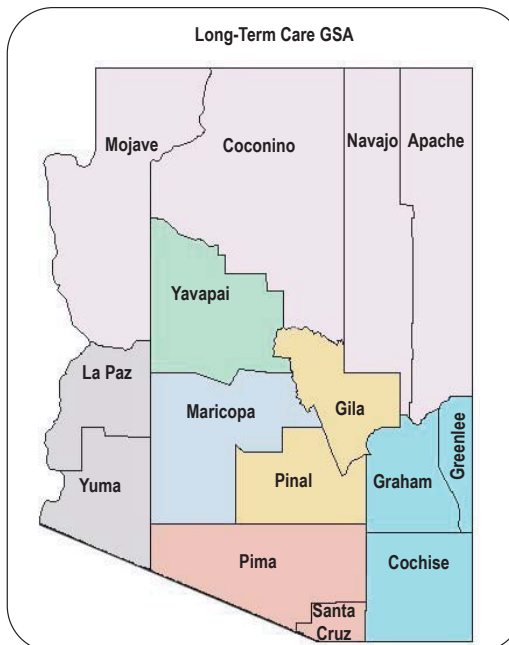
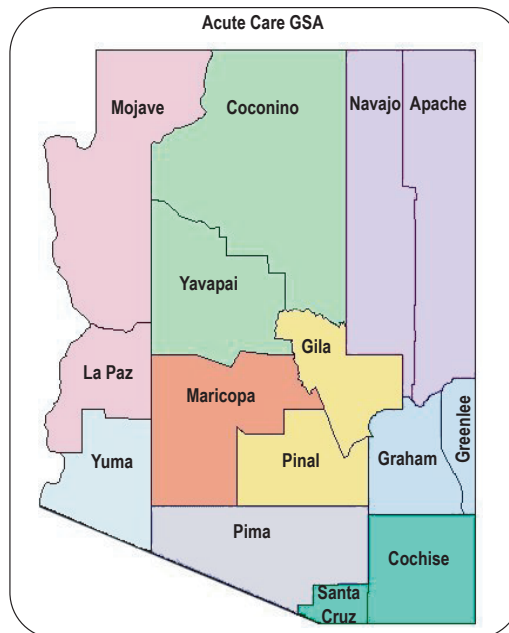
Other Pertinent Information on Competition

Nationally, promoting competition within the public managed care system is becoming more difficult. The number of managed care organizations leaving the Medicaid market exceeds the number of new organizations by nearly three to one.

AHCCCS is seeking to provide contract areas that are large enough to be financially attractive. Rather than contracting on a county-by-county basis as it had done in the past, AHCCCS has combined counties into geographical service areas (GSAs). AHCCCS has developed separate GSAs for its acute care and ALTCS programs (see Acute Care GSA and Long Term Care GSA maps). AHCCCS seeks to obtain multiple proposals and, where possible, to award multiple contracts in each GSA to ensure competition and consumer choice.

AHCCCS determines how many contracts to award in a GSA based on its member population and the contracts' economic viability.

AHCCCS has succeeded in attracting competition for its medical services programs. In the acute care program, AHCCCS received more proposals than the number of contracts awarded for all but one of the nine acute care GSAs. For example, AHCCCS received nine proposals to provide services in the Pima County GSA and awarded five contracts. For ALTCS, however, AHCCCS has not been as successful as it received only as many offers as it had awards in three of the seven GSAs.



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